CMS 康哲药业
CHINA MEDICAL SYSTEM

2018 INTERIM REPORT

CHINA MEDICAL SYSTEM HOLDINGS LIMITED (STOCK CODE:867)

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung
Mr. LEUNG Chong Shun

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan
Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. LEUNG Chong Shun

Remuneration Committee Members

Mr. LEUNG Chong Shun (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)
Mr. LAM Kong
Mr. WU Chi Keung
Mr. LEUNG Chong Shun

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

China Merchants Bank, Shenzhen Branch
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited
Citibank (China) Co.,Ltd., Shenzhen Branch
Industrial and Commercial Bank of China, Shenzhen Branch

Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
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the PRC

Branch Share Registrar in Hong Kong

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183 Queen's Road East
Wanchai
Hong Kong

Stock Code

867

Company's Website

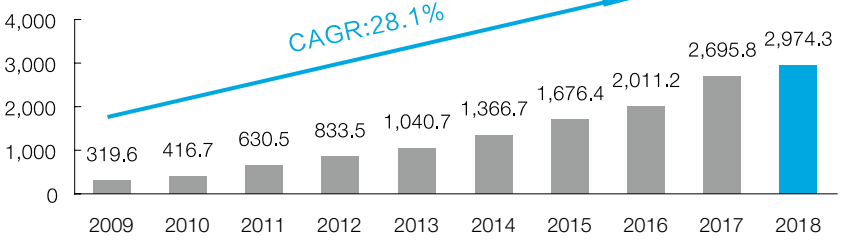
www.cms.net.cn

FINANCIAL HIGHLIGHTS

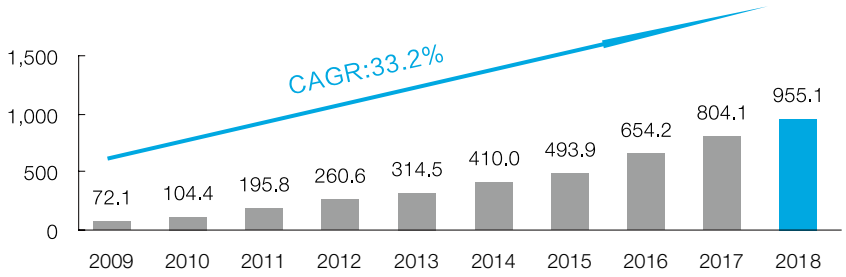
- Turnover down 1.2% to RMB2,655.0 million (H1 2017: RMB2,686.4 million); excluding the effect of the "two-invoice system", turnover up 10.3% to RMB2,974.3 million (H1 2017: RMB2,695.8 million)
- Gross profit up 13.3% to RMB1,883.7 million (H1 2017: RMB1,662.0 million); excluding the effect of the "two-invoice system", gross profit up 9.5% to RMB1,744.9 million (H1 2017: RMB1,593.8 million)
- Profit for the period up 18.8% to RMB955.1 million (H1 2017: RMB804.1 million)
- Basic earnings per share up 19.0% to RMB0.3850 (H1 2017: RMB0.3236)
- As at 30 June 2018, the Group's cash and bank deposits amounted to RMB1,097.8 million while readily realizable bank acceptance bills amounted to RMB245.5 million
- Declared interim dividend up 18.8% to RMB0.1536 per share (H1 2017: RMB0.1293)

Turnover (excluding the effect of the "two-invoice system") and profit of the Group for the six months ended 30 June for the previous ten years are set out below:

Turnover (RMBmillion)



Profit for the period (RMBmillion)



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

China Medical System Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to announce that for the six months ended 30 June 2018 (the "Reporting Period"), the Group recorded a turnover of RMB2,655.0 million (H1 2017: RMB2,686.4 million), representing a decrease of 1.2% over the same period last year; if excluding the effect of the "two-invoice system", turnover would have been up 10.3% to RMB2,974.3 million (H1 2017: RMB2,695.8 million). Profit for the Reporting Period reached RMB955.1 million (H1 2017: RMB804.1 million), up 18.8% compared with the corresponding period last year. The basic earnings per share was RMB0.3850 (H1 2017: RMB0.3236), representing an increase of 19.0% over the same period last year. During the Reporting Period, following the development trend of the industry, the Group actively arranged and promoted the introduction and development of innovative patented products. Meanwhile, equipped with its digital promotion and management system, the Group once again achieved good operational performance with the support of its high-quality product portfolio, nationwide promotional network and refined operation management.

China's healthcare and pharmaceutical industry is guided and balanced by various policies. Pharmaceutical companies should have a forward-looking vision and judgment when it comes to the industry's development trend, to constantly embrace and take advantage of changes. Over the years, the Group has been constantly adapting to the industrial development trend and proactively making breakthroughs and changes. From signing exclusive sales contracts in the very beginning, to making the rights control of commercialized products, and then the Group gradually developed into a specialty pharma, treating the introduction and development of innovative patented products as its core strategy. In recent years, from China formally joining to the ICH (the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use) to the gradual issuance of numerous policies, including the encouragement of drug innovation and acceleration of the drug review and approval, China's innovative drug market has ushered in an unprecedented golden period of development. Innovation is an important catalyst for transforming a qualified pharmaceutical company into an excellent one. Through the continuous accumulation and collaborative development of innovative products in recent years, the Group believes that its innovative patented projects will bring returns one after another, indicating the breakthrough and success of the Group's strategic path in developing its innovative products.

The Group has a creative sales network and platform, and is excellent at exploring the products' academic differentiation advantages. Through in-depth product positioning and planning, the Group creates its products' market prospects and quality brand image from scratch. To adapt to the strategic layout of innovative products, the Group is restructuring and upgrading its promotion and sales systems. Through a series of network optimization projects, such as the specialized line-divided promotion allied with each personal, digital promotion and management system, and refined and professional operational management model, a more regulated, professional and diversified promotion system has been formed to further enhance the carrying capacity of the Group's network platform for its innovative products.

Product Introduction and Development

Product Introduction

The Group is committed to providing competitive products and services to fulfill the unmet medical needs of the China market. The Group has established diversified introduction strategies and multi-level (short-term, mid-term and long-term) introduction mechanisms for new products, ensuring the constant supply of innovative and quality products to the market at any stage. During the Reporting Period, influenced by the encouragement and support of numerous industrial policies related to innovative drugs, facing the global market, the Group actively explored and accelerated the strategic arrangement of innovative patented products, laying a solid foundation for its future development. At the same time, the Group actively introduced commercialized products to enrich the existing product portfolio.

Added product that can be directly launched to the market via gaining exclusive promotion rights

Based on the non-legally-binding strategic cooperation memorandum previously reached between the Group's wholly-owned subsidiary and Asahi Kasei Pharma Corporation ("Asahi Kasei Pharma"), the Group, through its subsidiary, entered into a Business Promotion Delegation Agreement for the product Elcitonin (Elcatonin Injection) with Asahi Kasei Pharma on 28 June 2018. According to the agreement, the Group, through its subsidiary, gained exclusive promotion rights of Elcitonin in the People's Republic of China ("PRC"), excluding the Hong Kong Special Administrative Region ("Hong Kong SAR"), the Macau Special Administrative Region ("Macau SAR") and Taiwan. The promotional activities started on 1 August 2018. Through this cooperation, the Group aims to develop further cooperation on products with Asahi Kasei Pharma.

Elcitonin is an original synthetic calcitonin derivative developed by Asahi Kasei Pharma, and is a commonly used anti-osteoporosis drug. It is recommended by "Primary Osteoporosis Diagnose and Treatment Guideline (2017)". Elcitonin has been available in China for years and is in the Class B of National Reimbursement Drug List ("NRDL"). With the problem of aging population becoming increasingly serious, the number of osteoporosis patients in China has exceeded 70 million and the anti-osteoporosis drug market is expected to have huge potential.

Existing Product Development

Plendil (Felodipine Sustained Release Tablets)

The company owns the 20-year exclusive license for the commercialization of Plendil in the PRC, excluding Hong Kong SAR, Macau SAR and Taiwan. Plendil is an original product manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限公司). Plendil is used to treat hypertension and stable angina pectoris and is in the NRDL. Plendil is the sustained release formulation of Felodipine, which smoothly controls blood pressure and which has a low occurrence rate of side effects. During the Reporting Period, with the refined academic promotion driven by strategy, a brand image of "Choice of Cardiovascular and Cerebrovascular Protection in China" was fully built for the product. Meanwhile, multi-level market promotion and management were carried out according to market characteristics, while academic promotion conferences and lecture tours were conducted at different levels centering on key academic points of the product. During the Reporting Period, Plendil recorded a revenue of RMB615.8 million, a decrease of 4.3% compared with the same period last year. If excluding the effect of the "two-invoice system", Plendil's revenue would increase by 15.0% to RMB754.5 million compared with the same period last year.

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 2017, Ursofalk is the best-selling ursodeoxycholic acid drug in China, and ranked first in sales among digestive products in the Chinese cholagogue market. During the Reporting Period, benefiting from various recommendations of multiple guidelines and clinical papers, Ursofalk continued to be recognized by experts. In addition, the Group found a new growth trigger for Ursofalk with an integrated promotion with the Group's other digestive products. During the Reporting Period, Ursofalk recorded a revenue of RMB526.6 million, an increase of 19.1% compared with the same period last year.

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 2017, Deanxit ranked first in market share of antidepressant drugs in China. During the Reporting Period, the Group improved the diagnostic rate of anxiety and depression in general hospitals through organizing and participating in a series of promotional activities, and continued to solidify the expert's network in the related fields. During the Reporting Period, Deanxit recorded a revenue of RMB508.9 million, an increase of 5.3% compared with the same period last year.

XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)

XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Rhodiola Pharmaceutical Holdings Co., Ltd. ("Tibet Pharmaceutical", an associate company of the Group) in which the Group holds 36.83% of the share, 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. Recommended by the first "Acute Heart Failure Diagnosis and Treatment Guideline (2010)" in China and "China's Clinical Practice Guidelines of Emergency Treatment for Acute Heart Failure" in 2017, the product has gradually become the new generation of treatment medication for acute heart failure. In July 2017, XinHuoSu was included in the NRDL after negotiations with the State Ministry of Human Resources and Social Security. With opportunities for the gradual implementation of new NRDL in each region, the Group continued to run promotional activities and optimize the building of academic platform and corresponding professional network. During the Reporting Period, XinHuoSu recorded a revenue of RMB157.6 million, a decrease of 48.2% compared with the same period last year. If excluding the effect of the "two-invoice system", XinHuoSu's revenue would increase by 14.8% to RMB417.2 million compared with the same period last year.

Salofalk (Mesalazine)

Dosage forms of suppositories and enemas of Salofalk are manufactured by Vifor AG Zweigniederlassung Medichemie 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 manufacture of Falk, Germany. Salofalk is mainly used to treat Ulcerative Colitis, including the treatment of acute exacerbations and also to prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease. It is in the NRDL and is the Mesalazine with the widest dosage forms in China. During the Reporting Period, the Group continued to strengthen the high-quality academic brand image of Salofalk through expert network setup and academic activity planning. During the Reporting Period, Salofalk recorded a revenue of RMB162.6 million, an increase of 17.4% compared with the same period last year.

Bioflor (Saccharomyces Boulardii Sachets)

Manufactured by Biocodex of France, Bioflor is a probiotics agent used to treat diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance. Bioflor is the only Saccharomyces Boulardii currently available in the China market. The recent "the Chinese Clinical Practice Guidelines for Children with Acute Infectious Diarrhea" published in 2016 gave Bioflor high level of recommendations. In 2017, the World Gastroenterology Organisation ("WGO") updated the "Probiotics and Prebiotics Guideline" and the authoritative recommendation of Bioflor for related indications remained as in the previous version (2011). During the Reporting Period, the Group actively conducted nationwide large-scale brand academic forums and conferences, and organized product-related re-education activities. During the Reporting Period, Bioflor recorded a revenue of RMB131.5 million, an increase of 8.0% compared with the same period last year.

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

The Group owns Augentropfen Stulln Mono Eye Drops' related assets for the China (including Hong Kong SAR and Macau SAR) market, and has entrusted the manufacture to Pharma Stulln GmbH 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 product approved by China National Drug Administration ("CNDA", the original China Food and Drug Administration "CFDA") for the treatment of macula degeneration and the most representative drug for asthenopia, and it is preservative-free. During the Reporting Period, the Group engaged in refined academic promotion under the guidance of clear strategies and conducted in-depth promotional activities based on academic points. During the Reporting Period, Augentropfen Stulln Mono Eye Drops recorded a revenue of RMB105.2 million, an increase of 0.1% compared with the same period last year.

Hirudoid (Mucopolysaccharide Polysulfate Cream)

The Group owns Hirudoid's related assets for the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market, and has entrusted the manufacture of the product to Mobilat Produktions GmbH (Germany). The active ingredient of Hirudoid is mucopolysaccharide polysulfate. The drug is used in the treatment of blunt traumata with or without hematomas, and superficial phlebitis insofar as it cannot be treated by compression. Hirudoid has broad effects with high quality and safety. During the Reporting Period, through the construction of the product's expert network, the Group conducted the promotion of standardized medication and focused on refined promotion for dermatology indications. During the Reporting Period, Hirudoid recorded a revenue of RMB71.9 million, an increase of 15.6% compared with the same period last year.

DanShenTong Capsules

DanShenTong Capsules is owned and manufactured by Hebei Xinglong Xili Pharmaceutical Co., Ltd. in which the Group holds more than 50% of the total shares, and it is in the NRDL. DanShenTong Capsules is a plant-based and multi-functional antibiotic (broad spectrum) with an explicit molecular structure. The product has good functions and effects in antisepsis and anti-inflammation. The drug is mainly used for the treatment of acne, tonsillitis, otitis externa, boils, carbuncles, traumatic infections, burns-related infections, mastitis, cellulitis and osteomyelitis, etc. During the Reporting Period, the Group further refined its position and explored its academic value, while building a strong expert network and platform, to improve the brand image of the product. During the Reporting Period, DanShenTong Capsules recorded a revenue of RMB60.6 million, a decrease of 19.7% compared with the same period last year.

YiNuoShu (Ambroxol Hydrochloride Injection)

The Group owns YiNuoShu's product controlling rights. The Group entrusted the manufacture to TIPR Pharmaceutical Responsible Co., Ltd. ("TIPR Pharmaceutical"). YiNuoShu is the first generic version of an ambroxol hydrochloride injection in China, and it is an expectorant product used for respiratory diseases. It is included in the NRDL. The Group developed the markets in regions where the product newly won bids, and continued to adjust the marketing strategy. During the Reporting Period, YiNuoShu recorded a revenue of RMB112.3 million, an increase of 57.3% compared with the same period last year. If excluding the effect of the "two-invoice system", YiNuoShu's revenue would decrease by 11.2% to RMB49.6 million compared with the same period last year.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)

The Group owns Combizym's related assets for the China (including Hong Kong SAR, Macau SAR and Taiwan) 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. It is included in the NRDL. During the Reporting Period, the Group continued to conduct promotional trainings of the product's key strategies, which allowed the promotional staff to fully understand the strategies and corresponding academic supports. Meanwhile, the Group organized academic activities that focused on product's key indications in an orderly manner and continued to expand the brand influence of Combizym with digital marketing tools. During the Reporting Period, Combizym recorded a revenue of RMB38.1 million, an increase of 18.9% compared with the same period last year.

NuoDiKang Capsules

NuoDiKang Capsules is manufactured by Sichuan NuoDiKangWeiGuang Pharmaceutical Co., Ltd., a subsidiary of Tibet Pharmaceutical, in which the Group holds 36.83% of the total shares. The product is included in the National Essential Drug List ("EDL") and NRDL, and listed as a Traditional Chinese Medicine ("TCM") Protection Product. The main functions of the product are boosting vital energy, activating blood circulation, freeing flow in blood vessels and alleviating pain. It is used for chest impediments caused by a deficiency in vital energy and blood stasis, manifested as tightness in the chest, tingling or pain, palpitations, shortness of breath, lassitude, asthenic breathing, disinclination to talk and dizziness, and coronary heart disease and angina with the aforementioned symptoms. During the Reporting Period, the Group trained the promotional staff and organized academic activities with the integration of the product's core promotional points, setting the foundation for its future development. During the Reporting Period, NuoDiKang Capsules recorded a revenue of RMB10.5 million, a decrease of 81.6% compared with the same period last year. If excluding the effect of the "two-invoice system", NuoDiKang Capsules' revenue would decrease by 52.6% to RMB29.4 million compared with the same period last year.

XiDaKang (Protein Hydrolysate Oral Solution/ Oral Protein Hydrolysate)

XiDaKang, the Group's self-owned product, is the only protein hydrolysate enteral nutrition agent approved by CNDA, and is sold in the forms of an oral solution and granules. XiDaKang is manufactured by the Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), a wholly-owned subsidiary of the Group. During the Reporting Period, the Group actively expanded its market coverage while reinforcing its core market. During the Reporting Period, XiDaKang recorded a revenue of RMB86.3 million, an increase of 20.2% compared with the same period last year. If excluding the effect of the "two-invoice system", XiDaKang's revenue would increase by 0.2% to RMB21.8 million compared with the same period last year.

GanFuLe Tablets

GanFuLe Tablets, the Group's self-owned product, is used for the treatment of primary liver cancer, cirrhosis and liver fibrosis. It has been in clinical use for more than two decades. It is included in the NRDL and is manufactured by Kangzhe Hunan. During the Reporting Period, the Group increased the product's brand awareness and strengthened its brand image through co-hosting multiple academic conferences with its other digestive products. During the Reporting Period, GanFuLe Tablets recorded a revenue of RMB21.5 million, a decrease of 9.7% compared with the same period last year.

Parlodel® (Bromocriptine Mesilate Tablets)

The Group owns Parlodel®'s related assets for the China (including Hong Kong SAR and Taiwan, excluding Macau SAR) market, and has entrusted the manufacture to Novartis Farma S.P.A. in Italy. The active ingredient of Parlodel® is bromocriptine mesilate. It is an original product, and included in the NRDL. The product can be used for endocrine system indications and nervous system indications and it is a standard first-line treatment product for hyperprolactinaemia ("HPRL") as recommended by guidelines. During the Reporting Period, Parlodel® recorded a revenue of RMB13.5 million, an increase of 8.7% compared with the same period last year.

Imdur (Isosorbide Mononitrate Sustained Release Tablets)

The Group's associate company Tibet Pharmaceutical owns Imdur's global assets (US market excluded). The Group is responsible for Imdur's promotion in China (excluding Hong Kong SAR, Macau SAR and Taiwan) market. Imdur is a long-acting, oral nitrate preparation for the long-term treatment of coronary artery disease and prophylactic angina pectoris. It is temporarily manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康製藥有限公司). Imdur has the Durules sustained release technology of AstraZeneca and is suitable for long-term anti-ischemic treatment. It is a NRDL product and is listed in local EDL in some areas. It is one of the indispensable drugs for anti-ischemic treatment of coronary artery disease. During the Reporting Period, the Group strengthened the differentiated advantages of Imdur for myocardial ischemia treatment and conducted different levels of promotion and re-education activities to expand its market coverage. During the Reporting Period, Imdur recorded promotional service revenue of RMB10.7 million, a decrease of 30.0% compared with the same period last year.

Lamisil® (Terbinafine Hydrochloride Tablets)

The Group owns Lamisil®'s related assets for the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market, and the product is temporarily manufactured by Beijing Novartis Pharma Ltd. ("Novartis"). The active ingredient of Lamisil® is terbinafine hydrochloride. The drug is an original product, and it is included in the NRDL. It is used to treat fungal infections on the skin and the hair caused by dermatophytes such as trichophyton, microsporumcanis and epidermophyton floccosum, as well as onychomycosis due to infection with dermatophyte (Hyphomycetes). Oral terbinafine is one of the systemic antifungal agents recommended by Chinese guidelines on tinea corporis and tinea cruris, tinea pedis, tinea capitis and onychomycosis. The Group has been processing the transfer of the Drug Production License for Lamisil®. The production of Lamisil® will be transferred to Kangzhe Hunan once the transfer is completed. During the license transformation period, the sales work for Lamisil® has been handled by Novartis, and Novartis has settled its profit to the Group based on an agreement. During the Reporting Period, the Group received Lamisil®'s settled profits revenue of RMB1.9 million, an increase of 4.6% compared with the same period last year.

YinLianQingGanKeLi

The Group owns the 20-year exclusive sales rights of YinLianQingGanKeLi in the China market. The product, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is an exclusive TCM product that has been awarded a National New Drug Certificate. The main functions of the product are clearing away heat and toxic substances, and regulating the liver and spleen. It is used for acute hepatitis A and chronic hepatitis B. The product is included in the NRDL. During the Reporting Period, YinLianQingGanKeLi recorded a revenue of RMB2.1 million, a decrease of 41.3% compared with the same period last year. If excluding the effect of the "two-invoice system", YinLianQingGanKeLi's revenue would decrease by 40.0% to RMB1.0 million compared with the same period last year.

MOVICOL® (Macrogol Sodium Potassium Powder)

The Group owns MOVICOL®'s related assets for the China (including Hong Kong SAR and Macau SAR) market, and has entrusted the manufacture to Norgine Limited, UK. The active ingredients of MOVICOL® are macrogol 3350, sodium bicarbonate, sodium chloride and potassium chloride. The drug is used for the treatment of chronic constipation and fecal impaction. As a well-known brand for such ailments, the drug has been sold in Europe for many years, and it has a wide-range of targeted patients in China. During the Reporting Period, internal and external trainings on product's differentiation were carried out comprehensively, to get fully prepared for MOVICOL®'s promotion in China market.

Methods of introduction and weight of revenue for existing main products are as follows:

Introduction	**Product**	**As a Percentage of the Group's Revenue（%）**	**As a Percentage of the Group's Revenue（%）, excluding the effect of "two-invoice system"**
Rights Control	Plendil	23.2	25.4
	XinHuoSu	5.9	14.0
	Stulln	4.0	3.5
	Hirudoid	2.7	2.4
	DanShenTong	2.3	2.0
	YiNuoShu	4.2	1.7
	Combizym	1.4	1.3
	NuoDiKang	0.4	1.0
	XiDaKang	3.2	0.7
	GanFuLe	0.8	0.7
	Parlodel	0.5	0.5
	Imdur	0.4	0.4
	Lamisil	0.1	0.1
	YinLianQingGan	0.1	0.0
	Movicol	0.0	0.0
	Subtotal	**49.2**	**53.7**
Exclusive Agency Contract	Ursofalk	19.8	17.7
	Deanxit	19.2	17.1
	Salofalk	6.1	5.5
	Bioflor	5.0	4.4
	Subtotal	**50.1**	**44.7**

Other Products

Apart from the products mentioned above, other products sold and promoted by the Group such as Cystistat, Exacin, ShaDuoLiKa and XiangFuYiXueKouFuYe recorded a total revenue amounting to approximately RMB17.4 million, accounting for approximately 0.7% of the Group's turnover during the Reporting Period. If excluding the effect of the "two-invoice system", the revenue of the Group's other products would be RMB47.7 million, accounting for approximately 1.6% of the Group's turnover.

Pipeline Products

Products undergoing application process for Import Drug Registration

During the Reporting Period, the Group had three products undergoing the application process for Import Drug Registration. They will contribute to the Group's revenue after they are officially issued an Imported Drug License ("IDL") by the CNDA. Key information about these products is listed below:

Product	Indication	Manufacturer	CNDA Pending Number	Registration Process
Budenofalk	For the treatment of Crohn's disease	Dr. Falk Pharma GmbH (Germany)	Material Preparation	Material Preparation
Ze 339	For the treatment of allergic rhinitis	Zeller Medical AG (Switzerland)	JXZL1500004	CDE Review
Succinylated Gelatin Injection	For initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited (UK)	Material Preparation	Material Preparation

For more information on imported drug registration of the Group's products, please refer to the CNDA website (http://cnda.cfda.gov.cn/).

During the Reporting Period, in terms of commercial consideration for Maltofer® (used to treat iron deficiency without anemia and iron deficiency with anemia), the Group decided to terminate its IDL registration in China.

Innovative Products with Independent Intellectual Property Rights

Tyroserleutide (CMS024)

Tyroserleutide (CMS024), used to treat primary liver cancer, is a National Class One New Drug researched and developed by the Group and has independent intellectual property rights. The phase III clinical trial, entitled "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma", was unblinded on 28 February 2014, and the clinical trial failed to achieve the expected results. As the subgroup with no tumor thrombosis in the hepatic portal vein branches demonstrated a favorable trend during the clinical trial, the Group conducted a half-year follow-up study on subjects in the treatment group with continuous administration of the drug to observe survival time. The follow-up study achieved significant results. According to statistical data from the study, a statistical significance in survival time between the treatment group and the placebo group of the subgroup had been observed, indicating that Tyroserleutide could prolong the survival time of liver cancer patients with no tumor thrombosis in the hepatic portal vein branches.

Based on the positive results from the follow-up study and an analysis of earlier clinical trials, the Group has decided to carry out a new extended phase III clinical trial for Tyroserleutide. During the Reporting Period, the phase III extended clinical trial of Tyroserleutide was still in the patient recruitment process. The costs of the clinical trial will continue to be borne by Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D"), and the Group will pay 13% of the product's revenue to Kangzhe R&D as royalty fees after the successful commercialization of the product. If Tyroserleutide is successfully launched into the market, it will not only have great market potential in China, but it will also have a major overall impact on human health.

Destiny Pharma Product Portfolio

In December 2017, the Group acquired certain rights to develop, manufacture, sell and commercialize certain assets in Destiny Pharma plc.'s ("Destiny Pharma") current product portfolio in China and other Asian countries (excluding Japan), including, among others, relevant intellectual property, regulatory approvals and product data or documentations through equity investment in Destiny Pharma by its wholly-owned subsidiary. The Group undertakes research and clinical development of the above mentioned product portfolio to develop products that the Group will then market in China and other Asian countries (excluding Japan).

The product portfolio of Destiny Pharma mainly includes three products. Exeporfinium chloride (XF-73) Nasal Gel is mainly used for nasal decolonisation of Staphylococcus aureus ("S. aureus") to prevent postoperative S. aureus infection. XF-73 is a synthetic dicationic porphyrin derivative with antibacterial activity. It has a novel mechanism of action which is different from that of any existing families of antimicrobial agents. Published research studies indicate that it is bactericidal and acts via a bacterial cell-surface mechanism that affects a membrane's permeability and integrity, leading to the release of intracellular components and the death of bacteria cell, without lysis. XF-73 is active against all tested S. aureus strains including methicillin-resistant and multi-drug resistant strains. And it exhibits rapid bactericidal activity against S. aureus and has a low potential for the development of bacterial resistance. XF-73 has completed its Phases I/IIa clinical trial in Europe and the US. It now plans to conduct the Phase IIb clinical trial. The completed Phase I/IIa clinical trial results showed that XF-73 is effective and safe for the reduction of the nasal burden of S. aureus. In October 2015, the US Food and Drug Administration ("FDA") granted Qualified Infectious Disease Product ("QIDP") Designation to XF-73 for the prevention of post-surgical staphylococcal infections. In March 2018, XF-73 has been granted Fast Track Designation by the US FDA for the prevention of post-surgical staphylococcal infections. In addition, XF-73 has two authorized patents in China, one of which is a compound patent, and the other is a use patent.

S. aureus is a clinically isolated common bacteria, and it is the main pathogen of nosocomial infection. Studies have shown that the S. aureus nasal colonization rate is very high, and bacterial colonization increases the risk of hospital-acquired infection. Nasal colonization by S. aureus is also a risk factor for postoperative infection. People who require nasal decolonization of S. aureus include, among others, orthopedic surgery patients, cardiothoracic surgery and ICU patients, and there is also a wide range of potential targeted patients. Furthermore, no drugs have been approved for nasal decolonization in China so far. So once approved, it is expected that XF-73 will have broad market prospects in China.

Destiny Pharma's existing product portfolio includes the following two other products at the pre-clinical stage with patent family protection:
XF-70: potential indication to be developed is the treatment of skin infections, and its preclinical data will support a wide range of indications including impetigo, acne, atopic dermatitis, bacterial infected skin lacerations, candida skin/vaginal infection and the treatment of serious bacterial burn wound infections.

DPD-207: a derivative of XF-73 complexed with an iron (Fe) moiety within its porphyrin ring. This compound may be useful for the treatment of ocular microbial infections.

Traumakine®

In May 2015, A&B (HK) Company Limited ("A&B"), wholly-owned by Mr. Lam Kong, a controlling shareholder (as such term is defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "SEHK") (the "Listing Rules")) of the Group acquired the assets related to Traumakine® for the China market and other designated regions as well as certain intellectual properties related to the product through equity investment in Faron Pharmaceuticals Ltd. ("Faron"), and transferred the assets to CMS Pharma Co., Ltd., the Group's wholly-owned subsidiary. A&B would continue to invest in the development of the product in China market, and the Group will only be required to pay A&B a royalty fee in respect of a percentage of the net revenue of the product in China after the successful commercialization of the product. The percentage will be subject to further negotiation.

Traumakine® is a Recombinant Human Interferon beta-1a intravenous lyophilized preparation for the treatment of acute respiratory distress syndrome ("ARDS"). ARDS is an acute respiratory failure caused by many different factors, with progressive respiratory distress, refractory hypoxemia and non-cardiogenic pulmonary edema as clinical symptoms, and it is one of the common acute and critical clinical syndromes. ARDS involves several clinical sections, and common causes of ARDS include systemic infection, trauma, shock, burns and acute severe pancreatitis, etc.

On 8 May 2018, Faron has announced the top-line data for Traumakine®'s Pan-European Phase III INTEREST trial. The INTEREST study did not meet the Day 28 (D28) primary efficacy composite endpoint of ventilator free days and survival rate with Traumakine® treatment. The Company believes that, under the current circumstances, Traumakine® would not be able to obtain the necessary regulatory approval for it to be marketed based on the above results. While the results of the clinical trial were disappointing, the Group does not believe that they would have any material impact on the financial performance of the Group.

Network development

Direct Network

During the Reporting Period, the Group's direct network was strategically upgraded based on the industry changes and business development. The Group strived to build a promotion system better suited for carrying innovative products. In the business operation management, the Group continued to refine the market and focus on reinforcing the rationality, legality and compliance of the business. In team management, the Group made a series of optimizations of organizational structure and personnel adjustments. Through continuous product-line divided promotion, the Group executed more refined and professional management on products. The Group focused on digital promotional operation by actively promoting various digital promotional tools and the digital management system, creating more diversified academic promotional forms, more refined and traceable business data and more standardized employee behavior management.

For the six months ended 30 June 2018, the Group's Direct Network had covered over 48,000 hospitals and medical institutions in China.

Agency Network

During the first half of 2018, the Group adjusted its strategic deployment and made an active response to face the increasingly fierce pharmaceutical industry environment on the development of agency network. In market management, the Group strengthened the quality and quantity of periodic meetings with regional personnel, with regular regional visits to find and solve existing problems in a timely manner. The Group actively conducted various trainings on products' differentiation academic information, which supported the agencies to develop the market by improving their knowledge on products. In term of the information technology management system, the Group optimized its agreement management, fee settlement and "two-invoice system" operation, making a more convenient and smooth operation for the agency network.

For the six months ended 30 June 2018, the Group's Agency Network had covered around 10,000 hospitals and medical institutions across the country.

Subsequent Events

Asset Purchase of Venus Pharma's Product Portfolio

The Group, through its wholly-owned subsidiary, entered into an Asset Purchase Agreement with Venus Pharma GmbH ("Venus Pharma") dated 20 July 2018. According to the agreement, the Group acquired all assets of Venus Pharma's current product portfolio related to the market in China (Chinese Mainland, Hong Kong SAR, Macao SAR and Taiwan), and the assets include without limitation know-how, all intellectual property or the right of application for the intellectual property, all necessary regulatory approvals, documents, dossiers, data or information exclusive to the territory and other rights to develop, register, manufacture and commercialize the products in the territory. For more information, please refer to the "Voluntary and Business Update Announcement Related to Asset Purchase of Venus Pharma's Product Portfolio" dated 20 July 2018.

Asset Purchase of Acticor Biotech's Products

The Group, through its wholly-owned subsidiary, entered into an Asset Transfer and License Agreement with Acticor Biotech dated 31 July 2018. According to the agreement, the Group acquired all assets related to Acticor Biotech's product ACT017 and any follow-up products developed on the basis of the same compound of ACT017 in China (including Hong Kong SAR, Macao SAR and Taiwan), Singapore, Philippines, Republic of Korea, Malaysia and other designated Asian countries (excluding Japan, India and Western Asia countries). The assets include without limitation all the know-how, intellectual property or the right of application for the intellectual property, necessary regulatory approvals, documents, dossiers, data or information exclusive for the territory and other rights as necessarily required to develop, register, manufacture and commercialize the products in the territory. In addition, the Group also acquired all the necessary licenses related to the transaction under the agreement. For more information, please refer to the "Voluntary and Business Update Announcement Related to Asset Purchase of Acticor Biotech's Product" dated 31 July 2018.

Signing of a License, Collaboration and Distribution Agreement with Can-Fite BioPharma

The Group, through its wholly-owned subsidiary, signed a License, Collaboration and Distribution Agreement with Can-Fite BioPharma Ltd. ("Can-Fite BioPharma") dated 6 August 2018. According to the agreement, the Group gained exclusive, perpetual, transferable, sub-licensable rights to develop, register, manufacture and commercialize Can-Fite BioPharma's current products CF101 and CF102 in China (including Hong Kong SAR, Macao SAR and Taiwan), among which, the main indications of the licensed products are: for CF101, rheumatoid arthritis and psoriasis; for CF102, hepatocellular carcinoma and non-alcoholic fatty liver disease / non-alcoholic steatohepatitis. For more information, please refer to the "Voluntary and Business Update Announcement Related to Signing A License, Collaboration and Distribution Agreement with Can-Fite BioPharma" dated 6 August 2018.

Asset Purchase of Blueberry Therapeutics' Product Portfolio

The Group, through its wholly-owned subsidiary, entered into an Asset Purchase Agreement with Blueberry Therapeutics Limited ("Blueberry Therapeutics") dated 14 August 2018. According to the agreement, (i) the Group has acquired all related assets of Blueberry Therapeutics' leading product BB2603 (for the treatment of onychomycosis and tinea pedis) in China (including Hong Kong SAR, Macao SAR and Taiwan), Republic of Korea, Democratic People's Republic of Korea and Mongolia; (ii) the Group further acquired access to all related assets of other pipeline products being or to be developed subsequently by Blueberry Therapeutics utilizing its unique nanoformulation delivery system in dermatology and other fields (such as products used for treating atopic dermatitis and acne, etc.) in the territory. The aforementioned assets include, among others, all the national patents covering the development, commercialization and formulation of the products, national trademarks and necessary regulatory approvals in or for the territory. In addition, the Group also acquired all the necessary licenses related to the transaction under the agreement. For more information, please refer to the "Voluntary and Business Update Announcement Related to Asset Purchase of Blueberry Therapeutics' Product Portfolio" dated 14 August 2018.

Signing of a Framework Asset Transfer Agreement Related to PoNS

The Group, through its wholly-owned subsidiary, entered into a framework asset transfer agreement with A&B relating to the portable neurostimulation devices developed by or for the Helius Medical Technologies group dated 20 August 2018. According to the agreement, the Group has agreed to acquire from A&B all assets related to the products in China (including Hong Kong SAR, Macao SAR and Taiwan). For more information, please refer to the "Voluntary and Business Update Announcement Signing of a Framework Asset Transfer Agreement Related to PoNS" dated 20 August 2018.

Signing of a Framework Asset Transfer Agreement Related to NRL-1 etc.

The Group, through its wholly-owned subsidiary, entered into a framework asset transfer agreement with A&B relating to the pharmaceutical preparation, formulation, dosage form, or delivery vehicle, containing or comprising NRL-1 etc. and/or line extensions dated 20 August 2018. According to the agreement, the Group has agreed to acquire all assets related to the products in China (including Hong Kong SAR, Macao SAR and Taiwan) from A&B, and assumed all rights and obligations in respect of the assets. For more information, please refer to the "Voluntary and Business Update Announcement Signing of a Framework Asset Transfer Agreement Related to NRL-1 etc." dated 20 August 2018.

The development process of innovative patented products

Products at the Clinical Stage

Partner	Product	Indication	Ownership Territory	Phase I	Phase II	Phase III	FDA/EMA* Marketing Approval Application
Neurelis, Inc	NRL-1	Acute Repetitive Seizures	China (HK SAR, Macau SAR& Taiwan incl.)				
Helius Medical Technologies	PoNS (Medical Device)	Physical Adjuvant Therapy for Balance Disorders Related Symptoms due to Mild to Moderate Traumatic Brain Injury (TBI)	China (HK SAR, Macau SAR& Taiwan incl.)				
In-house R&D	CMS024	Primary Liver Cancer	China (HK SAR, Macau SAR& Taiwan incl.)				
Can-Fite BioPharma	CF101	Rheumatoid Arthritis (RA)	China (HK SAR, Macau SAR& Taiwan incl.)				
		Psoriasis					
	CF102	Hepatocellular Carcinoma (HCC)					
		Non-Alcoholic Fatty Liver Disease (NAFLD) / Non-Alcoholic Steatohepatitis (NASH)					
Destiny Pharma	XF-73	Prevention of Post-surgical Staphylococcal Infections	China (HK SAR, Macau SAR& Taiwan incl.) and other Asian Countries (Japan excl.)				
Blueberry Therapeutics	BB2603	Onychomycosis and Tinea Pedis	China (HK SAR, Macau SAR& Taiwan incl.), Korea, North Korea& Mongolia				
Acticor Biotech	ACT017 (Biological Agent)	Acute Phase of Ischemic Stroke	China (HK SAR, Macau SAR& Taiwan incl.) and other Designated Asian Countries (Japan etc. excl.)				

*European Medicines Agency ("EMA")

Products at the Pre-clinical Stage

Partner	Product	Indication Field	Ownership Territory
Destiny Pharma	XF-70	Skin Infections	China (HK SAR, Macau SAR& Taiwan incl.) and other Asian Countries (Japan excl.)
	DPD-207	Ocular Microbial Infections	

Outlook and Future Development

With the reform and development in recent years, the ecological environment of China's healthcare and pharmaceutical industry has been undergoing enormous changes. In June 2018, the China National Drug Administration was elected as a member of ICH management committee. This indicated that the path for the technical requirements of drug registration in China was integrating with international standards. The national supervision of drugs would be strengthened in the future. In July 2018, "Technical Guidelines for Accepting Data from Drugs' Overseas Clinical Trials" (接受藥品境外臨床試驗數據的技術指導原則) was officially released, to encourage domestic pharmaceutical companies to make full use of clinical resources from home and abroad, improving the R&D standard in innovative drugs, while accelerating the launch of imported drugs in China. Under such industry circumstances and policies supports, with two core development strategies including the solid and sound introduction and development of products, and continuous extension of promotional network, the Group is confident to maintain its sustainable development.

For new product introduction, with diversified and multi-level product introduction strategies, from the global market, the Group will search potential products suitable for the Group's development and select ones that are in line with industry trends. The Group will continue to accelerate the introduction and development of innovative patented products, to enrich and expand the pipelines of innovative patented products, helping to sustain the momentum for its future development. In terms of developing existing products, the Group will continue to explore the differentiated advantage of products, and create a better brand image for products through the establishment of expert network and academic platform.

In terms of the expansion of the marketing and promotional network, the Group will continue to optimize and upgrade the promotion system to make it better suited for carrying innovative products, while continuously promoting digital marketing and sales tools and management systems, to build a more diverse, professional and regulated promotional environment. Furthermore, the Group will constantly expand and refine its market coverage. Meanwhile, the Group will continue to upgrade the operation management of the agency network and enhance the efficiency of merchants and new market expansion.

In the future, the Group will continue to follow the guides of industry development and closely monitor the changing demands of China's healthcare and pharmaceutical market, to make timely adjustments and upgrade of its management mechanisms. Either in future product introduction or in digital promotional model implementation, innovation will always be the core driver. The Group will enhance the introduction and development of the innovative patented products, and make steady progress in patented R&D products mainly through collaborative research, in order to improve its core competitiveness. In addition, the Group will continue to serve its customers with professional academic knowledge delivery and join hands with its employees to achieve future successes.

Financial Review

Turnover

Turnover decreased by 1.2% from RMB2,686.4 million for the six months ended 30 June 2017 to RMB2,655.0 million for the six months ended 30 June 2018; excluding the effect of the "two-invoice system", turnover increased by 10.3% to RMB2,974.3 million for the six months ended 30 June 2018 from RMB2,695.8 million for the six months ended 30 June 2017, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 13.3% from RMB1,662.0 million for the six months ended 30 June 2017 to RMB1,883.7 million for the six months ended 30 June 2018; excluding the effect of the "two-invoice system", gross profit increased by 9.5% from RMB1,593.8 million for the six months ended 30 June 2017 to RMB1,744.9 million for the six months ended 30 June 2018, primarily reflecting growth in turnover. For the six months ended 30 June 2018, gross profit margin was 70.9%, representing an increase of 9.0 percentage points from 61.9% for the six months ended 30 June 2017; excluding the effect of the "two-invoice system", gross profit margin decreased by 0.4 percentage point to 58.7% for the six months ended 30 June 2018 from 59.1% for the six months ended 30 June 2017, mainly due to a decrease in selling price.

Selling Expenses

Selling expenses increased by 23.0% from RMB597.7 million for the six months ended 30 June 2017 to RMB735.2 million for the six months ended 30 June 2018. Selling expenses as a percentage of turnover was 27.7% for the six months ended 30 June 2018, representing an increase of 5.5 percentage points from 22.2% for the six months ended 30 June 2017. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover increased by 0.4 percentage point to 20.0% for the six months ended 30 June 2018 from 19.6% for the six months ended 30 June 2017, primarily reflecting an increase in academic promotion activities and human costs.

Administrative Expenses

Administrative expenses increased by 1.3% from RMB97.3 million for the six months ended 30 June 2017 to RMB98.5 million for the six months ended 30 June 2018. Administrative expenses as a percentage of turnover increased by 0.1 percentage point from 3.6% for the six months ended 30 June 2017 to 3.7% 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 0.3 percentage point to 3.3% for the six months ended 30 June 2018 from 3.6% for the six months ended 30 June 2017, mainly due to the effective control over expenses and the benefit from economies of scale.

Other Gains and Losses

Other gains and losses decreased by 90.3% from a loss of RMB94.3 million for the six months ended 30 June 2017 to a loss of RMB9.2 million for the six months ended 30 June 2018, mainly due to a significant decrease in exchange loss on bank borrowings in foreign currencies.

Share of Result of Associates

Share of result of associates increased by 228.2% from RMB14.2 million for the six months ended 30 June 2017 to RMB46.6 million for the six months ended 30 June 2018, mainly reflecting an increase in profit of the associate Tibet Pharmaceutical, and an increase in shareholding percentage of Tibet Pharmaceutical held by the Group.

Finance Costs

Finance costs increased by 40.8% from RMB30.1 million for the six months ended 30 June 2017 to RMB42.3 million for the six months ended 30 June 2018, mainly due to an increase in interest rate of borrowings.

Profit for the Period

Profit for the period increased by 18.8% from RMB804.1 million for the six months ended 30 June 2017 to RMB955.1 million for the six months ended 30 June 2018, mainly due to the continuous growth in turnover.

Inventories

Inventories decreased by 9.5% from RMB460.4 million as at 31 December 2017 to RMB416.5 million as at 30 June 2018, average inventory turnover days increased by 18 days from 86 days for the six months ended 30 June 2017 to 104 days for the six months ended 30 June 2018, mainly due to the effect of the "two-invoice system" and the additional stock caused by the renewal of imported drug license.

Trade Receivables

Trade receivables increased by 10.2% from RMB993.8 million as at 31 December 2017 to RMB1,095.3 million as at 30 June 2018, primarily reflecting an increase in turnover. Average trade receivables turnover days increased by 1 day from 72 days for the six months ended 30 June 2017 to 73 days for the six months ended 30 June 2018, mainly due to the effect of the "two-invoice system".

Trade Payables

Trade payables decreased by 32.5% from RMB130.0 million as at 31 December 2017 to RMB87.8 million as at 30 June 2018. Average trade payables days decreased by 13 days from 39 days for the six months ended 30 June 2017 to 26 days for the six months ended 30 June 2018, mainly due to the effect of the "two-invoice system".

Liquidity, Financial Resources, Capital Structure and Gearing Ratio

As at 30 June 2018, the Group's cash and bank deposits amounted to RMB1,097.8 million while readily realizable bank acceptance bills amounted to RMB245.5 million. As at 31 December 2017, our cash and bank deposits amounted to RMB855.6 million while readily realizable bank acceptance bills amounted to RMB349.6 million.

The Group had bank borrowings of RMB1,761.1 million as at 30 June 2018 (31 December 2017: RMB2105.0 million). During the period ended 30 June 2018, the Group's bank loans decreased by a net amount of RMB343.9 million, mainly due to repayment of part of loans. The average interest rate of loans was 4.4% per annum. Except for loans amounting to RMB1,397.1 million, all the remaining loans are current liabilities and due within one year.

As at 30 June 2018 and 31 December 2017, the Group had a gearing ratio (being the bank borrowings of the Group divided by the total assets of the Group) of approximately 17.1% and 20.7%, 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$, Euro and HK$. 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 2018, the Group has entered into certain foreign exchange forward contracts, for details please refer to note 14 to the condensed consolidated financial statements.

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 2018, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB86,931,000 and RMB19,988,000 respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2018, 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 2018, Mr. Lam Kong (directly and indirectly) holds approximately 43.53% of the total issued ordinary share capital of the Company.

Employee Benefit Scheme

On 14 May 2018, as approved by the Benefit Scheme Executive Committee of the Company, 4 employees of the Company participated in the CMS Key Employee Benefit Scheme.

Share Option Scheme

The Company has not implemented a share option scheme. As at 30 June 2018, there were no outstanding share options of the Company.

Interim Dividend

The board of directors of the Company (the "Board") has resolved to pay an interim dividend of RMB0.1536 (equivalent to HK$0.176) per ordinary share of the Company for the six months ended 30 June 2018 to the shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 12 September 2018 (the "Record Date"). Payment of such interim dividend is expected to be made to the shareholders on about Wednesday, 19 September 2018.

Closure of Register of Members

The register of members of the Company will be closed on Wednesday, 12 September 2018, on which the registration of transfer of Shares 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 Tuesday, 11 September 2018.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 30 June 2018, the interests or short positions of the Directors and Chief Executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the SEHK, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Name of Corporation	Nature of Interest	Class of Shares and Total Number of Shares Held (note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,082,719,000 (L) (note 2)	43.53%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.81%
		Interest in controlled corporation	45,000,000 (L) (note 3)	1.81%
Ms. Chen Yanling	The Company	Beneficial owner	7,246,250 (L)	0.29%

Notes:

1. The letter "L" denotes long positions in the Shares.
2. These Shares are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
3. These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.

Directors' Right to Acquire Shares or Debentures

At no time during the Reporting Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 30 June 2018, the Directors were not aware of any other person (other than the Directors or the Chief Executive of the Company) who held interests and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the SEHK pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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 2018.

Employees

As at 30 June 2018, the Group had nearly 3600 employees. The Group has initiated organizational reform and speeded up the cultivation and recruitment of talents through optimizing the current human resources and innovating the way of management to enhance the development of the Group. The Group has adopted a series of measures to facilitate employees' work efficiency, regularly assessed their performance and adjusted their salaries and bonuses accordingly. Additionally, the Group has offered training programs to employees from different business units.

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 2018 have been reviewed by the Audit Committee of the Company.

Changes in Director's Information

During the Reporting Period, Mr. Cheung Kam Shing, Terry, the independent non-executive director of the Company, ceased to be CEO of a private company engaging in investment of technology. Mr. Leung Chong Shun, the independent non-executive director of the Company, ceased to be the independent non-executive director of China National Materials Company Limited (a company delisted on the SEHK with stock code 01893) from May 2018 and was appointed as an independent non-executive director of Min Xin Holdings Limited (a company listed on the SEHK with stock code 00222) from 3 May 2018. Save as disclosed above, there are no other issues required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

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 (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 with the guidelines by such employees was noted by the Company during the Reporting Period.

Disclosure of Information

The interim report for the Reporting Period will be duly dispatched to shareholders of the Company and published on websites of the SEHK (www.hkex.com.hk) and the Company (www.cms.net.cn).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
	NOTES	2018	2017
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Turnover	3	2,655,007	2,686,364
Cost of goods sold		(771,293)	(1,024,394)
Gross profit		1,883,714	1,661,970
Other gains and losses		(9,179)	(94,339)
Selling expenses		(735,167)	(597,671)
Administrative expenses		(98,530)	(97,253)
Finance costs		(42,310)	(30,057)
Share of results of associates		46,602	14,198
Profit before tax		1,045,130	856,848
Income tax expense	4	(89,988)	(52,767)
Profit for the period	5	955,142	804,081
Other comprehensive income (expense), net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		6,614	68
Change in fair value on cash flow hedges			
- fair value gain		10,251	-
- deferred tax relating to change in fair value		(1,691)	-
Items that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instrument at fair value through other comprehensive income		(5,183)	-
Other comprehensive income for the period, net of income tax		9,991	68
Total comprehensive income for the period		965,133	804,149
Profit (loss) for the period attributable to:			
Owners of the Company		957,544	804,953
Non-controlling interests		(2,402)	(872)
		955,142	804,081
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		967,535	805,021
Non-controlling interests		(2,402)	(872)
		965,133	804,149
		RMB	RMB
Earnings per share	7		
Basic		0.3850	0.3236

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2018

	NOTES	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	482,788	479,080
Prepaid lease payments		58,018	58,868
Interest in associates	9	2,438,701	2,412,387
Intangible assets		2,638,957	2,720,326
Goodwill		1,384,535	1,384,535
Available-for-sale investments		-	23,020
Investment in equity instrument at fair value through other comprehensive income		17,837	-
Deposit paid for acquisition of property, plant and equipment and intangible assets		70,765	72,142
Derivative financial instruments	14	22,274	12,023
Deferred tax assets		22,720	26,882
		7,136,595	7,189,263
Current assets			
Inventories		416,471	460,401
Trade and other receivables	10	1,493,026	1,487,392
Tax recoverable		7,189	5,135
Amount due from an associate	11	119,843	151,023
Bank balances and cash		1,097,832	855,629
		3,134,361	2,959,580
Current liabilities			
Trade and other payables	12	373,685	506,826
Bank borrowings	13	364,049	65,000
Deferred consideration payables		8,652	8,802
Tax payable		63,465	77,516
		809,851	658,144
Net current assets		2,324,510	2,301,436
Total assets less current liabilities		9,461,105	9,490,699

	NOTES	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Capital and reserves			
Share capital	15	85,200	85,200
Reserves		7,810,544	7,189,483
Equity attributable to owners of the Company		7,895,744	7,274,683
Non-controlling interests		51,172	53,574
		7,946,916	7,328,257
Non-current liabilities			
Bank borrowings	13	1,397,087	2,040,048
Deferred tax liabilities		104,664	104,498
Derivative financial instruments	14	2,260	-
Deferred consideration payables		10,178	17,896
		1,514,189	2,162,442
		9,461,105	9,490,699

The condensed consolidated financial statements on pages 25 to 44 were approved and authorised for issue by the Board of Directors on 27 August 2018 and are signed on its behalf by:

LAM Kong
DIRECTOR

CHEN Yanling
DIRECTOR

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Attributable to owners of the Company											
	Share capiatl RMB'000	Share premium RMB'000	Capital reserve RMB'000	Surplus reserve fund RMB'000	Translation reserve RMB'000	Hedging reserve RMB'000	Investments revaluation reserve RMB'000	Accumulated profits RMB'000	Dividend reserve RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2017 (audited)	85,200	2,444,296	19,545	176,437	(8,890)	-	-	3,203,278	289,516	6,209,382	58,442	6,267,824
Profit (loss) for the year	-	-	-	-	-	-	-	1,674,807	-	1,674,807	(4,868)	1,669,939
Share of other comprehensive expense of associates	-	-	-	-	(5,157)	-	-	-	-	(5,157)	-	(5,157)
Fair value loss on available-for -sales investments	-	-	-	-	-	-	(3,271)	-	-	(3,271)	-	(3,271)
Change in fair value on cash flow hedges												
- fair value gain	-	-	-	-	-	12,023	-	-	-	12,023	-	12,023
- deferred tax relating to change in fair value	-	-	-	-	-	(1,984)	-	-	-	(1,984)	-	(1,984)
Total comprehensive (expense) income for the year	-	-	-	-	(5,157)	10,039	(3,271)	1,674,807	-	1,676,418	(4,868)	1,671,550
Dividends paid	-	-	-	-	-	-	-	(321,601)	(289,516)	(611,117)	-	(611,117)
Dividends proposed	-	-	-	-	-	-	-	(346,474)	346,474	-	-	-
Transfer of reserves	-	-	-	56,833	-	-	-	(56,833)	-	-	-	-
Balance at 31 December 2017 (audited)	85,200	2,444,296	19,545	233,270	(14,047)	10,039	(3,271)	4,153,177	346,474	7,274,683	53,574	7,328,257
Profit (loss) for the period	-	-	-	-	-	-	-	957,544	-	957,544	(2,402)	955,142
Other comprehensive income (expense) for the period	-	-	-	-	6,614	8,560	(5,183)	-	-	9,991	-	9,991
Total comprehensive income (expense) for the period	-	-	-	-	6,614	8,560	(5,183)	957,544	-	967,535	(2,402)	965,133
Dividends paid (Note 6)	-	-	-	-	-	-	-	-	(346,474)	(346,474)	-	(346,474)
Dividends proposed (Note 6)	-	-	-	-	-	-	-	(382,041)	382,041	-	-	-
Transfer of reserves	-	-	-	34,657	-	-	-	(34,657)	-	-	-	-
Balance at 30 June 2018 (unaudited)	85,200	2,444,296	19,545	267,927	(7,433)	18,599	(8,454)	4,694,023	382,041	7,895,744	51,172	7,946,916

	Attributable to owners of the Company											
	Share capiatl RMB'000	Share premium RMB'000	Capital reserve RMB'000	Surplus reserve fund RMB'000	Translation reserve RMB'000	Hedging reserve RMB'000	Investments revaluation reserve RMB'000	Accumulated profits RMB'000	Dividend reserve RMB'000	Sub-total RMB'000	Attributable to non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2017 (audited)	85,200	2,444,296	19,545	176,437	(8,890)	-	-	3,203,278	289,516	6,209,382	58,442	6,267,824
Profit (loss) for the period	-	-	-	-	-	-	-	804,953	-	804,953	(872)	804,081
Other comprehensive income for the period	-	-	-	-	68	-	-	-	-	68	-	68
Total comprehensive income (expense) for the period	-	-	-	-	68	-	-	804,953	-	805,021	(872)	804,149
Dividends paid	-	-	-	-	-	-	-	-	(289,516)	(289,516)	-	(289, 516)
Dividends proposed	-	-	-	-	-	-	-	(321,601)	321,601	-	-	-
Transfer of reserves	-	-	-	34,134	-	-	-	(34,134)	-	-	-	-
Balance at 30 June 2017 (unaudited)	85,200	2,444,296	19,545	210,571	(8,822)	-	-	3,652,496	321,601	6,724,887	57,570	6,782,457

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	NOTES	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Net cash from operating activities		985,404	1,060,816
Net cash from (used in) investing activities			
Purchase of property, plant and equipment	8	(25,139)	(33,787)
Capital injection to an associate		-	(1,000,000)
Interest received		14,431	8,913
Dividend received from associates		26,902	1,551
		16,194	(1,023,323)
Net cash (used in) from financing activities			
Interest paid		(36,642)	(55,059)
Dividends paid	6	(346,474)	(289,516)
Payment of deferred consideration payables		(8,736)	(1,079,592)
New bank borrowings raised		329,049	3,340,220
Repayment of bank borrowings		(696,230)	(1,786,700)
		(759,033)	129,353
Net increase in cash and cash equivalents		242,565	166,846
Cash and cash equivalent at beginning of the period		855,629	482,451
Effect of exchange rate changes on the balance of cash held in foreign currencies		(362)	(330)
Cash and cash equivalent at end of the period, represented by bank balances and cash		1,097,832	648,967

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 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 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

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 IFRS 9 *Financial Instruments* and the related amendments

In the current period, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting. The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement.*

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB23,020,000 were reclassified from available-for-sale investments to financial assets measured at fair value through other comprehensive income. The fair value loss of RMB3,271,000 relating to those investments previously carried at fair value continued to accumulate in investments revaluation reserve. Except as described above, the application of IFRS 9 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

The application of the 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

Turnover represents the net amount received and receivable for goods sold and services provided during the Reporting Period.

An analysis of the Group's turnover for the period is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Plendil	615,788	643,126
Ursofalk	526,605	442,222
Deanxit	508,920	483,096
Salofalk	162,613	138,455
XinHuoSu	157,599	304,492
Bioflor	131,503	121,754
YiNuoShu	112,318	71,392
Stulln	105,201	105,141
XiDaKang	86,279	71,787
Hirudoid	71,931	62,236
DanShenTong	60,601	75,453
Combizym	38,086	32,034
GanFuLe	21,529	23,849
Parlodel	13,531	12,448
Imdur	10,660	15,222
NuoDiKang	10,473	57,047
YinLianQingGan	2,080	3,543
Lamisil	1,938	1,853
Others	17,352	21,214
	2,655,007	2,686,364

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.

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

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax	84,880	50,063
Hong Kong Profits Tax	2,455	2,300
Malaysia Corporate Income Tax	16	18
	87,351	52,381
Deferred taxation:		
Current period	2,637	386
Income tax expense for the period	89,988	52,767

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	17,318	14,483
Amortisation of intangible assets (included in cost of goods sold)	81,370	82,635
Cost of inventories recognised as an expense	685,234	937,455
Interest income	(14,431)	(8,915)
Net exchange loss	16,083	125,664

6. DIVIDENDS

During the Reporting Period, a final dividend of RMB0.1393 per share in respect of the year ended 31 December 2017 (six months ended 30 June 2017: RMB0.1164 per share in respect of the year ended 31 December 2016) 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 RMB346,474,000 (six months ended 30 June 2017: RMB289,516,000).

Subsequent to the end of the interim period, the directors have determined that an interim dividend of RMB0.1536 per share and amounting to RMB382,041,000 (six months ended 30 June 2017: RMB0.1293 per share and amounting to RMB321,601,000) will be paid to the owners of the Company whose names appear in the Register of Members on 12 September 2018.

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	
	2018	2017
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company)	957,544	804,953

	Number of ordinary shares As at 30 June	
	2018	2017
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,487,247,512	2,487,247,512

The Group has no outstanding potential ordinary shares as at 30 June 2018 and 2017 and during the periods ended 30 June 2018 and 2017. Therefore, no diluted earnings per share is presented.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group spent RMB7,023,000 (six months ended 30 June 2017: RMB1,154,000) on the acquisition of property, plant and equipment and RMB18,116,000 (six months ended 30 June 2017: RMB32,633,000) on construction costs for manufacturing plants in the PRC in order to upgrade its manufacturing and promotion capabilities.

9. INTEREST IN ASSOCIATES

	30 June 2018 RMB'000	31 December 2017 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	2,304,356	2,304,356
Unlisted	11,536	11,536
Share of post-acquisition profits and other comprehensive income, net of dividends received	122,809	96,495
	2,438,701	2,412,387
Fair value of listed investment (Note)	2,365,081	2,219,538

Note: The fair value of the Group's interest in Tibet Pharmaceutical, of which its shares are listed on the Shanghai Stock Exchange, was determined on the basis of the quoted market price available on the Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13.

As at 30 June 2018 and 31 December 2017, details of the associates are as follows:

Name of associates	Place of establishment/ incorporation	Principal place of business	Proportion of ownership interest held by the Group		Principal activities
			30 June 2018	31 December 2017	
Ophol Limited ("Ophol")	Hong Kong	Hong Kong	24.49%	24.49%	Investment holding and provision of agency service
Tibet Pharmaceutical	Tibet	Tibet	36.83%	36.83%	Production of medicines and sale of drugs

10. TRADE AND OTHER RECEIVABLES

	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade receivables	1,104,438	1,003,640
Less: Allowance for bad and doubtful debts	(9,179)	(9,828)
	1,095,259	993,812
Bills receivables	245,497	349,633
Purchase prepayment	85,221	51,703
Value added tax receivable	3,389	35,237
Other receivables and deposits	63,660	57,007
Total trade and other receivables	1,493,026	1,487,392

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 bad and doubtful debts) presented based on the invoice date at the respective reporting dates, which approximated the respective revenue recognition date, is as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
0 - 90 days	956,632	867,489
91 - 365 days	137,304	120,911
Over 365 days	1,323	5,412
	1,095,259	993,812

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 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 2018, 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 2018.

11. 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 was aged within three months based on the invoice date.

12. 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 2018 RMB'000	31 December 2017 RMB'000
0 - 90 days	84,144	124,497
91 - 365 days	2,130	2,653
Over 365 days	1,536	2,861
	87,810	130,011
Payroll and welfare payables	92,327	94,683
Other tax payables	16,079	28,518
Deferred promotion income	26,475	42,587
Payables for acquisition of property, plant and equipment	16,439	16,001
Other payables	53,938	66,511
Accrued promotion expenses	48,783	95,022
Accruals	31,834	33,493
	373,685	506,826

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

13. BANK BORROWINGS

	30 June 2018 RMB'000	31 December 2017 RMB'000
Secured	155,000	165,000
Unsecured	1,606,136	1,940,048
	1,761,136	2,105,048
Classified as:		
Current liabilities	364,049	65,000
Non-current liabilities	1,397,087	2,040,048
	1,761,136	2,105,048

During the Reporting Period, the Group's bank borrowings decreased by a net amount of RMB343,912,000 (six months ended 30 June 2017: increased by a net amount of RMB1,553,522,000), the average interest rate of loans was 4.4% (six months ended 30 June 2017: 2.6%) per annum.

14. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2018 RMB'000	31 December 2017 RMB'000
Derivative under hedging accounting		
Cash flow hedges – interest rate swaps	22,274	12,023
Foreign exchange forward contracts	(2,260)	-

Interest Rate Swaps

The Group uses interest rate swaps to minimise its exposure to interest rate movements on its variable-rate bank borrowings. The interest rate swaps and the corresponding bank borrowings have the same terms, including principal amounts, interest rate spread, start dates, maturity dates, repayment dates and counterparties. Major terms of the interest rate swaps are set out below:

At 30 June 2018

Notional amount	Contract date	Maturity date	Receive	Pay
US$40,000,000	23 June 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$32,000,000	10 July 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$113,000,000	18 August 2017	23 June 2020	LIBOR + 1.8%	3.54%
US$15,000,000	11 September 2017	23 June 2020	LIBOR + 1.8%	3.54%

At 31 December 2017

Notional amount	Contract date	Maturity date	Receive	Pay
US$140,000,000	23 June 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$32,000,000	10 July 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$113,000,000	18 August 2017	23 June 2020	LIBOR + 1.8%	3.54%
US$15,000,000	11 September 2017	23 June 2020	LIBOR + 1.8%	3.54%

Foreign Exchange Forward Contracts

The Group uses foreign exchange forward contracts to minimise its exposure to exchange rate change on its bank borrowings. The foreign exchange forward contracts and the corresponding bank borrowings have the same principal amounts and maturity dates. Major terms of the foreign exchange forward contracts are set out below:

Notional amount	Maturity date	Exchange rate range agreed
Buy US$200,000,000	23 June 2020	US$1:RMB6.7-7.2

15. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Authorised share capital:		
At 31 December 2017 and 30 June 2018	20,000,000	765,218
Issued and fully paid:		
At 31 December 2017 and 30 June 2018	2,487,247	85,200

16. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information on how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	30/06/2018	31/12/2017		
1) Interest rate swaps classified as derivative financial instruments	Assets - RMB22,274,000	Assets - RMB12,023,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.
2) Listed equity investment	Listed equity securities on the London Stock Exchange - RMB17,837,000	Listed equity securities on the London Stock Exchange - RMB23,020,000	Level 1	Quoted bid prices in an active market
3) Foreign exchange forward contacts classified as derivative financial instruments	Liabilities - RMB2,260,000	-	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between level 1 and 2 during the period/year ended 30 June 2018 and 31 December 2017.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

17. CAPITAL COMMITMENTS

	30 June 2018 RMB'000	31 December 2017 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment and intangible assets contracted for but not provided in the condensed consolidated financial statements	21,500	21,568

18. RELATED PARTY TRANSACTIONS

(a) The Group entered into the following transactions with related parties during the period:

Name of related company	Relationship	Nature of transactions	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Ophol	Associate	Interest expense	71	211
Tibet Pharmaceutical	Associate	Promotion income	179,766	153,514
Tibet Pharmaceutical	Associate	Purchase of goods	-	158,944
Tibet Pharmaceutical	Associate	Interest income	-	7,057

(b) The remuneration of key management personnel during the Reporting Period amounted to RMB3,060,000 (six months ended 30 June 2017: RMB1,788,000).