CHINA MEDICAL SYSTEM HOLDINGS LIMITED
(Stock Code:867)

Interim Report 2015

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling
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

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Grand Cayman, KY1-1104
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Nanshan District
Shenzhen 518057
PRC

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North Point
Hong Kong

Branch Share Registrar in Hong Kong

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183 Queen's Road East
Wanchai
Hong Kong

Stock Code

867

Company's Website

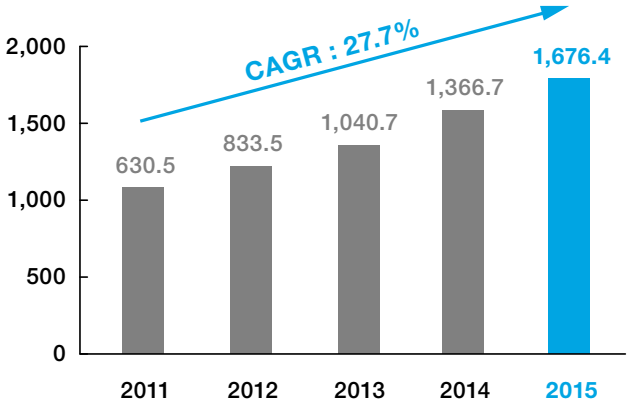
www.cms.net.cn

FINANCIAL HIGHLIGHTS

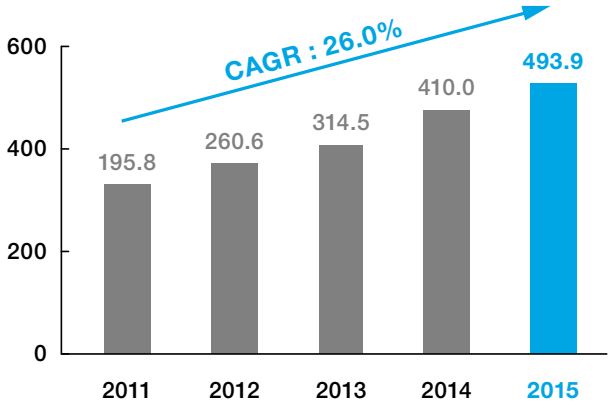
- Turnover up 22.7% to RMB1,676.4 million (H1 2014: RMB1,366.7 million)
- Profit for the period up 20.5% to RMB493.9 million (H1 2014: RMB410.0 million)
- Basic earnings per share up 18.4% to RMB0.2024 (H1 2014: RMB0.1709)
- As at 30 June 2015, the Group's bank balances and cash amounted to RMB411.2 million while readily realizable bank acceptance bills amounted to RMB154.1 million
- Declared interim dividend up 16.9% to RMB0.0794 per share (H1 2014: RMB0.0679)

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

Turnover (RMB million)



Profit for the period (RMB million)



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 2015 (the "Reporting Period"), the Group recorded turnover of RMB1,676.4 million (2014: RMB1,366.7 million), representing an increase of 22.7% over the same period of last year, while profit for the period reached RMB493.9 million (2014: RMB410.0 million), up 20.5% from the corresponding period of last year.

Affected by cost controls in medical insurance, price erosion caused by tendering in some provinces and delays in tendering timetables, as well as second price negotiations with a small number of hospitals in the first half of 2015, the Chinese healthcare industry continued to experience a slowdown in overall growth that began in 2014. Despite the sluggish growth in the Chinese healthcare industry, the Group nevertheless achieved satisfactory growth. This was mainly due to the Group's abundant and diverse portfolio, exclusive product position, wide coverage and highly efficient marketing and promotion network, as well as sustained expansion into lower-tier cities and better refined operations.

Product Introduction and Development

1. Product Introduction

The Group committed to sustainable development through a strong push in new product introduction, the establishment of an abundant and premium portfolio, and further exploration of potential development for current products. Having operated in the Chinese market for two decades, the Group has gradually established a multilevel new product introduction system. The products can be marketed in the short-term: the Group will actively introduce directly-launched products, overseas products for which Import Drug Licenses ("IDL") have been obtained in China, and domestic products which have been granted production license approval. These products can be sold immediately after introduction. The mid-term pipeline products: the Group will actively look for products which have launched in overseas markets but have yet to gain IDL in China. The long-term pipeline products: the Group will look across the globe for innovative drug candidates at late stages of development in order to build a solid product foundation for its long-term sustainable development. The multilevel product introduction strategy can help the Group guarantee that it has a sufficient and constant supply of products to launch to the market, and that supports the continuous rapid growth of the Group in the future.

During the Reporting Period, the Group continued to introduce new products by purchasing assets related to products for the China market or through equity investment in the manufacturers of the products since the second half of 2014. This new product introduction model can ensure steady control over product rights while generating higher profit for the Group.

1.1 Added products that can be directly launched to the market via equity cooperation

On 10 November 2014, the Group increased its stake in Tibet Rhodiola Pharmaceutical Holding Co. ("Tibet Pharmaceutical") to 26.61%, making it the largest shareholder of Tibet Pharmaceutical. The Group and Tibet Pharmaceutical signed an Exclusive Sale Agreement and a Promotion Service Agreement for NuoDiKang on 14 January 2015. The agreements have an initial term commencing from the execution date of the Agreements and ending on 31 December 2017, and the agreements can be extended to 31 December 2020, subject to mutual agreement between the parties and compliance by Tibet Pharmaceutical with its applicable procedures.

On 7 December 2014, the Group signed a series of framework agreements with the direct and indirect shareholders of Hebei Xinglong Xili Pharmaceutical Co., Ltd ("Xili Pharmaceutical"). Pursuant to the framework agreements, the Group shall acquire equity interests in Xili Pharmaceutical and gain exclusive sales and marketing rights for the DanShenTong capsule. On 16 January 2015, the Group signed an "Exclusive Sale Agreement" and a "Promotion Service Agreement" with Xili Pharmaceutical and officially obtained the exclusive sales and marketing rights for the DanShenTong capsule.

1.2 Added products that can be directly launched to the market via purchase of assets related to the products for the China market

On 25 March 2015, the Group purchased assets related to Combizym for the China market and other designated countries, as well as assets related to Hirudoid for the China market from DKSH International AG via an asset purchase agreement.

The four aforementioned products have already generated a certain amount of sales in the China market before they were added to the Group's portfolio, thus they can be directly launched to the market. These new products are suitable for the China market, and are marketed and promoted through the Group's Direct Academic Promotion Network (the "Direct Network"). The Group actively tailors the appropriate development strategies for such newly-introduced products so as to make them profitable after acquisition.

1.3 Added products at late stages of development as long-term pipeline via purchase of assets related to the products for the China market

Despite having products that can be directly launched to the market, during the Reporting Period, the Group has expanded the scope of its product introduction strategy to seek overseas products which are at late stages of development. The Group takes reference from the R&D model of Tyroserleutide (CMS024), in which R&D of products is sponsored by a private R&D company which is wholly-owned by the controlling shareholder of the Company, and the patent and commercial rights of the products are injected into the Company. The Company then pays the R&D company royalty fees representing an agreed upon percentage of sales of the products in the China market after the successful commercialization of the products. The Group's introduction of Traumakine® in May 2015 is a successful example of this strategy.

On 8 May 2015, a private company 100% owned by Dr. Lam Kong (the controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company) (the "private company") entered into agreements (the "Faron Agreements") with Faron Pharmaceuticals Ltd. ("Faron"). In accordance with the Faron Agreements, the private company acquired 15.72% of the shares of Faron and acquired assets related to Traumakine® in China, Hong Kong, Macau and Taiwan (the "Territory"), as well as certain intellectual properties related to the product. On 19 May 2015, a wholly-owned subsidiary of the Company (the "CMS Subsidiary"), entered into agreements with the private company and/or Faron ("Transfer Agreements"). Pursuant to the Transfer Agreements, the private company shall transfer the product assets in the Territory to the CMS Subsidiary. The consideration for the product assets transfer of Traumakine® will be further negotiated and agreed upon between the private company and CMS Subsidiary at a later stage prior to the launch of the product in the Territory, and the parties intend that the consideration for the transfer will be calculated with reference to the net sales of the product in the Territory. The private company will continue to invest in the development of Traumakine® within the Territory so that the Group does not need to pay any R&D costs during the late stage of development, and should only pay the private company royalty fees representing a certain percentage of sales of the product after it is successfully commercialized.

The Group believes that this model will be one of the most important models for introducing innovative products at late stages of development in the future.

2 Existing Product Development

2.1 Main Products under the Direct Network

During the Reporting Period, the Group strengthened its macro layout and boosted investment in marketing for products under its Direct Network. As a result of its insistence on promoting the academic value of and brand education on its products, continuous exploration and cultivation of their selling points, and more refined network management as well as network devolution after the network adjustment, all of the main products under the Direct Network of the Group maintained significant growth.

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, and is on the National Reimbursement Drug List ("NRDL"). Based on IMS data in 2014, Deanxit is the most prescribed antidepressant drug in China. During the Reporting Period, the Group further explored the most attractive selling points of the product by expanding the expert network of Deanxit and setting up different types of academic platforms. During the Reporting Period, Deanxit recorded sales of RMB451.1 million, an increase of 17.3% when compared with the same period of the previous year.

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis, and is on the NRDL. Based on IMS data in 2014, Ursofalk is the best-selling ursodeoxycholic acid drug in China, and ranked first in sales among digestive products in the Chinese cholagogue market. During the Reporting Period, the Group maintained a differentiated promotion strategy, consolidated its authoritative expert network, and combined epidemiological investigation, clinical research, medical guideline writing for Ursofalk to realize the product's multidisciplinary coverage. During the Reporting Period, Ursofalk recorded sales of RMB318.8 million, an increase of 19.5% when compared with the same period of the previous year.

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

XinHuoSu, manufactured by China Chengdu Rhodiola Biological Pharmaceutical Co., Ltd, a subsidiary of Tibet Pharmaceutical (of which the Group holds a 26.61% share), is a National Class One biological agent used to treat acute heart failure, and is the only rhBNP drug sold in China. XinHuoSu has gradually become the new standard of treatment for acute heart failure. On-going market development and brand publicity remained major tasks of the Group during the Reporting Period. Refining the regional layout and maintaining the expert network gave a further boost to the development of the product. During the Reporting Period, XinHuoSu recorded sales of RMB218.9 million, an increase of 28.1% when compared with the same period of the previous year.

The manufacturer of XinHuoSu suspended production in 2014, conducted technical reforms in compliance with GMP requirements of the 2010 version in China (the "new GMP"), was subsequently granted new GMP authentication on 11 February 2015, upon which it had recommenced production. Meanwhile, the exclusive sale and promotion agreement between the Group and Tibet Pharmaceutical performed well, which further deepened the product's market layout.

Salofalk (Mesalazine)

Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is mainly used to treat Ulcerative Colitis and Crohn's disease. Salofalk is on the NRDL, and currently it is the mesalazine of the most complete formulation in China, and comes in three formulations, namely coated tablets, suppositories and enemas, with the suppositories in doses of 0.5g or 1g. The 1g dose is a new dosage which was approved during the Reporting Period, and is more convenient for patient use and shows better clinical effects than the 0.5g dosage. Different forms and dosages of Salofalk are used depending on the location and degree of the severity of symptoms of individual patients, allowing for optimal effectiveness of treatment. During the Reporting Period, the Group continued to improve the diagnosis of the indications mainly through persistent doctor education and guided prescription by doctors and also enhanced brand loyalty among patients through patient education. During the Reporting Period, Salofalk recorded sales of RMB86.6 million, an increase of 24.7% when compared with the same period of the previous year.

Bioflor (Saccharomyces Boulardii)

Bioflor, manufactured by Biocodex of France, is a probiotics agent used to treat diarrhea for adults and children, as well as diarrhea symptoms caused by the disturbance of intestinal flora. During the Reporting Period, the Group worked tirelessly to expand hospital coverage, continued to expand the penetration of the product in different departments, and continued to improve the expert network for the drug. During the Reporting Period, Bioflor recorded sales of RMB78.1 million, an increase of 44.0% when compared with the same period of the previous year.

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 macular degeneration and all forms of ocular asthenopia. Augentropfen Stulln Mono Eye-drops is the only eye drops approved by China Food and Drug Administration (CFDA) for the treatment of macula degeneration and it's a preservative-free eye drops. During the Reporting Period, the Group constantly improved the popularity of the product through persistent brand publicity, while also launching extensive doctor education, constantly expanding the expert network and continuous refining the promotion direction for the product. During the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of RMB70.1 million, an increase of 15.7% when compared with the same period of the previous year.

DanShenTong Capsule

DanShenTong capsule is a newly introduced product under the Direct Network via equity investment during the Reporting Period, and is manufactured by Xili Pharmaceutical and is on the NRDL. DanShenTong capsule is a plant-based antibiotic (broad spectrum) with multiple functions, and the major functions of the product are antisepsis and anti-inflammation. The drug is mainly used for the treatment of acne, tonsillitis, otitis externa, boils, carbuncles, traumatic infection, burn infection, mastitis, cellulitis, osteomyelitis, etc. During the Reporting Period, the Group completed the handover of the product from its original market, analyzed the academic literature on the product to establish a premium academic foundation for remodeling the product's brand image. During the Reporting Period, DanShenTong capsule recorded sales of RMB46.2 million.

NuoDiKang Capsule

NuoDiKang capsule is a newly introduced product under the Direct Network via equity investment during the Reporting Period, and is manufactured by Tibet Pharmaceutical, in which the Group holds a 26.61% share. The product is included on the National Essential Drug List (EDL) and NRDL, and is listed as a Traditional Chinese Medicinal Protection Product. The main functions of the product are boosting vital energy, activating blood circulation, freeing blood vessels and alleviating pain. It is used for chest impediments caused by a deficiency in vital energy and blood stasis, manifested as tightness in the chest, tingling or pain, palpitations, shortness of breath, lassitude, asthenic breathing, disinclination to talk, dizziness, coronary heart disease and angina with aforementioned symptoms. During the Reporting Period, the Group completed the handover of the product from its original market, and began to establish a core expert network for the product. Meanwhile, the Group also promoted the academic selling points of the product in accordance with experts and rebuilt its academic brand image by taking opportunities to attend academic conferences nationwide. During the Reporting Period, NuoDiKang capsule recorded sales of RMB22.7 million.

Hirudoid

Hirudoid is a newly introduced product under the Direct Network via purchase of assets related to the product for the China market during the Reporting Period, is manufactured by Mobilat Produktions GmbH (Germany). The active ingredient of Hirudoid is mucopolysaccharide polysulfate, and the drug is used for the treatment of various forms of phlebitis and soft tissue injuries, and is also used as an adjuvant therapy for varicose veins surgery and postoperative sclerotherapy, and can also inhibit the formation of scars and soften existing scars. During the Reporting Period, the Group completed the handover of the product from its original market and laid a foundation for the academic promotion of the product by visiting experts frequently to prepare for the early phase of an expert network for the product, sorting and completing the selling points for the academic promotion of the product, etc. During the Reporting Period, Hirudoid recorded sales of RMB11.9 million.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablet)

Combizym is a newly introduced product under the Direct Network via purchase of assets related to the product for the China market and other designated countries, including China, during the Reporting Period, is manufactured by Nordmark Arzneimittel GmbH & Co. KG (Germany). The main ingredients of Combizym are pancreatin and aspergillusoryzae enzymes, and the drug is used for the treatment of dyspepsia caused by decreases in digestive enzymes. During the Reporting Period, the Group completed the market handover of the product from its original market, systemized its indications and academic materials, and actively established an expert network for the drug with the help of academic platforms such as national conferences in order to improve the product's brand among experts. During the Reporting Period, Combizym recorded sales of RMB4.6 million.

Lamisil® Tablet (Terbinafine Hydrochloride)

Lamisil® tablet is a product from Novartis AG and Novartis Pharma AG ("Novartis") that the Group introduced via purchase of all assets related to the product for the China market in 2014, and the product is manufactured by Beijing Novartis Pharma Ltd. The active ingredient of Lamisil® tablet is terbinafine hydrochloride, and the drug is an original product from Novartis, has been marketed in China for many years, and is included on the NRDL. The drug is used to treat fungal infections on skin and hair caused by dermatophytes such as trichophyton, microsporum canis and epidermophyton floccosum, as well as onychomycosis due to infection with dermatophyte (Hyphomycetes). Oral terbinafine is one of the systemic antifungal agents recommended by Chinese guidelines on tinea corporis and tinea cruris, tinea pedis, tinea capitis and onychomycosis. The Group is processing the transfer of the Drug Production License for Lamisil® tablet, and the production of Lamisil® tablet will be transferred to Kangzhe Hunan after properties transfer is done.

Parlodel® Tablet (Bromocriptine Mesilate)

Parlodel® tablet is a product from Novartis that the Group introduced via purchase of all assets related to the product for the China market in 2014, and the product is manufactured by Novartis Farma S.P.A. in Italy. The active ingredient of Parlodel® tablet is bromocriptine mesilate, and it is also an original product from Novartis, has been marketed in China for several years, and is included on the NRDL. One of the product indications is for the treatment of hyperprolactinemia (HPRL), and is a standard first-line treatment product for HPRL as recommended by guidelines. The Group is processing the transfer of authorization of co-marketing and the IDL in China for Parlodel® tablet.

The promotion and sales work for Lamisil® tablet and Parlodel® tablet is being handled by Novartis, and Novartis settles profit from sales of the two products to the Group based an agreement until the Group completes the license transformation.

MOVICOL® (Macrogol Sodium Potassium Powder)

MOVICOL® is a newly introduced product under the Direct Network via purchase of assets related to the product for the China market in 2014, and is manufactured by British Norgine B.V. ("Norgine"). The active ingredients of MOVICOL® are macrogol 3350, sodium bicarbonate, sodium chloride and potassium chloride, and the drug is used for the treatment of chronic constipation and faecal impaction. As a well-known brand for the indications, it has been sold in Europe for many years, with annual sales of more than 100 million Euros over the last three years, and has a broad target market in China. The IDL for MOVICOL® is ready, but the product has yet to be sold the China market. The Group worked on various necessary procedures during the Reporting Period in order to formally sell the product in the China market in accordance with the relevant Chinese laws and regulations.

GanFuLe Tablet

GanFuLe tablet is manufactured by Kangzhe Lengshuijiang Pharmaceutical Co., Ltd. ("Kangzhe Lengshuijiang"), and is used for the treatment of primary liver cancer, cirrhosis and liver fibrosis. GanFuLe has been in clinical use for two decades, and is included on the NRDL (liver cancer), and is also the first national class three innovative TCM to receive approval. During the Reporting Period, GanFuLe tablet recorded sales of RMB29.8 million, an increase of 15.4% when compared with the same period of the previous year.

2.2 Products under the Agency Promotion Network ("Agency Network")

ShaDuoLiKa (YanHuNing Injection)

ShaDuoLiKa, manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd. ("Chongqing Yaoyou"), is an injection used in viral pneumonia and viral upper respiratory infection. During the Reporting Period, the Group changed its agency agreement with the manufacturer, Chongqing Yaoyou, with ShaDuoLiKa becoming a national first-level agent (having previously been a national general agent), which had a negative impact on the sales and profit of the product. During the Reporting Period, ShaDuoLiKa recorded sales of RMB160.4 million, a decrease of 21.5% when compared with the same period of the previous year.

YiNuoShu (Ambroxol Hydrochloride for Injection)

YiNuoShu, for which the Group has the controlling rights, is the first generic version of an ambroxol hydrochloride injection in China, and is an expectorant product used for respiratory diseases. The product is manufactured by TIPR Pharmaceutical Responsible Co., Ltd. and Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"). As Kangzhe Hunan underwent refurbishment to meet the new GMP standards during the Reporting Period, the Group found a third party to supplement the production of the drug. During the Reporting Period, YiNuoShu recorded sales of RMB80.7 million, an increase of 17.1% when compared with the same period of the previous year.

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

XiDaKang is the only protein hydrolysate enteral nutrition agent approved by CFDA, and is sold in the form of an oral solution and granules. The Group obtained 100% product rights for XiDaKang, which is manufactured by Kangzhe Hunan. The Group has been active in making adjustments to match the characteristics of different markets and the actual situation of agents after establishing the commission model for XiDaKang to achieve mutually-beneficial long-term partnerships with the agents in order to better understand the hospitals they represent. During the Reporting Period, XiDaKang recorded sales of RMB68.7 million, an increase of 330.0% when compared with the same period of the previous year.

YinLianQingGanKeLi

YinLianQingGanKeLi, 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, and fatty liver. During the Reporting Period, YinLianQingGanKeLi recorded sales of RMB1.9 million, a decrease of 7.5% when compared with the same period of the previous year.

Summary of the major products of the Group:

Introduction	Products	As a Percentage of the Group's Revenue
Rights Controlled	XinHuoSu	13.1
	YiNuoShu	4.8
	Augentropfen Stulln Mono Eye-drops	4.2
	XiDaKang	4.1
	DanShenTong Capsule	2.8
	GanFuLe Tablet	1.8
	NuoDiKang Capsule	1.4
	Hirudoid	0.7
	Combizym	0.3
	YinLianQingGanKeLi	0.1
	Lamisil® Tablet	0
	Parlodel® Tablet	0
	MOVICOL®	0
Exclusive Agency Contract	Deanxit	26.9
	Ursofalk	19.0
	ShaDuoLiKa	9.6
	Salofalk	5.2
	Bioflor	4.7

2.3 Other Products

Apart from the products mentioned above, other products sold by the Group such as Cystistat, Exacin, KunNing Oral Solution, XiangFuYiXueKouFuYe etc. recorded total sales of approximately RMB25.7 million, accounting for approximately 1.5% of the Group's turnover during the Reporting Period.

3. Pipeline Products

3.1 Products undergoing application process for Import Drug Registration

The Group had nine products undergoing the application process for Import Drug Registration during the Reporting Period, and which will contribute to the Group's revenue after they are issued IDLs by the CFDA. Budenofalk rectum foam aerosol and enteric capsule were approved for clinical trial by the CFDA on 3 December 2014 and 7 January 2015, respectively. Key information on these products is listed below:

Products	Indications	Manufacturers	CFDA Pending Number
Budenofalk	Mainly used to treat Inflammatory Bowel Disease (IBD) and Crohn's Disease	Dr. Falk Pharma GmbH (Germany)	JXHL1100207國 (Enteric Capsule)
			JXHL1100106國 (Rectum Foam Aerosol
Maltofer®	Mainly used to treat iron deficiency without anemia ("ID") and iron deficiency with anemia ("IDA")	Vifor Pharma (Switzerland)	JXHL1400152國 (Syrup)
			JXHL1400153國 (Chewable Tablets)
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		Material Preparation
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)	JXHL1300177國
Ze 339	For the treatment of allergic rhinitis	Max Zeller Söhne AG (Switzerland)	JXZL1500004
Ze 440	For the treatment of pre-menstrual syndrome and menstrual cycle disorder		JXZL1500003
Ze 450	For the treatment of menopausal discomfort		JXZL1500002
Succinylated Gelatin Injection	For initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited (UK)	Material Preparation

For more information on import drug registration of the Group's products, please refer to the CFDA website (http://www.sfda.gov.cn).

3.2 Products with Independent Intellectual Property Rights

3.2.1 Tyroserleutide (CMS024)

Tyroserleutide (CMS024), used to treat primary liver cancer, is a National Class One New Drug researched and developed by the Group and features independent intellectual property rights. The phase III clinical trial, entitled "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma", was unblinded on 28 February in 2014, and the clinical trial failed to achieve the expected results. Because the subgroup with no tumor thrombosis in the hepatic portal vein branches demonstrated a favorable trend during the clinical trial, the Group conducted a six-month follow-up study on subjects in the treatment group with continuous administration of the drug to observe survival time. The follow-up study was completed smoothly during the Reporting Period, and achieved significant results: according to statistical data from the study, a statistical significance in survival time between treatment group and placebo group has been observed, indicating that Tyroserleutide could prolong the survival time of liver cancer patients with no tumor thrombosis in the hepatic portal vein branches.

Based on the positive results from the follow-up study and analysis of earlier clinical trials, the Group has decided to carry out a new extended phase III clinical trial for Tyroserleutide, with plans to enroll 352 subjects (with an expected three years from the first enrollment to completion of the study). During the Reporting Period, the phase III extended clinical trial was under preparation. The costs of the clinical trial will still be borne by Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D") and the Group will pay 13% of sales revenue to Kangzhe R&D as royalty fees after the successful launch of the product. If Tyroserleutide is successfully launched to the market, it will not only have great potential in the China market, but will also have a major overall impact on human health.

3.2.2 Traumakine®

During the Reporting Period, A&B (HK) Company Limited ("A&B"), wholly-owned by Dr. Lam Kong, a controlling shareholder of the Group, acquired the assets related to Traumakine® for the China market and other designated regions as well as certain intellectual properties related to the product through equity corporation, and transferred the assets to the Group's wholly-owned subsidiary. A&B will continue to invest in the development of the product in China, and the Group will only be required to pay A&B a royalty fee in respect of a certain percentage of the sales revenue of the product in China after the successful commercialization of the product.

Traumakine® is a Recombinant Human Interferon beta-1a intravenous lyophilized preparation for the treatment of acute respiratory distress syndrome (ARDS). ARDS is an acute respiratory failure caused by a number of different factors, with progressive respiratory distress, refractory hypoxemia and non-cardiogenic pulmonary edema as clinical symptoms, and it is a common acute and critical clinical disease. ARDS involves several clinical sections, and common causes of ARDS include systemic infection, trauma, shock, burns, acute severe pancreatitis, etc. A total of four new use patents for Traumakine® have been submitted around the world, with three being authorized in the US, the EU and China; the remaining application is a Patent Cooperation Treaty (PCT) application. The product was designated as an orphan drug for acute lung injury by the EU on 29 November 2007.

Traumakine® has undergone phase I/II clinical studies in the UK with 28-day mortality as the endpoint for primary effectiveness. The results show that the product improved mortality significantly (mortality in treatment group was 8%, compared to 32% in the control group, demonstrating an 81% reduction in the odds of 28-day mortality, p=0.01). Based on the positive results from the phase I/II clinical trials, the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) held a scientific advice working party (SAWP) meeting for the project in November 2013 at which the SAWP agreed on the advice to be given to the applicant, and CHMP adopted the advice to be given to the applicant. Based on the advice, protocols for the phase III clinical trial have been finalized. The phase III clinical trial is divided into two separate studies conducted sequentially in time, the first study to be carried out in seven European countries, which has initiated recruitment in the third quarter of 2015, with recruitment expected to be completed within 12 months.

As there are currently no targeted drug treatments for ARDS, once the product is approved, it will become the first life-saving drug in the world for the treatment of ARDS. Morbidity of ARDS is 59/100,000 per year in China, and the mortality rate is high (around 50% in China, and around 35-45% in Europe and the US). The product has great market potential once it is approved and launched to the market.

Network Expansion

1. Direct Network

During the Reporting Period, the adjusted Direct Network became more mature, and an integrated management mechanism was developed. Headquarters formulated macro strategies, while the regions, as the leading institutions, managed and supervised lower level organizations at the provincial level, while the local areas implemented the strategies and reported back to the provincial level in a timely manner. In the process, headquarters fully decentralized power to the regions and returned managerial power back to the market, which enables the Group to respond to market changes faster, increases flexibility in business operations and accuracy in management at all levels. Furthermore, this enables the Group to better allocate resources. The structure makes clear the responsibility of each sales layer, and constantly expands the Direct Network to the lower-tier market, thereby establishing a more intensified network with wider coverage, allowing the promotion of more products and realizing greater efficiency in promotion.

Having successfully operated this new structure, during the Reporting Period, the Group proactively explored a better remuneration system. The remuneration system is guided by value creation and is based on the integrated capacity of individuals. The Group believes adequate and reasonable incentives can further improve the efficiency of the Direct Network.

The Group began to recruit fresh graduates from medical and pharmaceutical schools nationwide since 1998, and developed a well-established campus recruitment and training system. The interns who were recruited in the 20th campus recruitment campaign in September 2014 have completed internship programmes in the regional markets and the centralized training programmes at the Group's headquarters. The Group will commence a new round of campus recruitment in September 2015.

As at 30 June 2015, the Group's Direct Network had covered more than 18,000 hospitals in China.

2. Agency Network

During the Reporting Period, the Group continued to strengthen the management of its Agency Network and provided high quality academic support for product promotion. The Group continued to train marketing managers of the Agency Network and sales representatives of independent third party agents, and also continued to supervise the integrated capacity of the agents while making reasonable adjustments to the network in a timely manner according to the market layout of the products as well as the sales performance.

Since 2014, the Group began to explore a commission model to achieve mutually-beneficial long-term partnerships with agents in order to better understand the hospitals they represent. During the Reporting Period, the Group successfully completed the shift from the traditional district agency model to the commission model by using XiDaKang as a pilot product. Adopting the commission model allows for better, more effective management of agents and the market. With the help of the ERP system, the Group has gradually improved its related management system. The new agency model better fits the current situation in the Chinese healthcare industry, and also benefits the long-term development of the Group's Agency Network.

As at 30 June 2015, the Group's Agency Network had covered around 6,000 hospitals across the country.

Production Development

During the Reporting Period, the Group achieved a certain degree of progress in manufacturing: the restructuring of the workshop for small-volume injections of Kangzhe Hunan was completed to meet the requirements of the new GMP; the workshop for tablets (including earlier stage processing of TCMs) of Kangzhe LengShuiJiang was in the process of restructuring to meet the requirements of the new GMP. The foundation for the production base of the Group located in the Pingshan district of Shenzhen is nearly complete, and the workshop for freeze-dried powder and the workshop for polypeptide synthesis were granted production licenses.

Outlook and Future Development

Although the development of the Chinese healthcare industry has slowed since last year, the Group still believes that the industry's foundation is solid and that prospects remain bright. The Group has confidence in maintaining its leading position in the market and in delivering sustainable growth by sticking to its two core development strategies of continuous product introduction and network expansion.

As for product introduction, the Group will continue to gain high quality product assets, mainly through acquisition, to pave the way for long-term sustainable growth. In the area of existing products, the Group will continue to strive for a precise layout for product expansion in the China market through different kinds of approaches to promotion. Meanwhile, the Group will also constantly cooperate closely with suppliers so as to realize win-win partnerships.

With respect to network expansion, the Group will continue to expand its Direct Network to the rural market and expand its capacity to host more products. The Group will improve its policies relating to the new business cooperation model with agents and will establish closer cooperation and complement both sides' premium resources to fully realize the economies of scale of the network.

As a company with a spirit of innovation, the Group has a proven track record in predicting the development trends of the healthcare industry. Going forward, the Group will keep pace with the development of China's healthcare industry and take the initiative to explore new business models and growth momentum to create a greater space for the Group's development in the future.

Looking ahead, the Group will continue to exercise stringent internal control and efficient management, and will adopt a positive attitude to challenges. Meanwhile, the Group will continue to provide quality service to China's doctors and patients, establish an ideal career development platform for employees and create more value for the Group's business partners and the Company's shareholders.

Financial Review

Turnover

Turnover increased by 22.7% from RMB1,366.7 million for the six months ended 30 June 2014 to RMB1,676.4 million for the six months ended 30 June 2015, mainly due to an increase in quantities sold of original products, and the sales contributed by new products. The selling prices of products saw no significant fluctuations, except for the price of XiDaKang sold to the agencies, which rose by 224.7% during the Reporting Period.

Gross Profit and Gross Profit Margin

Gross profit increased by 30.0% from RMB736.9 million for the six months ended 30 June 2014 to RMB957.9 million for the six months ended 30 June 2015, primarily reflecting growth in turnover. For the six months ended 30 June 2015, gross profit margin was 57.1%. Excluding the effect of an increase in price of XiDaKang sold to the agencies, gross profit margin increased to 55.9% for the six months ended 30 June 2015 from 53.9% for the six months ended 30 June 2014, mainly due to an increase in the weighting of products with higher gross profit margins.

Selling Expenses

Selling expenses increased by 41.1% from RMB249.7 million for the six months ended 30 June 2014 to RMB352.4 million for the six months ended 30 June 2015, primarily reflecting an increase in sales and academic promotion activities. Selling expenses as a percentage of turnover was 21.0% for the six months ended 30 June 2015. Excluding the effect of an increase in promotion expenses associated with the increase in price of XiDaKang sold to the agencies, selling expenses as a percentage of turnover increased to 18.7% for the six months ended 30 June 2015 from 18.3% for the six months ended 30 June 2014, mainly due to an increase in the weighting of the Direct Network with higher selling expenses.

Administrative Expenses

Administrative expenses increased by 30.9% from RMB71.0 million for the six months ended 30 June 2014 to RMB93.0 million for the six months ended 30 June 2015. Administrative expenses as a percentage of turnover increased by 0.3 percentage points from 5.2% for the six months ended 30 June 2014 to 5.5% for the six months ended 30 June 2015, mainly due to an increase in maintenance expenses, in addition to the administrative expenses incurred by the subsidiary Xili Pharmaceutical acquired in the current year.

Other Gains and Losses

Other gains and losses decreased by 5.4% from RMB31.8 million for the six months ended 30 June 2014 to RMB30.0 million for the six months ended 30 June 2015, mainly due to a decrease in interest income.

Share of Result of Associates

Share of result of associates increased by 5,223.4% from RMB0.1 million for the six months ended 30 June 2014 to RMB5.0 million for the six months ended 30 June 2015, mainly reflecting the profit of the newly added associate Tibet Pharmaceutical. Please refer to note 9 to the financial statements for the details of the associates.

Finance Costs

Finance costs increased by 219.1% from RMB4.6 million for the six months ended 30 June 2014 to RMB14.7 million for the six months ended 30 June 2015, mainly due to an increase in the use of bank borrowings.

Profit for the Period

Net profit increased by 20.5% from RMB410.0 million for the six months ended 30 June 2014 to RMB493.9 million for the six months ended 30 June 2015, mainly due to the continuous growth in turnover.

Inventories

Inventories increased by 121.3% from RMB189.5 million as at 31 December 2014 to RMB419.3 million as at 30 June 2015, primarily reflecting growth in turnover, the addition of new products, the addition from the acquired subsidiary Xili Pharmaceutical, and the additional stocking of individual products due to the renewal of imported drug license. Average inventory turnover days increased by 21 days from 57 days for the six months ended 30 June 2014 to 78 days for the six months ended 30 June 2015.

Trade Receivables

Trade receivables increased by 38.4% from RMB582.5 million as at 31 December 2014 to RMB805.9 million as at 30 June 2015, primarily reflecting an increase in turnover, the addition from the acquired subsidiary Xili Pharmaceutical, and the addition arising from the change in selling mode of XiDaKang from base price mode to commission mode. Average trade receivables turnover days increased from 55 days for the six months ended 30 June 2014 to 76 days for the six months ended 30 June 2015.

Trade Payables

Trade payables increased by 59.7% from RMB79.2 million as at 31 December 2014 to RMB126.5 million as at 30 June 2015, primarily reflecting an increase in inventories purchased, as well as the addition from the acquired subsidiary Xili Pharmaceutical. Average trade payables days increased from 17 days for the six months ended 30 June 2014 to 26 days for the six months ended 30 June 2015.

Liquidity and Financial Resources

The Group maintained a strong cash position during the Reporting Period. As at 30 June 2015, the Group's bank balances and cash amounted to RMB411.2 million while readily realizable bank acceptance bills amounted to RMB154.1 million. As at 31 December 2014, our bank balances and cash amounted to RMB243.5 million while readily realizable bank acceptance bills amounted to RMB150.8 million.

Key Employee Benefit Scheme

On 4 February 2015 and 17 August 2015, as approved by the board of directors of the Company (the "Board"), there were 5 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 2015, there were no outstanding share options of the Company.

Interim dividend

The Board has resolved to pay an interim dividend of RMB0.0794 (equivalent to HK$0.0963) per ordinary share of the Company for the six months ended 30 June 2015 to the shareholders whose names appear on the register of members of the Company at the close of business on Wednesday, 2 September 2015 (the "Record Date"). Payment of such interim dividend is expected to be made to the shareholders on Thursday, 10 September 2015.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 31 August 2015 to Wednesday, 2 September 2015 (both days inclusive), during which 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, 28 August 2015.

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

As at 30 June 2015, the interests or short positions of the Directors in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "HKEx"), pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the HKEx (the "Listing Rules") were as follows:

Name of Director	Name of Corporation	Nature of Interest	Class of Shares and Total Number of Shares Held (note 1)	Approximate Percentage of Interest in the Corporation
Mr. Lam Kong	The Company	Interest in controlled corporation	1,142,719,000 (L) (note 2)	45.94%
		Interest in controlled corporation	2,406,500 (L) (note 3)	0.10%
		Interest in controlled corporation	10,382,162 (L) (note 4)	0.42%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225 (L)	0.81%
		Interest in controlled corporation	75,000,000 (L) (note 5)	3.02%
		Beneficial of a trust	10,382,162 (L) (note 6)	0.42%
Ms. Chen Yanling	The Company	Beneficial owner	6,668,250 (L)	0.27%
		Beneficial of a trust	10,382,162 (L) (note 6)	0.42%
Ms. Sa Manlin	The Company	Beneficial owner	6,074,237 (L)	0.24%
		Family interest	750,000 (L) (note 7)	0.03%
		Beneficial of a trust	10,382,162 (L) (note 6)	0.42%

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 10,382,162 Shares. The references to these 10,382,162 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 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 2015, 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

Issue of new shares

On 31 March 2015, Treasure Sea Limited, the controlling shareholder of the Company, through a placing agent, placed an aggregate of 145,000,000 ordinary shares of par value US$0.005 each ("Shares") in the issued share capital of the Company to not less than six independent placees which were professional, institutional and other investors at a price of HK$11.86 per Share, and partially top-up its shareholding in the Company by subscribing for 72,500,000 new Shares at the same price per Share. The closing price of the Shares on 31 March 2015 as quoted by the Stock Exchange was HK$12.90 per Share and the aggregate nominal value of the subscription shares was US$362,500. The subscription shares were allotted and issued pursuant to the general mandate granted by the shareholders at the annual general meeting of the Company held on 30 April 2014. The aggregate net proceeds from the subscription was approximately HK$857.01 million (equivalent to a net price per subscription share of HK$11.82), and the Company intends to apply the net proceeds to enlarge its product portfolio, through acquisition or otherwise, and for general working capital purposes. Details of the placing of existing Shares and the top-up subscription of new Shares can be found in the announcement of the Company dated 31 March 2015.

Employees

As at 30 June 2015, the Group had 2,418 employees. There have been no changes to the information disclosed in the Annual Report 2014 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 2015 have been reviewed by the Audit Committee of the Company.

Changes in Director's Information

During the Reporting Period, Mr. Cheung Kam Shing, the independent non-executive director of the Company stopped acting as the independent non-executive director of Greens Holdings Limited (a company listed on the Hong Kong Stock Exchange with stock code 1318) since 14 March 2015, and stopped acting as the Chief Operating Officer of Greater China Professional Services Limited (a company listed on the Hong Kong Stock Exchange with stock code 8193) since 18 March 2015. He was also appointed as the executive director of Greens Holdings Limited on 14 March 2015. Mr. Huang Ming, an independent non-executive director of the Company stopped acting as the independent non-executive director of Tebon Securities Limited since 30 July 2014. 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 for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. 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. 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 interim report for the Reporting Period will be duly dispatched to shareholders of the Company and published on websites of the HKEx (www.hkex.com.hk) and the Company (www.cms.net.cn).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

	NOTES	Six months ended 30 June 2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Turnover	3	**1,676,404**	1,366,738
Cost of goods sold		**(718,473)**	(629,846)
Gross profit		**957,931**	736,892
Other gains and losses		**30,049**	31,763
Selling expenses		**(352,368)**	(249,747)
Administrative expenses		**(93,016)**	(71,048)
Finance costs		**(14,681)**	(4,601)
Share of results of associates		**5,004**	94
Profit before taxation		**532,919**	443,353
Taxation	4	**(39,028)**	(33,396)
Profit for the period	5	**493,891**	409,957
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operation		**486**	2,881
Change in fair value on available-for-sale investments			
– fair value gain		**–**	62,070
– deferred tax relating to change in fair value		**–**	(14,266)
Share of other comprehensive income of an associate		**64**	2
Total comprehensive income for the period		**494,441**	460,644
Profit (loss) for the period attributable to:			
Owners of the Company		**495,049**	412,664
Non-controlling interests		**(1,158)**	(2,707)
		493,891	409,957
Total comprehensive income (expense) attributable to:			
Owners of the Company		**495,599**	463,351
Non-controlling interests		**(1,158)**	(2,707)
		494,441	460,644
		RMB	RMB
Earnings per share	7		
Basic		**0.2024**	0.1709
Diluted		**0.2024**	0.1709

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	NOTES	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	8	**285,557**	253,876
Prepaid lease payments		**54,287**	51,080
Interest in associates	9	**1,310,559**	1,308,462
Intangible assets		**1,012,225**	440,896
Goodwill		**1,372,169**	1,184,591
Deposit paid for acquisition of property, plant and equipment and intangible assets		**138,227**	90,179
Interest-bearing and secured loan receivable		**10,305**	11,183
Deferred tax assets		**21,932**	19,418
		4,205,261	3,359,685
Current assets			
Inventories		**419,276**	189,456
Trade and other receivables	10	**1,209,629**	876,245
Tax recoverable		**4,150**	–
Amount due from an associate		**40,861**	26,899
Pledged bank deposits		**23,991**	209,481
Bank balances and cash		**411,200**	243,515
		2,109,107	1,545,596
Current liabilities			
Trade and other payables	11	**557,414**	252,643
Bank borrowings	12	**514,586**	484,241
Deferred consideration payables		**12,361**	5,500
Tax payable		**27,746**	46,287
		1,112,107	788,671
Net current assets		**997,000**	756,925
Total assets less current liabilities		**5,202,261**	4,116,610

	NOTES	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
Capital and reserves			
Share capital	13	**85,200**	82,974
Reserves		**4,907,958**	3,907,865
Equity attributable to owners of the Company		**4,993,158**	3,990,839
Non-controlling interests		**64,472**	–
		5,057,630	3,990,839
Non-current liabilities			
Deferred tax liabilities		**110,066**	81,177
Deferred consideration payables		**34,565**	44,594
		144,631	125,771
		5,202,261	4,116,610

The condensed consolidated financial statements on pages 22 to 37 were approved and authorised for issue by the Board of Directors on 17 August 2015 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 2015

	Attributable to owners of the Company									Attributable to 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 2014 (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 year	–	–	–	–	–	–	1,045,702	–	1,045,702	(2,707)	1,042,995
Exchange differences arising on translation of foreign operations	–	–	–	–	–	1,793	–	–	1,793	–	1,793
Change in fair value on available-for-sale investments											
– fair value gain	–	–	–	241,133	–	–	–	–	241,133	–	241,133
– deferred tax relating to change in fair value	–	–	–	(55,264)	–	–	–	–	(55,264)	–	(55,264)
Reclassification adjustment when the Group acquired additional interest in the available-for-sale investments that becomes the Group's associate, net of deferred tax	–	–	–	(215,055)	–	–	–	–	(215,055)	–	(215,055)
Share of other comprehensive income of an associate	–	–	–	–	–	19	–	–	19	–	19
Total comprehensive income for the year	–	–	–	(29,186)	–	1,812	1,045,702	–	1,018,328	(2,707)	1,015,621
Dividends paid	–	–	–	–	–	–	(163,961)	(127,055)	(291,016)	–	(291,016)
Dividends proposed	–	–	–	–	–	–	(167,101)	167,101	–	–	–
Transfer of reserves	–	–	–	–	26,909	–	(26,909)	–	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(10,353)	(10,353)
Balance at 31 December 2014 (audited)	82,974	1,767,684	19,545	–	137,844	(9,204)	1,824,895	167,101	3,990,839	–	3,990,839
Profit for the period	–	–	–	–	–	–	495,049	–	495,049	(1,158)	493,891
Other comprehensive income for the period	–	–	–	–	–	550	–	–	550	–	550
Total comprehensive income for the period	–	–	–	–	–	550	495,049	–	495,599	(1,158)	494,441
Acquisition of a subsidiary (note 15)	–	–	–	–	–	–	–	–	–	65,630	65,630
Issue of shares (note 13)	2,226	676,612	–	–	–	–	–	–	678,838	–	678,838
Dividends paid (note 6)	–	–	–	–	–	–	(5,017)	(167,101)	(172,118)	–	(172,118)
Dividends proposed (note 6)	–	–	–	–	–	–	(197,487)	197,487	–	–	–
Transfer of reserves	–	–	–	–	4,548	–	(4,548)	–	–	–	–
Balance at 30 June 2015 (unaudited)	85,200	2,444,296	19,545	–	142,392	(8,654)	2,112,892	197,487	4,993,158	64,472	5,057,630

	Attributable to owners of the Company									Attributable to 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 2014 (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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	NOTE	Six months ended 30 June 2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Net cash from operating activities		**52,603**	455,002
Net cash used in investing activities			
Purchase of property, plant and equipment		**(22,513)**	(51,847)
Purchase of intangible assets		**(300,100)**	–
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	15	**(240,833)**	–
Placement of pledged bank deposit		**–**	(156,759)
Release of pledged bank deposit		**185,490**	299,751
Interest received		**5,924**	14,495
Dividend received from an associate		**2,971**	1,023
Disposal of a subsidiary		**–**	11,414
		(369,061)	(660)
Net cash from (used in) financing activities			
Interest paid		**(9,730)**	(6,610)
Dividends paid		**(172,118)**	(127,055)
Payment of deferred consideration payables		**(3,009)**	(2,157)
New bank borrowings raised		**449,612**	290,327
Repayment of bank borrowings		**(459,267)**	(311,923)
Proceeds from issue of shares		**678,838**	–
		484,326	(157,418)
Net increase in cash and cash equivalents		**167,868**	296,924
Cash and cash equivalent at beginning of the period		**243,515**	487,943
Effect of exchange rate changes on the balance of cash held in foreign currencies		**(183)**	(3,124)
Cash and cash equivalent at end of the period, represented by bank balances and cash		**411,200**	781,743

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.

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

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 new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. Turnover and Segment Information

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

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

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

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

4. Taxation

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Current tax:		
PRC Enterprise Income Tax	**40,200**	33,172
Hong Kong Profits Tax	**1,776**	1,317
Other jurisdictions	**19**	21
	41,995	34,510
Deferred taxation:		
Current period	**(2,967)**	(1,114)
Taxation charge for the period	**39,028**	33,396

5. Profit for the Period

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Profit for the period has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**7,708**	7,470
Amortisation of intangible assets (included in cost of goods sold)	**26,691**	12,375
Cost of inventories recognised as an expense	**688,066**	613,769
Interest income	**(5,924)**	(14,495)
Net exchange (gain) loss	**(4,178)**	4,827

6. Dividends

During the Reporting Period, a final dividend of RMB0.0692 per share in respect of the year ended 31 December 2014 (six months ended 30 June 2014 (restated): RMB0.0526 per share in respect of the year ended 31 December 2013) 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 RMB172,118,000 (six months ended 30 June 2014 (restated): RMB127,055,000).

Subsequent to the end of the interim period, the directors have determined that an interim dividend of RMB0.0794 per share (six months ended 30 June 2014: RMB0.0679) will be paid to the owners of the Company whose names appear in the Register of Members on 2 September 2015.

7. Earnings per Share

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company)	**495,049**	412,664

	Number of ordinary shares	
	As at 30 June	
	2015	2014
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,445,990,606**	2,414,747,512

8. Movements in Property, Plant and Equipment

During the Reporting Period, the Group spent RMB884,000 on the acquisition of property, plant and equipment (six months ended 30 June 2014: RMB1,074,000) and RMB21,629,000 on construction costs for manufacturing plants in the PRC in order to upgrade its manufacturing capabilities (six months ended 30 June 2014: RMB50,773,000).

9. Interest in Associates

	30 June 2015 RMB'000	31 December 2014 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	**1,304,356**	1,304,356
Unlisted	**11,536**	11,536
Share of post-acquisition profits and other comprehensive income, net of dividends received	**(5,333)**	(7,430)
	1,310,559	1,308,462
Fair value of listed investment (Note)	**2,329,279**	1,451,344

Note: The fair value of the Group's interest in Tibet Pharmaceutical, of which its shares are listed on the Shanghai Stock Exchange, was determined on the basis of the quoted market price available on the Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13.

As at 30 June 2015 and 31 December 2014, the details of the associate are as follows:

Name of associate	Place of establishment/ incorporation	Proportion of ownership interest held by the Group	Principal activities
Ophol Limited ("Ophol")	Hong Kong	24.49%	Investment holding and provision of agency service
Tibet Pharmaceutical	Tibet	26.61%	Production of medicines and sale of drugs

10. Trade and Other Receivables

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade receivables	**810,172**	584,770
Less: Allowance for bad and doubtful debts	**(4,259)**	(2,270)
	805,913	582,500
Bills receivables	**154,080**	150,751
Purchase prepayment	**34,830**	35,225
Other receivables and deposits	**214,806**	107,769
Total trade and other receivables	**1,209,629**	876,245

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

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
0 – 90 days	**732,020**	544,774
91 – 365 days	**73,255**	37,354
Over 365 days	**638**	372
	805,913	582,500

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 2015 RMB'000	31 December 2014 RMB'000
0 – 90 days	**126,299**	79,158
91 – 365 days	**52**	3
Over 365 days	**182**	61
	126,533	79,222
Payroll and welfare payables	**47,022**	56,317
Other tax payables	**42,955**	19,653
Consideration payable for acquisition of an intangible asset	**232,163**	–
Other payables and accruals	**108,741**	97,451
	557,414	252,643

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

12. Bank Borrowings

During the Reporting Period, the Group obtained new bank loans amounting to RMB449,612,000 (six months ended 30 June 2014: RMB290,327,000). The loans carry interest at a range from 3.25% to 3.80% per annum and are repayable within a year. The proceeds were used to finance the daily operation.

13. Share Capital

	Number of shares '000	Amount RMB'000
Authorised share capital:		
At 31 December 2014 and 30 June 2015	20,000,000	765,218
Issued and fully paid:		
At 31 December 2014	2,414,747	82,974
Issue of shares on 13 April 2015 (Note)	72,500	2,226
At 30 June 2015	2,487,247	85,200

Note: On 13 April 2015, the Company issued 72,500,000 shares of par value US$0.005 per ordinary share to Treasure Sea Limited which is the controlling shareholder of the Company, at the consideration of HK$11.86 per share.

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
- 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).

There were no transfers between level 1 and 2 during the period/year ended 30 June 2015 and 31 December 2014.

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. Acquisition of a Subsidiary

On 16 February 2015, the Group acquired an 52.01% interest in Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Xili Pharmaceutical") from an independent third parties. Xili Pharmaceutical is engaged in manufacture of DanShenTong capsule, a traditional Chinese medicine product. The purpose of the acquisition was to acquire the product rights of DanShenTong capsule and take full advantage of the Group's existing promotion network.

Consideration transferred

	RMB'000
Cash	258,705

Assets acquired and liabilities recognised at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	16,835
Prepaid lease payments	11,657
Intangible asset	114,489
Deferred tax assets	1,199
Inventories	11,812
Amount due from related parties	28,703
Amount due from shareholder of non-controlling interests	580
Amount due from the Group	569
Trade and other receivables	46,741
Tax recoverable	2,977
Bank balances and cash	2,872
Bank borrowings	(40,000)
Trade and other payables	(31,136)
Deferred tax liabilities	(30,541)
	136,757

In the opinion of the directors of the Company, the fair value of the receivables acquired (which principally comprised of trade and other receivables) approximated to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables were expected to be collected.

Goodwill arising on acquisition

	RMB'000
Consideration transferred	258,705
Plus: non-controlling interests	65,630
Less: fair value of identifiable net assets acquired	(136,757)
Goodwill arising on acquisition	187,578

15. Acquisition of a Subsidiary (Cont'd)

Goodwill arose in the acquisition of Xili Pharmaceutical was attributable to the synergistic effect of the promotion network generated from the combination. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, future market development and cost control of Xili Pharmaceutical. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash during the current period	243,705
Less: cash and cash equivalent balances acquired	(2,872)
	240,833
Consideration paid in cash during the previous period	15,000
	255,833

Impact of acquisition on the results of the Group

Included in the profit for the period ended 30 June 2015 was loss of RMB681,000 attributable to Xili Pharmaceutical. Revenue for the period ended 30 June 2015 included was RMB28,000 generated from Xili Pharmaceutical.

Had the acquisition of Xili Pharmaceutical been completed at 1 January 2015, the revenue of the Group for the six months ended 30 June 2015 would have been RMB1,697 million, and the profit for the period would have been RMB496 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2015, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Xili Pharmaceutical been acquired at the beginning of the current period, the directors have calculated depreciation and amortisation of plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

16. Capital Commitments

	30 June 2015 RMB'000	31 December 2014 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment and intangible assets contracted for but not provided in the condensed consolidated financial statements	**56,496**	122,353
Other commitment in respect of acquisition of a subsidiary contracted for but not provided in the condensed consolidated financial statements	**–**	243,204
	56,496	365,557

17. Related Party Transactions

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

Name of related company	Relationship	Nature of transactions	Six months ended 30 June 2015 RMB'000	2014 RMB'000
Ophol	Associate	Finance cost	**421**	529
Tibet Pharmaceutical	Associate	Promotion income (Note)	**95,623**	–
Tibet Pharmaceutical	Associate	Purchase of goods (Note)	**148,650**	–

Note: Amounts represented the transactions with Tibet Pharmaceutical since it became the Group's associate on 10 November 2014.

(b) The remuneration of key management personnel during the period amounted to RMB1,681,000 (six months ended 30 June 2014: RMB1,899,000).