



Interim Report 2012

CHINA MEDICAL SYSTEM HOLDINGS LIMITED (Stock Code :867)

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Corporate Information

Board of Directors

Executive Directors

Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling
Mr. HUI Ki Fat

Non-Executive Director

Ms. HOU Xiaoxuan

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry
Dr. PENG Huaizheng
Mr. WU Chi Keung

Company Secretary

Mr. HUI Vincent Wing Sin, *HKICPA*

Authorized Representatives

Mr. HUI Vincent Wing Sin
Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)
Mr. CHEUNG Kam Shing, Terry
Dr. PENG Huaizheng

Remuneration Committee Members

Dr. PENG Huaizheng (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)
Mr. LAM Kong
Dr. PENG Huaizheng
Mr. WU Chi Keung

Auditors

Deloitte Touche Tohmatsu
Certified Public Accounts

Principal Bankers

China Merchants Bank, Shenzhen Branch
Industrial and Commercial Bank of China, Shenzhen Branch
Standard Chartered Bank (Hong Kong) Limited,
Bank of Communications Co., Ltd., Hong Kong Branch

Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Headquarters

6/F and 8/F, Building A Tongfang Information Harbour
No.11 Langshan Road Shenzhen Hi-tech Industry Park
Nanshan District
Shenzhen 518057
PRC

Principal Place of Business in Hong Kong

Unit 2106, 21/F Island Place Tower
510 King's Road
North Point
Hong Kong

Branch Share Registrar in Hong Kong

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Stock Code

867

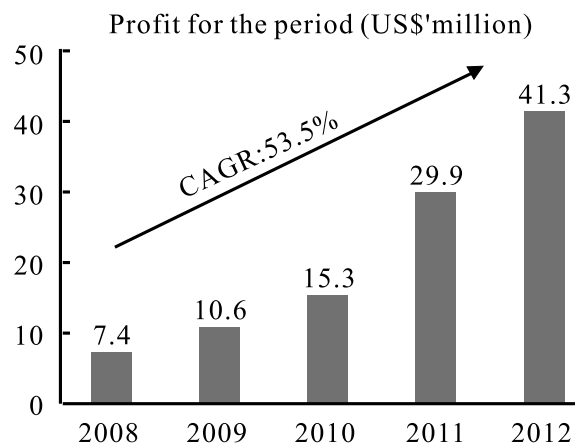
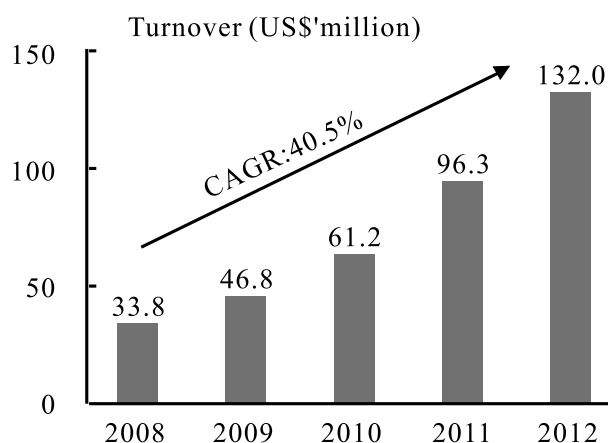
Company's website

www.cms.net.cn

Financial Highlights

- Turnover up 37.1% to US\$132.0 million (H1 2011: US\$96.3 million)
- Profit for the period up 38.1% to US\$41.3 million (H1 2011: US\$29.9 million)
- Basic earnings per share up 33.5% to US1.709 cents (H1 2011: US1.280 cents)
- As at 30 June 2012, the Group's bank balances and cash were US\$110.5 million while readily realizable bank acceptance bills amounted to US\$26.0 million
- Declared interim dividend up 51.1% to US0.645 cent per share (H1 2011: US0.427 cent¹)

Turnover and profit of the Group for the six months ended 30 June of the latest five years are set out below:



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

Group Overview

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

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

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

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

Management Discussion and Analysis

Business Review

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

In the first half of 2012, affected by the global economic downturn and the intervention of the Chinese government towards the pharmaceutical industry in China, the Chinese pharmaceutical market environment was obscure and its development was uncertain. Even under such a complex and volatile market environment, the Group still achieved stable growth, on one hand due to the sustainable sales growth of its main products under the Direct Network, and on the other hand the business growth of Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd (“Tianjin Kangzhe”), a company employing agency networks to market and promote prescription drugs in the Chinese market that the Group acquired in 2011. Under International Financial Reporting Standards, the audited consolidated net profit after tax of Great Move Enterprises Limited (“Great Move”) and all its subsidiaries (including Tianjin Kangzhe) has reached the seller’s (Glitter Long Limited) profit guarantee of HK\$150 million for the year ended 31 December 2011.

Product Introduction and Development

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

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

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

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

I. Main Products of Direct Network

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

Deanxit (Flupentixol and Melitracen)

Deanxit is manufactured by H. Lundbeck A/S of Denmark and used for the treatment of mild to moderate depression and anxiety. Owing to accurate market positioning and the long-term professional academic promotion, Deanxit has always enjoyed a good brand image in the China market. During the Reporting Period, Deanxit recorded sales of US\$40.4 million, an increase of 28.9% when compared with the same period of last year, accounting for 30.6 % of the Group's turnover.

Ursofalk (Ursodeoxycholic Acid)

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

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

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

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

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

Salofalk (Mesalazine)

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

Bioflor (Saccharomyces Boulardii)

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

II. Main Products of Agency Network

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

YiNuoShu (Ambroxol Hydrochloride for Injection)

YiNuoShu, manufactured by TIPR Pharmaceutical Responsible Co., Ltd, is the first generic version of an ambroxol hydrochloride for injection approved in China, and is an expectorant product used for respiratory diseases. During the Reporting Period, YiNuoShu recorded sales of US\$13.4 million, accounting for 10.2% of the Group's turnover.

ShaDuoLiKa (YanHuNing Injection)

ShaDuoLiKa, developed and manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd, is a common injection of anti-infective traditional Chinese medicine used in pediatrics, respiratory and emergency treatment. During the Reporting Period, ShaDuoLiKa recorded sales of US\$13.2 million, accounting for 10.0% of the Group's turnover.

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

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

III. Other Listed Products

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

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

IV. In-house Research Pharmaceutical Product

Tyroseuleutide (CMS024), researched and developed by the Group, with own independent intellectual property rights, is to treat primary liver cancer and has huge potential market value in China. In 2011, the Group fully initiated a phase III clinical trial for Tyroseuleutide. The title of the phase III study of Tyroserleutide is "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma (after surgical resection of hepatocellular carcinoma)". The primary purpose of the study is to evaluate the efficacy of Tyroserleutide for Injection on recurrence-free survival ("RFS") of hepatocellular carcinoma patients after surgical resection, the secondary objective of the study is to appraise the efficacy of Tyroserleutide for Injection on overall survival ("OS") of hepatocellular carcinoma patients after surgical resection. The phase III clinical trial progressed smoothly during the Reporting Period. The Group has purchased a parcel of land spanning 36,422.4 square meters in the new region of Pingshan, Shenzhen, China, with the plan of building manufacturing facilities which will be used to manufacture Tyroseuleutide and other products. During the Reporting Period, the Group has already finished the survey, design and construction of the pile foundation engineering, etc., of the early phase of the project, and will proceed with construction of the entire project in the second half of 2012.

V. Products under Registration

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

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

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

Network Development

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

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

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

Outlook and Future Development

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

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

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

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

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

Financial Review

Segment Information

There were three segments disclosed in the Group's interim report for the six months ended 30 June 2011: (1) Direct promotion - marketing, promotion and sale of in-licensed medicine and pharmaceutical products from overseas and domestic pharmaceutical companies to wholesale customers across China, including distributors and hospitals; (2) Agency promotion - marketing, promotion and sales of prescription pharmaceutical products through network of agents/distributors; (3) Others business - production and sales of other medicines and pharmaceutical products to wholesale customers across China, including distributors and hospitals. Due to the difficulty in distinguish the aforementioned segments, and the management and Board of Directors (the "Board") do not allocate resources and evaluate the performance based on the aforesaid segments, therefore the Group had no reportable operating segments for the six months ended 30 June 2012.

Turnover

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

Cost of Goods Sold

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

Gross Profit and Gross Profit Margin

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

Other Gains and Losses

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

Selling Expenses

Selling expenses increased by 33.2% from US\$17.3 million for the six months ended 30 June 2011 to US\$23.0 million for the six months ended 30 June 2012, primarily reflecting increased marketing and promotion expenses arising from the increased sales volume. Simultaneously, there was an increase in salaries and welfare for the Group's marketing and sales staff due to the increase in the number of sales staff. Selling expenses as a percentage of turnover decreased by 0.6 percentage points from 18.0% for the six months ended 30 June 2011 to 17.4% for the six months ended 30 June 2012 as the Group benefited from economies of scale.

Administrative Expenses

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

Finance Costs

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

Taxation

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

Profit for the Period

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

Inventories

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

Trade Receivables

Trade receivables increased by 14.6% from US\$40.3 million as at 31 December 2011 to US\$46.2 million as at 30 June 2012, primarily reflecting the growth in sales. Simultaneously, as a result of the strengthened management on account receivables, the average trade receivables turnover days decreased from 63 days for the six months ended 30 June 2011 to 60 days for the six months ended 30 June 2012.

Trade Payables

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

Liquidity and Financial Resources

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

Other Information

Key Employee Benefit Scheme

The Company contributed US\$665,000 approximately equal to 1.1% of the Company's net profit for the year ended 31 December 2011 to the fund of Key Employee Benefit Scheme (the "Scheme"). As at 30 June 2012, there were 33 employees of the Company participating in the scheme.

Share Option Scheme

The Company has not implemented a share option scheme. As at 30 June 2012, there were no outstanding share options of the Company.

Interim dividend

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

Closure of Register of Members

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

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 30 June 2012, the interests or short positions of the Directors in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "HKEx"), pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") were as follows:

Name of Director	Name of Corporation	Nature of interest	Total number of Shares held (Note 1)	Approximate percentage of interest in the corporation
Mr. Lam Kong	The Company	Interest in controlled corporation	1,215,219,000 (L) (note 2)	50.32%
		Interest in controlled corporation	8,658,162 (L) (note 3)	0.36%
Mr. Chen Hongbing	The Company	Beneficial owner	56,037,225 (L)	2.32%
		Interest in controlled corporation	75,000,000 (L) (note 4)	3.11%
		Beneficial of a trust	8,658,162 (L) (note 5)	0.36%
Ms. Chen Yanling	The Company	Beneficial owner	7,835,250 (L)	0.32%
		Interest in controlled corporation	3,750,000 (L) (note 6)	0.16%
		Beneficial of a trust	8,658,162 (L) (note 5)	0.36%
Ms. Hou Xiaoxuan	The Company	Beneficial owner	3,000,000 (L)	0.12%
		Interest in controlled corporation	75,000,000 (L) (note 7)	3.11%
		Family interest	3,975,750 (L) (note 8)	0.16%
		Beneficial of a trust	8,658,162 (L) (note 5)	0.36%
Mr. Hui Ki Fat	The Company	Beneficial owner	7,652,737 (L)	0.32%

Notes:

1. The letter "L" denotes Long positions in the Shares.
2. These Shares are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
3. These Shares are held by Fully Profit Management (PTC) Limited, a company wholly owned by Mr. Lam Kong. Fully Profit Management (PTC) Limited is the trustee of the Key Employee Benefit Trust, (a discretionary trust established by the Company on 31 July 2009 for the Key Employee Benefits Scheme). Please refer to note 5 below for further details.
4. These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.
5. These Shares are held by Fully Profit Management (PTC) Limited acting as the trustee of the Key Employee Benefit Trust. The discretionary objects of the discretionary trust include Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Hou Xiaoxuan and they are deemed to be interested in these 8,658,162 Shares. The references to these 8,658,162 Shares in respect of which Mr. Lam Kong is deemed to be interested in (as disclosed above) relate to the same block of Shares.
6. These Shares are held by Ms. Chen Yanling through Great Creation Holdings Limited, a company wholly owned by her.
7. These Shares are held by Ms. Hou Xiaoxuan through Wide Harvest Limited, a company wholly owned by her.
8. These Shares are held by Mr. Jia Jinbin, the spouse of Ms. Hou Xiaoxuan, in respect of which Ms. Hou Xiaoxuan is deemed to be interested in.

Directors' Right to Acquire Shares or Debentures

At no time during the Reporting Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or minor children to acquire such rights in any other body corporate.

Substantial Shareholders' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations

As at 30 June 2011, the Directors were not aware of any other person (other than the Directors of the Company), who held interest and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the HKEx pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

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

For the six months ended 30 June 2012, the Company has not purchased, sold or redeemed any of its listed securities.

Employees

As at 30 June 2012, the Group has 1725 employees. There have been no material changes to the information disclosed in the Annual Report 2011 of the Company in respect of the director's emoluments and remuneration policies.

Audit Committee

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

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

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

Changes in Director's Information

During the Reporting Period, changes in the information of the Directors of the Company are set out below:

Noble Jewelry Holdings Limited (stock code: 475), a company listed on Main Board of the HKEx, which Mr. Wu Chi Keung, an independent non-executive director of the Company, has been appointed as an independent non-executive director has changed its company name to Zhong Fa Zhan Holdings Limited on March 23, 2012.

Saved as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

Corporate Governance Practices

The Company has complied with the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules (“CG Code”), from 1 January 2012 until its amendment on 1 April 2012 and with the amended CG Code from 1 April 2012 to 30 June 2012, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and Chief Executive Officer (CEO) which should not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group’s current stage of development, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group’s business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

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

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

Directors’ Securities Transactions

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

Disclosure of Information

The interim report for the Reporting Period will be duly dispatched to shareholders of the Company and published on websites of the HKEx (www.hkex.com.hk) and the Company (www.cms.net.cn).

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2012

	NOTES	30 June 2012 US\$'000 (unaudited)	31 December 2011 US\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	9,771	7,724
Prepaid lease payments		4,474	4,533
Interest in an associate	9	1,195	1,305
Intangible assets		32,972	33,828
Goodwill		178,634	178,634
Deferred tax assets		3,486	4,688
Deposit paid for acquisition of property, plant and equipment		11,858	11,933
		<u>242,390</u>	<u>242,645</u>
Current assets			
Inventories		16,560	21,040
Trade and other receivables	10	87,190	73,010
Derivative financial instruments	13	49	-
Tax recoverable		1,059	95
Pledged bank deposits		86,066	39,471
Bank balances and cash		110,517	97,906
		<u>301,441</u>	<u>231,522</u>
Current liabilities			
Trade and other payables	11	21,785	28,410
Bank borrowings	12	88,343	39,994
Deferred consideration payables		1,020	1,147
Derivative financial instruments	13	-	645
Tax payable		3,294	4,088
		<u>114,442</u>	<u>74,284</u>
Net current assets		<u>186,999</u>	<u>157,238</u>
Total assets less current liabilities		<u>429,389</u>	<u>399,883</u>

	NOTE	30 June 2012 US\$'000 (unaudited)	31 December 2011 US\$'000 (audited)
Capital and reserves			
Share capital	14	12,074	8,049
Reserves		<u>406,299</u>	<u>380,564</u>
Equity attributable to owners of the Company		418,373	388,613
Non-controlling interests		<u>2,572</u>	<u>2,560</u>
		<u>420,945</u>	<u>391,173</u>
Non-current liabilities			
Deferred tax liabilities		4,755	4,589
Deferred consideration payables		<u>3,689</u>	<u>4,121</u>
		<u>8,444</u>	<u>8,710</u>
		<u>429,389</u>	<u>399,883</u>

The condensed consolidated financial statements on pages 17 to 29 were approved and authorised for issue by the Board of Directors on 14 August 2012 and are signed on its behalf by:

LAM Kong
DIRECTOR

CHEN Yanling
DIRECTOR

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2012**

	Attributable to the owners of the Company											
	Share capital US\$'000	Share premium US\$'000	Capital reserve US\$'000	Share option reserve US\$'000	Surplus 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 2011 (audited)	5,718	126,491	2,058	570	9,158	8,332	(48)	32,842	14,868	199,989	-	199,989
Profit for the year	-	-	-	-	-	-	-	62,276	-	62,276	85	62,361
Other comprehensive income for the year	-	-	-	-	-	7,358	(597)	-	-	6,761	49	6,810
Total comprehensive income for the year	-	-	-	-	-	7,358	(597)	62,276	-	69,037	134	69,171
Issue of shares for exercise of share options	71	1,518	-	-	-	-	-	-	-	1,589	-	1,589
Issue of shares in consideration for the acquisition of a subsidiary	650	142,703	-	-	-	-	-	-	-	143,353	-	143,353
Transfer of share option reserve on exercise of share option	-	570	-	(570)	-	-	-	-	-	-	-	-
Release of translation reserve upon disposal of a jointly controlled entity	-	-	-	-	-	(5)	-	5	-	-	-	-
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	2,426	2,426
Dividends paid	-	-	-	-	-	-	-	(10,487)	(14,868)	(25,355)	-	(25,355)
Dividends proposed	-	-	-	-	-	-	-	(12,879)	12,879	-	-	-
Bonus issue	1,610	(1,610)	-	-	-	-	-	-	-	-	-	-
Transfer of reserves	-	-	-	-	2,341	-	-	(2,341)	-	-	-	-
Balance at 31 December 2011 (audited)	8,049	269,672	2,058	-	11,499	15,685	(645)	69,416	12,879	388,613	2,560	391,173
Exchange differences arising from translation	-	-	-	-	-	678	-	-	-	678	(5)	673
Fair value changes on cash flow hedges	-	-	-	-	-	-	694	-	-	694	-	694
Profit for the period	-	-	-	-	-	-	-	41,267	-	41,267	17	41,284
Total comprehensive income for the period	-	-	-	-	-	678	694	41,267	-	42,639	12	42,651
Dividends paid	-	-	-	-	-	-	-	-	(12,879)	(12,879)	-	(12,879)
Dividends proposed	-	-	-	-	-	-	-	(15,575)	15,575	-	-	-
Bonus issue	4,025	(4,025)	-	-	-	-	-	-	-	-	-	-
Transfer of reserves	-	-	-	-	137	-	-	(137)	-	-	-	-
Balance at 30 June 2012 (unaudited)	12,074	265,647	2,058	-	11,636	16,363	49	94,971	15,575	418,373	2,572	420,945

Attributable to the owners 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	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 2011 (audited)	5,718	126,491	2,058	570	9,158	8,332	(48)	32,842	14,868	199,989	-	199,989
Exchange differences arising from translation	-	-	-	-	-	2,549	-	-	-	2,549	7	2,556
Fair value changes on cash flow hedges	-	-	-	-	-	-	(175)	-	-	(175)	-	(175)
Profit for the period	-	-	-	-	-	-	-	29,838	-	29,838	63	29,901
Total comprehensive income for the period	-	-	-	-	-	-	-	29,838	-	29,838	70	32,282
Issue of shares for exercise of share options	71	1,518	-	-	-	-	(175)	-	-	1,589	-	1,589
Transfer of share option reserve on exercise of share option	-	570	-	(570)	-	-	-	-	-	-	-	-
Release of translation reserve upon disposal of a jointly controlled entity	-	-	-	-	-	(5)	-	5	-	-	-	-
Issue of shares in consideration of acquisition of a subsidiary	650	142,703	-	-	-	-	-	-	-	143,353	-	143,353
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	2,426	2,426
Dividends paid	-	-	-	-	-	-	-	(184)	(14,868)	(15,052)	-	(15,052)
Dividends proposed	-	-	-	-	-	-	-	(10,303)	10,303	-	-	-
Transfer of reserves	-	-	-	-	190	-	-	(190)	-	-	-	-
Balance at 30 June 2011 (unaudited)	6,439	271,282	2,058	-	9,348	10,876	(223)	52,008	10,303	362,091	2,496	364,587

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	<u>Six months ended 30 June</u>	
	<u>2012</u> US\$'000 (unaudited)	<u>2011</u> US\$'000 (unaudited)
Net cash from operating activities	<u>28,394</u>	<u>21,015</u>
Net cash used in investing activities		
Purchase of property, plant and equipment	(3,134)	(1,422)
Increase in pledged bank deposits	(46,834)	(24,528)
Interest received	1,913	1,195
Dividend received from an associate	138	165
Proceeds from disposal of property, plant and equipment	-	36
Proceeds from disposal of a jointly controlled entity	-	85
Acquisition of subsidiaries	-	(50,004)
	<u>(47,917)</u>	<u>(74,473)</u>
Net cash from (used in) financing activities		
Interest paid	(659)	(341)
Dividends paid	(12,879)	(15,017)
Payment of deferred consideration payables	-	(11,455)
Payment of deferred consideration payables - others	(669)	(731)
Proceeds from issue of shares	-	1,589
New bank borrowings raised	76,361	24,270
Repayment of bank borrowings	(29,528)	(5,382)
	<u>32,626</u>	<u>(7,067)</u>
Net increase (decrease) in cash and cash equivalents	13,103	(60,525)
Cash and cash equivalent at beginning of the period	97,906	133,987
Effect of foreign exchange rate changes	(492)	930
Cash and cash equivalent at end of the period, represented by bank balances and cash	<u>110,517</u>	<u>74,392</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and with International Accounting Standard 34 “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

3. TURNOVER AND SEGMENT INFORMATION

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

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

During the year ended 31 December 2011, the Group changed its internal reporting structure such that it only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products. For the six months ended 30 June 2011, the Group had three reportable operating segments, including (a) Direct promotion - marketing, promotion and sale of in-licensed medicine and pharmaceutical products from overseas and domestic pharmaceutical companies to wholesale customers across China, including distributors and hospitals; (b) Agency promotion - marketing, promotion and sales of prescription pharmaceutical products through network of agents/distributors; and (c) Others business - production and sales of other medicines and pharmaceutical products to wholesale customers across China, including distributors and hospitals. However, no operating results and other discrete financial information is available for the assessment of performance of the respective business division.

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

4. TAXATION

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

5. PROFIT FOR THE PERIOD

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

6. DIVIDENDS

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

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

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	<u>Six months ended 30 June</u>	
	<u>2012</u>	<u>2011</u>
	US\$'000	US\$'000
Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company)	<u>41,267</u>	<u>29,838</u>

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

The number of shares for the purpose of calculating basic and diluted earnings per share has been adjusted to reflect the bonus issues effective on September 2011 and April 2012(see note 14), respectively.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the reporting period, the Group disposed of certain property, plant and equipment with a carrying amount of US\$16,000, resulting in a loss on disposal of US\$16,000 (2011: profit of US\$11,000).

In addition, the Group spent US\$962,000 on acquisition of property, plant and equipment (2011: US\$1,383,000) and US\$2,172,000 on construction costs for manufacturing plant in the PRC in order to upgrade its manufacturing capabilities (2011: US\$468,000).

9. INTEREST IN AN ASSOCIATE

	30 June <u>2012</u> US\$'000	31 December <u>2011</u> US\$'000
Cost of unlisted investments in an associate	1,687	1,687
Share of post-acquisition losses and other comprehensive income, net of dividends received	<u>(492)</u>	<u>(382)</u>
	<u>1,195</u>	<u>1,305</u>

As at 30 June 2012 and 31 December 2011, the details of the associate are as follows:

<u>Name of associate</u>	<u>Place of establishment/ incorporation</u>	<u>Attributable interest held by the Group</u>	<u>Principal activities</u>
Ophol Limited (“Ophol”)	Hong Kong	24.49%	Investment holding and provision of agency service

10. TRADE AND OTHER RECEIVABLES

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

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers. Lengthened credit period up to four months was allowed to some selected customers.

An aging analysis of the trade receivables (net of allowance for bad and doubtful debts) presented based on the invoice date at the respective reporting dates is as follows:

	30 June <u>2012</u> US\$'000	31 December <u>2011</u> US\$'000
0 - 90 days	43,084	37,054
91 - 365 days	3,078	3,239
Over 365 days	<u>13</u>	<u>12</u>
	<u>46,175</u>	<u>40,305</u>

The bills receivables of the Group are of the age within six months at the end of the reporting period.

11. TRADE AND OTHER PAYABLES

An aging analysis of the trade payables presented based on the invoice date at the end of the reporting period as follows:

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

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

12. BANK BORROWINGS

During the reporting period, the Group obtained new bank loans amounting to US\$76,361,000 (2011: US\$24,270,000). The loans carry interest at a range from 1.19% to 3.50% per annum and are repayable within a year. The proceeds were used to finance the daily operation.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative under hedge accounting

	30 June <u>2012</u> US\$'000	31 December <u>2011</u> US\$'000
Cash flow hedges		
Foreign currency forward contracts	<u>(49)</u>	<u>645</u>

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 HK dollar interest and principal payments of its HK 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 2012

<u>Notional amount</u>	<u>Maturity</u>	<u>Exchange rates</u>
Buy HK\$70,229,030.83	18 July 2012	HK\$1: RMB 0.8124
Buy HK\$47,907,928.84	14 August 2012	HK\$1: RMB 0.8135
Buy HK\$68,057,088.67	14 September 2012	HK\$1: RMB 0.8179

At 31 December 2011

<u>Notional amount</u>	<u>Maturity</u>	<u>Exchange rates</u>
Buy US\$11,506,000	13 January 2012	US\$1: RMB 6.470
Buy US\$12,764,000	27 February 2012	US\$1: RMB 6.444

14. SHARE CAPITAL

	<u>Number of shares '000</u>	<u>Amount US\$'000</u>
Authorised share capital: At 31 December 2011 and 30 June 2012	<u>20,000,000</u>	<u>100,000</u>
Issued and fully paid: At 31 December 2011	1,609,831	8,049
Bonus issue (note)	<u>804,916</u>	<u>4,025</u>
At 30 June 2012	<u>2,414,747</u>	<u>12,074</u>

Note: On 27 April 2012, the bonus issue has been distributed on the basis of 1 bonus share for every 2 shares held. Upon the exercise of the bonus issue, the bonus issue was credited as fully paid by way of capitalisation of an amount in the share premium account. Accordingly, 804,915,837 bonus shares were issued under the bonus issue and the new ordinary shares were calculated based on the par value of US\$0.005 each.

15. RELATED PARTY TRANSACTIONS

(a) The Group entered into the following transactions with related parties during the period:

<u>Name of related company</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Six months ended 30 June</u>	
			<u>2012</u>	<u>2011</u>
			<u>US\$'000</u>	<u>US\$'000</u>
Ophol	Associate	Finance cost	119	134
Guangdong Lantai Kanghong Pharmaceutical Ltd.	Jointly controlled entity	Sales of goods	<u>-</u>	<u>385</u>

(b) The remuneration of key management personnel during the period amounted to US\$265,000 (six months ended 30 June 2011: US\$256,000).