# 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, 2011

### FINANCIAL HIGHLIGHTS

**For the six months ended 30 June 2011, the operating results of the Group were as follows:**

- Turnover up 57.4% to US$96.3 million (H1 2010: US$61.2 million)
- Profit for the period up 95.0% to US$29.9 million (H1 2010: US$15.3 million)
- Basic earnings per share up 54.0% to US2.477 cents (H1 2010: US1.608 cents)
- As at 30 June 2011, the Group's bank balances and cash were US$74.4 million while readily realizable bank acceptance bills amounted to US$17.9 million
- Interim dividend of US0.8 cent per share (H1 2010: nil)
- Proposed 4 for 1 bonus issue of share (H1 2010: nil)

* *For Indication Purposes Only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2011

| | NOTES | Six months ended 30 June 2011 US$'000 (unaudited) | 2010 US$'000 (audited) |
|---|---|---|---|
| Turnover | 3 | 96,306 | 61,195 |
| Cost of goods sold | | (43,090) | (23,970) |
| Gross profit | | 53,216 | 37,225 |
| Other gains and losses | | 4,445 | 546 |
| Selling expenses | | (17,291) | (13,318) |
| Listing expenses | | - | (1,221) |
| Administrative expenses | | (5,904) | (3,274) |
| Finance costs | | (475) | (336) |
| Share of result of an associate | | 45 | 42 |
| Share of result of a jointly controlled entity | | 6 | 25 |
| Profit before taxation | | 34,042 | 19,689 |
| Taxation | 4 | (4,141) | (4,355) |
| Profit for the period | 5 | 29,901 | 15,334 |
| Other comprehensive income | | | |
| Exchange differences from translation | | 2,556 | 497 |
| Share of other comprehensive income of an associate | | - | (5) |
| Fair value changes of qualifying hedging instruments for cash flow hedges | | (175) | 32 |
| Total comprehensive income for the period | | 32,282 | 15,858 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 29,838 | 15,230 |
| Non-controlling interests | | 63 | 104 |
| | | 29,901 | 15,334 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 32,212 | 15,754 |
| Non-controlling interests | | 70 | 104 |
| | | 32,282 | 15,858 |
| | | US$ cent | US$ cent |
| Earnings per share | 7 | | |
| Basic | | 2.477 | 1.608 |
| Diluted | | 2.468 | 1.590 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2011

| | NOTES | 30 June 2011 US$'000 (unaudited) | 31 December 2010 US$'000 (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | 7,667 | 3,282 |
| Prepaid lease payments | | 4,459 | 3,142 |
| Interest in a jointly controlled entity | | - | 99 |
| Interest in an associate | | 1,311 | 1,431 |
| Intangible assets | | 26,206 | 5,368 |
| Goodwill | | 186,195 | 379 |
| Deferred tax assets | | 4,730 | 4,431 |
| Deposit paid for acquisition of property, plant and equipment | | 49 | 478 |
| | | 230,617 | 18,610 |
| Current assets | | | |
| Inventories | | 17,549 | 15,978 |
| Trade and other receivables | 8 | 64,611 | 49,314 |
| Amount due from a jointly controlled entity | | - | 673 |
| Held for trading investments | | - | 38 |
| Tax recoverable | | 155 | 77 |
| Pledged bank deposits | | 29,058 | 4,530 |
| Bank balances and cash | | 74,392 | 133,987 |
| | | 185,765 | 204,597 |
| Current liabilities | | | |
| Trade and other payables | 9 | 9,844 | 8,252 |
| Dividend payables | | 35 | - |
| Bank borrowings | | 27,702 | 4,261 |
| Deferred consideration payables | | 1,000 | 1,198 |
| Derivative financial instruments | | 223 | 48 |
| Tax payable | | 5,293 | 2,709 |
| | | 44,097 | 16,468 |
| Net current assets | | 141,668 | 188,129 |
| Total assets less current liabilities | | 372,285 | 206,739 |

| | 30 June 2011 US$'000 (unaudited) | 31 December 2010 US$'000 (audited) |
|---|---|---|
| Capital and reserves | | |
| Share capital | 6,439 | 5,718 |
| Reserves | 355,652 | 194,271 |
| Equity attributable to owners of the Company | 362,091 | 199,989 |
| Non-controlling interests | 2,496 | - |
| | 364,587 | 199,989 |
| Non-current liabilities | | |
| Deferred tax liabilities | 3,398 | 2,123 |
| Deferred consideration payables | 4,300 | 4,627 |
| | 7,698 | 6,750 |
| | 372,285 | 206,739 |

## 1. BASIS OF PREPARATION

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

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except as described below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations ("new or revised IFRSs") issued by the International Accounting Standard Board ("IASB") and IFRS Interpretations Committee ("IFRIC") of the IASB:

| | |
|---|---|
| IFRSs (Amendments) | Improvements to IFRSs issued in 2010 |
| IAS 24 (as revised in 2009) | Related party disclosure |
| IAS 32 (Amendments) | Classification of rights issues |
| IFRIC - INT 14 (Amendments) | Prepayments of a minimum funding requirement |
| IFRIC - INT 19 | Extinguishing financial liabilities with equity instruments |

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.

The Group has not early applied the following new or revised standards that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 7 (Amendments) | Disclosures - Transfers of financial assets[1] |
| IFRS 9 | Financial instruments[2] |
| IFRS 10 | Consolidated financial statements[2] |
| IFRS 11 | Joint arrangements[2] |
| IFRS 12 | Disclosure of interests in other entities[2] |
| IFRS 13 | Fair value measurement[2] |
| IAS 1 (Amendments) | Presentation of items of other comprehensive income[3] |
| IAS 12 (Amendments) | Deferred tax: Recovery of underlying assets[4] |
| IAS 19 (Revised 2011) | Employee benefits[2] |
| IAS 27 (Revised 2011) | Separate financial statements[2] |
| IAS 28 (Revised 2011) | Investments in associates and joint ventures[2] |

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2012.

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 amount reported in respect of the Group’s financial assets and financial liabilities.

The five new or revised standards on consolidation, joint arrangements and disclosures including IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised 2011) and IAS 28 (Revised 2011) were issued by the IASB in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group’s consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

IFRS 10 replaces the parts of IAS 27 “Consolidated and separate financial statements” that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires a lot of judgement.

Other than disclosed above, the directors of the Company anticipate that the application of these new or revised standards will have no material impact on the results and financial position of the Group.

## 3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amounts receivable for good sold in the normal course of business, net of customer returns, rebates, other similar allowances and sales related taxes during the period.

The Group’s operating segments are based on the internal reports reviewed by the Board of Directors of the Company that are used for the purpose of resources allocation and assessment of segment performance.

During the six month ended 30 June 2011, the Group acquired a new subsidiary that is engaged in marketing, promotion and sale through network of agents/distributors. Therefore, the Group changed the structure of its internal organisation in a manner such that the number of its reportable and operating segments has been increased from two to three.

After the change, the Group has the following three reportable and operating segments:

(1) Direct promotion (formerly known as 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.

(2) Agency promotion - marketing, promotion and sales of prescription pharmaceutical products through network of agents/distributors. The Group owns the in-licensed rights or product control rights for these products, which enable the Group to promote and sell these products through its nationwide promotion and sales network (which consists of independent third party sales representatives and distributors).

(3) Others business - production and sales of other medicines and pharmaceutical products to wholesale customers across China, including distributors and hospitals.

In addition, in the current period, the measure of segment results has been changed from gross profit to profit for the period.

The comparative figures of the segment information has been restated to conform with the current period presentation.

The segment information is as follows:

For the six months ended 30 June 2011

| | Direct promotion US$'000 | Agency promotion US$'000 | Others US$'000 | Elimination US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|
| External segment turnover | 82,504 | 12,193 | 1,609 | - | 96,306 |
| Inter-segment turnover | 52 | - | 1,530 | (1,582) | - |
| Turnover | 82,556 | 12,193 | 3,139 | (1,582) | 96,306 |
| Gross profit | 45,954 | 6,479 | 1,748 | (965) | 53,216 |
| Other gains and losses | 4,150 | 289 | 6 | - | 4,445 |
| Selling expenses | (16,711) | (518) | (62) | - | (17,291) |
| Administrative expenses | (4,838) | (442) | (624) | - | (5,904) |
| Finance costs | (414) | - | (61) | - | (475) |
| Share of results of associates | 45 | - | - | - | 45 |
| Shares of result of a jointly controlled entity | 6 | - | - | - | 6 |
| Profit before taxation | 28,192 | 5,808 | 1,007 | (965) | 34,042 |
| Taxation | (3,215) | (848) | (78) | - | (4,141) |
| Profit for the period and segment results | 24,977 | 4,960 | 929 | (965) | 29,901 |

For the six months ended 30 June 2010

| | Direct promotion US$'000 | Others US$'000 | Elimination US$'000 | Consolidated US$'000 |
|---|---|---|---|---|
| External segment turnover | 60,389 | 806 | - | 61,195 |
| Inter-segment turnover | - | 430 | (430) | - |
| Turnover | 60,389 | 1,236 | (430) | 61,195 |
| Gross profit | 36,705 | 520 | - | 37,225 |
| Other gains and losses | 544 | 2 | - | 546 |
| Selling expenses | (13,318) | - | - | (13,318) |
| Listing expenses | (1,221) | - | - | (1,221) |
| Administrative expenses | (2,819) | (455) | - | (3,274) |
| Finance costs | (336) | - | - | (336) |
| Share of results of associates | 42 | - | - | 42 |
| Share of result of a jointly controlled entity | 25 | - | - | 25 |
| Profit before taxation | 19,622 | 67 | - | 19,689 |
| Taxation | (4,343) | (12) | - | (4,355) |
| Profit for the period and segment results | 15,279 | 55 | - | 15,334 |

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

4. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | US$'000 | US$'000 |
| Current tax: | | |
| PRC Enterprise Income Tax | 4,198 | 3,492 |
| Hong Kong Profits Tax | 122 | 66 |
| Other jurisdictions | 3 | 3 |
| | 4,323 | 3,561 |
| Overprovision in prior years | | |
| PRC Enterprise Income Tax | (60) | (11) |
| Deferred taxation: | | |
| - Current period | (122) | 805 |
| Taxation charge for the period | 4,141 | 4,355 |

5. PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | 2011 | 2010 |
| | US$'000 | US$'000 |
| Profit for the period has been arrived at after charging: | | |
| Allowance for bad and doubtful debts | - | 21 |
| Allowance for inventories | 35 | 116 |
| Depreciation of property, plant and equipment | 451 | 380 |
| Amortisation of intangible assets (included in cost of goods sold) | 842 | 419 |
| Cost of inventories recognised as an expense | 42,023 | 23,255 |
| and after crediting: | | |
| Interest income | (1,195) | (302) |
| Net exchange (gain) loss | (2,409) | 109 |

6. DIVIDENDS

During the current interim period, a final dividend of US$0.013 per share in respect of the year ended 31 December 2010 (2010: US$0.10 per share in respect of the year ended 31 December 2009) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to US$15,052,000 (2010: US$4,741,000).

Subsequent to the end of the interim period, the directors have determined that an interim dividend of US$0.008 per share (2010: nil) will be paid to the owners of the Company whose names appear in the Register of Members on 22 September 2011.

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 | |
|---|---|---|
| | 2011 | 2010 |
| | US$'000 | US$'000 |
| Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company) | 29,838 | 15,230 |

| | Number of ordinary shares As at 30 June | |
|---|---|---|
| | 2011 | 2010 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 1,204,409,664 | 946,963,529 |
| Effect of dilutive potential ordinary shares on share options | 4,556,383 | 10,643,868 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 1,208,966,047 | 957,607,397 |

8. TRADE AND OTHER RECEIVABLES

| | 30 June 2011 US$'000 | 31 December 2010 US$'000 |
|---|---|---|
| Trade receivables | 35,994 | 30,609 |
| Less: Allowance for bad and doubtful debts | (196) | (215) |
| | 35,798 | 30,394 |
| Bills receivables | 17,881 | 12,059 |
| Prepayment for inventories | 4,523 | 2,264 |
| Other receivables and deposits | 6,409 | 4,597 |
| Total trade and other receivables | 64,611 | 49,314 |

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 at the respective reporting dates is as follows:

| | 30 June 2011 US$'000 | 31 December 2010 US$'000 |
|---|---|---|
| 0 - 90 days | 32,678 | 26,940 |
| 91 - 365 days | 3,097 | 3,424 |
| Over 365 days | 23 | 30 |
| | 35,798 | 30,394 |

Based on the issue date of bills receivables, 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 2011 US$'000 | 31 December 2010 US$'000 |
|---|---|---|
| 0 - 90 days | 934 | 232 |
| 91 - 365 days | 184 | 3 |
| Over 365 days | 107 | 8 |
| | 1,225 | 243 |
| Payroll and welfare payables | 2,763 | 2,746 |
| Other tax payables | 981 | 140 |
| Other payables and accruals | 4,875 | 5,123 |
| | 9,844 | 8,252 |

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

**Group Overview**

China Medical System Holdings Limited (the "Company") is a pharmaceutical products service provider based in China, focusing on marketing, promotion and sales of prescription drugs to all therapeutic departments in hospitals.

The Company together with its subsidiaries (the "Group") follows two business models commonly found in the pharmaceutical industry in China, Direct Academic Orientated Promotion Model and Agency Promotion Model, with two distinct third party promotion networks, the Direct Academic Orientated Promotion Network (the "Direct Network") and the Agency Promotion Network (the "Agency Network"), both of which hold leading positions in the China market. As at 30 June 2011, the number of marketing, promotion and sales professionals in the Direct Network of the Group exceeded 1,000, the independent third party sales representatives or distributors in the Agency Network was close to 1,000. The Group's products have been sold to over 13,000 hospitals throughout China, within which over 7400 hospitals are being provided quality service under the Direct Network.

Currently, the Group has 4 flagship products and 9 products with market potential (Details are set out in page 14 to 17 in this announcement).

**Management Discussion and Analysis**

**Business Review:**

For the six months ended 30 June 2011 (the "Reporting Period"), despite the volatile market conditions in China, the Group recorded significant growth, with sales reached US$96.3 Million (2010 H1: US$61.2 Million) representing an increase of 57.4% over the same period last year, while net profit reached US$29.9 Million (2010 H1: US$15.3 Million), up 95.0% from the corresponding period of last year.

The Group recorded satisfactory results growth as it benefited from pursuing two core development strategies: introduction and development of products and expanding its sales network, in addition during the Reporting Period, through merger and acquisition, the Group acquired products and expanded the network.

During the Reporting Period, while maintaining stable growth of the flagship products, the Group has increased the investment and intensity of promotion on potential products, including through organizing nearly 1,000 academic activities at various levels, continuously advancing the formation of expert networks and brand promotion, and through continued educating of doctors and visiting to experts, expanding the scope of product utilization, increasing the number of prescription doctors, further strengthening the depth of coverage of products in hospitals. At the same time, the Group continued to move forward the registration applications of the three products we introduced last year which require import drug license registration in China, for some of these products, the application of clinical trial for registration have been accepted by the State Food and Drug Administration ("SFDA"). In addition, the phase III pump clinical trial of the Group's in-house researched pharmaceutical product CMS024 (Tyroseuleutide) has commenced. We expect to enroll patients in the second half of 2011.

During the Reporting Period, the Group continued its commitment to strengthening the expansion of marketing network and expanding geographical and hospital coverage of the network. The Group through the "Internship Programme" and "Professional Talent Development Programme" recruited a large number of undergraduate and post-graduate students from medical colleges throughout the country as they are about to graduate. Through training and internal evaluation, we selected outstanding talents to join our marketing and promotion team. In addition, we recruited some experienced medical representatives from the pharmaceutical industry. As at 30 June 2011, the Direct Network of the Group had over 1,000 sales, marketing and promotion professionals; the Agency Network had close to 1,000 independent third party sales representatives or distributors. The sales coverage spans over 13,000 hospitals throughout China, of which over 7,400 hospitals are being covered by the Direct Network.

Aside from products development and network expansion, the corporate acquisitions in the first half of 2011 also greatly advanced the development of the Group.

In April 2011, the Group acquired Great Move Enterprises Limited ("Great Move") and its subsidiaries. The main wholly-owned subsidiary of Great Move is Tianjin Precede Medical Trade Development Company Limited ("Tianjin Precede"), a Chinese company which engages in the marketing, promotion and sale of prescription drugs through Agency Promotion Model in China. After the acquisition, the Group's business model evolved from a simple Direct Academic Orientated Promotion Model to an integrated development model that incorporates the Agency Promotion Model. After the acquisition, the Group will focus on integrating and developing the two models.

For product introduction, the Group is not only committed to introducing an average of not less than two products with academic value to our Direct Network each year, but also committed to introducing not less than two products with market potential to our Agency Network, to make the product mix of that network more reasonable. In the first half of 2011, the Group broadened the scope of product screening, in addition to continued products screening for the Direct Network, we have also included screening for products suitable for the Agency Network. The Group has stepped up efforts in product evaluation and introduction, aside from on-going discussions for candidate products for the Direct Network, in May 2011 we introduced a product to the Agency Promotion Model, a type of enteral nutrition drug "Protein Hydrolysate" manufactured by Guangming Pharmaceutical Co., Ltd ("Guangxi Guangming"). The speedy introduction of that product is the result of the combination of the professional academic ability from our Direct Network and the rapid market coverage ability of our Agency Network. The second half of 2011, the Group will continue to introduce products with market potential and suitable for its two business models.

Meanwhile, for the existing products of the Group, we have considered the advantage from integration of the two business models in accelerating the pace of market coverage of products, explored the increase in product sales volume, the task of promotion models integration for some products has already been initiated.

After the acquisition, the Group has strengthened the governance of the Agency Promotion Model and improved the management of the network, and assisted the Agency Network to set up information management system. The Group believes these activities laid a foundation for faster development of the Agency Network in the future.

In addition Tianjin Precede, when the Group introduced "Protein Hydrolysate" in May 2011, combined with capital market practice, by way of investment in capital and equity increase to the product production enterprise – Guangxi Guangming, the Group has gained the stable product right through equity control. This is a major breakthrough in product introduction policy for the Group since the Company listed in Hong Kong Stock Exchange, the subsequent product introductions of the Group will enhance on obtaining the product rights through purchase or equity control.

**Development of Products**

The Group mainly markets, promotes and sells nine products via the Direct Network, ten products via the Agency Network, and also has some in-house manufactured products in China. Meanwhile, we also have another three products--Budenofalk, L-lysine Aescinat and Thiotriazolin, which are requiring import drug registration in China, some of which the application of clinical trial for registration have been processed by the SFDA. In addition, we are carrying out the CMS024 phase Ⅲ clinical trial pump study, which is an in-house researched pharmaceutical product.

The Products of Direct Network

| | | **% of Revenue Contribution** |
|---|---|---|
| **Flagship Products** | Deanxit<br>(Flupentixol and Melitracen) | 32.6 |
| | Ursofalk<br>(Ursodeoxycholic Acid) | 21.7 |
| **Products with Market Potential** | Exacin<br>(Isepamicin Sulfate Injection) | 10.1 |
| | XinHuoSu<br>(*Nesiritide,* Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP") | 8.9 |
| | Augentropfen Stulln Mono eye-drops<br>(Escuilin and Digitalisglycosides Eye-Drops) | 4.6 |
| | Salofalk<br>(Mesalazine) | 3.1 |
| | Bioflor<br>(Saccharomyces Boulardii) | 1.4 |

(i) Flagship Products

*Deanxit (Flupentixol and Melitracen)*

Deanxit is manufactured by H. Lundbeck A/S of Denmark and used for the treatment of mild to moderate depression and anxiety. For the six months ended 30 June 2011, Deanxit recorded sales of US$31.4 million, an increase of 20.5% when compared with the same period of last year, accounted for 32.6% of the Group's turnover.

*Ursofalk (Ursodeoxycholic Acid)*
Ursofalk is manufactured by Dr. Falk Pharma GmbH of Germany and used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis. For the six months ended 30 June 2011, Ursofalk recorded sales of US$20.9 million, an increase of 23.6% when compared with the same period of last year, accounted for 21.7% of the Group's turnover.

(ii) Products with Market Potential
*Exacin (Isepamicin Sulfate Injection)*
Exacin is manufactured by Asahi Kasei Pharma Co., Ltd of Japan("Asahi Kasei Pharma"), which is an aminoglycoside antibiotic product. For the six months ended 30 June 2011, Exacin recorded sales of US$9.7 million, an increase of 187.8% when compared with the same period of last year, accounted for 10.1% of the Group's turnover.

During the first half of 2011, the Group signed a long-term cooperation agreement with Asahi Kasei Pharma to obtain the exclusive agency and promotion right of Exacin in China. The long-term agreement is for a period of two years, and can be automatically renewed for one year in the absence of any written notice from either party before three months of the expiry of the agreement, and the future renewal of the agreement can proceed in the same manner. The Group commenced cooperation with Asahi Kasei Pharma for Exacin in March 2010, before we signed the long-term cooperation agreement with Asahi Kasei Pharma, we collaborated with Asahi Kasei Pharma by way of obtained the rights to import Exacin under an one-time permit. The long-term cooperation agreement makes the agency rights of Exacin more stable.

*XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")*
XinHuoSu is manufactured by Tibet Rhodiola Co., Ltd of China, which is a biological agents used to treat acute heart failure patients who have dyspnea at rest or with minimal activity. For the six months ended 30 June 2011, XinHuoSu recorded sales of US$8.6 million, an increase of 51.3% when compared with the same period of last year, accounted for 8.9% of the Group's turnover.

*Augentropfen Stulln Mono eye-drops (Escuilin and Digitalisglycosides Eye-Drops)*
Augentropfen Stulln Mono eye-drops is manufactured by Pharma Stulln GmbH of Germany, which is used to treat age-related macula degeneration and all forms of ocular asthenopia. For the six months ended 30 June 2011, Augentropfen Stulln Mono eye-drops recorded sales of US$4.4 million, an increase of 15.1% when compared with the same period of last year, accounted for 4.6% of the Group's turnover.

*Salofalk (Mesalazine)*
Salofalk is manufactured by Dr. Falk Pharma GmbH of Germany, including three dosage forms of coated tablets, suppositories and enemas, which is mainly used to treat ulcerative colitis and Crohn's Disease. For the six months ended 30 June 2011, Salofalk recorded sales of US$3.0 million, an increase of 77.0% when compared with the same period of last year, accounted for 3.1% of the Group's turnover.

*Bioflor (Saccharomyces Boulardii)*

Bioflor is manufactured by Biocodex of France, which is a biological agent used to treat adult and children diarrhea, and diarrhea symptoms caused by the disturbance of intestinal flora. For the six months ended 30 June 2011, Bioflor recorded sales of US$1.3 million, an increase of 367.4% when compared with the same period of last year, accounted for 1.4% of the Group's turnover.

(iii) Other Products

Apart from the products mentioned above, we also have two other products promote by the Direct Academic Promotion Network, which include Cystistat (Sterile Hyaluronate Solution) and GanFuLe. For the six months ended 30 June 2011, the two products contributed approximately 3.0% to the Group's turnover.

The Products of Agency Network

| | | **% of Revenue Contribution*** |
|---|---|---|
| **Flagship Products** | Shaduolika (Yanhuning Injection) | 6.5 |
| | Yinuoshu (Ambroxol Hydrochloride for Injection) | 5.1 |
| **Products with Market Potential** | Protein Hydrolysate | 0.2 |
| | Kunning Oral Solution | 0.2 |
| | Quzhiquan (Tirofiban Hydrochloride for Injection) | 0.1 |
| | Zengshengping | 0.1 |

**Note: Turnover from the Agency Promotion Network was only consolidated from April to June 2011.*

(i) Flagship Products

*Shaduolika (Yanhuning Injection)*

Shaduolika is developed and manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd, which is a common injection of anti-infective traditional Chinese medicine used in pediatrics, respiratory and emergency treatment. For the six months ended 30 June 2011, Shaduolika recorded sales of US$6.2 million, accounted for 6.5% of the Group's turnover.

*Yinuoshu (Ambroxol Hydrochloride for Injection)*

Yinuoshu is manufactured by TIPR Pharmaceutical Responsible Co., Ltd. It is the first generic version of an ambroxol hydrochloride for injection approved in China, and is the expectorant product used for respiratory diseases. For the six months ended 30 June 2011, Yinuoshu recorded sales of US$4.9 million, accounted for 5.1% of the Group's turnover.

ii) Products with Market Potential

*Protein Hydrolysate*

"Protein Hydrolysate" includes oral solution and granules, and is an exclusive product in China which manufactured by Guangxi GuangMing. It is a new generation short peptide enteral nutrition drug manufactured by innovative Chinese Biochemical Technique. For the six months ended 30 June 2011, Protein Hydrolysate recorded sales of US$0.2 million, accounted for 0.2% of the Group's turnover.

*Kunning Oral Solution*

Kunning Oral Solution is exclusively manufactured by Yantai Rongchang Pharmaceutical Co., Ltd., which is used to promote blood circulation to dissipate stasis, and promote involution of uterus. For the six months ended 30 June 2011, Kunning Oral Solution recorded sales of US$0.2 million, accounted for 0.2% of the Group's turnover.

*Quzhiquan (Tirofiban Hydrochloride for Injection)*

Quzhiquan is manufactured by Nankai Share Pharmaceutical Co., Ltd, which is used to treat cardiovascular diseases. For the six months ended 30 June 2011, Quzhiquan recorded sales of US$0.1 million, accounted for 0.1% of the Group's turnover.

*Zengshengping*

Tianjin Kangchenruixin Pharmaceutical Group Co., Ltd owns the product right to Zengshengping, which is produced by Tianjin Centre Pharmaceutical Co., Ltd and is mainly used for the treatment of gastrointestinal proliferation. For the six months ended 30 June 2011, Zengshengping recorded sales of US$0.1 million, accounted for 0.1% of the Group's turnover.

(iii) Other Products

Apart from the products mentioned above, we also have four other products promote by the Agency Network, which include Nuobaiyou, Shenshuiqing, Supingshu, Irbesartan and Hydrochlorothiazide. For the six months ended 30 June 2011, the above products accounted for approximately 0.4% of the Group's turnover.

Moreover, the Group also produce and sale 15 other in-house manufactured products, including JinErLun, LiErNuo, Fufang Danshen Pian and Niuhuang Jiedu Pian etc. For the six months ended 30 June 2011, the Group's in-house manufactured products accounted for approximately 1.6% of turnover.

**In-house Researched Pharmaceutical Product Development**

CMS024 is researched and developed by our Group with independent intellectual property rights, and will be a significant product of the Group in the future. In the first half of 2011, the clinical trial of CMS024 was commenced and almost all the preparations before the patients enrolling of Phase Ⅲ pump study are completed. The protocol of Phase Ⅲ pump clinical trial of CMS024 has been finalized and confirmed by Chinese and foreign experts. We also discussed the protocol with approximately 30 hospitals which have big amount of liver cancer surgery cases, a set of cooperation agreements are being signed successively. The drug used in the clinical trials has been manufactured and been blinded and all kinds of clinical trials materials have been ready. Furthermore, we also hired an U.S. Contract Research Organization (CRO) to take responsibility for the monitoring and data management of the clinical trials. In the second half of 2011, Phase Ⅲ pump clinical trial of CMS024 will be carried out in national wide and the enrolment of patients will be started.

**Outlook and Future Development**

The Group will continue in pursuing two core development strategies–continuous introduction and development of products and sales network expansion.

For product introduction, the Group will continue to expand product selection and evaluation activities, persevere to introduce an average of not less than two products suitable for the Direct Academic Orientated Promotion Model and also introduce an average of not less than two products suitable for the Agency Promotion Model per year, at the same time endeavor to diversify the way and means of product introductions, especially through such methods as purchase to obtain more stable and controllable product rights to products introduction.

For existing products, in addition to sustainable investment into the academic promotion of products, the Group will also continue to make full use of the advantages of the two promotion models, accelerate the integration of marketing and promotion of products.

In relation to network development, we will continue to expand the scale of the Direct Academic Orientated Promotion Network, to boost network coverage, and concurrently, bring to full potential the distinguishing feature of the Group's information management, refine the management of the Agency Promotion Network, so as to enhance the permeability and penetration of the entire Group's marketing and promotion network.

Aside from organic development, the Group will continue to use capital acquisition as a development strategy, and continue to improve internal control of the Group, strengthen the management and control of the Group's subsidiaries.

## Financial Review

**Acquisition of Subsidiaries**

During the Reporting Period, the Group completed two equity acquisitions. In April 2011, the Group acquired a 100% equity interest in Great Move at a total consideration of approximately US$206.1 million. Since then, Great Move has become a wholly-owned subsidiary of the Group. In May 2011, the Group acquired a 51% equity interest in Guangxi Guangming with a capital injection of US$4.6 million, in order to obtain exclusive distribution rights to "Protein Hydrolysate", Since then, Guangxi Guangming has become a subsidiary of the Group.

**Segment Information**

Details of the segment information are set out in note 3 to the financial statements.

During the Reporting Period, the performance of Agency Promotion Segment only covered the period from April to June 2011, the performance of Others Segment included the performance of Guangxi Guangming for the period from May to June 2011. There was no financial review and analysis to be made on Agency Promotion Segment and Guangxi Guangming, due to the absence of the comparative figures for the last same period.

**Financial Review on the Direct Promotion Segment ("the Segment")**

**Turnover**

The Segment's turnover increased by 36.7% from US$60.4 million for the six months ended 30 June 2010 to US$82.6 million for the six months ended 30 June 2011, mainly due to the increase quantities sold, with relatively stable selling prices.

**Cost of Goods Sold**

The Segment's cost of goods sold increased by 54.5% from US$23.7 million for the six months ended 30 June 2010 to US$36.6 million for the six months ended 30 June 2011, primarily reflecting growth in sales. For the purpose of accounting, part of the promotional expenses in relation to Exacin was included in the cost of goods sold.

**Gross Profit and Gross Profit Margin**

The Segment's gross profit increased by 25.2% from US$36.7 million for the six months ended 30 June 2010 to US$46.0 million for the six months ended 30 June 2011, primarily reflecting growth in turnover. The gross profit margin of the Segment decreased from 60.8% for the six months ended 30 June 2010 to 55.7% for the six months ended 30 June 2011, mainly due to a change in the proportion of turnover accounted for by each of products, and partly because promotional expenses in relation to Exacin were included in the cost of goods sold for the purposes of accounting treatment, and import tax associated with increased intra-group transaction.

**Other Gains and Losses**

The Segment's other gains and losses increased by 662.9% from US$0.5 million for the six months ended 30 June 2010 to US$4.2 million for the six months ended 30 June 2011, mainly reflecting gains arising from fluctuations in foreign exchange and interest income from higher bank balances.

**Selling Expenses**

The Segment's selling expenses increased by 25.5% from US$13.3 million for the six months ended 30 June 2010 to US$16.7 million for the six months ended 30 June 2011, primarily reflecting increased marketing and promotion expenses arising from the increased sales volume. Simultaneously, there was an increase in salaries and welfare for the Group's marketing and sales staff as a result of the increase in the number of sales staff. The Segment's selling expenses as a percentage of the Segment's turnover decreased by 1.9 percentage points from 22.1% for the six months ended 30 June 2010 to 20.2% for the six months ended 30 June 2011 as the Group benefited from economies of scale.

**Administrative Expenses**

The Segment's administrative expenses increased by 71.6% from US$2.8 million for the six months ended 30 June 2010 to US$4.8 million for the six months ended 30 June 2011, mainly due to an increase in professional fee arising from acquisitions, and an increase in the business tax associated with the increase in intra-group transactions.

**Finance Costs**

The Segment's finance costs increased by 23.2% from US$0.3 million for the six months ended 30 June 2010 to US$0.4 million for the six months ended 30 June 2011, mainly due to the increased bank borrowings.

**Taxation**

The Segment's taxation decreased by 26.0% from US$4.3 million for the six months ended 30 June 2010 to US$3.2 million for the six months ended 30 June 2011, primarily reflecting the write-down of deferred taxation arising from unrealized intra-group transaction profits in inventories at the end of the period, in accordance with International Financial Reporting Standards. At the same time, part of income tax was transferred to import tax and business tax with the change in the intra-group transaction model.

**Profit for the Period**

The Segment's net profit increased by 63.5% from US$15.3 million for the six months ended 30 June 2010 to US$25.0 million for the six months ended 30 June 2011. The Segment's net profit margin increased by 5.0 percentage points from 25.3% for the six months ended 30 June 2010 to 30.3% for the six months ended 30 June 2011.

**Inventories**

Inventories of the Segment decreased by 8.3% from US$16.0 million as at 31 December 2010 to US$14.7 million as at 30 June 2011. The average inventory turnover days decreased 32 days from 109 days for the six months ended 30 June 2010 to 77 days for the six months ended 30 June 2011, mainly due to the additional inventory requirement at 30 June 2010.

**Trade Receivables**

Trade receivables of the Segment increased by 16.7% from US$30.4 million as at 31 December 2010 to US$35.5 million as at 30 June 2011, primarily reflecting the growth in sales. Simultaneously, as a result of the strengthened management on account receivables, the average trade receivables turnover days decreased from 75 days for the six months ended 30 June 2010 to 73 days for the six months ended 30 June 2011.

**Trade Payables**

The Segment's trade payables increased by 26.7% from US$0.2 million as at 31 December 2010 to US$0.3 million as at 30 June 2011. The average trade payables days decreased from 40 days for the six months ended 30 June 2010 to 1 day for the six months ended 30 June 2011, mainly because the majority of the products were purchased on cash payment.

**Liquidity and Financial Resources**

The Group maintained a strong cash position during the Reporting Period. On 30 June 2011, the Group's bank balances and cash were US$74.4 million while readily realizable bank acceptance bills amounted to US$17.9 million. On 31 December 2010, our bank balances and cash were US$134.0 million while readily realizable bank acceptance bills amounted to US$12.1 million.

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

For the six months ended 30 June 2011, the Company has not purchased, sold or redeemed any of its listed securities.

**Interim dividend**

(i) Cash Dividend

The Board has resolved to pay an interim dividend of US0.8 cent (equivalent to HK$0.0623) per ordinary share of the Company (each a "Share") for the six months ended 30 June 2011 to the shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 22 September 2011 (the "Record Date"). Payment of such interim dividend in Hong Kong Dollars is expected to be made to the shareholders on Wednesday, 28 September 2011.

(ii) Bonus Issue

The Board also recommends a bonus issue to the shareholders whose names appear on the register of members of the Company at the close of business on the Record Date on the basis of one (1) bonus share (the "Bonus Share") for every four existing Shares (the "Bonus Issue"). The Bonus Shares will be credited as fully paid at par by way of capitalisation of an amount in the share premium account of the Company. The Bonus Shares, upon issued, will rank pari passu in all respects with the existing Shares in issue as at the Record Date, except that they will not be entitled to the proposed cash dividend of the Company for the six months ended 30 June 2011 nor will they rank for the Bonus Issue.

On the basis of 1,287,865,340 Shares in issue as at the date of this announcement and assuming no further Shares are issued on or before the Record Date, a total of 321,966,335 Bonus Shares will be issued pursuant to the Bonus Issue.

*Conditions of the Bonus Issue*

The Bonus Issue is conditional upon:

(i) The passing of an ordinary resolution by the shareholders at an extraordinary general meeting of the Company to be convened (the "EGM") approving the Bonus Issue; and

(ii) The Listing Committee of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting the listing of, and permission to deal in, the Bonus Shares.

No shareholders are required to abstain from voting on the relevant resolution to approve the Bonus Issue at the EGM. An application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Bonus Shares.

*Overseas Shareholders*

For shareholders whose addresses as shown on the register of members of the Company at the close of business on the Record Date are outside Hong Kong, enquiry will be made by the Board pursuant to Rule 13.36 of the Listing Rules. Upon such enquiry, if the Board is of the view that the exclusion of such overseas shareholders is necessary or expedient, the Bonus Shares will not be granted to such overseas shareholders. In such circumstances, arrangements will be made for the Bonus Shares which would otherwise have been issued to such overseas shareholders, if any, to be sold in the market as soon as practicable after dealings in the Bonus Shares commence. Any net proceeds of such sale, after deduction of expenses, will be distributed in Hong Kong dollars to the relevant shareholders, by ordinary post at their own risk, unless the amount falling to be distributed to any such person is less than HK$100 in which case it will be retained for the benefit of the Company.

*Certificates for Bonus Shares*

It is expected that certificates for the Bonus Shares will be posted on or before Wednesday, 28 September 2011 after all the conditions have been fulfilled at the risk of the shareholders entitled thereto to their respective addresses shown on the register of members of the Company on the Record Date. Dealings in the Bonus Shares are expected to commence on Friday, 30 September 2011.

**Closure of register of members**

The register of members of the Company will be closed from Tuesday, 20 September 2011 to Thursday, 22 September 2011 (both days inclusive), during which period the registration of transfer of Shares will be suspended. Shareholders whose names appear on the register of members of the Company at the close of business at 4:30 p.m. on Thursday, 22 September 2011 will be entitled to the interim dividend and to the Bonus Issue. To qualify for the interim dividend and the Bonus Issue, 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 Monday, 19 September 2011.

**Change in Board Lot Size**

As the date of this announcement, the Shares are traded in board lots of 800 Shares. The Company intends that upon the Bonus Issue becoming effective which is expected to be Friday, 30 September 2011, the board lot size of Shares be changed to 1,000 shares per board lot.

The Bonus Issue and the change in board lot size will not result in any change in the relative rights of the shareholders and par value of the Shares, being US$0.005 per Share.

**Timetable**

The expected timetable for the Bonus Issue and the change in board lot size is set out below:

| | 2011 |
|---|---|
| Latest date and time to return form of proxy for the EGM | 10:00 a.m., Monday, 12 September |
| Date and time of the EGM | 10:00 a.m., Wednesday, 14 September |
| Announcement of results of EGM | Wednesday, 14 September |
| Last day of dealings in the Shares on a cum-entitlement basis | Thursday, 15 September |
| First day for free exchange of existing share certificates in board lot of 800 Shares each for new share certificates in board lot of 1,000 Shares each ... | Thursday, 15 September |
| First day of dealings in the Shares on an ex-entitlement basis | Friday, 16 September |
| Latest time for lodging transfer of Shares for registration in order to qualify for the Bonus Issue | 4:30 p.m., Monday, 19 September |
| Closure of Register of Members | Tuesday, 20 September to Thursday, 22 September (both days inclusive) |
| Record date for determination of entitlements to the Bonus Shares | Thursday, 22 September |
| Register of Members re-opens | Friday, 23 September |
| Certificates for the Bonus Shares expected to be dispatched | on or before Wednesday, 28 September |
| First day of dealings in the Bonus Shares on the Stock Exchange | Friday, 30 September |
| Effective date for the change in board lot size from 800 Shares to 1,000 Shares | Friday, 30 September |
| Original counter for trading in the Shares in board lot of 800 Shares each becomes counter for trading in the Shares in board lot of 1,000 Shares each | 9:00 a.m. Friday, 30 September |
| Temporary counter for trading in the Shares in board lots of 800 Shares each opens | 9:00 a.m. Friday, 30 September |
| Parallel trading in Shares commences | 9:00 a.m. Friday, 30 September |
| Temporary counter for trading in the Shares in board lots of 800 Shares each closes | 4:00 p.m. Friday, 21 October |
| Parallel trading in Shares ends | 4:00 p.m. Friday, 21 October |
| Last day for free exchange of existing share certificates in board lot of 800 Shares each for new share certificates in board lot of 1,000 Shares each | Tuesday, 25 October |

*Note: All times and dates in this announcement refer to Hong Kong local time and date.*

A circular containing, inter alia, the details of the Bonus Issue together with a notice for the EGM will be despatched to the shareholders in due course.

**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 2011 have been reviewed by the external auditor-Deloitte Touche Tohmatsu and the Audit Committee of the Company.

**Corporate Governance Practices**

For the six months ended 30 June 2011, 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 (CEO) which should 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.

**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 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.

**Disclosure of Information**

The information provided in this announcement is only the summary of 2011 interim report of the Company. The interim report will be duly dispatched to shareholders of the Company and published on websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cms.net.cn).

On behalf of the Board
**China Medical System Holdings Limited**
**Lam Kong**
Chairman

16 August 2011, Hong Kong

*As at the date of this announcement, the board of directors comprises (i) executive directors: Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling and Mr. Hui Ki Fat; (ii) non-executive director: Ms. Hou Xiaoxuan; and (iii) independent non-executive directors: Mr. Cheung Kam Shing, Terry, Dr. Peng Huaizheng and Mr. Wu Chi Keung.*