2014

Annual Report

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

(Stock Code:867)

Contents

Corporate Information

Board of Directors
Executive Directors
Mr. LAM Kong
Mr. CHEN Hongbing
Ms. CHEN Yanling
Mr. HUI Ki Fat（resigned on 1 October 2014）
Ms.SA Manlin
Independent Non-Executive Directors
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung
Mr. HUANG Ming

Company Secretary
Ms. ZHANG Lingyan

Authorized Representatives
Ms. ZHANG Lingyan
Mr. LAM Kong

Audit Committee Members
Mr. WU Chi Keung (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. HUANG Ming

Remuneration Committee Members
Mr.HUANG Ming (Chairman)
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung

Nomination Committee Members
Mr. CHEUNG Kam Shing, Terry (Chairman)
Mr. LAM Kong
Mr. WU Chi Keung
Mr. HUANG Ming

Auditors
Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers
China Merchants Bank, Shenzhen Branch
Industrial and Commercial Bank of China, ShenZhen Branch
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

Registered Office
Maples Corporate Services Limited
PO Box 309
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Grand Cayman, KY1-1104
Cayman Islands

Headquarters
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No.11 Langshan Road
Hi-tech Industrial Park North
Nanshan District
Shenzhen 518057
PRC

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

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

Stock Code: 867
Company's Website: www.cms.net.cn

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

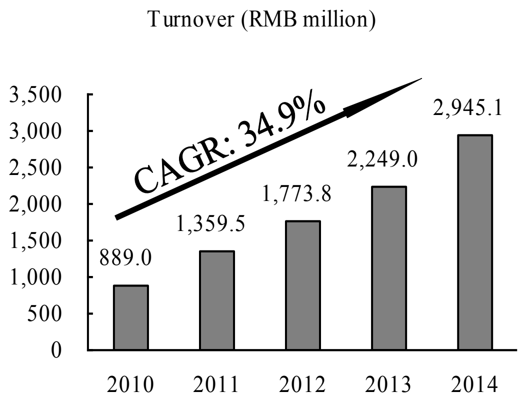
In June 2007, the Company was listed on the London Stock Exchange with the Company's consolidated financial statements being adopted in USD due to USD as a widely and commonly recognised global currency and the merit of freely convertible into a number of foreign currencies. However, the Company's functional 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.

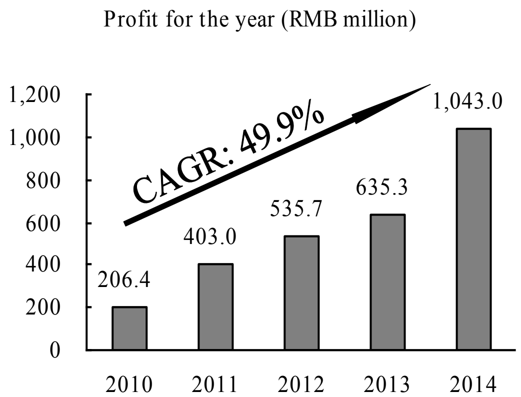
As a result, the following consolidated financial statements for the year ended 31 December 2014 are presented in RMB, whereas the comparative figures for the year ended 31 December 2013 have been restated to align with the change in presentation currency. The change in presentation currency and translation of the comparative amounts from USD to RMB has had no material impact on the Group's consolidated financial statements for the year concerned.

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)

Turnover and profit of the Group for the latest five years are set out below:





Consolidated Balance Sheet Highlights

	As at 31 December				
	2010	2011	2012	2013	**2014**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	1,478,235	3,033,726	3,523,207	3,917,623	**4,905,281**
Total liabilities	154,370	524,256	641,170	641,036	**914,442**
Net assets	1,323,865	2,509,470	2,882,037	3,276,587	**3,990,839**

Chairman's Statement

Dear shareholders,

This is the fourth year since China Medical System Holdings Limited (the "company" or "CMS") listed on the Main Board of the Hong Kong Exchanges and Clearing Limited ("HKEx"). On behalf of the Board of Directors of the Company, I would like to sincerely thank all of our shareholders for their unwavering support in these four years, and to present the Annual Report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2014 (the "Reporting Period").

Business Review

The year 2014 was full of challenges as well as opportunities for China's healthcare market. Affected by the slowdown of China's macro economy, the development of the healthcare industry had slowed since 2013. In 2014, government healthcare policy underwent proactively reforms, and competition in the industry became fiercer. M&A and reshuffle in the industry gradually became the norm in previous year. But we still believe there are more opportunities for growth in the Chinese healthcare sector. Catalysts such as the mass demand of the healthcare, government support to the industry as well as medical reforms have boosted the growth of the overall healthcare market. In the long run, the healthcare industry's prospects remain bright due to the implementation of government marketization measures, strong demand for drugs and a solid industry foundation.

In 2014, the Group executed organization-wide strategies tied to its core competitiveness - product introductions and network expansion to accelerate the introduction process, and raising market exposure while consolidating its foundation and improving the management. Those strategies have translated to respectable business growth. 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).

Product Introduction and Development

The Group believes that a premium product portfolio serves as an important foundation for its sustainable development. Given the sufficient cash flow, the Group is committed to introducing new products through the acquisition model during the Reporting Period, which involves purchasing products or assets for the Chinese market, and acquiring equity stakes in manufacturers. The acquisition model not only enables the Group to improve the stability and controllability of the product rights, but also ensures the profit margin of the product, and further, it serves as an important strategy for broadening the product portfolio and further development. In addition, the acquired products' asset value is set to appreciate given the continuous growth of the market share, which will be aided by the Company's professional sales capability. As of today, the Group has successfully signed nine product agreements, five of which were through the acquisition by buying assets for the Chinese market, including our existing product — Augentropfen Stulln Mono Eye-drops' right of control. The Group also signed an exclusive agreement for a key product of Hebei Xinglong Xili Pharmaceutical Limited Company ("Xili Pharmaceutical") via equity participation and successfully extended the contract of an existing product of Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical"), as well as reached an agreement on another product from the same company.

Since June 2014, the Group had tried to introduce overseas products by purchasing their assets for the Chinese market for the first time. The Group signed an Asset Purchase Agreement with British Beacon Pharmaceuticals Limited ("Beacon") to purchase assets of Succinylated Gelatin Injection (two products) for the Chinese market in June 2014. It also signed an agreement with Novartis AG and Novartis Pharma AG ("Novartis") to purchase assets of Lamisil® Tablet and Parlodel® Tablet for the Chinese market, and with British NORGINE B.V. to purchase assets of MOVICOL® for the Chinese market respectively in December. Besides introducing excellent new products from overseas, the Group also obtained assets of its existing product – Augentropfen Stulln Mono Eye-drops for the Chinese market in July 2014 by signing a series of agreements. On 20 March 2015, the Group signed a supplementary agreement with the Augentropfen Stulln Mono Eye-drops's manufacturer, and reached solutions on the insufficient supply and the guarantee of production capacity of the product in the future.

For domestic products, the Group obtains stable product rights as well as closer cooperation mainly through equity participation. As of November 2014, the Group has become the largest shareholder of Tibet Pharmaceutical by holding 26.61% of its shares. In addition to the renewal of the "Exclusive Sale Agreement of XinHuoSu" and a "Promotion Service Agreement" of the existing products – XinHuoSu in May 2014 - the Group had signed a new agreement with Tiber Pharmaceutical on another blockbuster product– NuoDiKang on 2 February 2015. The Group obtained the exclusive sales right of DanShenTong, the main product of Xili Pharmaceutical, by purchasing the share of Xili Pharmaceutical in December 2014 and in the beginning of January 2015.

Newly introduced products have increasingly diversified the Group's portfolio, and expanded marketing and promotion activities. As possessing the scale effect of our sales network and the duplicable product-introducing model, the Group is confident on the prospect of the product introduced. In 2014, acquisition has become one of the Group’s core strategic initiatives. We believe the proactive product introduction will have a profound impact on the Group’s future growth.

As a professional pharmaceutical promotion service provider, the Group aims to promote drugs across all therapeutic areas in China. Given the new in-licensed products in 2014, the Group will not only be able to broaden the portfolio for the covered departments (such as NuoDiKang for Cardiology and MOVICOL® for Gastroenterology) but also expand promotion and marketing into Dermatology and Obstetrics. The expansion of promotion, marketing and the growth of the therapeutic areas are beneficial to the promotion of products and deployment of resources, to embody economies of scale of the product, as well as to the possible merge of the two marketing and promotion networks in the future.

Benefiting from professional promotion capability and the continuous penetration into the rural market of the Direct Academic Promotion Network (“the Direct Network”), the main products of the Direct Network achieved ideal growth in 2014. Based on the penetration of the marketing and promotion networks to the rural market (“Network Devolution”) and the well-built brand and academic reputation, two of our main products, Deanxit and Ursofolk, maintained growth of approximately 30%; Salfolk, Bioflor and GanFuLe Tablet, products related to Gastroenterology, recorded a rapid growth of around or over 50%; Augentropfen Stulln Mono Eye-drops, product of Ophthalmology, became the fastest growing product of the Group, with remarkable sales growth of more than 60% over the same period the previous year due to the improved supply of the manufacturer. Despite the reform according to GMP requirements of the 2010 version (“the new GMP”) causing the halt in production of XinHuoSu in 2014, the Group was well-stocked and recorded a sales growth of more than 50%.

In 2014, the Group focused on its self-produced series of hydrolyzed proteins (“XiDaKang”) for its Agency Promotion Model. In line with the characteristic of the Agency Promotion Model and future market trends, during the Reporting Period, the Group improved the agency promotion model, starting with XiDaKang, to establish mutually-beneficial long-term partnerships with our agents in order to better understand the hospitals behind. In the first half of 2014, the production base of XiDaKang was successfully transferred to Kangzhe (Hunan) Medical Company Limited (“Kangzhe Hunan”), the manufacturing company of the Group, which proved to be conducive for the Group’s Agency Promotion Model reforms.

As for the other two main products of the Agency Promotion Model, ShaDuoLiKa's sales increased because its producer Chongqing Yaoyou had finished its reform according to the new GMP and the supply started to recover; as for YiNuoShu, the supply was affected by the reform according to the new GMP of its producer, Tianjin Pharmaceutical Research. To solve this problem, the Group and the producer reached an agreement during the Reporting Period, to authorize a third party to manufacture and thus alleviate the product shortage to a certain extent.

During the Reporting Period, the Group actively accelerated the process of product introduction, portfolio building and penetration into the rural market. Apart from the products currently under promotion, clinical trial of Tyroserleutide (CMS024), the Group's polypeptide drug, also made some progress. Although the preliminary result of phase III clinical trial for Tyroserleutide, unblinded on 28 Feb 2014, did not show a significant result, the overall survival ("OS") of the subgroup with no tumor thrombosis in the hepatic portal vein branches (no tumor thrombosis) nearly approaches statistical significance, while the six-month follow-up study on the subjects of subgroup with no tumor thrombosis produced meaningful data. Thus, the Group has been determined to conduct phase III extended clinical trial for Tyroserleutide, which it will initiate very soon. The cost of the study will be borne by Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D"). The preclinical study of Tyroserleutide started in 2001, and is still underway after more than a decade. Tyroserleutide is now the Group's only product at the Phase III study stage. Due to its significance to human health, the Group and Kangzhe R&D have been making unremitting efforts to study the drug, and looks to successful launch the product and allow it to create value for the Group's future development. As the Group does not bear the cost of research in this late stage of the study, and instead, will pay patent royalties to Kangzhe R&D after the successful launch of the product, Tyroserleutide has created a risk-controllable development model for the products in the R&D stage for the Company. Additionally, seven pipeline products that the Group introduced before the Reporting Period are under the Imported Drug Licensing process, and all the registrations were carried throughout 2014.

Network Expansion

As a driver of the Group's the other core competitiveness, our marketing and promotion network substantiates the Group's development. The main priority of the Group in 2014 was to continuously focus on the strategic planning and development of its sales network, to improve the initiative of the network and strengthen the management, personnel training and teambuilding.

To build a platform that is capable of hosting more products, the Group restructured the Direct Network starting in late 2012, establishing a leading institution geographically by regions (the market is divided into ten regions).

It is a multi-level organization with jurisdiction over the regional level and provincial level, and extends the centralized management to the first two levels of the network. With the multi-level and properly authorized sales network, the Group is not only able to penetrate into the rural and county-level markets ("Network Devolution") but also able to invigorate the network, making the implementation and execution of the strategies more effective and controllable. In the past two years, the restructuring of the network ("Regions System") has tended to mature through practice and adjustment, and has served its role for sales in 2014. The Regions System is an important strategic step for the network's long-term development, aiming at achieving deeper market penetration and a broader product portfolio. The Group also applied big data to the refined management of the sales network and achieved good results at the onset. In 2014, the professional Direct Network expanded to nearly 2,000 marketing, promotion and sales professionals, and became a strong foundation for further product introduction.

For the Agency Promotion Network (the "Agency Network"), the Group conducted a reform and pioneered a new partnership with our agencies according to the attributes of the Chinese healthcare sector. This is a win-win partnership for the Group. This innovative model will motivate our agents, strengthen the Group's management of the market and the Agency Network, and will enhance our relationship with our agents through the long-term partnership. This model will help the networks further expand and merge the Direct Network and the Agency Network in the future. Additionally, this model also requires higher standards for management and technique. In 2014, the new format of Agency Model was well-established with the Group renewing numerous agreements with its original dealer with the new model, by using XiDaKang as a pilot.

With the sales network expansion leading to a continuous growth in scale, the Group also emphasized talent development and teambuilding. During the Reporting Period, the Group kicked off a new round of campus recruitment, and completed staff recruitment and training on a large scale through different new approaches to accommodate the demand for marketing and sales talents for the continuous expansion and segmentation of the Direct Network. During the Reporting Period, the office space expansion entered the final stage to accommodate the increasing demand for business development and professional talent. In addition, the Group is considering continuous training by setting up a large-scale employee training center to meet the growing need for professional talent training.

Production Base

Apart from the products and the sales network, the Group owns four production bases. The first one, Kangzhe Hunan, is located in Lixian, Hunan, which produces hydrolyzed protein agents (powder and oral solution). The production of its small-volume injection workshop has been undergoing upgrading according to the new GMP.

The second one, Kangzhe LengShuiJiang Medical Co., Ltd. (Kangzhe Lengshuijiang) is located in LengShuiJiang Hunan, mainly handles oral TCMs' production such as GanFuLe Tablet. Its preparation for the restructure according to the new GMP is now on track. The third one, the factory in Pingshan Shenzhen is mainly for freeze-fried powder injection production, and its construction foundation is almost completed with the registration for GMP started. Last but not least, Hebei Xili Pharmaceutical Limited Company, our new acquisition, is mainly for TCMs' production and Active Pharmaceutical Ingredient extraction, and is the producer of DanShenTong.

Company Investment

The Group acquired a 26.61% share of Tibet Pharmaceutical and became the largest shareholder of the company in 2014. It was a key step in the development of product introduction as well as in business growth. In addition to being a financial investment, this action aims to improve the operations, competitiveness and profitability of Tibet Pharmaceutical, and also eliminates the drawbacks arising from conflicts between the original shareholders, and deepens the cooperation between Tibet Pharmaceutical and our Group as the later becomes the largest shareholder.

After the acquisition, the Group appointed a general manager with a professional medical background to manage the operations, and three directors nominated by the Group were successfully elected in January 2015. The Group also expects better returns on this investment as it will bring in its professional experience in the healthcare industry by appointing a general manager and directors to Tibet Pharmaceutical and help it achieve better development.

Cash Dividend

The Company 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.

Outlook and Future Development

In the past year, in the face of a more challenging external environment, the Group adjusted its product introduction strategy to introduce new products (including in China and overseas markets) through mergers and acquisitions of listed companies focusing on long-term development. On 26 March, 2015, the Group entered into an Asset Purchase Agreement with DKSHI to purchase assets relating to Combizym in certain designated countries that include China and with respect to Hirudoid in China. The transaction is another successful example of the implementation of the Group's acquisition strategy in product introduction.

Meanwhile, the Group continued to optimize the organizational structure of the sales network and strengthen the strategic layout of the network to build a solid platform for the Group’s further development. Having been engaged in the Chinese pharmaceutical market for two decades, overcoming challenges is always the impetus driving the Group forward.

In China's complex and volatile market environment, the Group has been keeping a close eye on market changes and potential risks. Adapting to the changes timely and spotting opportunities through innovation have kept the organization in the most competitive status. Known for its marketing and promotion capabilities, the Group has always made continuous product introduction and network expansion the cornerstones of its development strategies.

The Group will continue in its worldwide search for products that are suitable for the Chinese market. Our perspective not only focuses on the products which have already been launched to the market, but also focus on meaningful overseas products in the late stages of research (ready to start, are in progress or have completed Phase III clinical trial) and offer good therapeutics effect and have strong patent protection. Meanwhile, the Group will refer to the R&D model of Tyroserleutide (CMS024) to control risk and costs.

In addition, the Group will continue to seek a product introduction approach that is most suitable for the Group's development strategy and that effectively integrates resources from various parties to bring more excellent products into the Group’s product portfolio and that constitute important assets of the Group, thereby laying a solid foundation for the Group’s long-term development. The Group also continues to expand the network as well as to innovate and reform according to market needs, hiring more professional talent and building an effective and hardworking team for deeper market penetration.

Looking ahead, the Group will continue to start new business models and adapt to the new environment under its new norms.

We went through thick and thin together for the past two decades. Our guiding beliefs have always been, and will continue to be, rooted in a sense of responsibility towards shareholders, and to build a stable, profitable company with credible work-ethic and rigorous internal controls across all levels, led by intelligent and, effective managers. The Group will continue to dedicate its efforts to healthcare and the society, keep improving the portfolio and the sales network. The group is endeavored to face and overcome challenges and spot every possible opportunities proactively!

Chairman
Lam Kong
Shenzhen China
27 March 2015

Management Discussion and Analysis

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 10 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 exclusive 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 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 Tablet	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.

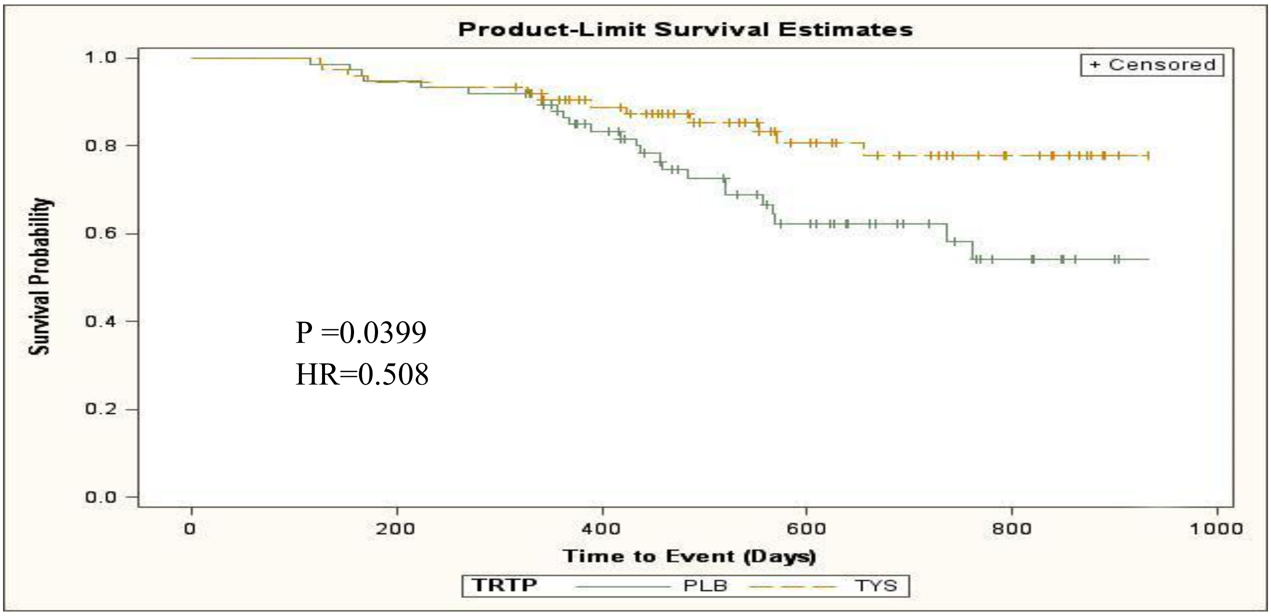
The Phase III clinical trial of Tyroserleutide, entitled "A Randomized, Double Blinded, Placebo Controlled, Multicenter Phase III Study to Evaluate the Safety and Efficacy of Tyroserleutide for Injection in the Patients with Hepatocellular Carcinoma", officially commenced by Kangzhe R&D in 2011. It enrolled 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, register, apply for registration, import, market, distribute, sell or otherwise use and/or exploit the products and the rights of manufacture for the designated markets. 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 dividend for 2013 and a final dividend for 2012 of RMB125.0 million and RMB117.5 million, respectively.

Director and Senior Management

Executive Director

Mr. Lam Kong, aged 50, is the Chairman, Chief Executive Officer ("CEO") and the President of the Group and was appointed as an executive Director, on 18 December 2006. He acquired Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe") through his company over 19 years ago, building the business from a small company engaged in trading of pharmaceutical products to a leading pharmaceutical service company providing marketing, promotion and sale services. Mr. Lam is responsible for the creation, implementation and management of the Group's development and growth strategy and the management of the overall operation of the Group. Mr. Lam possesses clinical experience and has nearly 20 years of experience in marketing, promotion, sale and other value-added services for pharmaceutical products in China. He received his bachelor's degree in medicine from Zhanjiang Medical College in 1986, the name of which was changed to Guangdong Medical College in 1992. Mr. Lam is a member of the Nomination Committee of the Company.

Mr. Lam is a controlling shareholder of the Company and is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of the Securities and Futures Ordinance ("SFO"), the details of which are set out on pages 40 of this annual report.

Mr. Chen Hongbing, aged 48, is the Chief Operating Officer and the Vice-president of the Group and was appointed as an executive Director on 18 December 2006. He joined the Group in 1995 and has remained with the Group since then. Mr. Chen is responsible for the operation of the Group's marketing, promotion and sale business and office administration. He had acquired about 4 years' clinical experience as a resident doctor with Nanjing Gulou Hospital from 1990 to 1994 prior to joining the Group in 1995. He graduated from Nanjing Medical College with a bachelor's degree in clinical medicine in 1990.

Mr. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 40 of this annual report.

Ms. Chen Yanling, aged 44, is the Chief Financial Officer and the Vice-president of the Group and was appointed as an executive Director on 18 December 2006. She joined the Group in 1995 and has remained with the Group since then. Ms. Chen is responsible for the Group's financial affairs, accountant, financing, taxation, audit, internal control and investor relations affairs. She received her accountancy qualification in 1997 from the Ministry of Personnel of the People's Republic of China and received EMBA from the International East-west University in 1999.

Ms. Chen is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 40 of this annual report.

Mr. Hui Ki Fat, aged 73, was appointed as an executive Director on 26 April 2007. Mr. Hui has also been a director of the Group's subsidiary since 1999. He was a director and general manager of Jebsen & Company Ltd. in Tianjin, China for which he worked from 1968 to 1981 and from 1983 to 1998. Mr. Hui resigned as an executive director on 1 October 2014.

Mr. Hui is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 40 of this annual report.

Ms. Sa Manlin, aged 54, was appointed as an executive Director on 11 December 2012. Ms. Sa joined the Group in 1995 and has remained with the Group since then. Ms. Sa is responsible for the products' marketing and promotion matters of Shenzhen Kangzhe. She had acquired about 10 years' clinical experience prior to joining the Group in 1995. Ms. Sa received a bachelor's degree in medicine from Shanghai University of Traditional Chinese Medicine in 1984 and a master's degree in Business Administration from the Asia International Open University (Macau) in 2003, which was officially renamed as City University of Macau in 2011.

Ms. Sa is interested or deemed to be interested in the Shares and underlying Shares of the Company for the purpose of Part XV of SFO, the details of which are set out on pages 40 of this annual report.

Independent Non-executive Directors

Mr. Cheung Kam Shing, Terry, aged 52， was appointed as an independent non-executive Director of the Company on 18 August 2010. Mr. Cheung has more than 20 years' experience in securities broking, investment banking, fund management, private equity and other financial areas. He is currently the Chief Operating Officer of Greater China Professional Services Limited, being a professional services company providing corporate governance, asset valuation, and other corporate advisory services, since July 2010. The companies he worked for after graduating from the University of Hong Kong in 1984 included Sanyo Securities (Asia) Limited, Fidelity International Investment Management Limited, Kerry Securities Limited, Sassoon Securities Limited, and Core-Pacific Yamaichi International (HK) Limited from 1984 to 2000. Mr. Cheung served as Managing Director at Culturecom Holdings Limited (a company listed on the Stock Exchange with stock code 0343) from 2000 to 2005. He later served as Managing Director of Nouveau Investment Group Limited from 2005 to mid 2010. Mr. Cheung was an independent non-executive director of Green Holdings Limited (a company listed on the Stock Exchange with stock code 1318) from 22 December 2014 to 14 March 2015.

Mr. Cheung received his bachelor's degree in social sciences from the University of Hong Kong in 1984 and his master's degree in science (financial economics) from the University of London in 1995. Mr. Cheung is the chairman of the Nomination Committee, a member of the Audit Committee and a member of the Remuneration Committee of the Company.

Mr. Wu Chi Keung, aged 58, was appointed as an independent non-executive Director on 25 June 2010. Mr. Wu has more than 30 years of experience in financial audit and specializes in providing auditing and assurance services, financial due diligence reviews, support services for merger and acquisitions, corporate restructuring and fund raising engagements. Mr. Wu was a partner of Deloitte Touche Tohmatsu until he retired in December 2008. Mr. Wu is currently the managing Director of a family-owned private company engaging in property and other investment activities. He is also an independent non-executive Director of Jinchuan Group International Resources Co., Ltd (stock code: 2362), Zhong Fa Zhan Holdings Limited (stock code: 475), Huabao International Holdings Ltd. (stock code: 336) and YuanShengTai Dairy Farm Ltd. (stock code: 1431), all the shares of which are listed on the Stock Exchange. Mr. Wu was also an independent non-executive Director of JF Household Furnishings Limited (stock code: 776) from 16 August 2011 to 5 October 2012, an independent non-executive director of GreaterChina Professional Services Limited (stock code: 8193) from 18 May 2011 to 2 July 2014, an independent non-executive director of China Renji Medical Group Limited (stock code: 648) from 3 January 2012 to 15 July 2014, and an independent non-executive director of Link Holdings Limited (stock code: 8237) from 20 June 2014 to 3 October 2014.

Mr. Wu is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of Association of Chartered Certified Accountants in the United Kingdom. Mr. Wu graduated from Hong Kong Polytechnic (now known as Hong Kong Polytechnic University) in 1980 with a high diploma in accountancy. Mr. Wu is the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company.

Mr. Huang Ming, aged 50, was appointed as an independent non-executive Director of the Company on 9 October 2013. Mr. Huang was an Assistant Professor and Associate Professor of Finance at Stanford University, Graduate School of Business from 1998 to 2002, and was the Associate Dean and Visiting Professor of Finance and the Professor of Finance at Cheung Kong Graduate School of Business from 2004 to 2005 and from 2008 to 2010 respectively, and was the Head of School of Finance of Shanghai University of Finance and Economics from 2006 to April 2009. He has been a Professor of Finance at the Johnson Graduate School of Management at Cornell University since July 2005, and has been a Professor of Finance at China Europe International Business School since July 2010. Mr. Huang has been a non-executive Director of the Annuity Fund Management Board of China National Petroleum Corporation since 2007.

He has been a non-executive Director of Yingli Green Energy Holding Company Limited (stock code: YGE) and Qihoo 360 Technology Co. Ltd. (stock code: QIHU), companies listed on the New York Stock Exchange, since 2008 and 2011 respectively, and he has also been an independent non-executive Director of Fantasia Holdings Group Co., Ltd. (stock code: 1777), a company listed on the Stock Exchange, since 2009. Mr. Huang is currently a non-executive Director of 360buy Group, Guosen Securities Co. Ltd. and Tebon Securities Co. Ltd. Mr. Huang graduated from Peking University in 1985 majoring in physics, and then obtained his doctor’s degree in physics and finance from Cornell University and Stanford University respectively. Mr. Huang is the chairman of the Remuneration Committee, a member of the Audit Committee and a member of the Nomination Committee of the Company.

SENIOR MANAGEMENT

Dr. Wong Wai Ming, aged 54, has been the Chief Technical Officer of the Group since 2010. He first joined the Group in 2000 and then became the Chief R&D Officer in 2007. He is responsible for dealing with technical issues in introducing products and providing technical advice to the Group for selecting pharmaceutical products. Prior to this, Dr. Wong worked as manager of China pharma department for Jebsen Co. Ltd. He studied bio-chemistry and received his bachelor’s degree in science and PhD from the University of Hong Kong in 1983 and 1993, respectively.

COMPANY SECRETARY

Ms. Zhang Lingyan, aged 43, joined the Group in 2000 and currently holds the positions of Company Secretary, Director of Legal and Investment Affairs of the Group and Director of the CEO's office. Ms. Zhang is primarily responsible for overseeing the legal and investment affairs of the Group, including compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Ms. Zhang obtained a bachelor's degree in management majored in ideological and political education and a master's degree in jurisprudence from Nanjing Normal University in 1993 and 2000, respectively. Ms. Zhang has extensive experience in corporate governance and compliance matters. Ms. Zhang has been a director of Tibet Pharmaceutical since 8 January 2015. During the Reporting Period, Ms. Zhang had received the professional training for no less than 15 hours to promote her skill and knowledge.

Directors' Report

The board of Directors of the Company (the "Board") is pleased to present the Directors' report and audited consolidated financial statements of the Group for the year ended 31 December 2014.

Principal Activities

The Company is a holding company, the subsidiaries' principal activities are set out in note 39 to the financial statements.

Results

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income in page 55.

Reserves

Movements in reserves for the year ended 31 December 2014 are set out in the consolidated statement of changes in equity in page 58 and note 29 to the financial statements.

Distributable Reserves

As at 31 December 2014, the Company had distributable reserves of RMB2,333.0 million available for distribution to our shareholders.

Property, Plant and Equipment

Details of changes in property, plant and equipment of the Group are set out in note 14 to the financial statements.

Share Capital

Movements in the share capital of the Company are set out in note 28 to the financial statements.

Final Dividend

The Board of Directors is pleased 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 on Friday, 8 May 2015. The register of members of the Company will be closed from Thursday, 7 May 2015 to Friday, 8 May 2015 (both days inclusive). The final dividend will be paid to shareholders on Friday, 15 May 2015 after the shareholders' approval at the AGM dated on Thursday, 30 April 2015.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association (the "Articles of Association") or the laws of the Cayman Islands which oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

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.

Directors

The Directors of the Company during the year and up to the date of this Report were:

Executive Directors:
Mr. LAM Kong (Chairman and CEO)
Mr. CHEN Hongbing (Chief Operating Officer)
Ms. CHEN Yanling (Chief Financial Officer)
Mr. HUI Ki Fat (resigned on 1 October 2014)
Ms. SA Manlin
Independent Non-executive Directors:
Mr. CHEUNG Kam Shing, Terry
Mr. WU Chi Keung
Mr. HUANG Ming

Pursuant to Article 16.18 of the Articles of Association, at every AGM of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director appointed pursuant to Article 16.2 or Article 16.3 shall not be taken into account in determining which Directors are to retire by rotation. A retiring Director shall be eligible for re-election. Accordingly, Ms. Chen Yanling, Ms. Sa Manlin and Mr. Cheung Kam Shing, Terry will retire from their offices at the AGM and, being eligible, offer themselves for re-election at the AGM.

At the AGM, separate ordinary resolutions will be proposed for each of the re-elections of Ms. Chen Yanling, Ms. Sa Manlin and Mr. Cheung Kam Shing, Terry. Details of these retiring Directors are set out in the circular issued on 27 March 2015.

Annual Confirmation of Independence

The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out in rule 3.13 of the Listing Rules on the Stock Exchange.

Biographical Details of the Directors and the Senior Management

The biographical details of the Directors and the senior management are set out on page 33 to 36 of this annual report.

Directors' Service Contracts

Each of the Directors of the Company has respectively entered into an appointment letter with the Company, and all the executive Directors and independent non-executive Directors were appointed for a three-year and one-year term, respectively. Their appointments are subjected to retirement from office by rotation and re-election at the AGM of the Company in accordance with the Articles of Association. Save as disclosed above, none of the Directors has entered or intend to enter into any contract of service with the Company or any of its subsidiaries which cannot be determinable by the employer within one year without payment of compensation (except for statutory compensation).

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Key Employee Benefit Scheme

During the Reporting Period, approved by the board of directors of the Company, there were 6 employees of the Company participating in the Key Employee Benefits Scheme. Details of the key employee benefit scheme is set out in note 38 to the financial statements.

Directors' interests in Contracts of Significance

During the Reporting Period, none of the Directors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

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

As at 31 December 2014, the interests or short positions of the Directors in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director	Name of Corporation	Nature of Interest	Class of Shares and Total Number of Shares Held (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,217,615,500 (L) (Note 2)	50.42%
		Interest in controlled corporation	2,406,500 (L) (Note 3)	0.10%
		Interest in controlled corporation	9,865,162 (L) (Note 4)	0.41%
Mr. Chen Hongbing	The Company	Beneficial owner	39,993,225 (L)	1.66%
		Interest in controlled corporation	75,000,000 (L) (Note 5)	3.11%
		Beneficiary of a trust	9,865,162 (L) (Note 6)	0.41%
Ms. Chen Yanling	The Company	Beneficial owner	7,835,250 (L)	0.32%
		Interest in controlled corporation	3,750,000 (L) (Note 7)	0.16%
		Beneficiary of a trust	9,865,162 (L) (Note 6)	0.41%
Mr. Hui Ki Fat	The Company	Beneficial owner	6,000,000 (L)	0.25%
Ms. Sa Manlin	The Company	Beneficial owner	6,074,237(L)	0.25%
		Family interest	750,000 (L) (Note 8)	0.03%
		Beneficiary of a trust	9,865,162 (L) (Note 6)	0.41%

Notes:

1. The letter "L" denotes long positions in the Shares.
2. These Shares are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
3. These interests in respect of warrants are held by Mr. Lam Kong through Treasure Sea Limited, a company wholly owned by him.
4. These Shares are held by Fully Profit Management (PTC) Limited, a company wholly owned by Mr. Lam Kong. Fully Profit Management (PTC) Limited is the trustee of the Key Employee Benefit Trust, (a discretionary trust established by the Company on 31 July 2009 for the Key Employee Benefits Scheme). Please refer to note 6 below for further details.
5. These Shares are held by Mr. Chen Hongbing through Viewell Limited, a company wholly owned by him.
6. These Shares are held by Fully Profit Management (PTC) Limited acting as the trustee of the Key Employee Benefit Trust. The discretionary objects of the discretionary trust include Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Sa Manlin and they are deemed to be interested in these 9,865,162 Shares. The references to these 9,865,162 Shares in respect of which Mr. Lam Kong is deemed to be interested in (as disclosed above) relate to the same block of Shares.
7. These Shares are held by Ms. Chen Yanling through Great Creation Holdings Limited, a company wholly owned by her.
8. These Shares are held by Mr. Zhang Ziqiang, the spouse of Ms. Sa Manlin, in respect of which Ms. Sa Manlin is deemed to be interested in.

Directors' Right to Acquire Shares or Debentures

At no time during the year any right to acquire benefits by means of the acquisition of shares in or debentures of the Company was granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; nor was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or minor children to acquire such rights in any other body corporate.

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

As at 31 December 2014, the Directors were not aware of any other person (other than the Directors of the Company), who held interest and short positions in the shares or underlying shares or debentures of the Company which would have to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Connected Transactions

Details of connected transactions are set out in note 36 and note 38 to the financial statements.

Employees

As at 31 December 2014，the Group had 2,499 employees.

Directors' and Management Emoluments

Particulars of directors' emoluments and the five highest paid individuals of the Group are set out in note 8 and note 9 to the financial statements, respectively.

For the year ended 31 December 2014, emoluments of the senior management including Chief Technical Officer Dr. Wong Wai Ming and Company Secretary Ms. Zhang Lingyan was between HK$300,000 and HK$800,000 each.

Major Customers and Suppliers

For the year ended 31 December 2014, the percentage of sales to the Group's five largest customers was approximately 13.8% of the Group's total sales, and sales to the top customer accounted for approximately 3.7% of the total sales.

For the year ended 31 December 2014, the percentage of purchases from the Group's five largest suppliers was approximately 90.1% of the Group's total purchases, and purchase from the top supplier accounted for approximately 27.2% of the total purchases.

Except as disclosed in note 36 to the consolidated financial statement, none of the Group's directors, the contacts of the directors, the shareholders had an interest in supplier or customer.

Corporate Governance

A report for the corporate governance principles and practices adopted by the Company is set out on page 44 to 52 of this annual report.

Sufficiency of Public Float

According to the publicly available information and as far as the Directors were aware of, as at the date of this annual report, there was a sufficient public float of the Company's issued shares as required under the Listing Rules.

Non-competition and Indemnity Agreements

The Company entered into a deed of non-competition with Mr. Lam Kong and his wholly owned company registered in the British Virgin Islands—Treasure Sea Limited ("Treasure Sea") on 14 September 2010 (the "Non-competition Deed"). Mr. Lam Kong and Treasure Sea jointly undertook not to carry on businesses that are in competition with the Company's businesses.

Mr. Lam Kong and Treasure Sea stated that they complied with the relevant clauses of the Non-competition Deed, and did not engage in businesses that are in competition or may compete with the businesses of the Company and any of its subsidiaries, and also did not directly or indirectly hold any business interest that is in competition with the businesses of the Company and any of its subsidiaries during the Reporting Period.

The independent non-executive Directors have reviewed the compliance of the Non-competition Deed by Mr. Lam Kong and Treasure Sea during the Reporting Period, and reviewed the relevant business information provided by the Company. The independent non-executive Directors were of the opinion that Mr. Lam Kong and Treasure Sea complied with the relevant terms of the Non-competition Deed during the Reporting Period and did not cause any competition with the Company. The Board of Directors operated and managed the Company's businesses independently in the interests of the Company and its shareholders as a whole.

Compliance with the Corporate Governance Code

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 of the board ("Chairman") and CEO which shall not be performed by the same individual. The details of the Company's compliance with the CG Code are set out on page 44 to 52 of this annual report.

Competing Interests

None of the Directors or managements and their respective associates (as defined in the Listing Rules) has an interest in a business which competes or may compete with the businesses of the Company or any of its subsidiaries or has any other conflict of interest with the Company during the Reporting Period.

Audit Committee

The details of Audit Committee are set out in page 48 of the Corporate Governance Report of this annual report.

Auditors

The Company has appointed Deloitte Touche Tohmatsu as auditors since the listing of the Company on the Main Board of the HKEx on 28 September 2010. The financial statements in the Annual Report for the year have been audited by Deloitte Touche Tohmatsu. A resolution will be submitted at the AGM of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

Corporate Governance Report

Corporate Governance Report

The Company is committed to upholding high standards of corporate governance and has adopted sound governance and disclosure practices. The Company believes that maximizing long-term shareholder value by increasing the Group's accountability and transparency through continuous improving the level of corporate governance.

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.

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.

Operation of the Board

In accordance with good corporate governance principles, the Board convened regular meetings in accordance with, and complied strictly with the applicable laws, regulations and the Articles of Association in the exercise of its authority, with an emphasis on protecting the interests of the Company and its shareholders as a whole.

The role and responsibilities of the Board broadly cover reviewing and approving corporate mission and broad strategies; overseeing and evaluating the conduct of the Group's businesses; identifying principal risks and ensuring the implementation of appropriate measures and control systems to manage these risks; and reviewing and approving important matters such as financial results, investments and divestments and other material transactions.

The Company has established three committees, namely, the Audit Committee, Nomination Committee and Remuneration Committee, which mainly comprise independent non-executive Directors and responsible for overseeing particular aspects of the Group's business, and to provide the Group with recommendations for improvements. Please see below for the work scope of these committees. The Board has delegated the responsibilities of the day-to-day management and operation of the Group's businesses to the senior management of the Company and its subsidiaries.

Composition of the Board

As at the date of this annual report, the Board consists of seven Directors, including four executive Directors, namely Mr. Lam Kong, Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Sa Manlin; three independent non-executive Directors, namely Mr. Cheung Kam Shing, Terry, Mr. Wu Chi Keung and Mr. Huang Ming. Biographical details of the Directors are set out on page 33 to 36 of this annual report. Save as disclosed in the section headed "Directors and Senior Managements" of this annual report, none of the Directors has any financial, business, family or other material or relevant relationships among members of the Board.

Appropriate insurance cover for the Directors' and senior managements' liabilities in respect of legal actions against the Directors and senior managements of the Company arising out of corporate activities of the Group has been arranged by the Company.

Board Attendances and Time Commitment

During the Reporting Period, the Company held six Board meetings and one AGM. The following is the attendance record of the Directors at such meetings held during the Reporting Period.

Name	Title	Attendance Rate	
		Board Meeting	AGM
Mr. Lam Kong	Chairman and CEO	6/6	1/1
Mr. Chen Hongbing	Chief Operating Officer	6/6	1/1
Ms. Chen Yanling	Chief Finance Officer	5/6	1/1
Mr. Hui Ki Fat*	Executive Director	3/3	1/1
Ms. Sa Manlin	Executive Director	6/6	1/1
Mr. Cheung Kam Shing, Terry	Independent Non- Executive Director	6/6	1/1
Mr. Wu Chi Keung	Independent Non- Executive Director	5/6	1/1
Mr. Huang Ming	Independent Non- Executive Director	6/6	1/1

*Notes:
1. Mr. Hui Ki Fat resigned on 1 October 2014.

Upon reviewing (i) the annual confirmation of the time commitment given by each Director; (ii) the directorships and major commitments of each Director; and (iii) the attendance rate of each Director for the Board meetings and AGM, the Board is satisfied that all Directors have spent sufficient time in performing their responsibilities during the Reporting Period.

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

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.

Independent Non-executive Directors

For the year ended 31 December 2014, three independent non-executive Directors were appointed, at least one of whom has appropriate professional accounting qualifications. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with each and every guideline set out under the Listing Rules.

The independent non-executive Directors are appointed for a period of one year. All of them are subject to retirement by rotation and re-election by shareholders at AGM in accordance with the Articles of Association of the Company. The responsibilities of the independent non-executive Directors include, without limitation: regular attendance at meetings of the Board and of Board Committees of which they are members; provision of independent opinion at meetings of the Board and other Board Committees; service on the Audit Committee, Remuneration Committee and Nomination Committee; and scrutinizing and monitoring the performance of the Company as a whole.

Directors' Continuous Professional Development

On appointment to the Board, each newly appointed Director has received professional lawyer's training covering the general, statutory and regulatory obligations of being a director of a listed company to ensure that he/she is sufficiently aware of his /her responsibilities under the Listing Rules and other relevant legal requirements.

From time to time, the Directors are provided with written materials to develop and refresh their professional skills. The Company Secretary also organizes and arranges seminars on the latest development of the applicable laws, rules and regulations for the Directors to assist them in discharging their duties.

According to the records maintained by the Company, the Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the revised CG Code on the continuous professional development during the Reporting Period.

	Corporate Governance/ Updates on Laws, rules and Regulations/Updates on Industry Specific	
	Written Materials	**Briefings/Seminars**
Executive Directors		
Mr. Lam Kong	√	√
Mr. Chen Hongbing	√	√
Ms. Chen Yanling	√	√
Mr. Hui Ki Fat	√	√
Ms. Sa Manlin	√	√
Independent Non-executive Directors		
Mr. Cheung Kam Shing, Terry	√	√
Mr. Wu Chi Keung	√	√
Mr. Huang Ming	√	√

Committees

The Company has established Audit Committee, Remuneration Committee and Nomination Committee. The function of each of these committees is to study pertinent issues in its area of expertise and to provide opinion and recommendations for consideration by the Board under its own defined terms of reference.

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

Remuneration Committee

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

The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Board on the policy and structure for remunerations of all Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of the Directors and senior management; (iii) approving the terms of Directors' service contracts, and (iv) reviewing and approving performance based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time. The terms of reference of the Remuneration 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 Remuneration Committee held one meeting . Below is the attendance rate of the committee members:

Committee Members	Attendance Rate of the Meeting for the Year ended 31 December 2014
Mr. Huang Ming	1/1
Mr. Cheung Kam Shing, Terry	1/1
Mr. Wu Chi Keung	1/1

Nomination Committee

The Company established the Nomination Committee in 2007. The Nomination Committee comprises one executive Director and three independent non-executive Directors, and is chaired by Mr. Cheung Kam Shing, Terry, with Mr. Lam Kong, Mr. Wu Chi Keung and Mr. Huang Ming as the committee members.

The primary duties of the Nomination Committee are to make recommendations to the Directors on all new appointments of Directors and senior management, interviewing nominees, and to take up references and to consider related matters. The nomination procedures and the process and criteria adopted by the nomination committee to select and recommend candidates for directorship are posted on the Company's website (http://www.cms.net.cn). The terms of reference of the Nomination 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 Nomination Committee held one meeting. During the Reporting Period, the Nomination Committee has reviewed the appointment of the Directors, the structure, size and composition of 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. Cheung Kam Shing, Terry	1/1
Mr. Lam Kong	1/1
Mr. Wu Chi Keung	1/1
Mr. Huang Ming	1/1

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

Auditor's Remuneration

For the year ended 31 December 2014, we have appointed Deloitte Touche Tohmatsu as our independent external auditor to provide the annual performance auditing service, the remuneration for the service was HK$2.3 million.

Directors' and Auditor's Responsibilities for Accounts

The Board acknowledges their responsibility for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2014. In preparing these financial statements, the Board has selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

Internal Controls

The Directors are responsible for maintaining a reliable and effective internal control system. The Company has established an internal audit department with relatively independent internal audit functions. An audit committee has also been established and is responsible to the Board. The Directors are in a position to supervise, assess and improve the Company's internal controls at all levels of management, so as to ensure that the Company can withstand changes in its operations and other external influences on its financial, operational and risk management, in order to safeguard the Company's assets and promote shareholders' interests.

For the year ended 31 December 2014, the Company further enhanced its internal control system, strengthened awareness on risk management, regulated work flows, promoted construction of ERP system and improved risk management; at the same time, the Company emphasized financial management and control functions of the Group, enhanced construction of financial system, strengthened audit function, stabilized investment procedures, and fully reinforced supervision efforts. Through series of measures, both internal management and operational efficiency of the Group have been significantly improved.

The Board of Directors of the Company review its internal control system from time to time and consider that the internal control system of the Company is effective, resources in accounting and financial reporting functions, qualifications of staff and their experience, training undergone and the relevant budget are sufficient.

Shareholders' Rights

Convening an Extraordinary General Meeting

Pursuant to article 12.3 of Articles of Association of the Company, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times has the right, by written requisition specifying the objects of the meeting and signed by the requisitionists to the Company's principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The same requirement and procedure also applies to any proposal to be tabled at shareholders' meetings for adoption.

Shareholders' Enquiries

Shareholders should direct their questions about their shareholdings to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited (Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong). Shareholders and the investment community may at any time make a request for the Company's information to the extent that such information is publically available. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong at Unit 2106, 21/F, Island Place Tower, 510 King's Road, North Point, Hong Kong.

Articles of Association

During the Reporting Period, there were no changes made in the Company's Articles of Association.

Communications with Shareholders and Investors

The Company actively communicates with its shareholders and investors through multiple channels as shown below: (i) the Annual General Meeting and Extraordinary General Meetings, which provide a platform for shareholders and investors to communicate with the board of directors of the Company (ii) the timely release of the latest news and updates of the Company on the official website; (iii) the sending of information and the internal magazine of the Company to shareholders and investors through e-mail or post at regular intervals.

During the Reporting Period, the Company actively attended different forms of investor communication activities, including face-to-face dialogue with investors, telephone conference and roadshow activities organized by sell side institutions, with the hope that investors can thoroughly understand the business model and development strategy of the Company. For the year ended 31 December 2014, the management of the Company received over 1,000 domestic and overseas institutional representatives or individual investors. In addition, with the help of independent third-parties, we have actively increased our interaction and communication with investors, and employed a professional Hong Kong institution an investor relations consultant so as to effectively maintain and improve our investor relations work.

Our active communication with shareholders and investors has been recognized by third parties. Mr. Lam Kong, CEO of CMS, was named "All-Asia Best CEO in 2014 from Buy-Side in the Healthcare and Pharmaceutical Industry" by Institutional Investor Magazine for the first time, ranking second place; Ms. Yanling Chen, CFO of CMS, was named "All-Asia Best CFO in 2014 from Buy-Side in the Healthcare and Pharmaceutical Industry" by Institutional Investor Magazine for the third consecutive time. Meanwhile, Ms. Yanling Chen also won the Top Prize from the Sell-Side for the first time in this selection. In addition, the Group was named "The Listed Company with the Best Information Disclosure" at the "4th Chinese Securities Golden Bauhinia" Award Ceremony held by Ta Kung Pao in Hong Kong on December 4th, 2014. CMS insists on effective communication with investors and transparent and timely information disclosure. The awards reflect the market's recognition of CMS' management, information disclosure and brand building as well as, confidence in CMS' future development.

The Company believes that shareholders' rights should be well respected and protected. According to the Listing Rules, the Company established the Shareholder Communication Policy and will regularly review this Policy to ensure its effectiveness. During the Reporting Period, the Companyhas disclosed all necessary information to its shareholders in compliance with the Listing Rules, and reported to its shareholders and investors through various formal channels, and maintained good communication with its shareholders and investors so that they may make informed assessments for their investment decisions and exercise their rights as shareholders. In the future, the Company will maintain effective communications with investors.

Deloitte.
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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Medical System Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on page 55 to 119, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA MEDICAL SYSTEM HOLDINGS LIMITED - continued
康哲藥業控股有限公司
(incorporated in the Cayman Islands with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014, and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 March 2015

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	5	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	6	275,271	88,256
Selling expenses		(631,145)	(467,534)
Administrative expenses		(151,896)	(145,519)
Finance costs	7	(16,733)	(16,809)
Share of results of associates		(621)	512
Profit before tax		1,129,504	685,285
Income tax expense	10	(86,509)	(49,987)
Profit for the year	11	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	13		
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	14	253,876	217,901	63,914
Prepaid lease payments	15	51,080	60,047	27,910
Interests in associates	16	1,308,462	6,306	7,375
Intangible assets	17	440,896	244,014	221,397
Goodwill	18	1,184,591	1,184,591	1,171,600
Available-for-sale investments	19	-	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	20	19,418	19,462	18,596
		3,359,685	1,954,527	1,701,329
Current assets				
Inventories	21	189,456	167,062	97,351
Trade and other receivables	22	876,245	859,020	583,867
Tax recoverable		-	1,041	6,610
Amount due from an associate	23	26,899	-	-
Pledged bank deposits	24	209,481	448,030	460,483
Bank balances and cash	24	243,515	487,943	673,567
		1,545,596	1,963,096	1,821,878
Current liabilities				
Trade and other payables	25	252,643	244,697	158,238
Bank borrowings	26	484,241	314,120	407,583
Deferred consideration payables	27	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	28	82,974	82,974	82,974
Reserves	29	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

	NOTES	31 December 2014 RMB'000	31 December 2013 RMB'000 (restated)	1 January 2013 RMB'000 (restated)
Non-current liabilities				
Deferred tax liabilities	20	81,177	28,650	32,773
Deferred consideration payables	27	44,594	21,755	21,096
		125,771	50,405	53,869
		4,116,610	3,326,992	2,935,906

The consolidated financial statements on pages 55 to 119 were approved and authorised for issue by the Board of Directors on 27 March 2015 and are signed on its behalf by:

LAM Kong
DIRECTOR

CHEN Yanling
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Attributable to the owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (note 29)	Investments revaluation reserve RMB'000	Surplus reserve fund RMB'000 (note 29)	Translation reserve RMB'000	Accumulated profits RMB'000	Dividend reserve RMB'000	Total RMB'000	Attributable to non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2013, as restated	82,974	1,767,684	19,545	13,136	99,731	372	764,240	117,477	2,865,159	16,878	2,882,037
Profit for the year	-	-	-	-	-	-	636,213	-	636,213	(915)	635,298
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(11,177)	-	-	(11,177)	-	(11,177)
Change in fair value on available-for-sale investments											
- fair value gain	-	-	-	20,781	-	-	-	-	20,781	-	20,781
- deferred tax relating to change in fair value	-	-	-	(4,731)	-	-	-	-	(4,731)	-	(4,731)
Share of other comprehensive expense of an associate	-	-	-	-	-	(211)	-	-	(211)	-	(211)
Total comprehensive income for the year	-	-	-	16,050	-	(11,388)	636,213	-	640,875	(915)	639,960
Dividends paid (note 12)	-	-	-	-	-	-	(125,030)	(117,477)	(242,507)	-	(242,507)
Dividends proposed (note 12)	-	-	-	-	-	-	(127,055)	127,055	-	-	-
Transfer of reserves	-	-	-	-	11,204	-	(11,204)	-	-	-	-
Acquisition of interest in intangible assets from shareholders of non-controlling interests	-	-	-	-	-	-	-	-	-	(2,903)	(2,903)
Balance at 31 December 2013, as restated	82,974	1,767,684	19,545	29,186	110,935	(11,016)	1,137,164	127,055	3,263,527	13,060	3,276,587
Profit for the year	-	-	-	-	-	-	1,045,702	-	1,045,702	(2,707)	1,042,995
Exchange differences arising on translation of foreign operations	-	-	-	-	-	1,793	-	-	1,793	-	1,793
Change in fair value on available-for-sale investments											
- fair value gain	-	-	-	241,133	-	-	-	-	241,133	-	241,133
- deferred tax relating to change in fair value	-	-	-	(55,264)	-	-	-	-	(55,264)	-	(55,264)
Reclassification adjustment when the Group acquired additional interest in the available-for-sale investments that becomes the Group's associate, net of deferred tax	-	-	-	(215,055)	-	-	-	-	(215,055)	-	(215,055)
Share of other comprehensive income of an associate	-	-	-	-	-	19	-	-	19	-	19
Total comprehensive income for the year	-	-	-	(29,186)	-	1,812	1,045,702	-	1,018,328	(2,707)	1,015,621
Dividends paid (note 12)	-	-	-	-	-	-	(163,961)	(127,055)	(291,016)	-	(291,016)
Dividends proposed (note 12)	-	-	-	-	-	-	(167,101)	167,101	-	-	-
Transfer of reserves	-	-	-	-	26,909	-	(26,909)	-	-	-	-
Disposal of a subsidiary (note 33)	-	-	-	-	-	-	-	-	-	(10,353)	(10,353)
Balance at 31 December 2014	82,974	1,767,684	19,545	-	137,844	(9,204)	1,824,895	167,101	3,990,839	-	3,990,839

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	2014 RMB'000	2013 RMB'000 (restated)
Cash flows from operating activities			
Profit before tax		1,129,504	685,285
Adjustments for:			
Amortisation of intangible assets	17	28,198	25,682
Interest expenses		13,609	15,583
Depreciation of property, plant and equipment	14	14,250	10,844
Impairment loss on goodwill	18	-	8,304
Allowance for inventories		1,919	5,772
Loss on disposal of property, plant and equipment		3,559	1,866
Release of prepaid lease payments		1,407	1,455
Imputed interest expense on deferred consideration payables		3,124	1,226
Allowance for bad and doubtful debts		793	354
Share of results of associates		621	(512)
Dividends from available-for-sale investments		(640)	(488)
Gain on disposal of a subsidiary	33	(1,225)	-
Reclassification adjustment when the Group acquired additional interest in the available-for-sales investments that becomes the Group's associate, net of deferred tax	6	(215,055)	-
Interest income		(35,020)	(39,694)
		945,044	715,677
Movements in working capital			
Increase in inventories		(26,202)	(64,029)
Increase in trade and other receivables		(32,061)	(282,189)
Increase in amount due from an associate		(20,000)	-
Increase in trade and other payables		43,854	18,852
Cash generated from operations		910,635	388,311
PRC Enterprise Income Tax paid		(66,179)	(53,436)
Hong Kong Profits Tax paid		(1,258)	(43)
Net cash generated by operating activities		843,198	334,832
Cash flows from investing activities			
Release of pledged bank deposit		507,228	460,483
Interest received		41,836	37,680
Proceeds from disposal of property, plant and equipment		792	1,744
Dividend received from an associate		1,598	1,368
Dividends received from available-for-sale investments		640	488
Proceed from disposal of a subsidiary	33	11,414	-
Purchase of prepaid lease payments		(3,575)	(11,175)
Payment for acquisition of interest in intangible assets from shareholders of non controlling interests	25	(30,000)	-
Acquisition of a subsidiary	32	-	(80,891)
Purchase of property, plant and equipment		(61,663)	(136,572)
Placement of pledged bank deposit		(268,679)	(448,030)
Purchase of available-for-sale investments	19	(154,644)	-
Acquisition of an associate	16	(784,882)	-
Purchase of intangible assets		(196,276)	-
Net cash used in investing activities		(936,211)	(174,905)

	NOTE	2014 RMB'000	2013 RMB'000 (restated)
Cash flows from financing activities			
New bank borrowings raised		720,275	314,120
Repayment of deferred consideration payables		(7,377)	(6,216)
Interest paid		(10,482)	(2,365)
Dividends paid	12	(291,016)	(242,507)
Repayment of borrowings		(550,154)	(407,583)
Loan advanced		(11,183)	-
Net cash used in financing activities		(149,937)	(344,551)
Net decrease in cash and cash equivalents		(242,950)	(184,624)
Cash and cash equivalent at the beginning of year		487,943	673,567
Effects of exchange rate changes on the balance of cash held in foreign currencies		(1,478)	(1,000)
Cash and cash equivalent at the end of year represented by bank balances and cash		243,515	487,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

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.

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

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.

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

IFRS 15 *Revenue from Contracts with Customers* - continued

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. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap, 32).

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

Changes in the Group's ownership interests in existing subsidiaries

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

When the Group acquires additional interest in an investee such that it has become an associate after additional acquisition, the investment in the associate is initially recognised at cost, which is the sum of the fair value of the previously held interest at the date when significant influence is obtained and the consideration paid/payable for the additional interest. The Group has adopted an accounting policy to reclassify to profit or loss the cumulative gain or loss in relation to the available-for-sale investments previously held by the Group up to the date when significant influence is obtained which has been previously accumulated in the investment revaluation reserve by analogy to IFRS 3 *Business Combination*, i.e. treat the transaction as if the original investment was disposed of for fair value and the Group acquired an associate for the first time.

When the associate is acquired in stages, goodwill is calculated at the time at which the investment becomes an associate and the goodwill is calculated as the difference between the cost of the investment and the Group's share of the net fair value of the investee's identifiable assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates - continued

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Internally-generated intangible assets - research and development expenditure - continued

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Prepaid lease payments

Prepaid lease payments represent the cost of land use rights paid to the local land bureau of the PRC Government.

Land use rights are stated at cost and are charged to profit or loss on a straight-line basis over the period for which the relevant land use right has been granted to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits, loan receivable and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividend is established.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when then is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period granted as well as observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

The Group's financial liabilities, including trade and other payables, bank borrowings and deferred consideration payables, are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service fee income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies - continued

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

For the purpose of restating the consolidated financial statements of the Group from US$ to RMB, the assets and liabilities for the consolidated statement of financial position are translated into RMB at the closing rate at the date of the consolidated statement of financial position. Income and expenses for the consolidated statement of profit or loss and other comprehensive income are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. The share capital, and the share premium and reserves are translated at the exchange rate at the date when the amount was determined (i.e. the rate at the date of transaction for an item measured in terms of the historical cost).

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes, which is a defined contribution scheme, are recognised as expenses when employees have rendered service entitling them to the contributions.

Payments to Key Employee Benefit Scheme, which is classified as a defined contribution scheme, are recognised as expenses in the reporting period in which the Board of Directors approve for the contribution to a trust.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of goodwill and intangible assets

For the purpose of impairment testing, the entire amount of goodwill and part of the intangible assets have been allocated to the three (2013: four) cash generating units ("CGU"s) (see note 18). The impairment assessment is based on the higher of fair value less costs to sell and value in use of the CGUs. The value in use of the related CGUs requires the Group to estimate the expected future cash flows from the CGUs. If the actual future cash flows are less than expected, impairment may be required. In the opinion of the directors of the Company, no impairment of intangible assets is required for the year ended 31 December 2014 and 2013. As at 31 December 2014, the carrying amounts of goodwill and intangible assets are RMB1,184,591,000 (net of impairment loss of RMB8,304,000) and RMB166,561,000, respectively (2013: RMB1,184,591,000 (net of impairment loss of RMB8,304,000) and RMB185,464,000, respectively).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Deferred tax assets

As at 31 December 2014, a deferred tax asset of approximately RMB19,418,000 (2013: RMB19,462,000) in relation to unrealised profits on inventories and impairment loss on property, plant and equipment has been recognised in the Group's consolidated statement of financial position. The recognition of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the profit or loss in the period in which such a reversal takes places.

Estimated impairment of trade receivables

On assessing any impairment of the Group's trade receivables, the management regularly reviews the recoverability, creditworthiness of customers and ages of the trade receivables. Impairment on trade receivables is made on the estimation of the future cash flows discounted at an effective interest rate. If the financial condition of the customers of the Group were deteriorated, resulting in an impairment of their ability to make payments, additional impairment may be required. As at 31 December 2014, the carrying amounts of trade receivables (net of allowance for bad and doubtful debts) and allowance for bad and doubtful debts are approximately RMB582,500,000 (2013: RMB379,912,000) and RMB2,270,000 (2013: RMB1,561,000), respectively.

Estimated allowance for inventories

As at 31 December 2014, the carrying amount of the Group's inventories is RMB189,456,000 (2013: RMB167,062,000). The management of the Group reviews an ageing analysis at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or sale. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete and slow moving items. The management also estimates the net realisable value for finished goods, work-in progress and raw materials based primarily on the latest invoice prices and current market conditions. If the conditions of inventory of the Group become no longer suitable for use in production or sale, an additional allowance may be required.

Determination of fair value of identifiable assets and liabilities of an associate and initial recognition of goodwill arising on acquisition of an associate

On acquisition of the investment in an associate, any excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interest in the acquiree over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. In estimating the fair value of identifiable assets and liabilities of the investee at the time when the Group obtains significant influence over the investee, the Group engages an independent qualified valuer to perform the valuation. The valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities require management estimates and judgement. As at 31 December 2014, goodwill of approximately of RMB1,171,244,000 is included in the carrying amount of interest in associates. Details of the interests in associates are disclosed in note 16.

5. 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.

6. 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 (note 33)	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 (note 18)	-	(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. Details of the acquisition are set out in notes 16 and 19.

(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.

7. 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

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	2014 RMB'000	2013 RMB'000
Directors' fees	1,100	1,136
Other emoluments to executive directors		
- basic salaries and allowances	2,491	2,578
- retirement benefits scheme contributions	88	88
	3,679	3,802

Details of emoluments paid by the Group to the directors and the chief executive are as follows:

	2014 RMB'000	2013 RMB'000
Mr. Lam Kong		
- directors' fee	142	142
- basic salaries and allowances	567	576
- retirement benefits scheme contributions	12	12
	721	730
Mr. Chen Hong Bing		
- directors' fee	142	142
- basic salaries and allowances	655	656
- retirement benefits scheme contributions	38	38
	835	836
Ms. Chen Yan Ling		
- directors' fee	142	142
- basic salaries and allowances	526	526
- retirement benefits scheme contributions	38	38
	706	706
Mr. Hui Ki Fat (note c)		
- directors' fee	106	142
- basic salaries and allowances	214	292
- retirement benefits scheme contributions	-	-
	320	434

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS - continued

	2014 RMB'000	2013 RMB'000
Ms. Sa Man Lin		
- directors' fee	142	142
- basic salaries and allowances	529	528
- retirement benefits scheme contributions	-	-
	671	670
Mr. Peng Huaizheng (note a)		
- directors' fee	-	111
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	-	111
Mr. Wu Chi Keung		
- directors' fee	142	142
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	142	142
Mr. Cheung Kam Shing, Terry		
- directors' fee	142	142
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	142	142
Mr. Huang Ming (note b)		
- directors' fee	142	31
- basic salaries and allowances	-	-
- retirement benefits scheme contributions	-	-
	142	31
Total	3,679	3,802

Notes:

(a) Resigned on 9 October 2013.
(b) Appointed on 9 October 2013.
(c) Resigned on 1 October 2014.

Mr. Lam Kong is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2014 included four directors (2013: four), details of whose emoluments are set out in note 8 above. The emoluments of the remaining individual for the year ended 31 December 2014 (2013: one individual) were as follows:

	2014 RMB'000	2013 RMB'000
Employees		
- basic salaries and allowances	630	632
- retirement benefits scheme contributions	36	31
	666	663

The emoluments of the employee were within the following bands:

	Number of employees	
	2014	2013
Up to HK$1,000,000 (equivalent to approximately RMB787,700)	1	1

During the year, no emoluments were paid by the Group to the directors or the highest paid individual (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments in both years.

10. 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 20):		
- 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.

10. INCOME TAX EXPENSE - continued

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 as set out in note 33.

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.

11. 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 38)	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

12. 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).

13. 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.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2013	30,930	1,295	29,951	23,078	10,819	17,606	113,679
Acquired on acquisition of a subsidiary (note 32)	28,589	-	2,967	4	202	-	31,762
Additions	30,833	-	20,847	5,678	1,118	78,203	136,679
Disposals	-	-	(6,958)	(795)	(261)	-	(8,014)
Transfer	4,896	-	1,698	-	-	(6,594)	-
At 31 December 2013	95,248	1,295	48,505	27,965	11,878	89,215	274,106
Additions	3,503	-	2,909	464	1,913	59,468	68,257
Derecognised on disposal of a subsidiary (note 33)	(12,886)	-	(6,465)	(422)	(315)	(391)	(20,479)
Disposals	(113)	-	(13,076)	(251)	(588)	-	(14,028)
Transfer	11,163	-	-	-	-	(11,163)	-
At 31 December 2014	96,915	1,295	31,873	27,756	12,888	137,129	307,856
ACCUMULATED DEPRECIATION							
At 1 January 2013	11,956	1,295	17,861	11,288	7,365	-	49,765
Provided for the year	2,928	-	3,134	3,815	967	-	10,844
Eliminated on disposals	-	-	(3,565)	(630)	(209)	-	(4,404)
At 31 December 2013	14,884	1,295	17,430	14,473	8,123	-	56,205
Provided for the year	4,996	-	4,584	3,547	1,123	-	14,250
Eliminated on disposal of a subsidiary (note 33)	(2,498)	-	(3,944)	(181)	(175)	-	(6,798)
Eliminated on disposals	(37)	-	(8,933)	(221)	(486)	-	(9,677)
At 31 December 2014	17,345	1,295	9,137	17,618	8,585	-	53,980
CARRYING VALUES							
At 31 December 2014	79,570	-	22,736	10,138	4,303	137,129	253,876
At 31 December 2013	80,364	-	31,075	13,492	3,755	89,215	217,901

14. PROPERTY, PLANT AND EQUIPMENT - continued

The above items of property, plant and equipment are depreciated over their estimated useful lives as follows:

Buildings	Over the shorter of the lease terms, or 20 years
Leasehold improvement	Over the shorter of the lease terms, or 20 years
Plant and machinery	9% - 18%
Motor vehicles	18%
Furniture, fixtures and equipment	18%

15. PREPAID LEASE PAYMENTS

	2014 RMB'000	2013 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	52,437	61,602
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables)	1,357	1,555
Non-current assets	51,080	60,047
	52,437	61,602

The Group has pledged leasehold land with a net book value of approximately RMB17,892,000 (2013: RMB18,289,000) to secure general banking facilities granted to the Group.

16. INTERESTS IN ASSOCIATES

	2014 RMB'000	2013 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	1,304,356	-
Unlisted	11,536	11,536
Share of post-acquisition profits and other comprehensive income, net of dividends received	(7,430)	(5,230)
	1,308,462	6,306
Fair value of listed investment (Note)	1,451,344	-

Note: As mentioned in note 6, during the year ended 31 December 2014, the Group acquired additional interest in Tibet Rhoidola Pharmaceutical Holding Co., Ltd. ("Tibet Pharmaceutical") and has obtained significant influence thereafter. As at 31 December 2014, the fair value of the Group's interest in Tibet Pharmaceutical, of which its shares are listed on the Shanghai Stock Exchange, was approximately RMB1,451 million based on the quoted market price available on the Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13.

16. INTERESTS IN ASSOCIATES - continued

As at 31 December 2014 and 2013, details of the associates are as follows:

Name of associates	Place of establishment/ incorporation	Proportion of ownership interest held by the Group 2014	2013	Principal activities
Ophol Limited ("Ophol") and	Hong Kong	24.49%	24.49%	Investment holding provision of agency service
Tibet Pharmaceutical (Note)	Tibet	26.61%	-	Production of medicines and sale of drugs

Note:

On 29 October 2014, a wholly owned subsidiary of the Company, Shenzhen Kangzhe Pharmaceutical Technology Development Co., Ltd. ("Kangzhe Pharmaceutical Technology") entered into share purchase agreements with independent third parties to purchase an aggregate of 26,162,719 ordinary shares of Tibet Pharmaceutical, representing approximately 17.97% of the total ordinary shares issued by Tibet Pharmaceutical, at a consideration of approximately RMB784,882,000 (the "Acquisition"). The Acquisition was completed on 10 November 2014 (the "Acquisition Date").

Prior to the completion of the Acquisition, the Group held an aggregate of 12,581,115 ordinary shares of Tibet Pharmaceutical, representing approximately 8.64% of the total ordinary shares issued by Tibet Pharmaceutical and accounted for its interest in Tibet Pharmaceutical as available-for-sale investments.

Upon the completion of the Acquisition, the Group holds an aggregate of 38,743,834 ordinary shares of Tibet Pharmaceutical, representing approximately 26.61% of the total ordinary shares issued by Tibet Pharmaceutical and achieved significant influence over Tibet Pharmaceutical. Tibet Pharmaceutical is therefore accounted for as an associate of the Group.

Included in the cost of investment in Tibet Pharmaceutical is a goodwill of approximately RMB1,171,244,000.

Summarised financial information of associates

Summarised financial information in respect of each of the Group's associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

16. INTERESTS IN ASSOCIATES - continued

Tibet Pharmaceutical

	31.12.2014 RMB'000
Current assets	730,641
Non-current assets	315,803
Current liabilities	(605,339)
Non-current liabilities	(26,922)

	Since Acquisition Date to 31.12.2014 RMB'000
Turnover	320,899
Profit for the year	145
Other comprehensive expense for the year	(2)
Total comprehensive income for the year	143
Dividends received from the associate during the period	-

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements.

	2014 RMB'000
Net assets of Tibet Pharmaceutical	414,183
Non-controlling interests	(9,830)
	404,353
Proportion of the Group's ownership interest in Tibet Pharmaceutical	26.61%
	107,598
Goodwill	1,171,244
Effect of fair value adjustment at acquisition	32,861
Effect of deferred tax relating to fair value adjustment at acquisition	(8,215)
Carrying amount of the Group's interest in Tibet Pharmaceutical	1,303,488

16. INTERESTS IN ASSOCIATES - continued

Ophol

	2014 RMB'000	2013 RMB'000
Current assets	4,248	4,414
Non-current assets	16,072	21,345
Current liabilities	(10)	(10)

	2014 RMB'000	2013 RMB'000
Turnover	1,012	2,110
Profit for the year	1,008	2,089
Other comprehensive income (expense) for the year	79	(861)
Total comprehensive income for the year	1,087	1,228
Dividends received from the associate during the year	1,598	1,368

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements.

	2014 RMB'000	2013 RMB'000
Net assets of Ophol	20,310	25,749
Proportion of the Group's ownership interest in Ophol	24.49%	24.49%
Carrying amount of the Group's interest in Ophol	4,974	6,306

17. INTANGIBLE ASSETS

	Exclusive distribution rights RMB'000 (note a(i), note a(ii) & note c(i))	Exclusive agency right RMB'000 (note b)	Patent rights RMB'000 (note c(i))	Product rights RMB'000 (note d (i)) & note d(ii))	Total RMB'000
COST					
At 1 January 2013	82,908	46,528	153,995	-	283,431
Exchange adjustments	-	(1,396)	(560)	-	(1,956)
Additions (note c(ii))	-	-	36,704	-	36,704
Acquired on acquisition of a subsidiary (note c(iii))	-	-	16,005	-	16,005
Adjustment arising on acquisition of interest in intangible assets from shareholders of non-controlling interests	-	-	(3,780)	-	(3,780)
At 31 December 2013	82,908	45,132	202,364	-	330,404
Exchange adjustments	-	164	131	(394)	(99)
Additions (note d(i) & note d(ii))	-	-	-	225,289	225,289
Transfer (note b)	-	(45,296)	-	45,296	-
At 31 December 2014	82,908	-	202,495	270,191	555,594
AMORTISATION					
At 1 January 2013	23,599	22,200	16,235	-	62,034
Exchange adjustments	-	(736)	-	-	(736)
Charge for the year	10,708	4,583	10,391	-	25,682
Adjustment arising on acquisition of interest in intangible assets from shareholders of non-controlling interests	-	-	(590)	-	(590)
At 31 December 2013	34,307	26,047	26,036	-	86,390
Exchange adjustments	-	102	4	4	110
Charge for the year	8,737	4,522	13,145	1,794	28,198
Transfer (note b)	-	(30,671)	-	30,671	-
At 31 December 2014	43,044	-	39,185	32,469	114,698
CARRYING VALUES					
At 31 December 2014	39,864	-	163,310	237,722	440,896
At 31 December 2013	48,601	19,085	176,328	-	244,014

17. INTANGIBLE ASSETS - continued

(a) Exclusive distribution right

(i) On 9 March 2008, the Group entered into an exclusive distribution agreement and a supplementary agreement (the "XinHuoSu Agreements") with Rhodiola in connection to a finished drug product (Lyophilized Recombinant Human Brain Natriuretic Peptide) which was distributed in the PRC market under the trade name of XinHuoSu for a term of three years with effect from 1 July 2008 to 30 June 2012.

Pursuant to the XinHuoSu Agreements, the Group obtained the exclusive distribution right of XinHuoSu for nil consideration and committed to handle the Phase IV clinical trials of XinHuoSu for 2,000 cases in the PRC to meet the drug safety standards set by the Food and Drug Administration in the PRC ("SFDA"). The drug, XinHuoSu, to be used in the 2,000 case clinical trials would be provided by Rhodiola free of charge. All other costs of the 2,000 case clinical trials should be borne by the Group. The management of the Group estimated the total costs to be incurred for completion of the 2,000 case clinical trials would be approximately RMB6,500,000.

In the opinion of the directors of the Company, the Group obtained the exclusive distribution right of XinHuoSu on the basis that the Group should complete the clinical trials of XinHuoSu and would bear all the costs of the clinical trials. Therefore, the costs incurred in clinical trials of approximately RMB4,745,000 were capitalised as an intangible asset.

As at 31 December 2011, the exclusive distribution right was fully amortised.

(ii) On 23 August 2012, the Group entered into a product rights transfer agreement (the "Agreement") with 北京亞東生物製藥有限公司 (Beijing Yadong Biopharmaceutical Co., Ltd.) ("Beijing Yadong"), an independent third party. According to the Agreement, Tianjin Kangzhe purchased from Beijing Yadong the exclusive distribution rights of three Traditional Chinese Medicinal Products - Yin Lian Qing Gan Ke Li, Xiang Fu Yi Xue Kou Fu Ye, Ma Jiang Jiao Nang (collectively referred to as "Three Products") for a term of 20 years with effect from 23 August 2012 at a consideration of RMB33,000,000. Tianjin Kangzhe will exclusively promote and sell the Three Products in the PRC and Beijing Yadong will be responsible for the production of the Three Products as required by Tianjin Kangzhe and sell the Three Products exclusively to Tianjin Kangzhe.

The exclusive distribution rights are amortised over their expected useful lives of 20 years.

17. INTANGIBLE ASSETS - continued

(b) Exclusive agency right

On 26 April 2008, a transfer agreement was entered into between Ophol, Qingdao League Pharmaceutical Co. Ltd. ("Qingdao League") and Pharma Stulln GmbH ("Pharma"), the supplier of Augentropfen Stulln Mono ("Stulln") in Germany in connection with the transfer of the exclusive agency right of Stulln in the PRC from Qingdao League to Ophol at nil consideration. After Ophol has obtained the exclusive agency right of Stulln in the PRC, Ophol agreed to transfer such exclusive agency right to the Group on condition that the 51% equity interest of Qingdao League owned by Shenzhen Kangzhe would be transferred to Qingdao Leatu Trading Ltd., a company which has common shareholder with Ophol under the sale and purchase agreement. On 15 July 2008, the Group entered into a supplementary agreement with Ophol and Pharma in connection with the transfer of exclusive agency right of Stulln, from Ophol to CMS Pharma, a wholly-owned subsidiary of the Company, at a consideration of RMB60,000,000. CMS Pharma will pay annually of RMB6,000,000 to Ophol over the next ten years to settle the consideration. The directors of the Group recognised the payable as a deferred consideration (see note 27) in the amount of RMB46,330,000, which represents the present value of the annual consideration of RMB6,000,000 over next 10 years discounted at 5%. CMS Pharma has replaced Qingdao League as the exclusive agent of Stulln for Pharma in the PRC from 1 August 2008 to 31 July 2018.

The expected useful life of the exclusive agency right is 10 years.

During the year ended 31 December 2014, the Group acquired all assets related to Stulln for the Chinese market and recognised as product right (see note 17(d)(i)). The residual balance of the exclusive agency right is transferred to product right accordingly.

(c) Acquisition of exclusive distribution rights and patent rights

(i) The Group acquired 100% of equity interest in Great Move Enterprises Limited ("Great Move") and 51% of equity interest in Kangzhe Guangming on 3 April 2011 and 30 April 2011, respectively. This included the acquisition of exclusive distribution rights and patent rights for the sales of several products. The exclusive distribution rights and patent rights were measured at their fair values at the date of acquisition and the valuation of the intangible assets is performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent rights at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right. The fair value of the exclusive distribution rights at the date of acquisition was determined based on the multi-period excess earnings method by capitalising future cashflows derived from the intangible assets for the remaining term of the distribution rights.

17. INTANGIBLE ASSETS - continued

(c) Acquisition of exclusive distribution rights and patent rights - continued

(i) - continued

As at the acquisition date, the major patent rights owned by Tianjin Kangzhe, the wholly owned subsidiary of Great Move, represented YiNuoShu and ShaDuoLiKa amounting to RMB137,917,000 and RMB8,287,000, respectively and the exclusive distribution rights owned by Tianjin Kangzhe amounted to RMB39,350,000. The Group also acquired the exclusive distribution right and patent right of XiDaKang amounting to RMB5,813,000 and RMB7,715,000, respectively through the acquisition of a former subsidiary, Kangzhe Guangming.

The expected useful lives of the exclusive distribution rights and patent rights are ranging from 1 year to 17 years.

(ii) On 27 December 2013, the Group entered into a transfer agreement with the shareholders of non-controlling interests of Kangzhe Guangming (the "Sellers") in connection with the transfer of the product right, mainly patent right of XiDaKang at a consideration of RMB40,000,000. The Sellers, who directly hold 49% equity interest of Kangzhe Guangming, agreed to transfer the 49% interest in the product right of XiDaKang to Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan"), a wholly-owned subsidiary of the Company. The consideration will be settled by the first payment of RMB30,000,000 and annual payment of RMB1,000,000 to the Sellers over the next ten years. The directors of the Company recognised the payable as a deferred consideration payable (see note 27) in the amount of RMB6,145,000, which represents the present value of the annual consideration of RMB1,000,000 over next ten years discounted at 10%. Pursuant to the transfer agreement, the 51% interest in the product right of XiDaKang is also transferred from Kangzhe Guangming to Kangzhe Hunan. Starting from 27 December 2013, Kangzhe Hunan has replaced Kangzhe Guangming as the product right owner of XiDaKang.

The expected useful lives of the product right is 14 years.

(iii) The Group acquired 100% of equity interest in Kangzhe Lengshuijiang Pharmaceutical Co., Ltd. (formerly known as Sinopharm Traditional Chinese Medicine Lengshuijiang Pharmaceutical Co., Ltd.) ("Kangzhe Lengshuijiang") on 28 February 2013. This included the acquisition of the patent right of GanFuLe Tablet. The patent right was measured at their fair values at the date of acquisition and the valuation of the intangible assets is performed by Vigers Appraisal & Consulting Limited, an independent valuer.

The fair value of the patent right at the date of acquisition was determined based on the royalty rate method by capitalising future royalty income which a market participant would be willing to pay to use the patents for the remaining term of the patent right.

As at the acquisition date, the patent right owned by Kangzhe Lengsuijiang, represented GanFuLe Tablet, amounted to RMB16,005,000.

The expected useful live of the patent right is 11 years.

17. INTANGIBLE ASSETS - continued

(d) Acquisition of product rights

(i) On 1 July 2014, the Group entered into a series of agreements related to Stulln with Pharma in connection with the transfer of all assets related to Stulln for the Chinese market (including Hong Kong and Macau Special Administration Regions "SAR"), including but not limited to the right of manufacturing Stulln for the Chinese market, marketing authorization for the Chinese market and relevant intellectual property rights, including trademark in Chinese characters and know-how of Stulln, and has been licensed the exclusive right to utilise the trademark in English characters. The carrying amount as at 31 December 2014 is approximately RMB84,750,000, which includes a deferred consideration payable (see note 27) in the amount of approximately EUR3,614,000 (equivalent to approximately RMB30,342,000), which represents the present value of the annual consideration of EUR1,000,000 over next five years discounted at 10%.

The expected useful life of the product right is 20 years.

(ii) On 17 December 2014, the Group entered into a series of agreements related to Lamisil Tablet and Parlodel Tablet ("the Products") with Novartis AG and Novartis Pharma AG, the suppliers of the Products in Switzerland in connection with the transfer of all assets related to the Products, including the drug production license of Lamisil Tablet, co-marketing authorization in Switzerland and imported drug license in China of Parlodel Tablet, all know-how, books and records, commercial and medical information exclusively to the Products for Chinese market (For Lamisil Tablet, Chinese market refers to Chinese Mainland; For Parlodel Tablet, Chinese market refers to Chinese Mainland and Hong Kong SAR and Taiwan). The carrying amount as at 31 December 2014 is approximately RMB152,972,000.

The expected useful life of the product rights is 20 years.

18. GOODWILL

	RMB'000
COST	
At 1 January 2013	1,171,600
Arising on acquisition of a subsidiary (note 32)	21,295
At 31 December 2013 and 31 December 2014	1,192,895
IMPAIRMENT	
At 1 January 2013	-
Impairment loss recognised in the year	8,304
At 31 December 2013 and 31 December 2014	8,304
CARRYING VALUES	
At 31 December 2014	1,184,591
At 31 December 2013	1,184,591

For the purposes of impairment testing, the entire amount of goodwill has been allocated to three (2013: four) CGUs, representing three (2013: four) subsidiaries, namely Tianjin Kangzhe, Kangzhe Lengshuijiang and Sky United Trading Limited ("Sky United") (2013: Tianjin Kangzhe, Kangzhe Lengshuijiang, Kangzhe Guangming and Sky United). Tianjin Kangzhe and Sky United are engaged in marketing, promotion and sale of drugs and trading of drugs, respectively. Kangzhe Lengshuijiang is engaged in production of medicines. Kangzhe Guangming was engaged in production of medicines and was disposed by the Group on 27 March 2014. The relevant intangible assets (excluding product rights of RMB237,722,000 and patent right of XiDaKang of RMB36,613,000) (2013: excluding exclusive agency right of RMB19,085,000 and patent right of XiDaKang of RMB39,465,000) (the "relevant intangible assets") are allocated to the CGUs. The carrying amounts of goodwill (net of accumulated impairment losses) and the relevant intangible assets as at 31 December 2014 and 2013 allocated to these units are as follows:

	Goodwill		Intangible assets	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Tianjin Kangzhe	1,160,333	1,160,333	153,053	170,594
Kangzhe Lengshuijiang	21,295	21,295	13,508	14,870
Sky United	2,963	2,963	-	-
Kangzhe Guangming	-	-	-	-
	1,184,591	1,184,591	166,561	185,464

The recoverable amounts of Tianjin Kangzhe, Kangzhe Lengshuijiang and Sky United are determined based on value in use calculations. As at 31 December 2013, the recoverable amount of Kangzhe Guangming has been determined based on fair value less costs to sell (see below). The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past performance and expectations of future changes in the market.

18. GOODWILL - continued

Tianjin Kangzhe

At 31 December 2014, the impairment review is determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 11% (2013: 11%). Tianjin Kangzhe's cash flows beyond the third-year period are extrapolated using a steady growth rate ranging from 3% to 20% (2013: 0% to 10%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Kangzhe Lengshuijiang

At 31 December 2014, the impairment review is determined based on cash flow projections which was derived from the financial budgets approved by management covering a three-year period, and discount rate of 11% (2013: 11%). Kangzhe Lengshuijiang's cash flows beyond the third-year period are extrapolated using a declining growth rate from 15% to 10% (2013: 20% to 10%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Kangzhe Guangming

On 31 December 2013, the Group had entered into a share transfer agreement with an independent third party, 廣州市康迪爾醫藥有限公司, to dispose of the subsidiary, Kangzhe Guangming, which is engaged in manufacture of XiDaKang, for a net consideration of RMB12,000,000. The disposal was completed on 27 March 2014 as set out in note 33.

As at 31 December 2013, the recoverable amount of Kangzhe Guangming was determined based on fair value less costs to sell calculations, determined using the net consideration received from 廣州市康迪爾醫藥有限公司.

The Group therefore recognised an impairment loss of approximately RMB8,304,000 in relation to goodwill arising on acquisition of Kangzhe Guangming in 2013.

The intangible assets previously allocated to Kangzhe Guangming, for the purpose of impairment testing, are transferred to Kangzhe Hunan, which has replaced Kangzhe Guangming as the owner of the intangible assets of XiDaKang and engaged in production of XiDaKang starting from 27 December 2013. At the end of the reporting period, management reviews the carrying amounts of the these intangible assets with finite useful lives and determines there is no indication that these assets have suffered an impairment loss.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2014 RMB'000	2013 RMB'000
Listed investments		
Equity securities listed on Shanghai Stock Exchange	-	123,697

The investment was denominated and traded in RMB and its fair value is based on the quoted market prices available on Shanghai Stock Exchange, which is a level 1 input in terms of IFRS 13.

During the year ended 31 December 2014, the Group purchased additional equity securities at quoted market price from the Shanghai Stock Exchange at an aggregate consideration of approximately RMB154,644,000.

During the year ended 31 December 2014, the cumulative gain up to the Acquisition Date previously accumulated in the investments revaluation reserve of approximately RMB215,055,000 has been reclassified to profit or loss as disclosed in note 6, 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. Details of the acquisition are set out in note 16.

20. 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 (note 32)	-	-	(10,349)	-	-	(10,349)
Credit (charge) to profit or loss for the year (note 10)	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 10)	146	-	2,219	-	(190)	2,175
Charge to other comprehensive income for the year (note b)	-	-	-	(55,264)	-	(55,264)
Disposal of a subsidiary (note 33)	-	-	518	-	-	518
At 31 December 2014	19,377	-	(17,213)	(63,964)	41	(61,759)

20. DEFERRED TAX - continued

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 6, 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.

21. INVENTORIES

	2014 RMB'000	2013 RMB'000
Raw materials	9,385	11,213
Work in progress	9,050	3,426
Finished goods	171,021	152,423
	189,456	167,062

22. 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.

22. TRADE AND OTHER RECEIVABLES - continued

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.

23. AMOUNT DUE FROM AN ASSOCIATE

Balance represents prepayments made to an associate for purchases of inventories, and expected to be utilised within one year.

24. 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.

24. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH - continued

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

25. 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

26. 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.

27. DEFERRED CONSIDERATION PAYABLES

	2014 RMB'000	2013 RMB'000
Non-current	44,594	21,755
Current	5,500	5,733
	50,094	27,488

During the year ended 31 December 2008, the Group acquired an agency right from Ophol which had become an associate of the Group during the year ended 31 December 2009 for a consideration of RMB60,000,000 (see note 17(b)). The consideration is payable annually of RMB6,000,000 for 10 years commencing on 26 April 2008. The present value of the discounted consideration determined based on a discount rate of 5% amounting to RMB46,330,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2014, the carrying value amounting to RMB16,074,000 (2013: RMB21,343,000) is included in deferred consideration payables.

During the year ended 31 December 2013, the Group acquired 49% interest in the patent right of XiDaKang for a consideration of RMB40,000,000 (see note 17(c) (ii)). In addition to the first payment of RMB30,000,000, the consideration is payable annually of RMB1,000,000 for 10 years commencing on 27 December 2014. The present value of the discounted consideration determined based on a discount rate of 10% amounting to RMB6,145,000 was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2014, the carrying value amounting to RMB5,759,000 (2013: RMB6,145,000) is included in deferred consideration payables.

27. DEFERRED CONSIDERATION PAYABLES - continued

During the year ended 31 December 2014, the Group acquired all assets related to Stulln for the Chinese Market. Part of the consideration is payable annually of EUR1,000,000 (equivalent to approximately RMB8,395,000) for five years since 2016. The present value of the discounted consideration determined based on a discount rate of 10% amounting to approximately EUR3,614,000 (equivalent to approximately RMB30,342,000) was accounted for by the Group as deferred consideration payable at initial recognition. As at 31 December 2014, the carrying value amounting to approximately EUR3,791,000 (equivalent to approximately RMB28,261,000) is included in deferred consideration payables.

28. 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

29. RESERVES

Capital reserve

Capital reserve resulted from transactions between the Group and its shareholders. It mainly represents equity shares of Shenzhen Kangzhe granted by Mr. Lam Kong, a director and former shareholder of Shenzhen Kangzhe, to certain employees for their services rendered in prior year, rights granted by Mr. Lam Kong to certain employees to receive cash at a pre-determined formula for their services rendered in prior year, waiver of an advance to the Company by Mr. Lam Kong in 2006, discount on acquisitions of additional interest in subsidiaries from Mr. Lam Kong in 2004 and 2005, the difference between the transfer of the entire interest in Shenzhen Kangzhe to Sino Talent Limited ("Sino Talent") pursuant to the group restructuring in 2005 and the nominal value of Shenzhen Kangzhe's share capital, and difference between the par value of shares issued by the Company for the entire interest in CMS International Limited ("CMS International") and Healthlink Consultancy Inc. ("Healthlink") pursuant to the group reorganisation in 2006 and the nominal value of the issued share capital of CMS International and Healthlink in preparation for the listing of the Company's shares. The balance was reduced by the capitalisation issue in 2007. The equity shares and rights granted by Mr. Lam Kong to certain employees had been terminated on or before 2006.

On 19 April 2010, the Group acquired additional interest in Sky United. An amount of approximately RMB15,026,000, representing the excess of the fair value of the new ordinary shares issued by the Company over the decrease in the carrying value of the non-controlling interest is charged to capital reserve.

During the year ended 31 December 2010, a deemed distribution to a shareholder in respect of expenses incurred for a shareholder during the initial public offering exercise by the Company.

29. RESERVES - continued

Surplus reserve fund

Articles of Association of the Group's subsidiaries established in the PRC require the appropriation of certain percentage of their profit after taxation each year to the surplus reserve fund until the balance reaches 50% of the registered capital of the relevant subsidiaries. In normal circumstances, the surplus reserve fund shall only be used for making up losses, capitalisation into registered capital and expansion of the subsidiaries' production and operation. For the capitalisation of surplus reserve fund into registered capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

30. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2013.

The capital structure of the Group consists of cash and cash equivalents, bank borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves including accumulated profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

The Group is not subject to any externally imposed capital requirements.

31. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2014	2013
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,197,430	1,474,658
Available-for-sale investments	-	123,697
Financial liabilities		
Others financial liabilities measured at amortised cost	(641,694)	(462,386)

31. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, pledged bank deposits, bank balances and cash, loan receivable, trade and other payables, bank borrowings and deferred consideration payables. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk management

The Group's fair value interest rate risk is the risk that the fair value of a fixed rate financial instrument will fluctuate because of changes in market interest rates.

Foreign currency risk management

Some subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 23.7% (2013: 22.7%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities making the purchase. All sales of the Group are denominated in functional currency of the group entities making the sale. The Group currently has not entered into any foreign currency forward contracts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets (representing loan receivable and bank balances) and monetary liabilities (representing trade and other payables and deferred consideration payables) at the reporting date are as follows:

	Assets		Liabilities	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
US$	447	982	-	-
EURO	13,466	5,835	33,127	3,213
HK$	818	451	-	-
RMB	457	30	21,833	57,482

Management conducts periodic review of exposure and settlements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

31. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

The Group is mainly exposed to currency risk of the US$, EURO, HK$ and RMB. The following table details the Group's sensitivity to a 1% (2013: 1%) increase and decrease in the functional currencies of the relevant group entities against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 1% (2013: 1%) change in foreign currency rates. The sensitivity analysis includes loan receivable, bank balances, trade and other payables and deferred consideration payables of which the foreign currency exposures are not hedged with hedging instruments. A positive/negative number below indicates an increase/decrease in post-tax profit for the year where the functional currencies of the relevant group entities strengthen 1% (2013: 1%) against the relevant foreign currencies. If there is a 1% (2013: 1%) weakening in functional currencies of the relevant group entities against the relevant foreign currencies, there would be an equal and opposite impact on the result for the year:

	2014 RMB'000	2013 RMB'000
RMB (as functional currency of the relevant group entities) against US$	(4)	(10)
US$ (as functional currency of the relevant group entities) against EURO	197	(26)
RMB (as functional currency of the relevant group entities) against HK$	(8)	(5)
US$ (as functional currency of the relevant group entities) against RMB	214	575

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

Credit risk management

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2014 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group has no significant concentration of credit risk on trade and other receivables, with exposure spread over a number of counterparties and customers and across diverse geographical areas.

31. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of the reporting period.

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2014
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2014						
Trade and other payables	-	107,359	-	-	107,359	107,359
Deferred consideration payables	8.40	5,500	50,468	12,242	68,210	50,094
Fixed interest rate borrowings	3.56	484,241	-	-	484,241	484,241
		597,100	50,468	12,242	659,810	641,694

	Weighted average interest rate	Repayable on demand or less than 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2013
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2013						
Trade and other payables	-	120,778	-	-	120,778	120,778
Deferred consideration payables	6.12	5,823	23,299	5,000	34,122	27,488
Fixed interest rate borrowings	3.42	314,120	-	-	314,120	314,120
		440,721	23,299	5,000	469,020	462,386

31. FINANCIAL INSTRUMENTS - continued

Fair value measurements of financial instruments

Fair value of the Group's financial asset that is measured at fair value on a recurring basis

The Group's financial asset is measured at fair value at the end of each reporting period. The following table gives information about how the fair value of this financial asset is determined (in particular, the valuation technique and input used).

Financial asset	Fair value as at 2014 RMB'000	Fair value as at 2013 RMB'000	Fair value hierarchy	Valuation technique and key input
Listed AFS equity investments (see note 19)	-	123,697	Level 1	Quoted bid price in an active market

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

There were no transfers into or out of Level 1 in both years.

32. ACQUISITION OF A SUBSIDIARY

On 28 February 2013, the Group acquired an 100% interest in Kangzhe Lengshuijiang from an independent third party. Kangzhe Lengshuijiang was engaged in manufacture of GanFuLe Tablet, a traditional Chinese medicine. The purpose of the acquisition was to acquire the product rights of GanFuLe Tablet and take full advantage of the Group's existing promotion network.

Consideration transferred

	RMB'000
Cash	81,100

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

	RMB'000
Property, plant and equipment	31,762
Prepaid lease payments	19,880
Intangible assets	16,005
Bank balances and cash	209
Trade and other receivables	2,499
Inventories	11,615
Trade and other payables	(11,816)
Amount due to a shareholder	(30,349)
Deferred tax liabilities	(10,349)
	29,456
Shareholder's receivable assigned to the Group	30,349
	59,805

32. ACQUISITION OF A SUBSIDIARY - continued

Consideration transferred - continued

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

Goodwill arising on acquisition

	RMB'000
Consideration transferred	81,100
Less: fair value of identifiable net assets acquired	(59,805)
Goodwill arising on acquisition	21,295

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

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

Net cash outflow arising on acquisition

	RMB'000
Consideration paid in cash	81,100
Less: cash and cash equivalent balances acquired	(209)
	80,891

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2013 was RMB1,486,000 attributable to Kangzhe Lengshuijiang. Revenue for the year ended 31 December 2013 included RMB18,580,000 generated from Kangzhe Lengshuijiang.

Had the acquisition of Kangzhe Lengshuijiang been completed at 1 January 2013, total group revenue for the year ended 31 December 2013 would have been RMB2,254 million, and the profit for the year ended 31 December 2013 would have been RMB632 million. The proforma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2013, nor was intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Kangzhe Lengshuijiang been acquired on 1 January 2013, the directors have calculated depreciation and amortisation of plant and equipment and intangible asset acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

33. DISPOSAL OF A SUBSIDIARY

On 31 December 2013, the Group had entered into a share transfer agreement with an independent third party to dispose its 51% equity interest in the subsidiary, Kangzhe Guangming, which was formerly engaged in manufacture of XiDaKang, for a net consideration of RMB12,000,000. The purpose of the disposal was to make the Group to have more focus on the core business. The disposal was completed on 27 March 2014, on which date the Group lost control of and no longer had a stake in Kangzhe Guangming.

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

	1.1.2014 to 27.3.2014 RMB'000	1.1.2013 to 31.12.2013 RMB'000
Turnover	1,005	17,457
Cost of good sold	(2,036)	(13,616)
Other gains and losses	(1,723)	146
Selling expenses	(86)	(229)
Administrative expenses	(2,602)	(4,861)
Loss before taxation	(5,442)	(1,103)
Taxation	(82)	(222)
Loss for the period/year	(5,524)	(1,325)

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

	RMB'000
Property, plant and equipment	13,681
Prepaid lease payments	7,799
Inventories	1,889
Bank balances and cash	586
Other receivables	13
Trade and other payables	(2,322)
Deferred tax liabilities	(518)
Net assets disposed of	21,128

	RMB'000
Gain on disposal of a subsidiary:	
Consideration received	12,000
Net assets disposed of	(21,128)
Non-controlling interests	10,353
Gain on disposal	1,225

The gain on disposal is included in the other gains and losses (see note 6).

33. DISPOSAL OF A SUBSIDIARY - continued

	RMB'000
Consideration satisfied by:	
Cash	12,000
Net cash inflow on disposal of a subsidiary:	
Consideration received in cash and cash equivalents	12,000
Less: cash and cash equivalent balances disposed of	(586)
	11,414

Cash flows from (used in) Kangzhe Guangming:

	2014 RMB'000	2013 RMB'000
Net cash flows from operating activities	53	159
Net cash flows used in investing activities	-	(175)
Net cash flows	53	(16)

34. OPERATING LEASE

The Group as lessee

The Group's total future minimum lease payments under non-cancellable operating lease in respect of property which fall due as follows:

	2014 RMB'000	2013 RMB'000
Within one year	4,484	1,925
In the second to fifth year inclusive	1,948	2,229
	6,432	4,154

The lease is negotiated for a lease term of 1 to 5 years at fixed monthly rental. All operating lease contracts contain market review clauses in the event that the Group exercises its option to renew.

The Group does not have an option to purchase the leased asset at the expiry of the lease period.

35. CAPITAL COMMITMENTS

	2014 RMB'000	2013 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment and intangible assets contracted for but not provided in the consolidated financial statements	122,353	75,858
Other commitment in respect of acquisition of a subsidiary contracted for but not provided in the consolidated financial statements	243,204	-
	365,557	75,858

36. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

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

Name of related company	Relationship	Nature of transactions	2014 RMB'000	2013 RMB'000
Ophol	Associate	Imputed interest	3,124	1,226
Tibet Pharmaceutical	Associate	Promotion income (note)	30,202	-
Tibet Pharmaceutical	Associate	Purchase of goods (note)	41,026	-
Sunpharma GmbH	Related company	Purchase of goods	-	1,071

Note: Amounts represented the transactions with Tibet Pharmaceutical since the Acquisition Date to 31 December 2014.

(b) The key management personnel includes solely the directors of the Company and the compensation paid to them as disclosed in note 8.

37. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The employees employed in Hong Kong are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Contributions to the MPF Scheme are made in accordance with the statutory limits prescribed by the Mandatory Provident Fund Ordinance of Hong Kong.

During the year, the total expense recognised in the profit or loss for the above schemes amounted to RMB15,052,000 (2013: RMB13,843,000).

38. 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.

39. SUBSIDIARIES OF THE COMPANY

As at 31 December 2014 and 31 December 2013, the details of the Company's subsidiaries are set as follows:

Name of subsidiaries (note e)	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital 31 December 2014	Issue and fully paid share capital/ registered capital 31 December 2013	Equity interest held by the Group 31 December 2014 Directly	Equity interest held by the Group 31 December 2014 Indirectly	Equity interest held by the Group 31 December 2013 Directly	Equity interest held by the Group 31 December 2013 Indirectly	Principal activities
CMS International (note a)	British Virgin Islands	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (sino-foreign equity joint venture)	PRC	RMB26,670,000	RMB26,240,000	-	100%	-	100%	Production of medicines
Kangzhe Pharmaceutical Technology (wholly-owned domestic enterprise)	PRC	RMB10,000,000	RMB10,000,000	-	100%	-	100%	Investment holding
Kangzhe Pharmaceutical Industrial Ltd. (note a)	British Virgin Islands	RMB21,288,000	RMB21,288,000	-	100%	-	100%	Investment holding
Shenzhen Kangzhe (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB350,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Sino Talent	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Sky United	Hong Kong	HK$10	HK$10	-	100%	-	100%	Trading of drugs
Changde Kangzhe Pharmaceutical Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB2,000,000	RMB2,000,000	-	100%	-	100%	Trading of drugs
CMS Pharma (formerly known as CMS Pharmaceutical Agency Co. Ltd.)	Malaysia	US$1	US$1	-	100%	-	100%	Trading of drugs
Kangzhe Pharmaceutical Investment Co., Ltd. (wholly-owned domestic enterprise)	PRC	RMB50,000,000	RMB50,000,000	-	100%	-	100%	Investment holding
Great move	British Virgin Islands	US$10,000	US$10,000	-	100%	-	100%	Investment holding
Generous Wealth Limited	Hong Kong	HK$1	HK$1	-	100%	-	100%	Investment holding
Tianjin Kangzhe (wholly foreign-owned enterprise)	PRC	RMB350,000,000	RMB100,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Kangzhe Guangming (note d) (wholly-owned domestic enterprise)	PRC	-	RMB18,370,000	-	-	-	51%	Production of medicines
Kangzhe Lengshuijing (note b) (wholly-owned domestic enterprise)	PRC	RMB10,080,000	RMB10,080,000	-	100%	-	100%	Production of medicines
Kangzhe Agricultural (note c) (wholly-owned domestic enterprise)	PRC	RMB20,000,000	RMB20,000,000	-	100%	-	100%	Agriculture

Notes:

(a) Being inactive subsidiaries.

(b) The subsidiary was acquired on 28 February 2013 (note 32).

(c) The subsidiary was established on 23 January 2013.

(d) The subsidiary was disposed of 27 March 2014 (note 33).

(e) None of the subsidiaries had issued any debt securities at the end of the year.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014 RMB'000	2013 RMB'000
Non-current assets		
Investments in subsidiaries	61	61
Amount due from a subsidiary	1,766,579	1,685,812
	1,766,640	1,685,873
Current assets		
Amount due from a subsidiary	653,922	535,695
Bank balances and cash	150	162
	654,072	535,857
Current liabilities		
Amount due to a subsidiary	2,958	2,913
Accruals	1,815	944
	4,773	3,857
Net current assets	649,299	532,000
Total assets less current liabilities	2,415,939	2,217,873
Capital and reserves		
Share capital (see note 28)	82,974	82,974
Reserves	2,332,965	2,134,899
Total equity	2,415,939	2,217,873

Movement in reserves

	Share premium RMB'000	Capital reserve RMB'000	Accumulated profits RMB'000	Dividend reserve RMB'000	Total RMB'000
Balance at 1 January 2013	1,767,684	6,960	126,157	117,477	2,018,278
Profit and total comprehensive income for the year	-	-	359,128	-	359,128
Dividends paid	-	-	(125,030)	(117,477)	(242,507)
Dividends proposed	-	-	(127,055)	127,055	-
Balance at 31 December 2013	1,767,684	6,960	233,200	127,055	2,134,899
Profit and total comprehensive income for the year	-	-	489,082	-	489,082
Dividends paid	-	-	(163,961)	(127,055)	(291,016)
Dividends proposed	-	-	(167,101)	167,101	-
Balance at 31 December 2014	1,767,684	6,960	391,220	167,101	2,332,965

41. 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.