康哲®

CMS 康哲药业 CHINA MEDICAL SYSTEM

2020 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 (resigned on 31 March 2020)
Mr. WU Chi Keung
Mr. LEUNG Chong Shun
Ms. LUO, Laura Ying (appointed on 31 March 2020)

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 (resigned on 31 March 2020)
Mr. LEUNG Chong Shun
Ms. LUO, Laura Ying (appointed on 31 March 2020)

Remuneration Committee Members

Mr. LEUNG Chong Shun (Chairman)
Mr. CHEUNG Kam Shing, Terry (resigned on 31 March 2020)
Mr. WU Chi Keung
Ms. LUO, Laura Ying (appointed on 31 March 2020)

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)
(resigned on 31 March 2020)
Ms. LUO, Laura Ying (Chairman)
(appointed on 31 March 2020)
Mr. LAM Kong
Mr. WU Chi Keung
Mr. LEUNG Chong Shun

Auditors

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Principal Bankers

China Merchants Bank, Shenzhen Branch
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (China) Limited
Industrial and Commercial Bank of China, Shenzhen Branch
Citibank (China) Co., Ltd., Shenzhen Branch

Registered Office

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

Headquarters and Principal Place of Business in Hong Kong

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Island Place Tower
510 King's Road
North Point
Hong Kong

Principal Contact Address in the PRC

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198 Daxin Road
Nanshan District
Shenzhen 518052
Guangdong Province
the PRC

Branch Share Registrar in Hong Kong

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

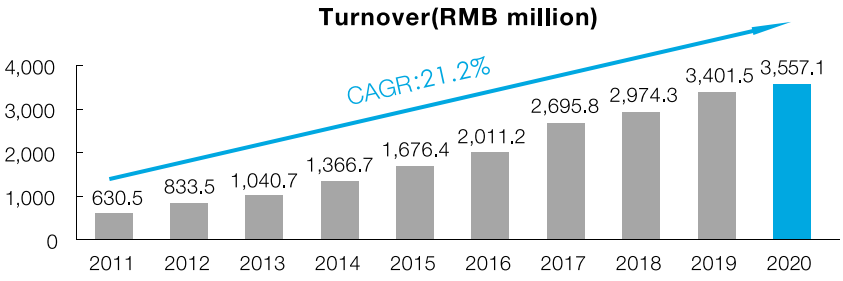
867

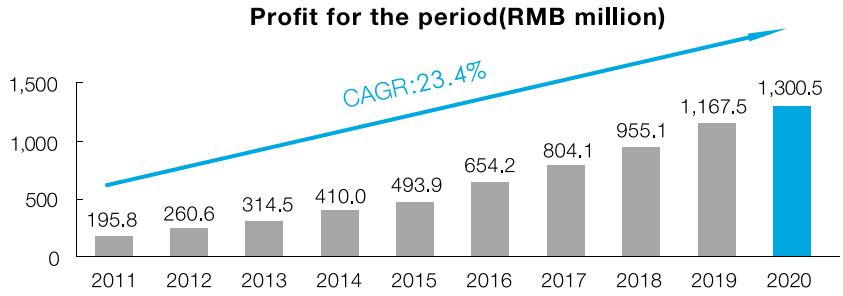
Company's Website

www.cms.net.cn

- Turnover up 4.8% to RMB3,108.1 million (H1 2019: RMB2,964.4 million); excluding the effect of the "two-invoice system", turnover up 4.6% to RMB3,557.1 million (H1 2019: RMB3,401.5 million)
- Gross profit up 3.4% to RMB2,293.4 million (H1 2019: RMB2,217.5 million); excluding the effect of the "two-invoice system", gross profit up 6.8% to RMB2,161.7 million (H1 2019: RMB2,023.2 million)
- Profit for the period up 11.4% to RMB1,300.5 million (H1 2019: RMB1,167.5 million)
- Basic earnings per share up 9.7% to RMB0.5174 (H1 2019: RMB0.4717)
- As at 30 June 2020, the Group's bank balances and cash amounted to RMB2,109.1 million while readily realizable bank acceptance bills amounted to RMB315.6 million
- Declared interim dividend up 11.8% compared with the same period last year to RMB0.2105 per share (H1 2019: RMB0.1883)

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:





BUSINESS HIGHLIGHTS

During the Reporting Period, the Group made significant progress in the expansion of the innovative pipeline as well as the registration and clinical work of innovative products, summarized as follows:

The Innovative Pipeline Continued to Expand

- Acquired the exclusive license of the innovative product PLENITY® in Mainland China, HK SAR, Macau SAR, TWN, Singapore and the United Arab Emirates. PLENITY® is a U.S. FDA-cleared, safe and effective orally-administered weight management product made from naturally derived materials.
- Acquired the exclusive license of the innovative product Desidustat in Mainland China, HK SAR, Macau SAR and TWN. Desidustat is a patented new molecular entity for the treatment of anemia in patients with chronic kidney disease.

The Registration and Clinical Work of Innovative Products in China Attained Positive Progress

- Related work for the comparative PK study of the innovative product Diazepam Nasal Spray in healthy subjects has been carried out, and the ethical approval for this study was obtained from the research center.
- The innovative product Cyclosporine Eye Drops 0.09% has been granted a clinical trial notice issued by China NMPA, which agreed to a randomized, double-blind, placebo-controlled, multi-center clinical study on the safety and effectiveness of the product for the treatment of keratoconjunctivitis sicca.
- The clinical trial application of the innovative product Tildrakizumab has been accepted by China NMPA.

The Existing Businesses Achieved Steady Development

- Recorded solid growth across core product lines.
- The operation efficiency of the professional, compliant and efficient promotion system has been further improved through digitalization; and the expansion and refinement of the promotion network continued. During the Reporting Period, the Group's promotion network covered about 57,000 hospitals and medical institutions in China.

Overview

China Medical System Holdings Limited (the "Company", together with its subsidiaries, the "Group" or "CMS") is a well-established, innovation-driven specialty pharma with a focus on sales and marketing in China. The Group concentrates on the innovative products that are global first-in-class or with the best efficacy or best cost-effectiveness in the same class due to their innovative formulations or drug delivery systems. Capitalizing on its resources of global product development accumulated for more than two decades, as well as the market reputation earned, the Group has established strategic cooperation relationships with a number of leading pharmaceutical companies around the world and made equity investments in innovative research and development ("R&D") companies from the U.K., France, the U.S. and Switzerland. The Group's innovative pipeline includes products with great market potential and competitive differentiation advantages at relatively high innovation level, covering various therapeutic fields including nervous system, ophthalmology, dermatology, endocrine system, oncology, nephrology, immune system, digestive system, anti-infection, etc. As at 30 June 2020, the Group owned 20 innovative products, among them, 6 products have been approved for marketing by the U.S. Food and Drug Administration ("FDA") and 2 under the review for marketing approval by the U.S. FDA; 2 innovative products have been granted clinical trial notices issued by the National Medical Products Administration ("NMPA") of China for comparative pharmacokinetics study ("PK study") and confirmatory clinical trial respectively, and the application for confirmatory clinical trial of 1 innovative product has been accepted by China NMPA.

With its proven and successful experience in drug promotion for over two decades, the Group has created good sales records for a number of quality branded drugs and received high recognition from its partners. The Group focuses on exploring the evidence-based medical evidence and differentiation competitive advantages of the drugs and has established a professional, compliant and efficient academic promotion system. Combined with its timely, refined, transparent and efficient internal management system, the Group has become one of the most efficient companies in China pharmaceutical industry.

Business Review

For the six months ended 30 June 2020 (the "Reporting Period"), with the normalization of the National Volume-based Procurement, the intensification of anti-corruption in the pharmaceutical industry, the issuance of Interim Administrative Measures for Basic Drugs of National Reimbursement Drug List ("NRDL") (Draft for Soliciting Opinions), and the re-initiation of the Registration Regulation on Pharmaceutical Representatives, etc., China pharmaceutical reform has continued to deepen and progress at an accelerated pace. Facing the deepened pharmaceutical reform, the Group rose to the challenge and achieved steady and good growth with three driving forces: product competence, promotion capability and efficient management system.

I. Product Pipeline

Sustainable product competence is the key competitive factor for future development of enterprises. Adhering to the development strategy with innovative products as the core, the Group constantly expanded the innovative pipeline, while accelerating the registration progress of innovative products in China, so as to fulfill the unmet medical needs in China pharmaceutical market. Meanwhile, the Group deployed complex generics and competitive generics to provide additional driving forces for the future development of the Group.

1. Continuous Expansion of Innovative Pipeline

Equity Investment in Gelesis and In-licensing of the Innovative Product PLENITY® – A Safe and Effective Orally-administered Weight Management Product Made from Naturally Derived Materials

In June 2020, the Group made an equity investment in Gelesis, Inc. ("Gelesis"), a U.S. innovative R&D company focusing on a novel category of therapies for GI-related chronic diseases. Gelesis is developing a novel hydrogel platform technology, which is designed to act mechanically in the GI pathway to potentially alter the course of certain chronic diseases. As at 30 June 2020, the Group held 5.88% ownership of Gelesis.

At the same time, the Group through its wholly-owned subsidiary signed a license, collaboration and supply agreement with Gelesis for its product PLENITY® and gained an exclusive license under Gelesis intellectual property and applicable regulatory approvals to develop, import, register, make and have made, manufacture and commercialize the product in Mainland China, the Hong Kong Special Administrative Region ("HK SAR"), the Macau Special Administrative Region ("Macau SAR"), Taiwan ("TWN"), Singapore and the United Arab Emirates. The term of the agreement is 20 years from the date of signing and may be renewable for every single period of three years as per certain conditions defined in the agreement.

PLENITY®, which was approved by the U.S. FDA in April 2019, is a safe and effective orally-administered weight management product made from naturally derived materials. Used in conjunction with diet and exercise to aid for weight management in adults with a Body Mass Index (BMI) of 25–40 kg/m², PLENITY® is a non-systemic and non-stimulant aid for weight management. After taken with water, its capsules release thousands of particles that rapidly absorb water in the stomach, creating small individual gel pieces with the elasticity and firmness of plant-based foods without caloric value. The gel contributes to a feeling of fullness and induces satiety, which can help with weight loss. The U.S. FDA approval was based on data from a randomized, double-blind, placebo-controlled pivotal clinical trial conducted on 436 patients with overweight or obesity (BMI of 27-40 kg/m^2) with at least one comorbidity. After six months of treatment with PLENITY®, nearly 60% patients achieved at least 5% weight loss (an average of 10% weight loss, or 10kg) and 26% achieved at least 10% (an average of 14% weight loss, or 13kg). Meanwhile, PLENITY® demonstrated a highly favorable safety profile: no difference in the overall incidence of adverse events compared with placebo. In addition, PLENITY® also received a CE mark, which allows it to be marketed in European Economic Area. PLENITY®'s core patents (namely formulation/use and preparation method patents) have been granted in Mainland China.

Statistics show that in 2015, overweight and obesity accounted for 23% and 5% of the adult population respectively in China. Currently, the commonly used weight loss and weight maintenance drugs have different degrees of adverse reactions; whilst, other products in the healthcare market have not been fully validated by evidence-based medicine in terms of effectiveness and safety. The introduction of PLENITY® would meet the market demand and provide patients with an effective and safe treatment option.

The Innovative Product In-licensed from Zydus, Desidustat – Oral Hypoxia-inducible Factor-prolyl Hydroxylase Inhibitor (HIF-PHI)

In January 2020, the Group through its wholly-owned subsidiary signed a license agreement with Cadila Healthcare Limited ("Zydus") for its product Desidustat and gained a royalty-bearing, exclusive, sub-licensable license under the licensed technology and Zydus data to develop, register and to manufacture, use and commercialize the product in Mainland China, HK SAR, Macau SAR and TWN. The term of the agreement starts on the date of signing the agreement until the last date of the occurrence of the following: (i) the expiration of the last-to-expire patent containing a valid claim covering the manufacture, use, import, offer for sale or sale of the product in the related territory; (ii) ten years after the first commercial sale of the product in the related territory; and (iii) the expiration of all regulatory exclusivities for the product in the related territory. The agreement may be renewable for every single period of five years as per certain conditions defined in the agreement.

Desidustat, which is under two Phase III clinical trials overseas, is a novel oral hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI) for treating anemia in chronic kidney disease (CKD) patients. A randomized, double-blind, placebo-controlled, parallel group, multicentric Phase II clinical trial had been conducted on 117 anemia patients in non-dialysis CKD. After six weeks of treatment, as compared to placebo, in all three Desidustat arms, the therapy showed statistically significant improvement in the primary endpoint, change in the hemoglobin (Hb) from baseline, and the Hb responder rates in secondary endpoint were over 60%. In terms of safety, no serious adverse event was reported, and there was no significant change in vital signs, electrocardiographic parameters, or safety laboratory values. The Group will localize the manufacturing of the product preparations in Mainland China with technology transfer and plans to submit the Category 1 New Drug Application ("NDA") of the product in the future. A material patent has been granted in Mainland China, HK SAR, Macau SAR and TWN concerning Desidustat, which is a new molecular entity.

It has been reported that more than 120 million people are estimated to be living with CKD in China, and anemia is one of the frequent complications of CKD. A survey in China showed that the prevalence of anemia in patients at CKD stage 1 to 5 were 22.0%, 37.0%, 45.4%, 85.1%, and 98.2%, respectively. However, the target-achieving rate was only 8.2% for anemia patients in non-dialysis CKD and 35.2% for hemodialysis CKD, showing a large unmet treatment need. Compared with the existing therapies, Desidustat is administrated orally, thus expected to improve the treatment compliance of patients.

2. Registration and Clinical Progress of Innovative Pipeline

Diazepam Nasal Spray – An Innovative Drug Targeting Acute Repetitive Seizures That Is Convenient to Use Outside the Medical Setting and Has a Very Rapid Onset of Action

During the Reporting Period, the related work for the comparative PK study of Diazepam Nasal Spray and diazepam injection in healthy subjects has been carried out, and the ethical approval for this study was obtained from the research center. The Group is preparing for the enrollment and related work of the study as planned, with an enrollment target of 24. In December 2019, the Group received the clinical trial notice of Diazepam Nasal Spray issued by China NMPA. The Group is required to conduct a comparative PK study in Chinese subjects, and to submit a post-marketing study plan to further verify the efficacy and safety at the same time of submitting the NDA.

In January 2020, Diazepam Nasal Spray was approved for marketing by the U.S. FDA under the VALTOCO® brand name for the treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy six years of age and older. The product is a proprietary formulation of diazepam. Its formulation incorporates the unique combination of a vitamin E-based solvent and Intravail® absorption enhancement with the goal of obtaining unparalleled absorption, tolerability, and reliability in a nasal formulation, providing a treatment option that is easy to use outside the medical setting and has a very rapid onset of action. The U.S. FDA approval was based on data from multiple clinical trials. Compared with intravenous diazepam, PK studies in VALTOCO® in healthy subjects demonstrated 96% absolute bioavailability and comparable bioavailability to rectal diazepam gel with significantly less variability. Results of PK study in seizing patients showed similar exposure of VALTOCO® in seizing or non-seizing state/strong correlation to pharmacokinetics in healthy subjects. The 12-month open-label, long-term safety Phase III clinical trial evaluating repeated use in patients with epilepsy showed exceptional tolerability and safety of VALTOCO® in repeated at-home use during seizure conditions.

According to the estimation based on domestic epidemiological data, there are about 6 million active epilepsy patients in China, and about 0.4 million new cases reported each year. In patients with epilepsy who have received regular treatment (about 2 million), 20%-30% are still out of effective control and are at risk of repetitive seizures. Diazepam Nasal Spray will effectively fulfill the market gap and become a long-term prepared and essential medicine for patients with acute repetitive seizures.

Cyclosporine Eye Drops 0.09% – A Preservative-free, Innovative Ophthalmic Formulation Using Globally Patented Nanotechnology

In April 2020, the clinical trial application of Cyclosporine Eye Drops 0.09% was accepted by China NMPA. In June, the product was granted a clinical trial notice issued by China NMPA, which agreed to a clinical trial regarding increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye), namely a randomized, double-blind, placebo controlled, multi-center clinical study on the safety and effectiveness of Cyclosporine Eye Drops 0.09% for the treatment of keratoconjunctivitis sicca. During the Reporting Period, the Group successfully held an investigator meeting to discuss and confirm the details of the clinical protocol, and completed the initial screening of the research centers nationwide. The next stage of work is actively proceeding.

Cyclosporine Eye Drops 0.09% has been approved for marketing in the U.S. and Australia for increasing tear production in patients with keratoconjunctivitis sicca. Dissolved in a clear, preservative-free, aqueous solution, the product is the globally first patent-protected innovative 0.09% cyclosporine ophthalmic solution using nanotechnology. The U.S. FDA approval was based on data from a multi-center, randomized, double-blind, vehicle-controlled Phase III confirmatory study conducted on 744 patients with dry eye. After 12 weeks of treatment, as compared to vehicle, Cyclosporine Eye Drops 0.09% showed statistically significant improvement in the primary endpoint, Schirmer's score (a measurement of tear production) ($p<0.01$). Improvements in secondary endpoints (i.e. ocular staining assessments) were seen as early as 1 month after the initiating treatment.

The incidence of dry eye in China is 21%-30%, of which moderate-to-severe patients account for 40% or about 118-168 million patients. Although various symptom alleviating agents such as artificial tears are available in the market, there are few satisfactory options in practice. In addition, in terms of ophthalmic cyclosporine, related treatment options are still limited due to the historic challenge of making an optic formulation of this agent at a suitable concentration without increasing side effects. Cyclosporine Eye Drops 0.09% uses a unique tiny structure called "micelle" as a vehicle to allow for greater tissue penetration and gentle side effect profile even in a high concentration, which will greatly complement and enrich the existing therapeutic options.

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

In May 2020, the clinical trial application of Tildrakizumab submitted by the Group has been accepted by China NMPA.

Tildrakizumab has been approved for marketing in the U.S., Europe and Australia for the treatment of adults with moderate-to-severe plaque psoriasis that are candidates for systemic therapy or phototherapy. The U.S. FDA approval was based on data from the pivotal Phase III reSURFACE clinical development program, which consisted of two randomized, double-blind, placebo-controlled trials of more than 1,800 patients across over 200 clinical trial sites. Results from the Phase III reSURFACE 1 and 2 studies were published in The Lancet in July 2017, with primary endpoints presented at the 25th European Academy of Dermatology and Venereology (EADV) Congress. The two Phase III studies met primary efficacy endpoints, with an average of 63% of patients receiving Tildrakizumab 100 mg achieving 75% of skin clearance by week 12, and 77% of patients achieving 75% skin clearance after 28 weeks. In the meantime, a higher number of Tildrakizumab-treated patients achieved 90% and 100% of skin clearance compared with placebo and Etanercept. The substance and formulation patents of Tildrakizumab have been granted in China.

There are more than 6.5 million people suffering from psoriasis in China. About 30% of patients are with moderate-to-severe psoriasis; among them, nearly 62% are dissatisfied with existing treatment options. As a cost-effective biological agent with long-term safety and efficacy, Tildrakizumab can fulfill this unmet clinical need.

CF102 – A Selective Agonist to the A3 Adenosine Receptor

In April 2020, the CF102 Phase II clinical trial for the treatment of non-alcoholic fatty liver disease (NAFLD) /non-alcoholic steatohepatitis (NASH) in Israel yielded positive top line results: achieving efficacy endpoints while continuing to demonstrate a good safety profile. CF102 is a novel small molecule compound used for a second-line treatment for hepatocellular carcinoma (HCC) and a treatment for NAFLD/NASH. The product has been granted Orphan Drug Designation in the U.S. and Europe and Fast Track Designation as a second-line treatment for HCC by the U.S. FDA.

3. Innovative Pipeline

As at 30 June 2020, the Group's innovative pipeline and its development process are as follows:

Innovative Pipeline Launched Overseas (or Under Marketing Approval)

Product	Indication	Innovativeness	Clinical Trial Approval	Clinical Trial for Registration	Marketing Approval Application	Launched into the Market	Country/ Region
Diazepam Nasal Spray	6 years of age and older patient with acute pepetitive seizures	Innovative drugs with proprietary technology for special dosage form					USA
							China
Cyclosporine Eye Drops 0.09%	Increasing tear production in patients with keratoconjunctivitis sicca (dry eye)	Global nanotechnology patent					USA, Australia
							China
Tildrakizumab (Biological Agent)	Moderate-to-severe plaque psoriasis	Innovative biological agent; substance patent and formulation patent					USA, Europe, Australia
							China
PLENITY (Medical Device)	Aid for weight management in adults with a BMI of 25-40 kg/m^2 when used in conjunction with diet and exercise	Formulation/use and preparation method patents					USA, Europe
Latanoprost Ophthalmic Emulsion	Reduction of elevated intraocular pressure (IOP) in patients with open-angle glaucoma, or ocular hypertension	Innovative technology platform to dissolve ophthalmic drugs with limited water absorbability					USA
Levetiracetam XR Tablet	Adjunctive therapy for the treatment of partial-onset seizures	Specialty formulation technology					USA
PoNS (Medical Device)	Chronic balance deficit due to mild-to-moderate traumatic brain injury (TBI)	Innovative medical device					Canada
							USA
Paclitaxel Injection Concentrate for Suspension	Metastatic breast cancer, locally advanced/ metastatic non-small cell lung cancer, metastatic adenocarcinoma of the pancreas	Formulation patents					USA

Innovative Pipeline Under Clinical Stages

Product	Indication	Innovativeness	Clinical Trial Approval	Phase I	Phase II	Phase III	FDA/EMA* Marketing Approval Application	Launched into the Market
CMS024	Primary liver cancer	New lead compound; substance, compound, use and application patents						
Desidustat	Anemia in chronic kidney disease (CKD) patients	New molecular entity; substance patent						
PDP-716	Reduction of elevated intraocular pressure (IOP) in patients with open-angle glaucoma, or ocular hypertension	Resin microparticle-complexed drug technology						
SDN-037	Eye pain and inflammation after cataract surgery	Proprietary nano-sized micelle drug delivery system						
CF101	Rheumatoid arthritis (RA)	New lead compound						
	Psoriasis							
CF102	Hepatocellular carcinoma (HCC)	New lead compound						
	Non-alcoholic fatty liver disease (NAFLD) / non-alcoholic steatohepatitis (NASH)							
XF-73	Prevention of post-surgical staphylococcal infections	New lead compound; compound patent and use patent						
BB2603	Onychomycosis and tinea pedis	Formulation patents						
ACT017 (Biological Agent)	Acute phase of ischemic stroke	Innovative biological agent; substance patent						
VXM01 (Biological Agent)	Recurrent glioblastoma (GBM)	Innovative biological agent; production process patent and use patent						

*European Medicines Agency ("EMA")

4. List of Equity-invested R&D Companies

The Group acquires asset rights (including intellectual property rights) or obtains exclusive licensing rights (collectively, the "Product Rights") of innovative products through equity investment and strategic cooperation. For equity investments in overseas product projects under clinical stages, to reduce risks assumed and capital spending by the Group, Mr. Lam Kong, the chairman of the board of directors (the "Board"), will typically through his privately-owned company make equity investments together with the Group on a 50:50 basis, to assist the Group in securing 100% of the Product Rights of innovative products in the relevant territories from potential R&D companies. As at 30 June 2020, the Group and/or Mr. Lam Kong (through his privately-owned company) have made equity investments in certain R&D companies, and the Group has obtained the Product Rights of their respective products which are summarized as follows:

Overseas R&D Companies	Ownership* Held by the Group	Ownership* Held by Mr. Lam Kong#	Main Products in Respect of Which the Group Acquired the Product Rights
Destiny Pharma plc.	4.36%	4.36%	XF-73
Acticor Biotech	9.32%	9.32%	ACT017
Blueberry Therapeutics Ltd.	14.06%	14.06%	BB2603
Neurelis, Inc.	8.92%	10.90%	Diazepam Nasal Spray
Vaximm AG	4.46%	4.46%	VXM01
Midatech Pharma PLC	13.23%	13.23%	MTX110
Gelesis, Inc.	5.88%	–	PLENITY®

*The ownership percentages were calculated based on the shares issued by the overseas R&D companies as at 30 June 2020

#The interest is held by Mr. Lam Kong through his privately-owned company

5. Deployment and Development of Generics with Competitiveness

The Group pays great attention to complex generics with high technology barriers, to enhance the accessibility of drugs among patients. Meanwhile, capitalizing on the opportunity brought by the National Volume-based Procurement, the Group selectively deployed generic clusters with market competitiveness to pursue additional growth.

As at 30 June 2020, the Group owned exclusive licenses of one complex generic and ten generics with market competitiveness in Mainland China and/or HK SAR, Macau SAR and TWN. Among them, nine generics including the complex generic have been approved for marketing in the U.S. or Europe. The therapeutic fields of the Group's generic portfolio included nervous system, immune system, orthopedics, digestive system, psychiatry, oncology, etc. According to 2019 IQVIA data, the total sales of drugs with the same active pharmaceutical ingredients ("API") of the above complex generic and generics in Mainland China were more than USD1.8 billion.

During the Reporting Period, the Group actively worked on registration of the complex generic and generics in China. As at 30 June 2020, the status of the registration progress is as follows:

Product	Indication	Registration Progress in China	2019 IQVIA Data of Products with the Same API
Tacrolimus Capsules	Liver or kidney transplant rejection	ANDA Accepted	~RMB3.3 billion
Etoricoxib Tablets	Osteoarthritis, acute gouty arthritis, primary dysmenorrhea	ANDA Accepted	~RMB0.4 billion
Tetrabenazine Tablets	Huntington's disease	Clinical Trial Application Approved	No Relevant Data

II. Existing Product Development

1. Main Products

Cardio-cerebrovascular Line

The Group's products under cardio-cerebrovascular line mainly include Plendil, XinHuoSu and Deanxit. During the Reporting Period, the products under cardio-cerebrovascular line recorded a revenue of RMB1,452.2 million, an increase of 8.3% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue of products under cardio-cerebrovascular line would increase by 4.4% to RMB2,026.6 million compared with the same period last year, accounting for 57.0% of the Group's revenue excluding the effect of the "two-invoice system".

Plendil (Felodipine Sustained Release Tablets)

The Group owns the 20-year exclusive license for commercialization of Plendil in Mainland China. 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 included in the NRDL and the National Essential Drugs List ("NEDL"). Felodipine was recommended by the *2018 Revised Edition of Chinese Guidelines for Prevention and Treatment of Hypertension* and the *2019 Chinese Guidelines for the Hypertension Management in the Elderly.* During the Reporting Period, the Group strengthened the academic promotion and steadily promoted the expansion of and penetration in the lower-tier hospitals in county-level market and community medical institutions while focusing on the core market. By means such as the care for chronic diseases, the Group promoted the carrying capacity of the retail network and further enhanced the brand image and market recognition of Plendil. Meanwhile, the policy in extending the prescription period for chronic diseases during the epidemic period contributed to the sound growth of the product.

XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)

XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Rhodiola Pharmaceutical Holding Co. ("Tibet Pharmaceutical", an associated company of the Group) in which the Group holds a 37.36% interest, is a National Class One biological agent used to treat acute heart failure, and also the only Recombinant Human Brain Natriuretic Peptide ("rhBNP") currently available in China market. XinHuoSu is included in the NRDL and recommended by the first *Acute Heart Failure Diagnosis and Treatment Guideline (2010)* in China. rhBNP has been recommended by the *Guidelines for the Rational Medication of Heart Failure Second Edition (2019)* and the *Acute Heart Failure Emergency Diagnosis and Treatment Guideline (2019),* and included in the *Expert Advice on Diagnosis and Treatment of Combined Cardiac Insufficiency of COVID-19* during the Reporting Period. It has gradually become a representative drug in the field of acute heart failure. During the Reporting Period, the Group deepened its work in the field of cardiology and pushed forward the expert network construction and academic platform integration in the field of critical and emergency conditions of cardiothoracic surgery, to strengthen the brand and academic influence of the product.

Deanxit (Flupentixol and Melitracen Tablets)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used for the treatment of mild-to-moderate depression, anxiety and psychosomatic affections, and is in the NRDL. Based on IQVIA data in 2019, Deanxit ranked first in the market share of antidepressant drugs in China. Flupentixol and Melitracen has been recommended by the *Guidelines for the Diagnosis and Treatment of Common Diseases of the Nervous System with Depression.* During the Reporting Period, the Group constantly reinforced the academic promotion in key departments such as neurology, gastroenterology and cardiology, deepening doctors' and patients' cognition and understanding of the academic value of Deanxit. The Group also actively expedited retail network construction and increased retail traffic by organizing public lectures, etc. to boost the further increase of market share.

According to the extension mechanism under the addendum signed on 31 January 2013 with Lundbeck Export A/S for its product Deanxit, during the Reporting Period, the Group's (acting through its wholly-owned subsidiary) exclusive promotion and sales right of Deanxit in Mainland China has been extended from 31 December 2020 to 31 December 2022.

Digestion Line

The Group's products under digestion line mainly include Ursofalk, Salofalk, Bioflor and Combizym. During the Reporting Period, the revenue of products under digestion line increased by 12.7% to RMB1,157.9 million compared with the same period last year, accounting for 32.6% of the Group's revenue excluding the effect of the "two-invoice system".

Ursofalk (Ursodeoxycholic Acid Capsules)

Ursofalk is manufactured by Losan Pharma GmbH, Germany, the entrusted manufacturer of Dr. Falk Pharma GmbH ("Falk"), Germany. Listed in the NRDL, Ursofalk is used for the treatment of cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis. Based on IQVIA data in 2019, Ursofalk was the best-selling ursodeoxycholic acid drug in China and stably ranked first in sales among products in the Chinese cholagogue market. Ursodeoxycholic has been recommended by the *Diagnosis and Management of Autoimmune Hepatitis in Adults and Children: 2019 Practice Guidance and Guidelines from the American Association for the Study of Liver Diseases* and the *Chinese Consensus on the Diagnosis and Treatment of Liver Fibrosis 2019.* During the Reporting Period, focusing on the core therapeutic areas, the Group built advanced academic platforms to deepen the brand image vertically. At the same time, adhering to the differentiation promotion strategy, the Group carried out multi-level academic activities in different academic directions to explore new growth points for the product.

Salofalk (Mesalazine)

Salofalk suppositories and enemas are manufactured by Vifor AG Zweigniederlassung Medichmie Ettingen, Switzerland, and the enteric-coated tablets of Salofalk are manufactured by Losan Pharma GmbH, Germany. Both are the entrusted manufacturers of Falk, Germany. Salofalk is mainly used to treat ulcerative colitis, including the treatment of acute exacerbations and the maintenance treatment to prevent recurrence, as well as the treatment of acute exacerbations of Crohn's disease. Salofalk is included in the NRDL and the NEDL, and is the Mesalazine with the fullest dosage forms in China market currently. Based on IQVIA data in 2019, Salofalk ranked first in the market share of inflammatory bowel disorder drugs in China. Mesalazine has been recommended by the *2019 British Society of Gastroenterology Consensus Guidelines on the Management of Inflammatory Bowel Disease in Adults* and the *Expert Consensus on Management of Inflammatory Bowel Disease During Pregnancy (2019),* and during the Reporting Period, it was included in the *Expert Advice on Management of Patients with Inflammatory Bowel Disease during Epidemic of 2019 Novel Coronavirus Pneumonia.* During the Reporting Period, the Group enhanced the academic promotion through multiple channels, actively elevated the level of diagnosis, identification and standardized treatment of inflammatory bowel disease, continuously improving the product influence. Meanwhile, the Group strengthened the retail supply management to ensure a stable supply and further expand the market share.

Bioflor (Saccharomyces Boulardii Sachets)

Bioflor, manufactured by Biocodex of France, is a probiotic agent used to treat diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance. Bioflor is the global leading probiotics preparations currently. The latest published *Chinese Clinical Practice Guidelines for Children with Acute Infectious Diarrhea* and the *Probiotics and Prebiotics Guideline* updated by the World Gastroenterology Organization ("WGO") have given Bioflor authoritative recommendations. During the Reporting Period, the Group continued to solidify the academic strengths in core clinical application fields, and concentrated on the promotion of differentiation advantages in "acute diarrhea" and "prevention of antibiotic-related diarrhea". In the meantime, the Group, capitalizing on the product's characteristics, actively expanded retail channels and conducted various novel promotional activities to improve the retail terminal sales.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablets)

The Group owns related assets of Combizym for Mainland China, HK SAR, Macau SAR, TWN, and other designated countries or areas, and has entrusted the manufacture of the product to Nordmark Arzneimittel GmbH & Co. KG, Germany. The main ingredients of Combizym are extracts of pancreatin and aspergillus oryzae enzymes. The product is used for treating dyspepsia caused by a decrease in digestive enzymes and is in the NRDL. Issued in 2019, the *Consensus on Diagnosis and Treatment of Chronic Cholecystitis and Gallstones in China (2018)* granted Combizym the recommendation for its relevant indications. During the Reporting Period, the Group organized highly frequent academic conferences and strengthened the concept of Combizym as a replacement therapy of pancreatic exocrine insufficiency. The Group also actively promoted the application of the product in senile dyspepsia and chemical dyspepsia in hepatobiliary diseases, etc., effectively driving the growth of the product.

Ophthalmology Line

The Group's main product under ophthalmology line is Augentropfen Stulln Mono Eye Drops. During the Reporting Period, the revenue of the product under ophthalmology line decreased by 1.2% to RMB113.8 million, compared with the same period last year, accounting for 3.2% of the Group's revenue excluding the effect of the "two-invoice system".

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

The Group owns related assets of Augentropfen Stulln Mono Eye Drops for Mainland China, HK SAR, and Macau SAR, 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 in China market for the treatment of macula degeneration, and it is the representative drug for the treatment of asthenopia. The product is preservative-free. As the therapeutic drug of asthenopia, Stulln was recommended by the *Expert Consensus on Perioperative Medication for Corneal Laser Refractive Surgery in China (2019).* During the Reporting Period, the Group constantly deepened and refined the academic promotion in the subdivided field of asthenopia, and continuously consolidated the product application in the field of fundus diseases, improving the academic image of the product. At the same time, the Group strengthened the deployment of retail channels, to create a bigger market for the product.

Dermatology Line

The Group's products under dermatology line mainly include Hirudoid. During the Reporting Period, the revenue of products under dermatology line decreased by 0.9% to RMB85.2 million compared with the same period last year, accounting for 2.4% of the Group's revenue excluding the effect of the "two-invoice system".

Hirudoid (Mucopolysaccharide Polysulfate Cream)

The Group owns the related assets of Hirudoid for Mainland China, and has entrusted the manufacture of the product to Mobilat Produktions GmbH, Germany. Included in the NRDL, Hirudoid is used for the treatment of blunt traumata with or without hematomas, and superficial phlebitis that cannot be treated by compression. Mucopolysaccharide polysulfate was recommended by the *Japan JSA Guidelines for Atopic Dermatitis* and China's first edition of *Expert Consensus on Diagnosis and Treatment of Senile Skin Pruritus* successively. During the Reporting Period, it was recommended by the *Suggestions for Medical Staff on Intravenous Infusion Treatment for Patients with COVID-19* issued by Chinese Nursing Association, the *Chinese Expert Consensus on Prevention and Treatment Catheter-Related Venous Thrombosis (2020 edition)* published by Chinese Chapter of the International Union of Angiology and Peripheral Vascular Disease Chapter of Chinese Geriatrics Society, and the *Protection, Diagnosis and Treatment Standards of Dermatology Department in Period of COVID-19 Prevention and Control* issued by Dermatovenereology Branch of Chinese Medical Association. During the Reporting Period, deeply engaged in the field of skin treatment and leveraging the inclusion in the NRDL, the Group consolidated the position of Hirudoid as a conventional drug for thrombophlebitis, while continuously strengthening cooperation with third-party platforms in the retail sector to increase sales outside hospitals.

2. Other Products

During the Reporting Period, other products sold and promoted by the Group recorded revenue of RMB299.0 million, a decrease of 24.3% compared with the same period last year. If excluding the effect of the "two-invoice system", the revenue would decrease by 25.4% to RMB173.5 million compared with the same period last year, accounting for 4.9% of the Group's revenue excluding the effect of the "two-invoice system".

III. Promotion System

The professional, compliant and efficient promotion system is a strong carrier for the Group's products to attain long-term steady growth, and also an important cornerstone for innovative products to achieve successful commercialization in the future. During the Reporting Period, the Group focused on the expansion of the promotion network and strengthened the market segmentation as well as the lower-tier market penetration. The Group actively explored the improvement and innovation of the promotion model while solidifying the existing promotion system, so as to accumulate experiences and make deployments in advance for the academic promotion of innovative products. In the meantime, aiming to build a more professional and compliant promotion team with higher execution capability, the Group further enhanced the job qualification and employee training system, optimized the remuneration and incentive system, and intensified the compliance training and inspection. Firmly seizing the opportunities in the COVID-19 crisis, the Group capitalized on digital tools to hold online academic conferences with high frequency, and reinforced application of digitalization in multi-dimensions to improve the operation efficiency.

During the Reporting Period, the prescription outflow was intensified under the influence of COVID-19, the National Volume-based Procurement, and hierarchical diagnosis and treatment. The Group continued to promote the construction of the retail network, expanded the coverage of retail chains and terminal stores, and further strengthened the cooperation with e-commerce platforms.

During the Reporting Period, the Group's promotion network covered about 57,000 hospitals and medical institutions in China.

IV. Manufacturing Facilities

As at 30 June 2020, the Group owned pharmaceutical manufacturing sites in Hunan, Hebei and Shenzhen, occupying a total area of more than 110,000 square meters. The Group has the Pharmaceutical Production License and the Pharmaceutical GMP Certificate for various dosage forms such as powder, oral solution, small-volume injections, tablets, hard capsules, etc. With more than two decades of pharmaceutical production experiences, the Group has instituted stringent quality management standards and regulations to guarantee the product quality, ensuring the localized preparation manufacturing of overseas innovative products in China.

Impacts of COVID-19

In the first half of 2020, the raging COVID-19 epidemic severely affected social and economic activities as well as people's lives. To fight against the epidemic, the government, medical workers, enterprises, and the generic public made efforts together to demonstrate love and responsibility with actions, making staged achievements in the epidemic prevention and control. Facing the epidemic, the Group responded quickly by purchasing protection and epidemic prevention materials globally and donating them to frontline departments and medical workers. Meanwhile, the Group donated cash promptly to Wuhan Charity Federation to jointly fight against the epidemic. During the Reporting Period, some of the Group's products were slightly affected negatively by the decline of hospital patient traffic. Despite this, benefiting from the brand advantages and the application of digital tools, the Group's net profit growth in the first half of 2020 was in line with expectation. The Group will continue to pay close attention to the development of the epidemic and the trend of epidemic prevention and control and take appropriate precautions to ensure steady progress in all work.

Future Development

The Group focuses firmly on the two core values in the pharmaceutical industry chain – product competence and promotion capability. Capitalizing on its extensive global resources, the Group will continue to expand the innovative pipeline and facilitate the further development and commercialization of drugs in China, so as to enhance product competence. At the same time, the Group will continuously strengthen the professional, compliant and efficient promotion system to achieve sustainable and steady growth.

- ***Accelerating the Development and Commercialization of Innovative Drugs in China***

Fully leveraging its mature experience in registration and clinical practices in China, while integrating the resources of medical experts and principal investigators in a wide range of therapeutic fields, the Group will accelerate the progress of patient enrollment and strengthen project coordination and control to promote the process of the comparative PK study and the clinical trials for registration. Meanwhile, the Group will further expand the high-quality registration and clinical teams and accelerate the registration and clinical processes of innovative drugs, so as to commercialize the innovative products in China as soon as possible.

- ***Constantly Expanding the Innovative Pipeline to Fulfil the Clinical Needs in China***

The Group will further utilize its global resources and the good reputation it enjoys, alongside close monitoring of the cutting-edge international trends and based on the actual medical demands of Chinese patients, to continuously assess and deploy innovative products with differentiation competitive advantages and promising market potential at relatively high innovation level. These initiatives aim to ensure the Group's sustainable supplies of commercialized innovative products in China in the short, medium and long term.

- ***Maintaining Efficient Operation and Achieving Stable Growth of the Existing Products***

The Group will further explore and improve the evidence-based medical evidence, to increase the academic influence, and solidify the competitive advantages and leading market positions of the existing products. Meanwhile, the Group will continue to expand and refine the academic promotion network, and maintain the professionalism and compliance of the academic promotion, while actively exploring innovation and enhancing the application of digitalization, to boost the continuous and steady growth of the existing products and pave the way for the future commercialization of innovative products in China.

Looking forward, adhering to the mission of "Offering competitive products and services to meet China's unmet medical needs", CMS will benefit and provide Chinese patients with more effective, safer, and more cost-effective drugs.

Financial Review

Turnover

Turnover increased by 4.8% from RMB2,964.4 million for the six months ended 30 June 2019 to RMB3,108.1 million for the six months ended 30 June 2020; excluding the effect of the "two-invoice system", turnover increased by 4.6% to RMB3,557.1 million for the six months ended 30 June 2020 from RMB3,401.5 million for the six months ended 30 June 2019, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 3.4% from RMB2,217.5 million for the six months ended 30 June 2019 to RMB2,293.4 million for the six months ended 30 June 2020; excluding the effect of the "two-invoice system", gross profit increased by 6.8% from RMB2,023.2 million for the six months ended 30 June 2019 to RMB2,161.7 million for the six months ended 30 June 2020, primarily reflecting growth in turnover. For the six months ended 30 June 2020, gross profit margin was 73.8%, representing a decrease of 1.0 percentage point from 74.8% for the six months ended 30 June 2019; excluding the effect of the "two-invoice system", gross profit margin increased by 1.3 percentage points to 60.8% for the six months ended 30 June 2020 from 59.5% for the six months ended 30 June 2019, mainly due to a change in the sales weight of products.

Selling Expenses

Selling expenses decreased by 6.3% from RMB881.4 million for the six months ended 30 June 2019 to RMB825.6 million for the six months ended 30 June 2020. Selling expenses as a percentage of turnover was 26.6% for the six months ended 30 June 2020, representing a decrease of 3.1 percentage points from 29.7% for the six months ended 30 June 2019. Excluding the effect of the "two-invoice system", selling expenses as a percentage of turnover decreased by 0.7 percentage point to 19.5% for the six months ended 30 June 2020 from 20.2% for the six months ended 30 June 2019, mainly due to a decrease in academic promotion activities through offline model during the outbreak of epidemic disease.

Administrative Expenses

Administrative expenses increased by 2.6% from RMB96.5 million for the six months ended 30 June 2019 to RMB99.0 million for the six months ended 30 June 2020. Administrative expenses as a percentage of turnover for the six months ended 30 June 2020 was 3.2%, representing a decrease of 0.1 percentage point from 3.3% for the six months ended 30 June 2019. Excluding the effect of the "two-invoice system", administrative expenses as a percentage of turnover for the six months ended 30 June 2020 was 2.8%, same as that for the six months ended 30 June 2019, mainly due to the benefit from economies of scale.

Research and Development Expenditures

The Group's research and development expenditures included investments for the continuous expansion of product pipelines, expenditures on development, clinical trial and registration of new products, salaries and related expenses of staff who were engaged in the aforesaid affairs. Research and development expenditures included the expensed research and development expenditures (i.e. research and development expenses) and the capitalized research and development expenditures.

Total research and development expenditures increased by 138.6% from RMB153.3 million for the six months ended 30 June 2019 to RMB365.7 million for the six months ended 30 June 2020. Total research and development expenditures as a percentage of turnover for the six months ended 30 June 2020 was 11.8%, representing an increase of 6.6 percentage points from 5.2% for the six months ended 30 June 2019. Excluding the effect of the "two-invoice system", total research and development expenditures as a percentage of turnover increased by 5.8 percentage points to 10.3% for the six months ended 30 June 2020 from 4.5% for the six months ended 30 June 2019, primarily reflecting an expansion of product pipelines and an increase in research and development activities.

Research and development expenses increased by 96.6% from RMB15.4 million for the six months ended 30 June 2019 to RMB30.4 million for the six months ended 30 June 2020. Research and development expenses as a percentage of turnover for the six months ended 30 June 2020 was 1.0%, representing an increase of 0.5 percentage point from 0.5% for the six months ended 30 June 2019. Excluding the effect of the "two-invoice system", research and development expenses as a percentage of turnover increased by 0.4 percentage point to 0.9% for the six months ended 30 June 2020 from 0.5% for the six months ended 30 June 2019.

Capitalized research and development expenditures (set out in the table below) increased by 143.3% from RMB137.8 million for the six months ended 30 June 2019 to RMB335.3 million for the six months ended 30 June 2020. Capitalized research and development expenditures as a percentage of turnover for the six months ended 30 June 2020 was 10.8%, representing an increase of 6.2 percentage points from 4.6% for the six months ended 30 June 2019. Excluding the effect of the "two-invoice system", capitalized research and development expenditures as a percentage of turnover increased by 5.3 percentage points to 9.4% for the six months ended 30 June 2020 from 4.1% for the six months ended 30 June 2019.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Payment for acquisition of equity investments in research and development companies	142,632	34,705
Payment for acquisition of product rights	192,711	103,121
	335,343	137,826

Other Gains and Losses

Other gains and losses increased by 35.6% from a gain of RMB46.7 million for the six months ended 30 June 2019 to a gain of RMB63.3 million for the six months ended 30 June 2020, mainly due to increases in interest income and government subsidies.

Share of Result of Associates

Share of result of associates increased by 42.6% from RMB56.8 million for the six months ended 30 June 2019 to RMB81.0 million for the six months ended 30 June 2020, mainly reflecting an increase in profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs decreased by 47.2% from RMB29.1 million for the six months ended 30 June 2019 to RMB15.3 million for the six months ended 30 June 2020, mainly due to decreases in amount and interest rate of loans.

Income Tax Expense

Income tax expense increased by 27.4% from RMB131.0 million for the six months ended 30 June 2019 to RMB166.9 million for the six months ended 30 June 2020, primarily reflecting an increase in profit and the effect on the internal reorganization of the Group in 2019.

As disclosed in the Company's annual report 2019, the applicable income tax rate (3% or 24%) of the Group's former subsidiary CMS Pharma Co., Ltd for the year ended 31 December 2019 is still to be approved by the Malaysia government. As at the date that the condensed consolidated financial statements were approved for issue, pursuant to the circular on extension of income tax filing issued by the Malaysia tax authority, CMS Pharma Co., Ltd has not yet completed its income tax filing and payment for the year ended 31 December 2019, therefore the related income tax provision remained.

Profit for the Period

Profit for the period increased by 11.4% from RMB1,167.5 million for the six months ended 30 June 2019 to RMB1,300.5 million for the six months ended 30 June 2020, mainly due to the continuous growth in turnover, the decreases in academic promotion activities through offline model, and the benefit from economies of scale.

Inventories

Inventories increased by 5.7% from RMB407.1 million as at 31 December 2019 to RMB430.3 million as at 30 June 2020. Average inventory turnover days decreased by 12 days from 106 days for the six months ended 30 June 2019 to 94 days for the six months ended 30 June 2020, primarily reflecting the improvement on management of inventories.

Trade Receivables

Trade receivables decreased by 7.4% from RMB1,001.9 million as at 31 December 2019 to RMB928.1 million as at 30 June 2020. Average trade receivables turnover days decreased by 17 days from 74 days for the six months ended 30 June 2019 to 57 days for the six months ended 30 June 2020, primarily reflecting the improvement on management of trade receivables.

Trade Payables

Trade payables increased by 84.8% from RMB44.0 million as at 31 December 2019 to RMB81.4 million as at 30 June 2020. Average trade payables days decreased by 13 days from 27 days for the six months ended 30 June 2019 to 14 days for the six months ended 30 June 2020, primarily reflecting the difference in time points of inventory purchases.

Liquidity, Financial Resources, Capital Structure and Gearing Ratio

As at 30 June 2020, the Group's bank balances and cash amounted to RMB2,109.1 million while readily realizable bank acceptance bills amounted to RMB315.6 million. As at 31 December 2019, our bank balances and cash amounted to RMB1,365.0 million while readily realizable bank acceptance bills amounted to RMB414.0 million.

The Group had bank borrowings of RMB686.0 million as at 30 June 2020 (31 December 2019: RMB693.9 million). During the period ended 30 June 2020, the Group's bank loans decreased by a net amount of RMB7.9 million, mainly due to repayment of part of loans. The weighted average interest rate of loans was 3.7% per annum. Except for loans amounting to RMB48.8 million which were due within one year and classified as current liabilities accordingly, all the remaining loans were due over one year and then classified as non-current liabilities.

As at 30 June 2020 and 31 December 2019, the Group had a gearing ratio (being the bank borrowings of the Group divided by the total assets of the Group) of approximately 5.7% and 6.2%, respectively.

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

Exposure to Fluctuations in Exchange Rates and Interest Rates

The Group is mainly exposed to currency risk of the US$, EUR, GBP, CHF and HK$. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. Any significant exchange rate fluctuations of foreign currencies against RMB may have a financial impact on the Group. The Group closely monitors the fluctuation of exchange rates and reviews the foreign currency risk management strategy from time to time, and the management will consider hedging foreign currency exposure as appropriate. As at 30 June 2020, the Group has entered into certain foreign exchange forward contracts to hedge the foreign currency risk. 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 2020, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB68,924,000 and RMB15,705,000 respectively to secure general banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

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

(i)

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 utilization 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "SEHK") (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 2020, Mr. Lam Kong (directly and indirectly) holds approximately 45.12% of the total issued ordinary share capital of the Company.

The loan under the Facility was paid off during the Reporting Period.

(ii)

On 26 March 2020, 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 DBS Bank (China) Limited (as lender) in respect of a US$50,000,000 term loan facility (the "Facility") made available to the Borrower for a term of 36 months from the first utilization date under the Facility Agreement. On 27 March 2020, 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 lender) in respect of a US$40,000,000 term loan facility (the "Facility") made available to the Borrower for a term of 36 months from the first utilization 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 SEHK) 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 lender 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 2020, Mr. Lam Kong (directly and indirectly) holds approximately 45.12% of the total issued ordinary share capital of the Company.

Share Option Scheme

The Company has not implemented a share option scheme. As at 30 June 2020, there were no outstanding share options of the Company.

Interim Dividend

The Board has resolved to pay an interim dividend of RMB0.2105 (equivalent to HK$0.234) per ordinary share of the Company for the six months ended 30 June 2020 to the shareholders whose names appear on the register of members of the Company on Friday, 28 August 2020 (the "Record Date"). Payment of such interim dividend is expected to be made to the shareholders on about Friday, 4 September 2020.

Closure of Register of Members

The register of members of the Company will be closed on Friday, 28 August 2020, on which the registration of transfer of shares of the Company ("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 Thursday, 27 August 2020.

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 2020, 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	1,114,869,000 (L) (note 2)	45.12%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.81%
		Interest in controlled corporation	45,800,000 (L) (note 3)	1.85%
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 2020, 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

For the six months ended 30 June 2020, the Company repurchased an aggregate of 9,648,000 ordinary shares with a nominal value of US $0.005 each on the SEHK at an aggregate consideration of HK$98,164,100. All of the purchased shares were cancelled on 30 March 2020. The Board believes that given the current financial resources of the Company, the share repurchase would not affect the Company's solid financial position in any material respect, and it would lead to an enhancement of the net asset value per share and/or earnings per share, which is in the interest of the shareholders as a whole.

Details of the repurchase are as follows:

Month of Repurchase	Number of Shares Repurchased	Price per Share (HK$)		Aggregate Consideration Paid (HK$)
		Highest Price	Lowest Price	
February 2020	9,648,000	10.30	10.04	98,164,100
Total	9,648,000	-	-	98,164,100

Save as disclosed above, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Reporting Period.

Employees

As at 30 June 2020, the Group had about 4147 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 and regularly assesses their performance. The Group provides employees with competitive compensation package including salaries, bonuses, insurance and benefits. Salaries and bonuses are based on employees' performance and are measured against specific objective criteria. Additionally, the Group is committed to providing equal opportunities to all employees in all respects and has made efforts in employees' continuing education and training programs to continuously enhance their knowledge, skills and team spirit.

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. Leung Chong Shun and Ms. Luo, Laura Ying as Committee members. Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director as well as a member of the Audit Committee of the Company on 31 March 2020, and Ms. Luo, Laura Ying was appointed as an independent non-executive Director as well as a member of the Audit Committee of the Company on 31 March 2020.

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 2020 have been reviewed by the Audit Committee of the Company.

Changes in Director's Information

Pursuant to Rule 13.51B (1) of the Listing Rules, during the Reporting Period, changes in the information of the Directors of the Company are listed as below:

Mr. Cheung Kam Shing, Terry resigned as an independent non-executive Director, the Chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company on 31 March 2020.

Ms. Luo, Laura Ying was appointed as an independent non-executive Director, the Chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company on 31 March 2020. Ms. Luo, Laura Ying was appointed as an independent non-executive director of Central China New Life Limited (a company listed on the SEHK with stock code: 9983) on 29 April 2020. Furthermore, Ms. Luo, Laura Ying resigned as a consultant of GL Capital Management Limited from 8 May 2020 and works as a consultant of GL China Equity HK Management Limited on the same day.

On March 31, 2020, the Remuneration Committee and the Board reviewed and approved that the fixed Directors' emoluments increased from HK$216,000 per year to HK$240,000 per year. Such adjustment of fixed Directors' emoluments took effect from April 2020.

Save as disclosed above, during the Reporting Period, there are no other matters that the Directors need to disclose in accordance with 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 (the "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 the 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.hkexnews.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 2020

	NOTES	Six months ended 30 June 2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Turnover	3	3,108,075	2,964,360
Cost of goods sold		(814,670)	(746,881)
Gross profit		2,293,405	2,217,479
Other gains and losses		63,285	46,673
Selling expenses		(825,572)	(881,375)
Administrative expenses		(98,985)	(96,497)
Research and development expenses		(30,352)	(15,435)
Finance costs		(15,344)	(29,065)
Share of results of associates		80,963	56,773
Profit before tax		1,467,400	1,298,553
Income tax expense	4	(166,885)	(131,033)
Profit for the period	5	1,300,515	1,167,520
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income of associates		8,612	780
Exchange differences arising from translation of foreign operations		(1,090)	(987)
Change in fair value on cash flow hedges			
- fair value loss		(7,905)	(14,368)
- deferred tax relating to change in fair value		1,304	2,371
Items that will not be reclassified to profit or loss:			
Fair value (loss) gain on equity instrument at fair value through other comprehensive income		(18,159)	15,101
Other comprehensive (expense) income for the period, net of income tax		(17,238)	2,897
Total comprehensive income for the period		1,283,277	1,170,417
Profit (loss) for the period attributable to:			
Owners of the Company		1,279,421	1,169,896
Non-controlling interests		21,094	(2,376)
		1,300,515	1,167,520
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		1,262,183	1,172,793
Non-controlling interests		21,094	(2,376)
		1,283,277	1,170,417
		RMB	RMB
Earnings per share	7		
Basic		0.5174	0.4717

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020

	NOTES	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	474,939	472,901
Right-of-use assets		60,316	64,986
Interest in associates	9	2,609,609	2,590,159
Intangible assets		2,378,157	2,459,128
Goodwill		1,384,535	1,384,535
Equity instruments at fair value through other comprehensive income		394,177	269,704
Deposits paid for acquisition of intangible assets		518,044	325,126
Amount due from an associate	11	31,816	31,816
Derivative financial instruments	14	21,432	-
Deferred tax assets		20,408	20,298
		7,893,433	7,618,653
Current assets			
Inventories		430,270	407,058
Financial asset at fair value through profit or loss		2,736	2,736
Trade and other receivables	10	1,452,621	1,585,724
Tax recoverable		12,842	10,801
Derivative financial instruments	14	733	28,192
Amount due from an associate	11	127,727	152,804
Bank balances and cash		2,109,075	1,365,008
		4,136,004	3,552,323
Current liabilities			
Trade and other payables	12	290,264	372,796
Lease liabilities		7,378	9,388
Contract liabilities		8,468	12,939
Bank borrowings	13	48,831	693,909
Derivative financial instruments	14	-	142
Deferred consideration payables		2,929	10,744
Tax payable		526,311	447,784
		884,181	1,547,702
Net current assets		3,251,823	2,004,621
Total assets less current liabilities		11,145,256	9,623,274

	NOTES	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Capital and reserves			
Share capital	15	84,634	84,963
Reserves		10,249,412	9,387,898
Equity attributable to owners of the Company		10,334,046	9,472,861
Non-controlling interests		64,365	43,271
		10,398,411	9,516,132
Non-current liabilities			
Bank borrowings	13	637,155	-
Deferred tax liabilities		88,961	91,552
Lease liabilities		8,451	10,491
Derivative financial instruments	14	8,047	-
Deferred consideration payables		4,231	5,099
		746,845	107,142
		11,145,256	9,623,274

The condensed consolidated financial statements on pages 29 to 50 were approved and authorised for issue by the Board of Directors on 12 August 2020 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 2020

	Attributable to owners of the Company											
	Share Capital 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 2019 (audited)	84,963	2,391,513	19,545	330,971	9,332	13,480	(17,336)	5,167,627	355,691	8,355,786	48,289	8,404,075
Profit (loss) for the year	-	-	-	-	-	-	-	1,960,712	-	1,960,712	(5,018)	1,955,694
Share of other comprehensive income of associates	-	-	-	-	8,865	-	-	-	-	8,865	-	8,865
Exchange differences arising from translation of foreign operations	-	-	-	-	(629)	-	-	-	-	(629)	-	(629)
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(14,523)	-	-	(14,523)	-	(14,523)
Change in fair value on cash flow hedges												
- fair value loss	-	-	-	-	-	(16,286)	-	-	-	(16,286)	-	(16,286)
- deferred tax relating to change in fair value	-	-	-	-	-	2,687	-	-	-	2,687	-	2,687
Total comprehensive income (expense) for the year	-	-	-	-	8,236	(13,599)	(14,523)	1,960,712	-	1,940,826	(5,018)	1,935,808
Dividends paid	-	-	-	-	-	-	-	(467,061)	(355,691)	(822,752)	-	(822,752)
Dividends proposed	-	-	-	-	-	-	-	(315,260)	315,260	-	-	-
Transfer of reserves	-	-	-	25,481	-	-	-	(25,481)	-	-	-	-
Release of surplus reserve fund on deregistration of a subsidiary	-	-	-	(999)	-	-	-	-	-	(999)	-	(999)
Balance at 31 December 2019 (audited)	84,963	2,391,513	19,545	355,453	17,568	(119)	(31,859)	6,320,537	315,260	9,472,861	43,271	9,516,132
Profit for the period	-	-	-	-	-	-	-	1,279,421	-	1,279,421	21,094	1,300,515
Other comprehensive income (expense) for the period	-	-	-	-	7,522	(6,601)	(18,159)	-	-	(17,238)	-	(17,238)
Total comprehensive income (expense) for the period	-	-	-	-	7,522	(6,601)	(18,159)	1,279,421	-	1,262,183	21,094	1,283,277
Repurchase of ordinary shares	(329)	(86,635)	-	-	-	-	-	-	-	(86,964)	-	(86,964)
Dividends paid (Note 6)	-	-	-	-	-	-	-	1,226	(315,260)	(314,034)	-	(314,034)
Dividends proposed (Note 6)	-	-	-	-	-	-	-	(520,095)	520,095	-	-	-
Transfer of reserves	-	-	-	80	-	-	-	(80)	-	-	-	-
Balance at 30 June 2020 (unaudited)	84,634	2,304,878	19,545	355,533	25,090	(6,720)	(50,018)	7,081,009	520,095	10,334,046	64,365	10,398,411

	Attributable to owners of the Company											
	Share capital 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 2019 (audited)	84,963	2,391,513	19,545	330,971	9,332	13,480	(17,336)	5,167,627	355,691	8,355,786	48,289	8,404,075
Profit (loss) for the period	-	-	-	-	-	-	-	1,169,896	-	1,169,896	(2,376)	1,167,520
Other comprehensive (expense) income for the period	-	-	-	-	(207)	(11,997)	15,101	-	-	2,897	-	2,897
Total comprehensive (expense) income for the period	-	-	-	-	(207)	(11,997)	15,101	1,169,896	-	1,172,793	(2,376)	1,170,417
Dividends paid	-	-	-	-	-	-	-	-	(355,691)	(355,691)	-	(355,691)
Dividends proposed	-	-	-	-	-	-	-	(467,061)	467,061	-	-	-
Transfer of reserves	-	-	-	16,231	-	-	-	(16,231)	-	-	-	-
Balance at 30 June 2019 (unaudited)	84,963	2,391,513	19,545	347,202	9,125	1,483	(2,235)	5,854,231	467,061	9,172,888	45,913	9,218,801

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	NOTES	Six months ended 30 June 2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Net cash from operating activities		1,439,017	1,363,209
Net cash used in investing activities			
Purchase of property, plant and equipment	8	(16,757)	(37,677)
Payments for acquisitions of equity instruments at fair value through other comprehensive income		(142,632)	(34,705)
Deposits for acquisition of intangible assets		(192,711)	(103,121)
Interest received		26,044	17,521
Dividend received from associates		70,125	24,478
Proceeds from disposal of right-of-use assets		-	19,490
		(255,931)	(114,014)
Net cash used in financing activities			
Interest paid		(10,315)	(24,137)
Dividends paid	6	(314,034)	(355,691)
Payment of deferred consideration payables		(8,886)	(8,835)
Payment of lease liabilities		(3,526)	(2,279)
New bank borrowings raised		769,107	-
Repayment of bank borrowings		(785,180)	(35,000)
Payment on repurchase of shares		(86,964)	-
		(439,798)	(425,942)
Net increase in cash and cash equivalents		743,288	823,253
Cash and cash equivalent at beginning of the period		1,365,008	815,081
Effect of exchange rate changes on the balance of cash held in foreign currencies		779	110
Cash and cash equivalent at end of the period, represented by bank balances and cash		2,109,075	1,638,444

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

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

3. TURNOVER AND SEGMENT INFORMATION

The Group sells and promotes pharmaceutical products to hospital and medical institutions throughout the PRC through academic promotion network and agency promotion network.

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

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Sales of pharmaceutical products	2,537,816	2,290,560
Promotion income	570,259	673,800
	3,108,075	2,964,360

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

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

No analysis of the Group's assets and liabilities by operating segments is disclosed and provided to the chief operating decision maker for review as the Group only has one reportable operating segment.

The implementation of sale and promotion of the Group primarily takes place in the PRC. Almost all revenue from external customers is attributed to the PRC and the majority of fixed assets of the Group are located in the PRC.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax	114,350	114,599
Hong Kong Profits Tax	180	1,736
Malaysia Corporate Income Tax	-	20,495
Macau Complementary Income Tax	53,752	-
	168,282	136,830
Deferred taxation:		
Current period	(1,397)	(5,797)
Income tax expense for the period	166,885	131,033

Note: As disclosed in the Company's annual report 2019, the applicable income tax rate (3% or 24%) of the Group's former subsidiary CMS Pharma Co., Ltd for the year ended 31 December 2019 is still to be approved by the Malaysia government. As at the date that the condensed consolidated financial statements were approved for issue, pursuant to the circular on extension of income tax filing issued by the Malaysia tax authority, CMS Pharma Co., Ltd has not yet completed its income tax filing and payment for the year ended 31 December 2019, therefore the related income tax provision remained.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	18,805	17,311
Amortisation of intangible assets (included in cost of goods sold)	80,971	81,158
Cost of inventories recognised as an expense	728,655	660,082
Interest income	(26,044)	(17,521)
Net exchange gain	(4,758)	(4,280)

6. DIVIDENDS

During the Reporting Period, a final dividend of RMB0.1271 per share in respect of the year ended 31 December 2019 (six months ended 30 June 2019: RMB0.1434 per share in respect of the year ended 31 December 2018) 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 RMB314,034,000 (six months ended 30 June 2019: RMB355,691,000).

Subsequent to the end of the interim period, the directors have determined that an interim dividend of RMB0.2105 per share and amounting to RMB520,095,000 (six months ended 30 June 2019: RMB0.1883 per share and amounting to RMB467,061,000) will be paid to the owners of the Company whose names appear in the Register of Members on 28 August 2020.

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	
	2020	2019
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company)	1,279,421	1,169,896

	Number of ordinary shares As at 30 June	
	2020	2019
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,472,986,974	2,480,408,512

The Group has no outstanding potential ordinary shares as at 30 June 2020 and 2019 and during the periods ended 30 June 2020 and 2019. Therefore, no diluted earnings per share is presented.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group spent RMB9,194,000 (six months ended 30 June 2019: RMB27,655,000) on the acquisition of property, plant and equipment and RMB7,563,000 (six months ended 30 June 2019: RMB10,022,000) on construction costs for manufacturing plants in order to upgrade its manufacturing and promotion capabilities.

9. INTEREST IN ASSOCIATES

	30 June 2020 RMB'000	31 December 2019 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	293,717	274,267
	2,609,609	2,590,159
Fair value of listed investment (Note)	5,901,655	2,116,334

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 2020 and 31 December 2019, 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 2020	31 December 2019	
Ophol Limited ("Ophol")	Hong Kong	Hong Kong	24.49%	24.49%	Investment holding and provision of agency service
Tibet Pharmaceutical	Tibet	Tibet	37.36%	37.36%	Production of medicines and sale of drugs

10. TRADE AND OTHER RECEIVABLES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Trade receivables	936,476	1,010,198
Less: Allowance for credit losses	(8,336)	(8,336)
	928,140	1,001,862
Bills receivables	315,622	414,017
Purchase prepayment	165,528	73,039
Other receivables and deposits	43,331	96,806
	1,452,621	1,585,724

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

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

	30 June 2020 RMB'000	31 December 2019 RMB'000
0 - 90 days	913,085	923,722
91 - 365 days	15,055	78,140
	928,140	1,001,862

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

The Group applies the IFRS 9 simplified approach to measure expected credit loss ("ECL") which uses a lifetime ECL, trade receivables have been grouped based on shared credit risk characteristics and the historical observed default rates adjusted by forward-looking estimates. As at 30 June 2020, 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 2020.

11. AMOUNT DUE FROM AN ASSOCIATE

As at 30 June 2020, the balance of approximately RMB31,816,000 (31 December 2019: RMB31,816,000) represented deposit to Tibet Pharmaceutical for exclusive distribution right.

As at 30 June 2020, the balance of approximately RMB127,727,000 (31 December 2019: RMB152,804,000) represented promotion income receivables from Tibet Pharmaceutical. The Group allows a credit period of 90 days to Tibet Pharmaceutical. The balance as at 30 June 2020 was aged within three months (31 December 2019: 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 2020 RMB'000	31 December 2019 RMB'000
0 - 90 days	76,947	37,941
91 - 365 days	3,092	4,762
Over 365 days	1,338	1,337
Trade payables	81,377	44,040
Payroll and welfare payables	90,008	124,873
Other tax payables	17,310	67,186
Accrued promotion expenses	61,463	85,555
Accruals	19,864	31,746
Other payables	20,242	19,396
	290,264	372,796

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

13. BANK BORROWINGS

	30 June 2020 RMB'000	31 December 2019 RMB'000
Secured	10	10
Unsecured	685,976	693,899
	685,986	693,909
Classified as:		
Current liabilities	48,831	693,909
Non-current liabilities	637,155	-
	685,986	693,909

During the Reporting Period, the Group's bank borrowings decreased by a net amount of RMB7,923,000 (six months ended 30 June 2019: decreased by a net amount of RMB28,321,000), the weighted average interest rate of loans was 3.7% (six months ended 30 June 2019: 4.0%) per annum.

14. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2020 RMB'000	31 December 2019 RMB'000
Assets:		
Foreign exchange forward contracts	21,432	27,422
Warrants	733	770
	22,165	28,192
Liabilities:		
Derivative under hedging accounting		
- cash flow hedges – interest rate swaps	(8,047)	(142)
	14,118	28,050

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, repayment dates, maturity and counterparties, and the directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps as at 30 June 2020 and 31 December 2019 are set out below:

At 30 June 2020

Notional amount	Contract date	Maturity date	Receive	Pay
US$50,000,000	26 March 2020	26 March 2023	LIBOR + 1.3%	1.95%
US$40,000,000	27 March 2020	27 March 2023	LIBOR + 1.2%	1.89%

At 31 December 2019

Notional amount	Contract date	Maturity date	Receive	Pay
US$72,000,000	23 June 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$25,600,000	10 July 2017	23 June 2020	LIBOR + 1.8%	3.52%
US$2,400,000	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:

At 30 June 2020

Notional amount	Maturity date	Exchange rate range agreed
US$50,000,000	26 March 2023	US$1:RMB6.9-7.4

At 31 December 2019

Notional amount	Maturity date	Exchange rate range agreed
US$100,000,000	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 2019 and 30 June 2020	20,000,000	765,218
Issued and fully paid:		
At 31 December 2019	2,480,409	84,963
Shares repurchased and cancelled (Note)	(9,648)	(329)
At 30 June 2020	2,470,761	84,634

Note: During the six months ended 30 June 2020, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Date of repurchase	No. of ordinary shares of US$0.005 each	Price per share		Aggregated consideration paid
		Highest	Lowest	
11 February 2020	9,648,000	HK$10.30	HK$10.04	HK$98,164,100

The above ordinary shares were cancelled upon repurchase.

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 instruments	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
	30/06/2020	31/12/2019			
1) Interest rate swaps classified as derivative financial instruments	Liabilities - RMB 8,047,000	Liabilities - RMB 142,000	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.	Nil
2) Foreign exchange forward contracts classified as derivative financial instruments	Assets - RMB 21,432,000	Assets - RMB 27,422,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rate and contracted exchange rate, discounted at a rate that reflects the credit risk of various counterparties.	Nil
3) Equity instruments at FVTOCI - listed	Listed equity securities on the LSE - RMB 15,977,000	Listed equity securities on the LSE - RMB 34,136,000	Level 1	Quoted bid prices in an active market.	Nil
4) Financial asset at FVTPL	Assets - RMB 2,736,000	Assets - RMB 2,736,000	Level 1	Quoted bid prices in an active market.	Nil
5) Equity instruments at FVTOCI - unlisted	Unlisted equity investments RMB 378,200,000	Unlisted equity investments RMB 235,568,000	Level 3	Black-Scholes approach. Black-Scholes Option Pricing Model are based on risk-free rate, expected volatility, expected dividend yield and liquidation timing.	Estimation of expected volatility, determined by reference to the expected volatility of comparable companies.
6) Warrant classified as derivative financial instruments	Assets - RMB 733,000	Assets - RMB 770,000	Level 3	Binomial Model - Binomial Pricing Model. Valuation of the derivative financial instruments is based on share price, exercise price, risk-free rate, expected option life, expected dividend yield and expected volatility.	Estimation of expected volatility determined by reference to the expected volatility of Midatech Pharma Plc ("Midatech").

There were no transfers between level 1 and 2 during the period ended 30 June 2020.

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 2020 RMB'000	31 December 2019 RMB'000
Capital expenditure in respect of the acquisition of financial asset at FVTPL, property, plant and equipment and intangible assets contracted for but not provided in the condensed consolidated financial statements	22,700	21,034

18. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below, in addition to the transactions and balances disclosed elsewhere in the condensed consolidated financial statements.

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

Name of related company	Relationship	Nature of transactions	Six months ended 30 June 2020 RMB'000	2019 RMB'000
Tibet Pharmaceutical	Associate	Promotion income	257,041	272,754
Tibet Pharmaceutical	Associate	Service fee	849	-

(b) Pursuant to a transfer agreement dated 16 February 2004 (as supplemented by a supplemental agreement dated 2 November 2004) and a further agreement dated 16 December 2007 between Shenzhen Kangzhe and Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D"), the Group acquired the production, marketing and sales rights and the related patents of CMS024 from Kangzhe R&D, of which 83.23% equity interest is indirectly held by a controlling shareholder as at 31 December 2019 and the date of this report. Pursuant to the terms of the agreement, as consideration for the transfer of CMS024, Shenzhen Kangzhe paid US$3.1 million to Kangzhe R&D as compensation for the actual research and development costs incurred by Kangzhe R&D, and further agreed to pay a royalty fee of 13% of the quarterly sales revenue generated by the Group after CMS024 is successfully launched. The Group has appointed Kangzhe R&D to carry out further research and development related to CMS024, and Kangzhe R&D has undertaken to complete all the clinical trials and prepare the documents necessary for and assist the Group in the application for a new-drug permit for CMS024. The Group has not paid any fee to Kangzhe R&D during the six months ended 30 June 2020.

(c) On 8 May 2015, A&B (HK) Company Limited ("A&B"), a company wholly-owned by a controlling shareholder of the Company, entered into agreements with Faron Pharmaceuticals Ltd ("Faron"), to acquire the shareholding of Faron, assets related to Traumakine in China (including Hong Kong SAR, Macau SAR and Taiwan) (the "Territory"), intellectual properties related to Traumakine from the Territory and the right to exchange Traumakine information with Faron.

On 19 May 2015, the Group entered into agreements with A&B and/or Faron respectively, to acquire the assets related to Traumakine in the Territory. The consideration for above transfer will be further negotiated and agreed between A&B and the Group at a later stage prior to the launch of Traumakine in the Territory, the amount would be calculated with reference to the net sales of Traumakine in the Territory.

The acquisition was not yet completed up to the date of this report and the Group has not paid any consideration to A&B in respect of this acquisition during the six months ended 30 June 2020.

(d) On 31 July 2018, each of the Group and A&B invested in Acticor Bitech ("Acticor") for the consideration of approximately EUR4,000,000 (equivalent to RMB30,607,000), respectively.

On the same date, the Group entered into an asset transfer and license agreement with Acticor. According to the terms of such agreement, the Group acquired all assets (the "Assets of ACT017") related to Acticor's product ACT017 and any follow-up products developed on the basis of the same compound of ACT017 (the "Product of ACT017") in China (including Hong Kong SAR, Macau SAR and Taiwan), Singapore, Philippines, Republic of Korea, Malaysia and other designated Asian countries (excluding Japan, India and Western Asia countries) (the "Asia Pacific Territory") in consideration of an upfront payment of EUR50,000 (equivalent to RMB384,000) which has been paid as at 31 December 2018. Such amount has been included in deposits paid for acquisition of intangible assets as at 30 June 2020. The Assets of ACT017 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 Asia Pacific Territory and other rights as necessarily required to develop, register, manufacture and commercialise the Product of ACT017 in the Asia Pacific Territory. In addition, the Group also acquired all the necessary licenses related to the transaction under this agreement in consideration of (1) a royalty at a fixed rate on the basis of the net sales of Product of ACT017 generated in Asia Pacific Territory and (2) lump sum payments with varied fixed amount, each payable upon the first achievement of respective net sales stipulated in the agreement.

As Product of ACT017 has not yet been commercialised, the Group has not paid any consideration for Product of ACT017 during the six months ended 30 June 2020.

(e) On 14 August 2018, each of the Group and A&B invested in Blueberry Therapeutics Limited ("Blueberry") for the consideration of GBP5,000,000 (equivalent to RMB44,771,000), respectively.

On the same date, the Group entered into an asset transfer and license agreement with Blueberry. According to the terms of such agreement, the Group has acquired all related assets of Blueberry's leading product BB2603 (for the treatment of onychomycosis and tinea pedis) in China (including Hong Kong SAR Macau SAR and Taiwan), Republic of Korea, Democratic People's Republic of Korea and Mongolia (the "Asia Territory") and the Group further acquired access to all related assets of other pipeline products being or to be developed subsequently by Blueberry utilizing its unique nanoformulation delivery system in dermatology and other fields (such as products used for treating atopic dermatitis and acne, etc., together with the product BB2603 as the "Product of BB2603") in the Asia Territory in consideration of (1) an upfront payment of USD600,000 (equivalent to RMB4,090,000), (2) fixed lump sum payments upon the achievement of the pre-determined milestones stipulated in the agreement and (3) a royalty at a fixed rate on the basis of the net sales of Product of BB2603 in Asia Territory. The aforementioned assets include, among others, all the national patents covering the development, commercialization and formulation of the Product of BB2603, national trademarks and necessary regulatory approvals in or for the Asia Territory.

As Product of BB2603 has not yet been commercialised, the Group has not paid any consideration for Product of BB2603 during the six months ended 30 June 2020.

(f) On 20 August 2018, the Group entered into a framework asset transfer agreement with A&B relating to the portable neurostimulation devices developed by or for Helius Medical Technologies group ("Helius") (the "Product of PoNS"). According to the terms of such agreement, the Group has agreed to acquire from A&B all assets related to the Product of PoNS (the "Assets of PoNS") in China (including Hong Kong SAR Macau SAR and Taiwan) (the "Territory") (the "Transaction of PoNS"). The Assets of PoNS were originally purchased by A&B from Helius, in which A&B has equity interest. Both the Group and A&B have not agreed on the definitive terms and conditions of the Transaction, including the consideration for the transfer of the Assets of PoNS under the agreement. The Group and A&B will further negotiate and agree on the terms of the Transaction at a later stage prior to the launch of the Product of PoNS in the Territory. As at 30 June 2020, the Group and A&B has not yet negotiated and agreed on the terms of the Transaction of PoNS and the Group has not paid any consideration to A&B in respect of the Transaction of PoNS during the six months ended 30 June 2020.

(g) During the year ended 31 December 2018, the Group and A&B invested in Neurelis, Inc. ("Neurelis") for the consideration of approximately US$19,531,000 (equivalent to RMB135,664,000) and US$15,000,000 (equivalent to RMB104,342,000), respectively.

During the year ended 31 December 2019, each of the Group and A&B further invested in Neurelis for the consideration of approximately US$406,000 (equivalent to RMB2,873,000).

On 20 August 2018, the Group 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 developed by or for Neurelis (collectively, the "Product of NRL-1"). According to terms of such agreement, the Group has agreed to acquire from A&B all assets related to the Product of NRL-1 (the "Assets of NRL-1") in the China (including Hong Kong SAR Macau SAR and Taiwan) (the "Territory") (the "Transaction of NRL-1"). A&B obtained the Assets of NRL-1 from its related entity which in turn obtained the Assets of NRL-1 from Neurelis. Both the Group and A&B have not agreed on the definitive terms and conditions of the Transaction of NRL-1, including the consideration for the transfer of the Assets of NRL-1 under the agreement. The Group and A&B will further negotiate and agree on the terms of the Transaction of NRL-1 at a later stage prior to the launch of the Product of NRL-1 in the Territory. As at 30 June 2020, the Group and A&B have not yet negotiated and agreed on the terms of the Transaction of NRL-1 and the Group has not paid any consideration to A&B in respect of the Transaction of NRL-1 during the six months ended 30 June 2020.

(h) On 19 September 2018, each of the Group and A&B invested in VAXIMM AG ("VAXIMM ") for the consideration of approximately EUR2,500,000 (equivalent to RMB19,911,000), respectively.

On the same date, the Group entered into license and collaboration agreement with VAXIMM. According to the terms of such agreement, the Group gained exclusive, perpetual, transferable, sub-licensable rights to develop and commercialize the current pharmaceutical products portfolio and line extension of or under the control of VAXIMM (the current leading product is VXM01) as well as designated pharmaceutical products and line extension that will be solely owned and under the control of VAXIMM (the "Product of VXM01") in Asia Pacific Territory in consideration of (1) fixed lump sum payments upon the achievement of the pre-determined milestones stipulated in the agreement, (2) lump sum payments with varied fixed amount, each payable upon the first achievement of respective net sales stipulated in the agreement and (3) a royalty at a fixed rate on the basis of the net sales of Product of VXM01 in Asia Pacific Territory.

On 2 and 3 December 2019, each of the Group and A&B further invested in VAXIMM for the consideration of approximately EUR225,000 (equivalent to RMB1,742,000), respectively.

As Product of VXM01 has not yet been commercialised, the Group has not paid any consideration in relation to Product of VXM01 during the six months ended 30 June 2020.

(i) On 29 January 2019, each of the Group and A&B invested in Midatech Pharma Plc ("Midatech") for the consideration of approximately GBP4,000,000 (equivalent to RMB34,705,000), respectively.

On the same date, the Group entered into a license, collaboration and distribution agreement with Midatech. According to the terms of such agreement, the Group will gain exclusive, perpetual, transferable, sub-licensable rights to develop and commercialise Midatech's current products mainly including MTD201, MTX110 (subject to receipt of consent from Novartis Pharma AG or its successor in relation to theses rights) and any new pharmaceutical products or line extension the intellectual property rights and other rights of which Midatech controls and which Midatech or its affiliates have given a codename within three years from 29 January 2019 (the "Products of Midatech") in China (including Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan) and certain Southeast Asian countries selected by the Group (including Singapore, Philippines, Malaysia and other countries, subject to confirmation by the Group once a regulatory approval is granted by the US Food and Drug Administration, the European Medicines Agency or by one of the regulatory authorities in one of the UK, France, Germany or Switzerland).

As Products of Midatech have not yet been commercialised, the Group has not paid any consideration in relation to Products of Midatech during the six months ended 30 June 2020.

(j) During the year ended 31 December 2019, the Group and A&B invested in a capital fund for a consideration of approximately US$388,000 (equivalent to RMB2,736,000), respectively.

(k) During the year ended 31 December 2017, each of the Group and A&B invested in Destiny Pharma Plc ("Destiny") for the consideration of approximately GBP3,000,000 (equivalent to RMB26,291,000), respectively.

During the year ended 31 December 2017, the Group entered into an agreement with Destiny. According to the terms of such agreement, the Group will gain exclusive sub-licensable rights to develop and commercialise Destiny's current products mainly including XF-73 (the "Products of XF-73") in China and other Asian countries (excluding Japan).

As Products of XF-73 have not yet been commercialised, the Group has not paid any consideration in relation to Products during the six months ended 30 June 2020.

(l) The remuneration of key management personnel during the Reporting Period amounted to RMB6,382,000 (six months ended 30 June 2019: RMB4,970,000).