



2014

Interim Report

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
Ms. SA Manlin

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry
Mr. Huang Ming
Mr. WU Chi Keung

Company Secretary

Ms. ZHANG Lingyan

Authorized Representatives

Ms. ZHANG Lingyan
Mr. LAM Kong

Audit Committee Members

Mr. WU Chi Keung (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. Huang Ming

Remuneration Committee Members

Mr. Huang Ming (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung

Nomination Committee Members

Mr. CHEUNG Kam Shing, Terry (Chairman)
Mr. LAM Kong
Mr. Huang Ming
Mr. WU Chi Keung

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

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
Hi-tech Industrial Park North
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

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

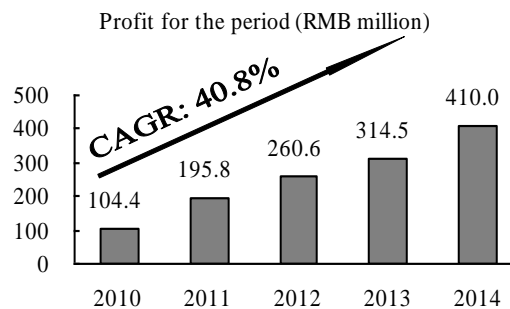
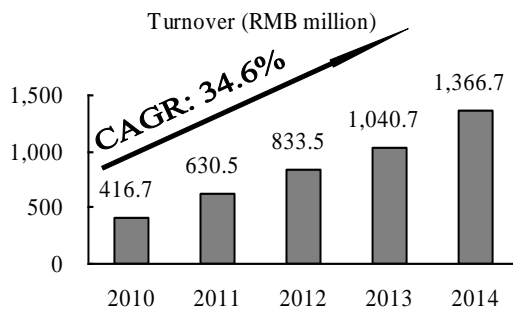
Jun 2007, the Company was listed on the London Stock Exchange with the Company’s consolidated financial statements being adopted in USD due to USD as a widely and commonly recognised global currency and the merit of freely convertible into a number of foreign currencies. However, the Company’s functional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

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

Financial Highlights

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

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



Management Discussion and Analysis

Business Review

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

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

Product Introduction and Development

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

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

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

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

(i) Products under the Direct Network:

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

Deanxit (Flupentixol and Melitracen)

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

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis. During the Reporting Period, Ursofalk recorded sales of RMB266.8 million, an increase of 31.3% when compared with the same period of last year, accounting for 19.5% of the Group's turnover.

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

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

Salofalk (Mesalazine)

Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany, features the most comprehensive formulations of mesalazine in the China market, namely coated tablets, suppositories and enemas, which are mainly used to treat Ulcerative Colitis and Crohn's disease. During the Reporting Period, Salofalk recorded sales of RMB69.5 million, an increase of 50.0% when compared with the same period of last year, accounting for 5.1% of the Group's turnover.

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

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

Bioflor (Saccharomyces Boulardii)

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

(ii) Products under the Agency Network

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

ShaDuoLiKa (YanHuNing Injection)

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

YiNuoShu (Ambroxol Hydrochloride for Injection)

YiNuoShu, the first generic version of an ambroxol hydrochloride for injection in China, is an expectorant product used for respiratory diseases. The Group owns the controlling rights for the product while TIPR Pharmaceutical Responsible Co., Ltd presides over production, and in order to meet market demand for the product, the Group commissions Kangzhe (Hunan) Medical Company Limited to manufacture the product at the same time. The refurbishment of Kangzhe (Hunan) Medical Company Limited in accordance with the latest Chinese GMP requirements during the Reporting Period resulted in a temporary supply shortage of the product to meet the market demand, resulting in a decline in the recorded sales of the product compared with the same period of last year. In order to solve the production capacity problem, the Group found and commissioned a third party to produce the drug, and the commission processing procedures are being handled. During the Reporting Period, YiNuoShu recorded sales of RMB69.0 million, accounting for 5.0% of the Group's turnover.

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

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

Yin Lian Qing Gan Ke Li

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

(iii) Other Products

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

(iv) In-house Research Pharmaceutical Product

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

(v) Products under Registration

The Group had nine products undergoing the application process for Import Drug Registration during the Reporting Period, which will contribute to the Group’s revenue after they are officially issued Imported Drug Licenses by the China Food and Drug Administration (“CFDA”). Key information of these products is listed below:

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

Network Development

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

As for the Agency Network, the Group continued to seek more suitable agents for its products. As at 30 June 2014, the Group signed over 1,000 independent third-party sales representatives and agents covering approximately 7,000 hospitals across the country. During the Reporting Period, the Group continued to provide academic support and organized numerous training programs for its agents in order to further improve their clinical promotion capability of the products. Furthermore, the Group continued to enhance the effective management of the Agency Network, supported network management in a comprehensive manner through its self-developed information management system, and improved the efficiency and transparency of its regional business. Moreover, the Group further improved collaborative visits for its managers and market promoting personnel with its agents, constantly reinforced its interaction with agents, and enhanced the efficiency of collaboration with agents.

Outlook and Future Development

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

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

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

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

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Financial Review

Turnover

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

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

Gross Profit

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

Selling Expenses

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

Administrative Expenses

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

Other Gains and Losses

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

Finance Costs

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

Profit for the Period

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

Inventories

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

Trade Receivables

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

Trade Payables

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

Liquidity and Financial Resources

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

Other Information

Key Employee Benefit Scheme

As at 26 March 2014, approved by the board of directors of the Company (the “Board”), there were 6 employees of the Company participating in the Key Employee Benefit Scheme.

Share Option Scheme

The Company has not implemented a share option scheme. As at 30 June 2014, there were no outstanding share options of the Company.

Interim dividend

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

Closure of Register of Members

The register of members of the Company will be closed from Monday, 1 September 2014 to Wednesday, 3 September 2014 (both days inclusive), during which period the registration of transfer of Shares will be suspended. To qualify for the interim dividend, all transfer forms of Shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Friday, 29 August 2014.

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

As at 30 June 2014, 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:

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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	2,396,500 (L) (note 3)	0.10%
		Interest in controlled corporation	9,865,162 (L) (note 4)	0.41%
Mr. Chen Hongbing	The Company	Beneficial owner	39,993,225 (L)	1.66%
		Interest in controlled corporation	75,000,000 (L) (note 5)	3.11%
		Beneficial of a trust	9,865,162 (L) (note 6)	0.41%
Ms. Chen Yanling	The Company	Beneficial owner	7,835,250 (L)	0.32%
		Interest in controlled corporation	3,750,000 (L) (note 7)	0.16%
		Beneficial of a trust	9,865,162 (L) (note 6)	0.41%
Mr. Hui Ki Fat	The Company	Beneficial owner	6,000,000 (L)	0.25%
Ms. Sa Manlin	The Company	Beneficial owner	6,074,237 (L)	0.25%
		Family interest	750,000 (L) (note 8)	0.03%
		Beneficial of a trust	9,865,162 (L) (note 6)	0.41%

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 interests in respect of warrants are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
4. 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 6 below for further details.
5. These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.
6. 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. Sa Manlin and they are deemed to be interested in these 9,865,162 Shares. The references to these 9,865,162 Shares in respect of which Mr. Lam Kong is deemed to be interested in (as disclosed above) relate to the same block of Shares.
7. These Shares are held by Ms. Chen Yanling through Great Creation Holdings Limited, a company wholly owned by her.
8. These Shares are held by Mr. Zhang Ziqiang, the spouse of Ms. Sa Manlin, in respect of which Ms. Sa Manlin 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 spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses 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 2014, the Directors were not aware of any other person (other than the Directors of the Company) who held interests 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 2014, the Company has not purchased, sold or redeemed any of its listed securities.

Employees

As at 30 June 2014, the Group had 2,400 employees. There have been no changes to the information disclosed in the Annual Report 2013 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 Mr. Huang Ming as Committee members.

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

The Company's interim result announcement and interim report for the six months ended 30 June 2014 have been reviewed by the Audit Committee of the Company.

Changes in Director's Information

During the Reporting Period, 360buy Group, a company which Mr. Huang Ming, an independent non-executive director of the Company, has been appointed as an independent non-executive director, was listed on the NASDAQ Stock Exchange on 22 May 2014, stock code JD. Mr. Wu Chi Keung, the independent non-executive director of the Company, was appointed as an independent non-executive director on 20 June 2014 of the Link Holdings Limited (stock code: 8237), which was listed on the GEM of the HKEx. Save as disclosed above, there are no other issues required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

Corporate Governance Practices

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

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

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

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

Directors' Securities Transactions

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

Disclosure of Information

The 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).

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

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

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014

	<u>NOTES</u>	30 June <u>2014</u> RMB'000 (unaudited)	31 December <u>2013</u> RMB'000 (audited) (restated)
Non-current assets			
Property, plant and equipment	8	235,212	217,901
Prepaid lease payments		52,138	60,047
Interest in an associate	9	5,379	6,306
Intangible assets		232,633	244,014
Goodwill		1,184,591	1,184,591
Available-for-sale investments		274,500	123,697
Deferred tax assets		19,414	19,462
Deposit paid for acquisition of property, plant and equipment		<u>97,679</u>	<u>98,509</u>
		<u>2,101,546</u>	<u>1,954,527</u>
Current assets			
Inventories		224,625	167,062
Trade and other receivables	10	795,809	859,020
Tax recoverable		1,041	1,041
Pledged bank deposits		305,038	448,030
Bank balances and cash		<u>781,743</u>	<u>487,943</u>
		<u>2,108,256</u>	<u>1,963,096</u>
Current liabilities			
Trade and other payables	11	223,354	244,697
Secured bank borrowings	12	292,628	314,120
Deferred consideration payables		6,736	5,733
Tax payable		<u>26,481</u>	<u>26,081</u>
		<u>549,199</u>	<u>590,631</u>
Net current assets		<u>1,559,057</u>	<u>1,372,465</u>
Total assets less current liabilities		<u>3,660,603</u>	<u>3,326,992</u>

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

The condensed consolidated financial statements on pages 18 to 33 were approved and authorised for issue by the Board of Directors on 18 August 2014 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 2014

	Attributable to owners of the Company								Non-controlling interests	Total	
	Share capital	Share premium	Capital reserve	Investments revaluation reserve	Surplus reserve fund	Translation reserve	Accumulated profits	Dividend reserve			Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2013 (audited) (restated)	82,974	1,767,684	19,545	13,136	99,731	372	764,240	117,477	2,865,159	16,878	2,882,037
Profit for the year	-	-	-	-	-	-	636,213	-	636,213	(915)	635,298
Other comprehensive income for the year	-	-	-	16,050	-	(11,388)	-	-	4,662	-	4,662
Total comprehensive income for the year	-	-	-	16,050	-	(11,388)	636,213	-	640,875	(915)	639,960
Dividends paid	-	-	-	-	-	-	(125,030)	(117,477)	(242,507)	-	(242,507)
Dividends proposed	-	-	-	-	-	-	(127,055)	127,055	-	-	-
Transfer of reserves	-	-	-	-	11,204	-	(11,204)	-	-	-	-
Acquisition of interest in intangible assets from shareholders of non-controlling interests	-	-	-	-	-	-	-	-	-	(2,903)	(2,903)
Balance at 31 December 2013 (audited) (restated)	82,974	1,767,684	19,545	29,186	110,935	(11,016)	1,137,164	127,055	3,263,527	13,060	3,276,587
Profit for the period	-	-	-	-	-	-	412,664	-	412,664	(2,707)	409,957
Other comprehensive income for the period	-	-	-	47,804	-	2,883	-	-	50,687	-	50,687
Total comprehensive income for the period	-	-	-	47,804	-	2,883	412,664	-	463,351	(2,707)	460,644
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(10,353)	(10,353)
Dividends paid	-	-	-	-	-	-	-	(127,055)	(127,055)	-	(127,055)
Dividends proposed	-	-	-	-	-	-	(163,961)	163,961	-	-	-
Transfer of reserves	-	-	-	-	1,563	-	(1,563)	-	-	-	-
Balance at 30 June 2014 (unaudited)	82,974	1,767,684	19,545	76,990	112,498	(8,133)	1,384,304	163,961	3,599,823	-	3,599,823

	Attributable to owners of the Company								Non-controlling interests	Total	
	Share capital	Share premium	Capital reserve	Investments revaluation reserve	Surplus reserve fund	Translation reserve	Accumulated profits	Dividend reserve			Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013 (audited) (restated)	82,974	1,767,684	19,545	13,136	99,731	372	764,240	117,477	2,865,159	16,878	2,882,037
Profit for the period	-	-	-	-	-	-	314,657	-	314,657	(122)	314,535
Other comprehensive income for the period	-	-	-	6,786	-	(3,368)	-	-	3,418	-	3,418
Total comprehensive income for the period	-	-	-	6,786	-	(3,368)	314,657	-	318,075	(122)	317,953
Dividends paid	-	-	-	-	-	-	-	(117,477)	(117,477)	-	(117,477)
Dividends proposed	-	-	-	-	-	-	(125,030)	125,030	-	-	-
Transfer of reserves	-	-	-	-	2,673	-	(2,673)	-	-	-	-
Balance at 30 June 2013 (unaudited) (restated)	82,974	1,767,684	19,545	19,922	102,404	(2,996)	951,194	125,030	3,065,757	16,756	3,082,513

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2014

	<u>NOTE</u>	<u>Six months ended 30 June</u>	
		<u>2014</u>	<u>2013</u>
		RMB'000	RMB'000
		(unaudited)	(unaudited) (restated)
Net cash from operating activities		<u>455,002</u>	<u>254,887</u>
Net cash used in investing activities			
Purchase of property, plant and equipment		(51,847)	(70,142)
Payment for acquisition of interest in intangible assets from shareholders of non-controlling interests		(30,000)	-
Purchase of available-for-sale investments		(88,737)	-
Acquisition of a subsidiary		-	(80,891)
Placement of pledged bank deposit		(156,759)	(299,751)
Release of pledged bank deposit		299,751	212,552
Interest received		14,495	21,121
Dividend received from an associate		1,023	1,041
Disposal of a subsidiary	15	<u>11,414</u>	<u>-</u>
		<u>(660)</u>	<u>(216,070)</u>
Net cash used in financing activities			
Interest paid		(6,610)	(5,571)
Dividends paid		(127,055)	(117,477)
Payment of deferred consideration payables		(2,157)	(1,595)
New bank borrowings raised		290,327	311,923
Repayment of bank borrowings		<u>(311,923)</u>	<u>(221,863)</u>
		<u>(157,418)</u>	<u>(34,583)</u>
Net increase in cash and cash equivalents		296,924	4,234
Cash and cash equivalent at beginning of the period		487,943	673,567
Effect of foreign exchange rate changes		<u>(3,124)</u>	<u>577</u>
Cash and cash equivalent at end of the period, represented by bank balances and cash		<u>781,743</u>	<u>678,378</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

3. TURNOVER AND SEGMENT INFORMATION

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

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

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

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

4. TAXATION

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

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Deferred taxation:

Current period	<u>(1,114)</u>	<u>(2,773)</u>
Taxation charge for the period	<u>33,396</u>	<u>31,335</u>

5. PROFIT FOR THE PERIOD

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

6. DIVIDENDS

During the Reporting Period, a final dividend of RMB0.0526 (restated) per share in respect of the year ended 31 December 2013 (2013 (restated): RMB0.0486 per share in respect of the year ended 31 December 2012) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the Reporting Period amounted to RMB127,055,000 (restated) (2013 (restated): RMB117,477,000).

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

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As at 30 June 2014 and 31 December 2013, 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>2014</u> RMB'000	31 December <u>2013</u> RMB'000 (restated)
Trade receivables	435,908	381,473
Less: Allowance for bad and doubtful debts	<u>(1,438)</u>	<u>(1,561)</u>
	434,470	379,912
Bills receivables	176,500	158,773
Prepayment for inventories	64,732	236,163
Other receivables and deposits	<u>120,107</u>	<u>84,172</u>
Total trade and other receivables	<u>795,809</u>	<u>859,020</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) based on the invoice date, which approximated to revenue recognition date, at the respective reporting dates is as follows:

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

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

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

12. SECURED BANK BORROWINGS

During the Reporting Period, the Group obtained new bank loans amounting to RMB290,327,000 (2013 (restated): RMB311,923,000). The loans carry interest at a range from 2.55% to 3.80% per annum and are repayable within a year. The proceeds were used to finance the daily operation.

13. SHARE CAPITAL

	<u>Number of shares</u> '000	<u>Amount</u> RMB'000 (restated)
Authorised share capital:		
At 31 December 2013 and 30 June 2014	<u>20,000,000</u>	<u>765,218</u>
Issued and fully paid:		
At 31 December 2013 and 30 June 2014	<u>2,414,747</u>	<u>82,974</u>

14. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information on how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

<u>Financial asset</u>	<u>Fair value as at</u>		<u>Fair value hierarchy</u>	<u>Valuation technique key input</u>
	30 June <u>2014</u> RMB'000	31 December <u>2013</u> RMB'000 (restated)		
Listed AFS equity investments	274,500	123,697	Level 1	Quoted bid price in an active market

There were no transfers between level 1 and 2 during the period/year ended 30 June 2014 and 31 December 2013.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

15. DISPOSAL OF A SUBSIDIARY

On 31 December 2013, the Group disposed of a 51% equity interest in the subsidiary, Kangzhe Guangming, which was formerly engaged in manufacture of XiDaKang, for a net consideration of RMB12,000,000. The purpose of the disposal was to make us more focus on the core business. The disposal was completed on 27 March 2014, on which date the Group lost control of and no longer had a stake in Kangzhe Guangming.

The results of Kangzhe Guangming for the current and preceding interim period were as follows:

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	<u>Six months ended 30 June</u>	
	<u>2014</u>	<u>2013</u>
	RMB'000	RMB'000
Turnover	1,005	10,659
Cost of good sold	(2,036)	(8,710)
Other gains and losses	(1,723)	278
Selling expenses	(86)	(324)
Administrative expenses	<u>(2,602)</u>	<u>(2,056)</u>
Loss before taxation	(5,442)	(153)
Taxation	<u>(82)</u>	<u>(95)</u>
Loss for the period	<u>(5,524)</u>	<u>(248)</u>

The net assets of Kangzhe Guangming at the date of disposal were as follows:

	RMB'000
Net assets disposed of	<u>10,775</u>
Gain on disposal	<u>1,225</u>
Total consideration	<u>12,000</u>
Satisfied by:	
Cash	<u>12,000</u>
Net cash inflow arising on disposal:	
Total cash consideration received	12,000
Bank balances and cash disposed of	<u>(586)</u>
	<u>11,414</u>

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Cash flows from (used in) Kangzhe Guangming:

	<u>Six months ended 30 June</u>	
	<u>2014</u>	<u>2013</u>
	RMB'000	RMB'000
Net cash flows from (used in) operating activities	53	(215)
Net cash flows used in investing activities	-	(102)
Net cash flows	<u>53</u>	<u>(317)</u>

16. CAPITAL COMMITMENTS

	<u>30 June</u>	<u>31 December</u>
	<u>2014</u>	<u>2013</u>
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided for	<u>60,077</u>	<u>75,858</u> (restated)

17. 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>2014</u>	<u>2013</u>
			RMB'000	RMB'000
Ophol	Associate	Finance cost	529	642
Sunpharma Limited	Related company	Purchase of goods	-	1,078
			<u>-</u>	<u>1,078</u>

(b) The remuneration of key management personnel during the period amounted to RMB1,899,000 (six months ended 30 June 2013 (restated): RMB1,901,000).