# 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, 2012

The Board of Directors (the "Board") of China Medical System Holdings Ltd. (the "Company" or "CMS") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 (the "Reporting Period").

## Financial Highlights:

- Turnover up 37.1% to US$132.0 million (H1 2011: US$96.3 million)
- Profit for the period up 38.1% to US$41.3 million (H1 2011: US$29.9 million)
- Basic earnings per share up 33.5% to US1.709 cents (H1 2011: US1.280 cents)
- As at 30 June 2012, the Group's bank balances and cash were US$110.5 million while readily realizable bank acceptance bills amounted to US$26.0 million
- Declared interim dividend up 51.1% to US0.645 cent per share (H1 2011: US0.427 cent[1])

[1] Interim dividend of US0.427 cent per share for the six months ended 30 June 2011 was adjusted to reflect the bonus issue effective in September 2011 as approved by Shareholders at the Extraordinary General Meeting held on 14 September 2011, and the bonus issue effective in April 2012 as approved by Shareholders at the Annual General Meeting held on 25 April 2012.

**For Identification Only*

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2012

| | NOTES | Six months ended 30 June 2012 US$'000 (unaudited) | 2011 US$'000 (unaudited) |
|---|---|---|---|
| Turnover | 3 | 132,039 | 96,306 |
| Cost of goods sold | | (55,619) | (43,090) |
| Gross profit | | 76,420 | 53,216 |
| Other gains and losses | | 2,225 | 4,445 |
| Selling expenses | | (23,037) | (17,291) |
| Administrative expenses | | (8,146) | (5,904) |
| Finance costs | | (778) | (475) |
| Share of result of an associate | | 25 | 45 |
| Share of result of a jointly controlled entity | | - | 6 |
| Profit before taxation | | 46,709 | 34,042 |
| Taxation | 4 | (5,425) | (4,141) |
| Profit for the period | 5 | 41,284 | 29,901 |
| Other comprehensive income | | | |
| Exchange differences from translation | | 670 | 2,556 |
| Share of other comprehensive income of an associate | | 3 | - |
| Fair value changes of qualifying hedging instruments for cash flow hedges | | 694 | (175) |
| Total comprehensive income for the period | | 42,651 | 32,282 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | 41,267 | 29,838 |
| Non-controlling interests | | 17 | 63 |
| | | 41,284 | 29,901 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 42,639 | 32,212 |
| Non-controlling interests | | 12 | 70 |
| | | 42,651 | 32,282 |
| | | US$ cent | US$ cent |
| Earnings per share | 7 | | |
| Basic | | 1.709 | 1.280 |
| Diluted | | 1.709 | 1.277 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
AT 30 JUNE 2012

| | NOTES | 30 June 2012 US$'000 (unaudited) | 31 December 2011 US$'000 (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | 9,771 | 7,724 |
| Prepaid lease payments | | 4,474 | 4,533 |
| Interest in an associate | | 1,195 | 1,305 |
| Intangible assets | | 32,972 | 33,828 |
| Goodwill | | 178,634 | 178,634 |
| Deferred tax assets | | 3,486 | 4,688 |
| Deposit paid for acquisition of property, plant and equipment | | 11,858 | 11,933 |
| | | 242,390 | 242,645 |
| Current assets | | | |
| Inventories | | 16,560 | 21,040 |
| Trade and other receivables | 8 | 87,190 | 73,010 |
| Derivative financial instruments | | 49 | - |
| Tax recoverable | | 1,059 | 95 |
| Pledged bank deposits | | 86,066 | 39,471 |
| Bank balances and cash | | 110,517 | 97,906 |
| | | 301,441 | 231,522 |
| Current liabilities | | | |
| Trade and other payables | 9 | 21,785 | 28,410 |
| Bank borrowings | | 88,343 | 39,994 |
| Deferred consideration payables | | 1,020 | 1,147 |
| Derivative financial instruments | | - | 645 |
| Tax payable | | 3,294 | 4,088 |
| | | 114,442 | 74,284 |
| Net current assets | | 186,999 | 157,238 |
| Total assets less current liabilities | | 429,389 | 399,883 |

| | 30 June 2012 US$'000 (unaudited) | 31 December 2011 US$'000 (audited) |
|---|---|---|
| Capital and reserves | | |
| Share capital | 12,074 | 8,049 |
| Reserves | 406,299 | 380,564 |
| Equity attributable to owners of the Company | 418,373 | 388,613 |
| Non-controlling interests | 2,572 | 2,560 |
| | 420,945 | 391,173 |
| Non-current liabilities | | |
| Deferred tax liabilities | 4,755 | 4,589 |
| Deferred consideration payables | 3,689 | 4,121 |
| | 8,444 | 8,710 |
| | 429,389 | 399,883 |

## 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 (the "Listing Rules") and with International Accounting Standard 34 "Interim Financial Reporting".

## 2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board that are mandatorily effective for the current interim period. The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 3. TURNOVER AND SEGMENT INFORMATION

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

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

During the year ended 31 December 2011, 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. For the six months ended 30 June 2011, the Group had three reportable operating segments, including (a) Direct promotion - 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; (b) Agency promotion - marketing, promotion and sales of prescription pharmaceutical products through network of agents/distributors; and (c) Others business - production and sales of other medicines and pharmaceutical products to wholesale customers across China, including distributors and hospitals. However, no operating results and other discrete financial information is available for the assessment of performance of the respective business division.

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

4. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | 2012 | 2011 |
| | US$'000 | US$'000 |
| Current tax: | | |
| PRC Enterprise Income Tax | 4,224 | 4,198 |
| Hong Kong Profits Tax | - | 122 |
| Other jurisdictions | 3 | 3 |
| | 4,227 | 4,323 |
| Overprovision in prior years | | |
| PRC Enterprise Income Tax | - | (60) |
| Deferred taxation: | | |
| Current period | 1,198 | (122) |
| Taxation charge for the period | 5,425 | 4,141 |

5. PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | 2012 | 2011 |
| | US$'000 | US$'000 |
| Profit for the period has been arrived at after charging: | | |
| Allowance for inventories | - | 35 |
| Depreciation of property, plant and equipment | 717 | 451 |
| Amortisation of intangible assets (included in cost of goods sold) | 1,938 | 842 |
| Cost of inventories recognised as an expense | 53,332 | 42,023 |
| and after crediting: | | |
| Interest income | (1,913) | (1,195) |
| Net exchange (gain) loss | 523 | (2,409) |

6. DIVIDENDS

During the reporting period, a final dividend of US$0.008 per share in respect of the year ended 31 December 2011 (2011: US$0.013 per share in respect of the year ended 31 December 2010) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the reporting period amounted to US$12,879,000 (2011: US$15,052,000).

Subsequent to the end of the interim period, the directors have determined that an interim dividend of US$0.00645 per share (2011: US$0.008) will be paid to the owners of the Company whose names appear in the Register of Members on 31 August 2012.

## 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 | |
|---|---|---|
| | 2012 | 2011 |
| | US$'000 | US$'000 |
| Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company) | 41,267 | 29,838 |

| | Number of ordinary shares As at 30 June | |
|---|---|---|
| | 2012 | 2011 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 2,414,747,512 | 2,331,291,836 |
| Effect of dilutive potential ordinary shares on share options | - | 4,787,502 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | 2,414,747,512 | 2,336,079,338 |

The number of shares for the purpose of calculating basic and diluted earnings per share has been adjusted to reflect the bonus issues effective on September 2011 and April 2012, respectively.

## 8. TRADE AND OTHER RECEIVABLES

| | 30 June 2012 | 31 December 2011 |
|---|---|---|
| | US$'000 | US$'000 |
| Trade receivables | 46,366 | 40,636 |
| Less: Allowance for bad and doubtful debts | (191) | (331) |
| | 46,175 | 40,305 |
| Bills receivables | 26,025 | 23,573 |
| Prepayment for inventories | 7,101 | 2,229 |
| Other receivables and deposits | 7,889 | 6,903 |
| Total trade and other receivables | 87,190 | 73,010 |

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 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| 0 - 90 days | 43,084 | 37,054 |
| 91 - 365 days | 3,078 | 3,239 |
| Over 365 days | 13 | 12 |
| | 46,175 | 40,305 |

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 2012 US$'000 | 31 December 2011 US$'000 |
|---|---|---|
| 0 - 90 days | 8,434 | 10,276 |
| 91 - 365 days | 69 | 322 |
| Over 365 days | 180 | 95 |
| | 8,683 | 10,693 |
| Payroll and welfare payables | 3,658 | 4,643 |
| Other tax payables | 1,351 | 3,192 |
| Other payables and accruals | 8,093 | 9,882 |
| | 21,785 | 28,410 |

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

## Group Overview

China Medical System Holdings Limited is a pharmaceutical service provider based in China focused on the marketing, promotion and sale of prescription drugs to many therapeutic departments at hospitals.

The Group is committed to offering an one-stop service for prescription drugs produced by domestic and overseas specialty pharmaceutical companies, and building up long-term partnerships with product suppliers through different models, which guarantees the continuous marketing, promotion and sale of premium products in the Chinese market. Meanwhile, for product introduction, the Group has adopted two product introduction strategies: Rapid-growth Products Strategy and Long-term Prospect Products Strategy, to guarantee the Group's sustainable growth. As at 30 June 2012, the Group marketed, promoted and sold 19 products in the Chinese market.

The Group currently has two business models commonly employed by the pharmaceutical industry in China: the Direct Academic Orientated Promotion Model and the Agency Promotion Model, and with two distinct corresponding third-party promotion networks, namely, the Direct Academic Orientated Promotion Network (the "Direct Network") and the Agency Promotion Network (the "Agency Network"). As for network development, the Group is constantly expanding the scale and coverage of its network, while expanding its market share in certain parts of the market with the effective combination of the Direct Network and the Agency Network so as to achieve sustainable growth.

As at 30 June 2012, the number of marketing, promotion and sales professionals under the Direct Network of the Group exceeded 1,200, while the number of independent third-party sales representatives or distributors under the Agency Network was over 1,100. Meanwhile, the Group sold to nearly 9,000 hospitals under the Direct Network and over 7,000 hospitals under the Agency Network.

## Management Discussion and Analysis

## Business Review

For the six months ended 30 June 2012, the Group recorded turnover of US$132.0 Million (2011: US$96.3 Million)，representing an increase of 37.1% over the same period of last year, while profit for the period reached US$41.3 Million (2011: US$29.9 Million), up 38.1% from the corresponding period of last year.

In the first half of 2012, affected by the global economic downturn and the intervention of the Chinese government towards the pharmaceutical industry in China, the Chinese pharmaceutical market environment was obscure and its development was uncertain. Even under such a complex and volatile market environment, the Group still achieved stable growth, on one hand due to the sustainable sales growth of its main products under the Direct Network, and on the other hand the business growth of Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd ("Tianjin Kangzhe"), a company employing agency networks to market and promote prescription drugs in the Chinese market that the Group acquired in 2011.

**Product Introduction and Development**

New product introduction is one of the core development strategies of the Group. The Group has devoted considerable efforts into new product introduction, and has striven to seek suitable and premium products for the Group's networks. In considering its long-term stable development, the Group has adjusted the

key direction of its product introduction strategy. Aside from continuing to sign exclusive agency and distribution agreement for the Chinese market with product suppliers, the Group has shifted the key direction of product introduction through payment to buy out or by equity cooperation to obtain the product rights or the China market rights. Although this method of new product introduction leads to a more complicated and prolonged negotiation process, once negotiations are successful, the Group can obtain longer term and more stable product rights or the market rights in China, which ensures the sustainable development of the Group. Moreover, the Group's product selection criteria is rigorous, and the Group hopes to secure launching new products with premium quality, competitive edge as well as certain market differentiation both for the Direct Network and the Agency Network, which understandably would increase the difficulty and prolong the Group's new product launching schedule. However, to ensure the long-term development, the Group will insist in its defined direction to seek and introduce products with stable market rights.

In the area of product development, all of the main products under the Group's Direct Network and the Agency Network have achieved satisfactory growth despite the complex and volatile Chinese pharmaceutical market environment in the first half of 2012. This was mainly due to the establishment and implementation of the Group's market demand orientated product development strategy.

During the Reporting Period, the Group marketed, promoted and sold in the China market nine products via the Direct Network and ten products via the Agency Network, while owning several in-house manufactured products. For the two flagship products of the Group's Direct Network - Deanxit and Ursofalk, the Group maintained its commitment to developing new hospital networks on the basis of consolidating its core market, and gradually extended its coverage to the rural market; apart from continuing to enhance the usage and sales of Deanxit and Ursofalk in the existing departments, the Group also actively explored the use of the two products in other departments. Meanwhile, during the Reporting Period, the Group promoted Deanxit through additional patient education, which further strengthened the brand building of Deanxit at the patient level. For the other main products under the Direct Network such as XinHuoSu, Stulln, Salofalk and Bioflor, aside from continuing to increase its market investment and the intensity of promotional efforts during the Reporting Period, the hospital penetration was still the key focus for their development. For the Agency Promotion Model, though the market competition was still severe in the first half of 2012, the products under the Group's Agency Network still achieved satisfactory growth during the Reporting Period. YiNuoShu won exclusive tenders for inclusion on the Essential Drug List of some key markets in 2011, which was officially implemented by the Chinese government in the first half of 2012, which contributed significantly to its sales growth. ShaDuoLiKa was added into the Insurance Reimbursement Drug Catalogue and Essential Drug List in several provinces during the Reporting Period, which actively contributed to its sales growth. During the Reporting Period, in addition to consolidating the market foundation of XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate), another important product of the Agency Network, the Group also launched several academic clinical studies to continue elevating its academic positioning, while also providing plenty of academic support to the sales of the product. This not only effectively demonstrated the Group's advancement and assistance to product promotion in the Agency Network through its professional academic capability, but also reflected the gradual integration and synergies of the two marketing and promotion models of the Group.

Apart from these marketed products, the registration applications of three in-licensed products which require import drug license registration in China are currently underway. At present, Budenofalk is the most advanced, as the Group has already submitted the application for clinical trial to the State Food and Drug Administration ("SFDA") in 2011, and the application is currently undergoing review and evaluation by the SFDA. In addition, Tyroserleutide (CMS024), a National Class One New Drug with independent intellectual property rights and used for the treatment of primary liver cancer, is in phase III clinical trial during the Reporting Period.

I. Main Products of Direct Network

| Product Name | As a percentage of the Group's revenue |
|---|---|
| Deanxit (Flupentixol and Melitracen) | 30.6% |
| Ursofalk (Ursodeoxycholic Acid) | 20.3% |
| XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP") | 9.8% |
| Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-Drops) | 4.9% |
| Salofalk (Mesalazine) | 3.9% |
| Bioflor (Saccharomyces Boulardii) | 1.9% |

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. Owing to accurate market positioning and the long-term professional academic promotion, Deanxit has always enjoyed a good brand image in the China market. During the Reporting Period, Deanxit recorded sales of US$40.4 million, an increase of 28.9% when compared with the same period of last year, accounting for 30.6 % of the Group's turnover.

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis, and is currently the top selling digestive tract drug in the cholagogue market. During the Reporting Period, Ursofalk recorded sales of US$26.9 million, an increase of 28.3% when compared with the same period of last year, accounting for 20.3% of the Group's turnover.

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

XinHuoSu, manufactured by Chengdu Rhodiola Bio-Pharmacy Co., Ltd of China, is a National Class One biological agent used to treat acute heart failure. During the Reporting Period, XinHuoSu recorded sales of US$12.9 million, an increase of 49.4% when compared with the same period of last year, accounting for 9.8% of the Group's turnover.

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

Augentropfen Stulln Mono Eye-drops, manufactured by Pharma Stulln GmbH of Germany, is preservative-free eye drops which is used to treat age-related macula degeneration and different forms of ocular asthenopia. During the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of US$6.4 million, an increase of 46.6% when compared with the same period of last year, accounting for 4.9% of the Group's turnover.

Salofalk (Mesalazine)

Salofalk is another product manufactured by Dr. Falk Pharma GmbH of Germany. The Group has the drug in the three forms of coated tablets, suppositories and enemas, which are mainly used to treat Ulcerative Colitis and the Crohn's Disease. With the gradual improvement in the living standards of the population in China and the constant improvement of Chinese doctors' diagnostic techniques for this disease, the Chinese market development potential of this product is constantly improving. During the Reporting Period, Salofalk recorded sales of US$5.1 million, an increase of 71.4% when compared with the same period of last year, accounting for 3.9% of the Group's turnover.

Bioflor (Saccharomyces Boulardii)

Bioflor, manufactured by Biocodex of France, is a biological agent used to treat diarrhea for both adult and children and diarrhea symptoms caused by the disturbance of intestinal flora. As the best-selling probiotics in the world, Bioflor recorded sales of US$2.5 million during the Reporting Period, an increase of 86.3% when compared with the same period of last year, accounting for 1.9% of the Group's turnover.

II. Main Products of Agency Network

| Product Name | As a percentage of the Group's revenue |
|---|---|
| YiNuoShu (Ambroxol Hydrochloride for Injection) | 10.2% |
| ShaDuoLiKa (YanHuNing Injection) | 10.0% |
| XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate) | 1.0% |

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$13.4 million, accounting for 10.2% of the Group's turnover.

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$13.2 million, accounting for 10.0% of the Group's turnover.

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

XiDaKang, manufactured by Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd., and sold as an oral solution and granules dosage, is a new generation of the enteral nutrition drug of the short peptides manufactured by Chinese Biochemical Technique with patented technology in China. During the Reporting Period, XiDaKang recorded sales of US$1.3 million, accounting for 1.0% of the Group's turnover.

III. Other Listed Products

Apart from the products mentioned above and other products sold by the Group, Cystistat (Sterile Hyaluronate Solution) and GanFuLe, which are promoted via the Direct Network, recorded sales of US$2.8 million, accounting for 2.1% of the Group's turnover. Exacin (Isepamicin Sulfate Injection) was adversely affected by the restriction in the use of antibiotics introduced in China last year. During the Reporting Period, Exacin recorded sales of US$1.9 million, accounting for 1.5% of the Group's turnover. Products promoted by the Agency Network – KunNing Oral Solution, QuZhiQuan, ZengShengPing, NuoBaiYou, ShenShuiQing, SuPingShu, Irbesartan and Hydrochlorothiazide etc., recorded sales of US$3.0 million during the Reporting Period, together accounting for 2.3% of the Group's turnover.

In addition, the Group in-house manufactured and sold 15 products, including JinErLun, Fufang Danshen Pian and Niuhuang Jiedu Pian etc., which approximately accounted for 1.5% of the Group's turnover during the Reporting Period.

IV. In-house Research Pharmaceutical Product

Tyroseuleutide (CMS024), researched and developed by the Group, with own independent intellectual property rights, is to treat primary liver cancer and has huge potential market value in China. In 2011, the Group fully initiated a phase III clinical trial for Tyroseuleutide. The title of the phase III study of Tyroserleutide is "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma (after surgical resection of hepatocellular carcinoma)". The primary purpose of the study is to evaluate the efficacy of Tyroserleutide for Injection on recurrence-free survival ("RFS") of hepatocellular carcinoma patients after surgical resection, the secondary objective of the study is to appraise the efficacy of Tyroserleutide for Injection on overall survival ("OS") of hepatocellular carcinoma patients after surgical resection. The phase III clinical trial progressed smoothly during the Reporting Period. 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 manufacturing facilities which will be used to manufacture Tyroseuleutide and other products. During the Reporting Period, the Group has already finished the survey, design and construction of the pile foundation engineering, etc., of the early phase of the project, and will proceed with construction of the entire project in the second half of 2012.

V. Products under Registration

The Group currently has three products undergoing the import drug registration, which are effectively complementary to our well-established therapeutic areas. After the completion of the import drug registration, the Group can make use of its existing expert networks and physician resources to swiftly commence sales in the digestion, cholagogue, cardiovascular fields. These products are:

Budenofalk, manufactured by Dr. Falk Pharma GmbH, is the third product we have introduced from the manufacturer, which is mainly used to treat Inflammatory Bowel Disease (IBD) and Crohn's Disease, and acts as an effective supplement to Salofalk (from the same manufacturer). In December 2010, the Group obtained the exclusive agency and distribution rights for Budenofalk in China. The clinical trial application for registration of Budenofalk to the SFDA was submitted last year, and is currently under review and evaluation by the SFDA.

L-lysine Aescinat and Thiotriazolin are manufactured by Arterium Corporation in Ukraine. L-lysine Aescinat is mainly used to treat the symptoms of swelling and pain, while Thiotriazolin is mainly used to treat chronic hepatitis arising from various causes, liver failure, ischemic heart disease, and myocardial infarction etc. In January 2011, The Group obtained the exclusive agency and distribution rights for the two products in China. The preparation of clinical trial application is now ongoing.

**Network Development**
During the Reporting Period, the Group has constantly striven to expand its marketing and promotion network. Aside from expanding the geographic and hospital coverage of the marketing and promotion network, the Group also initiated the exploration to extend its marketing and promotion network to the rural market, and gradually facilitated the synergistic development of the Direct Network and the Agency Network. As at 30 June 2012, the Group sold to nearly 9,000 hospitals under the Direct Network and over 7,000 hospitals under the Agency Network.

In expanding the number of its professional marketing, promotion and sales representatives, the Group adhered to recruiting medical representatives mainly from campuses, and complemented the recruitment of experienced medical representatives from the market to expand the Direct Network. During the Reporting Period, the Group recruited and trained over 260 interns from medical colleges throughout China via the "Internship Programme" and "Professional Talent Development Programme". Meanwhile, during the Reporting Period, the Group also put more efforts into the recruitment of experienced medical representatives. As at 30 June 2012, the Direct Network of the Group had over 1,200 marketing, promotion and sales professionals.

During the Reporting Period, the Group gradually improved the management structure of the Agency Network, continuously utilised its information management system to enhance business management of the Agency Network, and accelerated its rural markets penetration. As of 30 June 2012, the Group's Agency Network had over 1,100 independent third party sales representatives or distributors. The Group also enhanced the professional academic ability of the Agency Network and the training of the staff in order to strengthen academic supports for product promotion by the Agency Network. Meanwhile, by virtue of its strong academic grounding and leading position in the industry, the Group has actively searched for quality products with certain differentiating factors for the Agency Network and has utilized the Agency Network to fill some of the Group's market absence for specific products in the Direct Network so as to achieve a broader market coverage of products.

## Outlook and Future Development

Going forward, the Group will continue to maintain and develop two core development strategies, namely, introduction and development of the products and expansion of the marketing and promotion network.

For existing products, the Group is constantly exploring new market development through expanding the hospital coverage and accelerating product penetration in different therapeutic areas, consolidating and expanding the formation of experts network, and strengthening the brand building of products through academic activities at various levels. Meanwhile, the Group will also take full advantage of the different characteristics and advantages of the two marketing and promotion networks and progressively realise the complementary advantages from products promotion and sales.

The Group is endeavoured to add new products to reinforce our competitive advantage to the Direct Network and the Agency Network. In addition to maintaining the current exclusive agency model, the Group will also use diversified methods to obtain product rights when introducing new products in the future.

As to network development, the Group is committed to expand the Direct Network by recruiting more new employees, offering training programs, and improving the technical skills of the sales representatives. Meanwhile, the Group will also enhance and refine the management of the Agency Network to ensure smooth integration and expansion with the Direct Network.

The Group will also continue to improve on the internal control, to enforce internal control standards, and continually strengthen the management and control of the Group's subsidiaries.

## Financial Review

**Segment Information**
There were three segments disclosed in the Group's interim report for the six months ended 30 June 2011: (1) Direct promotion - 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; (3) Others business - production and sales of other medicines and pharmaceutical products to wholesale customers across China, including distributors and hospitals. Due to the difficulty in distinguish the aforementioned segments, and the management and Board of Directors (the "Board") do not allocate resources and evaluate the performance based on the aforesaid segments, therefore the Group had no reportable operating segments for the six months ended 30 June 2012.

**Turnover**
Turnover increased by 37.1% from US$96.3 million for the six months ended 30 June 2011 to US$132.0 million for the six months ended 30 June 2012, mainly due to the increased quantities sold with relatively stable selling prices.

**Cost of Goods Sold**
Cost of goods sold increased by 29.1% from US$43.1 million for the six months ended 30 June 2011 to US$55.6 million for the six months ended 30 June 2012, primarily reflecting growth in sales.

**Gross Profit and Gross Profit Margin**
Gross profit increased by 43.6% from US$53.2 million for the six months ended 30 June 2011 to US$76.4 million for the six months ended 30 June 2012, primarily reflecting growth in turnover. Gross profit margin increased from 55.3% for the six months ended 30 June 2011 to 57.9% for the six months ended 30 June 2012, mainly due to a change in the proportion of turnover accounted for by each of the products.

**Other Gains and Losses**
Other gains and losses decreased by 49.9% from US$4.4 million for the six months ended 30 June 2011 to US$2.2 million for the six months ended 30 June 2012, mainly due to the larger foreign exchange gain during the same period last year.

**Selling Expenses**
Selling expenses increased by 33.2% from US$17.3 million for the six months ended 30 June 2011 to

US$23.0 million for the six months ended 30 June 2012, 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 due to the increase in the number of sales staff. Selling expenses as a percentage of turnover decreased by 0.6 percentage points from 18.0% for the six months ended 30 June 2011 to 17.4% for the six months ended 30 June 2012 as the Group benefited from economies of scale.

**Administrative Expenses**
Administrative expenses increased by 38.0% from US$5.9 million for the six months ended 30 June 2011 to US$8.1 million for the six months ended 30 June 2012, mainly due to an increase in labor cost, and the business tax associated with the increase in intra-group transactions.

**Finance Costs**
Finance costs increased by 63.8% from US$0.5 million for the six months ended 30 June 2011 to US$0.8 million for the six months ended 30 June 2012, mainly due to the increased bank borrowings.

**Taxation**
Taxation increased by 31.0% from US$4.1 million for the six months ended 30 June 2011 to US$5.4 million for the six months ended 30 June 2012, primarily reflecting the growth in profit.

**Profit for the Period**
Net profit increased by 38.1% from US$29.9 million for the six months ended 30 June 2011 to US$41.3 million for the six months ended 30 June 2012. Net profit margin increased by 0.3 percentage points from 31.0% for the six months ended 30 June 2011 to 31.3% for the six months ended 30 June 2012.

**Inventories**
Inventories decreased by 21.3% from US$21.0 million as at 31 December 2011 to US$16.6 million as at 30 June 2012. The average inventory turnover days decreased 9 days from 71 days for the six months ended 30 June 2011 to 62 days for the six months ended 30 June 2012, mainly reflecting the improvement on the inventories management.

**Trade Receivables**
Trade receivables increased by 14.6% from US$40.3 million as at 31 December 2011 to US$46.2 million as at 30 June 2012, 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 63 days for the six months ended 30 June 2011 to 60 days for the six months ended 30 June 2012.

**Trade Payables**
Trade payables decreased by 18.8% from US$10.7 million as at 31 December 2011 to US$8.7 million as at 30 June 2012. The average trade payables days increased from 3 days for the six months ended 30 June 2011 to 32 days for the six months ended 30 June 2012, mainly because some of the products were purchased using letter of credit in the Reporting Period.

**Liquidity and Financial Resources**
The Group maintained a strong cash position during the Reporting Period. As at 30 June 2012, the Group's bank balances and cash were US$110.5 million while readily realizable bank acceptance bills amounted to US$26.0 million. As at 31 December 2011, our bank balances and cash were US$97.9 million while readily realizable bank acceptance bills amounted to US$23.6 million.

## Other Information

**Interim dividend**
The Board has resolved to pay an interim dividend of US0.645 cent (equivalent to HK$0.05) per ordinary share of the Company for the six months ended 30 June 2012 to the shareholders whose names appear on the register of members of the Company at the close of business on Friday, 31 August 2012 (the "Record Date"). Payment of such interim dividend in Hong Kong Dollars is expected to be made to the shareholders on Monday, 10 September 2012.

**Closure of Register of Members**
The register of members of the Company will be closed from Wednesday, 29 August 2012 to Friday, 31 August 2012 (both days inclusive), during which period the registration of transfer of Shares will be suspended. To qualify for the interim dividend, all transfer forms of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 28 August 2012.

**Purchase, Sale or Redemption of the Company's Listed Securities**
For the six months ended 30 June 2012, the Company has not purchased, sold or redeemed any of its listed securities.

**Audit Committee**
The company established an Audit Committee in 2007. The Audit Committee currently comprises three Independent Non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Dr. Peng Huaizheng as Committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the Company's appointment of external auditors.

The company's interim result announcement and interim report for the six months ended 30 June 2012 have been reviewed by the Audit Committee of the Company.

**Corporate Governance Practices**
The Company has complied with the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules ("CG Code"), from 1 January 2012 until its amendment on 1 April 2012 and with the amended CG Code from 1 April 2012 to 30 June 2012, 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.

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

All Directors participate in continuous professional development to develop and refresh their knowledge and skills and to ensure that their contribution to the Board remains informed and relevant. The Company keeps records of the trainings received by Directors.

**Directors' Securities Transactions**

The Company adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors' securities transactions of the Company. Having made specific inquiries in relation to the compliance with Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by Directors set out in the Model Code during the Reporting Period.

**Disclosure of Information**

The information provided in this announcement is only the summary of 2012 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.hkex.com.hk) and the Company (www.cms.net.cn).

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

Hong Kong, 14 August 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.*