CHINA MEDICAL SYSTEM HOLDINGS LIMITED

康哲藥業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

（Stock Code:867）

ANNUAL RESULTS ANNOUNCEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

The Board of Directors (the "Board") of China Medical System Holdings Limited (the "Company" or "CMS") is pleased to announce the audited condensed consolidated results of the Company and its subsidiaries (the"Group") for the year ended 31 December 2012 (the "Reporting Period").

Financial Highlights

- Turnover up 34.0% to US$281.9 million (2011: US$210.4 million)
- Profit for the year up 36.5% to US$85.1 million (2011: US$62.4 million)
- Basic earnings per share up 34.2% to US3.522 cents (2011: US2.624 cents)
- As at 31 December 2012, the Group's bank balances and cash amounted to US$107.2 million while readily realizable bank acceptance bills amounted to US$28.7 million
- Proposed final dividend of US0.774 cent per share, bringing the total dividend for the year ended 31 December 2012 to US1.419 cent per share, representing an increase of 47.8% from last year (2011: final dividend of US0.533 cent[1] and total dividend of US0.960 cent[2] per share respectively)

[1] Final dividend of US0.533 cent per share for the year ended 31 December 2011 was adjusted to reflect the bonus issue effective in April 2012 as approved by Shareholders at the Annual General Meeting held on 25 April 2012.

[2] Total dividend of US0.960 cent per share for the year ended 31 December 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, respectively.

* *For Identification Only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	2012 US$'000	2011 US$'000
Turnover	3	281,866	210,393
Cost of goods sold		(116,064)	(91,272)
Gross profit		165,802	119,121
Other gains and losses	4	6,968	8,057
Selling expenses		(57,534)	(42,960)
Administrative expenses		(18,810)	(15,339)
Finance costs	5	(2,002)	(934)
Share of result of an associate		59	130
Share of result of a jointly controlled entity		-	6
Profit before taxation		94,483	68,081
Income tax expense	6	(9,355)	(5,720)
Profit for the year	7	85,128	62,361
Other comprehensive income			
Exchange differences arising on translation		393	7,405
Change in fair value on available-for-sale investments			
- fair value gain		2,718	-
- deferred tax relating to change in fair value		(631)	-
Share of other comprehensive income of an associate		2	2
Fair value gain (loss) on hedging instruments in cash flow hedges		645	(597)
Other comprehensive income for the year, net of income tax		3,127	6,810
Total comprehensive income for the year		88,255	69,171
Profit for the year attributable to:			
Owners of the Company		85,039	62,276
Non-controlling interests		89	85
		85,128	62,361
Total comprehensive income attributable to:			
Owners of the Company		88,161	69,037
Non-controlling interests		94	134
		88,255	69,171
		US cent	US cent (Restated)
Earnings per share	9		
Basic		3.522	2.624
Diluted		N/A	2.619

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012

	NOTES	2012	2011
		US$'000	US$'000
Non-current assets			
Property, plant and equipment		10,169	7,724
Prepaid lease payments		4,440	4,533
Interest in an associate		1,173	1,305
Intangible assets		35,224	33,828
Goodwill		178,634	178,634
Available-for-sale investments		16,374	-
Deferred tax assets	10	2,959	4,688
Deposit paid for acquisition of property, plant and equipment		13,940	11,933
		262,913	242,645
Current assets			
Inventories		15,488	21,040
Trade and other receivables	11	92,891	73,010
Tax recoverable		1,052	95
Pledged bank deposits	12	73,261	39,471
Bank balances and cash	12	107,162	97,906
		289,854	231,522
Current liabilities			
Trade and other payables	13	25,175	28,410
Secured bank borrowings	14	64,845	39,994
Deferred consideration payables		812	1,147
Derivative financial instruments		-	645
Tax payable		2,605	4,088
		93,437	74,284
Net current assets		196,417	157,238
Total assets less current liabilities		459,330	399,883

	NOTES	2012 US$'000	2011 US$'000
Capital and reserves			
Share capital	15	12,074	8,049
Reserves		436,246	380,564
Equity attributable to owners of the Company		448,320	388,613
Non-controlling interests		2,654	2,560
		450,974	391,173
Non-current liabilities			
Deferred tax liabilities	10	4,999	4,589
Deferred consideration payables		3,357	4,121
		8,356	8,710
		459,330	399,883

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 18 December 2006. On 26 June 2007, the Company was listed on the Alternative Investment Market ("AIM") operated by the London Stock Exchange plc. The Company was listed on the Main Board operated by the Stock Exchange of Hong Kong Limited on 28 September 2010 and it was delisted from the AIM on the same date. The Company's ultimate holding company and immediate holding company is Treasure Sea Limited, a company incorporated in the British Virgin Islands. The address of the Company's registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The address of its principal place of business is 8/F., Block A, Tong Fong Information Centre, Long Shan Road, Nan Shan, Shenzhen, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are production of medicines, distribution and import of drugs.

The functional currency of the Company is Renminbi ("RMB") as it is the currency in which the majority of the Group's transactions are denominated. The consolidated financial statements of the Group are presented in United States Dollars ("US$"), which is a currency widely and commonly recognised in the global economy and is freely convertible into a number of foreign currencies. Therefore, the directors consider the presentation in US$ to be more useful for its current and potential investors.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB").

Amendments to IAS 12	Deferred tax: Recovery of underlying assets
Amendments to IFRS 7	Financial instruments: disclosures - Transfers of financial assets

The application of the above amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

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

Amendments to IFRSs	Annual improvements to IFRSs 2009 - 2011 cycle[1]
Amendments to IFRS 7	Disclosures - offsetting financial assets and financial liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment entities[2]
IFRS 9	Financial instruments[3]
IFRS 10	Consolidated financial statements[1]
IFRS 11	Joint arrangements[1]
IFRS 12	Disclosure of interests in other entities[1]
IFRS 13	Fair value measurement[1]
IAS 19 (as revised in 2011)	Employee benefits[1]
IAS 27 (as revised in 2011)	Separate financial statements[1]
IAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to IAS 1	Presentation of items of other comprehensive income[4]
Amendments to IAS 32	Offsetting financial assets and financial liabilities[2]
IFRIC - INT 20	Stripping costs in the production phase of a surface mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

IFRS 9 Financial Instruments - continued

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The directors of the Company anticipate that the adoption of IFRS 9 will have no material impact on the Group's result, the financial position and disclosure of the Group.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income. Under the amendments to IAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the adoption of other new and revised IFRSs will have no material impact on the Group's result, the financial position and disclosure of the Group.

3. TURNOVER AND SEGMENT INFORMATION

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

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

The Group only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products. Other than revenue analysis that is disclosed below, no operating results and other discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

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

Revenue from major products

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

	2012 US$'000	2011 US$'000
Deanxit	88,079	67,046
Ursofalk	60,750	46,244
XinHuoSu	26,820	18,352
YiNuoShu	26,150	16,269
ShaDuoLiKa	22,520	15,657
Augentropfen Stulln Mono eye-drops	13,280	9,800
Salofalk	11,439	7,084
Bioflor	9,214	4,863
GanFuLe	5,018	4,874
Exacin	3,684	10,505
XiDaKang	3,326	1,142
Cystistat	1,041	1,106
Others	10,545	7,451
Total	281,866	210,393

No single customer contributes over 10% of the total sales of the Group for both years.

4. OTHER GAINS AND LOSSES

	2012 US$'000	2011 US$'000
Net exchange (loss) gain	(720)	4,283
Government subsidies (Note a)	2,010	1,245
Interest income	5,102	2,265
Loss on disposal of a jointly controlled entity (Note b)	-	(20)
Fair value change on investments held for trading	2	42
(Loss) gain on disposal of property, plant and equipment	(25)	8
Others	599	234
	6,968	8,057

Notes:

a. The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to reimburse the research and development expenses incurred in prior years and other subsidies granted to the Group to encourage business operation in the PRC. In 2011, a subsidiary of the Group received a refund of value-added tax on sales from the relevant PRC tax authority to encourage business in the PRC. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

b. During the year ended 31 December 2011, the equity interests of 55% in a jointly controlled entity, 廣東蘭太康虹醫藥有限公司 (Guangdong Lan Tai Kanghong Pharmaceutical Ltd.) ("Guangdong Lantai"), was disposed of to a third party for a consideration of RMB561,000 (approximately US$85,000) and loss on disposal of US$20,000 was recognised in profit or loss. Guangdong Lantai was established and operated in PRC and principally engaged in distribution in medicine.

5. FINANCE COSTS

	2012 US$'000	2011 US$'000
Interest on bank borrowings wholly repayable within five years	1,772	673
Imputed interest on deferred consideration payables	230	261
	2,002	934

6. INCOME TAX EXPENSE

	2012 US$'000	2011 US$'000
Current tax:		
PRC Enterprise Income Tax	7,846	5,599
Hong Kong Profits Tax	-	595
Other jurisdictions	6	6
	7,852	6,200
(Over)underprovision in prior years		
PRC Enterprise Income Tax	-	(179)
Hong Kong Profits Tax	1	8
	1	(171)
Deferred taxation (note 10):		
- Current year	1,502	(309)
Taxation charge for the year	9,355	5,720

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable for the year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Pursuant to the EIT Law applicable to enterprises located with a special economic zone, the Enterprise Income Tax rate applicable to Shenzhen Kangzhe Pharmaceutical Company Limited ("Kangzhe Shenzhen") and 深圳市康哲醫藥科技開發有限公司 (Shenzhen Kangzhe Pharmaceutical Technology Development Company Limited) ("Kangzhe Pharmaceutical Technology") is 25% (2011: 24%).

Pursuant to relevant laws and regulation, Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan") and 常德康哲醫藥有限公司 (Changde Kangzhe Pharmaceutical Co., Ltd.) ("Kangzhe Changde") are eligible for certain tax concession in the PRC and such tax concession are subject to renewal by the relevant tax bureau annually. Kangzhe Hunan was entitled to a reduced tax rate of 15% as approved by the relevant local tax authority in 2011 and there is no taxable income for the current year. Changde Kangzhe is entitled to a reduced tax rate of 15% as approved by the relevant local tax authority in both years.

In prior year, the Group newly acquired two subsidiaries, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Limited) (formerly known as 天津普瑞森醫藥貿易有限公司) ("Kangzhe Tianjin") and 廣西康哲廣明藥業有限公司 (Guangxi Kangzhe Guangming Pharmaceutical Co., Limited) (formerly known as 廣西廣明藥業有限公司) ("Kangzhe Guangming"). Starting from 1 January 2009, Kangzhe Tianjin is entitled to a reduced tax rate of 15% granted by the local tax authority until 31 March 2015. Kangzhe Guangming is entitled to reduced tax rate of 15% for 10 years, starting from 1 January 2011.

6. INCOME TAX EXPENSE - continued

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharmaceutical Agency Co., Ltd. ("CMS Pharmaceutical Agency") is eligible to elect to pay a lump sum taxation charge of MYR 20,000 (equivalent to approximately US$6,000) or 3% on net audited profits. For the years ended 31 December 2012 and 2011, CMS Pharmaceutical Agency elected to pay a lump sum tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit in 2011 and there is no estimated assessable profit in 2012.

The taxation for the year can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	2012 US$'000	2011 US$'000
Profit before taxation	94,483	68,081
Tax at the applicable tax rate (Note)	23,621	16,339
Tax effect of share of result of a jointly controlled entity	-	(2)
Tax effect of share of result of an associate	(15)	(31)
Tax effect of expenses that are not deductible in determining taxable profit	1,343	1,088
Tax effect of income that is not taxable in determining taxable profit	(392)	(669)
Tax effect of tax losses not recognised	308	56
Tax effect of tax concession	(3,703)	(2,293)
Effect on different applicable tax rates of subsidiaries	(67)	(436)
Effect of tax benefit arising from Labuan Tax Act	(11,893)	(8,193)
Under(over)provision in prior years	1	(171)
Utilisation of tax loss previously not recognised	-	(24)
Deferred tax arising from withholding tax on undistributed profit of a PRC subsidiary	98	191
Others	54	(135)
Taxation charge for the year	9,355	5,720

Note: The applicable PRC Enterprise Income Tax rate of 25% (2011: 24%) is the prevailing tax rate applicable to Kangzhe Shenzhen, a major operating subsidiary of the Group.

7. PROFIT FOR THE YEAR

	2012 US$'000	2011 US$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration		
Fees	184	184
Other emoluments	332	316
Pension costs	19	16
	535	516
Other staff costs	29,473	17,717
Pension costs	1,474	987
Key employee benefit expense (note 16)	665	153
Total staff costs	32,147	19,373
Auditor's remuneration	252	268
(Reversal of) allowance for bad and doubtful debts	(134)	107
Allowance for inventories	1,599	55
Release of prepaid lease payments	103	90
Depreciation of property, plant and equipment	1,285	1,072
Amortisation of intangible assets (included in cost of goods sold)	3,923	3,087
Cost of inventories recognised as an expense	109,838	88,059
Minimum lease payment under operating lease in respect of property	1,144	833

8. DIVIDENDS

	2012 US$'000	2011 US$'000
Dividend paid		
Dividend recognised as distribution during the year:		
2012 Interim - US$0.00645 (2011: 2011 interim dividend US$0.008) per share on 2,414,747,512 (2011: 1,287,865,340) shares	15,575	10,303
2011 Final - US$0.008 (2011: 2010 final dividend US$0.013) per share on 1,609,831,675 (2011: 1,157,865,340) shares	12,879	15,052
	28,454	25,355
Dividend proposed		
Dividend proposed during the year:		
2012 final - US$0.00774 (2011: 2011 final dividend of US$0.008) per share on 2,414,747,000 (2011: 1,609,831,000) shares	18,690	12,879

The Board of Directors have declared a final dividend of US$0.00774 per ordinary share of par value of US$0.005 for the year ended 31 December 2012 (2011: US$0.008 per ordinary share of par value of US$0.005).

9. EARNINGS PER SHARE

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

	2012 US$'000	2011 US$'000
Earnings for the purposes of basic and diluted earnings per share (profit attributable to owners of the Company)	85,039	62,276

	Number of ordinary shares As at 31 December	
	2012	2011 (Restated)
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,414,747,512	2,373,362,642
Effect of dilutive potential ordinary shares on share options	-	4,236,499
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,414,747,512	2,377,599,141

The number of shares for the purpose of calculating basic and diluted earnings per share for both years has been adjusted to reflect the bonus issue (see note 15) effective in April 2012 and September 2011.

No diluted earnings per share is presented for the year ended 31 December 2012, as there is no potential ordinary share is issued during the year.

10. DEFERRED TAX

The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Unrealised profits on inventories	Undistributed profits of PRC subsidiary	Fair value adjustments to intangible assets acquired in business combinations	Fair value gain on available-for-sale investments	Others (note)	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2011	4,331	(2,123)	-	-	100	2,308
Acquisitions	-	-	(2,433)	-	-	(2,433)
Credit (charge) to profit or loss for the year (note 6)	268	(191)	248	-	(16)	309
Exchange differences	-	-	(90)	-	5	(85)
At 31 December 2011	4,599	(2,314)	(2,275)	-	89	99
Credit (charge) to profit or loss for the year (note 6)	(1,697)	(98)	325	-	(32)	(1,502)
Charge to other comprehensive income for the year	-	-	-	(631)	-	(631)
Exchange differences	-	-	(5)	(1)	-	(6)
At 31 December 2012	2,902	(2,412)	(1,955)	(632)	57	(2,040)

Note: These mainly represent the deferred tax assets recognised in relation to impairment loss on plant and machinery used for production of medicines for the year ended 31 December 2009.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2012	2011
	US$'000	US$'000
Deferred tax assets	2,959	4,688
Deferred tax liabilities	(4,999)	(4,589)
	(2,040)	99

10. DEFERRED TAX - continued

At 31 December 2012, the Group has unused tax losses of approximately US$3,062,000 (2011: US$2,744,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2012 are tax losses of approximately US$546,000 (2011: US$1,349,000) that will be expired within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2012, tax losses of approximately US$912,000 (2011: Nil) was expired.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of Kangzhe Shenzhen amounting to US$48,240,000 (2011: US$46,280,000). Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of other PRC subsidiaries amounting to US$69,124,000 (2011: US$38,305,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

11. TRADE AND OTHER RECEIVABLES

	2012 US$'000	2011 US$'000
Trade receivables	50,536	40,636
Less: Allowance for bad and doubtful debts	(191)	(331)
	50,345	40,305
Bills receivables	28,714	23,573
Purchase prepayment	5,721	2,229
Other receivables and deposits	8,111	6,903
Total trade and other receivables	92,891	73,010

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

11. TRADE AND OTHER RECEIVABLES - continued

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

	2012 US$'000	2011 US$'000
0 - 90 days	47,772	37,054
91 - 365 days	2,480	3,239
Over 365 days	93	12
	50,345	40,305

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

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of US$5,125,000 (2011: US$6,400,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

The following is an aging analysis of trade receivables which are past due but not impaired:

	2012 US$'000	2011 US$'000
0 - 90 days	3,492	3,340
91 - 365 days	1,540	3,053
Over 365 days	93	7
	5,125	6,400

The Group has provided full impairment for receivables that aged over 3 years from invoice date because historical experience is such that receivables that are past due beyond 3 years are generally not recoverable.

Movement in the allowance for bad and doubtful debts:

	2012 US$'000	2011 US$'000
Balance at beginning of the reporting period	331	215
(Reversal of) impairment losses recognised on receivables	(134)	107
Amount written off as uncollectible	(7)	(5)
Currency realignment	1	14
Balance at end of the reporting period	191	331

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of US$191,000 (2011: US$331,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

12. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

The bank deposits and pledged bank deposits carry interest at the prevailing market rate of approximately 0.50% to 5.55% (2011: 0.50% to 4.20%) per annum.

The pledged bank deposits amounting to US$73,261,000 (2011: US$39,471,000) represent deposits pledged to banks to secure the issuance of letters of credit. Therefore the pledged bank deposits are classified as current assets.

Included in bank balances are the following amounts denominated in currencies other than functional currency of the relevant group entities:

	2012 US$'000	2011 US$'000
US$	108	99
Euro ("EURO")	15	15
Hong Kong Dollars ("HK$")	15	15

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:

	2012 US$'000	2011 US$'000
0 - 90 days	9,212	10,276
91 - 365 days	324	322
Over 365 days	106	95
	9,642	10,693
Payroll and welfare payables	5,825	4,643
Other tax payables	1,555	3,192
Other payables and accruals	8,153	9,882
	25,175	28,410

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

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the relevant group entities:

	2012 US$'000	2011 US$'000
EURO	-	695

14. SECURED BANK BORROWINGS

	2012 US$'000	2011 US$'000
Advanced from banks on discounted bills receivables with recourse - repayable within one year	64,845	39,994

As at 31 December 2012, the Group discounted bills receivable of US$64,845,000 (2011: US$39,994,000) to banks for cash proceeds of US$64,845,000 (2011: US$39,994,000). If the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. The receivables are arising from intra-group transactions which have then been fully eliminated on consolidation. The borrowings carried fixed interest at a range from 3.25% to 3.38% (2011: 1.98% to 3.04%) per annum.

Included in bank borrowings are the following amounts denominated in currencies other than functional currencies of the relevant group entities:

	2012 US$'000	2011 US$'000
US$	-	24,270
RMB	64,845	15,724

15. SHARE CAPITAL

	Number of shares '000	Amount US$'000
Authorised share capital:		
At 31 December 2011 and 2012	20,000,000	100,000
Issued and fully paid:		
At 1 January 2011	1,143,691	5,718
Exercise of share options (note a)	14,174	71
Issue of shares in consideration of acquisition of a subsidiary (note b)	130,000	650
Bonus issue (note c)	321,966	1,610
At 31 December 2011	1,609,831	8,049
Bonus issue (note d)	804,916	4,025
At 31 December 2012	2,414,747	12,074

15. SHARE CAPITAL - continued

Notes:

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

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

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

(d) 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, 804,915,838 bonus shares were issued under the bonus issue.

All the shares which were issued by the Company during the year ended 31 December 2012 and 2011 rank pari passu with each other in all respects.

16. KEY EMPLOYEE BENEFIT SCHEME

The Key Employee Benefit Scheme (the "Scheme") was adopted by the Board on 31 July 2009 ("Adoption Date"). Unless terminated earlier by the Board, the Scheme shall be valid and effective for a term of 20 years commencing on the Adoption Date. Pursuant to the rules of the Scheme, the Company set up a trust through a trustee (the "Trustee"), Fully Profit Management (PTC) Limited, for the purpose of administration the Scheme. A summary of some of the principal terms of the Scheme is set out in below.

(a) The purpose of the Scheme is to recognise the contributions by certain employees who have been actively involved in the business development of the Group and to establish and maintain a superannuation fund for the purpose of providing retiring allowances for certain employees (including without limitation employees who are also directors) of the Group, and to give incentive in order to retain them for the continual operation and development of the Group.

16. KEY EMPLOYEE BENEFIT SCHEME - continued

(b) Under the Scheme, the Board of Directors (the "Board") may, from time to time, at its absolute discretion and subject to such terms and conditions as it may think to select an employee (the "Member") who completed 10 years' services in the Group (subject to consent of the Board if the employee completed 5 year's services in the Group) for participation in the Scheme for 10 years after retirement (the "Payment Year") (subject to adjustment set out in (d) below).

(c) The Company will, on a yearly basis, contribute the sum equal to an amount not less than 0.5%, but no more than 3% of its after tax profits shown on the audited consolidated financial statements of the Group, or issue such number of shares of the Company to the Trustee in consideration of payment of such amount as the Board may determine with reference to the aforesaid contribution as against the then market value of the shares of the Company (the "Yearly Contributions"), subject to the Board's approval.

(d) The amount payable to the Members depends on the value of the assets held by the Trustee (the "Fund"). If the value of the Fund is less than the aggregate amount of contributions previously made by the Company, the amount payable to the Members and the Payment Year will be adjusted by a factor derived from the value of the Fund and the aggregate amount of contributions previously made by the Company. The only obligation of the Company is to make the Yearly Contributions to the Fund.

During the year ended 31 December 2012, the Company contributed cash amounting to US$665,000 (2011: US$153,000) to the Fund and which were recognised as key employee benefit expenses in the profit or loss in the consolidated statement of comprehensive income.

17. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group through its wholly-owned subsidiary, had entered into a property rights transfer agreement with an independent third party, Sinopharm Traditional Chinese Medicine Co., Ltd., to acquire 100% interest in Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd., which is engaged in manufacture of GanFuLe, a traditional Chinese medicine, for a consideration of RMB81,100,000 (approximately US$12,903,000). The acquisition was completed on 28 February 2013. At the date of this report, the management of the Group is still in the process of determining the fair value of assets and liabilities of the acquiree.

Management Discussion and Analysis

Business Review

During the Reporting Period, the Group recorded turnover of US$281.9 million (2011: US$210.4 million), representing an increase of 34.0% over the same period of last year, while profit for the period reached US$85.1 million (2011: US$62.4 million), up 36.5% from the corresponding year of last year. Basic earnings per share was US3.522 cents (2011: US2.624 cents), representing an increase of 34.2% over the same period of last year.

During the Reporting Period, the Group commissioned to increase investment and promotional efforts for its existing products, and the effective implementation strategies of market exploration and product development, continuous expansion of its marketing and promotion networks, rural market, and hospital coverage as well as refining marketing management, which effectively advanced the growth in sales volume of the Group's main products, while the stringent cost control also supported the sustained and steady growth of the Group's performance.

Product Development

As at 2012, the flagship products under the Direct Academic Promotion Network (the "Direct Network") of the Group - Deanxit and Ursofalk, have already been sold in the China market for over 14 years. During the Reporting Period, the two products maintained a relatively high sales growth, which is mainly attributable to continuous brand building, patient education, deep exploration of the existing market's potential, development of the rural market as well as exploration of the products' new applications. Four potential products under the Direct Network - XinHuoSu, Augentropfen Stulln Mono Eye-drops, Salofalk and Bioflor - achieved fast growth during the Reporting Period, largely due to the Group's continuous market investment, various promotion activities including doctor education etc. which led to the increase of hospital coverage and the expansion of application areas of the products. The major products under the Agency Promotion Network (the "Agency Network") of the Group - ShaDuoLiKa and YiNuoShu, won tenders by joining the biding separately from others in terms of the price difference or premium quality in some markets, and also successfully won tenders in certain markets which have already implemented the Essential Drug List during the Reporting Period, which effectively contributed to their sales. In addition, the Group continued to actively select suitable agents and advanced the fundamental activities of tendering and listing in the Insurance Reimbursement Drug Catalogue in each province for the potential products under the Agency Network, including XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate) and Yin Lian Qing Gan Ke Li etc. Meanwhile, for the products under the Agency Network which require certain academic promotion supports, the Group is laying a solid foundation for product development in the future by capitalizing on its strength in professional academic promotion to establish an expert network and to launch several clinical studies at some hospitals during the Reporting Period.

Apart from products already on the market, the Group has five products in the pipeline which require import drug license registration in China, these will be the product reserve for sustainable growth in the future, and with two of them imported from Vifor Pharma in Switzerland since December 2012. These five products will make contributions to the Group's revenue after receiving the market approval.

During the Reporting Period, the phase III clinical trial of Tyroseuleutide (CMS024), a National Class One New Drug with independent intellectual property rights, a polypeptide drug used to treat primary liver cancer, has progressed smoothly. Construction of its production plant is on schedule whereby the preliminary investigation, design and construction of pile foundation engineering and other related works for the early phases of the project were completed. Construction of the principal part of the project has also commenced.

Products of the Direct Network:

	Main Products	As a percentage of the Group's revenue (%)
Flagship Products	Deanxit (Flupentixol and Melitracen)	31.2
	Ursofalk (Ursodeoxycholic Acid)	21.6
Products with Market Potential	XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")	9.5
	Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-Drops)	4.7
	Salofalk (Mesalazine)	4.1
	Bioflor (Saccharomyces Boulardii)	3.3

(i) Flagship Products

Deanxit (Flupentixol and Melitracen)

Deanxit is manufactured by H.Lundbeck A/S of Denmark and is used for the treatment of mild to moderate depression and anxiety. During the Reporting Period, Deanxit recorded sales of US$88.1 million, an increase of 31.4% when compared to last year, accounting for 31.2% of the Group's turnover. During the Reporting Period, the Group took full advantage of the opportunities from the inclusion of Deanxit in the National Insurance Reimbursement Drug Catalogue and thoroughly explored the market potential in areas which have already implemented the catalogue, and was committed to promoting and penetrating the product in different departments. Aside from continuing to expand Deanxit's market potential through diverse promotion approaches in the traditional departments of neurology and psychiatry, the Group also strengthened the promotion of this drug in gastroenterology and actively explored the usage of Deanxit in other departments. In addition, the Group also continued to promote doctor re-education and patient education, as well as strengthened brand building and expert network forming of Deanxit. As at 31 December 2012, sales of Deanxit covered over 8,400 hospitals throughout China.

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis. During the Reporting Period, Ursofalk recorded sales of US$60.8 million, an increase of 31.4% when compared to last year, accounting for 21.6% of the Group's turnover. During the Reporting Period, the Group continued to consolidate the core markets of the product by further intensifying the sales efforts of Ursofalk in the existing departments, and actively explored new promotion methods and new growth drivers. Further to maintaining Ursofalk's sales in the existing departments, the Group also initiated the promotion and the usage of Ursofalk in fatty liver, gastroenterology and pediatrics as well as to enhance the development and penetration of this product in primary hospitals by utilizing its characteristic. The Group launched several high-end academic forums to constantly elevate the high-end academic image of the product so as to enhance loyalty among doctors in the prescription of Ursofalk. As at 31 December 2012, sales of Ursofalk covered over 4,800 hospitals throughout China.

(ii) Products with Market Potential

XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")
XinHuoSu, manufactured by China Chengdu Rhodiola Biological Pharmaceutical Co. Ltd, is a National Class One biological agent used to treat acute heart failure. During the Reporting Period, XinHuoSu recorded sales of US$26.8 million, an increase of 46.1% when compared with last year, accounting for 9.5% of the Group's turnover. During the Reporting Period, besides strengthening the promotion of XinHuoSu in cardiology, the Group continued to improve the usage of XinHuoSu in emergency department and cardiac surgery, and was committed to expanding hospital coverage and establishing an expert network while increasing the number of doctors prescribing the drug. As at 31 December 2012, sales of XinHuoSu covered over 1,000 hospitals throughout China.

Augentropfen Stulln Mono Eye-drops (Escuilin and Digitalisglycosides Eye-drops)
Augentropfen Stulln Mono Eye-drops, manufactured by Pharma Stulln GmbH of Germany, is used to treat age-related macula degeneration and all forms of ocular asthenopia. During the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of US$13.3 million, an increase of 35.5% when compared to last year, accounting for 4.7% of the Group's turnover. During the Reporting Period, the Group continued to strengthen brand building of Augentropfen Stulln Mono Eye-drops, consolidate its expert network, increase prescription hospitals, explore the usage of the product in different areas, as well as enhance patient education. Aside from continuing to promote the usage of Augentropfen Stulln Mono Eye-drops as treatment to age-related macula degeneration, the Group also stepped up its promotional efforts in the usage of the product as the treatment to ocular asthenopia, and further explored the promotion of this drug as the treatment to xerophthalmia. As at 31 December 2012, sales of Augentropfen Stulln Mono Eye-drops covered over 3,600 hospitals throughout China.

In 2012, despite the supply from the manufacturer failing to meet the increase in market demands, which affected the Group's expansion of this product in the market to a certain extent, the Group actively cooperated with the manufacturer to identify effective measures to improve the production capacity of the product.

Salofalk (Mesalazine)
Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is mainly used to treat Ulcerative Colitis and Crohn's disease, it consists of three dosage forms namely: coated tablets, suppositories and enemas which are. During the Reporting Period, Salofalk recorded sales of US$11.4 million, an increase of 61.5% when compared to last year, accounting for 4.1% of the Group's turnover. The Group continued to improve and consolidate the usage of Salofalk as the treatment to mild to moderate Inflammatory Bowel Disease ("IBD"), and was active in facilitating the re-education of the product as a treatment to IBD, and continually enhanced doctors' understanding of Salofalk and the diagnosis of IBD, as well as enhancing the promotion of topical preparation during the Reporting Period. Since there are similar products in the market, the Group consolidated the position of Salofalk at core hospitals various academic activities and expert network expansion during the Reporting Period. As at 31 December 2012, sales of Salofalk covered over 1,400 hospitals throughout China.

In May 2012, the National Development and Reform Commission ("NDRC") regulated retail price of a number of gastroenterological drugs. Although the retail price of Salofalk decreased slightly under the new price standard of NDRC, the adjustment had little impact on the Group's profit.

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. During the Reporting Period, Bioflor recorded sales of US$9.2 million, an increase of 89.5% when compared to last year, accounting for 3.3% of the Group's turnover. During the Reporting Period, the Group intensified promotional efforts of the product in pediatrics and actively expanded its usage in adult gastroenterology. To collect prescription data and to cultivate doctors' habit of prescribing the drug, the Group was proactive in cooperating with the Pediatrics Branch of the Chinese Medical Association to launch clinical studies for Bioflor in pediatrics and adult gastroenterology. Furthermore, the Group also continued to expand hospital coverage and expert network of the product, as well as further strengthening the product's brand influence through various academic activities. As at 31 December 2012, sales of Bioflor covered over1,100 hospitals throughout China.

(iii) Other Products

Apart from the products mentioned above, the Group's Direct Network also promoted and sold other products in the China market, including Cystistat (Sterile Hyaluronate Solution), GanFuLe and Exacin (Isepamicin Sulfate Injection), these recorded sales of US$1.0 million, US$5.0 million and US$3.7 million, respectively, accounting for 0.4%, 1.8% and 1.3% of the Group's revenue, respectively, during the Reporting Period.

Products of the Agency Network:

	Main Products	As a percentage of the Group's revenue (%)
Flagship Products	YiNuoShu (Ambroxol Hydrochloride for Injection)	9.3
	ShaDuoLiKa (YanHuNing Injection)	8.0
Products with Market Potential	XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hdrolysate)	1.2
	Yin Lian Qing Gan Ke Li	0.03

(i) Flagship Products

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$26.2 million, accounting for 9.3% of the Group's turnover. During the Reporting Period, by taking the opportunity of successful tenders for listing YiNuoShu on the Essential Drug List in some markets, the Group initially introduced the aerosol treatment approach to these markets, while cooperating with agents to launch marketing activities for promoting aerosol treatment in rural areas so as to expand the product's coverage in the rural market. Moreover, the Group conducted product re-development in the departments which frequently prescribed YiNuoShu, and thus further explored the market potential of YiNuoShu in these departments. The Group established YiNuoShu's advantage and brand image by organising several academic forums for key departments in newly covered Tier-2 hospitals and higher tier hospitals.

ShaDuoLiKa (YanHuNing Injection)

ShaDuoLiKa, developed and manufactured by Chongqing Yaoyou Pharmaceutical Co. Ltd. (the "Manufacturer"), is a common injection of anti-infective TCM used in pediatrics, respiratory and emergency department. During the Reporting Period, Shaduolika recorded sales of US$22.5 million, accounting for 8.0% of the Group's turnover. During the Reporting Period, the Group expanded coverage of ShaDuoLiKa in Tier-2 hospitals and lower tier hospitals, meanwhile, the product was added to the Essential Drug List and New Rural Cooperative Medical System in some areas, which contributed to its sales growth. During the Reporting Period, certain batches of ShaDuoLiKa manifested a few cases of adverse reactions in clinical use while the Manufacturer immediately suspended the production of the product. As the exclusive promoter of ShaDuoLiKa in China, the Group adopted proactive measures and discussed solutions with the Manufacturer. Since only a few markets were affected by the incident and the Manufacturer has resumed production of the product in November 2012, the incident had a very limited impact on the Group's revenue for the year.

(ii) Products with Market Potential

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hdrolysate)

XiDaKang, manufactured by Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd., is a new generation short peptide enteral nutrition drug manufactured by Chinese Biochemical Technique, and sold as an oral solution and granules form. During the Reporting Period, XiDaKang recorded sales of US$3.3 million, accounting for 1.2% of the Group's turnover. The Group capitalized on the opportunities of tendering for XiDaKang in different areas, and constantly advanced the fundamental activities to tender in different provinces and cities, as well as for listing in the Insurance Reimbursement Drug Catalogue at the provincial level during the Reporting Period. At the same time, as the only Oral Protein Hdrolysate enteral nutrition drug approved by the State Food and Drug Administration ("SFDA"), the sales of XiDaKang need to be combined with certain academic promotions to enable doctors to have a better understanding of the product's functions and treatments so as to effectively push the prescription of the product. With the Group`s years of experience and capability in professional academic promotion, XiDaKang was re-positioned to improve its academic foundation. The Group launched several clinical trials during the Reporting Period to actively collect evidences of the Evidence-based Medicine during the clinical application of the product. In addition, the Group actively established relationships with clinical nutrition experts and cooperated with Clinical Nutrition Councils at the national and regional levels to enhance the product's brand influence. Aside from the existing agents, the Group was active in identifying agents with academic promotion capabilities for XiDaKang to accelerate its market coverage. The Group conducted over a hundred product training sessions for agents and organized academic conferences and forums with agents to educate doctors about the usage of the product.

Yin Lian Qing Gan Ke Li

Yin Lian Qing Gan Ke Li, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is used to treat various acute and chronic hepatitis, alcoholic liver, fatty liver and hypertension. Yin Lian Qing Gan Ke Li is an exclusive TCM with a National New Drug Certificate and was included on the National Reimbursement Class B Drug List. Yin Lian Qing Gan Ke Li is also a product which needs academic promotion support, due to the product already has some Evidence-based Medicine support in the clinical application as the treatment to liver diseases, which has laid a strong foundation for the Group providing academic supports for the sale of the product. The Group introduced the product in August 2012 and successfully completed the market handover with the manufacturer during the Reporting Period. The Group is progressively carrying out tendering activities for the product, deploying an agency selection system with the purpose of promoting hospital coverage of the product.

(iii) Other Products

Apart from the products mentioned above, the Group also has other products promoted by the Agency Network - KunNing Oral Solution, NuoBaiYou, ShenShuiQing, SuPingShu, Irbesartan and Hydrochlorothiazide Dispersible Tablets, Ma Jiang Jiao Nang and Xiang Fu Yi Xue Kou Fu Ye etc. During the Reporting Period, the products listed above collectively accounted for approximately 2.3% of the Group's turnover.

In addition, the Group also produced and sold in-house manufactured products, such as Jin Er Lun, Fu Fang Dan Shen Pian and Niu Huang Jie Du Pian and so on. During the Reporting Period, the Group's in-house manufactured products collectively accounted for approximately 1.3% of the turnover.

(iv) In-house Researched Pharmaceutical Product Development

Tyroseuleutide (CMS024), a polypeptide National Class One New Drug researched and developed by the Group and with independent intellectual property rights, is used to treat primary liver cancer. Since November 2011, the phase III clinical study of Tyroserleutide entitled "A Randomized, Double Blind, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma" was successfully conducted at over 20 leading liver cancer treatment Tier-3 hospitals in China. The primary evaluation criteria of the clinical study is recurrence-free survival ("RFS") of patients with hepatocellular carcinoma after surgical resection. As at 31 December 2012, the Group received 381 informed consent forms ("ICF") and successfully enrolled 176 subjects, exceeding 50% of the planned 300 subjects. Meanwhile, during the Reporting Period, the Group continued to advance the construction of the manufacturing facilities for Tyroserleutide. The manufacturing facility located in the new region of Pingshan, Shenzhen, China, and covering an area of 36,422.4 square meters, will be constructed in accordance with the latest GMP requirements. During the Reporting Period, the Group finished the survey, design and construction of the pile foundation engineering, etc., of the early phase of the project and commenced construction of the principal part of the project.

(v) Products under Registration

The Group currently has five products undergoing import drug license registration, covering gastroenterology, hepatology, cardiovascular, pediatrics, gynecology, and urology. The Group has well established coverage of or has involved in these fields. After the completion of the import drug license registration, the Group can make use of its existing expert networks and physician resources to swiftly commence sales.

Budenofalk, manufactured by Dr. Falk Pharma GmbH in Germany, the third product of the Group introduced from this manufacturer, is mainly used to treat IBD and Crohn's disease. The Group has commenced application for registration of clinical trials for Budenofalk for about two years, and obtained preliminary feedback from SFDA during the Reporting Period. The Group is supplementing relevant materials for clinical registration of the product in accordance with the requirements of 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. During the Reporting Period, the Group repeatedly communicated with the manufacturer to discuss import drug license registration matters regarding these two products and is currently preparing application materials in accordance with the requirements of SFDA.

Maltofer® and Uro-Vaxom® are manufactured by Vifor Pharma in Switzerland. Maltofer® is mainly used to treat iron deficiency without anemia ("ID") and iron deficiency anemia ("IDA"); Uro-Vaxom® is mainly used for the treatment and prevention of recurrent urinary tract infections ("UTIs") by stimulating the immune system and the body's natural defense against urinary pathogens. The Group commenced preparations for the import drug license registration of the two products during the Reporting Period.

The five products mentioned above will contribute to the Group's revenue after the completion of import drug license registration of the products, which normally takes two to five years.

Network Expansion

One of the Group's core development strategies is the continuous expansion of its marketing and promotion network. During the Reporting Period, the Group has committed continuous efforts to increase return from existing hospitals in the sales network, as well as to expand the sales network by adding new prescription hospitals below the Tier-3 level as well as hospitals in the rural areas.

For the existing hospitals, the Group increased its investments towards market promotion and education of doctors, boosted the prescription volume of the Group's products, and continued the in-depth exploration of the market potential for the products in these hospitals during the Reporting Period. Meanwhile, the Group also accelerated its pace of penetrating new prescription hospitals. As at 31 December 2012, the Direct Network of the Group covered over 11,000 hospitals and the Agency Network covered over 8,000 hospitals across the country.

Although the Group has relatively broad hospital coverage, its marketing and promotion network remains relatively concentrated in Tier-2 hospitals or higher tier hospitals in the first or the second-tier cities, and there is still much room for the Group to develop in the rural market (including county-level and prefecture-level city markets) as well as the hospitals lower than the Tier-2 level in the central markets. In recent years, the Chinese government successively issued several polices supporting the rural medical market. County-level and prefecture-level markets as well as other rural markets will become the new growth driver of the Chinese pharmaceutical industry. To grasp the development potential of the rural market, the key focus of the Group's marketing and promotion network gradually shifted to expansion in the rural market during the Reporting Period. The Direct Network of the Group has started to recruit local employees with medical backgrounds in parts of the rural market to achieve better penetration into the local markets while promoting product sales. For the Agency Network, the Group refined the requirements for agent recruitment and management of operations, gradually sought and strengthened the cooperation with agents in the smaller market segments, and worked together with them to boost the depth of development in the rural market. As such, the number of staff under the Group's marketing and promotion network has increased. As at 31 December 2012, the number of marketing, promotion and sales professionals of the Group's Direct Network exceeded 1,400 while the number of independent third-party sales representatives or agents of the Agency Network exceeded 1,200.

In addition to the growth in the number of sales representatives to ensure the effective extension to the rural areas, the Group enhanced its construction, management and control of its marketing and promotion network through a variety of ways during the Reporting Period. For the Direct Network, to refine the management of the national sales market, to optimize the market execution of the Direct Network, to improve the effectiveness of policy implementation, and to guarantee the effective penetration of the Direct Network in the rural market, the Group adjusted the organization structure of the Direct Network during the Reporting Period, gradually advancing the structure of each level of the Direct Network. The Group divided the national sales market into several sales regions based on its existing provincial and regional organization structure, then to further divide sales regions into smaller market segments and

matched them with the corresponding managers at the same time, as well as further decentralized a part of the managerial functions from the Group's headquarters to sales regions to increase the flexibility of each sales region in policy execution, the accuracy of business operation and the ability to response to the market changes quickly. Though it has decentralized power, the Group's headquarters has also raised the requirements on behavior management and supervising feedback to sales regions so as to enhance the Group's supervision and management over the market. This adjustment has further subdivided the original sales market, making the business and management responsibility of each sales region clearer, while allowing the sales region to have some initiatives on their own business, the effectiveness of the implementation and execution of the Group's policy has also been enhanced. For the Agency Network, the Group also further improved the allocation of regional managers during the Reporting Period, and has started to carry out an agency selection system with the purpose of promoting hospital coverage in certain markets, and continued to enhance the refined management of the Agency Network. Furthermore, the Group also completed the contract management and inventory management processes with its agents by constantly improving its requirements for information management in the Agency Network, thereby improving the normative operations of the Agency Network, and thus further improving the business management capacity of the Agency Network. Meanwhile, backed by experiences and resource advantages in the academic promotion, the Group has conducted academic promotion activities independently or collaboration with agents to further help the Agency Network to complete its professional product agency work.

In addition, the Group also utilized the superior resources of its agents to explore some hospitals not yet covered by the Direct Network. In the meantime, the Group's Direct Network also provided the Agency Network corresponding academic support for the products with certain academic needs. The integration of the two marketing and promotion networks has started and is progressing in the area of business operations.

Outlook and Future Development

Looking ahead, the Group will continue to adhere to its strategic positioning of marketing and promoting premium prescription drugs in the Chinese market and to enforce its two core development strategies - the introduction and promotion of products and expansion of marketing and promotion network to continue to drive the sustainable development of the Group.

For its existing products, the Group will continue to work on penetrating hospitals, enhancing the application and penetration of products in different departments, as well as further exploring the product potential in the rural market. The Group will also strengthen its academic support for the products with academic requirements and features in the Agency Network, and will actively explore a new Agency Promotion Model which combines the professional academic promotion and investment agency into one. At the same time, the Group will continue to strengthen its product and academic training for its agents so as to improve the agents' academic standards and their understanding of the products, and to organise academic events to further raise the academic brand image of its products and strengthen the prescribing doctors' loyalty towards the products.

The Group will continue to select suitable products with market differentiations for the Direct and Agency networks. Control of product rights remains an important issue when introducing new products by the Group. Whether through the signing of exclusive distribution agreements with the suppliers or through payment of certain upfront fees or the purchase of equity in pharmaceutical companies to obtain new products, the Group's negotiations will focus on how to obtain a longer-term and more stable product rights. Meanwhile, for some products, the Group has started to evaluate through the control of the products' upstream enterprises to ensure more stable product rights. The Group acquired 100% equity interest in Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd. together

with the creditor's right of RMB30,414,000 for the total consideration of RMB81,100,000 on February 2013. The acquisition was an effective attempt at securing the control rights of products through gaining equity control of upstream enterprises. Through the acquisition, the Group successfully acquired the product rights of GanFuLe, which is favorable for the Group to formulate and implement an overall marketing plan and development strategy for the product. The Group will carry out the repositioning and redevelopment of the product, and reasonably increase the investment of resources and academic to support the rapid growth of the product. In the future, the ways of new product introduction will be more diversified, the product rights will be more secured and the cooperation with suppliers will continue to expand and deepen through continuous exploration and adaptation.

For network expansion, the Group will continue to expand its geographical coverage, enhance output efficiency and accelerate the extension of its marketing and promotion network towards the rural market. The Group will also continue to increase the number of professional sales staff in the Direct Network and will continue to enhance the cultivation and training for sales and promotion professionals, while optimizing the quality of the agents. Moreover, the Group will constantly utilize its advantages in information on business and network management to further enhance the management and supervision of its marketing and promotion network.

Financial Review

In reading the following discussion and analysis, please also refer to the audited consolidated financial statements and notes to the financial statements as shown in the Annual Report.

The Group prepared the Annual Report in accordance with the International Financial Reporting Standards. The Group's financial performance is summarized as follows:

Turnover

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

	2012		2011	
	US$'000	Weight	US$'000	Weight
Deanxit	88,079	31.2%	67,046	31.9%
Ursofalk	60,750	21.6%	46,244	22.0%
XinHuoSu	26,820	9.5%	18,352	8.7%
YiNuoShu	26,150	9.3%	16,269	7.7%
ShaDuoLiKa	22,520	8.0%	15,657	7.4%
Augentropfen Stulln Mono eye-drops	13,280	4.7%	9,800	4.7%
Salofalk	11,439	4.1%	7,084	3.4%
Bioflor	9,214	3.3%	4,863	2.3%
GanFuLe	5,018	1.8%	4,874	2.3%
Exacin	3,684	1.3%	10,505	5.0%
XiDaKang	3,326	1.2%	1,142	0.5%
Cystistat	1,041	0.4%	1,106	0.5%
Others	10,545	3.6%	7,451	3.6%
	281,866	100%	210,393	100%

Turnover increased by 34.0% from US$210.4 million for the year ended 31 December 2011 to US$281.9 million for the year ended 31 December 2012, mainly due to an increase in sales volume as selling prices remained relatively stable except for Salofalk, whose price declined slightly to meet the new price set by the National Development and Reform Commission in May 2012.

Gross Profit and Gross Profit Margin

Gross profit increased by 39.2% from US$119.1 million for the year ended 31 December 2011 to US$165.8 million for the year ended 31 December 2012, primarily reflecting growth in turnover. Gross profit margin increased from 56.6% for the year ended 31 December 2011 to 58.8% for the year ended 31 December 2012, mainly due to a change in product mix.

Selling Expenses and Selling Expenses as a Percentage of Turnover

Selling expenses increased by 33.9% from US$43.0 million for the year ended 31 December 2011 to US$57.5 million for the year ended 31 December 2012, primarily reflecting an increase in marketing and promotion expenses arising from the increased sales volume. Simultaneously, there was an increase in salaries and welfare for the Group's marketing and sales staff as a result of the increase in the number of sales staff. Selling expenses as a percentage of turnover maintained unchanged at 20.4% for the year ended 31 December 2012 and 2011 as the Group benefited from firm control over expenses.

Administrative Expenses and Administrative Expenses as a Percentage of Turnover

Administrative expenses increased by 22.6% from US$15.3 million for the year ended 31 December 2011 to US$18.8 million for the year ended 31 December 2012, mainly due to an increase in salaries and welfare for the Group's administrative and management staff. Administrative expenses as a percentage of turnover decreased by 0.6 percentage points from 7.3% for the year ended 31 December 2011 to 6.7% for the year ended 31 December 2012 as the Group benefited from economies of scale.

Other Gains and Losses

Other gains and losses decreased by 13.5% from US$8.1 million for the year ended 31 December 2011 to US$7.0 million for the year ended 31 December 2012, mainly due to exchange gain from the appreciation of Renminbi last year.

Finance Costs

Finance costs increased by 114.3% from US$0.9 million for the year ended 31 December 2011 to US$2.0 million for the year ended 31 December 2012, mainly due to the increase in bank borrowings.

Profit for the Year

Profit for the year increased by 36.5% from US$62.4 million for the year ended 31 December 2011 to US$85.1 million for the year ended 31 December 2012, due to the continuous and stable growth in sales and effective cost control. As a result, net profit margin increased by 0.6 percentage points from 29.6% for the year ended 31 December 2011 to 30.2% for the year ended 31 December 2012.

Inventories

Inventories decreased by 26.4% from US$21.0 million as at 31 December 2011 to US$15.5 million as at 31 December 2012, mainly reflecting strengthened management of inventories. As a result, average inventory turnover days decreased from 74 days for the year ended 31 December 2011 to 57 days for the year ended 31 December 2012.

Trade Receivables

Trade receivables increased by 24.9% from US$40.3 million as at 31 December 2011 to US$50.3 million as at 31 December 2012, primarily reflecting the growth in sales. At the same time, as a result of strengthened management of account receivables, average trade receivables turnover days decreased from 62 days for the year ended 31 December 2011 to 59 days for the year ended 31 December 2012.

Trade Payables

Trade payables decreased by 9.8% from US$10.7 million as at 31 December 2011 to US$9.6 million as at 31 December 2012, mainly reflecting the lower period-end purchase resulting from strengthened management of inventories. Average trade payables turnover days increased from 22 days for the year ended 31 December 2011 to 32 days for the year ended 31 December 2012, mainly because the top product was purchased in full by use of letter of credit in 2012.

Liquidity and Financial Resources

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

	For the year ended 31 December	
	2012	2011
	US$'000	US$'000
Net cash from operating activities	69,790	62,744
Net cash used in investing activities	(52,977)	(95,001)
Net cash used in financing activities	(8,307)	(6,054)
Net increase (decrease) in cash and cash equivalent	8,506	(38,311)
Cash and cash equivalent at beginning of the year	97,906	133,987
Effect of foreign exchange rate changes	750	2,230
Cash and cash equivalent at end of the year	107,162	97,906

Net cash from operating activities

The Group's net cash generated from operating activities was US$69.8 million for the year ended 31 December 2012 compared with US$62.7 million for the year ended 31 December 2011, an increase of 11.2% mainly due to the growth in sales.

Net cash used in investing activities

For the year ended 31 December 2012, the Group's net cash used in investing activities was US$53.0 million compared with US$95.0 million for the year ended 31 December 2011, a decrease of 44.2% mainly due to the acquisition of subsidiaries in last year.

Net cash used in financing activities

For the year ended 31 December 2012, the Group's net cash used in financing activities was US$8.3 million compared with US$6.1 million for the year ended 31 December 2011, a decrease of 37.2% mainly due to an increase in dividend paid.

Net Current Assets

	As at 31 December	
	2012	2011
	US$'000	US$'000
Current Assets		
Inventories	15,488	21,040
Trade and other receivables	92,891	73,010
Tax recoverable	1,052	95
Pledged bank deposit	73,261	39,471
Bank balances and cash	107,162	97,906
	289,854	231,522
Current Liabilities		
Trade and other payables	25,175	28,410
Bank borrowings - secured	64,845	39,994
Deferred consideration payables	812	1,147
Derivative financial instruments	-	645
Tax payable	2,605	4,088
	93,437	74,284
Net current assets	196,417	157,238

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2012	2011
	US$'000	US$'000
Purchase of available-for-sale investments	13,635	-
Purchase of intangible assets	5,244	-
Purchase of property, plant and equipment	5,752	13,796
	24,631	13,796

Debts

The following table shows the Group's debts:

	As at 31 December	
	2012	2011
	US$'000	US$'000
Interest bearing secured bank borrowings	64,845	39,994

The Group's gearing ratio, calculated as secured bank borrowings divided by total assets, increased to 11.7% as at 31 December 2012 from 8.4% as at 31 December 2011, mainly reflecting an increase in secured bank borrowings.

Market Risks
We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in note 32 to the financial statements.

Dividend
For the year ended 31 December 2012, the Group paid an interim dividend for 2012 and a final dividend for 2011 of US$15.6 million and US$12.9 million, respectively. For the year ended 31 December 2011, the Group paid an interim for 2011 and a final dividend for 2010 of US$10.3 million and US$15.1 million, respectively.

Purchase, Sale or Redemption of the Company's Listed Securities
The Company has not purchased, sold or redeemed any of its listed securities during the year ended 31 December 2012.

Corporate Governance Practices
The Company has complied with the applicable principles and code provisions of the revised Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 April 2012 to 31 December 2012 and of the old CG Code from 1 January 2012 to 31 March 2012, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and CEO which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes 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.

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 the 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 annual result announcement and annual report for the year ended 31 December 2012 have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

Cash Dividend
The Company has paid an interim dividend of US 0.645 cent (equivalent to HK$0.05) per ordinary share of the Company (the "Share") for the six months ended 30 June 2012. The Board is delighted to recommend a final dividend of US 0.774 cent (equivalent to HK$0.06) per Share for the year ended 31 December 2012 to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 2 May 2013 (the "Record Date"). The register of members of the Company will be closed from Tuesday, 30 April 2013 to Thursday, 2 May 2013 (both days inclusive). Payment of such final dividend in Hong Kong dollars is expected to be made to the shareholders on Friday, 10 May 2013 after the shareholders' approval at the Annual General Meeting ("AGM") of the Company dated on Wednesday, 24 April 2013.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2012. The Model Code also applies to other specified senior management of the Company.

Employees who are likely to be in possession of unpublished price-sensitive information about the Company are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance of the guidelines by such employees was noted by the Company in the Reporting Period.

Disclosure of Information

The information provided in this announcement is only the summary of 2012 Annual Report of the Company. The 2012 Annual Report will be duly dispatched to shareholders of the Company and published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.cms.net.cn).

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

19 March 2013, Hong Kong

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