CHINA MEDICAL SYSTEM HOLDINGS LIMITED

康哲藥業控股有限公司 *

(Incorporated in the Cayman Islands with Limited Liability)
(Stock Code: 867)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

The board of Directors (the "Board") of China Medical System Holdings Limited (the "Company" or "CMS") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the"Group") for the year ended 31 December 2014 (the "Reporting Period").

Financial Highlights

- Turnover up 31.0% to RMB2,945.1 million (2013: RMB2,249.0 million)
- Profit for the year up 64.2% to RMB1,043.0 million (2013: RMB635.3 million), which would be up 30.3% to RMB827.9 million after excluding gain of RMB215.1 million arising from investment in Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical") listed on the Shanghai Stock Exchange when it became an associate from available for sale investment
- Basic earnings per share up 64.3% to RMB0.4330 (2013: RMB0.2635) , which would be up 30.6% to RMB0.3440 after excluding gain arising from investment in Tibet Pharmaceutical when it became an associate from available for sale investment
- As at 31 December 2014, the Group's bank balances and cash amounted to RMB243.5 million while readily realizable bank acceptance bills amounted to RMB150.8 million
- Proposed final dividend of RMB0.0692 per share, bringing the total dividend for the year ended 31 December 2014 to RMB0.1371 per share, representing an increase of 31.3% from last year (2013: final dividend of RMB0.0526 and total dividend of RMB0.1044 per share respectively)

* *For Identification Only*

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

In June 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 consolidated financial statements for the year ended 31 December 2014 are presented in RMB, whereas the comparative figures for the year ended 31 December 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 consolidated financial statements for the year concerned.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	2014 RMB'000	2013 RMB'000 (restated)
Turnover	3	2,945,131	2,248,992
Cost of goods sold		(1,290,503)	(1,022,613)
Gross profit		1,654,628	1,226,379
Other gains and losses	4	275,271	88,256
Selling expenses		(631,145)	(467,534)
Administrative expenses		(151,896)	(145,519)
Finance costs	5	(16,733)	(16,809)
Share of results of associates		(621)	512
Profit before tax		1,129,504	685,285
Income tax expense	6	(86,509)	(49,987)
Profit for the year	7	1,042,995	635,298
Other comprehensive income (expense), net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		1,793	(11,177)
Change in fair value on available-for-sale investments			
- fair value gain		241,133	20,781
- deferred tax relating to change in fair value		(55,264)	(4,731)
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)	-
Share of other comprehensive income (expense) of an associate		19	(211)
Other comprehensive (expense) income for the year, net of income tax		(27,374)	4,662
Total comprehensive income for the year		1,015,621	639,960
Profit (loss) for the year attributable to:			
Owners of the Company		1,045,702	636,213
Non-controlling interests		(2,707)	(915)
		1,042,995	635,298
Total comprehensive income (expense) attributable to:			
Owners of the Company		1,018,328	640,875
Non-controlling interests		(2,707)	(915)
		1,015,621	639,960
		RMB	RMB
Earnings per share	9		
Basic		0.4330	0.2635

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2014

	NOTES	31 December 2014 RMB'000	31 December 2013 RMB'000 (restated)	1 January 2013 RMB'000 (restated)
Non-current assets				
Property, plant and equipment		253,876	217,901	63,914
Prepaid lease payments		51,080	60,047	27,910
Interests in associates		1,308,462	6,306	7,375
Intangible assets		440,896	244,014	221,397
Goodwill		1,184,591	1,184,591	1,171,600
Available-for-sale investments		-	123,697	102,918
Deposit paid for acquisition of property, plant and equipment and intangible assets		90,179	98,509	87,619
Interest-bearing and secured loan receivable		11,183	-	-
Deferred tax assets	10	19,418	19,462	18,596
		3,359,685	1,954,527	1,701,329
Current assets				
Inventories		189,456	167,062	97,351
Trade and other receivables	11	876,245	859,020	583,867
Tax recoverable		-	1,041	6,610
Amount due from an associate		26,899	-	-
Pledged bank deposits	12	209,481	448,030	460,483
Bank balances and cash	12	243,515	487,943	673,567
		1,545,596	1,963,096	1,821,878
Current liabilities				
Trade and other payables	13	252,643	244,697	158,238
Bank borrowings	14	484,241	314,120	407,583
Deferred consideration payables		5,500	5,733	5,107
Tax payable		46,287	26,081	16,373
		788,671	590,631	587,301
Net current assets		756,925	1,372,465	1,234,577
Total assets less current liabilities		4,116,610	3,326,992	2,935,906
Capital and reserves				
Share capital	15	82,974	82,974	82,974
Reserves		3,907,865	3,180,553	2,782,185
Equity attributable to owners of the Company		3,990,839	3,263,527	2,865,159
Non-controlling interests		-	13,060	16,878
		3,990,839	3,276,587	2,882,037

	NOTE	31 December 2014 RMB'000	31 December 2013 RMB'000 (restated)	1 January 2013 RMB'000 (restated)
Non-current liabilities				
Deferred tax liabilities	10	81,177	28,650	32,773
Deferred consideration payables		44,594	21,755	21,096
		125,771	50,405	53,869
		4,116,610	3,326,992	2,935,906

1. GENERAL

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

The Company is an investment holding company. The principal activities of its subsidiaries are production of medicines, marketing, promotion and sale of drugs.

The functional currency of the Company is RMB. The presentation currency of the consolidated financial statements in prior financial years was US$. Starting from 1 January 2014, the Group has changed its presentation currency for the preparation of its consolidated financial statements from US$ to RMB as a result of the fact that 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 and the Group's operation is mainly located in the PRC, where transactions are mainly denominated in RMB. Accordingly, the directors of the Company consider that it is more appropriate to use RMB as the presentation currency in presenting the operating results and financial positions of the Group and the comparative information has been restated to reflect the change in presentation currency to RMB accordingly. Comparative figures have been re-presented to reflect the change in the Group's presentation currency. The Group has also presented the consolidated statement of financial position as at 1 January 2013 without related notes.

For the purpose of re-presentation of the consolidated financial statements of the Group from US$ to RMB, the assets and liabilities as of 1 January 2013 and 31 December 2013 are translated into RMB at the closing rate as of the respective reporting dates. Income and expenses are translated at the average exchange rates for the respective years. Share capital, share premium and reserves are translated at the exchange rate at the date when the amount was determined (i.e. historical exchange rates).

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

The Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC - Int 21	Levies

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

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

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 1	Disclosure Initiative[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation Amortisation[5]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010 - 2012 Cycle[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2011 - 2013 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle[5]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

IFRS 9 *Financial Instruments*

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt Instruments.

Key requirements of IFRS 9 are described below:

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

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

IFRS 9 *Financial Instruments* - continued

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company are still assessing the impact of application of IFRS 9 on the amounts reported in respect of the Group's financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed review.

IFRS 15 *Revenue from Contracts with Customers*

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue,* IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company are still assessing the impact of application of IFRS 15 on the amounts reported and disclosures made in the Group's consolidated financial statements. It is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

Except as described above, the director of the Company do not anticipate that the application of the new and revised IFRSs will have material impact on the Group's consolidated financial statements.

3. TURNOVER AND SEGMENT INFORMATION

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

The Group determines its operating segments based on the internal reports reviewed by the chief operating decision maker, the Executive Directors of the Company that are used 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. No operating results and discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

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

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

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

4. OTHER GAINS AND LOSSES

	2014 RMB'000	2013 RMB'000
Reclassification adjustment when the Group acquired additional interest in the available-for-sale investments that becomes the Group's associate, net of deferred tax (note a)	215,055	-
Interest income	35,020	39,694
Government subsidies (note b)	35,372	23,246
Dividends from available-for-sale investments	640	488
Gain on disposal of a subsidiary	1,225	-
Loss on disposal of property, plant and equipment	(3,559)	(1,866)
Net foreign exchange (loss) gain	(5,272)	29,413
Impairment loss on goodwill	-	(8,304)
Others	(3,210)	5,585
	275,271	88,256

Notes:

(a) During the year ended 31 December 2014, the cumulative gain up to, the date when the Group obtained significant influence over the investee on 10 November 2014, previously accumulated in the investment revaluation reserve of approximately RMB215,055,000, has been reclassified to profit or loss when the investee becomes the Group's associate which was previously classified as available-for-sale investments before the Group acquired further interest in the investee.

(b) The amounts for both years mainly represented the incentive subsidies provided by the PRC local authorities to the Group to encourage business operation in the PRC. There were no unfulfilled conditions attached to these grants and, the Group has recognised the grants upon receipts.

5. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest on bank borrowings wholly repayable within five years	13,609	15,583
Imputed interest on deferred consideration payables	3,124	1,226
	16,733	16,809

6. INCOME TAX EXPENSE

	2014 RMB'000	2013 RMB'000
Current tax:		
PRC Enterprise Income Tax	86,656	69,423
Hong Kong Profits Tax	1,999	241
Other jurisdictions	37	37
	88,692	69,701
(Over)/underprovision in prior years:		
PRC Enterprise Income Tax	-	68
Hong Kong Profits Tax	(8)	-
	(8)	68
Deferred taxation (note 10):		
- Current year	(2,175)	(19,782)
	86,509	49,987

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

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

Starting from 1 January 2009, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% granted by the local tax authority until 31 March 2015. 廣西康哲廣明藥業有限公司 (Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd.) ("Kangzhe Guangming") is entitled to reduced tax rate of 15% for 10 years, starting from 1 January 2011. The disposal of Kangzhe Guangming was completed on 27 March 2014.

Pursuant to EIT Law, enterprises engaged in prescribed agriculture projects are exempted from EIT. In 2013 and 2014, 湖南康哲農牧業發展有限公司 (Hunan Kangzhe Agricultural Development Co., Ltd.) ("Kangzhe Agricultural") is eligible for such tax concession.

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharma Co., Ltd ("CMS Pharma") (formerly known as CMS Pharmaceutical Agency Co., Ltd.) is eligible to elect to pay a lump sum taxation charge of MYR 20,000 (equivalent to approximately RMB36,000) or 3% on net audited profits. For the years ended 31 December 2014 and 2013, CMS Pharma elected to pay a lump sum tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit in both years.

The tax charge for the year can be reconciled to the 'profit before tax' per the consolidated statements of profit or loss and other comprehensive income as follows:

	2014 RMB'000	2013 RMB'000
Profit before tax	1,129,504	685,285
Tax at the applicable tax rate (note)	282,376	171,321
Tax effect of share of results of associates	155	(128)
Tax effect of expenses that are not deductible in determining taxable profit	16,952	11,906
Tax effect of income that is not taxable in determining taxable profit	(61,305)	(2,576)
Tax effect of tax losses not recognised	225	1,721
Tax effect of deductible temporary differences not recognised	26,272	32,628
Tax effect of tax concession	(16,455)	(17,973)
Effect on different applicable tax rates of subsidiaries	(814)	(1,709)
Effect of tax benefit arising from Labuan Tax Act	(160,218)	(128,579)
(Over)/underprovision in prior years	(8)	68
Utilisation of tax loss previously not recognised	(2,517)	(1,257)
Release of deferred tax arising from withholding tax on undistributed profit of a PRC subsidiary	-	(16,512)
Others	1,846	1,077
Income tax expense for the year	86,509	49,987

Note: The applicable PRC Enterprise Income Tax rate of 25% (2013: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group.

7. PROFIT FOR THE YEAR

	2014 RMB'000	2013 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration		
Fees	1,100	1,139
Other emoluments	2,491	2,576
Pension costs	88	87
	3,679	3,802
Other staff costs	213,101	187,395
Pension costs	14,964	13,756
Key employee benefit expense (note 16)	3,158	2,635
Total staff costs	234,902	207,588
Auditor's remuneration	1,851	1,740
Allowance for bad and doubtful debts	793	354
Allowance for inventories	1,919	5,772
Release of prepaid lease payments	1,407	1,455
Depreciation of property, plant and equipment	14,250	10,844
Amortisation of intangible assets (included in cost of goods sold)	28,198	25,682
Cost of inventories recognised as an expense	1,255,816	979,423
Minimum lease payment under operating lease in respect of property	7,983	7,993

8. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Dividend paid		
Dividends recognised as distributions during the year:		
2014 Interim - RMB0.0679 (2013: 2013 interim dividend RMB0.0518) per share	163,961	125,030
2013 Final - RMB0.0526 (2013: 2012 final dividend RMB0.0486) per share	127,055	117,477
	291,016	242,507
Dividend proposed		
Dividend proposed during the year:		
2014 final - RMB0.0692 (2013: 2013 final dividend of RMB0.0526) per share	167,101	127,055

The Board of Directors have declared a final dividend of RMB0.0692 per ordinary share of par value of US$0.005 for the year ended 31 December 2014 (2013: RMB0.0526 per ordinary share of par value of US$0.005).

9. EARNINGS PER SHARE

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

	2014 RMB'000	2013 RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	1,045,702	636,213

	Number of ordinary shares as at 31 December 2014 & 2013
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,414,747,512

The Group has no outstanding potential ordinary shares as at 31 December 2014 and 2013 and during the years ended 31 December 2014 and 2013. Therefore, no diluted earnings per share is presented.

10. DEFERRED TAX

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

	Unrealised profits on inventories RMB'000	Undistributed profits of PRC subsidiary RMB'000	Fair value adjustments to assets acquired in business combinations RMB'000	Unrealised profit of available-for-sale investments RMB'000	Others (note a) RMB'000	Total RMB'000
At 1 January 2013	18,238	(16,512)	(12,292)	(3,969)	358	(14,177)
Acquisitions	-	-	(10,349)	-	-	(10,349)
Credit (charge) to profit or loss for the year (note 6)	993	16,512	2,404	-	(127)	19,782
Charge to other comprehensive income for the year	-	-	-	(4,731)	-	(4,731)
Adjustment arising on acquisition of interest in intangible assets from shareholders of non-controlling interests	-	-	287	-	-	287
At 31 December 2013	19,231	-	(19,950)	(8,700)	231	(9,188)
Credit (charge) to profit or loss for the year (note 6)	146	-	2,219	-	(190)	2,175
Charge to other comprehensive income for the year (note b)	-	-	-	(55,264)	-	(55,264)
Disposal of a subsidiary	-	-	518	-	-	518
At 31 December 2014	19,377	-	(17,213)	(63,964)	41	(61,759)

Notes:

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

(b) During the year ended 31 December 2014, the deferred tax relating to change in fair value on available-for-sale investments was first charged to other comprehensive income, and has been subsequently reclassified to profit or loss as disclosed in note 4, upon the Group obtained significant influence over an investee which was previously classified as available-for-sale investments before the Group acquired further interest in the investee.

The following is the analysis of the deferred tax assets (liabilities) for financial reporting purposes:

	2014 RMB'000	2013 RMB'000
Deferred tax assets	19,418	19,462
Deferred tax liabilities	(81,177)	(28,650)
	(61,759)	(9,188)

At 31 December 2014, the Group had unused tax losses of approximately RMB9,092,000 (2013: RMB18,260,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2014 are tax losses of approximately RMB2,474,000 (2013: RMB11,643,000) that will be expired within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2014, tax losses of approximately RMB429,000 (2013: RMB3,277,000) was expired.

As at 31 December 2014, the Group had other deductible temporary differences associated with unrealised profits on inventories of RMB306,617,000 (2013:RMB206,167,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB77,587,000 (2013: RMB77,638,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining RMB229,030,000 (2013: RMB128,529,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. As at 31 December 2013 and 2014, the directors of Company is in an opinion that Shenzhen Kangzhe will not declare any dividends in respect of its accumulated profits. The Group is able to control the timing of reversal of the temporary differences of Shenzhen Kangzhe and it is probable that the temporary difference will not reverse in the foreseeable future starting from the year ended 31 December 2013. Accordingly, the deferred taxation previously provided of RMB16,512,000 had been released in the year ended 31 December 2013.

Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB1,250,422,000 (2013: RMB1,006,291,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

11. TRADE AND OTHER RECEIVABLES

	2014 RMB'000	2013 RMB'000
Trade receivables	584,770	381,473
Less: Allowance for bad and doubtful debts	(2,270)	(1,561)
	582,500	379,912
Bills receivables	150,751	158,773
Purchase prepayment	35,225	236,163
Other receivables and deposits	107,769	84,172
Total trade and other receivables	876,245	859,020

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months is 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 period, which approximated the respective revenue recognition date is as follows:

	2014 RMB'000	2013 RMB'000
0 - 90 days	544,774	358,402
91 - 365 days	37,354	20,595
Over 365 days	372	915
	582,500	379,912

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

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

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB51,645,000 (2013: RMB48,843,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

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

	2014 RMB'000	2013 RMB'000
0 - 90 days	45,921	33,759
91 - 365 days	5,352	14,169
Over 365 days	372	915
	51,645	48,843

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

Movement in the allowance for bad and doubtful debts:

	2014 RMB'000	2013 RMB'000
Balance at beginning of the reporting period	1,561	1,201
Impairment losses recognised on receivables	793	354
Amount written off as uncollectible	(84)	-
Arising on acquisition of a subsidiary	-	6
Balance at end of the reporting period	2,270	1,561

Included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of RMB2,270,000 (2013: RMB1,561,000) which have either been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

12. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The bank deposits and pledged bank deposits carry interest at the prevailing market rate of approximately 0.5% to 5.0% (2013: 0.5% to 4.9%) per annum.

The pledged bank deposits amounting to RMB209,481,000 (2013: RMB448,030,000) represent deposits pledged to banks to secure the issuance of letters of credit. Therefore the pledged bank deposits are classified as current assets.

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

	2014 RMB'000	2013 RMB'000
US$	447	979
Euro ("EURO")	2,283	5,838
Hong Kong Dollars ("HK$")	818	455
RMB	457	30

13. TRADE AND OTHER PAYABLES

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

	2014 RMB'000	2013 RMB'000
0 - 90 days	79,158	66,347
91 - 365 days	3	326
Over 365 days	61	1,183
	79,222	67,856
Payroll and welfare payables	56,317	50,672
Other tax payables	19,653	13,434
Amount due to shareholders of non-controlling interests	-	30,000
Other payables and accruals	97,451	82,735
	252,643	244,697

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

Amount due to shareholders of non-controlling interests was unsecured, interest free and repayable on demand and was fully settled during the year.

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

	2014 RMB'000	2013 RMB'000
EURO	4,865	3,213
RMB	-	30,000

14. BANK BORROWINGS

	2014 RMB'000	2013 RMB'000
Advanced from banks on discounted bills receivables with recourse - repayable within one year	484,241	314,120
Secured	215,683	314,120
Unsecured	268,558	-
	484,241	314,120

The bank borrowings as at 31 December 2014 was an amount of RMB484,241,000 (2013: RMB314,120,000) relating to bills receivable discounted to banks for cash proceeds of RMB484,241,000 (2013: RMB314,120,000). If the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. The receivables are arising from intra-group transactions which have then been fully eliminated on consolidation. The borrowings carried fixed interest at a range from 3.05% to 3.80% (2013: 3.30% to 3.60%) per annum.

15. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Authorised share capital:		
At 1 January 2013, 31 December 2013 and 31 December 2014	20,000,000	765,218
Issued and fully paid:		
At 1 January 2013, 31 December 2013 and 31 December 2014	2,414,747	82,974

16. KEY EMPLOYEE BENEFIT SCHEME

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

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

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

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

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

During the year ended 31 December 2014, the Company contributed cash amounting to RMB3,158,000 (2013: RMB2,635,000) to the Fund and which were recognised as key employee benefit expenses in the profit or loss in the consolidated statement of profit or loss and other comprehensive income.

17. EVENTS AFTER THE REPORTING PERIOD

(a) Acquisition of Hebei Xionglong Xili Pharmaceutical Co., Ltd ("Xili Pharmaceutical")

On 7 December 2014, the Group entered into shares purchase agreements with independent third parties to acquire 52.01% equity interest in Xili Pharmaceutical at a consideration of approximately RMB258,201,000. Xili Pharmaceutical is engaged in the production of medicines and sales of drugs. The transaction was subsequently completed on 16 February 2015. As at the date of this report, the Company is in progress of assessing the financial impact of the acquisition.

(b) Acquisition of Combizym and Hirudoid (the "Purchased Products")

On 25 March 2015, the Group entered into an Asset Purchase Agreement with DKSH International AG, to purchase i) all Trademarks regarding the Purchased Products; (ii) all market authorizations or similar licenses, certificates or approvals regarding the Purchased Products in the Territory and all rights, benefits or other interests obtained ; (iii) the exclusive right and title to develop, manufacture, register, apply for registration, import, market, distribute, sell or otherwise use and/or exploit the Purchased Products; and (iv) all Books and Records, Commercial Information and Medical Information related to the Purchased Products, with respect to Combizym in China, Hong Kong and Switzerland, and certain other designated countries or areas in Asia, and with respect to Hirudoid in China. The aggregate consideration for the acquisition is CHF76.6 million payable in cash.

Details of the Purchased Products:

Combizym (Oryz - Aspergillus Enzyme and Pancreatin Tablet)
Combizym (Oryz -Aspergillus Enzyme and Pancreatin Tablet) comes from Medinova AG. It contains pancreatin and Aspergillusoryzae enzymes and used for the treatment of digestion caused by a decrease in digestive enzymes. As an exclusive and NRDL-B (National Reimbursement Drug List-B class) product with wide application to the general population, it has significant market potential in China.

Hirudoid
Hirudoid comes from Medinova AG, with mucopolysaccharide polysulfate as the active ingredient. It is used for the treatment of various phlebitis, soft tissue injuries and also used as an adjuvant therapy for varicose veins surgery and postoperative sclerotherapy. Furthermore, it can inhibit the formation of scars and soften existing scars. As an exclusive product with wide application to the general population, it has significant market potential in China.

Details of the acquisition were set out in the Company's announcement dated 26 March 2015.

Management Discussion

Business Review

During the Reporting Period, the Group recorded turnover of RMB2, 945.1 million (2013: RMB2,249.0 million), up 31.0% over the same period the previous year, with profit for the period reaching RMB1,043.0 million (2013: RMB635.3 million), up 64.2% over the same period the previous year (which would be up 30.3% to RMB827.9 million after excluding gain of RMB215.1 million arising from investment in Tibet Pharmaceutical when it became an associate from available for sale investment). Basic earnings per share was RMB0.4330 (2013: RMB0.2635), up 64.3% over the same period the previous year (which would be up 30.6% to RMB0.3440 after excluding gain arising from investment in Tibet Pharmaceutical when it became an associate from available for sale investment).

Affected by the decrease in pharmaceutical export, cost control of medical insurance and anti-commercial bribery, which were caused by the weak global economy, the Chinese healthcare industry saw a slowdown in 2014. However, the Group's operating performance still surpassed market expectations, mainly because the adjustment of direct academic promotion model in 2013 paid off. Meanwhile, the Group is committed to emphasizing the academic value of products and branding education as well as solving problems for doctors and patients.

Product Introduction and Development

The push of new product introductions and development of current products serve as cornerstones of the Group's sustainable development, while the stability and controllability of product rights serve as the backbone for the Group's sustainable development. With the gradual rise of competition in the Chinese healthcare market, it becomes extremely important to gain the control of products and maintain the stability of product rights for the company's future development. Meanwhile, the Group focused on the introduction strategy of new products with diverse levels, launching new products into the market constantly. Products with diverse levels include directly-launched market products and preserved products. Directly-launched market products include overseas products obtained import drug licenses ("IDL") or domestic products with production license approval. Preserved products include those produced overseas and launched in overseas markets, which have yet gained IDL in China. The Group will apply IDL for them. The year 2014 was harvest in terms of product introductions. The Group introduced a series of products with sustainable development in the future, through acquiring assets related to product launches in the Chinese market or equity investment.

1. Product introduction

1.1. To gain the exclusive sales rights of products via equity cooperation--- directly- launched market products

NuoDiKang

The Group increased its stake in Tibet Pharmaceutical to 26.61%, becoming the largest shareholder of Tibet Pharmaceutical on 10th Nov 2014. The Agreements strengthened the business relationship and long-term cooperation between the Group and Tibet Pharmaceutical. The Exclusive Sale Agreement and the

"Promotion Service Agreement of NuoDiKang" between the Group and Tibet Pharmaceutical were approved by the board of Tibet Pharmaceutical on 14 January 2015. The Agreements were approved in the Extraordinary General Meeting of Tibet Pharmaceutical on 2 February 2015. The Agreements will have an initial term commencing from the execution date of the Agreements and ending 31 December, 2017, and the term may be extended for a further three years to 31 December, 2020, subject to mutual agreement between the parties and compliance by Tibet Pharmaceutical with its applicable procedures.

The ingredient of the NuoDiKang capsule is Rhodiola sacra, a drug boosting vital energy, activating blood circulation, freeing the vessels and alleviating pain. It is used for chest impediment caused by deficiency of vital energy and blood stasis, manifested as chest tightness, tingling or pain, palpitations, shortness of breath, lassitude, asthenic breathing, disinclination to talk, dizziness, coronary heart disease, angina with aforementioned symptoms etc. As a National Essential Medicine List product with such a large target customer base, it has immense market potential in China.

Danshentong

The Group entered into a series of framework agreements with the direct and indirect shareholders of Hebei Xinglong Xili Pharmaceutical Co., Ltd on 7 December, 2014. Pursuant to the Framework Agreements, the Group will acquire an equity interest in Xinglong Xili Pharmaceutical and the long-term exclusive sales and marketing rights of the Danshentong capsules. The Group entered into an "Exclusive Sale Agreement" and a "Promotion Service Agreement" with Xili Pharmaceutical and obtained the exclusive sales and marketing rights of the Danshentong capsules on 16 January 2015.

Danshentong is a salvia miltiorrhizae alcohol extracts with antisepsis and anti -inflammation as its major functions, mainly used for the treatment of acne, tonsillitis, otitis externa, boils, carbuncles,traumatic infection, burn infection, mastitis, cellulitis, osteomyelitis, among others. As a nationwide exclusive product and a Class B product under the National Reimbursement Drug List with a large target market, this product has a relatively strong market potential in China. For the ten months ended 31 October, 2014, the sales value of Danshentong is about RMB100 Million.

1.2. Purchasing of all assets related to products for the Chinese market --- directly launched market products

Lamisil® Tablet (Terbinafine Hydrochloride) and Parlodel® Tablet (Bromocriptine Mesilate)

The Group signed a series of agreements and documents (the "Agreements") with Novartis AG and Novartis Pharma AG ("Novartis") on 17 December 2014 to purchase assets of its products Lamisil® Tablet and Parlodel® Tablet for the Chinese market. Upon the execution of the Agreements, the Group acquired the Drug Production License of the Lamisil® Tablet, and the co-marketing Authorization in Switzerland and the Imported Drug License in China of the Parlodel® Tablet from Novartis. Meanwhile, the Group will also acquire marketing authorization documents and the Transferred Properties, which include the Chinese character trademark of Parlodel® Tablet, all know-how, books and records, commercial and medical information exclusively related to the products.

The active substance of Lamisil® Tablet is Terbinafine Hydrochloride. It is an original product from Novartis and has been marketed in China for several years. Product indications include: Fungal infections of 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 & tinea cruris, tinea pedis, tinea capitis as well as onychomycosis, and therefore the product plays an important role in the antifungal market.The active ingredient of Parlodel® Tablet is Bromocriptine Mesilate. It is also an original product from Novartis and has been marketed in China for several years too. One of the product indications is for the treatment of hyperprolactinemia (HPRL). Bromocriptine is a standard first-line treatment for HPRL recommended by the guideline, therefore the product is of great significance to the market.

MOVICOL®（Macrogol Sodium Potassium Powder）
The Group signed a series of agreements with NORGINE B.V. ("Norgine") on 30 December,2014 to purchase the assets of its product MOVICOL® for the Chinese market. Upon the execution of the Agreement, the Group acquired the Assigned Assets from Norgine, including the Marketing Authorization in United Kingdom for the Chinese market, the IDL in China and the trademarks in Chinese characters of the Product. Meanwhile, the Group will, at its own discretion, arrange the importation, registration, manufacture, marketing, distribution, promotion and sale of the product for the Chinese Market. Furthermore, the trademarks in English characters and the know-how related to manufacture will be exclusively licensed to the Group by Norgine.

MOVICOL® contains the following active ingredients: macrogol 3350, sodium bicarbonate, sodium chloride, potassium chloride. The drug has been marketed in China 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 Euro over the last three years. With such a wide target market, it should have market potential in China.

1.3. Acquiring all assets of products related to the Chinese market---Preserved Products

Succinylated Gelatin Injection
On 3 June, 2014, the Group acquired all assets of Beacon Pharmaceuticals Limited's ("Beacon") product Succinylated Gelatin Injection related to the Chinese market, including but not limited to the Chinese marketing authorization, Chinese market-related intellectual property and know-how. It obtained all rights of the Product related to the Chinese market, including manufacture, sales, promotion and marketing rights etc.

Succinylated Gelatin Injection includes two products, which is a colloidal plasma substitute indicated for initial management of hypovolaemic shock caused by haemorrhage, acute trauma, surgery, burns, sepsis, peritonitis, pancreatitis and crush injury etc. The Product has a large target market and immense market potential.

The Group is processing the IDL registration for the products which are reserved products.

1.4. Shifting from exclusive sales agreement to acquiring all assets related to the products for the Chinese market

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

On July 1, 2014, the Group purchased from Pharma Stulln GmbH ("Pharma Stulln") all assets related to the Augentropfen Stulln Mono Eye-drops for the Chinese market , including but not limited to the right of manufacturing the product for the Chinese market, marketing authorization for the Chinese market and relevant intellectual property rights (including trademark in Chinese characters and know-how of the Product, etc.). It has been licensed the exclusive right to utilize the trademark in English characters. Augentropfen Stulln Mono Eye-drops was introduced by the Group in 2006. The Group will continue to appoint Pharma Stulln to manufacture the product and through a series of arrangements to assist Pharma Stulln in expanding production capacity. On 20 March 2015, the Group signed a supplementary agreement with Pharma Stulln. Upon the supplementary agreement, the Group has reached solutions on the insufficient supply and the guarantee of production capacity of the product in the future. Pursuant to the supplementary agreement, the Group will invest in the transformation of production workshop and buy new production lines to assist Pharma Stulln in expanding production capacity to assure the stability of the product 's supply and to satisfy the long -term development of the product in the Chinese market. Meanwhile, the execution of the supplementary agreement will expand the profit margins of the Product. The signing of the agreements and a series of arrangements on expanding production capacity of the manufacturer are of great significance to ensure the long-term development of the product on the Chinese market.

With the addition of new products with greater controllability, the Group's portfolio is getting more comprehensive, with resource allocation improved and more effective. Meanwhile, the synergistic effect of therapeutical departments and the economies of scale of the network will emerge with new products launched in the market. The new products play a significant role in maintaining the sustainable and rapid growth of the company.

2. Current Product Development

2.1 Main Products under the Direct Network

Main products under the Direct Network of the Group maintained steady growth in 2014, mainly benefitting from the successful operation of the Direct Network under the improved structure, together with active market academic promotion. During the Reporting Period, the Group conducted activities to further improve 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 marketing structure to distribute its products during the Reporting Period, laying a sound foundation for the penetration of the products in the rural market to achieve a balanced regional development.

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 RMB813.1 million, an increase of 29.4% when compared with the same period the previous year, accounting for 27.6% of the

Group's turnover. Thanks to the initial success of academic network reform in 2013 and penetration to rural districts, as well as constant branding for Deanxit for numerous years, Deanxit maintained steady growth in 2014. During the Reporting Period, the Group constantly strengthened branding in core therapeutic departments through all kinds of academic platforms and constantly extended growth in comprehensive therapeutic departments. The Group also held academic activities for all therapeutic departments in rural hospitals, thus growing coverage in rural markets. As at 31 December, 2014, sales of Deanxit covered over 12,000 hospitals throughout China.

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis. During the Reporting Period, Ursofalk recorded sales of RMB590.5 million, an increase of 30.5% when compared with the same period the previous year, accounting for 20.0% of the Group's turnover. During the Reporting Period, the Group was also active in capitalizing on Ursofalk's academic features to develop a market differentiation strategy for competition to extend expert network and set up a reeducation platform. Further, it would control high-end academic platform, reinforce branding image building, improve its high-end branding image, intensify core branding value and monitor patients' quality of life through a series of academic activities. During the Reporting Period, Ursofalk achieved multi-disciplinary coverage through a series of clinical scientific research, epidemiological investigations and such. As at 31 December 2014, sales of Ursofalk covered over 6,900 hospitals throughout China.

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 RMB348.3 million, an increase of 53.5% when compared with the same period the previous year, accounting for 11.8% of the Group's turnover. During the Reporting Period, XinHuoSu grew rapidly as the Group continued to consolidate expert network, and transregional resources integration and communication from the academic network reform and regional regime injected new vitality into XinHuoSu's growth. During the Reporting Period, the Group continued to develop new hospitals and extend the coverage of untapped markets, stepped up promotions in different departments and indications and enhanced branding building. During the Reporting Period, the manufacturer of XinHuoSu suspended the production of the product to refurbish in compliance with the Chinese new GMP, and gained the approval on 11 February 2015. Meanwhile, the Group signed new agreements with the product manufacturer on subsequent collaboration. Pursuant to the agreements, the required purchase quantity of XinHuoSu to Shenzhe Kangzhe during 2015 and 2016 is 0.21 million and 0.24 million respectively, an increase of 17% and 14% over the previous year respectively. In the event that the Required Purchase Quantity is failed to reach, Shenzhen Kangzhe shall compensate Tibet Pharmaceutical according to the terms in the agreements. In the event that Shenzhen Kangzhe fails to reach 70% of the Required Purchase Quantity, Tibet Pharmaceutical is entitled to terminate the agreements at its own discretion. Shenzhen Kangzhe has paid Tibet Pharmaceutical a deposit of RMB 4 million. In the event that Shenzhen Kangzhe fails to reach the

Required Purchase Quantity and to pay the compensation for the difference between the actual purchase quantity and the Required Purchase Quantity as agreed, Tibet Pharmaceutical is entitled to deduct the corresponding difference compensation from the deposit. Meanwhile, the ratio of the promotion fee paid by Tibet Pharmaceutical to Changde Kangzhe is approximately 56% of the sale price of XinHuoSu. The transaction values for the sales and promotion activities of XinHuoSu for 2015 is estimated to be no more than RMB360 million and RMB210 million, respectively. For more information on XinHuoSu that mentioned on the report, please refer to "Announcement on estimated daily connected transaction" by Tibet Pharmaceutical on 26 March 2015. As at 31 December 2014, sales of XinHuoSu covered over 1,600 hospitals throughout China.

Salofalk (Mesalazine)

Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany, with 3 formulations 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 RMB149.3 million, an increase of 47.5% when compared with the same period the previous year, accounting for 5.1% of the Group's turnover. The advantages of Salofalk are its premium product quality, excellent evidence-based medicine evidence and portfolio of multi-formulations. IBD disease has become a research hotspot in the digestive department, but clinical doctors have a low awareness of the disease in general. As such, continuous education and promotion is useful to enhance the awareness. During the Reporting Period, the Group conducted extensive education seminar to doctors to improve their understanding of IBD disease and recognition of Salofalk. Leading global IBD experts were invited to conduct a national tour, various types of educational platform was established, and continuously the number of educational activities for patients was increased. As at 31 December 2014, sales of Salofalk covered over 3,100 hospitals throughout China.

Bioflor (Saccharomyces Boulardii)

Bioflor, manufactured by Biocodex of France, is a probiotics agent used to treat diarrhea for both adults and children, as well as diarrhea symptoms caused by the disturbance of intestinal flora. Bioflor recorded sales of RMB141.5 million during the Reporting Period, an increase of 52.0% when compared with the same period the previous year, accounting for 4.8% of the Group's turnover. Sales of Bioflor maintained a rapid growth trend. During the Reporting Period, the Group continued to develop new hospitals and led academic promotions, conducted extensive education events among doctors to improve their recognition of Bioflor, and had a renowned American expert on micro-ecology conduct a tour of lectures in six cities in China. Bioflor has premium product quality, excellent evidence-based medical evidence and is recommended by guidelines from academic authorities. As at 31 December 2014 sales of Bioflor covered over 2,200 hospitals throughout China.

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

Augentropfen Stulln Mono Eye-drops, manufactured by Pharma Stulln GmbH of Germany, is used to treat age-related macular degeneration and all forms of ocular asthenopia. Augentropfen Stulln Mono Eye-drops recorded sales of RMB132.6 million during the Reporting Period, an increase of 63.1% when compared with the same period the previous year, accounting for 4.5% of the Group's turnover. Sales of Augentropfen

Stulln Mono Eye-drops fully recovered in 2014 with growth mainly coming from the full recovery of supply, rapid growth of core hospitals and large-scale development of new hospitals. During the Reporting Period, the Group continued to strengthen brand building of Augentropfen Stulln Mono Eye-drops, deepen and refine indication promotion, build up all-around academic platform and carry out education seminars for doctors through consensus in academic areas. After years of continuous academic promotion, Augentropfen Stulln Mono Eye-drops has a high-end brand positioning among doctors and patients, has a wide range of users and gained trust from doctors and patients after years of marketing. On July 1 2014, the Group has purchased from Pharma Stulln GmbH assets related to the Augentropfen Stulln Mono Eye-drops for the Chinese market, including but not limited to the right of manufacturing the Product for the Chinese market, marketing authorization for the Chinese market and relevant intellectual property rights (including trademark in Chinese characters and know-how of the Product, etc.), and has been licensed the exclusive right to utilize the trademark in English characters. Augentropfen Stulln Mono Eye-drops is one of the products which had been distributed by the Group since 2006. The Group will continue to appoint Pharma Stulln to manufacture the product and through a series of arrangements to assist Pharma Stulln in expanding production capacity. On 20 March 2015, the Group signed a supplementary agreement with Pharma Stulln. Upon the supplementary agreement, the Group has reached solutions on the insufficient supply and the guarantee of production capacity of the product in the future. Pursuant to the supplementary agreement, the Group will invest in the transformation of production workshop and buy new production lines to assist Pharma Stulln in expanding production capacity to assure the stability of the product ’s supply and to satisfy the long -term development of the product in the Chinese market. Meanwhile, the execution of the supplementary agreement will expand the profit margins of the Product. The signing of the Agreements and a series of arrangements on expanding production capacity of the manufacturer are of great significance to ensure the long-term development of the product on the Chinese market. As at 31 December 2014, sales of Augentropfen Stulln Mono covered over 5,100 hospitals throughout China.

GanFuLe Tablet

GanFuLe Tablet is manufactured by Kangzhe Lengshuijiang and is used for the treatment of primary liver cancer, cirrhosis and liver fibrosis. During the Reporting Period, GanFuLe Tablet recorded sales of RMB55.2 million, an increase of 52.5% when compared with the same period the previous year, accounting for 1.9% of the Group’s turnover. Ever since the Group acquired Kangzhe Lengshuijiang in 2013, the Group increased input to new markets of GanFuLe Tablet and continued to develop new hospitals, consolidate the penetrated hospitals and enhance academic activities. As such, GanFuLe Tablet showed a positive growth trend. GanFuLe Tablet has been in clinical use for two decades and is included on 2009 National Reimbursement Drug List, Class two (liver cancer) and is also the first approved national Class three innovative TCM with superior clinical effectiveness. As at 31 December 2014, sales of GanFuLe Tablet covered over 600 hospitals throughout China.

2.2 Products under the Agency Network

ShaDuoLiKa (YanHuNing Injection)

ShaDuoLiKa, developed and manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd., is a common injection used in viral pneumonia and acuteupper Respiratoing infection. During the Reporting Period, ShaDuoLiKa recorded sales of RMB379.7 million, accounting for 12.9% of the Group’s turnover.

Refurbishment of Chongqing Yaoyou in compliance with the Chinese new GMP has been completed, ensuring the full recovery in supply of the product. The focus of work for ShaDuoLiKa in 2014 is to refine development in some of the hospitals. In addition, during the Reporting Period, the Group actively explored a new administration route for ShaDuoLiKa and sought new sales growth points. Safe Medication of YanHuNing Injection has been the priority for all during the sales and promotion and the Group continued to enhance the standardization of processing flow of diverse reactions of YanHuNing Injection.

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. To meet market demand for the product, the Group commissions Kangzhe Hunan to manufacture the product at the same time. The refurbishment of Kangzhe Hunan in accordance with Chinese new GMP during the resulted in a temporarysupply shortage of the product, resulting in a decline in the recorded sales of the product compared with the same period the previous year. To solve the production capacity problem, the Group found and commissioned a third party to produce the drug, and the third party started to supply it from November 2014. Meanwhile, Kangzhe Hunan is being refurbished in accordance with the new GMP during the Reporting Period, with the process going well. During the Reporting Period, YiNuoShu recorded sales of RMB158.2 million, accounting for 5.4% of the Group's turnover.

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

XiDaKang, the only Protein Hydrolysate enteral nutrition agent approved in China, is sold in the form of an oral solution and granules. During the Reporting Period, XiDaKang recorded sales of RMB92.9 million, accounting for 3.2% of the Group's turnover. XiDaKang is one of the most important products under the Agency Network of the Group. During the Reporting Period, the Group had a series of strategic arrangement for its manufacturing and quality. The marketing promotion of XiDaKang was advanced in 2014 and the primary expert network was established through multi-center clinical preliminary experiments and academic conferences. Furthermore, ERP data was fully utilized to explore extending the promotion approach to new media. In addition, the Group refined the investment agency of XiDaKang at hospitals to develop the hospital rapidly and effectively, and this investment agency model will provide a solid foundation for the revenue and profit growth for XiDaKang in the future.

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. It is mainly used to treat various acute and chronic forms of hepatitis, alcoholic liver, and fatty liver. During the Reporting Period, Yin Lian Qing Gan Ke Li recorded sales of RMB4.1 million, accounting for 0.1% of the Group's turnover. Since the market foundation of Yin Lian Qing Gan Ke Li was comparatively weak, the Group was mainly committed to expanding the market coverage of the product during the Reporting Period, consolidating its existing market foundation while proactively identifying suitable agents for the product, and meeting its academic needs for clinical promotion with certain academic support.

Summary of main products is as follows:

Introduction	Products	Indications	Manufacturers	Remarks
Rights controlled	Augentropfen Stulln Mono Eye-drops	Mainly used to treat age-related macular degeneration and all forms of ocular asthenopia	Pharma Stulln GmbH (Germany)	Acquired all assets related to products for the China Market
	Lamisil® Tablet	Mainly used to treat fungal infections of skin and hair caused by dermatophytes	Novartis Pharma AG (Beijing)	
	Parlodel® Tablet	Mainly used to treat hyperprolactinemia (HPRL).	Novartis Pharma S.p.A (Italy)	
	MOVICOL®	Mainly used to treat chronic constipation and faecal impaction	Norgine B.V. （the UK）	
	GanFuLe	Mainly used to treat liver cancer, cirrhosis and liver fibrosis	Kangzhe Lengshuijiang	Self-produced
	XiDaKang	Mainly used to treat hypoproteinemia and kakotrophy by various causes and etc.	Kangzhe Hunan	
	Danshentong	Anti -inflammation is its major function	Xili Pharmaceutical	
	YiNuoShu	Mainly used for respiratory diseases	Kangzhe Hunan and TIPR Pharmaceutical Responsible Co., Ltd.	Market control
	Yin Lian Qing Gan Ke Li	Mainly used to treat various acute and chronic forms of hepatitis, alcoholic liver, fatty liver and hypertension	Beijing Yadong Biological Pharmaceutical Co., Ltd.	
Equity collaboration	XinHuoSu	Mainly used to treat acute heart failure	Chengdu Rhodiola Biological Pharmaceutical Co., Ltd.	／
	NuoDiKang	Its major functions are benefiting vital energy, activating blood circulation, freeing the vessels and alleviating pain	Tibet Rhodiola Pharmaceutical Holding Company	
Exclusive Agency Contract	Deanxit	Mainly used to treat mild to moderate depression and anxiety	H. Lundbeck A/S of Denmark	／
	Ursofalk	Mainly used to treat cholesterol gallstones, cholestatic liver disease and bile reflux gastritis	Dr. Falk Pharma GmbH （Germany）	
	Salofalk	Mainly used to treat Ulcerative Colitis and Crohn’s disease	Dr. Falk Pharma GmbH （Germany）	
	Bioflor	Mainly used to treat diarrhea for both adults and children, as well as diarrhea symptoms caused by the disturbance of intestinal flora	Biocodex of France (France)	
	ShaDuoLiKa	Mainly used in viral pneumonia and acuteupper Respiratoing infection	Chongqing Yaoyou Pharmaceutical Co., Ltd.	

2.3 Other Products

Apart from the products mentioned above, other products sold by the Group such as Cystistat, Exacin, KunNing Oral Solution, Xiang Fu Yi Xue Kou Fu Ye etc. recorded total sales amounting to approximately RMB79.8 million, accounting for approximately 2.7% of the Group's turnover during the Reporting Period.

3. Preserved Products

3.1 Products undergoing application process for Import Drug Registration

The Group had seven 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 IDL by the CFDA. Key information of these products is listed below:

Introduction	Products	Indications	Manufacturers
Exclusive sales rights	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)
Rights Controlled	Ze 339	For the treatment of allergic rhinitis	Max Zeller Söhne AG (Switzerland)
	Ze 450	For the treatment of menopausal discomfort	
	Ze 440	For the treatment of pre-menstrual syndrome and menstrual cycle disorder	

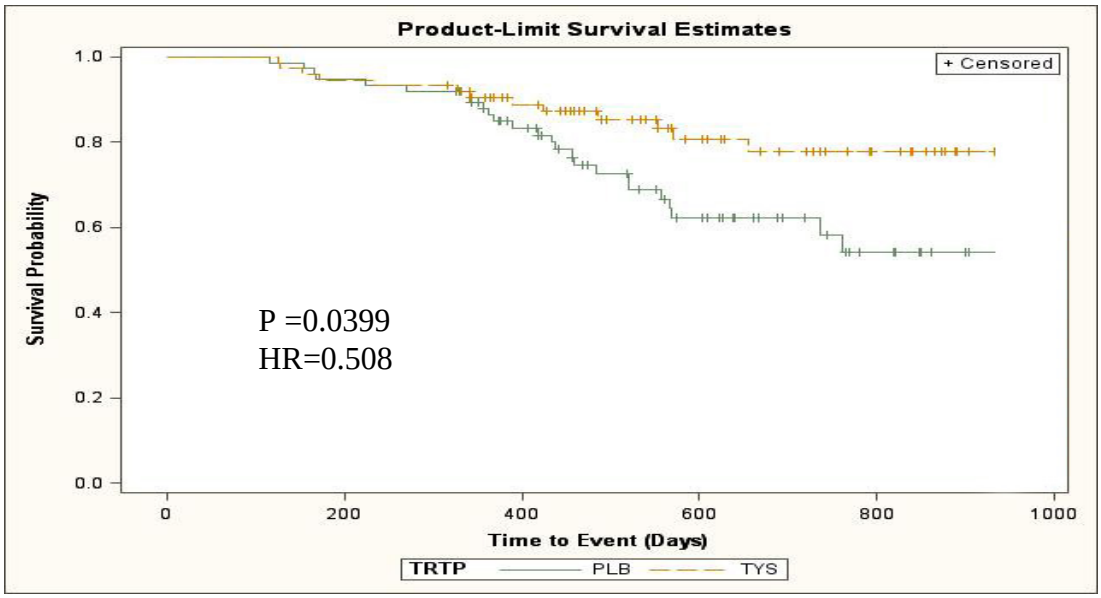
Budenofalk rectum foam aerosol was approved for clinical experiments on 3 December 2014 by CFDA; Budenofalk enteric capsule was approved for clinical experiments on 7 January 2015 by CFDA.

3.2 In-house Research Pharmaceutical Product Tyroserleutide (CMS024)

In-house Research Pharmaceutical Product Tyroserleutide (CMS024), used to treat primary liver cancer, is a National Class One New Drug researched and developed by the Group and with independent intellectual property rights. The Phase III clinical trial of Tyroserleutide, 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", officially commenced by Kangzhe R&D in 2011.

It enrolled all 300 subjects at the end of October in 2013, and convened the blind data review of the clinical trial in Shanghai, China to unblind the data and conduct preliminary statistical analysis on 28 February in 2014. In the Full Analysis Set (FAS), the treatment group and placebo group of the phase III clinical trial of Tyroserleutide failed to meet the primary and secondary endpoints (RFS and OS) with statistical significance. Therefore, the clinical trial failed to achieve its aim to register the sale of the drug in the Chinese market. When considering the analysis of the two subgroups with and without tumor thrombosis in the hepatic portal vein branches of the clinical trial, tumor thrombosis in the hepatic portal vein branches seriously interfered with the primary efficacy evaluation. The subgroup with tumor thrombosis in the hepatic portal vein branches involving patients in serious condition, faster recurrence and shorter drug exposure time greatly affected the primary efficacy evaluation of the clinical trial, while the subgroup with no tumor thrombosis in the hepatic portal vein branches demonstrated a favorable trend for treatment group compared with the placebo group on RFS and OS due to the patients being in better condition, lower recurrence and longer drug exposure time. In particular the OS approached statistical significance. Combined with observations from previous clinical trials, the Group believes that further investigations focusing on the patient population with better conditions (such as subjects with no tumor thrombosis in the hepatic portal vein branches) with OS as the primary endpoint is highly recommended. CMS024 remains in the stage of exploration for new Phase III clinical trial protocol.

To further verify the efficacy of the drug on the patients in the subgroup, Kangzhe R&D conducted a six-month "follow-up study" on subjects in the treatment group with continuous administration of the drug to observe the tendency of survival time. According to statistic data from the study (by 20 October 2014), a statistical significance in survival time between the treatment group and placebo group has been observed, which indicates a tendency that Tyroserleutide (CMS024) may prolong the survival time of liver cancer patients with no tumor thrombosis in the hepatic portal vein branches. The results are as follows:



Based on continuous exploration and analysis of the above-mentioned clinical studies of all phases, the Group and Kangzhe R&D have reached a joint decision to carry out a new phase III extended clinical trial shortly. Pursuant to the schedule, an ethics committee meeting is expected to be held for the phase III extending clinical trial of Tyroserleutide nationwide in May or June 2015, in which 352 subjects are expected to be enrolled, with the study to span three years from first enrollment to completion. The study will be conducted with the expectation of a confirmatory result in efficacy, after which the application for New Drug Certificate and Market Approval will be submitted to CFDA. The cost of the study will be borne by Kangzhe R&D, and the Group will pay 13% of sales revenue to Kangzhe R&D as royalty payments after the successful launch of the Product. If Tyroserleutide is successfully listed, it will not only have great potential in the China market, but will also be a development of momentous social significance in human health.

Network Expansion

Direct Network

During the Reporting Period, the Direct Network operated well after restructuring, and the advancement of the new multi-level organization started to show. Compared with the previous network structure, the new structure connecting the Group, the regions, the provincial level the local areas not only enables the group to respond to the market change faster, but also increases the flexibility of the operations and accuracy of the management. The Regions System enables the regions and areas to engage in more communication and share experiences, not only improving efficiency but also enabling the Group to better allocate resources, improve its academic capability as well as establish a network of experts by holding region-level activities. During the Reporting Period, the Group organized the Nineteenth Training Session for New Employees and helped the freshmen to transfer from students to professionals, and moving from excellent to brilliant. Meanwhile, a new campus recruitment drive had started since September 2014, and the Group will keep improving our employees' professional skills through the "Internship Program" and "Professional Talents Development Program".

As at 31 December 2014, there were around 2,000 professional marketing and promotion sales under the Direct Network, covering more than 17,000 hospitals nationwide. While expanding the sales network, the Group also strengthened the monitoring and management of the Academic Promotion Model, and gradually decentralized with stricter requirements of feedback from districts.

Agency Network

During the Reporting Period, the Group continuously provided academic support as well as training to our agents to improve their clinical promotion skills for the products. The Group used XiDaKang as a pilot of the commission model to replace the traditional district agency model, signing agreements with agents based on the sales, contract duration and related requirements of every single hospital. The Group believes that the successful reform of the commission model will provide a strong foundation to target hospitals' development and the sales growth of XiDaKang.

As of 31 December 2014, there were more than 1,000 independent third parties or agencies under the Agency Network, covering approximately 7,000 hospitals nationwide.

Production Development

During the Reporting Period, the Group made a certain degree of progress in manufacturing. The workshop for hydrolyzed protein series (powder and oral solution) of Kangzhe Hunan completed restructuring in 2013 according to the new GMP, and was approved by CFDA. The workshop of small-volume injection has completed restructuring according to the new GMP, and is expected to be approved by CFDA in 2015. The workshop for tablets (including earlier stage processing of TCMs) of Kangzhe LengShuiJiang Pharmaceutical Limited Company will start restructuring in March 2015 according to the new GMP. The foundation of our Shenzhen Production base located on Pingshan Shenzhen is nearly completed, with the workshop of freeze-dried powder and the workshop of polypeptide synthesis currently under the GMP registration.

Outlook and Future Development

The Group remains positive on the prospects of Chinese healthcare market and is confident that the introduction and promotion of products, and the expansion of the promotion network are the two core strategies and the main direction for the Group's sustainable development in the future.

As for product development, the Group will continue to introduce new products mainly by acquisition to achieve more stable and sustainable product development. On 26 March 2015, the Group entered into an Asset Purchase Agreement with DKSHI involving Combizym in China and certain other designated countries or areas, as well as Hirudoid in China, including the exclusive right and title to develop, manufacture, register, apply for registration, import, market, distribute, sell or otherwise use and/or exploit the Products. The Asset Purchase is another example of the successful implementation of the Group's acquisition strategy, which can further enhance the Group's portfolio, improve the stability and controllability of product rights, ensure the profit margin of the products and strengthen the strategic cooperation between the Group and the leading multinational enterprises. Meanwhile, we will also vigorously promote product development, allocate resources more effectively to achieve economic scale, and improve product exposure in rural markets. For existing products, the Group will keep exploring the appropriate business model in line with the product characteristics and market conditions that fit the market development. We will also cooperate closely with suppliers to guarantee the stability of the product supply.

With respect to the network expansion, the benefits of the Regions System have become evident, and the Group will continue to improve the strategic structure to build up a stronger and more solid network for further development. The new agent recruitment model of the Agency Network has been established. The Group will keep improving the system and policies to build a closer and more long-lasting partnership with our agents, and promote the merger of the Academic Promotion Network and Agency Network to build a well-run and well-resourced platform for the Group's development. Apart from improving the system innovation of the two networks, the Group will not only monitor market changes and make adjustments accordingly to establish a system compatible with the market development, but will also continue to improve internal management by tapping internal and external big data, setting specific and achievable goals of development as well as building an effective and hard-working team. Talent remains a valuable resource. The Group will strengthen the recruitment, management and training of talent by adopting comprehensive measures.

Product introductions and network expansion are the core strategies and main direction of the Group's development. The Group will focus on these strategies and keep pace with the development and changes of Chinese healthcare market. It will continue to explore a business model that fits the benefits and development of the Group. At the same time, the Group will also strengthen the internal management and risk control and never cease taking on challenges. The Group is confident of its ability to cope with the complicated and polytropic market conditions, as well as to deliver stable performance.

Financial Review

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

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

Turnover

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

Turnover increased by 31.0% from RMB2,249.0 million for the year ended 31 December 2013 to RMB2,945.1 million for the year ended 31 December 2014, mainly due to an increase in sales volume; the selling price of products had no significant fluctuation, except that the price of XiDaKang sold to the agencies was increased by 149.3% during the Reporting Period.

Gross Profit and Gross Profit Margin

Gross profit increased by 34.9% from RMB1,226.4 million for the year ended 31 December 2013 to RMB1,654.6 million for the year ended 31 December 2014, primarily reflecting growth in turnover. For the year ended 31 December 2014, gross profit margin was 56.2%. Excluding the effect of the factor that the price of XiDaKang selling to the agencies was increased, gross profit margin increased to 55.3% for the year ended 31 December 2014 from 54.5% for the year ended 31 December 2013, mainly due to an increase in the weighting of the products with higher gross profit margin.

Selling Expenses

Selling expenses increased by 35.0% from RMB467.5 million for the year ended 31 December 2013 to RMB631.1 million for the year ended 31 December 2014, primarily reflecting an increase in turnover and the number of sales staff of the Group, and the continuous extension & deepening of the Direct Network.

Administrative Expenses

Administrative expenses increased by 4.4% from RMB145.5 million for the year ended 31 December 2013 to RMB151.9 million for the year ended 31 December 2014, mainly due to an increase in maintenance expenses.

Other Gains and Losses

Other gains and losses increased by 211.9% from RMB88.3 million for the year ended 31 December 2013 to RMB275.3 million for the year ended 31 December 2014, mainly due to a fair value gain of RMB215.1 million arising from the transfer of Tibet Pharmaceutical to be an associate from an available for sale investment in the current year.

Finance Costs

Finance costs decreased by 0.5% from RMB16.8 million for the year ended 31 December 2013 to RMB16.7 million for the year ended 31 December 2014, mainly reflecting the variance in the use of bank borrowings.

Profit for the Year

Profit for the year increased by 64.2% from RMB635.3 million for the year ended 31 December 2013 to RMB1,043.0 million for the year ended 31 December 2014, due to the continuous and stable growth in sales, and the one-off fair value gain of available for sale investment.

Inventories

Inventories increased by 13.4% from RMB167.1 million as at 31 December 2013 to RMB189.5 million as at 31 December 2014, mainly reflecting its increase in line with the growth in turnover. Average inventory turnover days increased from 47 days for the year ended 31 December 2013 to 50 days for the year ended 31 December 2014.

Trade Receivables

Trade receivables increased by 53.3% from RMB379.9 million as at 31 December 2013 to RMB582.5 million as at 31 December 2014, primarily reflecting the growth in sales. Average trade receivables turnover days increased from 57 days for the year ended 31 December 2013 to 60 days for the year ended 31 December 2014.

Trade Payables

Trade payables increased by 16.8% from RMB67.9 million as at 31 December 2013 to RMB79.2 million as at 31 December 2014, mainly reflecting the increase of inventories. Average trade payables turnover days decreased from 23 days for the year ended 31 December 2013 to 21 days for the year ended 31 December 2014.

Liquidity and Financial Resources

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

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Net cash from operating activities	843,198	334,832
Net cash used in investing activities	(936,211)	(174,905)
Net cash used in financing activities	(149,937)	(344,551)
Net decrease in cash and cash equivalent	(242,950)	(184,624)
Cash and cash equivalent at beginning of the year	487,943	673,567
Effect of foreign exchange rate changes	(1,478)	(1,000)
Cash and cash equivalent at end of the year	243,515	487,943

Net cash from operating activities

The Group's net cash generated from operating activities was RMB843.2 million for the year ended 31 December 2014 compared with RMB334.8 million for the year ended 31 December 2013, an increase of 151.8% mainly due to the increase in turnover and the decrease in payment and prepayment for purchase of drugs.

Net cash used in investing activities

For the year ended 31 December 2014, the Group's net cash used in investing activities was RMB936.2 million compared with RMB174.9 million for the year ended 31 December 2013, an increase of 435.3% mainly due to the acquisition of an associate and Chinese assets of products in the current year.

Net cash used in financing activities

For the year ended 31 December 2014, the Group's net cash used in financing activities was RMB149.9 million compared with RMB344.6 million for the year ended 31 December 2013, a decrease of 56.5% mainly due to an increase in bank borrowings.

Net Current Assets

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Current Assets		
Inventories	189,456	167,062
Trade receivables	582,500	379,912
Other receivables	293,745	479,108
Tax recoverable	-	1,041
Amount due from an associate	26,899	-
Pledged bank deposit	209,481	448,030
Bank balances and cash	243,515	487,943
	1,545,596	1,963,096
Current Liabilities		
Trade payables	79,222	67,856
Other payables	173,421	176,841
Bank borrowings	484,241	314,120
Deferred consideration payables	5,500	5,733
Tax payable	46,287	26,081
	788,671	590,631
Net current assets	756,925	1,372,465

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Purchase of intangible assets	196,276	-
Purchase of property, plant and equipment	61,663	136,572
Purchase of land use right	3,575	11,175
	261,514	147,747

Debts

The following table shows the Group's debts:

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Interest bearing bank borrowings	484,241	314,120

The Group's gearing ratio, calculated as bank borrowings divided by total assets, increased to 9.9% as at 31 December 2014 from 8.0% as at 31 December 2013, mainly reflecting an increase in bank borrowings.

Market Risks

We are exposed to various types of market risks, including interest rate risks, foreign exchange risks, policy risks and inflation risks in the normal course of business. These risks are set out in note 31 to the financial statements.

Dividend

For the year ended 31 December 2014, the Group paid an interim dividend for 2014 and a final dividend for 2013 of RMB164.0 million and RMB127.1 million, respectively. For the year ended 31 December 2013, the Group paid an interim for 2013 and a final dividend for 2012 of RMB125.0 million and RMB117.5 million, respectively.

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

The Company has not purchased, sold or redeemed any of its listed securities during the year ended 31 December 2014.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the revised Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 January 2014 to 31 December 2014, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and CEO which shall not be performed by the same individual.

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

Audit Committee

The Company established an Audit Committee in 2007. The Audit Committee currently comprises three independent non-executive Directors, and is chaired by Mr. Wu Chi Keung, with Mr. Cheung Kam Shing, Terry and Mr. Huang Ming as the Committee members.

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual result announcement and annual report for the year ended 31 December 2014 have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the

Audit Committee are posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2014, the Audit Committee has held three meetings. At the meetings, the Audit Committee reviewed the annual results for 2013 and the interim results for 2014 respectively with the external auditors, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2014
Mr. Wu Chi Keung	3/3
Mr. Cheung Kam Shing, Terry	3/3
Mr. Huang Ming	3/3

Cash Dividend

The Company has paid an interim dividend of RMB0.0679 (equivalent to HK$0.085) per ordinary share of the Company (the "Share") for the six months ended 30 June 2014. The Board is delighted to recommend a final dividend of RMB0.0692 (equivalent to HK$0.087) per Share for the year ended 31 December 2014 to shareholders whose names appear on the register of members of the Company at the close of business on Friday, 8 May 2015 (the "Record Date"). The register of members of the Company will be closed from Thursday, 7 May 2015 to Friday, 8 May 2015 (both days inclusive). Payment of the final dividend in Hong Kong dollars is expected to be made to the shareholders on Friday, 15 May 2015 upon shareholders' approval at the Annual General Meeting ("AGM") of the Company dated on Thursday, 30 April 2015.

Closure of Register of Members

The Register of Members will be closed from Thursday, 7 May 2015 to Friday, 8 May 2015 (both days inclusive), during which period no transfer of Shares will be effected. The last day for dealing in the Shares on a cum-entitlement basis will be Monday, 4 May 2015.

Shareholders are reminded that in order to qualify for the Final Dividend, all transfers of Shares must be duly completed, accompanied by the relevant share certificates and lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 6 May 2015.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2014. The Model Code also applies to other specified senior management of the Company.

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

Disclosure of Information

The information provided in this announcement is only the summary of 2014 Annual Report of the Company. The 2014 Annual Report will be duly dispatched to shareholders of the Company and published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.cms.net.cn).

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

27 March 2015, Hong Kong

As at the date of the announcement, the directors of the Company include (i) executive directors: Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling and Ms.Sa Manlin; (ii) independent non-executive directors: Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Huang Ming.