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, 2014

The Board of Directors (the "Board") of China Medical System Holdings Limited (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 2014 (the "Reporting Period").

Financial Highlights

- Turnover up 31.3% to RMB1,366.7 million (H1 2013: RMB1,040.7 million)
- Profit for the period up 30.3% to RMB410.0 million (H1 2013: RMB314.5 million)
- Basic earnings per share up 31.2% to RMB0.1709 (H1 2013: RMB0.1303)
- As at 30 June 2014, the Group's bank balances and cash were RMB781.7 million while readily realizable bank acceptance bills amounted to RMB176.5 million
- Declared interim dividend up 31.1% to RMB0.0679 per share (H1 2013: RMB0.0518)

** For identification purpose only*

Change of presentation currency from US Dollars ("USD") to Renminbi ("RMB")

Jun 2007, the Company was listed on the London Stock Exchange with the Company's consolidated financial statements being adopted in USD due to USD as a widely and commonly recognised global currency and the merit of freely convertible into a number of foreign currencies. However, the Company's functional currency is RMB, and the Chinese Government is loosening the regulation of RMB and has actively been improving the direct exchange of RMB for foreign currencies; RMB is being widely accepted and has been used in the pricing and settlement of international trade. Accordingly, the directors of the Company consider it is more appropriate to use RMB for presenting the Group's operating results and financial positions.

As a result, the following condensed consolidated interim financial statements for the six months ended 30 June 2014 are presented in RMB, whereas the comparative figures for the six months ended 30 June 2013 have been restated to align with the change in presentation currency. The change in presentation currency and translation of the comparative amounts from USD to RMB has had no material impact on the Group's condensed consolidated interim financial statements for the period concerned.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	NOTES	Six months ended 30 June 2014 RMB'000 (unaudited)	2013 RMB'000 (unaudited) (restated)
Turnover	3	1,366,738	1,040,730
Cost of goods sold		(629,846)	(476,986)
Gross profit		736,892	563,744
Other gains and losses		31,763	49,751
Selling expenses		(249,747)	(190,060)
Administrative expenses		(71,048)	(67,942)
Finance costs		(4,601)	(9,903)
Share of result of an associate		94	280
Profit before taxation		443,353	345,870
Taxation	4	(33,396)	(31,335)
Profit for the period	5	409,957	314,535
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operation		2,881	(3,363)
Change in fair value on available-for-sale investments			
- fair value gain		62,070	8,786
- deferred tax relating to change in fair value		(14,266)	(2,000)
Share of other comprehensive income of an associate		2	(5)
Total comprehensive income for the period		460,644	317,953
Profit (loss) for the period attributable to:			
Owners of the Company		412,664	314,657
Non-controlling interests		(2,707)	(122)
		409,957	314,535
Total comprehensive income (expense) attributable to:			
Owners of the Company		463,351	318,075
Non-controlling interests		(2,707)	(122)
		460,644	317,953
		RMB	RMB
Earnings per share	7		
Basic		0.1709	0.1303
Diluted		0.1709	0.1303

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	NOTES	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited) (restated)
Non-current assets			
Property, plant and equipment		235,212	217,901
Prepaid lease payments		52,138	60,047
Interest in an associate		5,379	6,306
Intangible assets		232,633	244,014
Goodwill		1,184,591	1,184,591
Available-for-sale investments		274,500	123,697
Deferred tax assets		19,414	19,462
Deposit paid for acquisition of property, plant and equipment		97,679	98,509
		2,101,546	1,954,527
Current assets			
Inventories		224,625	167,062
Trade and other receivables	8	795,809	859,020
Tax recoverable		1,041	1,041
Pledged bank deposits		305,038	448,030
Bank balances and cash		781,743	487,943
		2,108,256	1,963,096
Current liabilities			
Trade and other payables	9	223,354	244,697
Secured bank borrowings		292,628	314,120
Deferred consideration payables		6,736	5,733
Tax payable		26,481	26,081
		549,199	590,631
Net current assets		1,559,057	1,372,465
Total assets less current liabilities		3,660,603	3,326,992

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited) (restated)
Capital and reserves		
Share capital	82,974	82,974
Reserves	3,516,849	3,180,553
Equity attributable to owners of the Company	3,599,823	3,263,527
Non-controlling interests	-	13,060
	3,599,823	3,276,587
Non-current liabilities		
Deferred tax liabilities	41,287	28,650
Deferred consideration payables	19,493	21,755
	60,780	50,405
	3,660,603	3,326,992

1. BASIS OF PREPARATION

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

The Company's functional currency is RMB. Jun 2007, the Company was listed on the London Stock Exchange with the Company's consolidated financial statements being adopted in USD due to USD as a widely and commonly recognised global currency and the merit of freely convertible into a number of foreign currencies. Starting from 1 January 2014, the Group has changed its presentation currency for the preparation of its condensed consolidated financial statements from USD to RMB. Since the Chinese Government is loosening the regulation of RMB and has actively been improving the direct exchange of RMB for foreign currencies, RMB is being widely accepted and has been used in the pricing and settlement of international trade. Accordingly, the directors of the Company consider it is more appropriate to use RMB for presenting the Group's operating results and financial positions.

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 and for the change of presentation currency of the Group from USD to RMB as explained in note 1, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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

3. TURNOVER AND SEGMENT INFORMATION

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

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker, the Executive Directors of the Company that are used for resources allocation and assessment of segment performance.

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

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

4. TAXATION

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000 (restated)
Current tax:		
PRC Enterprise Income Tax	33,172	33,915
Hong Kong Profits Tax	1,317	174
Other jurisdictions	21	19
	34,510	34,108

Deferred taxation:		
Current period	(1,114)	(2,773)
Taxation charge for the period	33,396	31,335

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000 (restated)
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	7,470	5,472
Amortisation of intangible assets (included in cost of goods sold)	12,375	12,165
Cost of inventories recognised as an expense	613,769	462,092
Interest income	(14,495)	(21,121)
Net exchange loss (gain)	4,827	(16,160)

6. DIVIDENDS

During the Reporting Period, a final dividend of RMB0.0526 (restated) per share in respect of the year ended 31 December 2013 (2013 (restated): RMB0.0486 per share in respect of the year ended 31 December 2012) 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 RMB127,055,000 (restated) (2013 (restated): RMB117,477,000).

Subsequent to the end of the interim period, the directors have determined that an interim dividend of RMB0.0679 per share (2013 (restated): RMB0.0518) will be paid to the owners of the Company whose names appear in the Register of Members on 3 September 2014.

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	
	2014	2013
	RMB'000	RMB'000 (restated)
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	412,664	314,657

	Number of ordinary shares	
	As at 30 June	
	2014	2013
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	2,414,747,512	2,414,747,512

8. TRADE AND OTHER RECEIVABLES

	30 June 2014	31 December 2013
	RMB'000	RMB'000 (restated)
Trade receivables	435,908	381,473
Less: Allowance for bad and doubtful debts	(1,438)	(1,561)
	434,470	379,912
Bills receivables	176,500	158,773
Prepayment for inventories	64,732	236,163
Other receivables and deposits	120,107	84,172
Total trade and other receivables	795,809	859,020

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) based on the invoice date, which approximated to revenue recognition date, at the respective reporting dates is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000 (restated)
0 - 90 days	411,553	358,402
91 - 365 days	22,012	20,595
Over 365 days	905	915
	434,470	379,912

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 is as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000 (restated)
0 - 90 days	48,515	66,345
91 - 365 days	17	329
Over 365 days	29	1,183
	48,561	67,857
Payroll and welfare payables	44,298	50,671
Other tax payables	10,815	13,431
Amount due to shareholders of non-controlling interests	-	30,000
Other payables and accruals	119,680	82,738
	223,354	244,697

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

Management Discussion and Analysis

Business Review

China Medical System Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to announce that for the six months ended 30 June 2014 (the "Reporting Period"), the Group recorded turnover of RMB1,366.7 million (2013: RMB1,040.7 million), representing an increase of 31.3% over the same period of last year, while profit for the period reached RMB410.0 million (2013: RMB314.5 million), up 30.3% from the corresponding period of last year.

Despite the slowdown in the overall growth of the Chinese pharmaceutical market in the first half of 2014, the foundation of its development remains solid. The Chinese governments persistent support for the domestic pharmaceutical industry, especially the constant expansion in healthcare spending in the rural market, will gradually push further the development of the Chinese pharmaceutical market, and will constantly benefit pharmaceutical enterprises with reasonable sales structure in the rural market. Benefiting from the successful operation and the coverage expansion of the improved Direct Academic Promotion Network ("Direct Network"), along with efficient product promotion and sales efforts in full compliance with regulations and under reasonable cost control and strict internal supervision, the business of the Group achieved steady growth against the overall growth slowdown in the Chinese pharmaceutical market.

Product Introduction and Development

Having been engaged in the Chinese pharmaceutical market for almost two decades, the Group has gained a profound understanding of the significance of stability and controllability over product rights in the sustainable and healthy development. During the Reporting Period, the Group continued to select suitable products with strong potential on a global scale for its two marketing and promotion networks, while conducting more in-depth thinking and implementation so as to obtain better and more stable control over product rights. In order to formulate and implement long-term development strategies to stimulate more conductive and steady growth of its products in the China market and to make full use of its promotional resources to improve product development, the Group took a major step towards gaining control over product rights to control all assets related to product launches in the China market during the Reporting Period. In June 2014, the Group acquired all assets related to Succinylated Gelatin Injection for the China market from Beacon Pharmaceuticals Limited and became the owner of all assets related to the product for the China market, in addition to obtaining all rights related to the product for the China market. The introduction of Succinylated Gelatin Injection enriches the existing portfolio of the Group. The product will contribute to the Group's revenue after it is granted an Import Drug License in China. During the Reporting Period, in order to completely resolve the supply constraints on Augentropfen Stulln Mono Eye-drops, the Group engaged in correspondence with the marketing authorization holder and the manufacturer Pharma Stulln GmbH ("Pharma Stulln") and eventually reached a consensus. In July 2014, the Group acquired all assets related to Augentropfen Stulln Mono Eye-drops for the China market from Pharma Stulln, becoming the owner of all assets related to the product for the China market and gaining complete control over the development of this product in the China market. Meanwhile, the Group will assist Pharma Stulln in expanding production capacity for the product to meet the growing demand for the product in the China market together with the manufacturer.

In the first half of 2014, the successful operation of the Direct Network under the improved structure, together with active market promotion, fueled the growth of the main products under the Direct Network of the Group. During the period, the Group proactively tapped the potential of Deanxit in the comprehensive hospital market and leveraged the segmentation of the Direct Network in the rural market to further expand Deanxit's coverage in the rural market. Furthermore, the Group was also active in capitalizing on the opportunities arising from the adjustment of the organizational structure of the Direct Network and made full use of Ursofalk's academic features and market differentiation for promotion to constantly consolidate core hospital market while stepping up efforts to promote the product in emerging markets. XinHuoSu, Salofalk, Augentropfen Stulln Mono Eye-drops and Bioflor maintained steady growth during the Reporting Period, which was mainly attributable to constant hospital exploration and department penetration. The Group has committed to promoting product sales through academic promotion. During the Reporting Period, the Group further improved doctors' understanding of the products' indications and diagnoses as well as their applications through multiple-level academic activities and doctor education. In addition, riding on the network segmentation resulting from the organizational adjustment of the Direct Network, the Group further improved the regional market layout of its products during the Reporting Period, thereby laying a sound foundation for the penetration of the products in the rural market and for balanced regional development.

As for the Agency Network, the manufacturer of ShaDuoLiKa completed refurbishment work in accordance with the latest Chinese GMP requirements in the second half of 2013, resulting in a steady supply of the product and a recovery in the product market during the Reporting Period. Due to the refurbishment of one of the commissioned manufacturers of YiNuoShu, Kangzhe (Hunan) Medical Company Limited in compliance with the latest Chinese GMP requirements during the Report Period, the product faced a temporary supply shortage which led to a decline in its sales compared with the same period of last year. XiDaKang is a core product under the Agency Network with promising potential. After obtaining 100% of the product rights for XiDaKang and successfully shifting its production base to Hunan, the Group has been actively exploring a long-term sales model for the product featuring closer cooperation with agencies in order to fully exploit its market potential and to achieve rapid regional coverage and hospital penetration of the product. During the Reporting Period, the Group set a series of plans and arrangements for this new model to lay a solid foundation for the product's subsequent sustained development. The Group also enhanced academic support for XiDaKang and Yin Lian Qing Gan Ke Li based on their academic features during the Reporting Period, and supported product development through a series of clinical research.

Apart from the nine products under the Direct Network and fourteen products under the Agency Network marketed in the China market, the Group has another nine products in the application process for Import Drug Registration in China during the Reporting Period. In addition, the Group also has a number of in-house products. Tyroserleutide (CMS024), a polypeptide National Class One New Drug researched and developed by the Group with independent intellectual property rights, had the results of its phase Ⅲ clinical trial unblinded during the Reporting Period, the Group is conducting a further analysis and investigation of the materials of the phase Ⅲ clinical trial.

(i) Products under the Direct Network:

Main Products	As a Percentage of the Group's Revenue (%)
Deanxit (Flupentixol and Melitracen)	28.1
Ursofalk (Ursodeoxycholic Acid)	19.5
XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")	12.5
Salofalk (Mesalazine)	5.1
Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-drops)	4.4
Bioflor (Saccharomyces Boulardii)	4.0

Deanxit (Flupentixol and Melitracen)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used for the treatment of mild to moderate depression and anxiety. During the Reporting Period, Deanxit recorded sales of RMB384.6 million, an increase of 28.3% when compared with the same period of last year, accounting for 28.1% 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. During the Reporting Period, Ursofalk recorded sales of RMB266.8 million, an increase of 31.3% when compared with the same period of last year, accounting for 19.5% of the Group's turnover.

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

XinHuoSu, manufactured by China Chengdu Rhodiola Biological Pharmaceutical Co., Ltd, is a National Class One biological agent used to treat acute heart failure. During the Reporting Period, XinHuoSu recorded sales of RMB170.9 million, an increase of 65.5% when compared with the same period of last year, accounting for 12.5% of the Group's turnover. Due to the refurbishment of the manufacturer of the product in compliance with the latest Chinese GMP requirements, production of the product was suspended during the Reporting Period. The Group has sufficient inventory of the product to meet the entire market demand before the completion of GMP refurbishment of the manufacturer. Meanwhile, during the Reporting Period, the Group signed a new agreement with the manufacturer of the product to engage in further cooperation.

Salofalk (Mesalazine)

Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany, features the most comprehensive formulations of mesalazine in the China market, namely coated tablets, suppositories and enemas, which are mainly used to treat Ulcerative Colitis and Crohn's disease. During the Reporting Period, Salofalk recorded

sales of RMB69.5 million, an increase of 50.0% when compared with the same period of last year, accounting for 5.1% of the Group's turnover.

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

Augentropfen Stulln Mono Eye-drops, manufactured by Pharma Stulln GmbH of Germany, is used to treat age-related macula degeneration and all forms of ocular asthenopia. Due to the commissioning of a new production line, production of the Augentropfen Stulln Mono Eye-drops gradually stabilized during the Reporting Period, and exhibited an excellent market recovery and development trend. Furthermore, the purchase of all assets related to Augentropfen Stulln Mono Eye-drops for the China market and the arrangements made to help the manufacturer expand production capacity ensured the continuity and stability of the supply of the product in the future. During the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of RMB60.6 million, an increase of 78.7% when compared with the same period of last year, accounting for 4.4% of the Group's turnover.

Bioflor (Saccharomyces Boulardii)

Bioflor, manufactured by Biocodex of France, is a probiotic agent used to treat diarrhea for both adults and children, as well as diarrhea symptoms caused by the disturbance of intestinal flora. The best-selling probiotic agent in the world, Bioflor recorded sales of RMB54.2 million during the Reporting Period, an increase of 67.1% when compared with the same period of last year, accounting for 4.0% of the Group's turnover.

(ii) Products under the Agency Network:

Main Products	**As a Percentage of the Group's Revenue (%)**
ShaDuoLiKa (YanHuNing Injection)	15.0
YiNuoShu (Ambroxol Hydrochloride for Injection)	5.0
XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)	1.2
Yin Lian Qing Gan Ke Li	0.1

ShaDuoLiKa (YanHuNing Injection)

ShaDuoLiKa, manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd., is a common anti-infective TCM injection used in pediatrics, respiratory and emergency departments. During the Reporting Period, ShaDuoLiKa recorded sales of RMB204.5 million, accounting for 15.0% of the Group's turnover.

YiNuoShu (Ambroxol Hydrochloride for Injection)

YiNuoShu, the first generic version of an ambroxol hydrochloride for injection in China, is an expectorant product used for respiratory diseases. The Group owns the controlling rights for the product while TIPR Pharmaceutical Responsible Co., Ltd presides over production, and in order to meet market demand for the product, the Group commissions Kangzhe (Hunan) Medical Company Limited to manufacture the product at the same time. The refurbishment of Kangzhe (Hunan) Medical Company Limited in accordance with the

latest Chinese GMP requirements during the Reporting Period resulted in a temporary supply shortage of the product to meet the market demand, resulting in a decline in the recorded sales of the product compared with the same period of last year. In order to solve the production capacity problem, the Group found and commissioned a third party to produce the drug, and the commission processing procedures are being handled. During the Reporting Period, YiNuoShu recorded sales of RMB69.0 million, accounting for 5.0% of the Group's turnover.

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)
XiDaKang, the only protein hydrolysate enteral nutrition agent to have received approval in China, is sold in the form of an oral solution and granules. The Group has obtained 100% of the product rights for XiDaKang, and Kangzhe (Hunan) Medical Company Limited presides over the production of the product. During the Reporting Period, XiDaKang recorded sales of RMB16.0 million, accounting for 1.2% of the Group's turnover.

Yin Lian Qing Gan Ke Li
Yin Lian Qing Gan Ke Li, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is an exclusive TCM product that has been awarded a National New Drug Certificate, and is mainly used to treat various acute and chronic forms of hepatitis, alcoholic liver, fatty liver and hypertension. During the Reporting Period, Yin Lian Qing Gan Ke Li recorded sales of RMB2.0 million, accounting for 0.1% of the Group's turnover.

(iii) Other Products
Apart from the products mentioned above, other products sold by the Group such as Cystistat, GanFuLe, Exacin, KunNing Oral Solution, Xiang Fu Yi Xue Kou Fu Ye etc. recorded total sales amounting to approximately RMB68.7 million, accounting for approximately 5.1% of the Group's turnover during the Reporting Period.

(iv) In-house Research Pharmaceutical Product
Tyroserleutide (CMS024), a National Class One New Drug researched and developed by the Group and with independent intellectual property rights, is used to treat primary liver cancer. The phase Ⅲ clinical trial of Tyroserleutide, entitled "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase Ⅲ Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in Patients with Hepatocellular Carcinoma", was unblinded, and the preliminary statistical analysis was conducted during the Reporting Period. The preliminary statistical analysis indicates that the clinical trial failed to achieve its aim to register to sell the drugs in the China market. Combined with observations from previous clinical trials of Tyroserleutide, the Group recommends that further investigations focusing on patient populations in better condition (such as subjects with no tumor thrombosis in the hepatic portal vein branches) with overall survival (OS) as the primary endpoint is meaningful. During the Reporting Period, the Group is conducting a further analysis and investigation of the materials of the phase Ⅲ clinical trial.

(v) Products under Registration
The Group had nine products undergoing the application process for Import Drug Registration during the Reporting Period, which will contribute to the Group's revenue after they are officially issued Imported Drug

Licenses by the China Food and Drug Administration ("CFDA"). Key information of these products is listed below:

Products	Indications	Manufacturers
Budenofalk	Mainly used to treat Inflammatory Bowel Disease (IBD) and Crohn's Disease	Dr. Falk Pharma GmbH (Germany)
Maltofer®	Mainly used to treat iron deficiency without anemia ("ID") and iron deficiency with anemia ("IDA")	Vifor Pharma (Switzerland)
Uro-Vaxom®	For the treatment and prevention of recurrent urinary tract infections and to stimulate the immune system and the body's natural defense against urinary pathogens	
Stimol® (Citrulline Malate Effervescence Powder)	Mainly used for the treatment of weakness and fatigue induced by various diseases and long-term fatigue and over-exertion, etc.	Biocodex (France)
Ze 339	For the treatment of allergic rhinitis	Max Zeller Söhne AG (Switzerland)
Ze 440	For the treatment of pre-menstrual syndrome and menstrual cycle disorder	
Ze 450	For the treatment of menopausal discomfort	
Succinylated Gelatin Injection (including two products)	For the treatment of initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited (United Kingdom)

Network Development

During the Reporting Period, the Group's Direct Network operated smoothly after an adjustment of its organizational structure. The Group not only further expanded the scale of its Direct Network to cope with the coverage requirements brought by the continuous market segmentation, but also enhanced its requirements for the quality of the network. In order to satisfy the need for qualified personnel for the Direct Network, during the Reporting Period, the Group made internship arrangements for the graduates recruited in the second half of 2013 from medical colleges across the country to help them very quickly gain an understanding of the regional business and the Group's culture, in addition to guiding their transformation from students to highly-qualified sales personnel. As at 30 June 2014, the Group's Direct Network had approximately 1,700 marketing, promotion and sales professionals covering more than 16,000 hospitals nationwide. The Group also strengthened the supervision and management of the Direct Network during the expansion of the scale of its Direct Network, and also enhanced the requirements for regional supervision and feedback while gradually decentralizing its operations.

As for the Agency Network, the Group continued to seek more suitable agents for its products. As at 30 June 2014, the Group signed over 1,000 independent third-party sales representatives and agents covering approximately 7,000 hospitals across the country. During the Reporting Period, the Group continued to provide academic support and organized numerous training programs for its agents in order to further improve their clinical promotion capability of the products. Furthermore, the Group continued to enhance the effective management of the Agency Network, supported network management in a comprehensive manner

through its self-developed information management system, and improved the efficiency and transparency of its regional business. Moreover, the Group further improved collaborative visits for its managers and market promoting personnel with its agents, constantly reinforced its interaction with agents, and enhanced the efficiency of collaboration with agents.

Outlook and Future Development

The introduction and development of products and the expansion of the marketing and promotion network are the two core development strategies of the Group, and will continue to be the key focus of the Group in the future. Continuous product introduction and market development, a healthy network structure, ongoing recruitment and training and the persistent optimization of its sales model based on market development will continue to drive the Group's future development.

In future, the Group will commit to new product introduction. In negotiations for new products, the Group will continue to reinforce the requirement of taking effective control of product rights, and actively explore potential cooperation opportunities with domestic and overseas pharmaceutical manufacturers, and strive to create a product portfolio with structured and content-rich features. For its existing products, the Group will constantly probe and explore new growth points and strengthen product penetration in existing markets while making full use of the layouts of the marketing and promotion networks in the rural market to enlarge the regional coverage of its products and to consolidate product development in the rural market. The Group will also endeavor to promote the marketization process of its products under registration.

Meanwhile, being committed to the introduction and development of products, the Group will continue to commit to the expansion of its marketing and promotion networks, to improve refined management over the networks and make timely adjustments as needed in order to meet the demand for product development towards the network. For the Direct Network, the Group will continue to optimize professional training to support the academic features and in-depth development of the network by high-qualified medical and pharmaceutical personnel. At the same time, the Group will continue to strengthen the management over its sales staff's behavior, attach great importance to improving the quality of its network management, and continue to build a more rational assessment and distribution system. For the Agency Network, the Group will launch its innovative sales model nationwide with its pilot product, XiDaKang, from the second half of 2014, and will make constant adjustments and improvements to the model. Meanwhile, the Group will also actively explore the possibility of taking reference from this sales model to apply to other products being sold by the Agency Network. The Group will also continue to enhance academic training for its agents and the meticulous management of the network, as well as to improve the efficiency of collaboration with agents, in order to further promote the healthy development of the Agency Network.

Looking ahead, the Group will continue to intensify internal management and risk control, to secure its business operations in compliance with the relevant laws and regulations, and to exercise stringent corporate governance and a balanced financial structure in order to build a bigger platform for its staff and to boost value for its shareholder

Financial Review

Turnover

	Six months ended 30 June			
	2014		2013	
	RMB'000	Weight	RMB'000	Weight
Deanxit	384,621	28.1%	299,708	28.8%
Ursofalk	266,801	19.5%	203,173	19.5%
ShaDuoLiKa	204,453	15.0%	152,686	14.7%
XinHuoSu	170,942	12.5%	103,266	9.9%
Salofalk	69,458	5.1%	46,292	4.4%
YiNuoShu	68,965	5.0%	93,538	9.0%
Augentropfen Stulln Mono Eye-drops	60,579	4.4%	33,896	3.3%
Bioflor	54,235	4.0%	32,463	3.1%
GanFuLe	25,815	1.9%	15,119	1.5%
XiDaKang	15,988	1.2%	10,962	1.1%
Yin Lian Qing Gan Ke Li	2,027	0.1%	798	0.1%
Others	42,854	3.2%	48,829	4.6%
	1,366,738	100.0%	1,040,730	100.0%

Turnover increased by 31.3% from RMB1,040.7 million for the six months ended 30 June 2013 to RMB1,366.7 million for the six months ended 30 June 2014, mainly due to the increased quantities sold, while there were no significant fluctuations in the selling prices of its products.

Gross Profit

Gross profit increased by 30.7% from RMB563.7 million for the six months ended 30 June 2013 to RMB736.9 million for the six months ended 30 June 2014, primarily reflecting growth in turnover.

Selling Expenses

Selling expenses increased by 31.4% from RMB190.1 million for the six months ended 30 June 2013 to RMB249.7 million for the six months ended 30 June 2014, primarily reflecting an increase in the sales and academic promotion activities. Selling expenses as a percentage of turnover was 18.3% for the six months ended 30 June 2014, the same as that for the six months ended 30 June 2013.

Administrative Expenses

Administrative expenses increased by 4.6% from RMB67.9 million for the six months ended 30 June 2013 to RMB71.0 million for the six months ended 30 June 2014. Administrative expenses as a percentage of turnover decreased by 1.3 percentage points from 6.5% for the six months ended 30 June 2013 to 5.2% for the six months ended 30 June 2014 benefitting from economies of scale.

Other Gains and Losses

Other gains and losses decreased by 36.2% from RMB49.8 million for the six months ended 30 June 2013 to RMB31.8 million for the six months ended 30 June 2014, mainly due to a decrease in foreign exchange gain.

Finance Costs

Finance costs decreased by 53.5% from RMB9.9 million for the six months ended 30 June 2013 to RMB4.6 million for the six months ended 30 June 2014, mainly due to a decrease in the use of bank borrowings.

Profit for the Period

Net profit increased by 30.3% from RMB314.5 million for the six months ended 30 June 2013 to RMB410.0 million for the six months ended 30 June 2014, mainly due to the continuous growth in turnover and effective control over expenses.

Inventories

Inventories increased by 34.5% from RMB167.1 million as at 31 December 2013 to RMB224.6 million as at 30 June 2014, primarily reflecting the growth in turnover and the additional stocking of individual products. Average inventory turnover days increased by 9 days from 48 days for the six months ended 30 June 2013 to 57 days for the six months ended 30 June 2014.

Trade Receivables

Trade receivables increased by 14.4% from RMB379.9 million as at 31 December 2013 to RMB434.5 million as at 30 June 2014. As a result of the strengthened management of trade receivables, average trade receivables turnover days decreased from 57 days for the six months ended 30 June 2013 to 55 days for the six months ended 30 June 2014.

Trade Payables

Trade payables decreased by 28.4% from RMB67.9 million as at 31 December 2013 to RMB48.6 million as at 30 June 2014, primarily reflecting the difference in purchase time of products with credit term. Average trade payables days decreased from 30 days for the six months ended 30 June 2013 to 17 days for the six months ended 30 June 2014.

Liquidity and Financial Resources

The Group maintained a strong cash position during the Reporting Period. As at 30 June 2014, the Group's bank balances and cash were RMB781.7 million while readily realizable bank acceptance bills amounted to RMB176.5 million. As at 31 December 2013, our bank balances and cash were RMB487.9 million while readily realizable bank acceptance bills amounted to RMB158.8 million.

Other Information

Interim dividend

The Board has resolved to pay an interim dividend of RMB0.0679 (equivalent to HK$0.085) per ordinary share of the Company for the six months ended 30 June 2014 to the shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 3 September 2014 (the "Record Date"). Payment of such interim dividend is expected to be made to the shareholders on Friday, 12 September 2014.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 1 September 2014 to Wednesday, 3 September 2014 (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 Friday, 29 August 2014.

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

For the six months ended 30 June 2014, 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 Mr. Huang Ming 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 2014 have been reviewed by the Audit Committee of the Company.

Corporate Governance Practices

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

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes the 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 informed 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 2014 Interim Report of the Company. The Interim Report will be duly dispatched to shareholders of the Company and published on websites of the Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.cms.net.cn).

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

Hong Kong, 18 August 2014

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