

2021 INTERIM REPORT

CHINA MEDICAL SYSTEM HOLDINGS LIMITED (STOCK CODE : 867)



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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

Mr. WU Chi Keung
Mr. LEUNG Chong Shun
Ms. LUO, Laura Ying

Company Secretary

Ms. WU Sanyan

Authorized Representatives

Ms. WU Sanyan
Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)
Mr. LEUNG Chong Shun
Ms. LUO, Laura Ying

Remuneration Committee Members

Mr. LEUNG Chong Shun (Chairman)
Mr. WU Chi Keung
Ms. LUO, Laura Ying

Nomination Committee Members

Ms. LUO, Laura Ying (Chairman)
Mr. LAM Kong
Mr. WU Chi Keung
Mr. LEUNG Chong Shun

Environmental, Social and Governance Committee Members

Ms. CHEN Yanling (Chairman)
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
The Hongkong and Shanghai Banking Corporation Limited

Registered Office

Maples Corporate Services Limited
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Grand Cayman, KY1-1104
Cayman Islands

Headquarters and Principal Place of Business in Hong Kong

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Branch Share Registrar in Hong Kong

Computershare Hong Kong Investor Services Limited
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Stock Code

867

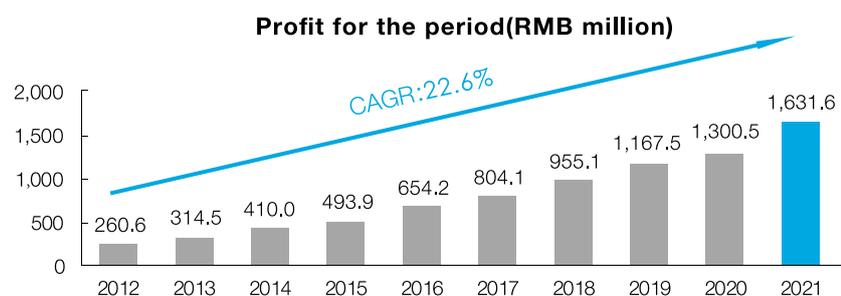
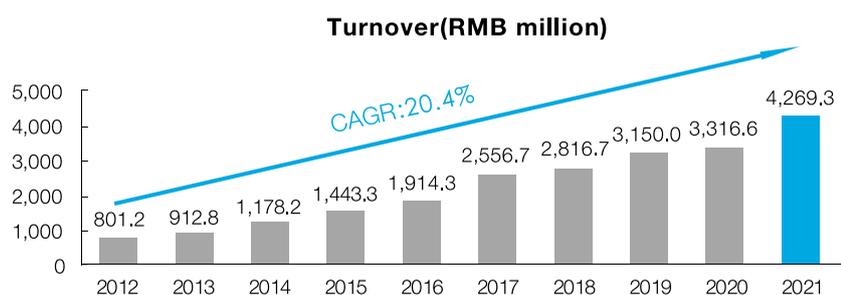
Company's Website

www.cms.net.cn

FINANCIAL HIGHLIGHTS

- Turnover up 23.6% to RMB3,843.0 million (H1 2020: RMB3,108.1 million); in the case that all medicines were directly sold by the Group, turnover up 28.7% to RMB4,269.3 million (H1 2020: RMB3,316.6 million)
- Gross profit up 25.3% to RMB2,873.8 million (H1 2020: RMB2,293.4 million); in the case that all medicines were directly sold by the Group, gross profit up 27.9% to RMB2,764.6 million (H1 2020: RMB2,161.7 million)
- Profit for the period up 25.5% to RMB1,631.6 million (H1 2020: RMB1,300.5 million)
- Basic earnings per share up 27.3% to RMB0.6587 (H1 2020: RMB0.5174)
- As at 30 June 2021, the Group's bank balances and cash amounted to RMB3,286.0 million while readily realizable bank acceptance bills amounted to RMB368.9 million
- Declared interim dividend up 25.5% compared with the same period last year to RMB0.2641 per share (H1 2020: RMB0.2105)

Turnover (in the case that all medicines were directly sold by the Group) 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, while maintaining good business growth, the Group initiated a new model for industrial investment, and formed a business layout with core business in pharmaceuticals, together with development of the dermatology and medical aesthetic business as well as the healthcare business, building a solid foundation for the rising of new CMS.

Industrial Investment

- Initiated a new model for the industrial investment in Chinese Biotech. The Group has strong capabilities on clinical execution, commercialization and capital strength, which will help to empower the clinical development and commercialization of domestic innovative products.
- Made equity investment in Trinomab, and would establish a joint venture and jointly develop Fully Human Anti-SA H1 α Antibody and Fully Human Anti-HCMV Antibody with Trinomab.

Progress in Innovative Product Development in China

- The bridging trial of Diazepam Nasal Spray in China achieved the expected target, and the New Drug Application was accepted on July 5.
- Subject enrollment in the bridging trial of Tildrakizumab Solution for Injection in China was completed, and the positive trial results were announced on July 21.
- The clinical trial application of Desidustat Tablets (category 1 new drug) was approved in China and the clinical trial related work has been carried out.
- The clinical trial application of Methylthioninium Chloride Enteric-coated Sustained-release Tablets in China was accepted, and approved on August 2.
- The clinical trial application of Methotrexate Injection, Pre-filled Syringe in China was accepted, and approved on August 13.

Dermatology and Medical Aesthetic Business

- Acquired the dermatology and medical aesthetic specialty company Luqa to enrich the dermatological product portfolio and extend its reach to the medical aesthetic field.
- Acquired the focused ultrasound technology platform company Carnation to initiate the R&D and manufacturing of energy-based medical aesthetic devices. The pivotal clinical trial of the product FUBA5200 Focused Ultrasound Body Contouring System is about to be carried out in China.
- Entered into a strategic collaboration memorandum with EC Healthcare, including setting up and operating a medical aesthetic medicines and products marketing and distribution centre initially in Hong Kong and exploring to set up a medical aesthetic training and education platform for registered medical aesthetic practitioners in China.
- Entrusted Shandong Chuangxin for the development of Tacrolimus Ointment and Lidocaine and Prilocaine Cream, to promote the in-depth deployment in the dermatology and medical aesthetic field.

Healthcare Business

- As at 30 June 2021, “CMS Health Overseas Flagship Store” or “CMS Overseas Flagship Store” had been launched on three mainstream cross-border e-commerce platforms, namely JD Worldwide, Youzan Mall and Tmall International. A total of 88 quality products from 14 well-known European and American brands had been put on the stores.

MANAGEMENT DISCUSSION AND ANALYSIS

Company 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, dedicated to offering competitive products and services to meet China’s unmet needs for health and beauty.

The Group continuously deploys innovative products that are global first-in-class, or with the best efficacy, safety or cost-effectiveness in the class due to their innovative formulations or drug delivery systems mainly through industrial investment in Chinese biotech companies (“Chinese Biotech”), equity investment in overseas biotech companies (“Overseas Biotech”), and strategic collaboration with global leading biopharmaceutical companies (“Global Biopharma”). The Group has built an innovative pipeline with relatively high innovation level, promising market potential and competitive differentiation advantages. Meanwhile, the Group covers extensive hospital networks and expert resources in various therapeutic fields, which can promote the clinical development of innovative medicines in China with high efficiency and quality. The Group has the proven strong commercialization capability, and has established a compliant, professional and efficient commercialization platform, creating professional brand images and leading market positions for a number of medicines. Over the years, jointly driven by the strong product competence, the powerful commercialization capability and the refined management system, the Group has become one of the pharmaceutical companies with the highest operation efficiency in China.

Business Review

For the six months ended 30 June 2021 (the “Reporting Period”), the Group achieved sound business growth under the synergy of positive brand images of its products, the professional academic promotion, and the compliant, efficient and refined management. With the rich experience in international development and academic promotion network resources in multiple therapeutic fields, the Group achieved in-depth development in the pharmaceutical business, while constantly expanding its business boundaries and rapidly promoting the development of the dermatology and medical aesthetic business as well as the healthcare business. At the same time, the Group actively explored on innovation and change, and initiated a new model of industrial investment in Chinese Biotech, injecting new momentum for the sustainable development of the Group, building a more proactive and promising “New CMS”.

I. Industrial Investment

1. Initiating the Industrial Investment in Chinese Biotech

Since the second half of 2017, the Group has been investing and deploying overseas innovative products in relatively mature stages due to the fact that overseas biotechnologies have outpaced China's for many years, so as to shorten the gap between the launching time of innovative medicines in China and abroad, and improve the accessibility of Chinese patients to innovative medicines with real clinical needs. However, in recent years, under the leadership of top scientists, Chinese Biotech have continuously made breakthroughs in innovative biotechnologies via leveraging their talent advantages, flexible research and development (R&D) strategies, favorable policies and capital supports, taking the Chinese pharmaceutical innovation into a new development cycle. Meanwhile, the innovative products of Chinese Biotech that were once in early R&D stage have gradually moved into the commercialization stage. For focusing on their own strengths, improving the efficiency of pharmaceutical industry development, and achieving the open, win-win cooperation and strong alliance, an international mainstream industry ecosystem will be formed in China's pharmaceutical industry that biotech companies will be responsible for innovation, while big pharmaceutical companies responsible for commercialization. The trend for the Group to become an incubation platform of innovative products for Chinese Biotech has emerged. Following the trend, during the Reporting Period, the Group capitalized on its previous accumulated advantages, such as efficient clinical execution, commercialization capability and capital strength, to initiate a new model for industrial investment of Chinese Biotech, in order to construct an open, cooperative and win-win medical innovation ecosystem, and empower the rapid launching of the innovative products in China.

In April 2021, the Group announced that it would make equity investment in and establish a joint venture with Trinomab Biotech Co., Ltd (珠海泰諾麥博生物技術有限公司, the English name is for identification purpose) ("Trinomab"). Trinomab will be responsible for drug discovery and preclinical studies, while the Group responsible for clinical development, registration, and commercialization, etc. This collaboration initiated a new model for the Group's industrial investment in Chinese Biotech. The Group held 6.00% equity interests of Trinomab after the completion of the equity investment; meanwhile, both parties will each own 50% of the equity interest of the joint venture. The Group will make capital contribution in cash and Trinomab will make capital contribution using the rights and interests regarding Mainland China, Hong Kong Special Administrative Region ("HK SAR"), Macao Special Administrative Region ("Macao SAR") and Taiwan ("TWN") in the related technologies of specific products as intangible assets. The joint venture will entrust the Group to be responsible for the clinical development and commercialization of its products in relevant regions, and entrust Trinomab to be responsible for the production of its products.

Trinomab's core technology is the fourth-generation antibody technology platform HitmAb[®]. The greatest advantage of the natural fully human monoclonal antibodies developed by the platform is the high safety, having broad spectrum to foreign pathogens and strong affinity with pathogen targets, which can solve the problem of anti-drug antibody reaction in the clinical use of antibody drugs developed by traditional technologies. The Group reached collaboration with Trinomab for the products developed by the platform, Fully Human Anti-Staphylococcus Aureus (SA) Alpha-hemolysin (Hl α) Antibody and Fully Human Anti-Human Cytomegalovirus (HCMV) Antibody in April and June 2021 respectively. The related product's rights and interests will be injected into the joint venture to be established. In the future, both parties will continue to negotiate to promote the prioritized collaboration on other specific products.

2. Equity Investment in Overseas Biotech

In the past few years, through equity investment in Overseas Biotech, the Group has acquired the clinical development and commercialization rights mainly regarding Chinese market of a number of relatively mature innovative products that are in the middle and late stages of clinical development or have been approved for marketing in the United States (the U.S.) and/or Europe. The Group will continue to acquire more overseas innovative products in relatively mature stages through this method. As at 30 June 2021, the Overseas Biotech that the Group made equity investment in and the related innovative products acquired were as follows:

Overseas Biotech	Country	Ownership*	Main Product
Destiny Pharma plc.	The United Kingdom (The U.K.)	5.76%	XF-73
Acticor Biotech	France	7.08%	ACT017
Blueberry Therapeutics Limited	The U.K.	12.49%	BB2603
Neurelis, Inc.	The U.S.	5.87%	Diazepam Nasal Spray
Vaximm AG	Switzerland	4.74%	VXM01
Midatech Pharma PLC	The U.K.	8.20%	MTX110
Gelesis, Inc.	The U.S.	5.62%	PLENITY®

*The above ownership was calculated based on the shares issued by the above Overseas Biotech as at 30 June 2021.

II. Innovative Pipeline

The Group will continue to empower the clinical development and commercialization of innovative medicines in China through industrial investment in Chinese Biotech, equity investment in Overseas Biotech, and strategic collaboration with Global Biopharma. During the Reporting Period, the Group achieved satisfactory results in expanding the innovative pipeline and accelerating the clinical development of innovative products in China.

1. Continuously Expanding the Innovative Pipeline

Fully Human Anti-SA H1 α Antibody - a natural fully human anti-SA antibody drug with H1 α neutralizing activity

Fully Human Anti-SA H1 α Antibody neutralizes the H1 α released by SA to avoid immune downregulation to B cells and to improve immune response. The product is in the preclinical stage currently, and is developed to prevent disease progression in high-risk groups for SA colonization and treat pneumonia, bacteremia, and toxic shock caused by SA, especially Methicillin-resistant SA (MRSA). H1 α toxin is the most widely expressed one among toxins SA produced, while there is no H1 α antibody drug launched in the world currently. Fully Human Anti-SA H1 α Antibody has good safety and the preclinical studies have shown good H1 α toxin neutralizing activity. It is expected to solve the problems of high mortality, resistance to treatment and side effects from SA infection.

Fully Human Anti-HCMV Antibody - a natural fully human antibody drug with HCMV neutralizing activity

Fully Human Anti-HCMV Antibody neutralizes free viruses in blood and has the capacity for neutralization within cells twice. The product is in the preclinical stage currently, and is developed for prophylaxis and treatment of HCMV infection that may occur after organ transplantation, allogeneic haematopoietic stem cell transplantation, and in infants, as well as the treatment of congenital HCMV infection. Currently, there is no HCMV vaccine launched in the world. Fully Human Anti-HCMV Antibody has a precise mechanism of action and excellent safety. Due to its non-blood-derived production process, it can be produced on a large scale under strict quality control, which can improve medicine accessibility. It is expected to fill the gap of HCMV monoclonal antibodies in the world.

2. Accelerating the Clinical Development Process of Innovative Products in China

Diazepam Nasal Spray - an innovative medicine targeting acute repetitive seizures that is convenient to use outside the medical setting with a very rapid onset of action (approved for marketing in the U.S.)

In March 2021, the Group completed the bridging trial of Diazepam Nasal Spray, the comparative pharmacokinetics (PK) study, in China. The result has shown the absorption of a single intranasal dose of Diazepam Nasal Spray is fast and complete, while the PK parameters of diazepam and its active metabolite desmethyl diazepam were similar to those observed in relevant study in the U.S., achieved the expected targets. It has also been shown to be safe and well tolerated in healthy Chinese subjects. The New Drug Application of the product, submitted by the Group in June, has been accepted by China National Medical Products Administration (NMPA) in July. The product is an intranasally administered, proprietary formulation of diazepam with relatively high absolute bioavailability, developed for the treatment of intermittent, stereotypic episodes of frequent seizure activity (i.e., seizure clusters, acute repetitive seizures) in patients with epilepsy 6 years of age and older. Its formulation incorporates the unique combination of a vitamin E-based solvent and Intravail® absorption enhancement, which helps it to obtain unparalleled absorption, tolerability, and reliability.

Tildrakizumab Solution for Injection - a monoclonal antibody specifically targeting IL-23 (approved for marketing in the U.S., Europe, Australia and Japan)

The Group completed the enrollment of all the 220 subjects in the Phases III bridging trial of Tildrakizumab Solution for Injection in China on 11 March 2021, which only took around 2.5 months (including the Chinese Spring Festival) and strongly proved the Group's efficient clinical execution by leveraging its professional sales and promotion network resources. In July, the Group announced the trial obtained positive results, and the preliminary trial results demonstrated that comparing with placebo, the treatment of the product for 12 weeks significantly increased the proportion of subjects who have achieved at least 75% of improvement in psoriasis area and severity index (PASI 75). The product is a humanized IgG1/k monoclonal antibody designed to selectively bind to the p19 subunit of interleukin-23(IL-23) and inhibit its interaction with the IL-23 receptor, leading to inhibition of the release of pro-inflammatory cytokines and chemokines. It is developed for the treatment of patients with moderate-to-severe plaque psoriasis, and is expected to be a safe, effective and most cost-effective novel monoclonal antibody targeting IL-23.

Cyclosporine Eye Drops 0.09% - a preservative-free, innovative ophthalmic formulation using globally patented nanotechnology (approved for marketing in the U.S., Australia and Canada)

The Group completed the enrollment of all the 384 subjects in the Phases III bridging trial of Cyclosporine Eye Drops 0.09% in China on 6 May 2021, which only took around 4 months (including the Chinese Spring Festival) and again convincingly demonstrated the Group's efficient clinical execution. In May, the Group was informed by its partner, Sun Pharmaceutical Industries Ltd. ("Sun Pharma"), that Sun Pharma would voluntarily recall a batch of Cyclosporine Eye Drops 0.09% in the U.S. due to anomalies in the particulate matter and content. As the same batch of the product was used in the bridging trial in China, the Group decided to voluntarily suspend the trial in China. Currently, the Group is actively working with Sun Pharma to obtain a new batch of the product for clinical trial as soon as possible in order to restart the bridging trial in China. The product is a nanotechnology-enabled formulation in clear solution, developed for increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye). It uses a unique tiny structure called "micelle" as the vehicle to allow for greater tissue penetration and gentle side effect profile in a high concentration.

Desidustat Tablets - an oral hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI)

The Group obtained the clinical trial approval for Desidustat Tablets in China in January 2021, and then started the subject enrollment in the Phase I PK study in May, while actively preparing for the Phase III clinical trial. Desidustat Tablets is a novel oral hypoxia-inducible factor-prolyl hydroxylase inhibitor (HIF-PHI), developed for treating anemia in chronic kidney disease patients (including hemodialysis and non-dialysis patients).

Methylthioninium Chloride Enteric-coated Sustained-release Tablets - an oral methylene blue sustained-release formulation that enhances diagnosis sensitivity in detecting cancerous/precancerous lesions during colonoscopy (approved for marketing in Europe)

The clinical trial application of Methylthioninium Chloride Enteric-coated Sustained-release Tablets was accepted by NMPA in June 2021 and was approved in August. The Group is actively preparing for initiating the clinical trial related work. The product is an oral diagnostic medicine, which helps to improve the detection rate of colorectal cancer/precancerous lesions by enhancing visualization of the colorectal lesions in adult patients undergoing screening or surveillance colonoscopy.

Methotrexate Injection, Pre-filled Syringe - expected to be the first MTX pre-filled injection for subcutaneous administration for the treatment of RA in China (approved for marketing in Europe)

The clinical trial application of Methotrexate Injection, Pre-filled Syringe was accepted by NMPA in June 2021 and approved in August. The product is available in multiple low dose formulations and indicated for the treatment of active rheumatoid arthritis (RA) and other autoimmune diseases in adults. Methotrexate (MTX) is internationally well accepted as the first-line gold standard medicine and anchored agent for the systemic treatment for RA. Compared with oral application of MTX, the product shows lower adverse effect profile (with less gastrointestinal adverse effect), better bioavailability, significant improvement of clinical efficacious response, and convenience of dosage management, achieving a greater balance of efficacy, safety, tolerability and compliance.

3. Pipeline

As at 30 June 2021, the Group had deployed more than 20 innovative products. Among them, 9 products had been approved for marketing in the U.S. and/or Europe, and 4 had completed or were under registration clinical trials in China.

Launched Overseas or Under Marketing Application Review

Product	Indication	Clinical Trial Approval	Clinical Trial for Registration	Marketing Application	Marketed	Marketed Country/Region
Diazepam Nasal Spray*	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 U.S.
						China
Tildrakizumab Solution for Injection (Biological Agent)	Moderate-to-severe plaque psoriasis					The U.S., Europe, Australia, Japan
						China
Cyclosporine Eye Drops 0.09%	Increasing tear secretion in patients with keratoconjunctivitis sicca (dry eye)					The U.S., Australia, Canada
						China
Methylthioninium Chloride Enteric-coated Sustained-release Tablets**	An diagnostic agent to enhance visualisation of colorectal lesions in adult patients undergoing screening or surveillance colonoscopy					Europe
						China
Methotrexate Injection, Pre-filled Syringe***	Rheumatoid arthritis and other autoimmune diseases					Europe
						China
PLENITY	An aid for weight management in adults with a BMI of 25-40 kg/m ² when used in conjunction with diet and exercise					The U.S.
Latanoprost Eye Drops	Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension					The U.S.
						China
Levetiracetam XR Tablet	Adjunctive therapy for the treatment of partial-onset seizures					The U.S.
BCG for Intravesical Instillation (Biological Agent)	Non-invasive urothelial bladder carcinoma, including curative treatment of carcinoma in situ and prophylactic treatment of recurrence					Europe
PoNS	Chronic balance deficit due to mild-to-moderate traumatic brain injury					Canada
						The U.S.
Paclitaxel Injection Concentrate for Suspension	Metastatic breast cancer, locally advanced/metastatic non-small cell lung cancer, metastatic adenocarcinoma of the pancreas					The U.S.

* In July 2021, the New Drug Application of Diazepam Nasal Spray was accepted by NMPA in China.

** In August 2021, the clinical trial application of Methylthioninium Chloride Enteric-coated Sustained-release Tablets was approved by NMPA in China.

*** In August 2021, the clinical trial application of Methotrexate Injection, Pre-filled Syringe was approved by NMPA in China.

Under Clinical Stages

Product	Indication	Pre-clinical	Clinical Trial Approval	Phase I	Phase II	Phase III	Marketing Application	Marketed	Country/ Region for Clinical Trials
Desidustat Tablets	Anemia in patients with chronic kidney disease								Overseas
									China
SDN-037	Eye pain and inflammation after cataract surgery								Overseas
PDP-716	Reduction of elevated intraocular pressure in patients with open-angle glaucoma or ocular hypertension								Overseas
CF101	Psoriasis								Overseas
CF102	Hepatocellular carcinoma								Overseas
	Non-alcoholic fatty liver disease/non-alcoholic steatoh epatitis								Overseas
XF-73	Prevention of post-surgical staphylococcal infections								Overseas
ACT017 (Biological Agent)	Acute phase of ischemic stroke								Overseas
BB2603	Onychomycosis and tinea pedis								Overseas
VXM01 (Biological Agent)	Recurrent glioblastoma								Overseas
Fully Human Anti-SA H1α Antibody (Biological Agent)	Intended to be used to prevent disease progression in high-risk groups for SA colonization and treat pneumonia, bacteremia, and toxic shock caused by SA, especially MRSA								China
Fully Human Anti-HCMV Antibody (Biological Agent)	Intended to be used for prophylaxis and treatment of HCMV infection that may occur after organ transplantation, allogeneic haematopoietic stem cell transplantation, and in infants; treatment of congenital HCMV infection								China

III. Competitive Generics

The Group selectively deployed competitive generics, expecting to contribute additional growth to the Group's performance via participating in the centralized procurement. As at 30 June 2021, the Group had exclusive licenses of 1 complex generic and 10 competitive generics in Mainland China and/or HK SAR, Macao SAR and TWN. Among them, 10 products including the complex generic had been approved for marketing in the U.S. and/or Europe, and 8 products' Abbreviated New Drug Application (ANDA) were under review in China.

Category	Product	Indication	Registration Progress in China	2020 IQVIA Data of Products with the Same Active Pharmaceutical Ingredients (API)	Number of the Same API Products Passing Consistency Evaluation*
Complex Generic	Doxorubicin Hydrochloride Liposome Injection	Anti-tumor	Under ANDA Review	About RMB2.4 billion	1
Competitive Generics	Tacrolimus Capsules	Liver or renal transplant rejection	Under ANDA Review	About RMB4.3 billion	0
	Lansoprazole Enteric Capsules	Anti-gastrointestinal ulcer	Under ANDA Review	About RMB2.4 billion	0
	Calcitriol Soft Capsules	Postmenopausal osteoporosis; chronic renal failure; hypoparathyroidism; vitamin-D resistant rickets	Under ANDA Review	About RMB1.9 billion	0
	Mycophenolate Sodium Enteric-coated Tablets	Immune rejection in renal transplant	Under ANDA Review	About RMB0.6 billion	1
	Oxcarbazepine Tablets	Epilepsy	Under ANDA Review	About RMB0.6 billion	0
	Paliperidone Extended-release Tablets	Schizophrenia	Under ANDA Review	About RMB0.3 billion	1
	Tetrabenazine Tablets	Huntington's disease	Under ANDA Review	No relevant data	0

* As at 30 June 2021

IV. Dermatology and Medical Aesthetic Business

The Group has been deeply engaged in the dermatology field for many years, and established rich promotion network resources, including the dermatologists and channel resources (covering hospitals, medical institutions, retail pharmacies, e-commerce channels, etc.). In order to fully utilize the existing advantageous resources and improve the operation efficiency in the dermatology field, the Group split the dermatology line (including the products and teams) for independent operation, so as to achieve comprehensive diseases management in the dermatology field while expanding its business boundary to the field of medical aesthetics.

1. Acquisition of a Dermatology and Medical Aesthetic Specialty Company Luqa to Enrich the Dermatological Portfolio and Enter the Medical Aesthetic Field

In February 2021, the Group acquired all the shares of Luqa Ventures Co., Limited (“Luqa”), a dermatology and medical aesthetic specialty company, to enrich the dermatological product portfolio and enter the medical aesthetic field that is featured with consumption attributes. Luqa has an extensive and diversified product portfolio including prescription medical aesthetic products, medical aesthetic products and dermatology grade skincare products that can provide clients/consumers with safe and effective solutions. After the acquisition, the Group rapidly integrated businesses and teams of both parties, which laid a solid foundation for the rapid development of the business.

2. Acquisition of a R&D and Manufacturing Platform of Medical Aesthetic Devices with Focused Ultrasound Technology

In May 2021, the Group entered into an equity transfer agreement and a capital increase agreement with Shanghai A&S Science Technology Development Co., Ltd. and Shanghai Carnation Medical Technology Co., Ltd. (“Carnation”). As at 30 June 2021, the Group held approximately 64.81% of the equity interests of Carnation. Carnation’s focused ultrasound technology is one of the innovative non-invasive body shaping technologies. Compared with microwave, radio frequency and freezing technologies, it has the advantages of being penetrable, focusing, non-invasive, non-destructive channels, and acting on targets at different depths, etc. In addition to body shaping, this technology could also be applied to the development of products in facial shaping, facial wrinkle removal, skin tightening, freckles removal, scar removal, transdermal absorption and other fields. As the Group’s R&D platform for energy-based medical aesthetic devices, Carnation will continually provide cutting-edge medical aesthetic devices with focused ultrasound technology for the Group.

FUBA5200 Focused Ultrasound Body Contouring System - a non-invasive body shaping and fat reduction device using focused ultrasound technology with independent intellectual property rights

FUBA5200 Focused Ultrasound Body Contouring System is developed for non-invasive ultrasonic fat reduction, and its pivotal clinical study is about to be carried out in China. The product focuses ultrasound energy on the subcutaneous fat layer, uses the mechanical and cavitation effects of ultrasound to crush the target fat cells and then dissolve them, thereby eliminating excess fat on the body surface. After multiple iterations, the product has been improved in the aspects of transducers, power sources and others, which enhances customer experience and adaptability, and reduces the entire treatment time and cycle while ensuring the treatment effect. It is expected to provide consumers with a safe, effective, and reliable choice for non-invasive body shaping and fat reduction.

3. Entering into a Strategic Collaboration Memorandum with EC Healthcare and Exploring to Set up a Medical Aesthetic Training and Education Platform for Registered Medical Aesthetic Practitioners in China

In June 2021, the Group and EC Healthcare, the largest non-hospital medical service provider in Hong Kong (according to Frost & Sullivan’s data and based on its revenue for the calendar year of 2020), entered into a strategic collaboration memorandum. Both parties will set up and operate a medical aesthetic medicines and products marketing and distribution centre initially in Hong Kong, and explore to set up a medical aesthetic training and education platform for registered medical aesthetic practitioners, so as to promote the compliance of medical aesthetic products, foster the marketization of medical aesthetic professionals and standardization of medical aesthetic services.

4. Entrusting Shandong Chuangxin for Product Development to Promote the In-depth Deployment in the Dermatology and Medical Aesthetic Field

In June 2021, the Group entrusted Shandong Chuangxin Pharmaceutical Research and Development Co., LTD. (“Shandong Chuangxin”) to develop the dermatology and medical aesthetic products of the Group, the Tacrolimus Ointment and the Lidocaine and Prilocaine Cream. The rights of the products and the subsequent improved products regarding proprietary technology, manufacturing, commercialization, etc, shall stay with the Group. Tacrolimus Ointment is the second-line treatment for patients with moderate-to-severe atopic dermatitis, and Lidocaine and Prilocaine Cream is a topical analgesic agent for local anaesthesia. The two medicines will synergize with the dermatology and medical aesthetic business as well as the marketed products of the Group, deepening the Group’s multi-level layout in the dermatology and medical aesthetic field.

5. The Dermatology and Medical Aesthetic Business System Has Taken Shape

In January 2021, the Group split the dermatology line for independent operation, and then “CMS Aesthetics” was established. As at 30 June 2021, “CMS Aesthetics” has taken shape. The new office has been officially put into operation; the major new companies’ registration has been completed; new businesses and new products acquisition have been rapidly promoted, and a professional and independent operation system of the dermatology and medical aesthetics business has been set up which consists of the dermatology prescription medicine business unit and the medical aesthetic business unit; the “CMS Aesthetics” team has been rapidly expanded to around 500 people and the efficient and flexible incentive mechanism has been established to push forward the rapid development of the dermatology and medical aesthetic business.

V. Healthcare Business

Since the official launch of “CMS Health Overseas Flagship Store” in November 2020, the Group has continued to stringently select functional and quality healthcare products with unique ingredients globally according to medical concept and high standards, via leveraging its strengths accumulated over years, including overseas channel resources, mature product evaluation system and efficient global supply chain system. As at 30 June 2021, the Group has collaborated with 14 well-known European and American brands on more than a hundred products, 88 of which have been launched in “CMS Health Overseas Flagship Store” or “CMS Overseas Flagship Store” on the three mainstream cross-border e-commerce platforms, JD Worldwide, Youzan Mall and Tmall International. The launched products have covered nine major categories including weight management, kids nutrition, hair care & hair loss prevention, sexual health, household medicine, relaxation & sleep, beauty & personal care, fertility & pregnancy, and nutritional supplement. While continuously launching new products, the Group made efforts to hit consumers’ demands and created a number of trending products, such as Centax Smarty Bears, Homair, BLUpan medical OSD, Norvia VLCD, etc.

During the Reporting Period, the Group actively explored the new retailing business mode for the healthcare products, to capitalize on the professional client resources in its promotion channels to provide professional guidance and services to consumers, to help consumers understand and cope with sub-health, and to create better consumer experience, providing consumers with healthy lives.

In addition, the Group continuously completed and optimized the construction of healthcare business. As at 30 June 2021, it has preliminarily completed the formation of the e-commerce marketing team and the new retailing marketing team, the business compliance management optimization and the establishment of the nationwide third-party cross-border warehousing system, laying a solid foundation for the development of the business.

VI. Commercialization System

The Group has a comprehensive commercialization system, and possesses of proven successful experience in market access, branding, academic promotion, retail management, new media marketing, government affairs, distributor cooperation, etc. Having created professional brand images and good sales records for a number of branded original medicines and exclusive medicines, the Group has been well recognized by domestic and overseas partners. As a number of the Group's innovative products are about to enter the commercialization stage, the value of the Group's commercialization platform will be further released to promote the monetization of innovative products.

The Group adheres to the academic promotion based on the evidence-based medical evidence of products. During the Reporting Period, the Group continued to explore and refine the products' academic differentiation advantages, and proactively organized and participated in academic conferences at all levels, to deepen the brand building. Meanwhile, the Group made efforts to extend and optimize the application of digital marketing tools (online promotional activities), ensuring the professionalism and academic nature of online academic conferences. On the other hand, the Group further promoted the penetration and expansion of its academic promotion network through enlarging its hospital coverage, constantly strengthening its network in advantageous departments, and expanding lower-tier market coverage. In addition, in order to better prepare for the prescription outflow, the Group increased the retail pharmacy coverage and enhanced cooperation with pharmacies-near-hospitals and DTP (direct-to-patient) pharmacies to continually deepen the retail market deployment. Besides, the Group increased investment in and deepened cooperation with e-commerce channels, strengthened new media marketing, and actively explored the new retailing business model.

For medical aesthetic products and dermatology grade skincare products with stronger consumption attributes, the Group actively utilized its mature dermatologist resources as well as academic platforms to analyze the academic value and efficacy of products from a professional perspective. Moreover, the Group built brands influence through new media marketing, increasing brand penetration in public domain, and deepening the brand awareness via private domain operation, eventually directed customer traffic through online and offline channels to facilitate the rapid growth of sales volume. At the same time, the Group built an excellent team with strong cohesion and execution by recruiting mature marketing talents in the dermatology and medical aesthetic field, in order to fulfill the rapid development of the dermatology and medical aesthetic business.

As at 30 June 2021, the Group's commercialization network covered about 57,000 hospitals and medical institutions, and more than 200 thousand drugstores nationwide.

In addition, the Group emphasizes on the construction of the compliance system, and has constantly strengthened compliance trainings and assessments while enhancing compliance management through unannounced inspection, regular inspection and other measures, to facilitate the healthy and compliant development of its businesses.

During the Reporting Period, through systematic training schemes such as the “Navigation”, the Group strengthened team building and improved team cohesion as well as professionalism in academic promotion. In the meanwhile, by various methods such as marketing effectiveness concept strengthening, incentive mechanism improvement, management system optimization, and business warning system building, the Group comprehensively enhanced the refined team management and promoted the efficient implementation of marketing strategies.

VII. Marketed Products

The Group’s major marketed products have covered the cardio-cerebrovascular, digestion, ophthalmology and dermatology fields. The summary of major products is as follows:

Product Line	Product	Indication/Function	Product Advantage
Cardio-cerebrovascular Line	Plendil (Felodipine Sustained Release Tablets)	Hypertension and stable angina pectoris	Calcium Channel Blocker (CCB) medicine suitable for Chinese patients, providing cardio-cerebrovascular protection and high vascular selectivity
	XinHuoSu (Recombinant Human Brain Natriuretic Peptide for Injection)	Acute decompensated heart failure	The only Recombinant Human Brain Natriuretic Peptide (rhBNP) medicine available in Chinese market as at 30 June 2021
	Deanxit (Flupentixol and Melitracen Tablets)	Mild-to-moderate depression, anxiety and psychosomatic affections	Ranking the first in the market share of antidepressant medicines in China according to 2020 IQVIA data
Digestion Line	Ursofalk (Ursodeoxycholic Acid Capsules)	Cholesterol gallstones in the gallbladder, cholestatic liver disease and biliary reflux gastritis	Stably ranking the first in sales among products in Chinese cholagogue market according to 2020 IQVIA data
	Salofalk (Mesalazine)	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	Ranking the first in the market share of aminosalicic acid, a first-line treatment for inflammatory bowel disease, in China according to 2020 IQVIA data
	Bioflor (Saccharomyces Boulardii Sachets)	Diarrhea in adults and children, as well as diarrhea symptoms induced by intestinal flora disturbance	Probiotics preparations with abundant evidence-based medical evidence and high-level recommendations from authoritative domestic and overseas guidelines
	Combizym (Oryz-aspergillus Enzyme and Pancreatin Tablets)	Dyspepsia caused by a decrease in digestive enzymes	Effective in both stomach and intestines, the recommended digestive enzyme preparation for the replacement therapy of pancreatic exocrine insufficiency

Product Line	Product	Indication/Function	Product Advantage
Ophthalmology Line	Augentropfen Stulln Mono Eye Drops (Esculin and Digitalisglycosides Eye Drops)	Senile macular degeneration and all forms of asthenopia	The representative medicine for the treatment of asthenopia and the only eye drops in Chinese market for the treatment of macular degeneration as at 30 June 2021
Dermatology Line	Hirudoid (Mucopolysaccharide Polysulfate Cream)	Blunt traumata with or without hematomas, and superficial phlebitis that cannot be treated by compression	Repair agent for skin barrier with multiple functions
Prescription Medical Aesthetic Product	Aethoxysklerol (Polidocanol Injection)	Different specifications for sclerotherapy of different varicose veins, including spider veins, central veins of spider veins, and medium to large varicose veins	The international brand for the treatment of sclerotherapy of varicose veins with years of clinical application
Medical Aesthetic Product	Stratamark* (Self-drying Silicone Scar Therapy Gels)	Approved in China for prevention and treatment of hypertrophic scars; approved in the U.S., Switzerland, Australia, etc. for prevention and treatment of striae distensae (stretch marks)	Applied once daily, clinically proven topical silicone gel with efficacy and safety to prevent and treat stretch mark
	Strataderm (Self-drying Silicone Scar Therapy Gels)	Prevention and improvement of hypertrophic scars	An effective silicone gel indicated for prevention of hyperplasia and improvement of new and old scars for a wide population
	Mesoesthetic-Mesohyal Series (including 5 products)	Skin firming, moisturizing, elasticity increasing, etc.	Matching therapies to provide customized medical aesthetic solutions
	Neauvia Hyaluronic Acid Series (including 4 products)	Superficial and deep skin filling, long-term moisturizing	Crossing with polyethylene glycol based on a unique cross linker technology SMART, the product has excellent rheology, high biocompatibility and good integrity
Dermatology Grade Skincare Product	Atopic Piel Series (including 5 products)	Skin nourishing, moisturizing and dryness reliving	A combination of washing and moisturizing to repair the damaged skin barrier and effectively relieve itching of sensitive skin

*In July 2021, Stratamark (the Australia-approved version) has been launched on the Group's cross-border e-commerce platform.

During the Reporting Period, revenues by product lines were as follows:

- The products under cardio-cerebrovascular line recorded a revenue of RMB1,789.0 million, an increase of 23.2% compared with the same period last year. In the case that all medicines were directly sold by the Group, the revenue of products under cardio-cerebrovascular line would increase by 29.9% to RMB2,321.1 million compared with the same period last year, accounting for 54.4% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of products under digestion line increased by 25.7% to RMB1,455.2 million compared with the same period last year, accounting for 34.1% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of the product under ophthalmology line increased by 45.9% to RMB166.0 million compared with the same period last year, accounting for 3.9% of the Group's revenue in the case that all medicines were directly sold by the Group.
- The revenue of products under dermatology line increased by 54.4% to RMB131.6 million compared with the same period last year, accounting for 3.1% of the Group's revenue in the case that all medicines were directly sold by the Group.
- Other products recorded a revenue of RMB301.3 million, an increase of 0.8% compared with the same period last year. In case that all medicines were directly sold by the Group, the revenue would increase by 12.6% to RMB195.4 million compared with the same period last year, accounting for 4.6% of the Group's revenue in the case that all medicines were directly sold by the Group.

Impacts of Significant Industrial Policies

In the first half of 2021, the National Volume Based Procurement ("VBP") remained the most influential policy for pharmaceutical companies. As at 30 June 2021, none of the chemical names of major products sold by the Group was included in the National VBP catalog, thus the policy has not negatively affected the operation and profitability of the Group during the Reporting Period. The Group will continue to pay close attention to the policy trend of the National VBP and the competitive landscape of the marketed medicines. To keep pace with the industry trend, the Group will accelerate the investment and deployment of innovative medicines, as well as the clinical development and commercialization of the medicines in China, so as to offset the potential risk of the Group's marketed products that may be included into the National VBP catalog in the future, and drive the sustained and high-speed growth of the Group.

Future Development

With the continuous growth of the national disposable income, the yearning for high quality and better life, and the increasing demand for health and beauty, the Group's business segments will usher in wider and greater development opportunities. The Group will continue to invest in quality products of all business segments, improve the commercialization capability and the refined management system, and fully synergize different business segments, to promote the synchronous development of three businesses segments, including the pharmaceutical business, the dermatology and medical aesthetic business, as well as the healthcare business, and to accelerate the enterprise value growth.

The Group will devote greater efforts in industrial investment in Chinese Biotech with a focus on its advantageous therapeutic fields and popular targets, and leverage both parties' expertise to accelerate the commercialization of Chinese Biotech's innovative products, to improve the efficiency of the pharmaceutical industry and to benefit Chinese patients. At the same time, the Group will continue to acquire overseas innovative products in relatively mature stages via equity investment in Overseas Biotech or strategic collaboration with Global Biopharma, and accelerate the commercialization of overseas innovative products in China, so as to improve patients' access to innovative medicines. The Group is striving to become one of the pharmaceutical companies that possess the most innovative products in China.

For the dermatology and medical aesthetic business, the Group will accelerate the enhancement of product matrix to achieve the comprehensive dermatology medicine coverage and a diversified product mix consisting of light medical aesthetic injectables, energy-based medical aesthetic devices and dermatology grade skincare products, providing comprehensive skin management solutions for clients and consumers. At the same time, the Group will further expand the professional dermatology and medical aesthetic business team while synergizing and integrating the sales channels, in order to promote the rapid growth of marketed dermatology and medical aesthetic products. The Group is committed to becoming the largest and most professional company in the field of dermatology, medical aesthetics and health management in China.

For the healthcare business, the Group will continue to introduce new products, actively create trending products, and dynamically evaluate, adjust and optimize the existing product portfolio. Meanwhile, the Group will continue to explore the new business model combining cross-border e-commerce and new retailing modes to empower the future development. The Group is devoted to building a leading and professional healthcare business company in China.

The Group will consolidate its strengths to further enhance the abilities in project planning, clinical execution, commercialization, and capital strength, etc., so as to build a professional and efficient incubation platform of innovative medicines for global biotech companies, facilitating more domestic innovative products to produce world-class impacts, and contributing to the Healthy China construction.

Financial Review

Turnover

Turnover increased by 23.6% from RMB3,108.1 million for the six months ended 30 June 2020 to RMB3,843.0 million for the six months ended 30 June 2021; in the case that all medicines were directly sold by the Group, turnover increased by 28.7% to RMB4,269.3 million for the six months ended 30 June 2021 from RMB3,316.6 million for the six months ended 30 June 2020, mainly due to an increase in sales volume.

Gross Profit and Gross Profit Margin

Gross profit increased by 25.3% from RMB2,293.4 million for the six months ended 30 June 2020 to RMB2,873.8 million for the six months ended 30 June 2021; in the case that all medicines were directly sold by the Group, gross profit increased by 27.9% from RMB2,161.7 million for the six months ended 30 June 2020 to RMB2,764.6 million for the six months ended 30 June 2021, primarily reflecting growth in turnover. For the six months ended 30 June 2021, gross profit margin was 74.8%, representing an increase of 1.0 percentage point from 73.8% for the six months ended 30 June 2020; in the case that all medicines were directly sold by the Group, gross profit margin decreased by 0.4 percentage point to 64.8% for the six months ended 30 June 2021 from 65.2% for the six months ended 30 June 2020, mainly due to a change in the sales weight of products.

Selling Expenses

Selling expenses increased by 26.4% from RMB825.6 million for the six months ended 30 June 2020 to RMB1,043.6 million for the six months ended 30 June 2021. Selling expenses as a percentage of turnover was 27.2% for the six months ended 30 June 2021, representing an increase of 0.6 percentage point from 26.6% for the six months ended 30 June 2020. In the case that all medicines were directly sold by the Group, selling expenses as a percentage of turnover increased by 1.0 percentage point to 21.9% for the six months ended 30 June 2021 from 20.9% for the six months ended 30 June 2020, mainly due to a decrease in academic promotion activities through offline model affected by the epidemic disease during the same period of last year.

Administrative Expenses

Administrative expenses increased by 61.1% from RMB99.0 million for the six months ended 30 June 2020 to RMB159.4 million for the six months ended 30 June 2021. Administrative expenses as a percentage of turnover for the six months ended 30 June 2021 was 4.1%, representing an increase of 0.9 percentage point from 3.2% for the six months ended 30 June 2020. In the case that all medicines were directly sold by the Group, administrative expenses as a percentage of turnover increased by 0.7 percentage point to 3.7% for the six months ended 30 June 2021 from 3.0% for the six months ended 30 June 2020, primarily reflecting the effect arising from new business development of the Group.

Research and Development Expenditures

The Group's research and development expenditures included investments for the continuous expansion of innovative product pipelines, expenditures on development, registration and clinical trial 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 capital payments (including payments for acquisition of equity investments in research and development companies and payment for acquisition and development of product rights).

Total research and development expenditures increased by 11.3% from RMB365.7 million for the six months ended 30 June 2020 to RMB407.0 million for the six months ended 30 June 2021. Total research and development expenditures as a percentage of turnover for the six months ended 30 June 2021 was 10.6%, representing a decrease of 1.2 percentage points from 11.8% for the six months ended 30 June 2020. In the case that all medicines were directly sold by the Group, total research and development expenditures as a percentage of turnover decreased by 1.5 percentage points to 9.5% for the six months ended 30 June 2021 from 11.0% for the six months ended 30 June 2020, primarily reflecting a decrease in investments and expenditures on new innovative product pipelines.

Research and development expenses increased by 21.4% from RMB30.4 million for the six months ended 30 June 2020 to RMB36.9 million for the six months ended 30 June 2021. Research and development expenses as a percentage of turnover for the six months ended 30 June 2021 was 1.0%, same as that for the six months ended 30 June 2020. In the case that all medicines were directly sold by the Group, research and development expenses as a percentage of turnover for the six months ended 30 June 2021 was 0.9%, same as that for the six months ended 30 June 2020.

Payments for acquisition of equity investments in research and development companies and payments for acquisition of innovative product rights and expenditures on clinical trial of innovative products (set out in the table below) increased by 10.4% from RMB335.3 million for the six months ended 30 June 2020 to RMB370.2 million for the six months ended 30 June 2021. Such capital payments as a percentage of turnover for the six months ended 30 June 2021 was 9.6%, representing a decrease of 1.2 percentage points from 10.8% for the six months ended 30 June 2020. In the case that all medicines were directly sold by the Group, such capital payments as a percentage of turnover decreased by 1.4 percentage point to 8.7% for the six months ended 30 June 2021 from 10.1% for the six months ended 30 June 2020.

	For the six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Payment for acquisition of equity investments in research and development companies	265,866	142,632
Payment for acquisition and development of product rights	104,328	192,711
	<u>370,194</u>	<u>335,343</u>

Other Gains and Losses

Other gains and losses increased by 25.3% from a gain of RMB63.3 million for the six months ended 30 June 2020 to a gain of RMB79.3 million for the six months ended 30 June 2021, mainly due to increases in exchange gain and government subsidies.

Share of Result of Associates

Share of result of associates increased by 36.1% from RMB81.0 million for the six months ended 30 June 2020 to RMB110.2 million for the six months ended 30 June 2021, mainly reflecting an increase in profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs decreased by 52.7% from RMB15.3 million for the six months ended 30 June 2020 to RMB7.3 million for the six months ended 30 June 2021, mainly due to decreases in amount and interest rate of loans.

Income Tax Expense

Income tax expense increased by 10.6% from RMB166.9 million for the six months ended 30 June 2020 to RMB184.6 million for the six months ended 30 June 2021, primarily reflecting an increase in profit of the Group.

Profit for the Period

Profit for the period increased by 25.5% from RMB1,300.5 million for the six months ended 30 June 2020 to RMB1,631.6 million for the six months ended 30 June 2021, mainly due to the continuous growth in turnover.

Inventories

Inventories increased by 5.3% from RMB381.2 million as at 31 December 2020 to RMB401.5 million as at 30 June 2021. Average inventory turnover days decreased by 20 days from 94 days for the six months ended 30 June 2020 to 74 days for the six months ended 30 June 2021, primarily reflecting the volatility of safe inventories level of the Group.

Trade Receivables

Trade receivables increased by 11.7% from RMB1,047.9 million as at 31 December 2020 to RMB1,170.8 million as at 30 June 2021. Average trade receivables turnover days decreased by 2 days from 66 days for the six months ended 30 June 2020 to 64 days for the six months ended 30 June 2021, primarily reflecting the improvement on management of trade receivables.

Trade Payables

Trade payables increased by 53.1% from RMB134.8 million as at 31 December 2020 to RMB206.4 million as at 30 June 2021. Average trade payables days increased by 18 days from 14 days for the six months ended 30 June 2020 to 32 days for the six months ended 30 June 2021, primarily reflecting the difference in time points of inventory purchases.

Liquidity, Financial Resources, Capital Structure and Gearing Ratio

As at 30 June 2021, the Group's bank balances and cash amounted to RMB3,286.0 million while readily realizable bank acceptance bills amounted to RMB368.9 million. As at 31 December 2020, our bank balances and cash amounted to RMB2,668.4 million while readily realizable bank acceptance bills amounted to RMB446.0 million.

The Group had bank borrowings of RMB1,080.7 million as at 30 June 2021 (31 December 2020: RMB587.3 million). During the period ended 30 June 2021, the Group's bank loans increased by a net amount of RMB493.4 million, mainly due to a new addition in loans. The weighted average interest rate of loans was 1.6% per annum. Except for loans amounting to RMB499.3 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 2021 and 31 December 2020, the Group had a gearing ratio (being the bank borrowings of the Group divided by the total assets of the Group) of approximately 7.4% and 4.6%, 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 2021, 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 2021, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB62,811,000 and RMB15,307,000 respectively to secure general banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2021, the Group had no material contingent liabilities.

Acquisition of Subsidiaries

During the Reporting Period, in order to enrich the Group's existing product portfolio and to enter into new business field, the Group acquired two subsidiaries Luqa Ventures Co., Limited and Shanghai Carnation Medical Technology Co., Ltd., details of which are disclosed in note 17 to the condensed consolidated financial statements.

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

(i)

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.

MANAGEMENT DISCUSSION AND ANALYSIS
(CONTINUED)

Pursuant to the Facility Agreement, if, among other things, Mr. Lam Kong, the chairman of the board of directors (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 2021, Mr. Lam Kong (directly and indirectly) held approximately 46.04% of the total issued ordinary share capital of the Company.

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

(ii)

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. On 26 May 2021, CMS International Development and Management 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 22 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 of directors (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 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 2021, Mr. Lam Kong (directly and indirectly) held approximately 46.04% 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 2021, there were no outstanding share options of the Company.

Interim Dividend

The Board has resolved to pay an interim dividend of RMB 0.2641 (equivalent to HKD 0.317) per ordinary share of the Company for the six months ended 30 June 2021 to the shareholders whose names appear on the register of members of the Company after market closes on Wednesday, 8 September 2021 (the “Record Date”). Payment of such interim dividend is expected to be made to the shareholders on about Wednesday, 15 September 2021.

Closure of Register of Members

The register of members of the Company will be closed on Wednesday, 8 September 2021, 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 Tuesday, 7 September 2021.

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 2021, 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:

OTHER INFORMATION
(CONTINUED)

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	1,137,564,000 (L) (note 2)	46.04%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.81%
		Interest in controlled corporation	50,225,000 (L) (note 3)	2.03%
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 2021, the Directors were not aware of any other person (other than the Directors or the Chief Executive of the Company and their controlled interests as disclosed above) 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

During the Reporting Period, none of the Company or any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

Employees

As at 30 June 2021, the Group had about 4,884 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.

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 2021 have been reviewed by the Audit Committee of the Company and approved by the Board with recommendation of the Audit Committee.

Changes in Director's Information

During the Reporting Period, there are no 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 2021

		Six months ended 30 June	
	NOTES	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Turnover	3	3,843,016	3,108,075
Cost of goods sold		(969,235)	(814,670)
Gross profit		2,873,781	2,293,405
Other gains and losses		79,274	63,285
Selling expenses		(1,043,568)	(825,572)
Administrative expenses		(159,419)	(98,985)
Research and development expenses		(36,850)	(30,352)
Finance costs		(7,263)	(15,344)
Share of results of associates		110,227	80,963
Profit before tax		1,816,182	1,467,400
Income tax expense	4	(184,622)	(166,885)
Profit for the period	5	1,631,560	1,300,515
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Share of other comprehensive (expense) income of associates		(4,618)	8,612
Exchange differences arising from translation of foreign operations		(24)	(1,090)
Change in fair value on cash flow hedges			
- fair value gain (loss)		33	(7,905)
- deferred tax relating to change in fair value		(198)	1,304
<i>Items that will not be reclassified to profit or loss:</i>			
Fair value gain (loss) on equity instrument at fair value through other comprehensive income		19,741	(18,159)
Other comprehensive income (expense) for the period, net of income tax		14,934	(17,238)
Total comprehensive income for the period		1,646,494	1,283,277
Profit for the period attributable to:			
Owners of the Company		1,627,481	1,279,421
Non-controlling interests		4,079	21,094
		1,631,560	1,300,515
Total comprehensive income for the period attributable to:			
Owners of the Company		1,642,415	1,262,183
Non-controlling interests		4,079	21,094
		1,646,494	1,283,277
Earnings per share	7	RMB	RMB
Basic		0.6587	0.5174

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2021

	NOTES	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	469,309	474,823
Right-of-use assets		59,484	56,862
Interest in associates	9	2,698,085	2,639,711
Intangible assets		2,386,672	2,239,588
Goodwill		1,637,589	1,214,535
Equity instruments at fair value through profit or loss		226,333	-
Equity instruments at fair value through other comprehensive income		435,326	415,585
Deposits paid for acquisition of intangible assets		733,317	628,989
Amount due from an associate	11	30,000	30,000
Interest-bearing loan receivable		32,129	-
Derivative financial instruments	14	-	682
Deferred tax assets		21,495	21,759
		<u>8,729,739</u>	<u>7,722,534</u>
Current assets			
Inventories		401,504	381,215
Financial asset at fair value through profit or loss		6,016	3,884
Trade and other receivables	10	1,851,128	1,705,606
Tax recoverable		12,740	12,082
Derivative financial instruments	14	62	49
Amount due from an associate	11	264,199	207,271
Bank balances and cash		3,285,961	2,668,426
		<u>5,821,610</u>	<u>4,978,533</u>
Current liabilities			
Trade and other payables	12	559,626	619,284
Lease liabilities		7,678	7,266
Contract liabilities		17,975	14,406
Bank borrowings	13	499,270	10
Deferred consideration payables		1,000	2,929
Tax payable		318,575	268,068
		<u>1,404,124</u>	<u>911,963</u>
Net current assets		<u>4,417,486</u>	<u>4,066,570</u>
Total assets less current liabilities		<u>13,147,225</u>	<u>11,789,104</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(CONTINUED)

AT 30 June 2021

	NOTES	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Capital and reserves			
Share capital	15	84,634	84,634
Reserves		12,123,315	10,949,508
Equity attributable to owners of the Company		12,207,949	11,034,142
Non-controlling interests		88,781	68,573
		12,296,730	11,102,715
Non-current liabilities			
Bank borrowings	13	581,409	587,241
Deferred tax liabilities		110,461	86,133
Lease liabilities		8,333	5,640
Derivative financial instruments	14	6,681	5,888
Obligation arising from put options		142,000	-
Deferred consideration payables		1,611	1,487
		850,495	686,389
		13,147,225	11,789,104

The condensed consolidated financial statements on pages 28 to 55 were approved and authorised for issue by the Board of Directors on 23 August 2021 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 2021

	Attributable to owners of the Company												Attributable to non-controlling interests	Total
	Share Capital	Share premium	Capital reserve	Surplus reserve fund	Translation reserve	Hedging reserve	Investments revaluation reserve	Share-based payment reserve	Other reserve	Accumulated profits	Dividend reserve	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2020 (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 year	-	-	-	-	-	-	-	-	-	2,530,398	-	2,530,398	25,302	2,555,700
Share of other comprehensive expense of associates	-	-	-	-	(34,127)	-	-	-	-	-	-	(34,127)	-	(34,127)
Exchange differences arising from translation of foreign operations	-	-	-	-	227	-	-	-	-	-	-	227	-	227
Fair value loss on equity instruments at fair value through other comprehensive income	-	-	-	-	-	-	(9,327)	-	-	-	-	(9,327)	-	(9,327)
Change in fair value of cash flow hedges	-	-	-	-	-	(5,746)	-	-	-	-	-	(5,746)	-	(5,746)
- fair value loss	-	-	-	-	-	(5,746)	-	-	-	-	-	(5,746)	-	(5,746)
- deferred tax relating to change in fair value	-	-	-	-	-	948	-	-	-	-	-	948	-	948
Total comprehensive (expense) income for the year	-	-	-	-	(33,900)	(4,798)	(9,327)	-	-	2,530,398	-	2,482,373	25,302	2,507,675
Repurchase of ordinary shares	(329)	(86,634)	-	-	-	-	-	-	-	-	-	(86,963)	-	(86,963)
Dividend paid	-	-	-	-	-	-	-	-	-	(520,095)	(314,034)	(834,129)	-	(834,129)
Dividend proposed	-	-	-	-	-	-	-	-	-	(501,080)	501,080	-	-	-
Transfer of reserves	-	-	-	815	-	-	-	-	-	(815)	-	-	-	-
Release of surplus reserve fund upon deregistration of a subsidiary	-	-	-	(1,500)	-	-	-	-	-	1,500	-	-	-	-
Balance at 31 December 2020 (audited)	84,634	2,304,879	19,545	354,768	(16,332)	(4,917)	(41,186)	-	-	7,830,445	502,306	11,034,142	68,573	11,102,715
Profit for the period	-	-	-	-	-	-	-	-	-	1,627,481	-	1,627,481	4,079	1,631,560
Other comprehensive (expense) income for the period	-	-	-	-	(4,642)	(165)	19,741	-	-	-	-	14,934	-	14,934
Total comprehensive (expense) income for the period	-	-	-	-	(4,642)	(165)	19,741	-	-	1,627,481	-	1,642,415	4,079	1,646,494
Acquisition of subsidiaries (note 17)	-	-	-	-	-	-	-	-	61,970	-	-	61,970	121,701	183,671
Issuance of shares to employee	-	-	-	-	-	-	-	(57,085)	20,657	-	-	(36,428)	36,428	-
Recognition of share-based payment	-	-	-	-	-	-	-	-	8,156	-	-	8,156	-	8,156
Obligation arising from put options	-	-	-	-	-	-	-	-	-	-	-	-	(142,000)	(142,000)
Dividend paid (note 6)	-	-	-	-	-	-	-	-	-	-	(502,306)	(502,306)	-	(502,306)
Dividend proposed (note 6)	-	-	-	-	-	-	-	-	-	(652,528)	652,528	-	-	-
Transfer of reserves	-	-	-	22	-	-	-	-	-	(22)	-	-	-	-
Balance at 30 June 2021 (unaudited)	84,634	2,304,879	19,545	354,790	(20,974)	(5,082)	(21,445)	(48,929)	82,627	8,805,376	652,528	12,207,949	88,781	12,296,730

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Attributable to owners of the Company												Attributable to non- controlling interests	Total
	Share Capital	Share premium	Capital reserve	Surplus reserve fund	Translation reserve	Hedging reserve	Investments revaluation reserve	Share-based payment reserve	Other reserve	Accumulated profits	Dividend reserve	Sub- total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2020 (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)
Dividend paid	-	-	-	-	-	-	-	-	-	1,226	(315,260)	(314,034)	-	(314,034)
Dividend proposed	-	-	-	-	-	-	-	-	-	(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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	NOTES	Six months ended 30 June	
		2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Net cash from operating activities		1,434,606	1,439,017
Net cash used in investing activities			
Purchase of property, plant and equipment	8	(14,256)	(16,757)
Payments for acquisitions of financial assets at fair value through profit or loss		(1,643)	-
Payments for acquisitions of equity instruments at fair value through profit or loss		(226,333)	-
Payments for acquisitions of equity instruments at fair value through other comprehensive income		-	(142,632)
Deposits for acquisition of intangible assets		(104,328)	(192,711)
Interest received		25,353	26,044
Dividend received from associates		47,235	70,125
Acquisition of subsidiaries	17	(493,833)	-
		(767,805)	(255,931)
Net cash used in financing activities			
Interest paid		(6,766)	(10,315)
Dividends paid	6	(502,306)	(314,034)
Payment of deferred consideration payables		(1,000)	(8,886)
Payment of lease liabilities		(4,579)	(3,526)
New bank borrowings raised		818,270	769,107
Repayment of bank borrowings		(318,410)	(785,180)
Payment on repurchase of shares		-	(86,964)
Loan advanced		(33,463)	-
		(48,254)	(439,798)
Net increase in cash and cash equivalents		618,547	743,288
Cash and cash equivalent at beginning of the period		2,668,426	1,365,008
Effect of exchange rate changes on the balance of cash held in foreign currencies		(1,012)	779
Cash and cash equivalent at end of the period, represented by bank balances and cash		3,285,961	2,109,075

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2020.

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 mainly sells pharmaceutical products to hospitals and medical institutions through cooperative distributors throughout the PRC.

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	
	2021	2020
	RMB'000	RMB'000
Sales of pharmaceutical products	3,012,841	2,537,816
Promotion income	830,175	570,259
	3,843,016	3,108,075

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.

During the Reporting Period, the Group has one reportable operating segment that is marketing, promotion, sales and manufacturing of pharmaceutical products. The scale of other business is smaller, therefore no new reportable operating segment is established.

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 sale and promotion income of the Group are generated from external customers, and primarily takes place in the PRC.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax	129,185	114,350
Hong Kong Profits Tax	123	180
Macau Complementary Income Tax	56,840	53,752
	<u>186,148</u>	<u>168,282</u>
Deferred taxation:		
Current period	(1,526)	(1,397)
Income tax expense for the period	<u>184,622</u>	<u>166,885</u>

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	20,173	18,805
Amortisation of intangible assets (included in cost of goods sold)	84,255	80,971
Cost of inventories recognised as an expense	879,555	728,655
Interest income	(26,364)	(26,044)
Net exchange gain	<u>(7,922)</u>	<u>(4,758)</u>

6. DIVIDENDS

During the Reporting Period, a final dividend of RMB0.2033 per share in respect of the year ended 31 December 2020 (six months ended 30 June 2020: RMB0.1271 per share in respect of the year ended 31 December 2019) 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 RMB502,306,000 (six months ended 30 June 2020: RMB314,034,000).

Subsequent to the end of the interim period, the directors have determined that an interim dividend of RMB0.2641 per share and amounting to RMB652,528,000 (six months ended 30 June 2020: RMB0.2105 per share and amounting to RMB520,095,000) will be paid to the owners of the Company whose names appear in the Register of Members on 8 September 2021.

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	
	2021	2020
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company)	1,627,481	1,279,421
	Number of ordinary shares	
	As at 30 June	
	2021	2020
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,470,760,512	2,472,986,974

The Group has no outstanding potential ordinary shares as at 30 June 2021 and 2020 and during the periods ended 30 June 2021 and 2020. Therefore, no diluted earnings per share is presented.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the Reporting Period, the Group spent RMB7,263,000 (six months ended 30 June 2020: RMB9,194,000) on the acquisition of property, plant and equipment and RMB6,993,000 (six months ended 30 June 2020: RMB7,563,000) on construction costs for manufacturing plants in order to upgrade its manufacturing and management efficiency.

9. INTEREST IN ASSOCIATES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	2,304,356	2,304,356
Share of post-acquisition profits and other comprehensive income, net of dividends received	393,729	335,355
	<u>2,698,085</u>	<u>2,639,711</u>
Fair value of listed investment (Note)	<u>5,842,379</u>	<u>6,231,377</u>

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 2021 and 31 December 2020, 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 2021	31 December 2020	
Tibet Pharmaceutical	Tibet	Tibet	37.36%	37.36%	Production of medicines and sale of drugs

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

10. TRADE AND OTHER RECEIVABLES

	30 June 2021 RMB'000	31 December 2020 RMB'000
Trade receivables	1,179,055	1,056,176
Less: Allowance for credit losses	(8,228)	(8,228)
	<u>1,170,827</u>	<u>1,047,948</u>
Bills receivables	368,904	445,998
Purchase prepayment	211,551	137,360
Other receivables and deposits	99,846	74,300
	<u>1,851,128</u>	<u>1,705,606</u>

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 dates of receipt of goods at the respective reporting dates, which approximated the respective revenue recognition date, is as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
0 - 90 days	1,032,123	1,034,677
91 - 365 days	138,704	13,271
	<u>1,170,827</u>	<u>1,047,948</u>

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 2021, 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 2021.

11. AMOUNT DUE FROM AN ASSOCIATE

As at 30 June 2021, the balance of approximately RMB30,000,000 (31 December 2020: RMB30,000,000) represented deposit to Tibet Pharmaceutical for exclusive distribution right. .

As at 30 June 2021, the balance of approximately RMB264,199,000 (31 December 2020: RMB207,271,000) was trade nature and non-interest bearing, 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 2021 was aged within three months (31 December 2020: 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 2021 RMB'000	31 December 2020 RMB'000
0 - 90 days	203,693	128,643
91 - 365 days	1,661	3,185
Over 365 days	1,012	2,980
Trade payables	206,366	134,808
Payroll and welfare payables	130,705	205,357
Other tax payables	18,323	90,935
Accruals	105,570	129,105
Other payables	98,662	59,079
	<u>559,626</u>	<u>619,284</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

13. BANK BORROWINGS

	30 June 2021 RMB'000	31 December 2020 RMB'000
Secured	10	10
Unsecured	1,080,669	587,241
	<u>1,080,679</u>	<u>587,251</u>
Classified as:		
Current liabilities	499,270	10
Non-current liabilities	581,409	587,241
	<u>1,080,679</u>	<u>587,251</u>

During the Reporting Period, the Group's bank borrowings increased by a net amount of RMB493,428,000 (six months ended 30 June 2020: decreased by a net amount of RMB7,923,000), the weighted average interest rate of loans was 1.6% (six months ended 30 June 2020: 3.7%) per annum.

14. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2021 RMB'000	31 December 2020 RMB'000
Assets:		
Foreign exchange forward contracts	-	682
Warrants	62	49
	<u>62</u>	<u>731</u>
Liabilities:		
Derivative under hedging accounting		
- cash flow hedges - interest rate swaps	(5,855)	(5,888)
Foreign exchange forward contracts	(826)	-
	<u>(6,681)</u>	<u>(5,888)</u>

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 2021 and 31 December 2020 are set out below:

At 30 June 2021

<u>Notional amount</u>	<u>Contract date</u>	<u>Maturity date</u>	<u>Receive</u>	<u>Pay</u>
US\$50,000,000	26 May 2021	24 March 2023	LIBOR + 0.7%	1.74%
US\$40,000,000	27 March 2020	27 March 2023	LIBOR + 1.25%	1.89%

At 31 December 2020

<u>Notional amount</u>	<u>Contract date</u>	<u>Maturity date</u>	<u>Receive</u>	<u>Pay</u>
US\$50,000,000 (note)	27 March 2020	24 March 2023	LIBOR + 1.30%	1.95%
US\$40,000,000	27 March 2020	27 March 2023	LIBOR + 1.25%	1.89%

Note: It was early terminated during the six months ended 30 June 2021.

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 2021 and 31 December 2020

<u>Notional amount</u>	<u>Maturity date</u>	<u>Exchange rate range agreed</u>
US\$40,000,000	23 March 2023	US\$1:RMB6.69-7.4
US\$5,000,000	23 March 2022	US\$1:RMB6.69-7.4
US\$5,000,000	21 September 2022	US\$1:RMB6.69-7.4

15. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Authorised share capital: At 31 December 2020 and 30 June 2021	20,000,000	765,218
Issued and fully paid: At 31 December 2020 and 30 June 2021	2,470,761	84,634

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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Financial instruments	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs
	30/06/2021	31/12/2020			
1) Interest rate swaps classified as derivative financial instruments	Liabilities - RMB 5,855,000	Liabilities - RMB 5,888,000	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	Liabilities - RMB 826,000	Assets - RMB 682,000	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 52,985,000	Listed equity securities on the LSE - RMB 33,244,000	Level 1	Quoted bid prices in an active market.	Nil
4) Financial asset at FVTPL	Assets - RMB 6,016,000	Assets - RMB 3,884,000	Level 1	Quoted bid prices in an active market.	Nil
5) Equity instruments at FVTOCI - unlisted	Unlisted equity investments RMB 382,341,000	Unlisted equity investments RMB 382,341,000	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) Equity instruments at FVTPL - unlisted	Unlisted equity investments RMB 226,333,000	Unlisted equity investments Nil	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.
7) Warrant classified as derivative financial instruments	Assets - RMB 62,000	Assets - RMB 49,000	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").

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE SIX MONTHS ENDED 30 JUNE 2021

Reconciliation of Level 3 fair value measurements

	Equity instruments at FVTOCI RMB'000	Equity instruments at FVTPL RMB'000	Derivative financial instrument - warrant RMB'000	Total RMB'000
As at 1 January 2020	235,568	-	770	236,338
Purchases	146,773	-	-	146,773
Total losses				
- in profit or loss	-	-	(721)	(721)
As at 31 December 2020	382,341	-	49	382,390
Purchases	-	226,333	-	226,333
Total profits				
- in profit or loss	-	-	13	13
As at 30 June 2021	382,341	226,333	62	608,736

There were no transfers between level 1 and 2 during the period ended 30 June 2021.

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. ACQUISITION OF SUBSIDIARIES

Acquisition of Luqa Ventures Co., Limited (“Luqa”)

On 1 February 2021, the Group acquired 100% interest in Luqa from independent third parties. Luqa is a dermatology specialty company incorporated in Hong Kong, its products mainly includes dermatology prescription medicines, medical devices and medical aesthetic products. The purpose of the acquisition is to enrich the dermatology product portfolio of the Group, and enable the Group to enter into medical aesthetic field for a big synergistic effect by taking full advantage of the promotion system and channel resource of the Group, after acquiring the product rights owned by Luqa. The acquisition has been accounted for as acquisition of business using the acquisition method.

As of the date of approval of these condensed consolidated financial statements, the process of allocating the purchase price for the acquisition of Luqa was still on-going by the directors of the Company with the assistance of an independent professional valuation firm. The preliminary purchase price allocation as set out below is also based on preliminary appraisals and other estimates by management and is subject to change, pending finalisation of the valuation of the assets acquired and liabilities assumed. The difference between the purchase price and the value of the assets acquired and the liabilities assumed of approximately RMB375,931,000 was provisionally recognised as goodwill.

Consideration transferred (determined on a provisional basis)

	RMB'000
Cash	487,350
Payable (note 1)	25,650
The shares of a subsidiary of the Group (“Consideration Shares”)	109,282
Put options on the Consideration Shares (note 2)	61,970
	<u>684,252</u>

Note 1: The payable, as a part of the consideration for acquisition of Luqa, was not paid as at 30 June 2021, and recognised in trade and other payables.

Note 2: Pursuant to the acquisition agreement, the seller is entitled to demand the Group to repurchase the Consideration Shares at certain prices in certain circumstances respectively, up to date falling on the fifth anniversary of the date of acquisition. Therefore, it was recognised as put options on the Consideration Shares at an amount of RMB61,970,000 at the date of acquisition.

In addition, the Group issued a subsidiary’s certain shares (“Employment Shares”) to a key employee of Luqa at the date of acquisition with a condition that who shall serve the Group up to 31 December 2023. The put options on the Employment Shares was granted as that on the Consideration Shares. Therefore, the Employment Shares and its put options were accounted for share-based payment under IFRS 2.

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Assets acquired and liabilities recognised at the date of acquisition (determined on a provisional basis)

	RMB'000
Property, plant and equipment	46
Intangible assets	215,044
Inventories	475
Trade and other receivables	126,065
Bank balances and cash	31,407
Trade and other payables	(42,884)
Deferred tax liabilities	(21,832)
	<u>308,321</u>

In the opinion of the directors of the Company, the fair value of the receivables acquired (which principally comprised of trade and other receivables) approximated to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables expected to be collected.

Goodwill arising on acquisition(determined on a provisional basis)

	RMB'000
Consideration transferred	684,252
Less: fair value of identifiable net assets acquired	<u>(308,321)</u>
Goodwill arising on acquisition	<u>375,931</u>

Goodwill arose in the acquisition of Luqa was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, management team, sale and promotion channel and future market development of Luqa. These benefits did not meet the recognition criteria for identifiable intangible assets, therefore were recognised as goodwill.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	487,350
Less: cash and cash equivalent balances acquired	<u>(31,407)</u>
	<u>455,943</u>

Impact of acquisition on the results of the Group

Included in the profit for the period was RMB10,193,000 attributable to Luqa. Revenue for the period included RMB20,844,000 generated from Luqa.

Had the acquisition of Luqa been completed at 1 January 2021, the revenue of the Group for the six months ended 30 June 2021 would have been RMB3,840 million, and the profit for the period would have been RMB1,568 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2021, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Luqa been acquired at the beginning of the current period, the directors have calculated depreciation and amortisation of plant and equipment and intangible assets acquired on the recognised amounts of property, plant and equipment and intangible assets at the date of acquisition

Acquisition of Shanghai Carnation Medical Technology Co., Ltd. ("Carnation")

On 17 May 2021, the Group acquired 64.81% interest in Carnation from an independent third party, together with a capital injection to Carnation. Carnation is incorporated in the PRC and is engaged in research and development and manufacture of medical aesthetic solution using focused ultrasound technology. The purpose of the acquisition is to acquire Carnation's focused ultrasound technology platform and to develop product rights for enriching the Group's photoelectric medical aesthetic product portfolio. The acquisition has been accounted for as acquisition of business using the acquisition method.

As of the date of approval of these condensed consolidated financial statements, the process of allocating the purchase price for the acquisition of Carnation was still on-going by the directors of the Company with the assistance of an independent professional valuation firm. The preliminary purchase price allocation as set out below is also based on preliminary appraisals and other estimates by management and is subject to change, pending finalisation of the valuation of the assets acquired and liabilities assumed. The difference between the purchase price and the value of the assets acquired and the liabilities assumed of approximately RMB47,123,000 was provisionally recognised as goodwill.

Consideration transferred (determined on a provisional basis)

	RMB'000
Cash	38,000
Capital injection payable (note)	32,000
	<u>70,000</u>

Note: The capital injection payable, as the amount that the Group should inject to Carnation at the acquisition date, was not paid as at 30 June 2021.

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Assets acquired and liabilities recognised at the date of acquisition (determined on a provisional basis):

	RMB'000
Property, plant and equipment	13
Intangible assets	17,145
Inventories	32
Amount due from the Group	32,000
Trade and other receivables	260
Bank balances and cash	110
Amount due to a non-controlling shareholder	(9,630)
Trade and other payables	(348)
Deferred tax liabilities	(4,286)
	<u>35,296</u>

In the opinion of the directors of the Company, the fair value of the receivables acquired (which principally comprised of trade and other receivables) approximated to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables expected to be collected.

Non-controlling interests (determining on a provisional basis)

The non-controlling interest (35.19%) in Carnation recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Carnation and amounted to approximately RMB12,419,000.

Goodwill arising on acquisition (determined on a provisional basis)

	RMB'000
Consideration transferred	70,000
Plus: non-controlling interests	12,419
Less: fair value of identifiable net assets acquired	<u>(35,296)</u>
Goodwill arising on acquisition	<u>47,123</u>

Goodwill arose in the acquisition of Carnation was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of focused ultrasound technology platform, research and development team, potential market development and future revenue growth of Carnation. These benefits did not meet the recognition criteria for identifiable intangible assets, therefore were recognised as goodwill.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

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Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	38,000
Less: cash and cash equivalent balances acquired	<u>(110)</u>
	<u>37,890</u>

Impact of acquisition on the results of the Group

Included in the profit for the period was a loss of RMB10,000 attributable to Carnation. None of revenue for the period was generated from Carnation.

Had the acquisition of Carnation been completed at 1 January 2021, the revenue of the Group for the six months ended 30 June 2021 would have been RMB3,843 million, and the profit for the period would have been RMB1,631 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2021, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Carnation been acquired at the beginning of the current period, the directors have calculated depreciation and amortisation of plant and equipment and intangible assets acquired on the recognised amounts of property, plant and equipment and intangible assets at the date of acquisition.

18. CAPITAL COMMITMENTS

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

30 June 2021 RMB'000	31 December 2020 RMB'000
<u>15,521</u>	<u>17,399</u>

19. 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	
			2021 RMB'000	2020 RMB'000
Tibet Pharmaceutical	Associate	Promotion income	502,490	257,041
Tibet Pharmaceutical	Associate	Service fee	849	849
Tibet Pharmaceutical	Associate	Purchase of goods	2,558	-

- (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 2021 and 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 Group has not paid any consideration to A&B in respect of this acquisition during the six months ended 30 June 2021 and 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 2021 and 31 December 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.

- (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.

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- (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 2021, 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 2021 and 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 2021, 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 2021 and 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 VXMO1) as well as designated pharmaceutical products and line extension that will be solely owned and under the control of VAXIMM (the “Product of VXMO1”) 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 VXMO1 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.

During the year ended 31 December 2020, each of the Group and A&B further invested in VAXIMM for the consideration of approximately EUR225,000 (equivalent to RMB1,865,000), respectively.

- (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 these 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).

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- (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.

During the year ended 31 December 2020, the Group and A&B further invested in the capital fund for a consideration of approximately US\$250,000 (equivalent to RMB1,715,000), respectively.

During the six months ended 30 June 2021, the Group and A&B further invested in the capital fund for a consideration of approximately US\$250,000 (equivalent to RMB1,643,000), 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).

During the year ended 31 December 2020, each of the Group and A&B further invested in Destiny for the consideration of approximately GBP1,000,000 (equivalent to RMB8,435,000), respectively.

- (l) During the year ended 31 December 2020, each of the Group and A&B invested in Qureight Limited for the consideration of approximately GBP249,000 (equivalent to RMB2,276,000), respectively.
- (m) During the year ended 31 December 2020, each of the Group and A&B agreed to invest in Exseed Health Limited for the consideration of approximately GBP150,000 (equivalent to RMB1,334,000), respectively. The consideration has not been paid before year ended 31 December 2020. The consideration was subsequently paid on 4 January 2021.
- (n) The remuneration of key management personnel during the Reporting Period amounted to RMB6,093,000 (six months ended 30 June 2020: RMB6,382,000).
-