CHINA MEDICAL SYSTEM HOLDINGS LIMITED

康哲藥業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 867)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE, 2013 AND CHANGE OF COMPANY SECRETARY

The Board of Directors (the "Board") of China Medical System Holdings Ltd. (the "Company" or "CMS") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013 (the "Reporting Period").

Financial Highlights:

- Turnover up 26.5% to US$167.0 million (H1 2012: US$132.0 million)
- Profit for the period up 22.3% to US$50.5 million (H1 2012: US$41.3 million)
- Basic earnings per share up 22.4% to US2.091 cents (H1 2012: US1.709 cents)
- As at 30 June 2013, the Group's bank balances and cash were US$109.8 million while readily realizable bank acceptance bills amounted to US$25.8 million
- Declared interim dividend up 29.9% to US0.838 cent per share (H1 2012: US0.645 cent)

* *For Identification Only*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	NOTES	Six months ended 30 June 2013 US$'000 (unaudited)	2012 US$'000 (unaudited)
Turnover	3	166,995	132,039
Cost of goods sold		(76,537)	(55,619)
Gross profit		90,458	76,420
Other gains and losses		7,983	2,225
Selling expenses		(30,497)	(23,037)
Administrative expenses		(10,902)	(8,146)
Finance costs		(1,589)	(778)
Share of result of an associate		45	25
Profit before taxation		55,498	46,709
Taxation	4	(5,028)	(5,425)
Profit for the period	5	50,470	41,284
Other comprehensive income that may be reclassified subsequently to profit or loss			
Exchange differences from translation		3,677	670
Change in fair value on available-for-sale investments			
- fair value gain		1,410	-
- deferred tax relating to change in fair value		(321)	-
Share of other comprehensive income of an associate		-	3
Fair value gain on hedging instruments in cash flow hedges		-	694
Total comprehensive income for the period		55,236	42,651
Profit for the period attributable to:			
Owners of the Company		50,490	41,267
Non-controlling interests		(20)	17
		50,470	41,284
Total comprehensive income attributable to:			
Owners of the Company		55,228	42,639
Non-controlling interests		8	12
		55,236	42,651
		US cent	US cent
Earnings per share	7		
Basic		2.091	1.709
Diluted		2.091	1.709

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2013

	NOTES	30 June 2013 US$'000 (unaudited)	31 December 2012 US$'000 (audited)
Non-current assets			
Property, plant and equipment		25,715	10,169
Prepaid lease payments		7,661	4,440
Interest in an associate		1,051	1,173
Intangible assets		36,255	35,224
Goodwill		182,026	178,634
Available-for-sale investments		18,079	16,374
Deferred tax assets		3,505	2,959
Deposit paid for acquisition of property, plant and equipment		14,512	13,940
		288,804	262,913
Current assets			
Inventories		24,806	15,488
Trade and other receivables	8	98,634	92,891
Tax recoverable		1,132	1,052
Pledged bank deposits		88,642	73,261
Bank balances and cash		109,793	107,162
		323,007	289,854
Current liabilities			
Trade and other payables	9	29,876	25,175
Secured bank borrowings		80,524	64,845
Deferred consideration payables		1,023	812
Tax payable		2,685	2,605
		114,108	93,437
Net current assets		208,899	196,417
Total assets less current liabilities		497,703	459,330

	30 June 2013 US$'000 (unaudited)	31 December 2012 US$'000 (audited)
Capital and reserves		
Share capital	12,074	12,074
Reserves	472,784	436,246
Equity attributable to owners of the Company	484,858	448,320
Non-controlling interests	2,662	2,654
	487,520	450,974
Non-current liabilities		
Deferred tax liabilities	7,140	4,999
Deferred consideration payables	3,043	3,357
	10,183	8,356
	497,703	459,330

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or 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 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

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 the above 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

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

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 to resources allocation and assessment of segment performance.

The Group only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products.

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

4. TAXATION

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
Current tax:		
PRC Enterprise Income Tax	5,442	4,224
Hong Kong Profits Tax	28	-
Other jurisdictions	3	3
	5,473	4,227
Deferred taxation:		
Current period	(445)	1,198
Taxation charge for the period	5,028	5,425

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	878	717
Amortisation of intangible assets (included in cost of goods sold)	1,952	1,938
Cost of inventories recognised as an expense	74,147	53,332
Interest income	(3,389)	(1,913)
Net exchange (gain) loss	(2,593)	523

6. DIVIDENDS

During the Reporting Period, a final dividend of US$0.00774 per share in respect of the year ended 31 December 2012 (2012: US$0.008 per share in respect of the year ended 31 December 2011) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the Reporting Period amounted to US$18,690,000 (2012: US$12,879,000).

Subsequent to the end of the interim period, the directors have determined that an interim dividend of US$0.00838 per share (2012: US$0.00645) will be paid to the owners of the Company whose names appear in the Register of Members on 23 August 2013.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2013	2012
	US$'000	US$'000
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	50,490	41,267

	Number of ordinary shares As at 30 June	
	2013	2012
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	2,414,747,512	2,414,747,512

8. TRADE AND OTHER RECEIVABLES

	30 June 2013	31 December 2012
	US$'000	US$'000
Trade receivables	54,342	50,536
Less: Allowance for bad and doubtful debts	(187)	(191)
	54,155	50,345
Bills receivables	25,810	28,714
Prepayment for inventories	4,881	5,721
Other receivables and deposits	13,788	8,111
Total trade and other receivables	98,634	92,891

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers. Lengthened credit period up to four months was allowed to some selected customers.

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

	30 June 2013 US$'000	31 December 2012 US$'000
0 - 90 days	51,310	47,772
91 - 365 days	2,796	2,480
Over 365 days	49	93
	54,155	50,345

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

9. TRADE AND OTHER PAYABLES

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

	30 June 2013 US$'000	31 December 2012 US$'000
0 - 90 days	15,112	9,212
91 - 365 days	121	324
Over 365 days	198	106
	15,431	9,642
Payroll and welfare payables	4,382	5,825
Other tax payables	1,586	1,555
Other payables and accruals	8,477	8,153
	29,876	25,175

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

Group Overview

China Medical System Holdings Limited ("CMS" or the "Company"), established in 1995, is a pharmaceutical service provider based in China, focusing on the marketing, promotion and sale of prescription drugs to various therapeutic departments in hospitals.

The Company, together with its subsidiaries (the "Group"), has advanced marketing and promotion networks in China, and combines the Direct Academic Orientated Promotion Model and Agency Promotion Model in the China market to drive its development. The Group is devoted to balancing the development of its two marketing and promotion models in order to maximize synergistic effects, as well as through the continuous expansion and optimization of the marketing and promotion networks under two business models – Direct Academic Orientated Promotion Network ("Direct Network") and Agency Promotion Network ("Agency Network"), lays a solid network foundation for the development and rapid market coverage of its products in China.

With its extensive marketing and promotion network, the Group selects high quality prescription drugs globally with certain market differentiations, and establishes long-term and stable cooperative relationships with domestic and overseas professional drug manufacturers through various channels. With its profound understanding of the Chinese pharmaceutical market, medical policies, and physicians' prescriptions habits, the Group customised market strategies for each product to fit the needs of Chinese physicians and patients, making full use of its professional academic abilities and in-depth understanding of its products to cultivate prescription habits and brand loyalty among Chinese physicians in the course of product promotion and sale. The Group also provides value-added service for domestic and overseas professional drug manufacturers to sell products in the China market.

As at 30 June 2013, the Group's Direct Network marketed, promoted and sold 9 products in the China market; and employed more than 1,400 professional marketing, promotion and sales professionals, covering more than 12,000 hospitals in China; while the Group's Agency Network marketed, promoted and sold 14 products in the China market; and employed over 1,200 independent third-party sales representatives or agents, covering more than 8,000 hospitals nationwide.

Management Discussion and Analysis

Business Review

For the six months ended 30 June 2013 (the "Reporting Period"), the Group recorded turnover of US$ 167.0 million（2012: US$132.0 million），representing an increase of 26.5% over the same period of last year, while profit for the period reached US$50.5 million (2012: US$41.3 million), up 22.3% from the corresponding period of last year.

Since the second half of 2012, the Chinese government continued to boost investment in the Chinese pharmaceutical market and gradually implemented a clear policy for the sector, leading investors' confidence in the industry to rebound. Although the Chinese pharmaceutical market continued to develop into a stable manner, the weakening Chinese economy coupling with the provincial government mulling over a more rigorous provincial tendering system, led the capital market to shift its positive expectations to become more cautious towards the Chinese pharmaceutical market in the first half of 2013.

The Group continued to grow during the Reporting Period, but also met challenges. Firstly, the supply of a few products (such as Augentropfen Stulln Eye-drops and ShaDuoLiKa) was temporarily insufficient to meet market demand as the manufacturers were unable to expand production capacity in a timely manner or to make modifications aimed at bringing production standards to the latest GMP requirements. This situation is expected to be improved in the second half of this year. Secondly, the adjustment of the organizational structure of the Direct Network from the second half of 2012 to the beginning of this year, laid a foundation for the Group to expand its scale based on a more comprehensive network platform, but the move also brought adjustments in the regional organizational structure and changes in personnel. The market needs time to adjust to and digest such adjustments and changes, thus the adjustment of the organizational structure of the Direct Network adversely affected the Group's performance to some extent. The Group considers the impact to be temporary.

Product Introduction and Development

Product introduction and development is one of the Group's core development strategies. During the Reporting Period, the Group actively explored opportunities for partnerships with domestic and overseas professional drug manufacturers and continued to select premium products with certain academic features and market differentiations that are considered suitable for promotion and sale by the Group's marketing and promotion network. With regard to product introduction, the Group further enhanced the requirements of stability and controllability of its products to ensure long-term and stable development during the Reporting Period. Meanwhile, for the products in the current portfolio, the Group also seized appropriate opportunities to extend the business control to products' upstream.

During the Reporting Period, the Group successfully acquired a 100% equity interest in Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd (subsequently renamed Kangzhe Lengshuijiang Medical Co., Ltd., "Kangzhe Lengshuijiang"). The purpose of the acquisition was to secure the controlling rights of GanFuLe, a product previously marketed by the Group. It was an effective attempt to secure the product rights by gaining equity control of the product's upstream enterprise. In June 2013, the Group signed an agreement with Biocodex of France regarding the exclusive promotion and distribution of its product Stimol® in China. This was the Group's second

product cooperation agreement with Biocodex (the previous one is Bioflor), which reflects the manufacturer's recognition of the Group's outstanding marketing and promotion capabilities in the China market. In addition, the Group also assessed and negotiated cooperation opportunities for more products during the Reporting Period.

For the development of existing products, the supply of Augentropfen Stulln Mono Eye-drops and ShaDuoLiKa was insufficient due to the inadequate production capacity of the manufacturers. The Group was active in communicating with product manufacturers to work out a solution, and the supply of the two products is expected to be improved in the second half of 2013. Other main products of the Group continued to achieve growth during the Reporting Period.

During the Reporting Period, the two flagship products under the Group's Direct Network – Deanxit and Ursofalk – achieved sustained sales growth on a high sales base. Since Deanxit and Ursofalk – already have relatively broad hospital coverage, the Group focused on consolidating and maintaining sales in key areas and core markets, and was also active in developing products in untapped markets, as well as improving the output rate of products at hospitals during the Reporting Period. Meanwhile, taking the opportunity of further expanding the Direct Network to the rural market, the Group adjusted the marketing layout of its products in the rural market to drive sales. For the products with market potential under the Direct Network – XinHuoSu, Augentropfen Stulln Mono Eye-drops, Salofalk and Bioflor – the Group strengthened the strategic distribution of its core markets. Meanwhile, the Group continued to improve the output of products at hospitals by strengthening the promotion work in the existing prescription departments and penetrating products in new departments. Besides, the Group also continuously strengthened the academic training for marketing personnel on products and relevant indications, and influenced prescription habits and cultivated brand loyalty among doctors.

As for the Agency Network, due to modifications by the manufacturer of ShaDuoLiKa to meet the latest GMP requirements, there has been insufficient production capacity for the product, leading to a decline in sales volume compared to the same period of last year. During the Reporting Period, the Group adopted a marketing strategy by gearing against production to appropriately reallocate ShaDuoLiKa in the market in order to maintain balance and stability in product sales. YiNuoShu is another important product under the Agency Network. Despite intense market competition, YiNuoShu, with its better market foundation and product quality, along with the opportunity of expansion of the essential drug list in various regions, the product continued to grow during the Reporting Period. XiDaKang and Yin Lian Qing Gan Ke Li are the products that need a degree of academic support under the Agency Network. Because of the relatively weak market base, the key development strategy of the two products was to enhance hospital coverage and market development. During the Reporting Period, the Group held a series of training sessions to improve its agents' knowledge and understanding of the products, as well as to meet the Group's requirement of market coverage. Meanwhile, the Group was active in establishing the academic brand of the products in the market. During the Reporting Period, the Group launched a number of promotional clinical research projects for XiDaKang and actively facilitated the network building work for such products.

Apart from these marketed products, the Group has six products in the application process for import drug registration during the Reporting Period. In addition, the phase III clinical study of Tyroserleutide (CMS024), a polypeptide National Class One New Drug, researched and developed by the Group, with independent intellectual property rights, progressed smoothly during the Reporting Period.

I. Main Products of the Direct Network

	Main Products	As a Percentage of the Group's Revenue
Flagship Products	Deanxit (Flupentixol and Melitracen)	28.8%
	Ursofalk (Ursodeoxycholic Acid)	19.5%
Products with Market Potential	XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide,"rhBNP")	9.9%
	Salofalk (Mesalazine)	4.4%
	Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-Drops)	3.3%
	Bioflor (Saccharomyces Boulardii)	3.1%

Deanxit (Flupentixol and Melitracen)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used for the treatment of mild to moderate depression and anxiety, and it ranks the first in prescription volume among antidepressant drugs in China. During the Reporting Period, the Group signed a supplementary agreement with the manufacturer to extend the term of the exclusive promotion and sales right of Deanxit in China for an additional five years. During the Reporting Period, Deanxit recorded sales of US$48.1 million, an increase of 18.9% when compared to the same period of last year, accounting for 28.8 % of the Group's turnover.

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis. Ursofalk is the best-selling ursodeoxycholic acid drug in China, and has ranked the first in the market share of cholagogue in China for many years. During the Reporting Period, Ursofalk recorded sales of US$32.6 million, an increase of 21.4% when compared to the same period of last year, accounting for 19.5 % of the Group's turnover.

XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")

XinHuoSu, manufactured by China Chengdu Rhodiola Biological Pharmaceutical Co., Ltd, is a National Class One biological agent used to treat acute heart failure. During the Reporting Period, XinHuoSu recorded sales of US$16.6 million, an increase of 28.7% when compared to last year, accounting for 9.9% of the Group's turnover.

Salofalk (Mesalazine)

Salofalk is another brand that the Group cooperates with Dr. Falk Pharma GmbH of Germany. So far, it features the most comprehensive formulations of mesalazine in China, namely coated tablets, suppositories and enemas, which are mainly used to treat Ulcerative Colitis and Crohn's disease.

During the Reporting Period, Salofalk recorded sales of US$7.4 million, an increase of 45.4% when compared to last year, accounting for 4.4% of the Group's turnover.

Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-drops)

Augentropfen Stulln Mono Eye-drops, manufactured by Pharma Stulln GmbH of Germany, is used to treat age-related macula degeneration and all forms of ocular asthenopia, and it does not contain preservatives, which is one of the reasons for its popularity. During the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of US$5.4 million, accounting for 3.3% of the Group's turnover. Subject to capacity constraints, the supply of Augentropfen Stulln Mono Eye-drops has been unable to match the rapidly growing demand for the product in the China market, and the product shortage in the first half of this year was acute, which led to a 15.5% drop in sales compared to the corresponding period of last year. To respond to the market demand, the manufacturer launched a new production line, which will commence operation by the end of July in this year. The Group believes that the supply of the product will improve in the second half of this year.

Bioflor (Saccharomyces Boulardii)

Bioflor, manufactured by Biocodex of France, is a probiotics agent used by both adult and children to treat diarrhea, and diarrhea symptoms caused by the disturbance of intestinal flora. As the best-selling probiotics agent in the world, Bioflor recorded sales of US$5.2 million during the Reporting Period, an increase of 112.2% when compared to last year, accounting for 3.1% of the Group's turnover.

II. Main Products of the Agency Network:

	Main Products	As a Percentage of the Group's Revenue
Flagship Products	ShaDuoLiKa (YanHuNing Injection)	14.7%
	YiNuoShu (Ambroxol Hydrochloride for Injection)	9.0%
Products with Market Potential	XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hdrolysate)	1.1%
	Yin Lian Qing Gan Ke Li	0.1%

ShaDuoLiKa (YanHuNing Injection)

ShaDuoLiKa, manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd. ("Chongqing Yaoyou"), is a common anti-infective Traditional Chinese Medicine ("TCM") injection used in pediatrics, respiratory and emergency departments. During the Reporting Period, ShaDuoLiKa recorded sales of US$24.5 million, accounting for 14.7% of the Group's turnover. Also, due to the impact of Chongqing Yaoyou refurbishment in accordance with the latest GMP requirements, the supply of ShaDuoLiKa failed to meet the market demand during the Reporting Period, which resulted in the sales volume of ShaDuoLiKa dropping approximately 19.0% from the corresponding period of last year.

YiNuoShu (Ambroxol Hydrochloride for Injection)

YiNuoShu, the first generic version of an ambroxol hydrochloride for injection in China, is an

expectorant product used for respiratory diseases. The Group has controlling rights for YiNuoShu, and commissions Kangzhe (Hunan) Medical Company Limited and TIPR Pharmaceutical Responsible Co., Ltd. to manufacture the product. During the Reporting Period, YiNuoShu recorded sales of US$15.0 million, accounting for 9.0% of the Group's turnover.

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hdrolysate)

XiDaKang, manufactured by Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd., is sold as an oral solution and granules form, and is the only Protein Hydrolysate enteral nutrition agent approved by China Food and Drug Administration (CFDA). During the Reporting Period, XiDaKang recorded sales of US$1.8 million, accounting for 1.1% of the Group's turnover.

Yin Lian Qing Gan Ke Li

Yin Lian Qing Gan Ke Li, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is an exclusive TCM product that has been awarded a National New Drug Certificate, and is mainly used to treat various acute and chronic forms of hepatitis, alcoholic liver, fatty liver and hypertension. During the Reporting Period, Yin Lian Qing Gan Ke Li recorded sales of US$0.1 million, accounting for 0.1% of the Group's turnover.

III. Other Products

Apart from the products mentioned above, other products promoted and sold by the Group's Direct Network – Cystistat, GanFuLe and Exacin – were recorded total sales about US$5.2 million, accounting for approximately 3.1% of the Group's turnover during the Report Period. Products promoted and sold by the Agency Network – KunNing Oral Solution, NuoBaiYou, ShenShuiQing, SuPingShu, Irbesartan and Hydrochlorothiazide Dispersible Tablets, Ma Jiang Jiao Nang and Xiang Fu Yi Xue Kou Fu Ye etc. – were recorded total sales about US$3.4 million, accounting for approximately 2.1% of the Group's turnover during the Report Period.

In addition, the Group also produced and sold in-house products, such as Jin Er Lun, Fu Fang Dan Shen Pian and Niu Huang Jie Du Pian, etc. The products produced in-house accounted for approximately 0.9% of the Group's turnover during the Reporting Period.

IV. In-house Research Pharmaceutical Product

Tyroserleutide (CMS024), a polypeptide National Class One New Drug researched and developed by the Group, is mainly used to treat primary liver cancer, and has huge potential value in the China market. In 2011, the Group initiated a phase III clinical trial for Tyroserleutide entitled "A Randomized, Double Blind, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in Patients with Hepatocellular Carcinoma". As at 30 June 2013, the Group successfully enrolled 246 subjects, nearly reaching the planned number of 300 subjects. During the Reporting Period, the Group conducted various training sessions for the personnel responsible for carrying out the clinical trials, and has started to prepare for post-trial works. Furthermore, during the Reporting Period, the Group completed construction of the principal portion of the manufacturing facilities for Tyroserleutide, located in the new district of Pingshan in Shenzhen, China. Tendering and procurement for other infrastructure developments were carried out in a smooth manner.

V. Products under Registration

The Group currently has six products undergoing import drug registration application during the Report Period, which will contribute to the Group's revenue after they are officially issued import drug license by CFDA.

Budenofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is the third brand that the Group cooperates with this manufacturer, and is mainly used to treat Inflammatory Bowel Disease and Crohn's disease. It is an effective complement to Salofalk. The Group had submitted all supplementary materials in accordance with the requirements of CFDA during the Reporting Period, and is currently awaiting a further reply from CFDA.

L-lysine Aescinat and Thiotriazolin are manufactured by Arterium Corporation of Ukraine. L-lysine Aescinat is mainly used to treat swelling and pain, while Thiotriazolin is mainly used to treat chronic hepatitis arising from various causes, liver failure, ischemic heart disease, myocardial infarction, etc. During the Reporting Period, the application materials of clinical trial for registration of the two products were still in preparation.

Maltofer® and Uro-Vaxom® are manufactured by Vifor Pharma of Switzerland. Maltofer® is mainly used to treat iron deficiency without anemia ("ID") and iron deficiency with anemia ("IDA"); Uro-Vaxom® is mainly used for the treatment and prevention of recurrent urinary tract infections ("UTIs"), and the drug can stimulate the immune system and the body's natural defense against urinary pathogens. During the Reporting Period, the Group was engaged in frequent communication with the manufacturer, and is actively preparing the application materials of clinical trial for registration for the two products.

Stimol® (Citrulline Malate Effervescence Powder), manufactured by Biocodex of France, is mainly used for the treatment of weakness and fatigue induced by various diseases such as acute infections, chronic diseases, as well as operations, and for long-time fatigue and over-exertion, etc. The Group obtained the exclusive license rights for the product in China in June 2013. During the Reporting Period, the clinical trial application for registration of the product was accepted by CFDA.

Network Developement

The expansion of marketing and promotion network is another core development strategy of the Group. During the Reporting Period, the Group constantly strived to deepen the development of its marketing and promotion network. Besides continuously optimizing the structure of the network, the Group further strengthened the feedback and control of the network, and continued to enhance its academic level. At the same time, during the Reporting Period, the Group further improved the productivity of its marketing and promotion network at key hospitals and core markets and enhanced the strength of its development in the rural market. As at 30 June 2013, the Group's Direct Network had provided high-quality academic promotion service to more than 12,000 hospitals nationwide, while the Agency Network covered more than 8,000 hospitals nationwide.

During the Reporting Period, the Group continued to carry out campus recruitment and an "internship program", to allocate fresh graduates to different regions for training sessions and internships. Moreover, based on the recruitment requirements of the Direct Network, the Group also selected and recruited talents from labor markets. As at 30 June 2013, the Group's Direct Network had included more than 1,400 professional marketing, promotions and sales people.

Besides the expansion of the sales team, the Group also finished the adjustment of the organizational structure of the Direct Network, improved the systems of different levels and the allocation of manpower under the Direct Network, and refined the management and incentive policies for each region. The restructuring of the Direct Network is a critical measure for the Group to achieve breakthroughs in its existing platform, which will be beneficial to the Group in achieving further development on a more refined and wider network platform in the future. These adjustments have substantiated a more capable platform for the further development of the Group. A sound organizational structure, as well as the decentralization of management and an improved system, will help to extend the Group's business management to the front lines and to bring it closer to the market, in addition to making the management of the Direct Network more flexible and efficient.

The restructuring of the Direct Network still needs time to nourish within the market, which adversely influenced the Group's performance in the short term. However, from a long-term perspective, the restructured network will not only be further extended to the rural market, but will also accommodate more products to be introduced and developed by the Group in the future, which will be advantageous to the Group's long-term development. The Group believes that the negative impact on business from the structural adjustment of the Direct Network is temporary.

During the Reporting Period, the Group continued to strengthen the management of the Agency Network. The Group tracked and controlled the daily sales activities of agents through its information management system to enhance the standardization of operations of the Agency Network; meanwhile, the Group managed and maintained its relationships with agents through visitations at different levels and increased communication and interaction between the Group and agents. At the same time, the Group held training programs for the agents to enhance their product knowledge and academic promotion capability, and committed to build up an interactive academic communication system. As at 30 June 2013, the number of independent third-party sales representatives or agents under the Group's Agency Network exceeded 1,200.

Outlook and Future Development

Looking ahead, the Group will continue to implement its two core development strategies, namely the introduction and development of products and the expansion of the marketing and promotion network, and it will continuously adhere to its strategic positioning of marketing and promoting premium prescription drugs in the China market.

In respect of product introduction and development, the Group will continue to select products with certain market differentiations and academic characteristics, and will take into account stable product rights as a key factor at the product introduction stage. At the same time, the Group will continue to explore the possibility of controlling the upstream end of its existing products. The Group will broaden minds and continue to introduce new products, as well as to build a richer and more diversified portfolio. As for its existing products, the Group will continue to strengthen the hospital coverage of its products and to accelerate product penetration to different departments, and will also accelerate product development through channels such as academic activities, clinical researches, etc.

In the area of network development, besides expanding the marketing and promotion network, the Group will also continue to enhance its network management, improve the academic level of the network, and optimize the structure of the network. For the Direct Network, the Group will further improve the system of its organizational structure, and will assist the relevant staff in adapting to the changes caused by the adjustment of the organizational structure to achieve mature operation of the

new structure. Moreover, the Group will also expand the scale of staff recruitment to meet the demand of market development. For the Agency Network, the Group will continue to enhance the management and the control of the network, and to improve academic level and the quality of its agents by way of training. Meanwhile, for products that require a degree of academic promotion for support, the Group will continue to take advantage of its strength in academic promotion to explore and improve a promotion model that integrates the professional academic promotion into the Agency Network.
The Group will continue to improve its internal controls, secure its business operations and financial management in compliance with the relevant laws and regulations, effectively implement internal control procedures, control and prevent risks, and enhance operational efficiency.

Financial Review

Turnover

	Six months ended 30 June			
	2013		2012	
	US$'000	Weight	US$'000	Weight
Deanxit	48,091	28.8%	40,430	30.6%
Ursofalk	32,601	19.5%	26,855	20.3%
ShaDuoLiKa	24,500	14.7%	13,241	10.0%
XinHuoSu	16,570	9.9%	12,878	9.8%
YiNuoShu	15,009	9.0%	13,438	10.2%
Salofalk	7,428	4.4%	5,107	3.9%
Augentropfen Stulln Mono Eye-drops	5,439	3.3%	6,434	4.9%
Bioflor	5,209	3.1%	2,455	1.9%
GanFuLe	2,426	1.5%	2,304	1.7%
Exacin	2,325	1.4%	1,935	1.5%
XiDaKang	1,759	1.1%	1,256	1.0%
Cystistat	482	0.3%	520	0.4%
Yin Lian Qing Gan Ke Li	128	0.1%	-	-
Others	5,028	2.9%	5,186	3.8%
	166,995	100.0%	132,039	100.0%

Turnover increased by 26.5% from US$132.0 million for the six months ended 30 June 2012 to US$167.0 million for the six months ended 30 June 2013, mainly due to the increased quantities sold; the selling price of products remained stable, except that the price of ShaDuoLiKa sold to the agencies was increased by 126.9% during the Reporting Period.

Gross Profit and Gross Profit Margin

Gross profit increased by 18.4% from US$76.4 million for the six months ended 30 June 2012 to US$90.5 million for the six months ended 30 June 2013, primarily reflecting growth in turnover. Excluding the effect of the factor that the price of ShaDuoLiKa sold to the agencies was increased, gross profit margin increased to 59.0% for the six months ended 30 June 2013 from 57.9% for the six months ended 30 June 2012, mainly due to an increase in the mix of the products with higher gross profit margin.

Other Gains and Losses

Other gains and losses increased by 258.8% from US$2.2 million for the six months ended 30 June 2012 to US$8.0 million for the six months ended 30 June 2013, mainly due to an increase in foreign exchange gain, interest income and government subsidies.

Selling Expenses

Selling expenses increased by 32.4% from US$23.0 million for the six months ended 30 June 2012 to US$30.5 million for the six months ended 30 June 2013. Selling expenses as a percentage of turnover increased by 0.9 percentage points from 17.4% for the six months ended 30 June 2012 to 18.3% for the six months ended 30 June 2013. It was mainly due to the increased marketing and promotion expenses arising from the increased sales volume, an increase in salaries and welfare for the Group's marketing and sales staff resulting from the increase in the number of sales staff, and the restructure of the Direct Network and its continuous extension & deepening.

Administrative Expenses

Administrative expenses increased by 33.8% from US$8.1 million for the six months ended 30 June 2012 to US$10.9 million for the six months ended 30 June 2013, mainly due to an increase in a one-off auction fee arising from acquisition of Kangzhe Lengshuijiang.

Finance Costs

Finance costs increased by 104.2% from US$0.8 million for the six months ended 30 June 2012 to US$1.6 million for the six months ended 30 June 2013, mainly due to the increased bank borrowings.

Profit for the Period

Net profit increased by 22.3% from US$41.3 million for the six months ended 30 June 2012 to US$50.5 million for the six months ended 30 June 2013.

Inventories

Inventories increased by 60.2% from US$15.5 million as at 31 December 2012 to US$24.8 million as at 30 June 2013. Other than the increase in inventory held in line with the growth in turnover, the Group needed to hold stock for the renewal of import drug license. The average inventory turnover days decreased by 14 days from 62 days for the six months ended 30 June 2012 to 48 days for the six months ended 30 June 2013.

Trade Receivables

Trade receivables increased by 7.6% from US$50.3 million as at 31 December 2012 to US$54.2 million as at 30 June 2013. As a result of the strengthened management on trade receivables, the average trade receivables turnover days decreased from 60 days for the six months ended 30 June 2012 to 57 days for the six months ended 30 June 2013.

Trade Payables

Trade payables increased by 60.0% from US$9.6 million as at 31 December 2012 to US$15.4 million

as at 30 June 2013, primarily reflecting the increase of inventories. The average trade payables days decreased from 32 days for the six months ended 30 June 2012 to 30 days for the six months ended 30 June 2013.

Liquidity and Financial Resources

The Group maintained a strong cash position during the Reporting Period. As at 30 June 2013, the Group's bank balances and cash were US$109.8 million while readily realizable bank acceptance bills amounted to US$25.8 million. As at 31 December 2012, our bank balances and cash were US$107.2 million while readily realizable bank acceptance bills amounted to US$28.7 million.

Other Information

Interim dividend

The Board has resolved to pay an interim dividend of US0.838 cent (equivalent to HK$0.065) per ordinary share of the Company for the six months ended 30 June 2013 to the shareholders whose names appear on the register of members of the Company at the close of business on Friday, 23 August 2013 (the "Record Date"). Payment of such interim dividend is expected to be made to the shareholders on Friday, 30 August 2013.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 21 August 2013 to Friday, 23 August 2013 (both days inclusive), during which period the registration of transfer of Shares will be suspended. To qualify for the interim dividend, all transfer forms of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 20 August 2013.

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

For the six months ended 30 June 2013, the Company has not purchased, sold or redeemed any of its listed securities.

Audit Committee

The company established an Audit Committee in 2007. The Audit Committee currently comprises three Independent Non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Dr. Peng Huaizheng 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 2013 have been reviewed by the Audit Committee of the Company.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the revised Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 January 2013 to 30 June 2013, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and CEO which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and CEO 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 CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

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

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 trainings received by Directors.

Directors' Securities Transactions

The Company adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors' securities transactions of the Company. Having made specific inquiries in relation to the compliance with 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.

Change of Company Secretary, Authorized Representative and Person in Hong Kong Authorized to Accept Service of Process and Notices on behalf of the Company

The Board announces that Mr. Hui Vincent Wing Sin ("Mr. Hui") has tendered his resignation as the company secretary of the Company, an authorized representative of the Company as required under Rule 3.05 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the authorized representative in Hong Kong to accept service of process and notices on behalf of the Company as required under Rule 19.05(2) of the Listing Rules and Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) with effect from 6 August 2013, due to his other personal commitments. Mr. Hui confirmed that he has no disagreement with the Board and there are no matters in relation to his resignation that need to be brought to the attention of the shareholders of the Company.

The Board also announces that following Mr. Hui's resignation, Ms. Zhang Lingyan ("Ms. Zhang") has been appointed as the company secretary, an authorized representative of the Company as required under Rule 3.05 of the Listing Rules and the authorized representative in Hong Kong to accept service of process and notices on behalf of the Company as required under Rule 19.05(2) of the Listing Rules and Part XI of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) with effect from 6 August 2013.

Ms. Zhang, aged 41, joined the Group in July 2000 and currently holds the positions of director of Legal and Investment Affairs of the Group and director of the CEO's office. Ms. Zhang is primarily responsible for overseeing the legal and investment affairs of the Group, including compliance with the Listing Rules. Ms. Zhang obtained a bachelor's degree in management majored in ideological and political education and a master's degree in jurisprudence from Nanjing Normal University (南京師範大學) in 1993 and 2000, respectively. Ms. Zhang has extensive experience in corporate governance and compliance matters.

The Board would like to express its gratitude to Mr. Hui for his contributions to the Company during his tenure of office and extend its warm welcome to Ms. Zhang to the new posts.

Disclosure of Information

The information provided in this announcement is only the summary of 2013 interim report of the Company. The interim report will be duly dispatched to shareholders of the Company and published on websites of the Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.cms.net.cn).

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

Hong Kong, 6 August 2013

As at the date of the announcement, the directors of the company include (ⅰ) executive directors Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling, Mr. Hui Ki Fat and Ms. Sa Manlin; (ⅱ) Independent non-executive directors Mr. Cheung Kam Shing, Dr. Peng Huaizheng and Mr. Wu Chi Keung.