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 2011

Financial Highlights：

- Turnover up 59.2% to US$210.4 million (2010: US$132.2 million)
- Profit for the year up 103.2% to US$62.4 million (2010: US$30.7 million)
- Basic earnings per share up 71.5% to US3.971 cents (2010: US2.315 cents)
- As at 31 December 2011, the Group's bank balances and cash were US$97.9 million while readily realizable bank acceptance bills amounted to US$23.6 million
- Proposed final dividend of US0.8 cent per share, making the total dividend for the year ended 31 December 2011 of US1.44 cent per share[1], representing an increase of 38.5% from 2010 (2010: final dividend and total dividend of US1.04 cent per share respectively[2])
- Proposed 1 bonus issue of share for every 2 shares held (2010: nil)

[1] Total dividend of US1.44 cent per share for the year ended 31 December 2011 includes final dividend of US0.8 cent per share and interim dividend of US0.64 cent per share. Interim dividend has been adjusted to reflect the bonus issue effective in September 2011 as approved by Shareholders at the Extraordinary General Meeting held on 14 September 2011.

[2] Both final dividend and total dividend of US1.04 cent per share for the year ended 31 December 2010 were adjusted to reflect the bonus issue effective in September 2011 as approved by Shareholders at the Extraordinary General Meeting held on 14 September 2011.

**For Identification Only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	2011	2010
		US$'000	US$'000
Turnover	3	210,393	132,177
Cost of goods sold		(91,272)	(54,075)
Gross profit		119,121	78,102
Other gains and losses	4	8,057	373
Selling expenses		(42,960)	(30,966)
Listing expenses		-	(2,960)
Administrative expenses		(15,339)	(9,466)
Finance costs	5	(934)	(617)
Share of result of an associate		130	112
Share of result of a jointly controlled entity		6	56
Profit before taxation		68,081	34,634
Income tax expense	6	(5,720)	(3,943)
Profit for the year	7	62,361	30,691
Other comprehensive income			
Exchange differences arising on translation		7,405	1,782
Share of other comprehensive income (expense) of an associate		2	(5)
Fair value (loss) gain on hedging instruments in cash flow hedges		(597)	97
Other comprehensive income for the year, net of income tax		6,810	1,874
Total comprehensive income for the year		69,171	32,565
Profit for the year attributable to:			
Owners of the Company		62,276	30,587
Non-controlling interests		85	104
		62,361	30,691
Total comprehensive income attributable to:			
Owners of the Company		69,037	32,461
Non-controlling interests		134	104
		69,171	32,565
		US$ cent	US$ cent
Earnings per share	9		
Basic		3.971	2.315
Diluted		3.965	2.293

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011

	NOTES	2011	2010
		US$'000	US$'000
Non-current assets			
Property, plant and equipment		7,724	3,282
Prepaid lease payments		4,533	3,142
Interest in a jointly controlled entity		-	99
Interest in an associate		1,305	1,431
Intangible assets		33,828	5,368
Goodwill		178,634	379
Deferred tax assets	10	4,688	4,431
Deposit paid for acquisition of property, plant and equipment		11,933	478
		242,645	18,610
Current assets			
Inventories		21,040	15,978
Trade and other receivables	11	73,010	49,314
Amount due from a jointly controlled entity		-	673
Held for trading investments		-	38
Tax recoverable		95	77
Pledged bank deposits	12	39,471	4,530
Bank balances and cash	12	97,906	133,987
		231,522	204,597
Current liabilities			
Trade and other payables	13	28,410	8,252
Bank borrowings - secured	14	39,994	4,261
Deferred consideration payables		1,147	1,198
Derivative financial instruments		645	48
Tax payable		4,088	2,709
		74,284	16,468
Net current assets		157,238	188,129
Total assets less current liabilities		399,883	206,739

	NOTES	2011 US$'000	2010 US$'000
Capital and reserves			
Share capital	15	8,049	5,718
Reserves		380,564	194,271
Equity attributable to owners of the Company		388,613	199,989
Non-controlling interests		2,560	-
		391,173	199,989
Non-current liabilities			
Deferred tax liabilities	10	4,589	2,123
Deferred consideration payables		4,121	4,627
		8,710	6,750
		399,883	206,739

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 an 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 International Accounting Standards ("IAS"s), IFRSs, amendment and interpretations ("INT"s) (hereinafter collectively referred to as "new and revised IFRSs") issued by the International Accounting Standards Board (the "IASB") and IFRS Interpretations Committee (the "IFRIC") of the IASB.

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

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Presentation of financial statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the consolidated statement of comprehensive income with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity. Such amendments have been applied retrospectively, and hence the disclosures in these consolidated financial statements have been modified to reflect the change.

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

Amendments to IFRS 7	Disclosures - Transfers of financial assets[1]
	Disclosures - Offsetting financial assets and financial liabilities[2]
	Mandatory effective date of IFRS 9 and transition disclosures[3]

IFRS 9	Financial instruments[3]
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]
Amendments to IAS 1	Presentation of items of other comprehensive income[5]
Amendments to IAS 12	Deferred tax - Recovery of underlying assets[4]
IAS 19 (as revised in 2011)	Employee benefits[2]
IAS 27 (as revised in 2011)	Separate financial statements[2]
IAS 28 (as revised in 2011)	Investments in associates and joint ventures[2]
Amendments to IAS 32	Offsetting financial assets and financial liabilities[6]
IFRIC - INT 20	Stripping costs in the production phase of a surface mine[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 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

The directors of the Company anticipate that the adoption of these standards will have no material impact on the Group's result 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.

In the current year, the Group changed its internal reporting structure such that it only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products whilst in previous years, the Group had two reportable operating segments, including (a) marketing, promotion and sales of pharmaceutical products and (b) others. However, other than revenue analysis that is disclosed below, no operating results and other discrete financial information is available for the assessment of performance of the respective business divisions. In additional, the operation regarding the manufacturing of the pharmaceutical products is not material to the Group and hence the directors of the Company consider it with other operations for performance assessment and resources allocation purpose.

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

Revenue from major products

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

	2011 US$'000	2010 US$'000
Deanxit	67,046	52,341
Ursofalk	46,244	35,879
Nesiritide	18,352	12,576
Yinuoshu	16,269	-
Shaduolika	15,657	-
Exacin	10,505	10,632
Augentropfen Stulln Mono eye-drops	9,800	8,445
Salofalk	7,084	3,989
GanFuLe	4,874	4,219
Bioflor	4,863	1,266
Protein Hydrolysate	1,142	-
Cystistat	1,106	738
Others	7,451	2,092
Total	210,393	132,177

4. OTHER GAINS AND LOSSES

	2011 US$'000	2010 US$'000
Net exchange gain (loss)	4,283	(729)
Government subsidies (Note)	1,245	391
Interest income	2,265	505
Loss on disposal of a jointly controlled entity	(20)	-
Fair value change on investments held for trading	42	172
Gain on disposal of property, plant and equipment	8	1
Others	234	33
	8,057	373

Note: During the year ended 31 December 2011, a subsidiary the Group received a refund of value-added tax on sales from the relevant PRC tax authority to encourage business in the PRC. In addition, incentive subsidies are provided by the PRC local authorities to the Group to reimburse the research and development expenses incurred in prior years. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

5. FINANCE COSTS

	2011 US$'000	2010 US$'000
Interest on bank borrowings wholly repayable within five years	673	327
Imputed interest on deferred consideration payables	261	290
	934	617

6. INCOME TAX EXPENSE

	2011 US$'000	2010 US$'000
Current tax:		
PRC Enterprise Income Tax	5,599	6,397
Hong Kong Profits Tax	595	187
Other jurisdictions	6	6
	6,200	6,590
(Over)underprovision in prior years		
PRC Enterprise Income Tax	(179)	(11)
Hong Kong Profits Tax	8	-
	(171)	(11)
Deferred taxation (note 10):		
- Current year	(309)	(2,636)
Taxation charge for the year	5,720	3,943

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 2011, the Enterprise Income Tax rate applicable to 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 22% to 24% (2010: 20% to 22%).

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") and 常德康哲醫藥有限公司 (Changde Kangzhe Pharmaceutical Co., Ltd.) ("Kangzhe Changde") are entitled to a tax reduction to 15% granted by the local tax authority and such tax concession are subject to renewal by the relevant tax bureau annually.

During the year, the Group newly acquired two subsidiaries, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Limited) (formerly known as 天津普瑞森醫藥貿易有限公司) ("Kangzhe Tianjin") and 廣西康哲廣明藥業有限公司 (Guangxi Kangzhe Guangming Pharmaceutical Co., Limited) (formerly known as 廣西廣明藥業有限公司) ("Kangzhe Guangming"). Kangzhe Tianjin is entitled to a tax reduction to 15% for 3 years, starting from 1 January 2009, granted by the local tax authority. Kangzhe Guangming is entitled to a tax reduction of 15% for 10 years, starting from 1 January 2011.

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 2011 and 2010, 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:

	2011 US$'000	2010 US$'000
Profit before taxation	68,081	34,634
Tax at the applicable tax rate (Note)	16,339	7,619
Tax effect of share of result of a jointly controlled entity	(2)	(12)
Tax effect of share of results of associates	(31)	(25)
Tax effect of expenses that are not deductible in determining taxable profit	1,088	1,162
Tax effect of income that is not taxable in determining taxable profit	(669)	(59)
Tax effect of tax losses not recognised	56	83
Tax effect of tax concession	(2,293)	(11)
Effect on different applicable tax rates of subsidiaries	(436)	(457)
Effect of tax benefit arising from Labuan Tax Act	(8,193)	(4,718)
Overprovision in prior years	(171)	(11)
Utilisation of tax loss previously not recognised	(24)	(11)
Deferred tax arising from withholding tax on undistributed profit of a PRC subsidiary	191	359
Others	(135)	24
Taxation charge for the year	5,720	3,943

Note: The applicable PRC Enterprise Income Tax rate of 24% (2010: 22%) is the prevailing tax rate in Shenzhen, the PRC, where the operations of the Group are substantially based and the taxation charge mainly represents the income tax of Kangzhe Shenzhen.

7. PROFIT FOR THE YEAR

	2011 US$'000	2010 US$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	184	186
Other emoluments	316	309
Pension costs	16	13
	516	508
Other staff costs	17,717	13,501
Pension costs	987	777
Key employee benefit expense (note 16)	153	104
Total staff costs	19,373	14,890
Auditor's remuneration	268	165
Allowance for bad and doubtful debts	107	18
Allowance for inventories	55	222
Release of prepaid lease payments	90	67
Depreciation of property, plant and equipment	1,072	724
Amortisation of intangible assets (included in cost of goods sold)	3,087	839
Cost of inventories recognised as an expense	88,059	52,821
Minimum lease payment under operating lease in respect of property	833	620

8. DIVIDENDS

	2011 US$'000	2010 US$'000
Dividend paid		
Final dividend in respect of the year ended 31 December 2010 of US$0.013 (year ended 31 December 2009: US$0.10) per share on 1,157,865,340 (2009:47,408,904) shares	15,054	4,741
Interim dividend in respect of the six months ended 30 June 2011 of US$0.008 per share on 1,287,865,340	10,301	-
	25,355	4,741

Dividend proposed

Proposed final dividend in respect of the year ended 31 December 2011 of US$0.008 (in respect of the year ended 31 December 2010: US$0.013) per share of par value of US$0.005 (2010: US$0.005) on 1,609,831,000 (2010: 1,143,691,000) shares	12,879	14,868

The Board of Directors have declared a final dividend of US$0.008 per ordinary share of par value of US$0.005 for the year ended 31 December 2011 (2010: US$0.013 per ordinary share of par value of US$0.005).

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:

	2011 US$'000	2010 US$'000
Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company)	62,276	30,587

	Number of ordinary shares As at 31 December	
	2011	2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,568,446,805	1,321,385,445
Effect of dilutive potential ordinary shares on share options	2,259,466	12,607,889
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,570,706,271	1,333,993,334

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

The number of shares for the purpose of calculating basic and diluted earnings per share has been adjusted to reflect the bonus issue (see note 15) effective in September 2011.

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	Undistributed profits of PRC subsidiary	Fair value adjustments to intangible assets acquired in business combinations	Others (note)	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2010	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
Acquisitions	-	-	(2,433)	-	(2,433)
Credit (charge) to profit or loss for the year (note 6)	268	(191)	248	(16)	309
Exchange differences	-	-	(90)	5	(85)
At 31 December 2011	4,599	(2,314)	(2,275)	89	99

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:

	2011	2010
	US$'000	US$'000
Deferred tax assets	4,688	4,431
Deferred tax liabilities	(4,589)	(2,123)
	99	2,308

At 31 December 2011, the Group has unused tax losses of approximately US$2,744,000 (2010: US$2,611,000) 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 2011 are tax losses of approximately US$1,349,000 (2010: US$1,327,000) 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$46,280,000 (2010: US$42,460,000).

11. TRADE AND OTHER RECEIVABLES

	2011	2010
	US$'000	US$'000
Trade receivables	40,636	30,609
Less: Allowance for bad and doubtful debts	(331)	(215)
	40,305	30,394
Bills receivables	23,573	12,059
Purchase prepayment	2,229	2,264
Other receivables and deposits	6,903	4,597
Total trade and other receivables	73,010	49,314

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:

	2011	2010
	US$'000	US$'000
0 - 90 days	37,054	26,940
91 - 365 days	3,239	3,424
Over 365 days	12	30
	40,305	30,394

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$6,400,000 (2010: US$5,457,000) 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:

	2011 US$'000	2010 US$'000
0 - 90 days	3,340	2,406
91 - 365 days	3,053	3,025
Over 365 days	7	26
	6,400	5,457

The Group has provided full impairment for receivables that aged over 3 years from invoice date 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:

	2011 US$'000	2010 US$'000
Balance at beginning of the reporting period	215	213
Impairment losses recognised on receivables	107	18
Amount written off as uncollectible	(5)	(16)
Currency realignment	14	-
Balance at end of the reporting period	331	215

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of US$331,000 (2010: US$215,000) 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 0.50% to 4.20% (2010: 0.36% to 2.25%) per annum.

As at 31 December 2011, included in pledged bank deposits amounting to US$nil (2010: US$1,716,000) represent deposits pledged to banks to secure short-term bank borrowings (see note 14). The remaining pledged bank deposits amounting to US$39,471,000 (2010: 2,707,000) and US$nil (2010: US$107,000) 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:

	2011 US$'000	2010 US$'000
0 - 90 days	10,276	232
91 - 365 days	322	3
Over 365 days	95	8
	10,693	243
Payroll and welfare payables	4,643	2,746
Other tax payables	3,192	140
Other payables and accruals	9,882	5,123
	28,410	8,252

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

14. BANK BORROWINGS - SECURED

	2011	2010
	US$'000	US$'000
Advanced from banks on discounted bills receivables with recourse	39,994	2,780
Bank loans	-	1,481
Carrying amount repayable within one year	39,994	4,261

Bank borrowings comprise borrowing that are denominated in:

	2011	2010
	US$'000	US$'000
US$	24,270	4,261
RMB	15,724	-
	39,994	4,261

Advanced from banks on bills receivables with carrying amount of US$39,994,000 (2010: US$2,780,000), carried fixed interest at a range from 1.98% to 3.04% (2010: 1.39% to 1.98%) per annum.

As at 31 December 2010, the remaining bank loans with carrying amount of US$1,481,000 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% per annum.

As at 31 December 2010, the bank borrowings are secured by the Group's pledged bank deposits amounting to US$1,716,000.

15. SHARE CAPITAL

	Number of shares '000	Amount US$'000
Authorised share capital:		
At 1 January 2010	1,000,000	100,000
Increase in authorised share capital (note 3)	19,000,000	-
At 31 December 2010 and 2011	20,000,000	100,000
Issued and fully paid:		
At 1 January 2010	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
Exercise of share options (note 6)	14,174	71
Issue of shares in consideration of acquisition of a subsidiary (note 7)	130,000	650
Bonus issue (note 8)	321,966	1,610
	1,609,831	8,049

Notes:

(1) On 14 May 2010, 11,835 new ordinary shares of US$0.10 of the Company were issued at 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 Trading Limited from Mr. Hui Ki Fat, a director 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 19ecognized 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.

(6) On 7 March 2011, Mr. Chen Hong Bing ("Mr. Chen"), a director and shareholder of the Company, exercised the share options of 14,173,900 shares at an exercise price of GBP0.069 per share (equivalent to US$0.11 per share). The closing price of the Company's shares at dates on which the options were exercised was HK$6.79.

(7) On 19 April 2011, pursuant to a share purchase agreement entered into on 3 April 2011, the Company issued 130,000,000 new ordinary shares of the Company with a par value of US$0.005 each as part of the consideration for the acquisition of 100% equity interest in Great Move from an independent third party, Glitter Long Limited. The fair value of the consideration in the form of 130,000,000 ordinary shares of the Company was determined using the market price of the ordinary shares at the date of acquisition that is HK$8.58 (equivalent to US$1.103) per share.

(8) On 28 September 2011, the bonus issue has been distributed on the basis of 1 bonus share for every 4 shares held. Upon the exercise of the bonus issue, the bonus issue was credited as fully paid by way of 19ecognized19ion of an amount in the share premium account. Accordingly, 321,966,335 bonus shares were issued under the bonus issue and the new ordinary shares were calculated based on the par value of US$0.005 each.

All the shares which were issued by the Company during the year ended 31 December 2011 and 2010 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 (t“e "Yearly Contributi”ns"), subject to the Bo’rd's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (t“e "F”nd"). 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 2011, the Company contributed cash amounting to US$153,000 (2010: US$104,000) to the Fund and which we21ecognizedsed as key employee benefit expenses in the profit or loss in the consolidated statement of comprehensive income. On the other hand, the Scheme subscribed nil shares and 11,835 shares of the Company during the year ended 31 December 2011 and 2010 respectively (see note 15).

Management Discussion and Analysis

Business Review

For the year ended 31 December 2011 (the "Reporting Period"), despite the volatile market conditions in China, China Medical System Holdings Limited (the "Company" or "CMS") and its subsidiaries (the "Group") achieved significant growth. Turnover amounted to US$210.4 million (2010: US$ 132.2 million), representing an increase of 59.2% over the last year, while net profit reached US$62.4 million (2010: US$30.7 million), representing an increase of 103.2% over last year. Basic earnings per share were US3.971 cents (2010:US2.315cents).

During the Reporting Period, the Group recorded satisfactory results growth as it benefited from the pursuit of two core development strategies: the introduction and development of products and expansion of its marketing and promotion network, in addition, the Group acquired products and expanded the network through merger and acquisition during the Reporting Period.

In April 2011, the Group successfully extended its business model by acquiring Great Move Enterprises Limited ("Great Move") and its subsidiaries. The main wholly-owned subsidiary of Great Move is Tianjin Precede Medical Trade Development Co., Ltd. (officially renamed Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd., or "Tianjin Kangzhe", on 24 October 2011), a Chinese company that engaged in the marketing, promotion and sale of prescription drugs through the Agency Promotion Model in China. After the acquisition, the Group not only owns a well-established physician-orientated Direct Academic Orientated Promotion Model, but has also added the Agency Promotion Model, which is composed of independent third-party sales representatives or distributors. The Group will focus on integrating and developing the two sales and promotion models. In addition, in order to control the product rights of "Protein Hydrolysate", the Group acquired 51% equity interests of the manufacturer-Guangming Pharmaceutical Co., Ltd. in May 2011 (officially renamed the Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd. or "Kangzhe Guangming", on 10 October 2011) by way of investment in capital and equity increase.

Product Development

During the Reporting Period, the Group marketed, promoted and sold in the China market: nine products via the Direct Academic Promotion Network ("Direct Network"), ten products via the Agency Promotion Network ("Agency Network"), and also owned several products in-house manufactured. For Deanxit and Ursofalk, the top two sales contributors for the Group in the Reporting Period, the Group principally consolidated the existing market, continuously established new market segments and extended the rural market coverage to achieve stable growth. With regards to the products with market potential, the Group mainly focused on increasing investment in products promotion, development of hospital coverage and continued to expand prescription departments to achieve more extensive market growth of the products.

The year 2011 was a very competitive year for the Agent Promotion Model. The two main products - Shaduolika and Yinuoshu under the Agency Network of the Group still successfully achieved steady growth even under the fierce market competition. This was mainly due to the successful exclusive bidding of Yinuoshu in the Essential Drug List tenders of some key markets during the Reporting Period, which contributed to its sales growth. Aside from the Agency Products, in May 2011, the Group also successfully gained the product rights of "Protein Hydrolysate" in the China market through equity control. That product was marketed, promoted and sold in the China market through the Agency Network, and the Group also supported the product on the academic front to enhance its academic positioning. This was the result of integrating the professional academic ability of the Direct Network and the rapid market coverage ability of the Agency Network. In addition, in January 2011, the Group and Tibet Rhodiola Pharmaceutical Holding Co., Ltd. ("Tibet Pharma"), the manufacturer of XinHuoSu, successfully extended the exclusive agency agreement for XinHuoSu in the China market for another three years, which further consolidated the strategic partnership between each other.

To increase the transparency in the development of product portfolio and the visibility of future development, from the end of 2010 to the beginning of 2011, the Group signed agreements for three products-Budenofalk, L-lysine Aescinat and Thiotriazolin-which require import drug registration in China, and the application of clinical trial for registration of Budenofalk has been accepted by the State Food and Drug Administration ("SFDA") in the first half of 2011. According to the relevant provisions of the SFDA, the registration process of a new drug will normally take between two to five years to complete, so it would take two to five years for such products to start to contribute to the Group's sales. All three products are effective complements to the Group's existing strong therapeutic departments, and after the completion of import drug registration, the Group can make use of the existing promotion and sales network and expert resources to achieve rapid product coverage. In addition, the phase III clinical trial of Tyroserleutide (CMS024), to which the Group has independent intellectual property rights, has already been commenced in 2011.

The Products of Direct Network:

	Product Name	As a percentage of the Group's revenue (%)
Flagship Products	Deanxit (Flupentixol and Melitracen)	31.9
	Ursofalk (Ursodeoxycholic Acid)	22.0
Products with Market Potential	XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")	8.7
	Augentropfen Stulln Mono eye-drops (Escuilin and Digitalisglycosides Eye-Drops)	4.7
	Salofalk (Mesalazine)	3.4
	Bioflor (Saccharomyces Boulardii)	2.3

(i) Flagship Products

Deanxit (Flupentixol and Melitracen)

Deanxit is manufactured by H. Lundbeck A/S of Denmark and is used for the treatment of mild to moderate depression and anxiety. Deanxit is our best-selling drug, and according to 2011 sales data from the China market provided by IMS Global Learning Consortium, Inc.（IMS）, Deanxit was the most prescribed antidepressant medication in China. In 2011, Deanxit recorded sales of US$ 67.0 million, an increase of 28.1% when compared with last year, accounting for 31.9% of the Group's turnover. The Group's main objectives for Deanxit in 2011 were to continue to

maintain and stabilize the existing market, vigorously expand into the rural market, and augment the coverage in the surrounding markets lacking the Group's presence. During the Reporting Period, the Group also created new growth by expanding the prescription departments of Deanxit, apart from continuing to strengthen and maintain its brand building in the traditional departments of neurology and psychiatry and the building of expert network, the Group also conducted marketing and promotion for Deanxit in the Gastrointestinal department. Moreover, Deanxit was included in the National Reimbursement Drug Lists in 2009, and the effect in advancing its sales has gradually come to light. During the Reporting Period, the sales coverage of Deanxit has spanned over 6,900 hospitals nationwide.

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. According to 2011 sales data from the China market released by IMS, Ursofalk retained its first place ranking in the Ursodeoxycholic Acid ("UDCA") market. In 2011, Ursofalk recorded sales of US$46.2 million, an increase of 28.9% when compared with last year, and it accounted for 22.0% of the Group's turnover. Ursofalk is the Group's only drug which has been included on the National Essential Drugs List, and the Group paid close attention to the implementation and tenders of the National Essential Drugs List, and strengthened all aspects of the associated response tasks of the product such as tender and pricing， and successfully completed the tender of Ursofalk nationwide in the past year. In addition, the Group also strengthened the brand building of Ursofalk and the maintenance of its expert network, and systematically promoted the balanced development of Ursofalk in various therapeutic departments in the key and potential hospitals nationwide. During the Reporting Period, the Group also strengthened its efforts in the development and promotion of Ursofalk in medium-sized hospitals and rural hospitals in some areas. Due to the existence of other similar products in the market, and in order to consolidate the position of Ursofalk in the core hospitals nationwide, the Group selectively held many academic activities such as clinical trials and case studies in 150 core hospitals nationwide. During the Reporting Period, the sales coverage of Ursofalk spanned over 4,000 hospitals nationwide.

(ii) Products with Market Potential

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

XinHuoSu, manufactured by Tibet Pharma, is a biological agent used to treat acute heart failure patients who have dyspnea at rest or with minimal activity. During the Reporting Period, XinHuoSu recorded sales of US$18.4 million, representing an increase of 45.9% when

compared with last year, and it accounted for 8.7% of the Group's turnover. During the Reporting Period, the Group was committed to further improving the regional distribution of XinHuoSu, and focused on cultivating the Eastern China market. On the basis of consolidating the existing indications, the Group also vigorously extended the use of the product in other departments such as the emergency department and cardiothoracic surgery department, which not only promoted the sales of XinHuoSu during the Reporting Period, but also laid a solid foundation for the development of XinHuoSu in the future. During the Reporting Period, the sales coverage of XinHuoSu spanned close to 1,000 hospitals nationwide.

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

Augentropfen Stulln Mono Eye-drops, manufactured by Pharma Stulln GmbH of Germany, is used to treat age-related macula degeneration and all forms of ocular asthenopia. During the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of US$9.8 million, representing an increase of 16.0% compared with last year, and it accounted for 4.7% of the Group's turnover. The core development strategies of Augentropfen Stulln Mono Eye-drops in 2011 were to strengthen brand building and to increase investment for promotion of the product at the key hospitals, to refine the indications of the product, and to actively carry out education of patients. During the Reporting Period, both the promotion and market demand for Augentropfen Stulln Mono Eye-drops in all the regions were quite positive, but it was restricted by the production capability of the manufacturer, resulting in a supply shortage in the market. During the Reporting Period, Pharma Stulln GmbH of Germany, the manufacturer of Augentropfen Stulln Mono Eye-drops, has promptly updated its production equipment and expanded the production line to ensure the adequate and timely supply to the Group. Augentropfen Stulln Mono Eye-drops is one of the potential products in which the Group has made a large investment, and it has much room for growth in the future. During the Reporting Period, the sales coverage of Augentropfen Stulln Mono Eye-drops spanned over 2,800 hospitals nationwide.

Salofalk (Mesalazine)

Salofalk is manufactured by Dr. Falk Pharma GmbH of Germany, including three dosage forms of coated tablets, suppositories and enemas, which are mainly used to treat ulcerative colitis and Crohn's Disease. During the Reporting Period, Salofalk recorded sales of US$7.1million, representing an increase of 77.6% when compared with last year, and it accounted for 3.4% of the Group's turnover. The indication of Salofalk is inflammatory bowel disease, and this disease is presently in the under-diagnosis phase in China. Therefore, the most important mission of the Group for Salofalk was to improve the doctors' capability to recognize and diagnose of this condition, and to establish and develop the expert network and the brand image of Salofalk. During the Reporting Period, the Group once again held the CMS－Falk City Symposium, which invited a large number of domestic and international experts to share the prescription

experience of Salofalk, and successfully launched the clinical trial of the Salofalk enema, and began the promotion of Salofalk enema nationwide. In the meantime, the Group has also focused on penetrating hospitals with this product. During the Reporting Period, the sales coverage of Salofalk spanned over 1,000 hospitals nationwide.

Bioflor (Saccharomyces Boulardii)

Bioflor, manufactured by Biocodex of France, is a biological agent used to treat adult and children diarrhea and diarrhea symptoms caused by the disturbance of intestinal flora. During the Reporting Period, Bioflor recorded sales of US$4.9 million, an increase of 284.1% when compared with last year, and it accounted for 2.3% of the Group's turnover. The year 2011 was the second year after the Group took over Bioflor, during which the major task of the Group was to penetrate hospitals. Meanwhile, during the Reporting Period, the Group strengthened the formation of its expert network of the product, and through a variety of academic activities and visits of front-line salespeople to doctors, it significantly improved the recognition and prescription rates of the doctors towards the product. In addition, during the Reporting Period, the Group also actively expanded the product's therapeutic departments, which gradually expanded the sales from a single department of pediatricians to the gastrointestinal department, and actively supported the sales growth of Bioflor.

(iii) Exacin (Isepamicin Sulfate Injection)

Exacin, manufactured by Asahi Kasei of Japan, is an aminoglycoside antibiotic product. During the Reporting Period, Exacin recorded sales of US$10.5 million, a slight decrease when compared with last year, and it accounted for 5.0% of the Group's turnover. Due to the national discussion on limiting the use of antibiotics in 2011, all hospitals throughout the country rigorously screened their directory of antibiotics, which led to a negative impact on the use of Exacin in hospitals.

(iv) Other Products

Apart from the products mentioned above, the Group also has two other products promoted by the Direct Network, which include Cystistat (Sterile Hyaluronate Solution) and GanFuLe. During the Reporting Period, the two products contributed approximately 2.8% to the Group's turnover.

The Products of Agency Network:

	Product Name	As a percentage of the Group's revenue (%)
Flagship Products	Shaduolika (Yanhuning Injection)	7.4
	Yinuoshu (Ambroxol Hydrochloride for Injection)	7.7
Products with Market Potential	Protein Hydrolysate	0.5
	Kunning Oral Solution	0.3

*Note: Turnover from the Agency Network was only consolidated from 1 April 2011 to the end of 2011.

(i) Flagship Products

Shaduolika (Yanhuning Injection)

Shaduolika, developed and manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd., is a common injection of anti-infective traditional Chinese medicine used in pediatrics, respiratory and emergency treatment. During the Reporting Period, Shaduolika recorded sales of US$15.7 million, and it accounted for 7.4% of the Group's turnover. In 2011, the Group completed the re-assessment of the safety of Shaduolika, and held a summary convention in Guangzhou in which more than 200 clinicians participated, and thereby giving rise to the influence of Shaduolika among the clinicians.

Yinuoshu (Ambroxol Hydrochloride for Injection)

Yinuoshu, manufactured by TIPR Pharmaceutical Responsible Co., Ltd., is the first generic version of an ambroxol hydrochloride for injection approved in China, and is an expectorant product used for respiratory diseases. During the Reporting Period, Yinuoshu recorded sales of US$16.3 million, and it accounted for 7.7% of the Group's turnover. During the Reporting Period, Yinuoshu won the exclusive tender from the National Essential Drugs List in many key areas, which greatly increased the coverage and sales of Yinuoshu in the hospitals of these areas.

（ii）Products with Market Potential

Protein Hydrolysate

"Protein Hrdrolysate" includes oral solution and granules, and is an exclusive product in China manufactured by Kangzhe GuangMing, which is a new generation short peptide enteral nutrition drug manufactured by the innovative Chinese Biochemical Technique. During the Reporting Period, the product recorded sales of US$1.1 million, and it accounted for 0.5% of the Group's turnover. The year 2011 was the year in which the Group introduced "Protein Hrdrolysate", and the Group set the key task for "Protein Hrdrolysate" in this year, which was to complete the preparation of various market foundation. During the Reporting Period, the Group successfully completed all coordination work on "Protein Hrdrolysate" between the Agency Network and Kangzhe GuangMing, continued to pay close attention to tendering, pricing and penetrating of key hospitals, and completed the product agency selection in the areas with low market presence. During the Reporting Period, "Protein Hrdrolysate" has been successfully listed on some provincial Insurance Reimbursement Drug Lists.

Kunning Oral Solution

Kunning Oral Solution, exclusively manufactured by Yantai Rongchang Pharmaceutical Co., Ltd., is used to promote blood circulation, dissipate stasis, and promotes the involution of uterus. During the Reporting Period, Kunning Oral Solution recorded sales of US$0.7 million, and accounted for 0.3% of the Group's turnover.

（iii）Other Products

Apart from the products mentioned above, the Group also has other products promoted by the Agency Network, which includes Shenshuiqing, Supingshu, Irbesartan and Hydrochlorothiazide and so on. During the Reporting Period, the products listed above accounted for 1.3% of the Group's turnover.

Moreover, the Group also produced and sold 15 other in-house manufactured products, including JinErLun, Fufang Danshen Pian and Niuhuang Jiedu Pian and so on. During the year, the Group's in-house manufactured products accounted for 1.8% of the Group's turnover.

In-house Researched Product Development

Tyroseuleutide, researched and developed by the Group with independent intellectual property rights, is used to treat primary liver cancer and has huge potential market value in China, which will be an important product for the Group in the future. In 2011, the Group has fully initiated the Phase III clinical trial of Tyroseuleutide. The title of the phase III study of Tyroserleutide is "A Randomized, Double Blind, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in Patients with Hepatocellular Carcinoma", and the primary purpose of the study is to verify the efficacy of Tyroserleutide on prolonging recurrence-free survival ("RFS") and overall survival ("OS") of the patients with hepatocellular carcinoma. The clinical trial was jointly launched by Zhaoyou Tang (Academician of the Chinese Academy of Engineering and President of Liver Cancer Research Institute, Fudan University, Shanghai) and Mengchao Wu (Academician of Chinese Academy of Sciences and President of The Second Military Medical University, Shanghai East Hepatobiliary Surgery Hospital), Shanghai Fudan University affiliated Zhongshan Hospital was set as the leading unit, with Professor Jia Fan acting as the lead researcher of the clinical trial. After thorough investigation of the available patient cases and the qualifications of the institutions, the clinical trial was set to include 26 leading liver cancer treatment tier three hospitals in China as collaboration partners. During the Reporting Period, the Group has already successfully started kick-off meetings of Tyroserleutide phase III clinical trial during 18 hospitals in China, and has already enrolled 4 subjects. In addition, the Group has purchased a parcel of land spanning 36,422.4 square meters in the new region of Pingshan, Shenzhen, China, with the plan of building a manufacturing facility which will be used to manufacture Tyroseuleutide and other products.

Network Development

During the Reporting Period, the Group made marked improvement of its marketing promotion network. Through the "Internship Programme" and "Professional Talent Development Programme", the Group recruited outstanding fresh graduates from medical colleges to join its Direct Network. Meanwhile, the Group has continued to expand the Agency Network, andselected additional high quality independent third party sale representatives or agents to join its growing Agency Network. In addition, the Group has paid more attention to the recruitment of experienced medical representatives. As of 31 December 2011, the Direct Network of the Group had close to 1,200 sales, marketing and promotion professionals while the Agency Network had close to 1,000 independent third party sales representatives or agents.

Aside from enlarging the number of sales representatives and agents, the Group has also expanded the network geographical coverage and hospital coverage. As of 31 December 2011, the sales coverage of the Group spanned over 14,600 hospitals throughout China, of which around 8,600 hospitals were covered by the Direct Network and over 7,800 hospitals were covered by the Agency Network.

In addition to network expansion, the Group has also continued to enhance the management of the Direct Network and refined the incentive mechanism for sales representatives, improved network organization and enhanced the operating efficiency of the network. Meanwhile, the Group refined the management of the Agency Network, and assisted Tianjin Kangzhe to build up an information management system, and introduced the Group's management and evaluation system into it. Meanwhile, the Group also combined both its abundant management experience and its high academic standards to improve the operational ability of Tianjin Kangzhe, and also aided Tianjin Kangzhe to improve and refine the collaboration model of the market management department.

During the Reporting Period, the Group vigorously expanded its rural market coverage, through the marketing and promotion network continued to penetrate the rural market to fill the Group's market absence in the rural market and to tap the existing potential of the rural market with expectations of further growth. Meanwhile, the Group actively utilized the advantages of the integration of both networks to accelerate its market coverage and to boost the sales of its products. During the Reporting Period, the task of promotion models integration for some products of the Group has already been initiated and achieved initial success.

Outlook and Future Development

Based on the result achieved in 2011, the Group will continue to strive for better results. On the one hand, the Group will step up the implementation of the three strategies for new product introductions, namely, the "Rapid-growth Products Strategy", "Long-term Prospects Products Strategy", and the "Permanent Control of Marketing Rights Strategy", and commit to improve the transparency, visibility and stability of product development, and endeavor to gain control of the products right in the China market; on the other hand, the Group will constantly expand its marketing promotion network and enhance the coverage of the marketing promotion network in the rural market. Meanwhile, the Group will continue to invest in the academic promotion of its products, enhance the management of the Agency Network, continue to strive at taking advantage of the synergy from the two promotion models, and accelerate the combination of both models and networks in product sales and promotion. Going forward, the Group will continue to utilize and make use of the potential of the capital market, take full advantage of and effectively consider the combination of the Chinese government's healthcare policies and development trends, correctly assess the situation, so the Group can achieve long-term and stable development with a more pragmatic and aggressive attitude and through a more diversified manner.

Financial Review

In reading the following discussion and analysis, please also refer to the annual report of the Group as shown in the audited financial statements and notes.

The Group and its subsidiaries' prepared audited annual reporting in accordance with international financial report standards, the financial performance are summarized as follows:

Acquisition of Subsidiaries

For the year ended 31 December 2011, 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 Kangzhe 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

There were two segments disclosed in the Group's annual report for the year ended 31 December 2010: (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. Since other business segment was immaterial, the management regarded it as no longer a segment in resources allocation and performance review, so the Group had no reportable operating segment for the year ended 31 December 2011.

Turnover

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

	2011		2010	
	US$'000	Weighted rate	US$'000	Weighted rate
Deanxit	67,046	31.9%	52,341	39.6%
Ursofalk	46,244	22.0%	35,879	27.1%
Nesiritide	18,352	8.7%	12,576	9.5%
Yinuoshu	16,269	7.7%	-	-
Shaduolika	15,657	7.4%	-	-
Exacin	10,505	5.0%	10,632	8.0%
Augentropfen Stulln Mono eye-drops	9,800	4.7%	8,445	6.4%
Salofalk	7,084	3.4%	3,989	3.0%
GanFuLe	4,874	2.3%	4,219	3.2%
Bioflor	4,863	2.3%	1,266	1.0%
Protein Hydrolysate	1,142	0.5%	-	-
Cystistat	1,106	0.5%	738	0.6%
Others	7,451	3.6%	2,092	1.6%
	210,393	100%	132,177	100%

Turnover increased by 59.2% from US$132.2 million for the year ended 31 December 2010 to US$210.4 million for the year ended 31 December 2011, mainly due to the sales volume increase, with relatively stable selling prices. Meanwhile, turnover of US$40.0 million was contributed by the subsidiaries newly acquired in 2011, and accounted for 19.0% of the Group's turnover.

Cost of Goods Sold

Cost of goods sold increased by 68.8% from US$54.1 million for the year ended 31 December 2010 to US$91.3 million for the year ended 31 December 2011, primarily reflecting growth in sales. Meanwhile, cost of goods sold of US$18.8 million generated from the subsidiaries newly acquired in 2011, accounted for 20.7% of the Group's cost of goods sold. Cost of goods sold arisen from the amortization of intangible assets recognized on the acquisition of the subsidiaries in 2011 amounted to US$1.7 million,.

Gross Profit and Gross Profit Margin

Gross profit increased by 52.5% from US$78.1 million for the year ended 31 December 2010 to US$119.1 million for the year ended 31 December 2011, primarily reflecting growth in turnover. Meanwhile, gross profit of US$19.5 million was contributed by the subsidiaries newly acquired in 2011, and accounted for 16.3% of the Group's gross profit. Gross profit margin decreased from 59.1% for the year ended 31 December 2010 to 56.6% for the year ended 31 December 2011, mainly due to a change in product mix, the import tax associated with increased intra-group transactions, the relatively lower gross profit margin of the subsidiaries newly acquired in 2011, and the effect of the amortization of intangible assets recognized on the acquisition of the subsidiaries in 2011.

Other Gains and Losses

Other gains and losses increased by 2,060.1% from US$0.4 million for the year ended 31 December 2010 to US$8.1 million for the year ended 31 December 2011, mainly reflecting gains arising from fluctuations in foreign exchange and interest income from higher bank balances. Meanwhile, other gains and losses of US$1.5 million was contributed by the subsidiaries newly acquired in 2011, and accounted for 18.2% of the Group's other gains and losses.

Selling Expenses and Selling Expenses as a Percentage of Turnover

Selling expenses increased by 38.7% from US$31.0 million for the year ended 31 December 2010 to US$43.0 million for the year ended 31 December 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. Meanwhile, selling expenses of US$2.1 million was generated from the subsidiaries newly acquired in 2011, and accounted for 4.8% of the Group's selling expenses. Selling expenses as a percentage of turnover decreased by 3.0 percentage points from 23.4% for the year ended 31 December 2010 to 20.4% for the year ended 31 December 2011 as the Group benefited from economies of scale, and the lower selling expenses as a percentage of turnover at the subsidiaries newly acquired in 2011.

Administrative Expenses and Administrative Expenses as a Percentage of Turnover

Administrative expenses increased by 62.0% from US$9.5 million for the year ended 31 December 2010 to US$15.3 million for the year ended 31 December 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. Meanwhile, administrative expenses of US$2.3 million was generated from the subsidiaries newly acquired in 2011, and accounted for 15.0% of the Group's administrative expenses. Administrative expenses as a percentage of turnover increased by 0.1 percentage points from 7.2% for the year ended 31 December 2010 to 7.3% for the year ended 31 December 2011.

Finance Costs

Finance costs increased by 51.4% from US$0.6 million for the year ended 31 December 2010 to US$0.9 million for the year ended 31 December 2011, mainly due to the increased bank borrowings. Meanwhile, finance costs of US$0.1 million was generated from the subsidiaries newly acquired in 2011, and accounted for 8.4% of the Group's finance costs.

Taxation

Taxation increased by 45.1% from US$3.9 million for the year ended 31 December 2010 to US$5.7 million for the year ended 31 December 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. Meanwhile, taxation of US$2.4 million was generated from the subsidiaries newly acquired in 2011, and accounted for 42.7% of the Group's taxation.

Profit for the Year

Profit for the year increased by 103.2% from US$30.7 million for the year ended 31 December 2010 to US$62.4 million for the year ended 31 December 2011, due to the continuous and stable growth of sales, and effective cost control. Meanwhile, profit for the year of US$13.8 million was contributed by the subsidiaries newly acquired in 2011, and accounted for 22.1% of the Group's profit for the year. Net profit margin increased by 6.4 percentage points from 23.2% for the year ended 31 December 2010 to 29.6% for the year ended 31 December 2011, as the Group benefited from economies of scale, effective cost control, and expansion of the agency promotion network.

Inventories

Inventories increased by 31.7% from US$16.0 million as at 31 December 2010 to US$21.0 million as at 31 December 2011, mainly due to the purchase associated with the increase of sales. The average inventory turnover days decreased 17 days from 91 days for the year ended 31 December 2010 to 74 days for the year ended 31 December 2011, primarily reflecting the strength of inventories management, and the shorter inventory turnover days at the subsidiaries newly acquired in 2011.

Trade Receivables

Trade receivables increased by 32.6% from US$30.4 million as at 31 December 2010 to US$40.3 million as at 31 December 2011, primarily reflecting the growth in sales. At the same time, as a result of the strengthened management on account receivables, and the majority of sales adopted cash on delivery payment terms by the subsidiaries newly acquired in 2011, the average trade receivables turnover days decreased from 71 days for the year ended 31 December 2010 to 62 days for the year ended 31 December 2011

Trade Payables

Trade payables increased by 4,300.4% from US$0.2 million as at 31 December 2010 to US$10.7 million as at 31 December 2011, mainly due to the use of letter of credit for some of the product purchase in 2011 rather than by cash payment in 2010. The average trade payables days increased from 21 days for the year ended 31 December 2010 to 22 days for the year ended 31 December 2011.

Liquidity and Financial Resources

The following table is a summary of our consolidated statements of cash flows:

	For the year ended 31 December	
	2011	2010
	US$'000	US$'000
Net cash from operating activities	62,744	11,191
Net cash from (used in) investing activities	(107,561)	9,302
Net cash from financing activities	6,506	97,904
Net increase (decrease) in cash and cash equivalent	(38,311)	118,397
Cash and cash equivalent at beginning of the year	133,987	15,113
Effect of foreign exchange rate changes	2,230	477
Cash and cash equivalent at end of the year	97,906	133,987

Net cash from operating activities

The Group's net cash generated from operating activities was US$62.7 million for the year ended 31 December 2011, compared with US$11.2 million for the year ended 31 December 2010, an increase of 460.7%. It was mainly due to the growth of sales, the effective control on cost, and net cash flow contributed by the subsidiaries newly acquired in 2011.

Net cash from (used in) investing activities

For the year ended 31 December 2011, the Group's net cash used in investing activities was US$107.6 million, compared with net cash from investing activities of US$9.3 million for the year ended 31 December 2010, significantly decreased by 1,156.3%, mainly reflecting the prepayment for the purchase of head office, the acquisition of subsidiaries, the increase of pledged bank deposit, and the increase investment in the acquisition of product patent from acquired subsidiaries.

Net cash from financing activities

For the year ended 31 December 2011, the Group's net cash from financing activities amounted to US$6.5 million, compared with net cash from financing activities of US$97.9 million for the year ended 31 December 2010, decreased by 93.4%. It was mainly due to the proceeds from the company's global offering of shares in 2010.

Net Current Assets

	As at 31 December	
	2011	2010
	US$'000	US$'000
Current Assets		
Inventories	21,040	15,978
Trade and other receivables	73,010	49,314
Account receivables from a jointly controlled entity	-	673
Held for trading investment	-	38
Tax recoverable	95	77
Pledged bank deposit	39,471	4,530
Bank balances and cash	97,906	133,987
	231,522	204,597
Current Liabilities		
Trade and other payables	28,410	8,252
Bank borrowings – secured	39,994	4,261
Deferred consideration payables	1,147	1,198
Derivative financial instruments	645	48
Tax payable	4,088	2,709
	74,284	16,468
Net current assets	157,238	188,129

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2011	2010
	US$'000	US$'000
Purchase of property, plant and equipment	13,796	832
Purchase of land use right	-	2,918
	13,796	3,750

Debts

The following table shows the Group's debts:

	For the year ended 31 December	
	2011	2010
	US$'000	US$'000
Interest bearing bank loan and other loans	39,994	4,261

The Group's gearing ratio, calculated as bank borrowings divided by total assets, increased to 8.4% as at 31 December 2011 from 1.9% as at 31 December 2010, mainly reflecting the increase of secured bank borrowings.

Market Risks

We are exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in the note 33 to financial statements.

Dividend

For the year ended 31 December 2011, the Group paid an interim dividend for 2011 and a final dividend for 2010 of US$10.3 million and US$15.1 million respectively. For the year ended 31 December 2010, the Group paid an interim for 2010 and a final dividend for 2009 of nil and US$4.7 million respectively.

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

The Company has not purchased, sold or redeemed any of its listed securities during the year ended 31 December 2011.

Corporate Governance Practices

For the year ended 31 December 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 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 operation. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

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 our 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 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 2011 have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

Final Dividend

The Board of Directors is pleased to recommend a final dividend of US0.8 cent (equivalent to HK$0.0621) per ordinary share for the year ended 31 December 2011 to shareholders whose names appear on the Register of Members of the Company on Friday, 4 May 2012. The final dividend will be paid on Tuesday, 14 May 2012. The register of members of the Company will be closed from Wednesday, 2 May 2012 to Friday, 4 May 2012 (both days inclusive).

Bonus Issue

The Bonus Issue is proposed to be made on the basis of one (1) Bonus Share for every two (2) existing Shares held by the Shareholders whose names appear on the register of members of the Company at the close of business on the Record Date ("Bonus Issue"). The Bonus Issue will be credited as fully paid by way of capitalization of an amount in the share premium account. 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 year ended 31 December 2011 nor will they rank for the Bonus Issue.

The Bonus Issue is conditional upon:
(i) the passing of an ordinary resolution by the Shareholders at the AGM approving the Bonus Issue; and
(ii) the Listing Committee granting the listing of， and permission to deal in, the Bonus Shares.

Set out below is a timetable for the Bonus Issue*:

Latest time for lodging forms of proxy for the AGM (in any event not less than 48 hours before the time appointed for holding the AGM or any adjournment thereof)	2012 10:00 a.m.,Monday, 23 April
Date and time of the AGM	10:00 a.m., Wednesday, 25 April
Announcement of results of AGM	Wednesday, 25 April
Last day of dealings in the Shares on a cum-entitlement basis	Thursday, 26April
First day of dealings in the Shares on an ex-entitlement basis	Friday, 27 April
Latest time for lodging transfer of Shares for registration in order to qualify for the Final Dividend and Bonus Issue.....	4:30 p.m., Monday, 30 April
Closure of Register (both dates inclusive)	from Wednesday, 2 May to Friday, 4 May
Record Date for determination of entitlement to the Final Dividend and Bonus Shares	Friday, 4 May
Register re-opens	Monday, 7 May
Final Dividend and Certificates for the Bonus Shares expected to be dispatched.....	on or before Monday, 14 May
First day of dealings in the Bonus Shares on the Stock Exchange.....	Tuesday, 15 May

*Notes:

1. All dates and time set out in this announcement refer to Hong Kong dates and time.
2. Dates or deadlines specified in this announcement are indicative only and may be varied by the Company. Any consequential changes to the expected timetable will be published or notified to the Shareholders as and when appropriate and in accordance with the Listing Rules.

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 for the year ended 31 December 2011.

Disclosure of Information

The information provided in this announcement is only the summary of 2011 Annual Report of the Company. The 2011 Annual Report will be duly dispatched to shareholders of the Company 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
China Medical System Holdings Limited
Lam Kong
Chairman

Hong Kong, 15 March 2012

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