ANNUAL REPORT

CHINA MEDICAL SYSTEM HOLDINGS LIMITED

(Stock Code:867)

2015

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Independent Non-Executive Directors

Mr. CHEUNG Kam Shing, Terry
Mr. 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
Citibank (China) Co.,Ltd., Shenzhen Branch

Registered Office

Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Headquarters

6/F and 8/F, Building A Tongfang Information Harbour
No.11 Langshan Road
Hi-tech Industrial Park North
Nanshan District
Shenzhen 518057
PRC

Principal Place of Business in Hong Kong

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

Branch Share Registrar in Hong Kong

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

Stock Code:

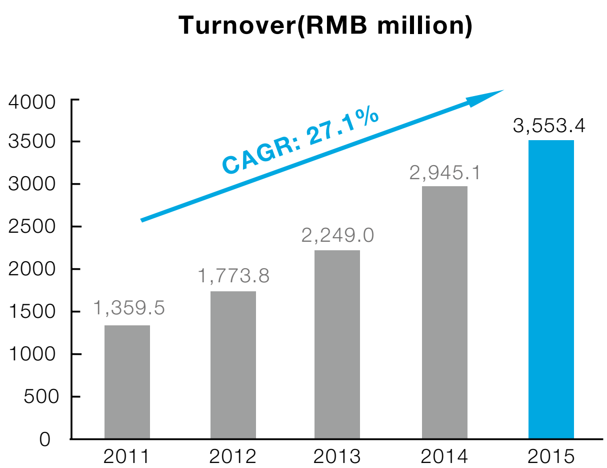
867

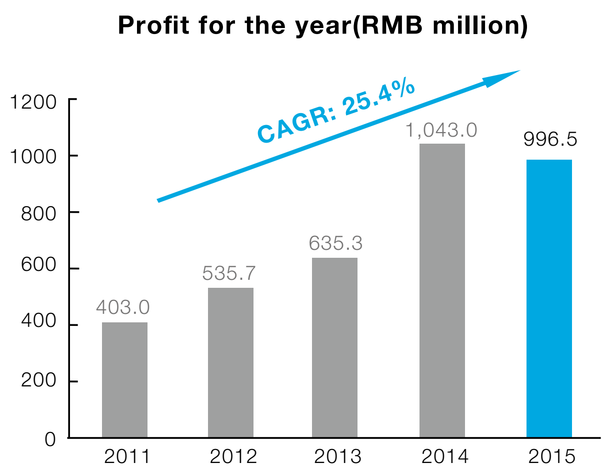
Company's Website:

www.cms.net.cn

- Turnover up 20.7% to RMB3,553.4 million (2014: RMB2,945.1 million)
- Profit for the year down 4.5% to RMB996.5 million (2014: RMB1,043.0 million), which would be up 20.4% compared with RMB827.9 million of profit for last year 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 down 6.8% to RMB0.4037 (2014: RMB0.4330) , which would be up 17.4% compared with RMB0.3440 of basic earnings per share for last year after excluding gain arising from investment in Tibet Pharmaceutical when it became an associate from available for sale investment
- As at 31 December 2015, the Group's cash and bank deposits amounted to RMB508.5 million while readily realizable bank acceptance bills amounted to RMB233.3 million
- Proposed final dividend of RMB0.0809 per share, bringing the total dividend for the year ended 31 December 2015 to RMB0.1603 per share, representing an increase of 16.9% from last year (2014: final dividend of RMB0.0692 and total dividend of RMB0.1371 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				
	2011	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	3,033,726	3,523,207	3,917,623	4,905,281	6,397,583
Total liabilities	524,256	641,170	641,036	914,442	1,045,115
Net assets	2,509,470	2,882,037	3,276,587	3,990,839	5,352,468

CHAIRMAN'S STATEMENTS

Dear shareholders,

This is the fifth 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 the past four years, and to present the Annual Report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015 (the "Reporting Period").

Stable operation and sustainable development

In 2015, the Group maintained stable operations. While optimizing its internal governance, the Group continued and developed its two core promotion models: the direct academic oriented promotion model and the agency promotion model. The Group never ceased adjusting the structure and consolidating the innovation mechanism of its marketing and promotion network, so as to strengthen the strategic layout of its network coverage.

During the reporting period, the Group deepened the strategic transformation of product introductions. Through assets purchases and equity cooperation, it obtained the assets and market rights of several new product types, thereby not only enriching the existing product mix, but also laying the foundation for its stable growth. Furthermore, the Group for the first time attempted to extend the assets of new product types from product types that are already on the market to products which are in the final stage of research and development, thereby expanding the Group's screening range of products it introduces and develops. The Group will remain focused on introducing products of good quality and creating value for shareholders.

While never ceasing to optimize its internal governance, the Group further enhanced the profitability of the enterprise, in addition to continue advancing the marketing and promotion network structure and innovation mechanism. In addition, the Group focused on the constructive interaction between the enterprise and the individual and on the positive feedback from society. For years, the Group has taken its corporate social responsibility very seriously and has considered it its duty to thoroughly execute its corporate social responsibility in its corporate governance and its operations. I am pleased to announce that, for the first time, the Group is releasing its social responsibility report with its annual report. The report mainly covers (i) its commitment to implement strict quality management from product manufacturing to product sales; (ii) the delivery of effective drugs to those who need them through professional academic promotions; and (iii) the responsibilities that the Group has undertaken towards the employees, the society and the environment so as to advance long-term, stable and sustainable growth.

Being prudent and seeking opportunities in crises

2015 was a memorable year for the Chinese and the global economy. During the year, the global economic structure was rebuilt on account of such factors as the US Fed's interest rate hike and the looming debt crisis in emerging markets. Domestically, the declining GDP growth and the major fluctuations in the stock markets created a series of chain reactions, which resulted in the structural adjustment of the domestic macro-economy. As for the global pharmaceutical industry, mergers and acquisitions had become a worldwide trend. For Chinese pharmaceutical enterprises, in the wake of the deepening of the medical reforms within the year, all pharmaceutical enterprises were facing price pressures in tendering, while policies such as medical insurance control and secondary price negotiations for drug purchases made clear to all that the Chinese pharmaceutical industry had entered a "winter period".

It was the worst of times, and also the best of times. Affected by the domestic and international economic situation and policy environment, the Group has upheld the attitude and strategy of adapting timely, reacting calmly, adjusting vigorously and seeking opportunities in crises. The Group brought into full play its edge as a local growth enterprise and combined its perspective of international development with pragmatic and innovative attitudes, with prudence and with seeking opportunities in crises.

As a local growth enterprise, the Group has all along been committed to the Chinese pharmaceutical market for more than two decades since its establishment, and has a full understanding and grasp of the Chinese pharmaceutical market. Since 2013, China has surpassed Japan and Germany as the world's second-largest pharmaceutical market, after the United States[1]. In such an important market, based on its thorough understanding of the market, the Group can timely adjust its internal management mode and business structure in line with changes in the local market and policy. Following the direction of the market and adapting to market changes has allowed the Group to maintain stable growth.

Since its founding, the Group has upheld its international vision to introduce excellent overseas product types into the Chinese market. Through years of practical experience, the Group has fostered an experienced and professional team. With its experienced understanding of the international market and its knowledge of the product characteristics, the Group has seized opportunities and successfully introduced several excellent products (already launched or soon to-be-launched) with a clear efficacy and with market potential, thereby increasing the Group's profits. In addition, benefiting from its rich experience of successfully cooperating with foreign enterprises, in the process of product searching, screening and introduction, up to the undersigning of the agreements to smoothly take over and transition, the Group has always maintained good communications with overseas pharmaceuticals with professional and pragmatic attitude to ensure that the introduced products continue their stable growth. On 26 February, 2016 (London time), the Group entered into an exclusive license agreement with AstraZeneca Group for its product Plendil and an asset purchase agreement for its product Imdur. Bringing in these two major products is an important realization of the Group's strategy to constantly introduce quality products, and carries significant meaning for the Company in the optimization of its product structure, the enhancement of its profitability and its long-term development.

1 note: IMS research data

As a highly profitable pharmaceutical company, the Group always upholds a rigorous and pragmatic attitude, considering the maximization of shareholders' interest as its lasting goal. To cope with the impact of the current complex economic situation and policies, both domestically and abroad, the Group has kept weeding out the old to make room for the new in terms of its operations, products and marketing model. For its business operations, the Group has a professional and effective managing team as well as an advanced management system, benefitting from economies of scale through managing meticulously. In addition, the Group timely adjusts its organizational structure according to the changes in market trends, and generates vitality through improvements and innovations to its management system. In terms of products, the Group insists on introducing drugs of good quality; it continually innovates its model for introducing new products so as to have sufficient products in reserve for future development. The Group also has the capability of proprietary innovation, owning the proprietary intellectual property of Tyroserleutide (CMS024) which is a National Class One New Drug, currently in the process of a phase III clinical trial. In terms of marketing model, the Group is hoping to better play up its market resources through the effective merger of two networks, apart from the two existing models of direct academically oriented promotion and agency promotion, the Group combined the characteristics of product development while facing a severe situation, the Group still actively explored multi-channel marketing models such as retail , as well as attempting the marketing mode of combining direct oriented promotion model with agency promotion model . In addition, the Group is giving much consideration to how to combine the new trends in drug development in the current Internet+ era to better play up the edge that the Group has in terms of network and product types. In doing so, a new way of growth is created for the Group.

Have being engaged in the industry for two decades, our original mind has never changed. In the last two decades, the Group has all along maintained the guiding principle of being responsible for the society and shareholders. It has worked hard for the dual goals of maximizing national health and the shareholders' interests. In its corporate governance, it has consistently implemented these goals and targets with concrete actions. The group will continue its efforts to create greater value for shareholders, for society and for human health.

Chairman
Lam Kong
Shenzhen, China
21 March 2016

Business Review

China Medical System Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to announce that for the year ended 31 December 2015 (the "Reporting Period"), the Group recorded turnover of RMB3,553.4 million (2014: RMB2,945.1 million), representing an increase of 20.7% over the same period of the previous year. Profit reached RMB996.5 million (2014: RMB1,043.0 million), down 4.5% over the same period of the previous year, which would be up 20.4% compared with RMB827.9 million of profit for last year 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 RMB0.4037 (2014: RMB0.4330), down 6.8% over the same period the previous year, which would be up 17.4% compared with RMB0.3440 of basic earnings per share for last year after excluding gain arising from investment in Tibet Pharmaceutical when it became an associate from available for sale investment.

Affected by price erosion caused by tendering in some provinces and delays in tendering timetables, second price negotiations with a small number of hospitals, cost controls in medical insurance, as well as the raised entry barriers of the industry, the overall growth of the Chinese healthcare industry continued to slow down in 2015. Despite the ongoing significant reforms of the healthcare industry, the Group achieved satisfactory growth. This was due, in no small part, to its steadfast dedication to the Group's global strategic plan, complemented with accurate and relevant analysis of the Chinese market. The Group has introduced, and continues to introduce, new and competitive high-quality products that enrich the portfolio, while always evaluating methods to optimize and expand its sales and promotion network.

Product Introduction and Development

1. Product Introduction

The products serve as cornerstones of the Group's sustainable development. Having operated in the Chinese market for two decades, the Group has gradually established a multilevel (the short-term, mid-term and long term) new product introduction system. The products can be marketed in the short-term, which is [Directly-launched Products]: the Group will actively introduce overseas products for which Import Drug Licenses ("IDL") have been obtained in China, and domestic products which have been granted production license approval. These products can be sold immediately after introduction. For mid-term pipeline products, the Group will actively look for products which have launched in overseas markets but have yet to gain IDL in China. For long-term pipeline products, the Group will look across the globe for innovative drug candidates at late stages of development in order to build a solid product foundation for its long-term sustainable development. The multilevel product introduction strategy can help the Group guarantee that it has a sufficient and constant supply of products to launch in the market so as to support the continuous rapid growth of the Group.

During the Reporting Period, the Group continued to introduce new products by purchasing assets related to products for the China market or through equity investment in the manufacturers of the products. For domestic products, the Group introduces new products mainly through equity participation in the domestic manufacturers; for overseas products, the Group prefers to introduce new products through purchasing their assets for the Chinese market. The acquisition model not only enables the Group to ensure the products rights, but also bring more profit to the Group. In 2015, the Group made a great achievement in introducing new products with high quality. This new product introduction model can ensure steady control over product rights while generating higher profit for the Group.

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

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

As the shareholder of Hebei Xinglong Xili Pharmaceutical Co., Ltd ("Xili Pharmaceutical"), the Group has signed an Exclusive Sale Agreement and a Promotion Service Agreement with Xili Pharmaceutical and officially obtained the exclusive sales and marketing rights for the DanShenTong capsule on 16 January 2015.

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

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

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

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

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

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

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

2. Existing Product Development

2.1 Main Products under the Direct Network

During the Reporting Period, the Group continued to deliver academic value promotion and branding education on the products under the Direct Model, consolidated the expert network, expanded therapeutic departments and cultivated new sales growth points. The Group also adjusted its market deployment, integrated new products, and sped up the introduction of new products to the market by using existing resources, in order to lay a solid foundation for the development of products.

Deanxit (Flupentixol and Melitracen)
Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used for the treatment of mild to moderate depression and anxiety and is on the National Reimbursement Drug List (“NRDL”). Based on IMS data in 2015, Deanxit is the most prescribed antidepressant drug in China. During the Reporting Period, Deanxit recorded sales of RMB904.6 million, an increase of 11.3% when compared with the same period the previous year, accounting for 25.5% of the Group’s turnover.

The Group has continued to strengthen its expert network and reinforce its brand image through multi-level academic conferences. It has set up research projects to offer more evidence-based medicine. In addition, the Group continued to penetrate the rural market and increase the coverage. As at 31 December 2015, sales of Deanxit covered over 13,000 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 and is on the National Reimbursement Drug List ("NRDL"). Based on IMS data in 2015, Ursofalk is the best-selling ursodeoxycholic acid drug in China, and ranked first in sales among digestive products in the Chinese cholagogue market. During the Reporting Period, Ursofalk recorded sales of RMB661.5 million, an increase of 12.0% when compared with the same period the previous year, accounting for 18.6% of the Group's turnover.

The Group was committed to market differentiation strategy and further enhanced its brand name effect through opinion leaders and other high-level academic platforms; In addition, the Group improved the diagnosis and treatment of related diseases through international and domestic academic meetings. As at 31 December 2015, sales of Ursofalk covered around 7,400 hospitals throughout China.

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

XinHuoSu, is a National Class One biological agent used to treat acute heart failure, manufactured by China Chengdu Rhodiola Biological Pharmaceutical Co., Ltd, the subsidiary of Tibet Pharmaceutical in which the Group holds a 26.61% stake. XinHuoSu is the only Recombinant Human Brian Natriuretic Peptide (rhBNP) on the current Chinese market, and is recommended by the first "Acute Heart Failure Diagnosis and Treatment Guideline" in China, further standardized as a treatment against acute heart failure. During the Reporting Period, XinHuoSu recorded sales of RMB429.1 million, an increase of 23.2% when compared with the same period the previous year, accounting for 12.1% of the Group's turnover.

The Group continued to make use of academic promotion, develop and expand network of key hospitals and new therapeutic departments, and maintain the expert network. The manufacturer of XinHuoSu gained Chinese new GMP approval on 11 February 2015. As at 31 December 2015, sales of XinHuoSu covered around 1,800 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 RMB183.0 million, an increase of 22.6% when compared with the same period the previous year, accounting for around 5.2% of the Group's turnover.

The Group widened market exposure and raised diagnosis rate of IBD disease through domestic and international academic conferences at all levels and through continued education of doctors. It increased the number of educational activities for patients, thereby improving patient compliance and increasing brand loyalty. As at 31 December 2015, sales of Salofalk covered around 3,400 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 is the only Saccharomyces Boulardii in the current Chinese market. Bioflor recorded sales of RMB170.1 million during the Reporting Period, an increase of 20.2% 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.

The Group continued to develop new hospitals coverage and led academic promotions, conducted extensive education events among doctors — including tours of lectures by renowned European experts on micro-ecology to improve penetration rate of Bioflor. As at 31 December 2015, sales of Bioflor covered around 2,500 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 is the only preservative-free eye-drops product approved by the China Food and Drug Administration (CFDA) for the treatment of macular degeneration. Augentropfen Stulln Mono Eye-drops recorded sales of RMB159.1 million during the Reporting Period, an increase of 20.0% when compared with the same period the previous year, accounting for 4.5% of the Group's turnover.

The Group has continued to strengthen brand building of Augentropfen Stulln Mono Eye-drops, has improved its expert network and developed key markets with high potential. In addition, the Group partnered with hospitals to conduct educational activities for patients to cultivate their habit of buying the product themselves and upheld high-end brand positioning amongst them. As at 31 December 2015, sales of Augentropfen Stulln Mono covered around 5,700 hospitals throughout China.

DanShenTong Capsule

DanShenTong capsule is a newly introduced product under the Direct Network via equity investment during the Reporting Period, and is manufactured by Xili Pharmaceutical and is on the NRDL. DanShenTong capsule is a plant-based antibiotic (broad spectrum) with multiple functions, and the major functions of the product are antisepsis and anti-inflammation. The drug is mainly used for the treatment of acne, tonsillitis, otitis externa, boils, carbuncles, traumatic infection, burn infection, mastitis, cellulitis, osteomyelitis, etc. During the Reporting Period, DanShenTong capsule recorded sales of RMB118.9 million, accounting for 3.3% of the Group's turnover.

During the Reporting Period, the Group completed the product's handover from its original market, and considered the relevant academic information for re-positioning. The Group also began to set up large-scale academic platforms to better establish a premium academic foundation to further market the drug. As at 31 December 2015, sales of DanShenTong capsules came from approximately 2,000 hospitals throughout China.

NuoDiKang Capsule

NuoDiKang capsule is a newly introduced product under the Direct Network via equity investment during the Reporting Period, and is manufactured by Sichuan NuodiKang WeiGuang Pharmaceutical Co., Ltd, the subsidiary of Tibet Pharmaceutical, in which the Group holds a 26.61% share. The product is included on the National Essential Drug List（EDL） and NRDL, and is listed as a Traditional Chinese Medicinal Protection Product. The main functions of the product are boosting vital energy, activating blood circulation, freeing blood vessels and alleviating pain. It is used for chest impediments caused by a deficiency in vital energy and blood stasis, manifested as tightness in the chest, tingling or pain, palpitations, shortness of breath, lassitude, asthenic breathing, disinclination to talk, dizziness, coronary heart disease and angina with aforementioned symptoms. During the Reporting Period, NuoDiKang capsule recorded sales of RMB82.0 million, accounting for 2.3% of the Group's turnover.

During the Reporting Period, the Group completed the handover of the product from its original market, and began to establish a core expert network for the product. Meanwhile, the Group also rebuilt its academic brand image by taking opportunities to attend academic conferences nationwide. As at 31 December 2015, sales of NuoDiKang capsule covered around 2,200 hospitals throughout China.

Hirudoid

Hirudoid, a newly introduced product under the Direct Network via purchase of assets related to the product for the China market during the Reporting Period, is manufactured by Mobilat Produktions GmbH (Germany). The active ingredient of Hirudoid is mucopolysaccharide polysulfate, and the drug is used for the treatment of various forms of phlebitis and soft tissue injuries, and is also used as an adjuvant therapy for varicose veins surgery and postoperative sclerotherapy, and can also inhibit the formation of scars and soften existing scars. Hirudoid has broad indication with high quality, efficacy and safety. During the Reporting Period, Hirudoid recorded sales of RMB57.0 million, accounting for 1.6% of the Group's turnover.

During the Reporting Period, the Group completed the handover of the product from its original market and laid a foundation for the academic promotion of the product by setting up expert network for the product, sorting and completing the selling points for the academic promotion of the product, and expanding therapeutic departments etc. As at 31 December 2015, sales of Hirudoid covered around 3,100 hospitals throughout China.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablet)

Combizym, a newly introduced product under the Direct Network via purchase of assets related to the product for the China market and other designated countries or areas, during the Reporting Period, is manufactured by Nordmark Arzneimittel GmbH & Co. KG (Germany). The main ingredients of Combizym are pancreatin and aspergillus oryzae enzymes, and the drug is used for the treatment of dyspepsia caused by decreases in digestive enzymes. During the Reporting Period, Combizym recorded sales of RMB25.9 million, accounting for 0.7% of the Group's turnover.

During the Reporting Period, the Group completed the market handover of the product from its original market, with its near-term, mid-term and long-term promotion strategies formulated. The Group brought into full play its resources and well-built reputation in the field of digestive medicine to establish an expert network for Combizym and integrated the academic activities for product and other products for digestive disease. As at 31 December 2015, sales of Combizym covered around 500 hospitals throughout China.

Lamisil® Tablet (Terbinafine Hydrochloride)

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

Parlodel® Tablet (Bromocriptine Mesilate)

Parlodel® tablet is a product from Novartis that the Group introduced via purchase of all assets related to the product for the China market at the end of 2014, and the product is manufactured by Novartis Farma S.P.A. in Italy. The active ingredient of Parlodel® tablet is bromocriptine mesilate, and it is an original product from Novartis, which has been marketed in China for several years, and is included on the NRDL. One of the product indications is for the treatment of hyperprolactinemia (HPRL), and is a standard first-line treatment product for HPRL as recommended by guidelines. Parlodel® tablet has obtained authorization of co-marketing, and the transfer of its IDL in China has been accomplished in January 2016.

The promotion and sales work for Lamisil® tablet and Parlodel® tablet was being handled by Novartis, and Novartis settled profit from sales of the two products to the Group based an agreement during the license transformation period.

MOVICOL®(Macrogol Sodium Potassium Powder)

MOVICOL® is a newly introduced product under the Direct Network via purchase of assets related to the product for the China market at the end of 2014, and is manufactured by British Norgine B.V.. The active ingredients of MOVICOL® are macrogol 3350, sodium bicarbonate, sodium chloride and potassium chloride, and the drug is used for the treatment of chronic constipation and faecal impaction. As a well-known brand for the indications, it has been sold in Europe for many years, with annual sales of more than 100 million Euros over the last three years, and has a broad target market in China. The IDL for MOVICOL® is ready, but the product has yet to be sold the China market. During the Reporting Period, MOVICOL® started the relevant sales work in the China market.

GanFuLe Tablet

GanFuLe tablet is manufactured by Kangzhe Lengshuijiang Pharmaceutical Co., Ltd. ("Kangzhe Lengshuijiang"), and is used for the treatment of primary liver cancer, cirrhosis and liver fibrosis. GanFuLe has been in clinical use for two decades, and is included on the NRDL. During the Reporting Period, GanFuLe recorded sales of RMB63.1 million, an increase of 14.3% when compared with the same period of the previous year, accounting for 1.8% of the Group's turnover.

The Group continued to develop new hospitals, further strengthened the promotion of indications of liver cancer, intensified the product's academic basis, and fully exploited the potential usage of GanFuLe towards liver cancer. During the Reporting Period, sales of GanFuLe covered around 700 hospitals throughout China.

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

ShaDuoLiKa (YanHuNing Injection)

ShaDuoLiKa, manufactured by Chongqing Yaoyou Pharmaceutical Co., Ltd. ("Chongqing Yaoyou"), is an injection used in viral pneumonia and viral upper respiratory infection. During the Reporting Period, the Group changed its agency agreement with the manufacturer, Chongqing Yaoyou, and became a national first-level agent (previously a national general agent), which had a negative impact on the sales and profit of the product. During the Reporting Period, ShaDuoLiKa recorded sales of RMB320.0 million, a decrease of 15.7% when compared with the same period of the previous year, accounting for 9.0% of the Group's turnover.

YiNuoShu (Ambroxol Hydrochloride for Injection)

YiNuoShu, for which the Group has the controlling rights, is the first generic version of an ambroxol hydrochloride injection in China, and is an expectorant product used for respiratory diseases, and is included on the NRDL. The product is manufactured by TIPR Pharmaceutical Responsible Co., Ltd., and we entrusted Kangzhe (Hunan) Medical Co., Ltd. ("Kangzhe Hunan") to manufacture it for the purpose of production capacity expansion. During the Reporting Period, small capacity injection workshop of Kangzhe Hunan has accomplished the refurbishment to meet the new GMP standards, and has been granted new GMP authentication on 30 October 2015. During the period of Kangzhe Hunan transformation, the Group found a third party to supplement the production of the drug. The Group continued refining of agent recruitment, and enhanced the training of agencies, and improved their professional promoting abilities. Influenced by the whole medical policy environment, during the Reporting Period, YiNuoShu recorded sales of RMB144.6 million, a decrease of 8.6% when compared with the same period of the previous year, accounting for 4.1% of the Group's turnover.

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

XiDaKang is the only protein hydrolysate enteral nutrition agent approved by CFDA, and is sold in the form of an oral solution and granules. The Group obtained 100% product rights for XiDaKang, which is manufactured by Kangzhe Hunan. Since the Group made adjustments from the original agency model to the commission model for XiDaKang aiming at focus on hospitals and achieving mutually beneficial long-term partnerships with the agents since the second half of 2014, the commission model was gradually optimized and the agencies could understand the benefits of new model and could cooperate with every aspects under new model very well. The hospitals and market potential has been effectively developed under the new model. During the Reporting Period, YiNuoShu recorded sales of RMB145.0 million, an increase of 56.0% compared with the same period of the previous year, accounting for 4.1% of the Group's turnover.

Yin Lian Qing Gan Ke Li

Yin Lian Qing Gan Ke Li, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is an exclusive TCM product that has been awarded a National New Drug Certificate. It is mainly used to treat various acute and chronic forms of hepatitis, alcoholic liver, and fatty liver. It is included on the NRDL. The Group repositioned Yin Lian Qing Gan Ke Li and highlighted the differentiation, and continued to improve the efficacy of agent recruitment. However, as the market base of this product is relatively weak, during the Reporting Period, Yin Lian Qing Gan Ke Li recorded sales of RMB3.7 million, a decrease of 9.1% when compared with the same period of the previous year influenced by the medical industry environment, accounting for 0.1% of the Group's turnover.

Ways of introduction and weight of sales for main products are as follows:

Introduction	**Products**	**As a Percentage of the Group' s Revenue (%)**
Rights Controlled	XinHuoSu	12.1
	Augentropfen Stulln Mono Eye-drops	4.5
	XiDaKang	4.1
	YiNuoShu	4.1
	DanShenTong Capsule	3.3
	NuoDiKang Capsule	2.3
	GanFuLe Tablet	1.8
	Hirudoid	1.6
	Combizym	0.7
	YinLianQingGanKeLi	0.1
	Lamisil® Tablet	0
	Parlodel® Tablet	0
	MOVICOL®	0
Exclusive Agency Contract	Deanxit	25.5
	Ursofalk	18.6
	ShaDuoLiKa	9.0
	Salofalk	5.2
	Bioflor	4.8

2.3 Other Products

Apart from the products mentioned above, other products sold by the Group such as Cystistat, Exacin, KunNing Oral Solution, XiangFuYiXueKouFuYe and etc., recorded a total sales amounting to approximately RMB85.9 million, accounting for approximately 2.3% of the Group's turnover during the Reporting Period.

3. Pipeline Products

3.1 Products undergoing application process for Import Drug Registration

The Group had nine products undergoing the application process for Import Drug Registration during the Reporting Period, which will contribute to the Group's revenue after they are officially issued IDL by the CFDA. Budenofalk rectum foam aerosol and enteric capsule were approved for clinical trial by the CFDA on 3 December 2014 and 7 January 2015, respectively. Iron Maltose Syrup and Iron Maltose Chewable Tablets were approved for clinical trial by the CFDA on 28 December 2015 and 30 December 2015, respectively. Key information of these products is listed below:

Products	Indications	Manufacturers	CFDA Pending Number	Report Process
Budenofalk	Mainly used to treat Inflammatory Bowel Disease (IBD) and Crohn's Disease	Dr. Falk Pharma GmbH (Germany)	JXHL1100207 國 (Capsule)	Clinical Trial Approved
			JXHL1100106 國 (Foam Aerosol)	Clinical Trial Approved
Maltofer® (Iron Maltose)	Mainly used to treat iron deficiency without anemia ("ID") and iron deficiency with anemia ("IDA")	Vifor Pharma (Switzerland)	JXHL1400152 國 (Syrup)	Clinical Trial Approved
			JXHL1400153 國 (Chewable Tablets)	Clinical Trial Approved
Uro-Vaxom®	For the treatment and prevention of recurrent urinary tract infections and to stimulate the immune system and the body's natural defense against urinary pathogens		Material Preparation	Material Preparation
Stimol® (Citrulline Malate Effervescence Powder)	Mainly used for the treatment of weakness and fatigue induced by various diseases and long-term fatigue and over-exertion, etc.	Biocodex (France)	JXHL1300177 國	CDE Approval
Ze 339	For the treatment of allergic rhinitis	Max Zeller Söhne AG (Switzerland)	JXZL1500004	CDE Approval
Ze 440	For the treatment of pre-menstrual syndrome and menstrual cycle disorder		JXZL1500003	CDE Approval
Ze 450	For the treatment of menopausal discomfort		JXZL1500002	CDE Approval
Succinylated Gelatin Injection(Two)	For initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited (UK)	Material Preparation	Material Preparation

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

3.2 Products with Independent Intellectual Property Rights

3.2.1 Tyroserleutide (CMS024)

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

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

3.2.2 Traumakine®

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

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

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

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

Network Development

1. Direct Network

During the Reporting Period, as the management mechanism kept improving, the Direct Network became more mature. The Group formulates the macro-policy and the regional levels manage and supervise the provincial and district levels. Then the provincial and district levels implement the strategy and provide feedback to the top line. During the whole process, the headquarters delegate the power to the regional levels and return the managing power to the markets, which ensures that the Group can respond to market changes more quickly, increasing its flexibility in operating the business, and further enhancing the operational efficiency and resource allocation. Under the regional framework, the Direct Network will extend further to the rural markets, increase the hospital coverage rate and host more products. With more products added to the portfolio, the Group will optimize and integrate the resources and staff at all levels in order to improve the efficiency.

The group began to recruit fresh graduates from medical and pharmaceutical schools nationwide since 1998 and developed a well-established campus recruiting and training system. During the Reporting Period, the Group continued to supplement more excellent sales and marketing staff. The Twentieth Campus Recruitment and Training Program ended, and new employees completed internships in the regions and centralized training in the Group. Currently they have started to go to work officially. The Group started the Twenty-first Campus Recruitment in September 2015 and continued to expand the sales team through "Internship Program" and recruit graduates of master's or above degree through "Professional Growth Plans". In addition, the Group's training base has been established in Pingshan pharmaceutical factory to cultivate more talents and improve their quality. The completion of the new training base will provide a better platform and environment for staff training.

Based on the successful operation of the new framwork and consistently expanding network and team, the Group is actively exploring better compensation system during the Reporting Period. This system aims to create value according to individuals' comprehensive capability. The Group believes that this adequate and reasonable incentive will improve the efficiency of the Direct Network.

As of 31 December 2015, the Group's Direct Network had covered over 20,000 hospitals in China with nearly 2,300 promoting and sales representatives.

2. Agency Network

During the Reporting Period, the Group continued to enhance the efficiency of its agency management and brought in high-quality new agents through refined searches. The Group kept training the agency to enhance its promoting capability and establish the brand image. Apart from that, the communication mechanism had to be improved and the new media had to be relied upon to convey the information without barriers. The Group also optimizes departmental structures and makes the de-layering for personnel management of Agency Network while improving information technology management system to make a more efficient cost management.

Since the second half of 2014, the Group began to explore a commission model to achieve a close partnership with agencies. During the Reporting Period, the Group successfully completed the shift from the traditional district agency model to the commission model by using XiDaKang. This new agency model makes sure that the Group's promoting network can better extend outwards and develop.

As of 31 December of 2015, the Group has signed more than 1,000 agreements with agencies or third –party sales representatives, and covered around 6,000 hospitals across the country.

Production Development

During the Reporting Period, the Group achieved some progress in manufacturing: the restructuring of the workshop for small-volume injections of Kangzhe Hunan was completed to meet the requirement of the new GMP and acquire the new GMP authentication on 30 October 2015.The foundation for the production base of the Group located in Pingshan district was completed, and the workshop for the freeze-dried powder and polypeptide synthesis were granted production licenses.

Outlook and Future Development

Although the healthcare industry in China is facing many challenges and undergoing reform in the short-term, the competition pattern will be further optimized as the entry threshold is raised. In the medium and long term, the prospects of healthcare industry remain bright, with consistently expanding market scale. The Group will maintain its leading position in the market in a harsh environment to deliver sustainable growth by sticking to its two core development strategies: continuous product introduction and network expansion.

As for product introduction, the Group will continue to gain high-quality product assets, mainly through acquisitions, to pave the way for long-term sustainable growth. On 26 February 2016 (London time), the Group entered into the exclusive license agreement with AstraZeneca AB, pursuant to which AstraZeneca AB grants an exclusive license to the Group for the commercialisation of Plendil in the PRC for 20 years and the exclusive license agreement shall be automatically renewed for another 5 years. The current large market size of Plendil can strengthen the Group's capability in the field of cardiovascular and cerebral vascular and help the Group perform on a larger platform with continued growth of its business and to generate sustainable revenue.

In addition, on 26 Feburary 2016 (London time), a wholly-owned subsidiary of Tibet Pharmaceutical entered into the asset purchase agreement with AstraZeneca AB. If Tibet Pharmaceutical obtains shareholders meeting approvals for the transaction, then Tibet Pharmaceutical will acquire global (excluding US market) assets of Imdur, including the trade marks, the know how used exclusively for the manufacture of the product, the goodwill, the product records and the registration license; if not, then a wholly-owned subsidiary of CMS will acquire the above assets.

As the second time of co-operating with a leading multi-national pharmaceutical company, the above transactions will be a promotion to the Group's brand and reputation, as well as strengthen its strategic co-operation with pharmaceutical companies of this kind in the future.

In the area of existing products, the Group will keep formulating promotional strategies to differentiate from competitors according to the product characteristics and market developments, enhance academic promotion and brand establishment, increase sales volume in the districts under coverage and keep expanding new market.

In terms of networks, the Group will continue to expand its Direct Network to the rural market to host more products under increasingly sound management. With new products added in the portfolio, the Group will intensify efforts to integrate resources and increase promoting efficiency to achieve synergies and economies of scale. For the Agency Network, the new commission model of XiDaKang has been running successfully and the Group will improve its efficiency.

Looking ahead, the Group will continue to exercise stringent internal control and supervision to enhance the risk prevention mechanism and management efficiency for long-term development. Meanwhile, the Group will continue to provide premium products and services for physicians and patients, offer an ideal environment and career development platform for staff, and create more value for partners and shareholders.

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 increased by 20.7% from RMB2,945.1 million for the year ended 31 December 2014 to RMB3,553.4 million for the year ended 31 December 2015, mainly due to an increase in sales volume of original products, and the sales contributed by new products.

Gross Profit and Gross Profit Margin

Gross profit increased by 23.7% from RMB1,654.6 million for the year ended 31 December 2014 to RMB2,046.1 million for the year ended 31 December 2015, primarily reflecting growth in turnover. Gross profit margin increased to 57.6% for the year ended 31 December 2015 from 56.2% for the year ended 31 December 2014, mainly due to an increase in the price of XiDaKang and ShaDuoLiKa selling to the agencies in the Agency Network.

Selling Expenses

Selling expenses increased by 29.0% from RMB631.1 million for the year ended 31 December 2014 to RMB814.1 million for the year ended 31 December 2015, primarily reflecting an increase in turnover and academic promotion activities. Selling expenses as a percentage of turnover increased to 22.9% for year ended 31 December 2015 from 21.4% for year ended 31 December 2014, mainly due to an increase in the promotion expense arising from an increase in the price of XiDaKang selling to the agencies.

Administrative Expenses

Administrative expenses increased by 26.9 % from RMB151.9 million for the year ended 31 December 2014 to RMB192.7 million for the year ended 31 December 2015, mainly due to an increase in maintenance expenses, in addition to the administrative expenses incurred by the subsidiary Xili Pharmaceutical acquired in the current year.

Other Gains and Losses

Other gains and losses decreased by 88.5% from RMB275.3 million for the year ended 31 December 2014 to RMB31.5 million for the year ended 31 December 2015, mainly due to gain of RMB215.1 million arising from the transfer of Tibet Pharmaceutical to be an associate from an available for sale investment in the last year.

Share of Result of Associates

Share of result of associates increased by 2,901.9% from a loss of RMB0.6 million for the year ended 31 December 2014 to a gain of RMB17.4 million for year ended 31 December 2015, mainly reflecting an increase in the profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs increased by 44.1% from RMB16.7 million for the year ended 31 December 2014 to RMB24.1 million for the year ended 31 December 2015, mainly reflecting an increase in the use of bank borrowings.

Profit for the Year

Profit for the year decreased by 4.5% from RMB1,043.0 million for the year ended 31 December 2014 to RMB996.5 million for the year ended 31 December 2015. Compared with RMB827.9 million of profit for last year after excluding gain of RMB215.1 million arising from investment in Tibet Pharmaceutical when it became an associate from available for sale investment, profit for the year increased by 20.4%, mainly due to the continuous growth in sales.

Inventories

Inventories increased by 103.3% from RMB189.5 million as at 31 December 2014 to RMB385.2 million as at 31 December 2015, mainly reflecting growth in turnover, the addition of new products, and the addition from the acquired subsidiary Xili Pharmaceutical. Average inventory turnover days increased from 50 days for the year ended 31 December 2014 to 70 days for the year ended 31 December 2015.

Trade Receivables

Trade receivables increased by 26.4% from RMB582.5 million as at 31 December 2014 to RMB736.3 million as at 31 December 2015, primarily reflecting an increase in turnover and the addition from the acquired subsidiary Xili Pharmaceutical. Average trade receivables turnover days increased from 60 days for the year ended 31 December 2014 to 68 days for the year ended 31 December 2015.

Trade Payables

Trade payables increased by 20.7% from RMB79.2 million as at 31 December 2014 to RMB95.6 million as at 31 December 2015, mainly reflecting the addition from the acquired subsidiary Xili Pharmaceutical. Average trade payables turnover days remained 21 days as same as that 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	
	2015	2014
	RMB'000	RMB'000
Net cash from operating activities	614,552	843,198
Net cash used in investing activities	(852,503)	(936,211)
Net cash from (used in) financing activities	219,729	(149,937)
Net decrease in cash and cash equivalent	(18,222)	(242,950)
Cash and cash equivalent at beginning of the year	243,515	487,943
Effect of foreign exchange rate changes	4,043	(1,478)
Cash and cash equivalent at end of the year	229,336	243,515

Net cash from operating activities

The Group's net cash generated from operating activities was RMB614.6 million for the year ended 31 December 2015 compared with RMB843.2 million for the year ended 31 December 2014, a decrease of 27.1% mainly due to an increase in payment for purchase of drugs.

Net cash used in investing activities

For the year ended 31 December 2015, the Group's net cash used in investing activities was RMB852.5 million compared with RMB936.2 million for the year ended 31 December 2014, a decrease of 8.9% mainly due to the acquisition of an associate in the last year.

Net cash from (used in) financing activities

For the year ended 31 December 2015, the Group's net cash from financing activities was RMB219.7 million compared with net cash used of RMB149.9 million for the year ended 31 December 2014, an increase of 246.5% mainly due to an issue of new shares in the current year.

Net Current Assets

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Current Assets		
Inventories	385,177	189,456
Trade receivables	736,294	582,500
Other receivables	427,719	293,745
Tax recoverable	21,701	-
Amount due from an associate	35,096	26,899
Pledged bank deposit	-	209,481
Bank balances and cash and deposits	508,516	243,515
	2,114,503	1,545,596
Current Liabilities		
Trade payables	95,595	79,222
Other payables	297,122	173,421
Bank borrowings	463,903	484,241
Deferred consideration payables	13,595	5,500
Tax payable	33,009	46,287
	903,224	788,671
Net current assets	**1,211,279**	756,925

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Purchase of intangible assets	486,019	196,276
Deposits for acquisition of intangile assets	51,132	-
Purchase of property, plant and equipment	43,150	61,663
Purchase of land use right	349	3,575
	580,650	261,514

Debts

The following table shows the Group's debts:

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Interest bearing bank borrowings	463,903	484,241

The Group's gearing ratio, calculated as bank borrowings divided by total assets, decreased to 7.3% as at 31 December 2015 from 9.9% as at 31 December 2014, mainly reflecting a decrease 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 consolidated financial statements.

Pledge of Assets

As at 31 December 2015, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB10,854,000 and RMB17,494,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2015, the Group had no any material contingent liabilities.

Dividend

For the year ended 31 December 2015, the Group paid an interim dividend for 2015 and a final dividend for 2014 of RMB197.5 million and RMB172.1 million, respectively. 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.

DIRECTOR AND SENIOR MANAGEMENT

Executive Director

Mr. Lam Kong, aged 51, 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 20 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 21 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 and sole director of Treasure Sea Limited, one of the controlling shareholders of the Company.

Mr. Lam is one of the controlling shareholders 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 page 32 of this annual report.

Mr. Chen Hongbing, aged 49, 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 management of product manufacture. 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 sole director of Viewell Limited (a 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 SFO, the details of which are set out on page 32 of this annual report.

Ms. Chen Yanling, aged 45, 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 management, investor relations affairs and office administration. 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 page 32 of this annual report.

Ms. Sa Manlin, aged 55, 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 page 32 of this annual report.

Independent Non-executive Directors

Mr. Cheung Kam Shing, Terry, aged 53, 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. 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. He served as 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, and stopped acting as the Chief Operating Officer of Greater China Professional Services Limited since 18 March 2015. Mr. Cheung was an independent non-executive director of Greens Holdings Limited (a company listed on the Stock Exchange with stock code 1318) from 22 December 2014 to 14 March 2015, stopped acting as the independent non-executive director of Greens Holdings Limited since 14 March 2015 and was appointed as the executive director of Greens Holdings Limited on the same day.

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 59, 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 Greater China 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 51, 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. He has been an independent non-executive Director of Fantasia Holdings Group Co., Ltd. (stock code: 1777), a company listed on the Stock Exchange, since 2009. On 16 July 2014, Mr. Huang was appointed as an independent director of WH Group Limited (HKEx Stock Code: 00288) and the effective date of the appointment was 5 August 2014, since which Mr. Huang has been an independent director of WH Group Limited. Mr. Huang is currently an independent non-executive Director of 360buy Group and Guosen 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 55, 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 44, joined the Group in 2000 and currently holds the positions of Company Secretary, Director of Strategy Development 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, assisting Chief Executive Officer in the strategy development work, 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, legal and investment 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.

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 2015.

Principal Activities

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

Results

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income in page 53.

Business Review

Business review of the Group for the year ended 31 December 2015 can be found in the section headed "Management Discussion and Analysis" of this annual report, which discussion forms part of this "Directors' Report".

Reserves

Movements in reserves for the year ended 31 December 2015 are set out in the consolidated statement of changes in equity in page 56 and note 29 to the consolidated financial statements.

Distributable Reserves

As at 31 December 2015, the Company had distributable reserves of RMB3,452.8 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 consolidated financial statements.

Share Capital

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

Final Dividend

The Board of Directors is pleased to recommend a final dividend of RMB 0.0809 (equivalent to HK$ 0.097) per Share for the year ended 31 December 2015 to shareholders whose names appear on the register of members of the Company on Tuesday, 3 May 2016. The register of members of the Company will be closed from Thursday, 28 April 2016 to Tuesday, 3 May 2016 (both days inclusive). The final dividend will be paid to shareholders on Monday, 9 May 2016 after the shareholders' approval at the AGM dated on Friday, 22 April 2016.

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

Issue of new shares

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

Save the above issue of new shares, the Company has not purchased, sold or redeemed any of its listed securities during the year ended 31 December 2015.

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)
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, Mr. Lam Kong, Mr. Chen Hongbing, Mr. Wu Chi Keung and Mr. Huang Ming 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 Mr. Lam Kong, Mr. Chen Hongbing, Mr.Wu Chi Keung and Mr. Huang Ming. Details of these retiring Directors are set out in the circular issued on 21 March 2016.

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 pages 24 to 27 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 subject 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 5 employees of the Company participating in the Key Employee Benefit Scheme. Details of the key employee benefit scheme is set out in note 38 to the consolidated financial statements.

Directors' interests in Transactions, Arrangements or Contracts of Significance

During the Reporting Period and as at 31 December 2015, none of the Directors or entities connected with the Directors had a material interest, whether directly or indirectly, in any transaction, arrangement or 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 2015, the interests or short positions of the Directors in the shares, underlying shares or debentures of the Company or any of its associated corporations (with the meaning of Part XV of 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 (Note 1)	Approximate Percentage of Interest in the Company
Mr. Lam Kong	The Company	Interest in controlled corporation	1,142,719,000 (L) (Note 2)	45.94%
		Interest in controlled corporation	2,406,500 (L) (Note 3)	0.10%
		Interest in controlled corporation	10,483,162 (L) (Note 4)	0.42%
Mr. Chen Hongbing	The Company	Beneficial owner	20,038,225(L)	0.81%
		Interest in controlled corporation	75,000,000 (L) (Note 5)	3.02%
		Beneficiary of a trust	10,483,162 (L) (Note 6)	0.42%
Ms. Chen Yanling	The Company	Beneficial owner	7,246,250(L)	0.29%
		Beneficiary of a trust	10,483,162 (L) (Note 6)	0.42%
Ms. Sa Manlin	The Company	Beneficial owner	6,074,237(L)	0.24%
		Family interest	750,000 (L) (Note 7)	0.03%
		Beneficiary of a trust	10,483,162 (L) (Note 6)	0.42%

Notes:

1. The letter "L" denotes long positions in the Shares.
2. These Shares are held by Treasure Sea Limited, a company wholly owned by Mr. Lam Kong.
3. These interests in respect of warrants are held by Treasure Sea Limited, a company wholly owned by Mr. Lam Kong.
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 Benefit Scheme). Please refer to note 6 below for further details.
5. These Shares are held by Viewell Limited, a company wholly owned by Mr. Chen Hongbing.
6. These Shares are held by Fully Profit Management (PTC) Limited acting as the trustee of the Key Employee Benefit Trust. The objects of the discretionary trust include Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Sa Manlin and they are deemed to be interested in these 10,483,162 Shares. The references to these 10,483,162 Shares in respect of which Mr. Lam Kong is deemed to be interested in (as disclosed above) relate to the same block of Shares.
7. These Shares are held by Mr. Zhang Ziqiang, the spouse of Ms. Sa Manlin, in respect of which Ms. Sa Manlin is deemed to be interested in.

Directors' Right to Acquire Shares or Debentures

At no time during the 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 2015, 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 consolidated financial statements.

Employees

As at 31 December 2015, the Group had 2,920 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 consolidated financial statements, respectively.

For the year ended 31 December 2015, 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.

Key Relationships with Employees, Customers and Suppliers

The Company maintains good relationships with its employees by taking all practicable measures, including but not limited to improving, reviewing and updating its polices on remuneration and benefits, training, occupational health and safety, to ensure that all the staff are reasonably remunerated.

The Company is in good relationship with its customers and is always improving its communciation mechanism with customers to ensure all the complaints or feedback from its customers can be informed by the Company in time and the customers receive service of high quality.

The Company maintains long-period good cooperation with its domestic and overseas suppliers, which are of good reputation in the industry.

Environmental Policies and Performance

The Group has strictly enforced the "Environmental Protection Law of the PRC", "Water Pollution Prevention Law of the PRC", "Environmental Noise Pollution Prevention Law of the PRC", and other laws and regulations. The Group has set up environmental management organizations, equipped with full-time environmental management personnel, established and improved the environmental management system, and developed the comprehensive risk-defensive measure and emergency plan for accidents which guard against environmental risk accidents in business management and production processes. We also require our suppliers to operate in strict compliance with the relevant environmental regulations and rules and obtain all necessary permission and approval from the relevant government authorities.

Compliance with Laws and Regulations

During the Reporting Period, the Group has complied with the relevant laws and regulations which have significant impact on the operations of the Group.

Principal Risks and Uncertainties

There are a number of risks and uncertainties which may affect the performance and operation of the Company. The followings are summary of principal risks and uncertainties identified by the Company. There may be other principal risks and uncertainties in addition to those shown below which are not know to the Company or which may not be material now but could turn out to be material in the future.

Compliance with GMP and GSP standards

In accordance with applicable laws and regulations, the Company is required to comply with Good Manufacturing Practice ("GMP") standards and Good Supplying Practice ("GSP") standards by certain time limits. The Company has been granted the relevant certificates by China Food and Drug Administration ("CFDA") and other applicable governmental authorities. There can be no assurance that the Company may be able to renew those certificates when they expire and in the event that those certificates are not renewed upon their expiry, the Company's business may be materially and adversely affected.

Product Liability

As the insurance is not mandately required, the Group has no effective product liability insurance policy in respect of the manufacture and distribution of pharmaceutical products in the PRC. In the event of any product liability claim or proceedings pertaining to the products of the Group, the Group may suffer significant cost, attorney fees and damage on its relationship with customers.

Healthcare Reform in China

The government regulation and governance over the healthcare system in the PRC is undergoing a crucial reform period, where (i) the applicable laws, regulations and policies pertaining to the healthcare, medical and pharmaceutical industry are constanly evolving, and (ii) governmental authorities in the PRC may regularly or unexpectedly amend its implementation practices. Any enforcement action taken by the government against the Group may affect us materially and adversely and significant costs may be incurred therefor. Moreover, changes in the government regulation and governance may be applied retrospectively, which leads to more risks and uncertainties in respect of the performance and operation of the Group.

Tender and Price Control

The Company and its subsidiaries have to participate in a government-led tender process every year or every few years. Any failure of the tender in a provincial tender process will affect the Group to sell products in such province. Moreover, the product price, our market share, revenue and profitability may suffer downward pressure due to certain new methods recently adopted in the provincial tender process.

Major Customers and Suppliers

For the year ended 31 December 2015, the percentage of sales to the Group's five largest customers was approximately 19.2% of the Group's total sales, and sales to the top customer accounted for approximately 7.3% of the total sales.

For the year ended 31 December 2015, the percentage of purchases from the Group's five largest suppliers was approximately 87.2% of the Group's total purchases, and purchase from the top supplier accounted for approximately 25.2% 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 pages 38 to 46 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.

Donation

During the Reporting Period, the donation of the Group amounts to RMB 1.9 million.

Permitted Indemnity Provision

According to the articles of association of the Company, among others, every Director, auditor or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director, auditor or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

Appropriate insurance covering 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.

Equity-Linked Agreements

Save as the placing and subscription agreement dated 31 March 2015 as disclosed under the paragraph headed "Purchase, Sale or Redemption of the Company's Listed Securities", the Company has not entered into any equity-linked agreement during the year ended 31 December 2015.

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 2015 to 31 December 2015, 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 38 to 46 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 42 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.

Significant Events of the Group after Reporting Period

The significant events of the Group after reporting period are set out in note 41 to the consolidated financial statements.

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 2015 to 31 December 2015, 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 2015. 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 pages 24 to 26 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 covering 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 seven 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	7/7	1/1
Mr. Chen Hongbing	Chief Operating Officer	7/7	1/1
Ms. Chen Yanling	Chief Finance Officer	7/7	1/1
Ms. Sa Manlin	Executive Director	7/7	1/1
Mr. Cheung Kam Shing, Terry	Independent Non- Executive Director	7/7	1/1
Mr. Wu Chi Keung	Independent Non- Executive Director	7/7	1/1
Mr. Huang Ming	Independent Non- Executive Director	6/7	1/1

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 2015, 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	√	√
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 2015 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 2015, the Audit Committee has held two meetings. At the meetings, the Audit Committee reviewed the annual results for 2014 and the interim results for 2015 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 2015**
Mr. Wu Chi Keung	2/2
Mr. Cheung Kam Shing, Terry	2/2
Mr. Huang Ming	2/2

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 2015, the Remuneration Committee held two meetings. Below is the attendance rate of the committee members:

Committee Members	**Attendance Rate of the Meeting for the Year ended 31 December 2015**
Mr. Huang Ming	2/2
Mr. Cheung Kam Shing, Terry	2/2
Mr. Wu Chi Keung	2/2

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 2015, 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 2015**
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 2015, 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 2015. 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 2015, 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

CMS is always adhering to close and sincere communication with investors and keep them updated with company operations through transparent and timely information disclosure since listed in HK stock market. 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 investors' communication activities, including face to face dialogue with investors, telephone conference and 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 2015, Management of the Company has received over 1,000 domestic and overseas institution representatives or individual investors. In addition, with the help of independent third-parties we have actively increased the interaction and communication with investors, and employed professional Hong Kong institution as consultant of investor relations, effectively maintain and improve investor relations affairs.

The active communication with shareholders and investors is recognized by the third party. Ms. Yanling Chen, Vice President and CFO of CMS, won the Top Prize of "All-Asia Best CFO in 2015 from Buy-Side in Healthcare and Pharmaceutical Industry" by the Institutional Investor Magazine for the fourth time consecutively. Meanwhile, CMS Investor Relations Team won the third Prize of "All-Asia Best IR Team in 2015 from Buy-Side in Healthcare and Pharmaceutical Industry" in this selection event. On November 13, 2015, the Company was awarded "The Best Listed Company" in "the 5th Chinese Securities Golden Bauhinia" Award Ceremony held by Ta Kung Pao in Hong Kong, On December 2, 2015, the Company won the "Best Investor Relation"-Healthcare sector at IR Magazine Awards-Greater China 2015.

The Company believes that shareholders' rights should be well respected and protected. According to the Listing Rules, the Company set up Shareholders Communication Policy and will regularly review this Policy to ensure its effectiveness. During the Reporting Period, the Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules, and have reported to our shareholders and investors through various formal channels, and maintain good communication with shareholders and investors so that they may make an informed assessment for their investment and exercise their rights as shareholders. Going forward, we will keep listening to feedbacks from capital market thus further optimize investor relations work.

CORPORATE SOCIAL RESPONSIBILITY REPORT

This report mainly states that during the Reporting Period, the Group has demonstrated a strong commitment to long-term, sustainable development in areas ranging from quality control, supply chain management to academic field, employment and sustainable development of the social environment.

Quality Control

The Group strictly implements the relevant national laws and regulations, insists on providing Chinese patients with more secure, effective and high-quality drugs. The Group has devoted much attention to its product quality control, has established an optimized production quality management system domestically and overseas, and in March 2014 established an optimized products circulation and supply quality management system — through GSP certification (2012 amendment). Furthermore, the Group is conscientious in compiling its adverse drug reaction (ADR) reports, carries out monitoring work of selling drugs, timely reports to the managing authorities any ADR incidents, submits regular safety reports, and has developed a supervision network covering the whole production process and after-sale service quality, thereby monitoring the product quality from start to finish.

Supply Chain Management

The Group has established an optimized supply chain management system. It manages in a scientific way of the order management, product manufacturing, product release and shipping. It is making efforts to save supply-chain costs as long as the product quality and the market supply are guaranteed.

The Group strictly complies with the terms that it has signed with the suppliers. It timely provides suppliers with scientific order forecasts on the basis of changes in the sales trend, combined with such factors as registration license changes, packaging upgrades and supplier production line revamps. It monitors the product manufacturing process and ensures an effective product replenishment cycle from shipping to warehouse. Moreover, the Group has regular exchanges with suppliers and is completely open with suppliers about product strategy and demand planning, and endeavors to discuss with them any relevant issues and concerns and resolve these, in order to maintain the stable growth, the mutual benefit and the sustainability of the partnership for both parties.

Academic

All along, the aim of the Group has been to use professional promotion services to provide doctors, patients and professional pharmaceutical enterprises with services that create value, and to provide a boost to the national health. Based on the above-mentioned goal, on one hand, we are paying close attention to the development of the corresponding treatment fields of products internationally, and — through, for example, holding academic conferences with overseas manufacturers — introduce the advanced treatment ideas and methods to China. On the other hand, we are paying close attention to what doctors in China and abroad have learned in applying the drugs, and to any developments in the relevant research literature, and we endeavor to promote the advanced treatment technologies and methods in the domestic medical field. In addition, through mass media such as the company website, the WeChat public account etc., we promote the latest progress in disease treatment field and health concepts to doctors and patients.

Employment

The Group regards employees as valuable assets, treats their growth and development as one of the main responsibilities, upholds a human-centered approach, and endeavors to create sound work opportunities with a comfortable and free atmosphere, with space for growth, with a position in the market and professional values. As of the end of 2015, the Group had more than 2,900 employees whose professional background ranged from finance, business, enterprise management, and computer science to other fields, with more than half having a medical background.

The Group focuses on employees' life quality, and has established a compensation incentive system that is both internally fair and externally competitive, thereby bringing into full play its motivational role. At the same time, we never stop perfecting employees' benefit scheme. In addition to guaranteeing the employees' pension insurance, medical insurance, birth insurance, unemployment insurance, work injury insurance, housing provident fund and other mandated benefits in accordance with national regulations, we provide most employees with accidental death, accidental injuries treatment and group complementary medical insurance protection. We have established and perfected the corporate employee complementary commercial insurance protection system, increasing the protection level of employees, and in doing so fully embodying the human touch of the Company.

The Group focuses on employees' work-life balance by adopting a flexible working-hour system, paying attention to employees' right of taking holiday, actively implementing relevant national regulations regarding labor time, annual leave, labor protection and birth control. While employees can give full play to their individual talents, the Group creates a sound working environment that is good for employees' health and safety.

The Group focuses on creating a sound working environment and career development opportunities for employees. It has established a system of career development scheme, actively creating opportunities for employees to grow further and thereby satisfying the demand by employees for development. The Group set up specific training centers, built a complete training system for onboarding and advancement. The Group has built long-term collaborative ties with medical, academic and educational institutions, has developed all kinds of professional medical, international specialized training, academic conferences and fora. In addition, the Group is using a job rotation mechanism, thereby improve the employees' overall abilities, providing more channels and choices for employees' development.

Society

The Group is committed to taking up its social responsibilities. While never ceasing to develop itself, it pays much attention to public welfare and continues to fulfil its corporate social responsibility through a variety of social sponsorships in order to build a harmonious society.

Social assistance

After the explosion at Tianjin Binhai New Area, the Group donated drugs such as Hirudoid, Deanxit and Xidakang worth RMB1.3 million through the China Red Cross to the Tianjin Red Cross, in addition to RMB500,000 in cash which was used for emergency relief.

Medical and healthcare

The Group provides strong support to academic exchange with domestic and overseas experts, and sponsors academic experts in the field of continuing education and training activities. During the period covered by the report, the Group and Falk Pharma Co. of Germany jointly held the 198^{th} Falk Forum under the theme "IBD: the collision of eastern and western academia", and it sponsored "Institute of Hypoxia Tolerance and Nerve Protection Education" and other academic activities held by the Neurological physicians branch of the Chinese Medical Association.

Sports and entertainments

The Group actively sponsors a variety of sports and entertainment activities held by advanced social groups. During the period covered by the report, the Group offered assistance in the "Chinese First Neurology Youth Talent Competition — Medical Work Scene Simulation Competition", etc. organized by the neurologists branch of the Chinese Medical Association, successfully inculcating society with healthy, positive ideas.

Support education

The Group sponsors the Guangdong Medical School campaign of bringing culture, technology and hygiene to the countryside", and donated medicine to assistant elementary students in Aba Xiaojin county in Sichuan province.

Environmental Protection

The Group has strictly enforced the "Environmental Protection Law of the PRC"," Water Pollution Prevention Law of the PRC", "Environmental Noise Pollution Prevention Law of the PRC", and other laws and regulations. The Group has set up environmental management organizations, equipped with full-time environmental management personnel, established and improved the environmental management system, and developed the comprehensive risk-defensive measure and emergency plan for accidents which guard against environmental risk accidents in business management and production processes. The corporate environmental system has got through the acceptance of government, and has been granted the emission permits. Meanwhile, the project of modern ecological agricultural science and Technology Park of the Group focuses on the development of ecology, organic, green recycling agricultural economy. It fully implements the concept of environmental protection to provide quality materials for the production, and to supply organic green food for the community.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS 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 pages 53 to 124, which comprise the consolidated statement of financial position as at 31 December 2015, 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 the 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.

TO THE SHAREHOLDERS 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 financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	NOTES	2015 RMB'000	2014 RMB'000
Turnover	5	3,553,431	2,945,131
Cost of goods sold		(1,507,335)	(1,290,503)
Gross profit		2,046,096	1,654,628
Other gains and losses	6	31,547	275,271
Selling expenses		(814,122)	(631,145)
Administrative expenses		(192,721)	(151,896)
Finance costs	7	(24,109)	(16,733)
Share of results of associates		17,400	(621)
Profit before tax		1,064,091	1,129,504
Income tax expense	10	(67,625)	(86,509)
Profit for the year	11	996,466	1,042,995
Other comprehensive (expense) income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(432)	1,793
Change in fair value on available-for-sale investments			
- fair value gain		-	241,133
- deferred tax relating to change in fair value		-	(55,264)
Reclassification adjustment when the Group acquired additional interest in the available-for-sale investments that become the Group's associate, net of deferred tax		-	(215,055)
Share of other comprehensive income of associates		431	19
Other comprehensive expense for the year, net of income tax		(1)	(27,374)
Total comprehensive income for the year		996,465	1,015,621
Profit (loss) for the year attributable to:			
Owners of the Company		995,935	1,045,702
Non-controlling interests		531	(2,707)
		996,466	1,042,995
Total comprehensive income (expense) attributable to:			
Owners of the Company		995,934	1,018,328
Non-controlling interests		531	(2,707)
		996,465	1,015,621
		RMB	RMB
Earnings per share	13		
Basic		0.4037	0.4330

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	14	325,936	253,876
Prepaid lease payments	15	61,379	51,080
Interests in associates	16	1,321,793	1,308,462
Intangible assets	17	1,026,242	440,896
Goodwill	18	1,384,535	1,184,591
Available-for-sale investments	19	-	-
Deposit paid for acquisition of property, plant and equipment and intangible assets		127,650	90,179
Interest-bearing and secured loan receivable		10,642	11,183
Deferred tax assets	20	24,903	19,418
		4,283,080	3,359,685
Current assets			
Inventories	21	385,177	189,456
Trade and other receivables	22	1,164,013	876,245
Tax recoverable		21,701	-
Amount due from an associate	23	35,096	26,899
Pledged bank deposits	24	-	209,481
Bank balances and cash and deposits	24	508,516	243,515
		2,114,503	1,545,596
Current liabilities			
Trade and other payables	25	392,717	252,643
Bank borrowings	26	463,903	484,241
Deferred consideration payables	27	13,595	5,500
Tax payable		33,009	46,287
		903,224	788,671
Net current assets		1,211,279	756,925
Total assets less current liabilities		5,494,359	4,116,610
Capital and reserves			
Share capital	28	85,200	82,974
Reserves	29	5,210,807	3,907,865
Equity attributable to owners of the Company		5,296,007	3,990,839
Non-controlling interests		56,461	-
		5,352,468	3,990,839

	NOTES	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Deferred tax liabilities	20	108,613	81,177
Deferred consideration payables	27	33,278	44,594
		141,891	125,771
		5,494,359	4,116,610

The consolidated financial statements on pages 53 to 124 were approved and authorised for issue by the Board of Directors on 21 March 2016 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 2015

	Attributable to the owners of the Company									Attributable to non-controlling interests	Total
	Share capital	Share premium	Capital reserve	Investments revaluation reserve	Surplus reserve fund	Translation reserve	Accumulated profits	Dividend reserve	Total		
	RMB'000	RMB'000	RMB'000 (note 29)	RMB'000	RMB'000 (note 29)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2014, 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 become 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
Profit for the year	-	-	-	-	-	-	995,935	-	995,935	531	996,466
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(432)	-	-	(432)	-	(432)
Share of other comprehensive income of associates	-	-	-	-	-	431	-	-	431	-	431
Total comprehensive income for the year	-	-	-	-	-	(1)	995,935	-	995,934	531	996,465
Issue of shares (note 28)	2,226	676,612	-	-	-	-	-	-	678,838	-	678,838
Acquisition of a subsidiary (note 32)	-	-	-	-	-	-	-	-	-	55,930	55,930
Dividends paid (note 12)	-	-	-	-	-	-	(202,503)	(167,101)	(369,604)	-	(369,604)
Dividends proposed (note 12)	-	-	-	-	-	-	(201,218)	201,218	-	-	-
Transfer of reserves	-	-	-	-	11,905	-	(11,905)	-	-	-	-
Balance at 31 December 2015	85,200	2,444,296	19,545	-	149,749	(9,205)	2,405,204	201,218	5,296,007	56,461	5,352,468

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

	NOTES	2015 RMB'000	2014 RMB'000
OPERATING ACTIVITIES			
Profit before tax		1,064,091	1,129,504
Adjustments for:			
Amortisation of intangible assets	17	58,488	28,198
Interest expenses		19,985	13,609
Depreciation of property, plant and equipment	14	19,263	14,250
Allowance for inventories		2,701	1,919
Loss on disposal of property, plant and equipment		1,044	3,559
Release of prepaid lease payments		1,639	1,407
Imputed interest expense on deferred consideration payables		4,124	3,124
Allowance for bad and doubtful debts		1,644	793
Share of results of associates		(17,400)	621
Dividends from available-for-sale investments		-	(640)
Gain on disposal of a subsidiary	33	-	(1,225)
Reclassification adjustment when the Group acquired additional interest in the available-for-sales investments that become the Group's associate, net of deferred tax	6	-	(215,055)
Interest income		(10,039)	(35,020)
Operating cash flows before movements in working capital		1,145,540	945,044
Increase in inventories		(185,027)	(26,202)
Increase in trade and other receivables		(278,375)	(32,061)
Increase in amount due from an associate		(8,197)	(20,000)
Increase in trade and other payables		47,629	43,854
Cash generated from operations		721,570	910,635
People's Republic of China ("PRC") Enterprise Income Tax paid		(104,169)	(66,179)
Hong Kong Profits Tax paid		(2,849)	(1,258)
NET CASH FROM OPERATING ACTIVITIES		614,552	843,198

	NOTES	2015 RMB'000	2014 RMB'000
INVESTING ACTIVITIES			
Investments in structured deposits		(279,180)	-
Release of pledged bank deposit		209,481	507,228
Interest received		14,029	41,836
Proceeds from disposal of property, plant and equipment		-	792
Dividends received from associates		4,500	1,598
Dividends received from available-for-sale investments		-	640
Proceed from disposal of a subsidiary	33	-	11,414
Purchase of prepaid lease payments		(349)	(3,575)
Payment for acquisition of interest in intangible assets from shareholders of non-controlling interests		-	(30,000)
Acquisition of subsidiaries	32	(229,449)	-
Purchase of property, plant and equipment		(43,150)	(61,663)
Placement of pledged bank deposit		-	(268,679)
Purchase of available-for-sale investments	19	-	(154,644)
Acquisition of an associate	16	-	(784,882)
Purchase of intangible assets		(486,019)	(196,276)
Deposits for acquisition of intangible assets		(51,132)	-
Repayment of amounts due from related parties of non-controlling interests		8,766	-
NET CASH USED IN INVESTING ACTIVITIES		(852,503)	(936,211)
FINANCING ACTIVITIES			
New bank borrowings raised		561,963	720,275
Repayment of deferred consideration payables		(6,122)	(7,377)
Interest paid		(25,561)	(10,482)
Dividends paid	12	(369,604)	(291,016)
Repayment of borrowings		(619,785)	(550,154)
Loan advanced		-	(11,183)
Proceeds from issue of shares		678,838	-
NET CASH FROM (USED IN) FINANCING ACTIVITIES		219,729	(149,937)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(18,222)	(242,950)
CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR		243,515	487,943
Effects of exchange rate changes on the balance of cash held in foreign currencies		4,043	(1,478)
CASH AND CASH EQUIVALENT AT THE END OF YEAR REPRESENTED BY BANK BALANCES AND CASH	24	229,336	243,515

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 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 consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

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

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010 - 2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011 - 2013 Cycle

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

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

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

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[3]
Amendments to IAS 1	Disclosure Initiative[4]
Amendments to IAS 7	Statement of Cash Flows[5]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization[4]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[4]
Amendments to IAS 27	Equity Method in Separate Financial Statements[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[6]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[4]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[4]

1 Effective for annual periods beginning on or after 1 January 1 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 2019.
4 Effective for annual periods beginning on or after 1 January 2016.
5 Effective for annual periods beginning on or after 1 January 2017.
6 Effective for annual periods beginning on or after a date to be determined.

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 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 required to be 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 that 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 attributable to a 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 mechanising currently available in IAS 39. Under IFRS 9, 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 retrospective quantitative effectiveness test has been removed. 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*

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 anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, 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 directors 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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB. 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 ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with IFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of preparation - continued

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

Profit or loss and each item 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

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 re-assessment, 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.

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 fair value at the acquisition date (i.e. the date when the Group obtains control), 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 on a pro rata basis 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 amount of 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 ("AFS") 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 any subsequent 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 activities (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 (if any), 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 and 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 any 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).

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. 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.

Financial assets at FVTPL

Financial assets at FVTPL are initially and subsequently measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including loan receivable, trade and other receivables, pledged bank deposits 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.

Impairment of financial assets

Financial assets, other than those at FVTPL, 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.

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 that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. 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.

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. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

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

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

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 recognises its retained interest in the asset and an associate liability for amounts it may have to pay. 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.

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. Service fee income is deferred and included in "trade and other payables" line item in the consolidated statement of financial position for amount received but related services has not been provided by the Group.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

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 functional currency of that entity (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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasing - continued

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 following are 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

For the purpose of impairment testing, the entire amount of goodwill have been allocated to the five (2014: three) 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 goodwill is required for the years ended 31 December 2015 and 2014. As at 31 December 2015, the carrying amount of goodwill is RMB1,384,535,000 (2014: RMB1,184,591,000).

Deferred tax assets

As at 31 December 2015, a deferred tax asset of approximately RMB23,701,000 (2014: RMB19,377,000) in relation to unrealised profits on inventories 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

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 2015, the carrying amounts of trade receivables (net of allowance for bad and doubtful debts) and allowance for bad and doubtful debts are approximately RMB736,294,000 (2014: RMB582,500,000) and RMB3,914,000 (2014: RMB2,270,000), respectively.

Estimated allowance for inventories

As at 31 December 2015, the carrying amount of the Group's inventories is RMB385,177,000 (2014: RMB189,456,000). 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 2015, goodwill of approximately of RMB1,171,244,000 (2014: 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

	2015 RMB'000	2014 RMB'000
Reclassification adjustment when the Group acquired additional interest in the AFS investments that become the Group's associate, net of deferred tax (note a)	-	215,055
Interest income	10,039	35,020
Government subsidies (note b)	29,083	35,372
Dividends from AFS investments	-	640
Gain on disposal of a subsidiary (note 33)	-	1,225
Loss on disposal of property, plant and equipment	(1,044)	(3,559)
Net foreign exchange loss	(8,070)	(5,272)
Others	1,539	(3,210)
	31,547	275,271

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, had been reclassified to profit or loss when the investee becomes the Group's associate which was previously classified as AFS 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

	2015 RMB'000	2014 RMB'000
Interest on bank borrowings wholly repayable within five years	19,985	13,609
Imputed interest on deferred consideration payables	4,124	3,124
	24,109	16,733

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remunerations for the year, disclosed pursuant to the applicable Listing Rules and CO, are as follows:

Year ended 31 December 2015

	Executive Directors (Note c)				**Independent Non-executive Directors (Note d)**			**Executive Director (Note c) and chief executive**	
	Chen Hong Bing RMB'000	**Chen Yan Ling** RMB'000	**Hui Ki, Fat** RMB'000 (Note a)	**Sa Man Lin** RMB'000	**Wu Chi Keung** RMB'000	**Cheung Kam Shing, Terry** RMB'000	**Huang Ming** RMB'000	**Lam Kong** RMB'000 (Note b)	**Total** RMB$'000
Fees	146	146	-	146	146	146	146	146	1,022
Other emoluments									
Salaries and other benefits	655	526	-	529	-	-	-	586	2,296
Contributions to retirement benefits schemes	42	42	-	-	-	-	-	15	99
Total emoluments	843	714	-	675	146	146	146	747	3,417

Year ended 31 December 2014

	Executive Directors (Note c)				**Independent Non-executive Directors (Note d)**			**Executive Director (Note c) and chief executive**	
	Chen Hong Bing RMB'000	**Chen Yan Ling** RMB'000	**Hui Ki, Fat** RMB'000	**Sa Man Lin** RMB'000	**Wu Chi Keung** RMB'000	**Cheung Kam Shing, Terry** RMB'000	**Huang Ming** RMB'000	**Lam Kong** RMB'000 (Note b)	**Total** RMB$'000
Fees	142	142	106	142	142	142	142	142	1,100
Other emoluments									
Salaries and other benefits	655	526	214	529	-	-	-	567	2,491
Contributions to retirement benefits schemes	38	38	-	-	-	-	-	12	88
Total emoluments	835	706	320	671	142	142	142	721	3,679

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

Notes:

(a) Mr. Hui Ki Fat resigned on 1 October 2014.

(b) 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.

(c) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Group.

(d) The independent non-executive director's emoluments shown above were mainly for their services as directors of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals for the year ended 31 December 2015 included four directors (2014: four), details of whose emoluments are set out in note 8 above. The emoluments of the remaining individual for the year ended 31 December 2015 (2014: one individual) were as follows:

	2015 RMB'000	2014 RMB'000
Employees		
- basic salaries and allowances	642	630
- retirement benefits scheme contributions	40	36
	682	666

The emoluments of the employee were within the following bands:

	Number of employees 2015	2014
Up to HK$1,000,000 (equivalent to approximately RMB837,800)	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.

10. INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
Current tax:		
PRC Enterprise Income Tax	75,977	86,656
Hong Kong Profits Tax	2,034	1,999
Other jurisdictions	31	37
	78,042	88,692
Overprovision in prior years:		
PRC Enterprise Income Tax	(3,006)	-
Hong Kong Profits Tax	(20)	(8)
	(3,026)	(8)
Deferred taxation (note 20):		
- Current year	(7,391)	(2,175)
	67,625	86,509

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 both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for those described below.

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 7 December 2018. Starting from 15 October 2014, 康哲(湖南)制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% granted by local tax authority until 14 October 2017. 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 2014 and 2015, 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.

According to Circular Zangzhengfa [2014] No. 51, enterprises located in Tibet are entitled to a preferential tax rate of 15% for the period from 2011 to 2020 under tax incentives for China's western region. These enterprises are also exempted 40% of the EIT for the period from 2015 to 2017. Tibet Kangzhe Pharmaceutical Technology Co., Ltd. ("Tibet Kangzhe Technology") and Tibet Kangzhe Pharmaceutical Development Co., Ltd. ("Tibet Kangzhe Development"), which are located in Lhasa, Tibet, are eligible to enjoy an effective EIT rate of 9% from 2015 to 2017.

10. INCOME TAX EXPENSE - continued

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 2015 and 2014, 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:

	2015 RMB'000	2014 RMB'000
Profit before tax	1,064,091	1,129,504
Tax at the applicable tax rate (note)	266,023	282,376
Tax effect of share of results of associates	(4,350)	155
Tax effect of expenses that are not deductible in determining taxable profit	17,366	16,952
Tax effect of income that is not taxable in determining taxable profit	(3,464)	(61,305)
Tax effect of tax losses not recognised	384	225
Tax effect of deductible temporary differences not recognised	68,153	26,272
Tax effect of tax concession	(51,574)	(16,455)
Effect on different applicable tax rates of subsidiaries	(1,124)	(814)
Effect of tax benefit arising from Labuan Tax Act	(218,754)	(160,218)
Overprovision in prior years	(3,026)	(8)
Utilisation of tax losses previously not recognised	(6,568)	(2,517)
Others	4,559	1,846
Income tax expense for the year	67,625	86,509

Note: The applicable PRC Enterprise Income Tax rate of 25% (2014: 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

	2015 RMB'000	2014 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration		
Fees	1,022	1,100
Other emoluments	2,296	2,491
Pension costs	99	88
	3,417	3,679
Other staff costs	247,360	213,101
Pension costs	16,397	14,964
Key employee benefit expense (note 38)	4,140	3,158
Total staff costs	271,314	234,902
Auditor's remuneration	2,046	1,851
Allowance for bad and doubtful debts	1,644	793
Allowance for inventories	2,701	1,919
Release of prepaid lease payments	1,639	1,407
Depreciation of property, plant and equipment	19,263	14,250
Amortisation of intangible assets (included in cost of goods sold)	58,488	28,198
Cost of inventories recognised as an expense	1,438,291	1,255,816
Minimum lease payment under operating lease in respect of property	7,498	7,983

12. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Dividend paid		
Dividends recognised as distributions during the year:		
2015 Interim - RMB0.0794 (2014: 2014 interim dividend RMB0.0679) per share	197,486	163,961
2014 Final - RMB0.0692 (2014: 2013 final dividend RMB0.0526) per share	172,118	127,055
	369,604	291,016
Dividend proposed		
Dividend proposed during the year:		
2015 final – RMB0.0809 (2014: 2014 final dividend of RMB0.0692) per share	201,218	167,101

The Board of Directors have declared a final dividend of RMB0.0809 per ordinary share of par value of US$0.005 for the year ended 31 December 2015 (2014: RMB0.0692 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:

	2015	2014
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	995,935	1,045,702

	Number of ordinary shares as at 31 December	
	2015	2014
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,466,788,608	2,414,747,512

The Group has no outstanding potential ordinary shares as at 31 December 2015 and 2014 and during the years ended 31 December 2015 and 2014. Therefore, no diluted earnings per share is presented.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2014	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
Additions	4,222	-	41,651	347	2,185	26,931	75,336
Acquired on acquisition of subsidiaries (note 32)	13,291	-	3,205	-	535	-	17,031
Disposals	(209)	-	(5,079)	(463)	(2,621)	-	(8,372)
Transfer	70,667	-	87,050	-	-	(157,717)	-
At 31 December 2015	184,886	1,295	158,700	27,640	12,987	6,343	391,851
ACCUMULATED DEPRECIATION							
At 1 January 2014	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
Provided for the year	6,526	-	7,799	3,471	1,467	-	19,263
Eliminated on disposals	(101)	-	(4,403)	(417)	(2,407)	-	(7,328)
At 31 December 2015	23,770	1,295	12,533	20,672	7,645	-	65,915
CARRYING VALUES							
At 31 December 2015	161,116	-	146,167	6,968	5,342	6,343	325,936
At 31 December 2014	79,570	-	22,736	10,138	4,303	137,129	253,876

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 20/40 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%

The Group has pledged property, plant and equipment with a net book value of approximately RMB10,854,000 (2014: nil) to secure certain bank borrowings granted to the Group.

15. PREPAID LEASE PAYMENTS

	2015 RMB'000	2014 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	62,804	52,437
Analysed for reporting purposes as:		
Current asset (included in trade and other receivables)	1,425	1,357
Non-current assets	61,379	51,080
	62,804	52,437

The Group has pledged leasehold land with a net book value of approximately RMB17,494,000 (2014: RMB17,892,000) to secure general banking facilities granted to the Group.

16. INTERESTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Cost of investments in associates		
Listed outside Hong Kong	1,304,356	1,304,356
Unlisted	11,536	11,536
Share of post-acquisition profits and other comprehensive income, net of dividends received	5,901	(7,430)
	1,321,793	1,308,462
Fair value of listed investment (Note)	1,696,205	1,451,344

Note: As mentioned in note 6, during the year ended 31 December 2014, the Group acquired additional interest in Tibet Rhodiola Pharmaceutical Holding Company("Tibet Pharmaceutical") and had obtained significant influence thereafter. As at 31 December 2015, the fair value of the Group's interest in Tibet Pharmaceutical, of which its shares are listed on the Shanghai Stock Exchange, was approximately RMB1,696 million (2014: 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 *Fair Value Measurement*.

16. INTERESTS IN ASSOCIATES - continued

As at 31 December 2015 and 2014, details of the associates are as follows:

Name of associates	Place of establishment/ incorporation	Principal place of business	Proportion of ownership interest held by the Group		Principal activities
			2015	2014	
Ophol Limited ("Ophol") and	Hong Kong	Hong Kong	24.49%	24.49%	Investment holding provision of agency service
Tibet Pharmaceutical (Note)	Tibet	Tibet	26.61%	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 AFS 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 as at 31 December 2015 and 2014, there 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

	31.12.2015 RMB'000	31.12.2014 RMB'000
Current assets	405,975	730,641
Non-current assets	300,355	315,803
Current liabilities	(192,222)	(605,339)
Non-current liabilities	(28,208)	(26,922)

	Year ended 31.12.2015 RMB'000	Since Acquisition Date to 31.12.2014 RMB'000
Turnover	1,375,726	320,899
Profit for the year/period	90,737	145
Other comprehensive income (expense) for the year/period	743	(2)
Total comprehensive income for the year/period	91,480	143
Dividends received from the associate during the year/period	1,937	-

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

	31.12.2015 RMB'000	31.12.2014 RMB'000
Net assets of Tibet Pharmaceutical	485,900	414,183
Non-controlling interests	3,552	(9,830)
	489,452	404,353
Proportion of the Group's ownership interest in Tibet Pharmaceutical	26.61%	26.61%
	130,243	107,598
Goodwill	1,171,244	1,171,244
Effect of fair value adjustment at acquisition	32,861	32,861
Effect of deferred tax relating to fair value adjustment at acquisition	(8,215)	(8,215)
Other adjustments	(7,030)	-
Carrying amount of the Group's interest in Tibet Pharmaceutical	1,319,103	1,303,488

16. INTERESTS IN ASSOCIATES - continued

Ophol

	2015 RMB'000	2014 RMB'000
Current assets	41	4,248
Non-current assets	10,953	16,072
Current liabilities	(11)	(10)

	2015 RMB'000	2014 RMB'000
Turnover	897	1,012
Profit for the year	184	1,008
Other comprehensive income for the year	956	79
Total comprehensive income for the year	1,140	1,087
Dividends received from the associate during the year	2,563	1,598

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

	2015 RMB'000	2014 RMB'000
Net assets of Ophol	10,983	20,310
Proportion of the Group's ownership interest in Ophol	24.49%	24.49%
Carrying amount of the Group's interest in Ophol	2,690	4,974

17. INTANGIBLE ASSETS

	Exclusive distribution rights	Exclusive agency right	Patent rights	Product rights	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note a & note c(i))	(note b)	(note c)	(note d)	
COST					
At 1 January 2014	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
Exchange adjustments	-	-	2,221	44,346	46,567
Acquired on acquisition of a subsidiary (note c(iv) & note 32)	-	-	114,489	-	114,489
Additions (note d(iii))	-	-	-	486,019	486,019
At 31 December 2015	82,908	-	319,205	800,556	1,202,669
AMORTISATION					
At 1 January 2014	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
Exchange adjustments	-	-	231	3,010	3,241
Charge for the year	5,367	-	18,135	34,986	58,488
At 31 December 2015	48,411	-	57,551	70,465	176,427
CARRYING VALUES					
At 31 December 2015	34,497	-	261,654	730,091	1,026,242
At 31 December 2014	39,864	-	163,310	237,722	440,896

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 Tibet Pharmaceutical 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 exclusively promotes and sells the Three Products in the PRC and Beijing Yadong is responsible for the production of the Three Products as required by Tianjin Kangzhe and sells the Three Products exclusively to Tianjin Kangzhe. As at 31 December 2015, the carrying amount was approximately RMB27,500,000 (2014: RMB29,150,000).

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 was 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. As at 31 December 2015, the carrying amounts of patent rights of YiNuoShu and ShaDuoLiKa and exclusive distribution rights owned by Tianjin Kangzhe were approximately RMB98,413,000, RMB5,972,000 and RMB3,296,000, respectively (2014: RMB106,729,000, RMB6,459,000 and RMB6,713,000).

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. As at 31 December 2015, the exclusive distribution right and patent right of XiDaKang were approximately RMB3,701,000 and RMB2,859,000, respectively (2014: RMB4,001,000 and RMB2,869,000).

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 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 patent 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 patent 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 patent right owner of XiDaKang. As at 31 December 2015, the carrying amount was approximately RMB33,125,000 (2014: RMB33,745,000).

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

17. INTANGIBLE ASSETS - continued

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

(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. 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, amounted to RMB16,005,000. As at 31 December 2015, the carrying amount was approximately RMB12,146,000 (2014: RMB13,508,000).

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

(iv) The Group acquired 52.01% of equity interest in Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Xili Pharmaceutical") on 16 February 2015. This included the acquisition of the patent right of DanShenTong. 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 of DanShenTong owned by Xili Pharmaceutical, amounted to RMB114,489,000. As at 31 December 2015, the carrying amount was approximately RMB109,139,000 (2014: nil).

The expected useful live of the patent right is 18 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, at a consideration of EUR10,000,000 (equivalent to approximately RMB72,317,000). During the year ended 31 December 2014, the residual balance of the exclusive agency right of Stulln of approximately RMB14,625,000 was transferred to product right accordingly (see note 17(b)). As at 31 December 2015, the carrying amount was approximately RMB81,312,000 (2014: RMB84,750,000), which included a deferred consideration payable (see note 27) in the amount of approximately EUR4,170,000 (equivalent to approximately RMB29,586,000) (2014: EUR3,791,000 or equivalent to approximately RMB28,261,000), which represented the present value of the annual consideration of EUR1,000,000 (equivalent to approximately RMB7,095,000) 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), at a consideration of USD25,000,000 (equivalent to approximately RMB152,972,000). As at 31 December 2015, the carrying amount is approximately RMB154,223,000 (2014: RMB152,972,000).

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

(iii) On 25 March 2015, the Group entered into a series of agreements related to Combizym and Hirudoid (the "Purchased Products") with DKSH International AG, in connection with the purchase of i) all trademarks regarding the Purchased Products; (ii) all market authorizations or similar licenses, certificates or approvals regarding the Purchased Products 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, at a consideration of CHF76,600,000 (equivalent to approximately RMB486,019,000). As at 31 December 2015, the carrying amount is approximately RMB494,556,000 (2014: nil).

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

18. GOODWILL

	RMB'000
COST	
At 1 January 2014	1,192,895
Eliminated on disposal of a subsidiary	(8,304)
At 31 December 2014	1,184,591
Arising on acquisition of subsidiaries (note 32)	199,944
At 31 December 2015	1,384,535
IMPAIRMENT	
At 1 January 2014	8,304
Eliminated on disposal of a subsidiary	(8,304)
At 31 December 2014 and 31 December 2015	-
CARRYING VALUES	
At 31 December 2015	1,384,535
At 31 December 2014	1,184,591

For the purposes of impairment testing, the entire amount of goodwill has been allocated to five (2014: three) CGUs, representing five (2014: three) subsidiaries, namely Tianjin Kangzhe, Kangzhe Lengshuijiang, Sky United Trading Limited ("Sky United"), Xili Pharmaceutical and Tibet Kangzhe Development (2014: Tianjin Kangzhe, Kangzhe Lengshuijiang and Sky United). Tianjin Kangzhe is engaged in marketing, promotion and sale of drugs. Sky United and Tibet Kangzhe Development are engaged in trading of drugs. Kangzhe Lengshuijiang and Xili Pharmaceutical are engaged in production of medicines. The carrying amounts of goodwill (net of accumulated impairment losses) as at 31 December 2015 and 2014 allocated to these units are as follows:

	2015 RMB'000	2014 RMB'000
Tianjin Kangzhe	1,160,333	1,160,333
Kangzhe Lengshuijiang	21,295	21,295
Sky United	2,963	2,963
Xili Pharmaceutical	198,090	-
Tibet Kangzhe Development	1,854	-
	1,384,535	1,184,591

The recoverable amounts of Tianjin Kangzhe, Kangzhe Lengshuijiang, Sky United, Xili Pharmaceutical and Tibet Kangzhe Development are determined based on value in use calculations. 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.

During the years ended 2015 and 2014, no impairment loss was recognised.

18. GOODWILL - continued

Tianjin Kangzhe

At 31 December 2015, 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% (2014: 11%). Tianjin Kangzhe's cash flows beyond the third-year period are extrapolated using a declining growth rate ranging from 20% to 3% (2014: 20% to 3%). This growth rate is based on management's best estimate and past experience on the industry.

Kangzhe Lengshuijiang

At 31 December 2015, 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% (2014: 11%). Kangzhe Lengshuijiang's cash flows beyond the third-year period are extrapolated using a declining growth rate from 7% to 4% (2014: 15% to 10%). This growth rate is based on management's best estimate and past experience on the industry.

Xili Pharmaceutical

At 31 December 2015, 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%. Xili Pharmaceutical's cash flows beyond the third-year period are extrapolated using a declining growth rate from 15% to 10%. This growth rate is based on management's best estimate and past experience on the industry.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2015 RMB'000	2014 RMB'000
Listed investments		
Equity securities listed on Shanghai Stock Exchange	-	-

The investment was denominated and traded in RMB and its fair value was based on the quoted market prices available on Shanghai Stock Exchange, which was 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 had been reclassified to profit or loss as disclosed in note 6, upon the Group obtained significant influence over an investee which had previously been classified as AFS 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	Fair value adjustments to assets acquired in business combinations	Unrealised profit of available-for-sale investments	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	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 a)	-	-	(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)
Credit (charge) to profit or loss for the year (note 10)	4,324	3,105	-	(38)	7,391
Acquisition of a subsidiary (note 32)	-	(30,541)	-	1,199	(29,342)
At 31 December 2015	23,701	(44,649)	(63,964)	1,202	(83,710)

Note:

(a) During the year ended 31 December 2014, the deferred tax relating to change in fair value on AFS investments had first been charged to other comprehensive income, and was 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 AFS 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:

	2015	2014
	RMB'000	RMB'000
Deferred tax assets	24,903	19,418
Deferred tax liabilities	(108,613)	(81,177)
	(83,710)	(61,759)

20. DEFERRED TAX - continued

At 31 December 2015, the Group had unused tax losses of approximately RMB15,835,000 (2014: RMB9,092,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Tax losses of approximately RMB32,079,000 arose from the acquisition of Xili Pharmaceutical on 16 February 2015. Included in unrecognised tax losses at 31 December 2015 are tax losses of approximately RMB9,218,000 (2014: RMB2,474,000) 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 2015, tax losses of approximately RMB602,000 (2014: RMB429,000) was expired.

As at 31 December 2015, the Group had deductible temporary differences of RMB596,446,000 (2014:RMB306,617,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB94,804,000 (2014: RMB77,587,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB501,642,000 (2014: RMB229,030,000) 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. 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 RMB1,571,546,000 (2014: RMB1,250,422,000) 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

	2015 RMB'000	2014 RMB'000
Raw materials	5,731	9,385
Work in progress	4,608	9,050
Finished goods	374,838	171,021
	385,177	189,456

22. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	740,208	584,770
Less: Allowance for bad and doubtful debts	(3,914)	(2,270)
	736,294	582,500
Bills receivables	233,269	150,751
Purchase prepayment	23,756	35,225
Value added tax receivable	121,325	64,174
Other receivables and deposits	49,369	43,595
Total trade and other receivables	1,164,013	876,245

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 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:

	2015 RMB'000	2014 RMB'000
0 - 90 days	671,069	544,774
91 - 365 days	63,618	37,354
Over 365 days	1,607	372
	736,294	582,500

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 RMB61,353,000 (2014: RMB51,645,000) 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:

	2015 RMB'000	2014 RMB'000
0 - 90 days	59,250	45,921
91 - 365 days	1,359	5,352
Over 365 days	744	372
	61,353	51,645

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:

	2015 RMB'000	2014 RMB'000
Balance at beginning of the reporting period	2,270	1,561
Impairment losses recognised on receivables	1,644	793
Amount written off as uncollectible	-	(84)
Balance at end of the reporting period	3,914	2,270

23. AMOUNT DUE FROM AN ASSOCIATE

Balance represents prepayments made to an associate for purchases of inventories, and is expected to be utilised within one year. The amount is non-interest bearing.

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

	2015 RMB'000	2014 RMB'000
Pledged bank deposits	-	209,481
Bank balances and cash	229,336	243,515
Deposits	279,180	-
	508,516	452,996

The bank deposits and pledged bank deposits carry interest at the prevailing market rate of approximately 0.5% to 3.8% (2014: 0.5% to 5.0%) per annum.

The pledged bank deposits amounting to nil (2014: RMB209,481,000) represent deposits pledged to banks to secure the issuance of letters of credit. Therefore the pledged bank deposits are classified as current assets.

The deposits amounting to approximately RMB279,180,000 (2014: nil) represented structured deposits denominated in RMB that were arranged by banks in the PRC. The structured deposits carry interest at rates which vary depending on the performance of the underlying money market instruments and debt instruments. The structure deposits are redeemable anytime from the date of purchase to the date of maturity. The structured deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivatives. The directors of the Company are of the opinion that the fair values of the structured deposits approximate their principal amounts as at 31 December 2015.

All the structured deposits were subsequently redeemed at a price approximate to their fair value.

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

	2015 RMB'000	2014 RMB'000
United State dollar ("US$")	905	447
Euro ("EURO")	14,211	2,283
Hong Kong dollars ("HK$")	2,321	818
RMB	59,874	457

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:

	2015 RMB'000	2014 RMB'000
0 - 90 days	92,496	79,158
91 - 365 days	3,025	3
Over 365 days	74	61
	95,595	79,222
Payroll and welfare payables	58,003	56,317
Other tax payables	36,594	19,653
Deferred promotion income	60,542	3,488
Payables for acquisition of property, plant and equipment	29,138	10,613
Other payables and accruals	112,845	83,350
	392,717	252,643

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

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

	2015 RMB'000	2014 RMB'000
EURO	6,118	4,865

26. BANK BORROWINGS

	2015 RMB'000	2014 RMB'000
Bank loans - repayable within one year	463,903	-
Advance from banks on discounted bills receivables with recourse - repayable within one year (Note a)	-	484,241
	463,903	484,241
Secured	25,000	215,683
Unsecured	438,903	268,558
	463,903	484,241

26. BANK BORROWINGS - continued

Note:

(a) Balance represented bills receivable discounted to banks for cash proceeds of RMB484,241,000. The receivables arose from intra-group transactions which had then been fully eliminated on consolidation. 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 were matured and fully settled during the year.

The ranges of effective interest rates (which are also equal to contractual interest rate) on the Group's borrowings and their carrying values are as follows:

	2015 RMB'000	2014 RMB'000
Fixed-rate borrowings		
Denominated in RMB(6.42% per annum as at 31 December 2015 and range from 3.05% to 3.80% per annum as at 31 December 2014)	25,000	484,241
Denominated in EUR (2.8% per annum as at 31 December 2015 and nil as at 31 December 2014)	141,898	-
	166,898	484,241
Variable-rate borrowings		
Denominated in EUR (range from 1% to 2.5% as at 31 December 2015 and nil as at 31 December 2014) (Note b)	297,005	-
	463,903	484,241

Note:

(b) Variable rates range from Euro Interbank Offered Rate ("EURIBOR") plus 1.0% to EURIBOR plus 2.5% as at 31 December 2015.

27. DEFERRED CONSIDERATION PAYABLES

	2015 RMB'000	2014 RMB'000
Non-current	33,278	44,594
Current	13,595	5,500
	46,873	50,094

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 2015, the carrying value amounting to RMB10,952,000 (2014: RMB16,074,000) was 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 2015, the carrying value amounting to RMB6,335,000 (2014: RMB5,759,000) was included in deferred consideration payables.

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 2015, the carrying value amounting to approximately EUR4,170,000 (equivalent to approximately RMB29,586,000) (2014: EUR3,791,000 (equivalent to approximately RMB28,261,000)) was included in deferred consideration payables.

28. SHARE CAPITAL

	Number of shares	Amount
	'000	RMB'000
Authorised share capital:		
At 1 January 2014, 31 December 2014 and 31 December 2015	20,000,000	765,218
Issued and fully paid:		
At 1 January 2014 and 31 December 2014	2,414,747	82,974
Issue of shares on 13 April 2015 (Note)	72,500	2,226
At 31 December 2015	2,487,247	85,200

Note:

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

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 2014.

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

	2015 RMB'000	2014 RMB'000
Financial assets		
Financial assets at FVTPL	279,180	-
Loans and receivables (including cash and cash equivalents)	1,488,722	1,197,430
Financial liabilities		
Others financial liabilities measured at amortised cost	(725,078)	(641,694)

31. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies

The Group's major financial instruments include loan receivable, trade and other receivables, structured deposits, pledged bank deposits, bank balances and cash, 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 fixed rate bank borrowings (see note 26) will fluctuate because of changes in market interest rates.

The Group is also exposed to cash flow interest rate risk in relation to variable rate bank borrowings (see note 26). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank borrowings at the end of the reporting period. The analysis is prepared assuming that the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 1% (2014: nil) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variable were held constant, the Group's post tax profit for the year ended 31 December 2015 would decrease/increase by approximately RMB59,000 (2014: nil). This is mainly attributable to the Group's exposure on interest rates on its variable rate bank borrowings.

Foreign currency risk management

Some subsidiaries of the Company have foreign currency purchases, which expose the Group to foreign currency risk. Approximately 22.0% (2014: 23.7%) 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.

31. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

Foreign currency risk management - continued

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, deferred consideration payables and bank borrowings) at the reporting date are as follows:

	Assets		Liabilities	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
US$	905	447	-	-
EURO	24,853	13,466	474,607	33,127
HK$	2,321	818	-	-
RMB	59,875	457	17,287	21,833

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

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 5% (2014: 5%) 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 5% (2014: 5%) change in foreign currency rates. The sensitivity analysis includes loan receivable, bank balances, trade and other payables, bank borrowings 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 5% (2014: 5%) against the relevant foreign currencies. If there is a 5% (2014: 5%) 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:

	2015 RMB'000	2014 RMB'000
RMB (as functional currency of the relevant group entities) against US$	(45)	(22)
US$ (as functional currency of the relevant group entities) against EURO	(22,488)	983
RMB (as functional currency of the relevant group entities) against HK$	(116)	(41)
US$ (as functional currency of the relevant group entities) against RMB	(2,129)	1,069

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.

31. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

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 2015 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.

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.

31. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk management - continued

	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 2015
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2015						
Trade and other payables	-	214,302	-	-	214,302	214,302
Deferred consideration payables	8.83	13,595	41,434	3,000	58,029	46,873
Fixed interest rate borrowings	3.34	172,476	-	-	172,476	166,898
Variable interest rate borrowings	2.00	302,951	-	-	302,951	297,005
		703,324	41,434	3,000	747,758	725,078

	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

Fair value measurements of financial instruments

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.

32. ACQUISITION OF SUBSIDIARIES

Acquisition of Xili Pharmaceutical

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

Consideration transferred

	RMB'000
Cash	258,705

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

	RMB'000
Property, plant and equipment	16,835
Prepaid lease payments	11,657
Intangible assets	114,489
Deferred tax assets	1,199
Inventories	11,812
Amounts due from related parties	8,186
Amounts due from shareholders of non-controlling interests	580
Amounts due from the Group	267
Trade and other receivables	46,741
Tax recoverable	2,977
Bank balances and cash	2,872
Bank borrowings	(40,000)
Trade and other payables	(30,529)
Deferred tax liabilities	(30,541)
	116,545

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 expected to be collected.

32. ACQUISITION OF SUBSIDIARIES - continued

Goodwill arising on acquisition

	RMB'000
Consideration transferred	258,705
Plus: non-controlling interests	55,930
Less: fair value of identifiable net assets acquired	(116,545)
Goodwill arising on acquisition	198,090

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

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

Net cash outflow arising on acquisition

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

Impact of acquisition on the results of the Group

Included in the profit for the year was RMB1,106,000 attributable to Xili Pharmaceutical. Revenue for the year included RMB 37,000 generated from Xili Pharmaceutical.

Had the acquisition of Xili Pharmaceutical been completed at 1 January 2015, the revenue of the Group for the year ended 31 December 2015 would have been RMB3,574 million, and the profit for the year would have been RMB908 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at 1 January 2015, nor is intended to be a projection of future results.

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

32. ACQUISITION OF SUBSIDIARIES - continued

Acquisition of Tibet Kangzhe Development

On 23 December 2015, the Group acquired 100% interest in Tibet Kangzhe Development from an independent third party, at a consideration of RMB2,000,000. Tibet Kangzhe Development is engaged in trading of drugs.

Consideration transferred

	RMB'000
Cash	2,000

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

	RMB'000
Property, plant and equipment	196
Inventories	1,583
Trade and other receivables	15,952
Bank balances and cash	13,384
Trade and other payables	(13,725)
Amounts due to former shareholders	(17,244)
	146

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	2,000
Less: fair value of identifiable net assets acquired	(146)
Goodwill arising on acquisition	1,854

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

Net cash inflow arising on acquisition

	RMB'000
Consideration paid in cash during the current period	(2,000)
Add: cash and cash equivalent balances acquired	13,384
	11,384

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 preceding period were as follows:

	1.1.2014 to 27.3.2014
	RMB'000
Turnover	1,005
Cost of goods sold	(2,036)
Other gains and losses	(1,723)
Selling expenses	(86)
Administrative expenses	(2,602)
Loss before tax	(5,442)
Income tax expense	(82)
Loss for the period	(5,524)

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 was 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 Kangzhe Guangming:

	2014 RMB'000
Net cash flows from operating activities	53

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:

	2015 RMB'000	2014 RMB'000
Within one year	5,545	4,484
In the second to fifth year inclusive	1,610	1,948
	7,155	6,432

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

	2015 RMB'000	2014 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment and intangible assets contracted for but not provided in the consolidated financial statements	33,676	122,353
Other commitment in respect of acquisition of a subsidiary contracted for but not provided in the consolidated financial statements	-	243,204
	33,676	365,557

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	2015	2014	
			RMB'000	RMB'000	
Ophol	Associate	Interest expense	811	1,003	
Tibet Pharmaceutical	Associate	Promotion income	245,903	30,202	(note)
Tibet Pharmaceutical	Associate	Purchase of goods	372,990	41,026	(note)

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

(b) On 8 May 2015, A&B (HK) Company Limited ("A&B"), a company wholly-owned by a controlling shareholder of the Company, entered into agreements with Faron Pharmaceuticals, Ltd ("Faron"), to acquire 15.72% of the shareholding of Faron, assets related to Traumakine in China, Hong Kong, Macau and Taiwan (the "Territory"), intellectual properties related to Traumakine form the Territory and the right to exchange Traumakine information with Faron.

On 19 May 2015, the Group entered into agreements with A&B and/or Faron respectively, to acquire the assets related to Traumakine in the Territory. The consideration for above transfer will be further negotiated and agreed between A&B and the Group at a later stage prior to the launch of Traumakine in the Territory, the amount would be calculated with reference to the net sales of Traumakine in the Territory.

The acquisition has not been completed up to the date of this report.

(c) 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 RMB16,496,000 (2014: RMB15,052,000).

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.

38. KEY EMPLOYEE BENEFIT SCHEME - continued

During the year ended 31 December 2015, the Company contributed cash amounting to RMB4,140,000 (2014: RMB3,158,000) 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 2015 and 31 December 2014, the details of the Company's subsidiaries are set as follows:

Name of subsidiaries (note i)	**Place of incorporation/ establishment and operation**	**Issue and fully paid share capital/ registered capital** 31 December 2015	31 December 2014	**Equity interest held by the Group** 31 December 2015 Directly	31 December 2015 Indirectly	31 December 2014 Directly	31 December 2014 Indirectly	**Principal activities**
CMS International (note a)	British Virgin Islands	US$10,000	US$10,000	100%	-	100%	-	Investment holding
Kangzhe Hunan (wholly-owned domestic enterprise)	PRC	RMB26,670,000	RMB26,670,000	-	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	RMB500,000,000	RMB350,000,000	-	100%	-	100%	Marketing, promotion and sale of drugs
Kangzhe Guangming (note b) (wholly-owned domestic enterprise)	PRC	-	-	-	-	-	-	Production of medicines

39. SUBSIDIARIES OF THE COMPANY - continued

Name of subsidiaries	Place of incorporation/ establishment and operation	Issue and fully paid share capital/ registered capital		Equity interest held by the Group				Principal activities
(note i)		31 December 2015	31 December 2014	31 December 2015		31 December 2014		
				Directly	Indirectly	Directly	Indirectly	
Kangzhe Lengshuijing (wholly-owned domestic enterprise)	PRC	RMB10,080,000	RMB10,080,000	-	100%	-	100%	Production of medicines
Kangzhe Agricultural (wholly-owned domestic enterprise)	PRC	RMB20,000,000	RMB20,000,000	-	100%	-	100%	Agriculture
香港鼎成投資有限公司 (note c)	Hong Kong	HK$10,000	-	-	100%	-	-	Investment holding
Bridging Pharma Limited (note d)	United Kingdom	GBP100	-	-	100%	-	-	Investment holding
Bridging Pharma GmbH (note e)	Switzerland	CHF20,000	-	-	100%	-	-	Investment holding
Xili Pharmaceutical (note f) (sino-foreign equity joint venture)	PRC	RMB11,360,000	-	-	52.01%	-	-	Production of medicines
Tibet Kangzhe Technology (note g) (wholly-owned domestic enterprise)	PRC	RMB3,000,000	-	-	100%	-	-	Promotion service
Tibet Kangzhe Development (note h) (wholly-owned domestic enterprise)	PRC	RMB2,000,000	-	-	100%	-	-	Trading of drugs

Notes:

(a) Being inactive subsidiaries.
(b) The subsidiary was disposed of on 27 March 2014 (note 33).
(c) The subsidiary was acquired on 16 February 2015.
(d) The subsidiary was established on 17 December 2014.
(e) The subsidiary was established on 25 September 2015.
(f) The subsidiary was acquired on 16 February 2015 (note 32).
(g) The subsidiary was established on 11 June 2015.
(h) The subsidiary was acquired on 23 December 2015 (note 32).
(i) None of the subsidiaries had issued any debt securities at the end of the year.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2015 RMB'000	2014 RMB'000
Non-current assets		
Investments in subsidiaries	61	61
Amount due from a subsidiary	2,663,837	1,766,579
	2,663,898	1,766,640
Current assets		
Amount due from a subsidiary	878,698	653,922
Bank balances and cash	154	150
	878,852	654,072
Current liabilities		
Amount due to a subsidiary	2,958	2,958
Accruals	1,766	1,815
	4,724	4,773
Net current assets	874,128	649,299
Total assets less current liabilities	3,538,026	2,415,939
Capital and reserves		
Share capital (note 28)	85,200	82,974
Reserves	3,452,826	2,332,965
Total equity	3,538,026	2,415,939

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 2014	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)
Dividend proposed	-	-	(167,101)	167,101	-
Balance at 31 December 2014	1,767,684	6,960	391,220	167,101	2,332,965
Profit and total comprehensive income for the year	-	-	812,853	-	812,853
Issue of shares	676,612	-	-	-	676,612
Dividend paid	-	-	(202,503)	(167,101)	(369,604)
Dividend proposed	-	-	(201,218)	201,218	-
Balance at 31 December 2015	2,444,296	6,960	800,352	201,218	3,452,826

41. EVENTS AFTER THE REPORTING PERIOD

(a) Acquisition of exclusive license in relation to Plendil

On 26 February 2016, the Group entered into an exclusive license agreement with AstraZeneca AB, a private company incorporated in Sweden with limited liability to acquire the exclusive license for the commercialisation of Plendil in the PRC.

For details of the transaction, please refer to the Company's announcement dated 29 February 2016.

(b) Asset purchase agreement in relation to Imdur

On 26 February 2016, the Group and Tibet Pharmaceutical entered into an asset purchase agreement with AstraZeneca AB, pursuant to which Tibet Pharmaceutical agrees to purchase, and AstraZeneca AB agrees to sell i) the trademarks of Imdur; ii) the know-how used exclusively for the manufacture of Imdur for the entire world excluding the United State of America ("Territory"); iii) the goodwill associated with the use of the trademarks in the Territory; iv) the product records necessary to exploit Imdur in the Territory; and v) the legal rights and interests to or in the relevant regulatory approvals exclusively relating to the Imdur.

For details of the transaction, please refer to the Company's announcements dated 29 February 2016 and 15 March 2016.