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China Medical System Holdings Limited

Interim Report
For the six months ended 30 June 2010

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China Medical System Holdings Ltd.
("CMS" or "the Company" or "We")

Interim Report

For the six months ended 30 June 2010

China Medical System Holdings Ltd. (AIM: CMSH), a leading China-based pharmaceutical services company focusing on the marketing, promotion and sale of prescription drugs of overseas and domestic specialty pharmaceutical companies, is pleased to announce its interim results for the six months ended 30 June 2010.

Results are reported in US dollar currency unless otherwise stated.

HIGLIGHTS

Financial Highlights:

- **Sales up 30.8% to $61.2M (H1 2009: $46.8M)**
- **Gross Profit up 25.6% to $37.2M (H1 2009: $29.6M)**
- **Net Profit up 45.2% to $15.3M (H1 2009: $10.6M)**
- **Adjusted Net Profit[1] up 43.8% to $16.6M (H1 2009: $11.5M)**
- **Basic EPS and Diluted EPS up 45.4% and 43.8% to $1.608 and $1.590, respectively (H1 2009: $1.106 for both)**

Operational Highlights

- **Significant sales increase of the majority of our key in-licensed products:**

Deanxit	**$26.0M**	**14.3% increase (H1 2009:$22.8M)**
Ursofalk	**$16.9M**	**26.5% increase (H1 2009:$13.4M)**
Stulln	**$3.8M**	**35.4% increase (H1 2009:$2.8M)**
XinHuoSu	**$5.7M**	**91.0% increase (H1 2009:$3.0M)**
Salofalk	**$1.7M**	**155.9% increase (H1 2009:$0.7M)**
Cystistat	**$0.3M**	**86.5% increase (H1 2009:$0.2M)**

[1] Adjusted net profit represents net profit excluding exceptional items. For the interim period of 2010, exceptional item included an expense of $1.2M in relation to the listing of the shares of par value of US$0.005 each in the capital of the Company (the "Shares") on the main board of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"); in the comparative period of 2009, exceptional item included an expense of $1.0M for research & development operations which was disposed of at the end of 2009.

- **Two new products introduced during the period:**

  Exacin (Antibiotic) **$3.4M** (in relation to which, the Company obtained a right to promote and sell one shipment imported under its one-time permit in China, with its imported drug licence being under renewal)

  Bioflor (Anti-Diarrhea) **$0.3M (in relation to which, the Company obtained an exclusive right to promote and sell Bioflor in China for 5 years)**

- **Recruited more than 220 new marketing, promotion and sales staff to satisfy the needs from expanding portfolio and business.**

China Medical System Holdings Limited

China Medical System Holdings Ltd., (CMS) is listed on the Alternative Investment Market (AIM) of the London Stock Exchange with the ticker symbol "CMSH". For further information, please visit www.chinamedicalsystem.com

CHAIRMAN & CEO'S STATEMENT

The first half of 2010 has been a remarkable period for CMS both in terms of operational achievements as well as our status as a listed company. With our aim to consolidate our position as the leading China-based pharmaceutical services company providing marketing, promotion and sale services in China, we disposed of our non-core R&D operations and medical device manufacturing business at the end of 2009.

In the six months ended 30 June 2010, our revenue reached US$61.2M, representing an increase of 30.8% (H1 2009: US$46.8M); gross profit increased by 25.6% to US$37.2M (H1 2009: US$29.6M); and the net profit increased by 45.2% to US$15.3M (H1 2009: US$10.6M). The impressive increase in net profit was due to a combination of factors including: (i) the continuous expansions of our product portfolio; (ii) effective cost controls measures; (iii) the absence of the expenses in relation to the R&D and medical devices manufacturing business which we disposed of in December 2009; and (iv) continued expansion of our marketing, promotion and sales network which created favourable economies of scale.

Since our listing on AIM in London in 2007, we have grown considerably. For the three years ended 31 December 2007, 2008 and 2009, our total turnover was US$51.7 million, US$72.6 million, and US$96.5 million, respectively, representing a CAGR of 36.5% over the three years from 2007 to 2009. For each of these periods, our gross profit was US$33.6 million, US$44.8 million, and US$60.9 million, respectively, representing a CAGR of 34.6% over the three years from 2007 to 2009, and gross profit margin was 64.9%, 61.7% and 63.1% in the respective period. For each of these periods, our net profit was US$8.7 million, US$15.0 million, and US$20.8 million, respectively, representing a CAGR of 55.0% over the three years from 2007 to 2009, and our net profit margin was 16.8%, 20.7%, and 21.6% in the respective period.

We have maintained this healthy growth in the past three years through the close adherence to our growth strategies, which included:

- Increase our penetration of the Chinese pharmaceutical market by further expanding our marketing, promotion and sales team, broadening our marketing, promotion and sales network, and increasing our hospital and medical doctor base.

  Our marketing, promotion and sales team has grown rapidly to promote our expanding product portfolio. Our marketing, promotion and sales network has also broadened quickly to achieve a wider geographic coverage and deeper penetration in many provinces. Including the new hires this year, our total number of marketing, promotion and sales team exceeds 970 staff, which is more than double the number of 450 reported in our AIM admission document ("AAD") in June 2007. As of 30 June 2010, our operations covered 30 out of the 31 provinces in China, and our marketing, promotion and sales network reached over 5,900 hospitals, as compared to approximately 3,000 hospitals in 26 provinces in 2007, as stated in our AAD.

- Continue to expand our product portfolio and therapeutic focus by obtaining exclusive rights to promote and sell new pharmaceutical products with high growth potential in China through our marketing, promotion and sales platform.

  Since 2007, the continuous expansion of our product portfolio has contributed significantly to our growth. In 2006, nearly all of the revenue from the sales of our in-licensed products was derived from Deanxit and Ursofalk, the two earliest in-licensed products, sales of the six key products we newly in-licensed since late 2006 to 2010, namely Stulln, GanFuLe, XinHuoSu, Salofalk, Cystistat, and Bioflor, have increased significantly. Such products contributed to approximately 11.9%, 16.3%, 21.9% and 22.9% of our revenue from the sales of in-licensed products for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively, and their revenue growth contributed about 35.3%, 25.4%, 38.0% and 32.4% of the growth in the revenue of our in-licensed products in the respective period. As our product portfolio expands, we reduce the risks associated with our reliance on a limited number of products and the expanding portfolio is expected to continue to contribute to our growth. The therapeutic areas covered by our products have continued to broaden since 2006 as we in-licensed products targeting new

therapeutic areas. The economies of scale can be reflected in the decrease of the selling and administrative expenses as a percentage of revenue from 38.4% in 2007 to 33.4% in 2009.

- Follow our strict product selection criteria to identify a product which has significant market potential, has unique feature that help to differentiate it from competitive products, or is difficult to imitate and market in China.

  The success of our product selection and promotion strategies is demonstrated by, amongst other things, the continued growth recorded by the sales of Deanxit and Ursofalk, which we started to promote and sell in 2002. Sales of Deanxit and Ursofalk continued to grow by 21.1% and 34.4%, respectively in 2009, or at CAGRs of 26.0% and 44.4%, respectively since 2002. Sales of the six recently introduced products have grown significantly in the last few years, from US$5.6 million in 2007 to US$20.5 million in 2009, representing a CAGR of 91.2%. We believe our successful product selection and promotion strategies will enable us to identify additional appropriate products, further expand our business and diversify our revenue sources. Our strategy to continuously expand our product portfolio has been supported by international and domestic pharmaceutical manufacturers, and as a result we in-licensed products from five international manufacturers from four countries (Denmark, Germany, Ireland, and France), and two domestic pharmaceutical manufacturers. Our listing status on AIM, transparent and established corporate governance procedures, strong track record, and quality of our marketing, promotion and sales services attract new and existing suppliers to engage us to promote their products in China.

In line with our growth strategy, we were delighted to add two imported products to our portfolio during the interim, namely Bioflor and Exacin (in relation to which, we obtained a right to promote and sell one shipment imported under its one-time permit in China, with its imported drug license being under renewal), which are manufactured by Biocodex (France) and Asahi Kasei Pharma Corporation (Japan), respectively. The two products combined already contributed US$3.7M, or 6.0% to our turnover within the interim period.

Financial Review

Turnover

During the interim period we derive revenue from sales of two kinds of products, namely in-licensed products and self-manufactured products, which accounted for 98.7% and 1.3% of our total revenue, respectively Our turnover increased by 30.8% from US$46.8 million in the six months ended 30 June 2009 to US$61.2 million in the six months ended 30 June 2010, reflecting an increase of 33.6% in revenue from the sales of our in-licensed products, and a decrease of 49.2% in revenue from the sales of our in-house manufactured pharmaceutical products.

Total turnover from our in-licensed products increased by 33.6% from US$45.2 million in the six months ended 30 June 2009 to US$60.4 in the six months ended 30 June 2010 mainly due to an increase in the sales volume of our products, while prices of which remained relatively stable. We obtained the right to promote and sell one shipment of Exacin in the PRC in January 2010, before that, Exacin was introduced to the Chinese market in 1996. The sales of Exacin amounted to approximately US$3.4 million in the six months ended 30 June 2010, accounting for 5.5% of our total turnover in the same period. Further, we obtained the exclusive right to promote and sell Bioflor in the PRC in February 2010, before that, Bioflor was introduced to the Chinese market in 1998 by another domestic pharmaceutical company. The sales of Bioflor amounted to approximately US$0.3 million in the six months ended 30 June 2010, accounting for 0.5% of our total turnover in the same period.

Selling expenses

Our selling expenses increased by 17.2% from US$11.4 million in the six months ended 30 June 2009 to US$13.3 million in the six months ended 30 June 2010 primarily due to an increase in marketing and promotion expenses, salaries & wages, travelling and conference expenses incurred by our marketing and sales staff corresponding to increased sales during the period. Our selling expenses as a percentage of our revenue decreased by 2.5% from 24.3% in the six months ended 30 June 2009 to 21.8% in the six months ended 30 June 2010 as we benefited from economies of scale.

Administrative expenses

Our administrative expenses decreased by 16.2% from US$3.9 million in the six months ended 30 June 2009 to US$3.3 million in the six months ended 30 June 2010 primarily due to (i) an expense of US$0.2 million incurred in the six months ended 30 June 2009 only in relation to our research and development and medical device manufacturing businesses which we disposed of in late 2009, (ii) a decrease of US$0.2 million in the costs of share-based payment related to the grant of shares under the Key Employee Benefit Scheme, and (iii) a decrease in other expenses. As our business continued to grow, we achieved greater economies of scale and our administrative expenses as a percentage of our revenue decreased by 3.0% from 8.4% in the six months ended 30 June 2009 to 5.4% in the six months ended 30 June 2010.

Research and development costs

We did not incur any research and development costs in the six months ended 30 June 2010 because we disposed of our Research and Development operations in December 2009.

Inventories

Our inventory balances increased by US$6.3 million from US$11.1 million as at 31 December 2009 to US$17.4 million as at 30 June 2010, resulting from the increase in stock of finished products which was primarily due to (i) the single purchase of a large quantity of Exacin following our exclusive right obtained in January 2010 to promote and sell one shipment of Exacin under its one-time permit in China and (ii) our purchases of inventories partly due to our expanded portfolio.

Trade receivables

Our net trade receivables balances increased from US$20.7 million as at 31 December 2009 to US$28.9 million as at 30 June 2010, primarily reflecting (i) an increase in sales in the six months ended 30 June 2010 and (ii) an increase in the average trade receivable turnover day for the six months ended 30 June 2010, being 75 days, compared to that for 2009, being 73 days (whilst in the six months ended 30 June 2009, the average trade receivable turnover day was higher, being 79 days).

Bank balances and cash, and source of cash

As at 30 June 2010, we maintained a healthy cash position. Bank balances and cash decreased by US$4.8 million from US$15.1 million as at 31 December 2009 to US$10.3 million as at 30 June 2010, primarily reflecting (i) payment of the final dividend we declared for 2009 amounted to US$4.7 million, (ii) cash payment for the single purchase of a large quantity of Exacin under its one-time permit in China, and (iii) the acquisition of a land use right in Shenzhen amounted to US$2.9 million.

The balance of our source of cash (represented by bill receivables) decreased from US$9.5 million as at 31 December 2009 to US$8.9 million as at 30 June 2010.

Trade payables

Our trade payables balances decreased from US$6.1 million as at 31 December 2009 to US$4.3 million as at 30 June 2010, primarily due to our cash payment for the purchases of Exacin and Bioflor upon delivery, both of which were newly introduced in 2010.

Operational Review

Marketing & Promotion

For the interim period ended 30 June 2010, revenue from the sales of our in-licensed products were US$60.4M, representing an increase of 33.6% from 2009 (H1 2009: US$45.2M). Revenue generated from the sale of our in-licensed products for the three years ended 31 Dec 2007, 2008 and 2009 was US$47.0M, US$69.6M, and US$93.8M respectively, representing a CAGR of 41.2% over the three years from 2007 to 2009. Since 2007, the continuous expansion of our product portfolio has contributed significantly to our growth. Sales of the six key products we newly in-licensed since late 2006 have increased significantly. Such products contributed to approximately 11.9%, 16.3%, 21.9% and 22.9% of our revenue from the sales of in-licensed products for each of the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. As our product portfolio expands, we reduce the risks associated with our reliance on a limited number of products and the expanding portfolio is expected to continue to contribute to our growth.

We provide exclusive marketing, promotion and sales services that primarily include one-on-one visits to physicians, providing them with professional education specific to therapeutic areas related to our products, educating physicians on the clinical uses, benefits, side effects and other clinical aspects of our in-licensed products, organising medical symposia and sponsoring industry conferences. By accurately positioning the products to target unmet medical needs and raising the awareness of our products among physicians, our services enable pharmaceutical companies lacking an effective commercialisation or promotion capability in China to bring their products to the market efficiently and generate demand for their products.

We have a highly qualified and professional marketing, promotion, and sales team which effectively promotes our products to the physicians. Our promotion and sales team has been with us for an average period of about four years, and among them the mid-level to senior members have been with us for an average period of approximately nine years. Over 70% of our promotion and sales team have educational backgrounds in medicine or pharmacology, and a number of them practised medicine and hence possess first-hand clinical experience. Their professional background and experience in the pharmaceutical industry have enabled us to successfully implement our promotion and sales strategy, which requires a substantial level of interfacing with physicians and focuses on educational training in the specific therapeutic areas of our products.

According to the Frost & Sullivan, we are the largest pharmaceutical services company focusing on the marketing, promotion and sales of prescription drugs in China, accounting for 18% of the market in 2009, and we operate the largest third-party promotion network in China in terms of hospital coverage, therapeutic focus and number of salespeople. During the seven months ended 31 July 2010, we recruited more than 220 new staff to join our marketing, promotion and sales team, making the total number of salespeople at the end of July 2010 to be over 970. The expanded marketing, promotion and sales team enables our services to reach over 5,900 hospitals located across 30 provinces, 97% of the provincial capitals and 86% of prefecture level cities in China. Our hospital network covers 91.4 % of class-three hospitals and 34.4% of class-two hospitals in China. Our promotion and sales network has identified over 100,000 target physicians who specialise in different therapeutic areas that are relevant to our products, including neurology, psychiatry, hepatology, gastroenterology, urology, ophthalmology, cardiovascular disease, oncology and paediatric.

We follow a rigorous product screening process to select products which have distinctive features which cannot be easily imitated and marketed in China, and which we expect will enjoy product exclusivity and a leading market position in the market. Our product exclusivity is reflected in the absence of competing products under the same generic name based on our research carried out on the website of the State Food and Drug Administration of the PRC ("SFDA") as at 17 May 2010, or reflected in the administrative protection in the case of GanFuLe, a traditional Chinese medicine. The product exclusivity applies to all our key in-licensed products except for Ursofalk and Salofalk.

A brief review of our key in-licensed products is as follows:

Deanxit (Flupentixol and Melitracen)
Sales of Deanxit, our largest revenue contributor, increased by 14.3% to US$26.0M in the six months ended 30 June 2010 (H1 2009: US$22.8M). During the interim period of 2010, Deanxit was sold to over 4,500 hospitals across 29 provinces in China. In 2002, we entered into a five-year agreement with H. Lundbeck A/S of Denmark to promote and sell Deanxit in China (excluding Hong Kong and Macau) on an exclusive basis, and in 2008, we renewed the agreement for another five years. Since 2002, sales of Deanxit have grown at a CAGR of 28.8% to US$44.5 million for the year ended 31 December 2009, contributing approximately 46.1% of our total turnover for 2009. Deanxit is currently the second best selling anxiolytic anti-depressant in China, after its sales surpassed its competitive product Prozac in 2009. According to World Health Organisation ("WHO"), it is estimated that 5% to 10% of the population at any given time is suffering from identifiable depression requires psychiatric treatment or psychosocial intervention. Despite the seriousness of depression as a disease and the availability of effective treatment, only 30% of cases worldwide receive appropriate care. As the general awareness of mental health continues to improve, we anticipate large unmet demand for the treatment of depression. According to the Frost & Sullivan, the anti-depression market in China was US$393.5M in 2009, and is expected to grow at a CAGR of 17.9% from 2005 to 2016. We believe this provides significant growth potential for our product Deanxit.

Ursofalk (Ursodesoxycholic Acid or "UCDA")
Sales of Ursofalk, our second largest revenue contributor, increased by 26.5% to US$16.9M in the interim period of 2010 (H1 2009: US$13.4M). Ursofalk is used for the treatment of cholesterol gallstones, cholestatic liver disease and gastritis. During the interim period of 2010, Ursofalk was sold to over 2,300 hospitals across 30 provinces in China. In 2002, we entered into an exclusive agreement with Dr. Falk Pharma of Germany for the promotion and sale of Ursofalk in China. The contract was automatically renewed in 2009 for a term of five years after fulfilling the annual minimum order quantities we had agreed with Dr. Falk Pharma. Since 2002, our sales of Ursofalk have grown at a CAGR of 47.6% to US$28.3 million for the year ended 31 December 2009 and contributed approximately 29.4% of our total turnover in 2009. UCDA has been included in the Drug Catalogue of National Basic Medical Insurance, and added in the new National Essential Drug List in China released in 2009. According to the Frost & Sullivan, Ursofalk represented 98.0% of the UDCA market in China in 2009. UDCA drugs have become a major non-surgical treatment for cholesterol gallstones, and further, UDCA's efficacy in treating cholestatic liver diseases has been recognised in recent years. According to the Frost & Sullivan, the overall cholagogue market in China was US$50.7M in 2009 and is expected to grow at a CAGR of 21.6% from 2005 to 2016. Frost & Sullivan also concluded that Ursofalk has maintained a market share of more than 50% of the Chinese market for cholagogue drugs since 2007 and was ranked first by market share since 2005 amongst other similar competitive products.

Augentropfen Stulln Mono Eye-drops ("ASM")
Augentropfen Stulln Mono is an imported eye-drop approved by SFDA for the treatment of age-related macula degeneration (AMD). ASM is also approved as treatment for all forms of ocular asthenopia. Sales of ASM increased by 35.4% to US$3.8M in the six months ended 30 June 2010 (H1 2009: US$2.8M) as we continue to sell the product in more than 1,600 hospitals. According to the Frost & Sullivan, the AMD market in China was US$63.4M in 2009 and is expected to grow at a CAGR of 15.2% from 2009 to 2016. ASM had a market share of about 7.8%, 8.3% and 9.7% of the Chinese AMD market in 2007, 2008, and 2009, respectively. We are currently exploring the possibility of changing the product from a prescription drug to an over-the–counter eye-drop product, which we believe will significantly increase our market share in China.

Augentropfen Stulln Mono eye-drops are a product of Pharma Stulln GmbH, Germany and were introduced to the Chinese market in 1999 by another domestic pharmaceutical company. We first obtained an exclusive right to promote and sell Augentropfen Stulln Mono eye-drops in China in 2006 and then acquired the exclusive agency right in China in 2008 for a term of ten years. Since 2007, we have sponsored numerous nationwide academic conferences and seminars to build brand awareness. As a result, we successfully expanded the number of hospitals that prescribe Augentropfen Stulln Mono eye-drops from less than 200 in 2006 before we obtained the exclusive distribution right to over 1,500 hospitals in 2009. According to data provided by Pharma Stulln GmbH, the volume of Augentropfen Stulln Mono eye-drops (boxes of 10) imported into China increased from approximately 600,000 boxes in 2006, to approximately 1,680,000 boxes in 2009.
XinHuoSu (Lyophilized Recombinant Human Brain Natriuretic Peptide "rhBNP")

XinHuoSu was first sold in China by Tibet Rhodiola Co. Ltd., in 2005. We obtained the exclusive right to promote and sell XinHuoSu in China in 2008. Sales of XinHuoSu increased by 91.0% to US$5.7M in the six months ended 30 June 2010 (H1 2009: US$3.0M). This product is a National Class One New Drug, and is a cardiovascular product used to treat acute heart failure (AHF) patients who have dyspnea at rest or with minimal activity. rhBNP is included in the Guideline for Diagnosis and Treatment of Acute Heart Failure issued by the Chinese Medical Association of Cardiovascular Department as the treatment for AHF and XinHuoSu is the only rhBNP drug in the China market, based on our research carried out on the website of the SFDA as at 17 May 2010. With China's growing ageing population and increasing incidence rate of cardiovascular diseases such as hypertension and coronary heart disease, the prevalence rate of heart failure has gradually increased in recent years. According to an article published by the Chinese Journal of Cardiology in January 2003, the prevalence rate of heart failure in China amongst adults was about 0.9% (with 0.7% applicable to men and 1.0% applicable to women) and four million adult patients aged from 35 to 74 suffered from heart failure, which showed a rising trend year by year.

In 2008, we initiated a multi-centre phase IV clinical trial for XinHuoSu, which was coordinated by eight centres and involved 2,184 patients. Phase IV trials, also known as post marketing surveillance trials, involve the safety surveillance of a drug after it receives approvals to sell in the market. The safety surveillance is designed to detect any rare or long-term adverse effects over a much larger patient population and longer time period than was possible during the phase I to III clinical trials. The phase IV clinical trial for XinHuoSu was completed in April 2010 and the results provide clinical evidence that substantiates the efficacy of XinHuoSu. From the time we obtained the agency rights in 2008 to the end of 2009, we expanded the coverage of hospitals prescribing XinHuoSu from less than 70 to approximately 400.

According to Tibet Rhodiola Pharmaceutical Co. Ltd., before we took over the exclusive rights, sales of XinHuoSu were less than RMB5.0 million (equivalent to approximately US$0.7 million) in 2007. Our revenue from the sale of XinHuoSu reached US$2.8 million in 2008 and US$7.3 million in 2009, representing an increase of 155.5% over the two years' period.

Salofalk (Mesalazine)

Salofalk is used to treat ulcerative colitis and the acute phase of Crohn's disease. During the six months ended 30 June 2010, sales of Salofalk reached US$1.7M, representing an increase of 155.9% over the same period last year (H1 2009: US$0.7M). Salofalk was first introduced to the Chinese market in 2003 by another pharmaceutical company. We obtained the exclusive right from Dr. Falk Pharma to promote and sell Salofalk in China in 2008 for a term of five years. Sales of Salofalk in China reached US$0.1 million in 2008 and US$1.8 million in 2009, representing an increase of 1,271.4% over the two-year period. According to the IMS Health analysis, Salofalk was the fourth best-selling anti-inflammatory agent globally for the 12-month period up to the third quarter of 2009, with total sales of US$187 million. According to Datamonitor, the global sales volume of Salofalk is expected to grow at a CAGR of 20% from 2008 to 2013. We believe that sales of Salofalk in China will also increase in the coming years. According to "Analysis of incidence of inflammatory bowel disease in China" (Chinese Journal of Digestion, 2008, 12:814-817), the prevalence rates of ulcerative colitis and Crohn's disease in China were about 11.6 out of 100,000 people and 1.4 out of 100,000 people respectively, with an upward trend in recent years.

Bioflor (Saccharomyces boulardii)

Bioflor, a type of probiotic, is used to treat acute infectious diarrhoea, antibiotic-associated colitis and diarrhoea (AAD). Bioflor was introduced to the Chinese market in 1998 by another domestic pharmaceutical company. We obtained an exclusive right from Biocodex of France to promote and sell Bioflor in China in February 2010 for a term of five years. During the interim period of 2010, sales of Bioflor reached US$0.3M. According to its manufacturer, Bioflor has been launched in the international market for more than 49 years and is currently sold in about 100 countries. According to an article entitled "Diarrhoea in developed and developing countries: magnitude, special settings, and etiologies" published by Rev Infect Dis. in 1990, diarrhoeal diseases are major causes of morbidity, with attack rates ranging from two to 12 or more illnesses per person per year in developed and developing countries. By projecting the low end of such attack rate of two times per person per year in developed and developing countries to the population of 1.3 billion in China, the attack rates of diarrhoea would be 2.6 billion times per year in China. In addition, according to the article "Antibiotic resistance in China — a major future challenge" published by the Lancet in 2009, the rate of antibiotic prescription to inpatients in China is 80%. With extensive use of antibiotics in China, the estimated prevalence rate of antibiotic-

associated diarrhoea is about 9.3% among adult patients according to a study published on the World Chinese Journal of Gastroenteritis. Saccharomyces boulardii, along with lactobacillus rhamnosus GG and probiotic mixtures, is clinically proven to significantly reduce the development of AAD based on "Meta-analysis of probiotics for the prevention of antibiotic associated diarrhoea and the treatment of Clostridium difficile disease" published by PubMed in 2006. We believe that there is significant market potential in China for Bioflor as a treatment for acute infectious diarrhoea and AAD.

Cystistat (Sterile hyaluronate solution)

Cystistat is used with a medical device for the temporary replacement of the glycosaminoglycan (GAG) layer in the bladder caused by Interstitial cystitis (IC). For the six months ended 30 June 2010, sales of Cystistat increased by 86.5% over the same period last year to reach US$0.3M (H1 2009: US$0.2M). According to the report "Screening, treatment and management of IC/PBS" published by the Association of Reproductive Health Professionals in May 2008, the prevalence rate of interstitial cystitis in the general population in the United States has been estimated to be about 60 per 100,000 people. We believe that interstitial cystitis is under-diagnosed and under-treated in China. By increasing the product awareness through educating physicians about the disease, available treatments and the clinical advantages of Cystistat in treating interstitial cystitis, we believe there is growth potential for Cystistat.

We first obtained the exclusive right from Bioniche Teoranta of Ireland to promote and sell Cystistat in China in 2008 for a term of five years, and this will be automatically renewed provided that certain conditions, principally the minimum order quantities are met. According to the data from Bioniche Teoranta, the volume of Cystistat imported into China increased from 550 bottles in 2007 to 1,000 bottles in 2008 and 3,000 bottles in 2009.

GanFuLe ("GFL")

Sales of GanFuLe decreased by 10.7% from US$2.2 million in the six months ended 30 June 2009 to US$2.0 million in the six months ended 30 June 2010 because the territorial exclusivity under the renewed agreement in 2010 was reduced. GFL was first sold in China in 1994 by its manufacturer. We obtained the exclusive right to promote and sell GFL in China in late 2006. In 2010, we renewed the agreement with the supplier for a term of five years, under which we have an exclusive right to promote and sell GFL in certain regions of China. GFL is a traditional Chinese medicine used to treat primary liver cancer, hepatitis B and cirrhosis with specified symptoms. GFL is included in the Drug Catalogue of National Basic Medical Insurance which helps to promote wider prescription in the market. In addition, the product was granted a seven-year National Second Grade Traditional Chinese Medicine Protection expiring in July 2013, during which time, other manufacturers are not allowed to produce the product. According to the Study for Opportunities Assessment for Hepatitis B Therapeutics in China prepared by Frost & Sullivan in 2008, the number of carriers of hepatitis B virus (HBV) in China in 2007 was 54 million, which is expected to increase to 60 million by 2012. Chronically HBV infected persons are at risk of death from cirrhosis of the liver and liver cancer, making HBV the second leading cause of death in China. As GFL is clinically proven to delay the progression of hepatic fibrosis and reduce the probability of developing liver cirrhosis, and hence the probability of developing liver cancer, we expect that our revenue from GFL will continue to grow with the increasing number of HBV carriers and liver cancer incidences.

Exacin (Isepamicin Sulfate)

Exacin is an aminoglycoside antibiotic product used to treat septicaemia caused by sensitive bacteria, secondary infections caused by trauma, burns and surgery, chronic bronchitis, bronchiectasis, pneumonia, pyelonephritis, cystitis and peritonitis. For the six months ended 30 June 2010, sales of Exacin already reached an impressive US$3.4M. Bloodstream infection (BSI) includes septicaemia and bacteremia. The average incidence rate of BSI increased from about 1.6% in 1986 to 3.1% in 2006, according to an article entitled "Etiology, diagnosis and treatment development of BSI" published in the Journal of Practical Medicine 2009. Exacin is included in the Drug Catalogue of National Basic Medical Insurance Class B.

We obtained the right to promote one shipment of Exacin imported into China under its one-time permit in 2010 and its imported drug licence is currently under renewal. We are currently exploring an opportunity to obtain from the manufacturer a long-term exclusive right to promote and sell Exacin in China and we may or may not be able to obtain such right. We expect Exacin to become one of our key in-licensed products if we successfully obtain the exclusive right of promotion and sale from the manufacturer.

Changes in the Board of Directors

During the interim period, we made some changes to the members of the board of directors. Ms. Hou Xiaoxuan changed her role from an Executive Director to a Non-Executive Director of the Company. Owing to family reasons, Ms. Hou expressed her wish to take a less active role in the management of our Group and accordingly Ms. Hou and we agreed that she would not be responsible for overseeing the day-to-day operations of the Group. She is currently mainly involved in the overall strategic development of our business. Meanwhile, we would like to express our heartfelt gratitude to Dr. Paul Harper, an Independent Non-executive Director ("INED") of the Company, who resigned from the board in May 2010, for his valuable contribution to the Company during his tenure of office. We are delighted to welcome Dr. Huaizheng Peng and Mr. Wu Chi Keung, our two INEDs newly appointed in May and June 2010, respectively, who bring to the board their rich experience in corporate finance and financial audit industry.

Sub-division of shares

To lower the trading price of the Company's shares quoted on AIM with the aim of improving the liquidity of the shares, pursuant to an ordinary resolution of the Company's shareholders (the “Shareholders”) passed at an extraordinary general meeting held on 25 June 2010, each share of par value of US$0.1 in the capital of our Company was sub-divided into 20 shares of par value of US$0.005 each with effect from 28 June 2010.

Hong Kong Listing

On 29 April 2010, the Company announced that an application for the listing of the Shares on the main board of the Hong Kong Stock Exchange ("Hong Kong Listing") was made on that day. Since the admission of the Shares to trading on AIM in June 2007, the Company and the Shareholders have been well served by AIM. The proceeds raised from the placing of Shares as part of the admission of the Shares to trading on AIM enabled the Company and its subsidiaries (collectively, the "Group") to implement its expansion plan. Given that the Group operates and generates all of its sales in China, the directors of the Company (the "Directors") believe that the Company will be better served by listing its Shares on a stock exchange where the potential investors are generally more familiar with the Chinese market and the Company's business environment. Because of its geographical and economic proximity and cultural similarity to China, and its large, liquid and well-maintained securities trading platform, the Directors believe that Hong Kong Stock Exchange would be a suitable choice of stock exchange for the Company to grow further. The Directors also believe that as the Hong Kong Stock Exchange has attracted a broad range of the People's Republic of China ("PRC"), Asian and other international investors, the liquidity of and access to the Company's Shares is expected to improve following the Hong Kong Listing, which shall in turn improve the Company's profile and provide better access to quality institutional investors that are familiar with China’s pharmaceutical industry in the long term.

The Directors have considered the advantages and disadvantages of maintaining the Company's admission to AIM after its Shares are listed on the Hong Kong Stock Exchange, and concluded that it will not be in the best interests of the Company and the Shareholders to maintain dual listings on two different stock exchanges. The Directors are of the view that a dual-listing is likely to result in division of liquidity of Shares between the two markets, which is likely to partly negate the benefits of the Hong Kong Listing. A dual-listing will also incur additional legal, audit and other maintenance and management fees, and require additional management resources as the Company would have to comply with two sets of regulatory requirements. Accordingly, the Directors believe that the additional time and costs required to maintain a dual-listing will outweigh its benefits. The Company proposes to cancel the admission of Shares to trading on AIM (the “Delisting”) conditional upon the Hong Kong Listing occurring and on the same day as the date of the Hong Kong Listing (the “Listing Date”).

The Hong Kong Listing is subject to, among other things, the approval of the listing sub-committee of the board of directors of the Hong Kong Stock Exchange ("Listing Committee"), and may be affected by a number of factors including the related share offering and market conditions. Subject to the approval of the Listing Committee, it is currently expected that the earliest possible date that the Hong Kong Listing may occur is 21 September 2010. The Delisting is conditional on Shareholders' approval and the Hong Kong Listing taking place, and will be effective on the Listing Date. The expected Listing Date and the date of the Delisting are subject to change. Once the final date of Hong Kong Listing and the date of Delisting are confirmed, the Company will make an announcement regarding such dates as soon as

practicable and in any event not less than ten days (upon which the London Stock Exchange plc is open for business) in advance of the final date of Delisting.

Outlook & Summary

The Chinese pharmaceutical market has grown rapidly in recent years due to the favourable macro environment in terms of the GDP growth and an increase in healthcare expenditure in China. According to the Frost & Sullivan Report, the Chinese pharmaceutical market grew from US$18.7 billion in 2005 to US$37.6 billion in 2009, representing a CAGR of 19.0%. It is estimated that the amount will reach US$137.1 billion in 2016, representing a CAGR of 20.3% from 2009 to 2016. According to the Frost & Sullivan Report, the Chinese prescription drugs market amounted to US$29.9 billion in 2009, accounting for about 79.5% of the whole Chinese pharmaceutical market in terms of sales volume in the same year, and the market size of the prescription drugs market in China is expected to reach US$110.7 billion by 2016, representing a CAGR of 20.6% from 2009 to 2016.

The recent healthcare reform initiated by the State Council in 2009 called for acceleration in building basic medical insurance system and essential drug system, and promotion on primary health care facilities and pilot reform of State-run hospitals. Under the reform, an estimated amount of RMB850 billion (equivalent to approximately US$125 billion) will be spent on healthcare through 2011. With RMB850 billion investment (equivalent to approximately US$125 billion), the reform is considered to lay a solid foundation for equitable and universal access to essential health care for all in China by 2020. With the increasing government spending on healthcare, rising disposable income and living standards in China, people in China become more health conscious and hence the domestic demand for high-quality imported prescription drugs will increase, as they become more attractive to patients in China.

Drawn by such rapid growth and significant market potential in China, many overseas pharmaceutical companies are eager to bring their products to the Chinese market, and according to the Frost & Sullivan Report, sales of imported prescription drugs in China grew at a CAGR of 34.7% from 2005 to 2009, compared to a CAGR of 20.9% for the overall prescription drug market in China over the same period of time, eclipsing the growth of the overall prescription drugs market in China. In our experience, large global pharmaceutical companies generally focus their resources on a limited portfolio of selective higher revenue-generating products and engage third-party service providers to market, promote and sell their other products. Most small and medium size overseas pharmaceutical companies have limited understanding of the Chinese market and culture and do not have the capability, expertise and experience to introduce their products to the Chinese market. These small and medium size overseas pharmaceutical companies also often choose to engage third-party service providers to launch and promote their products in China as a cost-efficient way to enter the market. We believe demand for pharmaceutical marketing, promotion and sale services in China among overseas and domestic specialty pharmaceutical companies will continue to grow as more companies are attracted to the strong growth of the Chinese pharmaceutical market, which is largely driven by increasing healthcare spending, higher disposable income, rising health awareness and the recently announced healthcare reform in China.

We believe that with our broad marketing, promotion and sales platform, we are able to offer pharmaceutical companies more cost-effective and time-efficient access to the healthcare market in China for their products. With our broad promotion and sales network, extensive hospital coverage and wide scope of therapeutic areas covered by our products, we are better able to cross-sell our products in a cost-effective way and benefit from economies of scale as we add further in-licensed products to our portfolio, which we expect will bolster our operating profit margin in the future.

We have the ability to effectively bridge the gap faced by pharmaceutical companies in introducing their products to the end market due to constraints on their capital, marketing expertise or other resources. Our track record provides us with an advantage when we compete for the exclusive promotion and selling rights for new in-licensed products and from new suppliers.

With all the above mentioned factors giving strong support to the growth of the Chinese pharmaceutical market, our experience, established and nationwide marketing, promotion, and sales network, and our proven track record, we are confident we are in a position to maximize the opportunities available in one of the fastest growing markets in the world to further enhance our profitability.

Kong Lam
Chairman & CEO

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	NOTES	Six months ended 30 June 2010 US$'000 (unaudited)	2009 US$'000 (unaudited) (restated)
Turnover	3	61,195	46,775
Cost of goods sold		(23,970)	(17,139)
Gross profit		37,225	29,636
Other gains and losses		546	691
Selling expenses		(13,318)	(11,366)
Listing expenses		(1,221)	-
Administrative expenses		(3,274)	(3,908)
Research and development costs		-	(1,057)
Finance costs	4	(336)	(191)
Share of results of associates		42	(26)
Share of result of a jointly controlled entity		25	21
Profit before taxation		19,689	13,800
Taxation	5	(4,355)	(3,243)
Profit for the period	6	15,334	10,557
Other comprehensive income			
Exchange differences from translation		497	19
Share of changes in reserve of an associate		(5)	-
Fair value changes on cash flow hedges		32	-
Total comprehensive income for the period		15,858	10,576
Profit for the period attributable to:			
Owners of the Company		15,230	10,448
Non-controlling interests		104	109
		15,334	10,557
Total comprehensive income attributable to:			
Owners of the Company		15,754	10,467
Non-controlling interests		104	109
		15,858	10,576
		US$Cent	US$Cent
Earnings per share	8		
Basic		1.608	1.106
Diluted		1.590	1.106

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2010

	NOTES	30.6.2010 US$'000 (unaudited)	31.12.2009 US$'000 (audited)
Non-current assets			
Property, plant and equipment	9	3,310	3,575
Prepaid lease payments		3,098	260
Interest in a jointly controlled entity		68	43
Interest in an associate		1,498	1,507
Intangible assets	10	5,786	6,461
Goodwill		379	379
Deferred tax assets		1,153	1,432
		15,292	13,657
Current assets			
Inventories		17,437	11,060
Trade and other receivables	11	41,485	32,794
Amount due from a jointly controlled entity		506	481
Held for trading investments		406	31
Tax recoverable		324	-
Derivative financial instruments	12	18	-
Pledged bank deposits		17,792	17,641
Bank balances and cash		10,340	15,113
		88,308	77,120
Current liabilities			
Trade and other payables	13	12,235	11,062
Bank borrowings - secured	14	16,346	16,517
Deferred consideration payables		811	838
Derivative financial instruments	12	131	145
Tax payable		1,848	1,226
		31,371	29,788
Net current assets		56,937	47,332
Total assets less current liabilities		72,229	60,989
Capital and reserves			
Share capital	15	4,768	4,741
Reserves		60,186	48,992
Equity attributable to equity holders of the Company		64,954	53,733
Non-controlling interests		-	201
		64,954	53,934
Non-current liabilities			
Deferred tax liabilities		2,289	1,764
Deferred consideration payables		4,986	5,291
		7,275	7,055
		72,229	60,989

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Attributable to the equity holders of the Company												
	Share capital US$'000	Share premium US$'000	Capital reserve US$'000	Share option reserve US$'000	Surplus reserve fund US$'000	Public welfare fund US$'000	Translation reserve US$'000	Hedging reserve US$'000	Accumulated profits US$'000	Dividend reserve US$'000	Total US$'000	Non-controlling interests US$'000	Total US$'000
Balance at 1 January 2009	4,725	17,147	4,911	570	6,057	-	5,661	-	8,994	4,725	52,790	(69)	52,721
Exchange differences arising from translation	-	-	-	-	-	-	70	-	-	-	70	-	70
Share of changes in reserve of an associate	-	-	-	-	-	-	(1)	-	-	-	(1)	-	(1)
Fair value changes on cash flow hedges	-	-	-	-	-	-	-	(145)	-	-	(145)	-	(145)
Profit for the year	-	-	-	-	-	-	-	-	20,684	-	20,684	146	20,830
Total comprehensive income and expense for the year	-	-	-	-	-	-	69	(145)	20,684	-	20,608	146	20,754
Issue of shares	16	435	-	-	-	-	-	-	-	-	451	-	451
Release of translation reserve upon disposal of subsidiary	-	-	-	-	-	-	8	-	(8)	-	-	-	-
Release of translation reserve upon disposal of an associate	-	-	-	-	-	-	(36)	-	36	-	-	-	-
Dividends paid to a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	-	(206)	(206)
Effect of distribution in specie	-	(11,503)	-	-	-	-	853	-	-	-	(10,650)	330	(10,320)
Dividends paid	-	-	-	-	-	-	-	-	(4,741)	(4,725)	(9,466)	-	(9,466)
Dividends proposed – 2009	-	-	-	-	-	-	-	-	(4,741)	4,741	-	-	-
Transfer of reserves	-	-	-	-	2,102	-	-	-	(2,102)	-	-	-	-
Balance at 31 December 2009	4,741	6,079	4,911	570	8,159	-	6,555	(145)	18,122	4,741	53,733	201	53,934
Exchange differences arising from translation	-	-	-	-	-	-	497	-	-	-	497	-	497
Share of changes in reserve of an associate	-	-	-	-	-	-	(5)	-	-	-	(5)	-	(5)
Fair value changes on cash flow hedges	-	-	-	-	-	-	-	32	-	-	32	-	32
Profit for the period	-	-	-	-	-	-	-	-	15,230	-	15,230	104	15,334
Total comprehensive income for the period	-	-	-	-	-	-	492	32	15,230	-	15,754	104	15,858
Issue of shares	1	103	-	-	-	-	-	-	-	-	104	-	104
Issue of shares in consideration of acquisition of additional interest in a subsidiary	26	2,299	-	-	-	-	-	-	-	-	2,325	-	2,325
Acquisition of additional interest in a subsidiary	-	-	(2,221)	-	-	-	-	-	-	-	(2,221)	(104)	(2,325)
Dividends paid to a non-controlling shareholder	-	-	-	-	-	-	-	-	-	-	-	(201)	(201)
Dividends paid	-	-	-	-	-	-	-	-	-	(4,741)	(4,741)	-	(4,741)
Transfer of reserves	-	-	-	-	1,068	-	-	-	(1,068)	-	-	-	-
Balance at 30 June 2010 (unaudited)	4,768	8,481	2,690	570	9,227	-	7,047	(113)	32,284	-	64,954	-	64,954
Balance at 1 January 2009	4,725	17,147	4,911	570	6,057	-	5,661	-	8,994	4,725	52,790	(69)	52,721
Exchange differences arising from translation	-	-	-	-	-	-	19	-	-	-	19	-	19
Profit for the period	-	-	-	-	-	-	-	-	10,448	-	10,448	109	10,557
Total comprehensive income for the period	-	-	-	-	-	-	19	-	10,448	-	10,467	109	10,576
Dividends paid	-	-	-	-	-	-	-	-	-	(4,725)	(4,725)	(103)	(4,828)
Dividends proposed – 2009 interim	-	-	-	-	-	-	-	-	(4,725)	4,725	-	-	-
Transfer of reserves	-	-	-	-	1,339	-	-	-	(1,339)	-	-	-	-
Balance at 30 June 2009 (unaudited)	4,725	17,147	4,911	570	7,396	-	5,680	-	13,378	4,725	58,532	(63)	58,469

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
	(unaudited)	(unaudited)
Net cash from operating activities	4,673	9,369
Net cash used in investing activities		
Purchase of property, plant and equipment	(101)	(59)
Purchase of land use right	(2,919)	-
Increase in pledged bank deposits	(151)	(5,069)
Dividend received from an associate	46	-
Proceeds from disposal of property, plant and equipment	11	111
Acquisition of an associate	-	(877)
Interest received	302	94
	(2,812)	(5,800)
Net cash from financing activities		
Dividends paid	(4,741)	(4,730)
Repayment of deferred consideration payables	(512)	(731)
Proceeds from issue of shares	104	-
New bank borrowings raised	2,555	-
Expenditure incurred in connection with listing of shares to Main Board	(1,416)	-
Repayment of borrowings	(2,726)	-
Dividends paid to a non-controlling shareholder	(201)	(103)
	(6,937)	(5,564)
Net decrease in cash and cash equivalents	(5,076)	(1,995)
Cash and cash equivalent at beginning of the period	15,113	20,100
Effect of foreign exchange rate changes	303	24
Cash and cash equivalent at end of the period, represented by bank balances and cash	10,340	18,129

1. GENERAL

The condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 "Interim financial reporting" issued by the International Financial Reporting Interpretations Committee ("IFRIC").

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments and interpretations ("new IFRSs") issued by the IFRIC.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008
IFRSs (Amendments)	Improvements to IFRSs 2009
IAS 27 (Revised)	Consolidated and separate financial statements
IAS 39 (Amendment)	Eligible hedged items
IFRS 1 (Amendment)	Additional exemptions for first-time adopters
IFRS 2 (Amendment)	Group cash-settled share-based payment transactions
IFRS 3 (Revised)	Business combinations
IFRIC 17	Distributions of non-cash assets to owners

Except as described below, the application of these new IFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

IAS 27 (Revised 2008) consolidated and separate financial statements

The application of IAS 27 (Revised 2008) has resulted in changes in the Group's accounting policies regarding increases or decreases in ownership interests in subsidiaries of the Group. In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. The impact of decreases in interests in subsidiaries that did not involve loss of control (being the difference between the consideration received and the carrying amount of the share of net assets disposed of) was recognised in profit or loss. Under IAS 27 (Revised 2008), all increases or decreases in such interests are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the Group derecognises all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date the control is lost. A gain or loss on loss of control is recognised in profit or loss as the difference between the proceeds, if any, and these adjustments.

In respect of the acquisitions during the period of additional interests in Sky United Trading Limited ("Sky United") the impact of the change in policy has been that the difference of US$347,000 between the consideration paid and the decrease in the carrying amount of the non-controlling interests has been recognised directly in equity. Had the previous accounting policy been applied, this amount would have been recognised in goodwill amounting to US$451,000. Therefore, the change in accounting policy has resulted in a decrease in goodwill of US$451,000.

2. **PRINCIPAL ACCOUNTING POLICIES - continued**

IAS 27 (Revised 2008) consolidated and separate financial statements - continued

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective.

IFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

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

3. TURNOVER AND SEGMENT INFORMATION

For the purpose of resources allocation and performance assessment, the chief operating decision maker reviews operating results of pharmaceutical products by product basis. Each product is identified as an operating segment in accordance with IFRS 8. When the pharmaceutical product is operating in similar business model with similar target group of customers, the Group's operating segments are aggregated into promotion and sales of pharmaceutical products.

Segment results for the promotion and sales of pharmaceutical products and others reportable segments represented the gross profit of the relevant operations. This is the measure reported to the chief operating decision maker for the purpose allocation and performance assessment.

3. **TURNOVER AND SEGMENT INFORMATION - continued**

The segment information is as follows:

For the six months ended 30 June 2010 (unaudited)

	Marketing, promotion and sales of pharmaceutical products US$'000	Others US$'000	Elimination US$'000	Consolidated US$'000
External segment revenue	60,389	806	-	61,195
Inter-segment revenue	-	430	(430)	-
Revenue	60,389	1,236	(430)	61,195
Segment results	36,705	520	-	37,225
Other gains and losses				546
Selling expenses				(13,318)
Listing expenses				(1,221)
Administrative expenses				(3,274)
Research and development costs				-
Finance costs				(336)
Share of result of an associate				42
Share of result of a jointly controlled entity				25
Profit before taxation				19,689

For the six months ended 30 June 2009 (unaudited)

	Marketing, promotion and sales of pharmaceutical products US$'000	Others US$'000	Elimination US$'000	Consolidated US$'000
External segment revenue	45,188	1,587	-	46,775
Inter-segment revenue	-	484	(484)	-
Revenue	45,188	2,071	(484)	46,775
Segment results	28,184	1,452	-	29,636
Other gains and losses				691
Selling expenses				(11,366)
Administrative expenses				(3,908)
Research and development costs				(1,057)
Finance costs				(191)
Share of results of associates				(26)
Share of result of a jointly controlled entity				21
Profit before taxation				13,800

4. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Interest on bank loans wholly repayable within five years	187	-
Imputed interest on deferred consideration payable	149	191
	336	191

5. TAXATION

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Current tax:		
PRC Enterprise Income Tax	3,492	2,725
Hong Kong Profits Tax	66	-
Other jurisdictions	3	-
	3,561	2,725
Overprovision in prior years		
PRC Enterprise Income Tax	(11)	(7)
Deferred taxation:		
- Current period	805	525
Taxation charge for the period	4,355	3,243

PRC Enterprise Income Tax has been calculated based on the estimated assessable profits in accordance with the relevant tax rates applicable to certain subsidiaries in the PRC.

The profit of the Group mainly sourced from Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Kangzhe Shenzhen"), Kangzhe (Hunan) medical Co., Ltd. ("Kangzhe Hunan") and Changde Kangzhe Pharmaceutical Co., Ltd. (Kangzhe Changde). For the six months ended 30 June 2009 and 2010, the Enterprise Income Tax rate of Kangzhe Shenzhen was increased from 20% to 22%. Kangzhe Hunan continued to entitle to a tax reduction to 15%. Starting from 1 January 2010, Kangzhe Changde is entitled to a tax reduction to 15% granted by the Hunan Province Government and such tax concession is subject to renewal by the relevant tax bureau annually.

Hong Kong Profits Tax is provided at 16.5% (six months ended 30 June 2009: 16.5%) of the assessable profit for the period.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2010	2009
	US$'000	US$'000
Profit for the period has been arrived at after charging:		
Release of prepaid lease payments	33	4
Depreciation of property, plant and equipment	380	445
Amortisation of intangible assets (included in cost of goods sold)	419	585
Cost of inventories recognised as an expense	23,255	16,349

7. DIVIDENDS

During the period, a dividend of US$0.10 per ordinary share of par value of US$0.10 (six months ended 30 June 2009: US$0.10) totalling US$4,741,000 was paid to shareholders as the final dividend for the year ended 31 December 2009 (six months ended 30 June 2009: US$4,725,000 for the year ended 31 December 2008).

The Board of Directors have declared nil interim dividend per ordinary share of par value of US$0.005 for the six months ended 30 June 2010 (six months ended 30 June 2009: US$0.10 per ordinary share of par value of US$0.10).

8. 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	
	2010	2009
	US$'000	US$'000
Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company)	16,451	10,448

	Number of ordinary shares	
	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings per share	946,963,529	944,927,520
Effect of dilutive potential ordinary shares on share Options	10,643,868	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	957,607,397	944,927,520

The number of shares for the purpose of calculating basic and diluted earnings per share for the period ended 30 June 2009 have been adjusted to reflect the share sub-division (see note 15) effective on June 2010.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options for the six months ended 30 June 2009 as the exercise price of those options is higher than the average market price of the Company's shares.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group spent US$101,000 (six months ended 30 June 2009: US$59,000) on acquisition of property, plant and equipment.

10. INTANGIBLE ASSETS

	Exclusive distribution right US$'000 (Note a)	Exclusive agency right US$'000 (Note b)	Total US$'000
COST			
At 1 January 2009	951	7,403	8,354
Exchange adjustments	1	-	1
At 31 December 2009	952	7,403	8,355
Exchange adjustments	5	-	5
Adjustment (note a(iii))	(258)	-	(258)
At 30 June 2010	699	7,403	8,102
AMORTISATION			
At 1 January 2009	(288)	(491)	(779)
Charge for the year	(294)	(821)	(1,115)
At 31 December 2009	(582)	(1,312)	(1,894)
Exchange adjustments	(3)	-	(3)
Charge for the period	(49)	(370)	(419)
At 30 June 2010	(634)	(1,682)	(2,316)
CARRYING VALUES			
At 30 June 2010	65	5,721	5,786
At 31 December 2009	370	6,091	6,461

10. **INTANGIBLE ASSETS - continued**

(a) Exclusive distribution right

(i) On 10 February 2007, the Group entered into a supplemental agreement with Qingdao League Pharmaceutical Co., Ltd. ("Qingdao League"), which gave the Group exclusive distribution right of Augentropfen Stulln Mono ("Stulln"), which is a finished drug product under the trade name of Augentropfen Stulln Mono in the PRC for a term of ten years with effect from 1 January 2007 to 31 December 2016. In the opinion of the directors of the Company, the exclusive distribution right of Stulln was acquired by the Group in connection with the Operation Agreement. Accordingly, the cost of the intangible asset of exclusive distribution right amounting to US$644,000 obtained from Qingdao League was determined as the excess of the consideration paid of US$770,000 over the fair value of the investment in Qingdao League as at the date of acquisition of US$126,000. The expected useful life of the exclusive distribution right of Stulln was 10 years.

The exclusive distribution right of Stulln was early terminated when the Group entered into a supplementary agreement with Ophol Limited (the "Ophol") and the supplier of Stulln in Germany in July 2008. The remaining unamortised carrying amount of this exclusive distribution right of Stulln qualified as a direct attributable cost in acquiring the exclusive agency right of Stulln, pursuant to the Group entered into such supplementary agreement with Ophol and the supplier of Stulln in Germany in July 2008 (see (b) below). Accordingly, the remaining unamortised carrying amount of the exclusive distribution right of Stulln amounting to US$628,000 was then transferred to the exclusive agency right of Stulln. The details are set out in (b) below.

(ii) On 9 March 2008, the Group entered into an exclusive distribution agreement and a supplementary agreement (the "Nesiritide Agreements") with 西藏諾迪康藥業服份有限公司 (Tibet Rhodiola Pharmaceutical Holding Co., Ltd.) ("Rhodiola") in connection to a finished drug product (Lyophilized Recombinant Human Brain Natriuretic Peptide) which is distributed in the PRC market since 2005 under the trade name of Nesiritide for a term of three years with effect from 1 July 2008 to 30 June 2011.

Pursuant to the Nesiritide Agreements, the Group has obtained the exclusive distribution right of Nesiritide at nil consideration and has committed to handle the Phase IV clinical trials of Nesiritide for 2,000 cases in the PRC to meet the drug safety standards set by the Food and Drug Administration in the PRC ("SFDA"). The drug, Nesiritide, to be used in the 2,000 case clinical trials will be provided by Rhodiola free of charge. All other costs of the 2,000 case clinical trials should be borne by the Group. The management of the Group estimates the total costs to be incurred for completion of the 2,000 case clinical trials would be approximately RMB6,500,000 (equivalent to approximately US$919,000).

In the opinion of the directors of the Company, the Group obtained the exclusive distribution right of Nesiritide on the basis that the Group should complete the clinical trials of Nesiritide and bear all the costs of the clinical trials. Therefore, the costs to be incurred in clinical trials of US$919,000 are capitalised as an intangible asset with corresponding liability recognised.

The expected useful life of the exclusive distribution right of Nesiritide is 3 years.

10. **INTANGIBLE ASSETS - continued**

(a) Exclusive distribution right - continued

(iii) During the period ended 30 June 2010, an adjustment of RMB1,755,000 (equivalent to approximately US$258,000) in respect of an over accrual of cost of clinical trials in the previous years was made as a result of completion of the 2,000 case clinical trials.

(b) Exclusive agency right

On 26 April 2008, a transfer agreement was entered into between Ophol, Qingdao League and Pharma Stulln GmbH ("Pharma", the supplier of Stulln in Germany) in connection to the transfer of the exclusive agency right of Stulln in the PRC from Qingdao League to Ophol at nil consideration. After Ophol has obtained the exclusive agency right of Stulln in the PRC, Ophol agreed to transfer such exclusive agency right to the Group on condition that the 51% equity interest of Qingdao League owned by Shenzhen Kangzhe would be transferred to Qingdao Leatu Trading Ltd., a company which has common shareholder with Ophol under the sale and purchase agreement. On 15 July 2008, the Group entered into a supplementary agreement with Ophol and Pharma in connection to the transfer of exclusive agency right of Stulln, from Ophol to CMS Pharmaceutical Agency Co., Ltd. ("CMS Pharmaceutical Agency"), a wholly-owned subsidiary of the Company, at a consideration of RMB60,000,000 (equivalent to approximately US$8,779,000). CMS Pharmaceutical Agency will pay annually of RMB6,000,000 (equivalent to approximately US$878,000) to Ophol over the next ten years to settle the consideration. The directors of the Group recognise the payable as a deferred consideration (see note 27) in the amount of US$6,775,000, which represents the present value of the consideration of US$878,000 over next 10 years discounted at 5%. CMS Pharmaceutical Agency has replaced Qingdao League as the exclusive agent of Stulln for Pharma in the PRC from 1 August 2008 to 31 July 2018.

The expected useful life of the exclusive agency right is 10 years.

11. TRADE AND OTHER RECEIVABLES

The Group normally allows a credit period of three months 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 at the respective reporting dates is as follows:

	30.6.2010 US$'000	31.12.2009 US$'000
0 - 90 days	25,640	17,879
91 - 365 days	3,262	2,839
Over 365 days	29	28
	28,931	20,746

12. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative under hedge accounting

	30.6.2010	31.12.2009
	US$'000	US$'000
Cash flow hedges		
- Interest rate swaps	131	74
- Foreign currency forward contracts	(18)	71
	113	145

(i) Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to interest expenses of certain of its floating-rate US dollar bank borrowings by swapping floating interest rates to fixed interest rates. The interest rate swaps and the corresponding bank borrowings have the same terms and the directors of the Company considered that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

At 30 June 2010

Notional amount	Maturity	Swaps
US$3,765,000	28 September 2010	From 1-month LIBOR + 0.35% to 1.47%
US$1,470,000	29 November 2010	From 3-month LIBOR + 0.35% to 1.68%
US$1,617,000	14 December 2010	From 3-month LIBOR + 0.35% to 1.68%
US$2,108,000	30 December 2010	From 3-month LIBOR + 0.35% to 1.68%
US$1,481,000	09 February 2011	From 3-month LIBOR to 1.68%

At 31 December 2009

Notional amount	Maturity	Swaps
US$3,765,000	28 September 2010	From 1-month LIBOR + 0.35% to 1.47%
US$1,470,000	29 November 2010	From 3-month LIBOR + 0.35% to 1.68%
US$1,617,000	14 December 2010	From 3-month LIBOR + 0.35% to 1.68%
US$2,108,000	30 December 2010	From 3-month LIBOR + 0.35% to 1.68%

12. **DERIVATIVE FINANCIAL INSTRUMENTS - continued**

(ii) Foreign currency forward contracts

At the end of the reporting period, the Group had the following foreign currency forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure in relation to US dollar interest and principal payments of its US dollar bank borrowings.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the respective designated hedged items. Major terms of the foreign currency forward contracts are as follows:

At 30 June 2010

Notional amount	Maturity	Exchange rates
Buy US$2,140,000	23 August 2010	US$1: RMB 6.822
Buy US$3,821,000	28 September 2010	US$1: RMB 6.858
Buy US$1,470,000	2 December 2010	US$1: RMB 6.638
Buy US$1,620,000	14 December 2010	US$1: RMB 6.719
Buy US$2,140,000	30 December 2010	US$1: RMB 6.686
Buy US$1,510,000	9 February 2011	US$1: RMB 6.699

At 31 December 2009

Notional amount	Maturity	Exchange rates
Buy US$2,140,000	23 August 2010	US$1: RMB 6.822
Buy US$3,821,000	28 September 2010	US$1: RMB 6.858
Buy US$1,470,000	2 December 2010	US$1: RMB 6.638
Buy US$1,620,000	14 December 2010	US$1: RMB 6.719
Buy US$2,140,000	30 December 2010	US$1: RMB 6.686

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:

	30.6.2010 US$'000	31.12.2009 US$'000
0 - 90 days	4,299	6,067
91 - 365 days	1	5
Over 365 days	7	7
	4,307	6,079

The average credit period on purchases of goods is 90 days.

14. BANK BORROWINGS - SECURED

During the six months ended 30 June 2010, the Group repaid bank borrowings amounting to US$2,726,000 (six months ended 30 June 2009: nil) and obtained new bank borrowing amounting to US$2,555,000 (six months ended 30 June 2009: nil) which were used as general working capital.

15. SHARE CAPITAL

	Number of shares '000	Amount US$'000
Authorised share capital:		
At 31 December 2008 and 31 December 2009	1,000,000	100,000
Increase in authorised share capital (note 3)	19,000,000	-
At 30 June 2010	20,000,000	100,000
Issued and fully paid:		
At 31 December 2008	47,246	4,725
Issue of shares	162	16
At 31 December 2009	47,408	4,741
Issue of shares to Key Employee Benefit Scheme (note 1)	12	1
Issue of shares in consideration of acquisition of additional interest in a subsidiary (note 2)	264	26
Share sub-division (note 3)	906,007	-
At 30 June 2010	953,691	4,768

Notes:

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

(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 interest in Sky United.

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

All the shares which were issued by the Company during the six months ended 30 June 2010 rank pari passu with each other in all respects.

16. SHARE OPTIONS

The Company granted share options of 708,695 shares with an exercise price of GBP1.38 per share on 26 June 2007. These options were granted to Evolution Securities China Limited ("Evolution"), the underwriters of the Company on the Company's initial public offering on AIM, in exchange for a payment of GBP1.00 from Evolution to the Company. These options are exercisable over a period of five years and vest on 26 June 2007. The share options will expire on 25 June 2012. The estimated fair value per share of these options is GBP0.4019 (equivalent to US$0.8046) with a total fair value of US$570,000. In addition to the share options granted to Evolution on successful basis, the Company paid an underwriting commission of US$1,151,000 (equivalent to GBP575,000) to Evolution representing 5.75% to the gross proceeds of the new issue. Such underwriting commission of US$1,151,000 settled in cash was recognised in the share premium account together with other initial public offering expenses allocated to the new issued shares.

On 9 March 2009, Mr. Chen Hong Bing, a director of the Company, acquired the share options of 708,695 shares from Evolution. There was no other movement in the share options for both periods.

On 28 June 2010, pursuant to the terms of the share options, the exercisable shares and exercise price had been adjusted to 14,173,900 share and GBP0.069 per share respectively to reflect the share sub-division (note 15).

This fair value was calculated using the binominal model. The inputs into the model were as follows:

	2007
Stock price at date of grant	GBP1.380
Exercise price	GBP1.380
Standard deviation	35%
Expected life	5 years
Risk-free rate	5.689%
Expected dividend yield	4%
Exercise multiple	2

The Group recorded the fair value of these options of US$570,000 to a share options reserve for the year ended 31 December 2007 as these options were granted by the Company in connection with the underwriting of the shares of the Company.

17. RELATED PARTY TRANSACTIONS

(a) Apart from details of the balances with related parties disclosed in the condensed consolidated statement of financial position, the Group entered into the following transactions with related parties during the period:

Name of related company	Relationship	Nature of transactions	Six months ended 30 June 2010 US$'000	2009 US$'000
Ophol	Associate	Finance cost	149	191
GDLT	Jointly controlled entity	Sales of goods	395	307
Hui Ki Fat	Director	Consideration paid for acquisition of additional interest in a subsidiary	2,325	—

(b) The Group entered into the following banking facilities which were secured by personal guarantees executed by related parties during the Relevant Periods:

	As at 31 December 2009 US$'000	As at 30 June 2010 US$'000
Bank A (note i)		
- letters of credit and other facilities amount	11,606	11,600
- working capital facilities amount	4,394	4,400
	16,000	16,000
- letters of credit and other utilised amount	5,277	2,437
- working capital utilised amount	-	-
	5,277	2,437
Bank B (note ii)		
- letters of credit and other facilities amount	10,252	10,308
- working capital facilities amount	2,929	2,945
	13,181	13,253
- letters of credit and other utilised amount	1,648	4,267
- working capital utilised amount	-	-
	1,648	4,267

17. **RELATED PARTY TRANSACTIONS - continued**

Notes:

(i) The banking facilities were secured by personal guarantees executed by a director, Mr. Lam Kong.

(ii) The banking facilities were secured by personal guarantees executed by the directors of the Company. Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling, Ms. Huo Xiaoxuan and personal guarantees executed by a director of Kangzhe Shenzhen, Ms. Sa Manling.

18. COMPARATIVE FIGURES

The comparative figures of amortisation of intangible assets in the condensed consolidated statement of comprehensive income have been adjusted to conform to the accounting treatment adopted in the audited consolidated financial statements of the Group for the year ended 31 December 2009.

During the period ended 30 June 2009, the Group acquired a 24.49% equity interest in Ophol at a consideration of RMB7,500,000 (equivalent to approximately US$ 1,098,000) and the discount on acquisition is amounted to US$ 590,000. In preparing the condensed consolidated financial statements for the period ended 30 June 2009, the directors were of the view that the discount on acquisition should be deducted against intangible assets recognised previously and thus the amortisation of intangible assets should be adjusted accordingly.

For the year ended 31 December 2009, the Group had changed the accounting treatment to recognise the discount on acquisition in profit or loss immediately on acquisition to conform with the IFRS.