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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Directors (the "Board") of China Medical System Holdings Ltd. (the "Company" or "CMS") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") prepared under the International Financial Reporting Standards ("IFRS") for the year ended 31 December 2010 (the "Reporting Period"), together with the comparative figures for the corresponding period of last year as follows.

Chairman's Statement

2010 was an important year for the Group and a significant milestone for CMS. During the year, we consolidated our strategic position as a marketing, promotion and sales service provider for prescription drugs in China. In September 2010, we successfully completed a transformation on the capital markets by transferring our listing platform from the Alternative Investment Market ("AIM") in London to the Main Board of the Hong Kong Stock Exchange ("HKEx").

Since listing in London in 2007, the Group has maintained continuous and stable growth, achieving a Compound Annual Growth Rate ("CAGR") of 36.7% and 52.4% for turnover and net profit respectively over the four years from 2007 to 2010. We were able to maintain this growth as a result of our sensible and flexible business strategy. In 2010, the Group achieved revenue of US$132.2 million (2009: US$96.5 million), a 37.0% increase over 2009. Profit attributable to owners of the Company was US$30.6 million (2009: US$20.7 million), which represents an increase of 47.9% year-on-year. Basic earnings per share was US3.061 cents (2009: US2.186 cents after adjustment for the resolutions of the shareholders passed on 25 June 2010 and effective on 28 June 2010, each issued and unissued share in the share capital of the Company of a par value of US$0.10 was sub-divided into 20 new shares of a par value of US$ 0.005 each).

**For indication purpose only*

Business Review

The significant growth of the Group was achieved by our two well-defined, core business strategies – continuous introduction and development of products and sales network expansion.

Product In-licensing

In 2010, we introduced two new products - Bioflor and Exacin. During the year, we increased our efforts in product screening and engaged in discussions with domestic and international pharmaceutical enterprises over new products. In the past, our product introduction strategy focused primarily on products that were already being marketed in China - products which already had an import drug license or manufacturing license - which enabled us to generate sales as soon as we in-licensed them.

To increase the transparency in our product portfolio development and predictability and stability of our product development, the Group has considered three different product development strategies in products introduction in 2010.

Firstly, Rapid-growth products strategy. The Group seeks products which are already available for sale in the China market and meet the selection criteria of CMS. This strategy has always been the pillar of our success, and the Group will continue to pursue this development strategy in the future.

Secondly, Long-term prospects product strategy. Apart from products already available in the market, the Group will widen the product selection targets to those that require import drug license registration in China, which in turn will offer greater transparency in product development pipeline. These products will guarantee the sustainability of our product development from 2013. As at the time of writing, we have signed agreements for three products requiring product registration in China. Going forward, we will continue to in-license such products.

Thirdly, Strategy for the permanent control marketing rights of products. In order to increase the stability of the product rights, aside from managing the agency rights of products through contracts, the Group will also consider paying an upfront or licensing fee to obtain the permanent product or marketing rights in China for products with great market potential. The Group already owns the product rights of CMS024 (Tyroseuleutide) in China, which is used in the treatment of liver cancer and has huge potential market value. It is planned that the Phase III clinical trial of CMS024 will be initiated in the first half of 2011, and assuming a smooth clinical trial process, the product can be marketed in 2013. This product is expected to have a great impact on the Group's performance from then on.

The rapid growth in the Chinese pharmaceutical market and the Group's strategy to select products from the global product pool lends us considerable advantages in product availability and sustainability. This in turn gives a strong boost to the Group's development.

In addition to continued product line expansion, we have increased investment in the academic promotion of our products. While maintaining the steady growth of our two flagship products – Deanxit and Ursofalk, the Group has increased investment and effort in the promotional activity of new products introduced since 2007, with the prospect of minimizing the cultivation period and accelerating the development of new products. By doing so, the Group also reduced the reliance on our flagship products. For the year ended 31 December 2010, the turnover generated from our main in-licensed products other than Deanxit and Ursofalk accounted for 31.7% of total turnover and looked set to rise further. As a result, turnover contributed from Deanxit and Ursofalk as a percentage of total turnover decreased to 66.7% in 2010 from 75.5% in 2009. These existing new products will become a major source of growth for the Group in the coming two to three years.

Network Expansion

In addition to product enhancement, the Group has continued to expand our professional sales and promotion team, refining and enhancing the structure and management of our promotion network. This year we recruited a large number of interns who are in the final year of their undergraduate or master's degree course in medicine or pharmacology. The elite from our internship programme are invited to join our team. We have refined our management system and extended our control in the sales network to improve its efficiency and drive in depth business development. Besides from recruiting new staff to our network, the Group has continued to expand our geographic and hospital coverage. For the year ended 31 December 2010, our services reached over 7,100 hospitals. Our target doctors numbered over 120,000 with 44,000 of them having attended our drug promotion activities. These figures clearly reflected the progress that the Group has made in marketing and promoting our business during the year.

Hong Kong Listing

2010 was a milestone year for us as we transformed from a London-listed company to a Hong Kong-listed company. On 28 September 2010, we de-listed from the London AIM Board, on which the Group was floated three years ago, and successfully listed on the Main Board of HKEx. This move is significant for the development of the Group, and we believe that since our main business operations are in Mainland China, the Hong Kong listing can only be a positive step in raising the profile of the Group.

Following our listing in Hong Kong, we have placed even greater emphasis on investor relations, and by enhancing our interaction and communication with shareholders, we have enabled more investors to comprehend and familiarise themselves with the Group's business model. Through different methods we have improved the Group's transparency and created channels for investors to communicate smoothly with the Group. At the same time, we have continued to refine our management structure, strengthen our management system and cost control, and thereby effectively enhancing operation efficiency.

Dividend

The Board of Directors is pleased to recommend a final dividend of US1.3 cents per ordinary share of par value of US$0.005 (2009: US0.5 cents per ordinary share after adjustment for the resolutions of the shareholders passed on 25 June 2010 and effective on 28 June 2010, each issued and unissued share in the share capital of the Company of a par value of US$0.10 was sub-divided into 20 new shares of a par value of US$0.005 each) to shareholders whose names appear on the Registered of Members of the Company on Tuesday, 29 March 2011. As there was no interim dividend declared by the Group for the year ended 31 December 2010, the total dividend for the year is US1.3 cents per ordinary share (2009: US1.0 cent per ordinary share after adjustment for the resolutions of the shareholders passed on 25 June 2010 and effective on 28 June 2010, each issued and unissued share in the share capital of the Company of a par value of US$0.10 was sub-divided into 20 new shares of a par value of US$0.005 each). The proposed final dividend will be paid on 4 April 2011 following approval at the Annual General Meeting ("AGM"). The register of members of the Company will be closed from 24 March 2011 to 29 March 2011 (both days inclusive).

Outlook

Going forward, the Group will persevere in pursuing two core strategies in business development - introduction and development of products and sales network expansion. In terms of product development we will strive to maintain the steady growth of existing products and continue to in license competitive products, adding to the transparency and visibility of our product development. In addition to maintaining the current long-term product agent strategy, the Group will also continue to explore acquisitions that will enable us to obtain the China market rights of products, thereby achieving more stable and sustainable product rights.

Regarding our network expansion, we will continue to recruit new staff, increase network coverage, establish new market segments, increase investment in network construction and improve flexibility in decision-making, to enhance market penetration.

In order to accelerate product introduction and network expansion, we will also consider mergers and acquisitions to achieve faster growth. We have set up a special working group to review acquisition opportunities in order to propel the Group's business to new heights.

2010 was a year of great significance for CMS, in which we achieved stable development, and through the Hong Kong listing secured a new and advantageous platform. We will continue to work hard, seize new opportunities and take practical measures in order to achieve even greater results!

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	2010 US$'000	2009 US$'000
Turnover	3	132,177	96,454
Cost of goods sold		(54,075)	(35,596)
Gross profit		78,102	60,858
Other gains and losses	4	373	662
Selling expenses		(30,966)	(24,840)
Listing expenses		(2,960)	-
Administrative expenses		(9,466)	(7,399)
Research and development costs		-	(2,038)
Finance costs	5	(617)	(390)
Share of results of associates		112	30
Share of result of a jointly controlled entity		56	43
Profit before taxation		34,634	26,926
Taxation	6	(3,943)	(6,096)
Profit for the year	7	30,691	20,830
Other comprehensive income			
Exchange differences from translation		1,782	70
Share of other comprehensive income of an associate		(5)	(1)
Fair value changes of qualifying hedging instruments on cash flow hedges		97	(145)
Total comprehensive income for the year		32,565	20,754
Profit for the year attributable to:			
Owners of the Company		30,587	20,684
Non-controlling interests		104	146
		30,691	20,830
Total comprehensive income attributable to:			
Owners of the Company		32,461	20,608
Non-controlling interests		104	146
		32,565	20,754
		US$ cent	US$ cent
Earnings per share	9		
Basic		3.061	2.186
Diluted		3.022	2.174

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

	NOTES	2010 US$'000	2009 US$'000
Non-current assets			
Property, plant and equipment		3,282	3,575
Prepaid lease payments		3,142	260
Interest in a jointly controlled entity		99	43
Interest in an associate		1,431	1,507
Intangible assets		5,368	6,461
Goodwill		379	379
Deferred tax assets	10	4,431	1,432
Deposit paid for acquisition of property, plant and equipment		478	-
		18,610	13,657
Current assets			
Inventories		15,978	11,060
Trade and other receivables	11	49,314	32,794
Amount due from a jointly controlled entity		673	481
Held for trading investments		38	31
Tax recoverable		77	-
Pledged bank deposits	12	4,530	17,641
Bank balances and cash	12	133,987	15,113
		204,597	77,120
Current liabilities			
Trade and other payables	13	8,252	11,062
Bank borrowings - secured	14	4,261	16,517
Deferred consideration payables		1,198	838
Derivative financial instruments		48	145
Tax payable		2,709	1,226
		16,468	29,788
Net current assets		188,129	47,332
Total assets less current liabilities		206,739	60,989

	NOTES	2010 US$'000	2009 US$'000
Capital and reserves			
Share capital	15	5,718	4,741
Reserves		194,271	48,992
Equity attributable to owners of the Company		199,989	53,733
Non-controlling interests		-	201
		199,989	53,934
Non-current liabilities			
Deferred tax liabilities		2,123	1,764
Deferred consideration payables		4,627	5,291
		6,750	7,055
		206,739	60,989

Notes to the Consolidated Financial Statements:

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by the Stock Exchange of Hong Kong Limited on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 8/F., Block A, Tong Fong Information Centre, Long Shan Road, Nan Shan, Shenzhen, the People's Republic of China (the "PRC").

The Company is a investment holding company. The principal activities of its subsidiaries are production of medicines, distribution and import of drugs.

The functional currency of the Company is Renminbi as it is the currency in which the majority of the Group's transactions are denominated. The consolidated financial statements of the Group are presented in United States Dollars ("US$"), which is a currency widely and commonly recognised in the global economy and is freely convertible into a number of foreign currencies. Therefore, the directors

consider the presentation in US$ to be more useful for its current and potential investors.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following new and revised standards or interpretations (hereinafter collectively referred to as "new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and IFRS Interpretations Committee (formerly known as the International Financial Reporting Interpretation Committee) (the "IFRIC") of the IASB that are effective for the Group's financial year beginning on 1 January 2010.

IFRS 2 (Amendments)	Group cash-settled share-based payment transactions
IFRS 3 (as revised in 2008)	Business combinations
IAS 27 (as revised in 2008)	Consolidated and separate financial statements
IAS 39 (Amendments)	Eligible hedged items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of improvements to IFRSs issued in 2008
IFRIC - INT 17	Distributions of non-cash assets to owners

Except as disclosed below, the adoption of the new and revised IFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

IAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The application of IAS 27(as revised in 2008) has resulted in changes in the Group's accounting policies for changes in ownership interests in subsidiaries of the Group.

Specifically, the revised Standard has affected the Group's accounting policies regarding changes in the Group's ownership interests in its subsidiaries that do not result in loss of control. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss. Under IAS 27(as revised in 2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires the Group to derecognise all assets, liabilities and non-controlling interests at their carrying amounts and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

These changes have been applied prospectively from 1 January 2010 in accordance with the relevant transitional provisions.

The application of the revised Standard has affected the accounting for the Group's acquisition of additional interest in a subsidiary, Sky United Trading Limited ("Sky United"), in the current year. The change in policy has resulted in the recognition of the excess of consideration payable over the carrying value of the non-controlling interest amounting to US$2,221,000 in equity (capital reserve).

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs issued in 2010 except for the amendments to IFRS 3 (as revised in 2008), IAS 1and IAS 28[1]
IFRS 7 (Amendments)	Disclosures - Transfers of financial assets[3]
IFRS 9	Financial instruments[4]
IAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
IAS 24 (as revised in 2009)	Related party disclosures[6]
IAS 32 (Amendments)	Classification of rights issues[7]
IFRIC - INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
IFRIC - INT 19	Extinguishing financial liabilities with equity instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 January 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

IFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition. Specifically, under IFRS 9, all recognised financial assets that are within the scope of IAS 39 "Financial instruments: recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of IFRS 9 will have no significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new and revised standards or interpretations will have no material impact on the Group's results and the financial position of the Group.

3. TURNOVER AND SEGMENT INFORMATION

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

The Group determines its operating segments based on the internal reports reviewed by the Board of Directors of the Company that are used to resources allocation and assessment of segment performance.

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

The Group has the following two reportable operating segments:

(1) Marketing, promotion and sale of pharmaceutical products - marketing, promotion and sale of in-licensed medicine and pharmaceutical products from overseas and domestic pharmaceutical companies to wholesale customers across China, including distributors and hospitals; and

(2) Other business - production and sales of other medicines and pharmaceutical products to wholesale customers across China, including distributors and hospitals and production and sales of medical instruments.

The segment information is as follows:

For the year ended 31 December 2010

	Marketing, promotion and sale of pharmaceutical products US$'000	Others US$'000	Elimination US$'000	Consolidated US$'000
External segment revenue	130,687	1,490	-	132,177
Inter-segment revenue	-	1,569	(1,569)	-
Revenue	130,687	3,059	(1,569)	132,177
Segment results	76,873	1,229	-	78,102
Other gains and losses				373
Selling expenses				(30,966)
Listing expenses				(2,960)
Administrative expenses				(9,466)
Finance costs				(617)
Share of result of an associate				112
Share of result of a jointly controlled entity				56
Profit before taxation				34,634

For the year ended 31 December 2009

	Marketing, promotion and sale of pharmaceutical products US$'000	Others US$'000	Elimination US$'000	Consolidated US$'000
External segment revenue	93,752	2,702	-	96,454
Inter-segment revenue	-	2,100	(2,100)	-
Revenue	93,752	4,802	(2,100)	96,454
Segment results	58,419	2,439	-	60,858
Other gains and losses				662
Selling expenses				(24,840)
Administrative expenses				(7,399)
Research and development costs				(2,038)
Finance costs				(390)
Share of results of associates				30
Share of result of a jointly controlled entity				43
Profit before taxation				26,926

Inter-segment revenue are conducted at prices and terms mutually agreed amongst those reportable segments.

Segment results for the marketing, promotion and sale of pharmaceutical products and other business reportable segments represented the gross profit of the relevant operations. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Other segment information

	Amounts included in the measure of segment results			
	Marketing, promotion and sale of pharmaceutical products	Others	Unallocated amounts	Total
	US$'000	US$'000	US$'000	US$'000
For the year ended 31 December 2010				
Depreciation and amortisation	839	399	325	1,563
Allowances for inventories	-	222	-	222
For the year ended 31 December 2009				
Depreciation and amortisation	1,115	391	507	2,013
Allowances for inventories	-	10	-	10

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

Revenue from major products

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

	2010	2009
	US$'000	US$'000
Deanxit	52,341	44,468
Ursofalk	35,879	28,327
Nesiritide	12,576	7,253
Exacin	10,632	-
Augentropfen Stulln Mono eye-drops	8,445	6,146
GanFuLe	4,219	4,780
Salofalk	3,989	1,824
Bioflor	1,266	-
Cystistat	738	515
Others	2,092	3,141
Total	132,177	96,454

4. OTHER GAINS AND LOSSES

	2010 US$'000	2009 US$'000
Net exchange loss	(729)	(405)
Government subsidies (Note)	391	801
Interest income	505	329
Gain on disposal of a subsidiary	-	24
Loss on disposal of an associate	-	(70)
Fair value change on investments held for trading	172	81
Gain on disposal of property, plant and equipment	1	7
Impairment loss recognised on property, plant and equipment	-	(805)
Discount on acquisition of an associate	-	647
Others	33	53
	373	662

Note: The amount represents the incentive subsidies provided by the PRC local authorities to the Group to reimburse the research and development performed during last year. There are no specific conditions attached to the grants, the Group recognised the grants upon receipts.

5. FINANCE COSTS

	2010 US$'000	2009 US$'000
Interest on bank borrowings wholly repayable within five years	327	43
Imputed interest on deferred consideration payables	290	347
	617	390

6. TAXATION

	2010 US$'000	2009 US$'000
Current tax:		
PRC Enterprise Income Tax	6,397	5,443
Hong Kong Profits Tax	187	97
Other jurisdictions	6	6
	6,590	5,546
Overprovision in prior years		
PRC Enterprise Income Tax	(11)	(11)
Deferred taxation (note 10):		
- Current year	(2,636)	561
Taxation charge for the year	3,943	6,096

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable to each year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

For the year ended 31 December 2010, the Enterprise Income Tax rate of Shenzhen Kangzhe Pharmaceutical Company Limited ("Kangzhe Shenzhen") and 深圳市康哲醫藥科技開發有限公司 (Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited) ("Kangzhe Pharmaceutical Technology") was increased from 20% to 22% (2009: 18% to 20%).

Certain PRC subsidiaries are eligible for certain tax concession in the PRC. Pursuant to relevant laws and regulation, Kangzhe (Hunan) Medical Co. Ltd. ("Kangzhe Hunan") is entitled to a tax reduction to 15% for three years starting from 1 January 2006 granted by the local tax authority. Starting from 1 January 2009, Kangzhe Hunan is entitled to such a tax concession under annual renewal basis. For the year ended 31 December 2010, Kangzhe Hunan continued to entitle to a tax reduction to 15% (2009: 15%). Starting from 1 January 2010, 常德康哲醫藥有限公司 (Changde Kangzhe Pharmaceutical Co., Ltd.) ("Kangzhe Changde") is entitled to a tax reduction to 15% granted by the local tax authority and such tax concession is subject to renewal by the relevant tax bureau annually.

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharmaceutical Agency Co., Ltd. ("CMS Pharmaceutical Agency") is eligible to elect to pay a lump sum taxation charge of MYR 20,000 (equivalent to approximately US$6,000) or 3% on net audited profits. For the years ended 31 December 2010 and 2009, CMS Pharmaceutical Agency elected to pay a lump sum tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The taxation for the year can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	2010 US$'000	2009 US$'000
Profit before taxation	34,634	26,926
Tax at the applicable tax rate (Note)	7,619	5,385
Tax effect of share of result of a jointly controlled entity	(25)	(9)
Tax effect of share of results of associates	(12)	(6)
Tax effect of expenses that are not deductible in determining taxable profit	1,162	575
Tax effect of income that is not taxable in determining taxable profit	(59)	(52)
Tax effect of tax losses not recognised	83	223
Tax effect of tax concession	(11)	(28)
Effect on different applicable tax rates of subsidiaries	(457)	(280)
Effect of tax benefit arising from Labuan Tax Act	(4,718)	(629)
Under(over)provision in prior years	(11)	(11)
Utilisation of tax loss previously not recognised	(11)	-
Deferred tax arising from withholding tax on undistributed profit of a PRC subsidiary	359	925
Others	24	3
Taxation charge for the year	3,943	6,096

Note: The applicable PRC Enterprise Income Tax rate of 22% (2009: 20%) is the prevailing tax rate in Shenzhen, the PRC, where the operations of the Group are substantially based and the taxation charge mainly represents income tax of Kangzhe Shenzhen.

7. PROFIT FOR THE YEAR

	2010 US$'000	2009 US$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	186	161
Other emoluments	309	340
Pension costs	13	15
	508	516
Other staff costs	13,501	13,082
Pension costs	777	674
Key employee benefit expense (note 16)	104	451
Total staff costs	14,890	14,723
Auditor's remuneration	165	150
Allowance for bad and doubtful debts	18	57
Allowance for inventories	222	10
Release of prepaid lease payments	67	7
Depreciation of property, plant and equipment	724	898
Amortisation of intangible assets (included in cost of goods sold)	839	1,115
Cost of inventories recognised as an expense	52,821	34,078
Minimum lease payment under operating lease in respect of property	620	621

8. DIVIDENDS

	2010 US$'000	2009 US$'000
Dividend paid		
Interim dividend for 2009 of US$0.10 per share on 47,408,904 shares	-	4,741
Final dividend for 2009 of US$0.10 (2008: US$0.10) per share on 47,408,904 (2008: 47,246,376) shares	4,741	4,725
	4,741	9,466
Dividend proposed		
Proposed final dividend for 2010 of US$0.013 (2009: US$0.10) per share of par value of US$0.005 (2009: US$0.10) on 1,143,691,000 (2009: 47,408,904) shares	14,868	4,741

During the year, a dividend of US$0.10 per ordinary share of par value of US$0.10 (2009: US$0.10) totaling US$4,741,000 was paid to shareholders as the final dividend for the year ended 31 December 2009 (2009: US$4,725,000 for the year ended 31 December 2008).

The Board of Directors propose to declare a final dividend of US$0.013 per ordinary share of par value of US$0.005 for the year ended 31 December 2010 (2009: US$0.10 per ordinary share of par value of US$0.10).

9. 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:

	2010 US$'000	2009 US$'000
Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company)	30,587	20,684

	Number of ordinary shares As at 31 December	
	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	999,419,110	946,290,084
Effect of dilutive potential ordinary shares on share options	12,607,889	5,132,705

Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,012,026,999	951,422,789

The number of shares for the purpose of calculating basic and diluted earnings per share for the years ended 31 December 2010 and 2009 have been adjusted to reflect the share sub-division (see note 15) effective on June 2010.

10. DEFERRED TAX

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Unrealised profits on inventories US$'000	Undistributed profits of PRC subsidiary US$'000	Others (Note) US$'000	Total US$'000
At 1 January 2009	1,073	(839)	-	234
Credit (charge) to profit or loss for the year (note 6)	244	(925)	120	(561)
Exchange differences	(5)	-	-	(5)
At 31 December 2009	1,312	(1,764)	120	(332)
Credit (charge) to profit or loss for the year (note 6)	3,019	(359)	(24)	2,636
Exchange differences	-	-	4	4
At 31 December 2010	4,331	(2,123)	100	2,308

Note: These mainly represent the deferred tax assets recognised in relation to impairment loss on plant and machinery used for production of medicines for the year ended 31 December 2009.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2010 US$'000	2009 US$'000
Deferred tax assets	4,431	1,432
Deferred tax liabilities	(2,123)	(1,764)
	2,308	(332)

At 31 December 2010, the Group has unused tax losses of approximately US$2,611,000 (2009: US$2,178,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2010 are tax losses of approximately US$1,327,000 (2009:

US$1,378,000) that will expire within 5 years from the year of originating. Other tax losses may be carried forward indefinitely.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to US$42,460,000 (2009: US$35,280,000).

11. TRADE AND OTHER RECEIVABLES

	2010 US$'000	2009 US$'000
Trade receivables	30,609	20,959
Less: Allowance for bad and doubtful debts	(215)	(213)
	30,394	20,746
Bills receivables	12,059	9,513
Purchase prepayment	2,264	56
Other receivables and deposit	4,597	2,479
Total trade and other receivables	49,314	32,794

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 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 at the respective reporting period is as follows:

	2010 US$'000	2009 US$'000
0 - 90 days	26,940	17,879
91 - 365 days	3,424	2,839
Over 365 days	30	28
	30,394	20,746

The bills receivables of the Group are of the age within six months at the end of the reporting period.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$5,457,000 (2009: US$4,476,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	2010 US$'000	2009 US$'000
0 - 90 days	2,406	2,274
91 - 365 days	3,025	2,174
Over 365 days	26	28
	5,457	4,476

The Group has provided fully for all receivables that are due over 3 years because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts:

	2010 US$'000	2009 US$'000
Balance at beginning of the reporting period	213	221
Impairment losses recognised on receivables	18	57
Amount written off as uncollectible	(16)	(65)
Currency realignment	-	-
Balance at end of the reporting period	215	213

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of US$215,000 (2009: US$213,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

12. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

The bank deposits and pledged bank deposits carry interest at the prevailing market rate of approximately 0.36% to 2.25% (2009: 0.36% to 1.71%) per annum.

As at 31 December 2010, included in pledged bank deposits amounting to US$1,716,000 (2009: US$17,380,000) represent deposits pledged to banks to secure short-term bank borrowings (see note 14). The remaining pledged bank deposits amounting to US$2,707,000 (2009: nil) and US$107,000 (2009: US$261,000) represent deposits pledged to banks to secure the issuance of letters of credit and foreign currency forward contracts respectively. Therefore the pledged bank deposits are classified as current assets.

13. 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:

	2010 US$'000	2009 US$'000
0 - 90 days	232	6,067
91 - 365 days	3	5
Over 365 days	8	7
	243	6,079
Payroll and welfare payables	2,746	2,239
Other tax payables	140	926
Other payables and accruals	5,123	1,818
	8,252	11,062

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

14. BANK BORROWINGS - SECURED

	2010 US$'000	2009 US$'000
Advanced from banks on discounted bills receivables	2,780	-
Import trade loans	-	7,557
Bank loans	1,481	8,960
	4,261	16,517
Carrying amount repayable within one year	4,261	16,517

The above bank borrowings are denominated in US$. Advanced from banks on bills receivables and import trade loans with carrying amount of US$2,780,000 (2009: nil) and nil (2009: US$7,557,000) respectively, carried fixed interest at a range from 1.39% to 1.98% (2009:1.53% to 1.87%) per annum.

The remaining bank loans with carrying amount of US$1,481,000 (2009: US$8,960,000) bear interest at a range from LIBOR to LIBOR + 0.35% per annum. The range of effective interest rates (which are also equal to contracted interest rates) on the bank loans was from 1.11% to 1.52% (2009: 0.58% to 1.62%) per annum.

The bank borrowings are secured by the Group's pledged bank deposits amounting to US$1,716,000 (2009: US$17,380,000) (see note 12).

15. SHARE CAPITAL

	Number of shares '000	Amount US$'000
Authorised share capital:		
At 1 January 2009 and 31 December 2009	1,000,000	100,000
Increase in authorised share capital (note 3)	19,000,000	-
At 31 December 2010	20,000,000	100,000
Issued and fully paid:		
At 1 January 2009	47,246	4,725
Issue of shares to Key Employee Benefit Scheme (note 1)	162	16
At 31 December 2009	47,408	4,741
Issue of shares to Key Employee Benefit Scheme (note 1)	12	1
Issue of shares in consideration of acquisition of additional interest in a subsidiary (note 2)	264	26
Share sub-division (note 3)	906,007	-
Issue of shares on 28 September 2010 (note 4)	170,000	850
Issue of shares on 25 October 2010 (note 5)	20,000	100
At 31 December 2010	1,143,691	5,718

Notes:

(1) On 31 July 2009 and 14 May 2010, 162,528 and 11,835 new ordinary shares of US$0.10 of the Company were issued at GBP1.68 per share (equivalent to US$2.78 per share) and GBP5.99 per share (equivalent to US$8.8 per share) respectively for cash to the trust under the Key Employee Benefit Scheme (the "Scheme") (see note 16).

(2) On April 2010, pursuant to sales and purchase agreement entered on 19 April 2010, the Company issued 263,833 new ordinary shares of the Company of US$0.10 as the consideration for the acquisition of additional 40% equity interest in Sky United from Mr. Hui Ki Fat, a director and shareholder of the Company. The fair value of the ordinary shares of the Company was determined using the market price at the date of acquisition.

(3) Pursuant to the resolutions of the shareholders passed on 25 June 2010 and effective on 28 June 2010, each issued and unissued share in the share capital of the Company of a par value of US$0.10 was sub-divided into 20 new shares of a par value of US$0.005 each. Effective from 28 June 2010, the authorised and issued share capital of the Company is 20,000,000,000 ordinary shares of a par value of US$0.005 each and 953,691,440 ordinary shares of a par value of US$0.005 each respectively.

(4) On 28 September 2010, the Company issued 170,000,000 shares of US$0.005 each for cash pursuant to the global offering at the price of HK$5.06 each.

(5) On 25 October 2010, the Company issued 20,000,000 shares of US$0.005 each for cash under the over-allotment option pursuant to the global offering at the price of HK$5.06 each.

All the shares which were issued by the Company during the year ended 31 December 2010 and the year ended 31 December 2009 rank pari passu with each other in all respects.

16. KEY EMPLOYEE BENEFIT SCHEME

The Scheme was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the Scheme. A summary of some of the principal terms of the Scheme is set out in below.

(a) The purpose of the Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

(b) Under the Scheme, the Board may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think to select an employee (the "Member") who completed 10 years' services in

the Group (subject to consent of the Board if the employee completed 5 year's services in the Group) for participation in the Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund.

During the year ended 31 December 2010, the Company contributed cash amounting to US$104,000 (2009: US$451,000) to the Fund and which were recognised as key employee benefit expenses in the consolidated statement of comprehensive income. On the other hand, the Scheme subscribed 11,835 shares and 162,528 shares of the Company during the year ended 31 December 2010 and the year ended 31 December 2009 respectively (see note 15).

Management Discussion and Analysis

Business Review

Despite the challenging market environment in 2010, the Group achieved stable growth. For the year ended 31 December 2010, the Group's turnover was US$132.2 million (2009: US$96.5 million), an increase of 37.0% over the previous year. A net profit of US$30.7 million was recorded (2009: US$20.8 million), an increase of 47.3% over the previous year.

The noticeable achievement in the Group's performance resulted from the implementation of the two core strategies - the balanced progress of product introduction and development and network expansion.

Product Introduction

In addition to seven core in-licensed products, the Group successfully introduced another two products in 2010. We obtained the exclusive agency and distribution rights for Bioflor (Saccharomyces boulardii) in the Chinese market from Biocodex of France in January 2010 for a term of five years. Meanwhile, we successfully renewed the import drug license for Bioflor and obtained a new license at the close of 2010, facilitating promotion and sale of Bioflor in China. During the same period, we have signed two co-operation agreements with Asahi Kasei Corporation of Japan to obtain the right to promote and sell Exacin (Isepamicin Sulfate) imported under one-time permit in China. We are exploring long-term co-operation prospects with the manufacturer.

The introduction of the two products above was in accordance with our Rapid-growth product Strategy. The average of two products we assured shareholders which we will introduce each year represents products which are able to rapidly generate sales. The two products – Bioflor and Exacin – have already obtained import drug licenses and were sold in China before we in-licensed them. There is great market potential for these products as they are difficult to imitate with superior academic value. As soon as we started promotion and marketing the two drugs in China, they have contributed to the Group's sales.

We began to implement the Long-term prospects product Strategy in 2010 to increase the transparency of our products portfolio development and the visibility of future development. Apart from products available for sale in the China market, we also pay attention to introducing unregistered products requiring import drug registration in China. According to the relevant provisions of the State Food and Drug Administration ("SFDA"), the whole registration process of one new drug will typically be between two to five years. So it would take such products two to five years before they are able to contribute to the Group's sales. However, the introduction of in-licensing products requiring import drug registration approval can significantly facilitate sustainable development of the Group's products and business in the future. Between the end of 2010 and the beginning of 2011, the Group signed agreements for three products requiring import drug registration in China. These will take shape as acandidates in the product pipeline of the Group. Details of these products are as below:

- Budenofalk

Budenofalk is manufactured by Dr. Falk Pharma GmbH ("Dr. Falk"), and is the third product we have introduced from this drug manufacturing company. Budenofalk has the pharmaceutical composition patent which is used to treat Inflammatory Bowel Disease ("IBD") and Crohn's Disease. The indication is the same as Salofalk, the second product we in-licensed from Dr. Falk, but Budenofalk tends to treat more severe stages of IBD, and acts as an effective supplement to Salofalk. Recently, the number of IBD cases has increased significantly in China. According to statistics collected by the IBD division of the Chinese Medical Society of Gastroenterology, the estimated prevalence rates of ulcerative colitis and Crohn's Disease in China were about 11.6 out of 100,000 people and 1.4 out of 100,000 people respectively in 2008, with an upward trend in recent years. The Group signed a legally binding memorandum for Budenofalk with Dr. Falk on 15 December 2010. According to the memorandum, the Group gained the exclusive agency and distribution rights for Budenofalk in Mainland China and have been appointed as the registration agent of Budenofalk, assuming full responsibility for Budenofalk registration affairs in China. If Budenofalk can be successfully registered, CMS and Dr. Falk will use the memorandum as a basis to sign an exclusive agency and distribution agreement for five years, and will automatically extend for further five years if CMS comply with the terms of minimum purchase.

- L-lysine Asescinat and Thiotriazolin

These two products are manufactured by Arterium Corporation ("Arterium"), which owns the substance patent or process patent. Arterium is one of the biggest pharmaceutical companies in Ukraine. The primary business of Arterium is to manufacture and sell various generic and novelty drugs.

L-lysine asescinat is used to treat swelling and pain, especially for the treatment of edema and injury to the brain and spinal cord, acute disorder of brain blood circulation and acute thrombophlebitis. The typical characteristics of cerebrovascular disease, which have great market potential in China, are high incidence, high mortality, high morbidity, high recurrence rate and high multiple complications. Thiotriazolin is used to treat chronic hepatitis arising from various causes, cirrhosis, liver failure, ischemic heart disease, myocardial infarction, angina and arythmia. In China, the incidence of cardiovascular disease and hepatobiliary disease is very high. The Chinese market size for cardiovascular drugs was approximately RMB60-70 billion in 2008 and expected to grow at an annual rate of 10%. More than 30 million people suffer from chronic hepatitis B in China but many of them have no recourse to treatment. As a drug to treat both cardiovascular disease and hepatobiliary disease, Thiotriazolin has large market potential in China. The Group signed a legally binding memorandum with Arterium on 10 January 2011 to gain the exclusive agency and distribution rights for the two products in China. We were appointed as the registration agent of the two products to assume full responsibility for their registration affairs in China. Once the two products are successfully registered, CMS and Arterium will, based on the memorandum, sign an exclusive distribution agreement for twelve years, and will automatically extend the agreement period if CMS comply with the terms of minimum purchase.

The Group currently offers Deanxit in the neurology field, XinHuoSu in the cardiovascular field, and Ursofalk and GanFuLe in the hepatology field. The introduction of L-lysine Asescinat and Thiotriazolin can effectively complement these three therapeutic areas for us, and our current expert network and product promotion experience in these three areas will benefit product sales and marketing following successful registration.

The above three in-licensed products still require three to five years to complete registration, and there is also the possibility that the registration will be unsuccessful. However, if the products are registered successfully, they will contribute significantly to the Group's sales in the future. These three products are not included in our commitment to introducing an average of two products per year into our portfolio.

In terms of Strategy for the permanent control marketing rights of products, the Group currently has CMS024 (Tyroserleutide), which is a product with independent intellectual property rights and one of the key products for the Group's future development. The registration of CMS024 as a new drug has been included in the special approval channel by the SFDA. Following completion of the explorative Phase II pump clinical trial, the Group held a successful roundtable meeting with the SFDA in October 2010, the primary purpose of which was to discuss the Phase III pump study design. As a result of the meeting, the Phase III study design of CMS024 was greatly simplified, with a reduction of the treatment group to 150 subjects, the trial is designed to observe CMS024's effect in control liver cancer recurrence after radical operation treatment, and the clinical trial designed to observe the Relapse Free Survival ("RFS") as the primary efficacy endpoint, using Overall Survival ("OS") as the secondary endpoint. It is expected that this Phase III clinical trial will begin in the first half of 2011. If the whole process proceeds smoothly, based on our expectations, CMS024 will be approved for market release three years ahead of our original estimate of 2016. The number of liver cancer patients in China accounts for over 50% of global cases. We believe that CMS024 will contribute greatly to the business of the Group from 2013 if it is successfully launched into the market as planned.

In addition to CMS024, the Group is still seeking and negotiating with manufacturers for the permanent China market rights of products with great potential to guarantee the sustainable development in the future.

Development of Existing Products

In 2010, while maintaining the steady growth of our two flagship products - Deanxit and Ursofalk - the Group has increased investment and effort in the promotional activity of our existing products. The existing products continued to make good progress this year as we focused on the academic and market characteristics of each product, and depending on the stage of individual products' development, we implemented target-orientated promotional strategies and plans.

(1). Products in Sustainable Growth Stage with Established Platform

Deanxit and Ursofalk were in-licensed in the early phase of the Group. The development of these two products is on a relatively established platform following nearly a decade of development. Our promotion strategy for these products is to support the brand building continuously and extend their geographic and depth of coverage. Against the backdrop of the overall growth in the Chinese pharmaceutical market, these products will maintain stable growth based on their current foundation.

- Deanxit (Flupentixol and Melitracen)

Deanxit, our best-selling drug, was also our first in-licensed product. The main objectives for Deanxit in 2010 were to maintain its strong market position, continue to strengthen brand building through various promotional activities, and increase support to lagging regions in a bid to boost new growth. In 2009, Deanxit was included in the National Medical Insurance Catalogue - Class B, and in 2010, the product has progressively entered into the Provincial Medical Catalogue of developed areas, such as Jiangsu and Zhejiang, underpinning sales of the product. For the year ended 31 December 2010, Deanxit was sold to over 5,300 hospitals with sales reaching US$52.3 million, representing an increase of 17.7% over the previous year of US$44.5 million.

- Ursofalk (Ursodeoxycholic acid)

Ursofalk is another key product for the Group. According to the Frost & Sullivan Report, Ursofalk accounted for 98.0% of the Ursodeoxycholic acid ("UDCA") market in China in 2009. In 2010, the Group conducted more than 400 academic promotion activities, and also carried out on-going experts' network maintenance and brand building. An example of our large-scale activities is the No.174 Falk Symposium which was held in Beijing from 27-28 August 2010 that attracted nearly 500 domestic and 300 international experts in the digestion field. The Symposium effectively established the image of the Group and its products. Ursofalk has been included in the National Essential Drugs List since 2009, following which we try to extend the range of hospital coverage to primary hospitals and strived to explore new opportunities with other potential hospitals. For the year ended 31 December 2010, Ursofalk was sold to nearly 3,000 hospitals and posted US$35.9 million in sales, representing an increase of 26.7% over the previous year of US$28.3 million.

(2). Products in Growth Stage

We have introduced an average of two additional products to our portfolio every year since late 2006, that is a total of seven new products up to 2010. Augentropfen Stulln Mono eye-drops and XinHuoSu, which were introduced in 2007 and 2008, respectively, entered into the rapid growth stage after three to four years of investment and marketing cultivation. We have already laid the groundwork for the two products in terms of hospital coverage, expert network and doctor's understanding and acceptance.

i. Products with Sound Market Base

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

We refined our promotion strategy for Augentropfen Stulln Mono eye-drops in 2010. The new strategy focused on ocular asthenopia on the basis of senile macular degeneration. We conducted various promotional activities to strengthen doctors' product awareness and brand building. We also launched many clinical trials on ocular asthenopia to consolidate academic support. The new product positioning and strong academic promotion have enabled the product to maintain rapidly growth in this year. For the year ended 31 December 2010, the sales of Stulln was US$8.4 million, representing an increase of 37.4% over the previous year of US$6.1 million. The coverage of hospitals prescribing Stulln exceeded 2,000.

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

2010 was an important year for XinHuoSu. During the year, XinHuoSu supported the publication of the Guidelines for Diagnosis and Treatment of Acute Heart Failure, the first such guideline in China, we also successfully renewed the drug license and completed a phase IV clinical trial involving more than 2,000 patients. The phase IV clinical trial not only confirmed the therapeutic effect and safety profile of XinHuoSu but also established doctors' confidence in its prescription, which played an important role in the successful sales of XinHuoSu. For the year ended 31 December 2010, XinHuoSu was sold to over 500 hospitals, and recorded sales of US$12.6 million, representing an increase of 73.4% over the previous year of US$7.3 million.

- Exacin (Isepamicin Sulfate)

Prior to in-licensing into our portfolio, Exacin had already obtained certain degree of market coverage. Our main objective in 2010 was to ensure the smooth transition of the market and establish the high-end brand image of Exacin through academic promotional activities at various levels in order to lay the foundation for rapid development in the following year. For the year ended 31 December 2010, the sales of Exacin was US$10.6 million.

ii. Products Requiring Further Groundwork

- Salofalk (Mesalazine)

Salofalk is used in the treatment of Inflammatory Bowel Disease ("IBD"), which is currently not widely recognised in China. Our main focus on this product in 2010 was to raise physicians' awareness and improve the diagnostic techniques of IBD, while constructing an expert network and supporting brand building for Salofalk. By inviting various foreign experts to lecture on the diagnostic techniques of IBD and organising the No. 174 Falk Symposium, we were able to establish the foundation for promoting Salofalk at a large scale in the future as a greater number of doctors came to understand the nature of IBD. For the year ended 31 December 2010, sales of Salofalk reached US$4.0 million, representing an increase of 118.7% over the previous year of US$1.8 million. The coverage of hospitals prescribing Salofalk was approximately 600.

- Bioflor (Saccharomyces Boulardii)

Bioflor was in the process of renewing its import drug license when we signed the exclusive in-licensing agreement with Biocodex, and the sales of the product almost stopped at that time. In 2010, our emphasis on Bioflor was to complete the market transition, ensure the successful renewal of the import drug license, initiate an expert network and launch initial brand building. These activities were important for us in order to lay the foundation for large-scale market development in the future. For the year ended 31 December 2010, Bioflor recorded sales of US$1.3 million, and at the end of 2010, we successfully renewed the import drug license for Bioflor.

Both Salofolk and Bioflor have strong market potential and have grown rapidly. However, the process of market cultivation and the education of doctors for these two products are necessary due to the lack of market coverage. We believe that the two products will make greater contribution to the Group's business once the products' market groundwork is well established.

iii. Other Products

- Cystistat (Sterile Hyaluronate Solution)

The treatment of interstitial cystitis by Cystistat is still not widely understood in China, thus Cystitat remains in the "market-entry" stage. The Group still needs to devote considerable resources to promote understanding of the product and indications. We primarily conducted clinical trials by co-operating with urology experts to improve doctors' understanding of the therapeutic effect and promoted the establishment of an expert network in 2010. For the year ended 31 December 2010, Cystistat recorded sales of US$0.7 million, representing an increase of 43.3% over the previous year of US$0.5 million.

GanFuLe

GanFuLe is our supplementary product in the liver cancer field. In 2010, we decided to forego the Northern China market and retained the exclusive right to promote and sell GanFuLe in Southern China, and focused on maintaining the stability and growth of the existing market. For the year ended 31 December 2010, sales of GanFuLe reached US$4.2 million, representing a decrease of 11.7% from last year of US$4.8 million due to us relinquishing the Northern China market - sales of GanFuLe in other markets we retained actually increased.

Network Expansion

We continued to expand our marketing, promotion and sales network in 2010, implementing an internship programme to attract talents. Many undergraduates and postgraduates nearing graduation from medicine and pharmacology colleges were hired as interns in our business regions, and the elite ones were invited to join our promotion team. The internship programme enables new employees to better understand and familiarise themselves with the Group's business and corporate culture, and also enable us to observe and select appropriate talents. As at 31 December 2010, more than 970 professionals served in our marketing, promotion and sales team.

Having obtained good results in 2010's internship programme, the large-scale recruitment of a new batch of interns is currently underway.

In addition to expanding our sales team, we also extended our geographical and hospital coverage. As at 31 December 2010, our marketing and promotion service covered 31 provinces and municipalities, including 100% of all provincial capitals and 87% of prefecture level cities. Our network serviced more than 7,100 hospitals, including 97.1% Class 3 hospitals and 38.4% Class 2 hospitals. About 120,000 doctors were targeted, while more than 44,000 participated in our activities in 2010.

While expanding the network, we continue to refine network management and the staff incentive mechanism, improving network construction to enhance the efficiency of network operations and promoting further in depth development of our business.

Outlook and Prospects

Our successful listing in Hong Kong in September 2010 provided new opportunities and new platform for the Group's business development. Based on the results of 2010, we will continue to strive for better results. On the one hand, we will step up the implementation of the three strategies for new product in-licensing and introductions. We will improve transparency, visibility and stability of products development. On the other hand, we will constantly expand the network, whilst strengthening self-management and market penetration abilities. We will also accelerate the Group's development through mergers and acquisitions by taking advantage of the Hong Kong capital market.

Financial Review

Turnover

Turnover represents the revenue we generated from the sale of in-licensed products and our in-house manufactured pharmaceutical products.

	2010		2009	
	US$'000	Weighted rate	US$'000	Weighted rate
In licensed product				
Deanxit	52,341	39.6%	44,468	46.1%
Ursofalk	35,879	27.1%	28,327	29.4%
Augentropfen Stulln Mono eye-drops	8,445	6.4%	6,146	6.4%
GanFuLe	4,219	3.2%	4,780	5.0%
XinHuoSu	12,576	9.5%	7,253	7.5%
Cystistat	738	0.6%	515	0.4%
Salofalk	3,989	3.0%	1,824	1.9%
Exacin	10,632	8.0%	-	-
Bioflor	1,266	1.0%	-	-
Others	602	0.5%	439	0.5%
	130,687	98.9%	93,752	97.2%
Other business				
In-house manufactured pharmaceutical products	1,490	1.1%	2,571	2.7%
In-house manufactured medical devices	-	-	131	0.1%
	1,490	1.1%	2,702	2.8%
	132,177	100%	96,454	100%

Turnover increased by 37.0% from US$96.5 million for the year ended 2009 to US$132.2 million for the year ended 2010. Our In-licensed product sales increased by 39.4% from US$93.8 million for the year ended 2009 to US$130.7 million for the year ended 2010. It was mainly due to an increase in the sales volume of existing products, and price remained relatively stable. Besides, we added two products to our portfolio, Exacin and Bioflor, in 2010. Our turnover of other business segments decreased by 44.9% from US$2.7 million in 2009 to US$1.5 million for the year ended 31 December 2010. It was primarily due to the competition from in-house manufactured products continued to intensify, resulting our in-house manufactured pharmaceutical products sales declined.

Cost of Goods Sold
Cost of goods sold increased by 51.9% from US$35.6 million in 2009 to US$54.1 million in 2010, primarily reflecting the growth in the Group's revenue. For the purpose of the accounting treatment, part of the promotional expenses in relation to Exacin was included in the cost of goods sold.

Gross Profit and Gross Profit Margin
Gross profit increased by 28.3% from US$60.9 million in 2009 to US$78.1 million in 2010. Our gross profit margin slightly decreased from 63.1% in 2009 to 59.1% in 2010, primarily reflecting a change in the proportion of turnover accounted for by each of our in-licensed products. And also partly because promotion expenses in relation to Exacin were included in the cost of goods sold for the purpose of accounting treatment.

Other Gains and Losses
Other income and gains of the Group decreased by 43.7% from US$0.7 million for the year ended 31 December 2009 to US$0.4 million for the year ended 31 December 2010, mainly reflecting a change in the foreign exchange rates.

Selling Expenses
The Group's selling expenses increased by 24.7% from US$24.8 million in 2009 to US$31.0 million in 2010, primarily reflecting increased marketing and promotion efforts with respect to our existing products and the additional expenses incurred for marketing and promoting the new products we added to our portfolio. Furthermore, there was an increase in salaries and welfare for our marketing and sales staff as a result of increased sales and new sales staff. Our selling expenses as a percentage of our revenue decreased by 2.4% from 25.8% in 2009 to 23.4% in 2010 as we benefited from economies of scale.

Listing Expenses
The Group incurred total expenditure of approximately US$8.6 million for global offering in 2010, of which a total amount of US$5.6 million was charged to share premium account as share issuing expenses. The remaining US$3.0 million was charged to the statement of comprehensive income as listing expenses.

Administrative Expenses
The Group's administrative expenses increased by 27.9% from US$7.4 million for the year ended 31 December 2009 to US$9.5 million for the year ended 31 December 2010, mainly reflecting the expenditure increased because of the Hong Kong listing celebration. Benefiting from economies of scale, our administrative expenses as a percentage of our turnover decreased by 0.5% from 7.7% for the year ended 31 December 2009 to 7.2% for the year ended 31 December 2010.

Research and Development Costs
The Group did not incur any research and development costs for the year ended 2010 because we disposed our R&D operations in December 2009 following a strategic review of our business.

Finance Costs
The Group's finance costs increased by 58.2% from US$0.4 million for the year ended 31 December 2009 to US$0.6 million for the year ended 31 December 2010, mainly because of an increase in bank loans.

Taxation
The Group's taxation decreased by 35.3% from US$6.1 million for the year ended 31 December 2009 to US$3.9 million for the year ended 31 December 2010, primarily reflecting write-down of deferred taxation arising from unrealized intra-group transaction profits in inventories at year end, in accordance with International Financial Reporting Standards.

Profit for the Year
As a result of the above factors, our profit increased by 47.3% from US$20.8 million for the year ended 31 December 2009 to US$30.7 million for the year ended 31 December 2010. Compared with 2009, the group's net profit margin increased from 21.6% for the year ended 31 December 2009 to 23.2% for the year ended 31 December 2010. Excluding listing expenses, profit for 2010 was US$33.7 million and net profit margin was 25.5%.

Liquidity and Capital Resources
The Group funded our cash requirement mainly through cash generated from operations. During the reporting period, the cash and cash equivalent increased mainly because of funds raised from the global issue of shares and working capital increase.
The following table is a condensed summary of our consolidated statements of cash flows:

	As at 31 December	
	2010	2009
	US$'000	US$'000
Net cash from operating activities	11,191	15,549
Net cash from (used in) investing activities	10,076	(16,616)
Net cash from (used in) financing activities	97,130	(4,022)
Net increase (decrease) in cash and cash equivalent	118,397	(5,089)
Cash and cash equivalent at beginning of the year	15,113	20,100
Cash and cash equivalent at end of the year	133,987	15,113

Net Cash from Operating Activities
For the year ended 31 December 2010, our net cash generated from operating activities was US$11.2 million, compared with US$15.6 million in 2009, a decrease of 28.0%, mainly due to the factor that some of our products were purchased on cash payment in 2010.

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Net Cash from or used in Investing Activities
For the year ended 31 December 2010, our net cash generated from investing activities was US$10.1 million, compared with net cash used in investing activities of US$16.6 million in 2009, significantly increased by 160.6%, mainly reflecting most of pledged bank deposit raised in 2009 released in 2010.

Net Cash from or used in Financing Activities
For the year ended 31 December 2010, our net cash generated from financing activities amounted to US$97.1 million, compared with net cash used in financing activities of US$4.0 million in 2009, dramatically increased by 2,515.0%. It was mainly due to the proceeds from the company's global offering of shares.

Net Current Assets

	As at 31 December	
	2010	2009
	US$'000	US$'000
Current Assets		
Inventories	15,978	11,060
Trade and Other Receivables	49,314	32,794
Account receivables from JCE	673	481
Held for trade investment	38	31
Tax recoverable	77	-
Pledged bank deposit	4,530	17,641
Bank balances and Cash	133,987	15,113
	204,597	77,120
Current Liabilities		
Trade and Other payables	8,252	11,062
Pledged bank loan	4,261	16,517
Deferred tax payables	1,198	838
Derivative financial instrument	48	145
Tax payables	2,709	1,226
	16,468	29,788
Net current assets	188,129	47,332

Inventories
The Group's inventory increased by 44.5% from US$11.1 million as at 31 December 2009 to US$16.0 million as at 31 December 2010. Our average inventory turnover days increased from 87 days in year 2009 to 91 days in year 2010, primarily reflecting an increase in our finished goods stocks as a result of the increasing quantity for single purchases and increasing sales.

Trade and Other Receivables
The Group's trade and other receivables increased by 50.4% from US$32.8 million as at 31 December 2009 to US$49.3 million as at 31 December 2010, primarily reflecting the growth of group sales in 2010. Simultaneously, our average trade receivables turnover

days decreased from 73 days as at 2009 to 71 days as at 2010.

Trade and Other Payables

The Group's trade and other payables decreased by 25.4% from US$11.1 million as at 31 December 2009 to US$8.3 million as at 31 December 2010, primarily reflecting some of our products were purchased on cash payment. It also resulted in a decrease in our average trade payables days from 60 days for the year ended 2009 to 21 days for the year ended 2010.

Capital Expenditures

The following table shows our capital expenditure during the report periods:

	Year Ended 31 December	
	2010	2009
	US$'000	US$'000
Property plant and equipment	**832**	280
Land use right purchased	**2,918**	-
Total	**3,750**	280

Debts

The following table shows the Group's debts during the report periods:

	As at 31 December	
	2010	2009
	US$'000	US$'000
Interest bearing bank loan and other loans	**4,261**	16,517

Market Risks

We are exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks and inflation risks in the normal course of business. These risks are set out in the appendix of financial statements.

Use of Proceeds from the Company's Initial Public Offering

The Company issued 190,000,000 shares (including 20,000,000 shares via the exercise of the over–allotment option) in September 2010. The issue price was HK$5.06 per share, the proceeds amounted to approximately HK$961.4 million (equivalent to US$123.9 million). The net proceeds from the initial public offering after deducting share issuing expenses amounted to US$115.4 million. All the proceeds were received by the Company on 28 September 2010 and 25 October 2010 respectively. As at 31 December 2010, approximately US$23.0 million has been applied to intended uses as set out in the Company's prospectus, details of which are set out below:

(1) Approximately US$ 0.7 million for continuing building up our marketing, promotion and sales network by hiring additional qualified and professional staff and expanding our hospital coverage and geographical reach;

(2) The funds intended for constructing new training and conference centres to hold physician training, medical conferences and other promotion activities, as well as staff training to enhance the standard and professionalism of our promotion and sale services have not been used;

(3) Approximately US$49,000 for changing, improving or upgrading both hardware and software of our information management systems so as to improve our management and control of our promotion network and business operations;

(4) The funds intended for acquiring the exclusive in-license rights to promote and sell pharmaceutical products in China and pursuing merger or acquisition opportunities of suitable pharmaceutical companies have not been used;

(5) The funds intended for constructing a production plant for the manufacture of our in-house produced pharmaceutical products including CMS024 planned with following favorable clinical development of CMS024 have not been used;

(6) Approximately US$10.7million for providing funding for purchasing imported pharmaceutical products from suppliers, in order to fulfill increasing PRC market demand for our in-licensed products;

(7) Approximately US$11.5million for supplementing our working capital and other general corporate purpose.

As at 31 December 2010, the usages of proceeds did not differ from those disclosed in prospectus.

Dividend

No interim dividend has been declared or paid during the year ended 31 December 2010 (2009: US$4.7 million). The Board resolved to declare the payment of a final dividend of US$ 14.9 million (2009: US$4.7 million), subject to the approval of the shareholders in the forthcoming Annual General Meeting to be held on 29 March 2011.

Audit Committee

We 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 our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our company, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors. The Audit Committee also

oversees the company's appointment of external auditors. The annual result announcement and annual report for the year ended 31 December 2010 have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

Corporate Governance Practices

For the period between 28 September 2010 to 31 December 2010, the Company has adopted all the relevant provisions contained in the Corporate Governance ("CG") Code set out in Appendix 14 of the Listing Rules and has complied with all other provisions of the CG Code, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and Chief Executive Officer which should not be performed by the same individual.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") 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 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 period from 28 September 2010 to 31 December 2010.

Disclosure of Information

The annual report of the Group for the Reporting Period will be duly dispatched to shareholders and published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.cms.net.cn).

By order of the Board
Mr. Lam Kong
Chairman of the Board

Hong Kong, 24 February, 2011

As at the date of this announcement, the executive directors of the Company are Mr. Lam Kong, Mr Chen Hongbing, Ms. Chen Yanling and Mr. Hui Ki Fat; the non-executive director of the Company is Ms.Hou Xiaoxuan; and the independent non-executive directors of the Company are Mr Cheung Kam Shing, Terry, Dr. Peng Huaizheng and Mr. Wu Chi Keung.