CHINA MEDICAL SYSTEM HOLDINGS LIMITED

康哲藥業控股有限公司*

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016 AND CHANGE OF COMPANY SECRETARY

The board of Directors (the "Board") of China Medical System Holdings Limited (the "Company" or "CMS") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 (the "Reporting Period").

Financial Highlights

- Turnover up 37.9% to RMB4,900.8 million (2015: RMB3,553.4 million)
- Profit for the year up 38.3% to RMB1,377.9 million (2015: RMB996.5 million)
- Basic earnings per share up 37.0% to RMB0.5532 (2015: RMB0.4037)
- As at 31 December 2016, the Group's cash and bank deposits amounted to RMB482.5 million while readily realizable bank acceptance bills amounted to RMB423.6 million
- Proposed final dividend of RMB0.1164 per share, bringing the total dividend for the year ended 31 December 2016 to RMB0.2216 per share, representing an increase of 38.2% from last year (2015: final dividend of RMB0.0809 and total dividend of RMB0.1603 per share respectively)

**For Identification Only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Turnover	3	4,900,812	3,553,431
Cost of goods sold		(1,988,911)	(1,507,335)
Gross profit		2,911,901	2,046,096
Other gains and losses	4	(22,078)	31,547
Selling expenses		(1,173,760)	(814,122)
Administrative expenses		(221,714)	(192,721)
Finance costs	5	(42,520)	(24,109)
Share of results of associates		48,612	17,400
Profit before tax		1,500,441	1,064,091
Income tax expense	6	(122,524)	(67,625)
Profit for the year	7	1,377,917	996,466
Other comprehensive income (expense), net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		-	(432)
Share of other comprehensive income of associates		315	431
Other comprehensive income (expense) for the year, net of income tax		315	(1)
Total comprehensive income for the year		1,378,232	996,465
Profit for the year attributable to:			
Owners of the Company		1,375,936	995,935
Non-controlling interests		1,981	531
		1,377,917	996,466
Total comprehensive income attributable to:			
Owners of the Company		1,376,251	995,934
Non-controlling interests		1,981	531
		1,378,232	996,465
		RMB	RMB
Earnings per share	9		
Basic		0.5532	0.4037

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		361,724	325,936
Prepaid lease payments		60,541	61,379
Interests in associates		1,363,361	1,321,793
Intangible assets		2,885,597	1,026,242
Goodwill		1,384,535	1,384,535
Deposits paid for acquisition of property, plant and equipment and intangible assets		143,413	127,650
Interest-bearing and secured loan receivable		10,960	10,642
Deferred tax assets	10	30,544	24,903
		6,240,675	4,283,080
Current assets			
Inventories		509,004	385,177
Trade and other receivables	11	1,682,420	1,164,013
Tax recoverable		14,240	21,701
Amount due from an associate		862,803	35,096
Bank balances and cash and deposits	12	482,451	508,516
		3,550,918	2,114,503
Current liabilities			
Trade and other payables	13	579,122	392,717
Bank borrowings	14	1,612,398	463,903
Deferred consideration payables		1,096,424	13,595
Tax payable		108,223	33,009
		3,396,167	903,224
Net current assets		154,751	1,211,279
Total assets less current liabilities		6,395,426	5,494,359
Capital and reserves			
Share capital	15	85,200	85,200
Reserves		6,124,182	5,210,807
Equity attributable to owners of the Company		6,209,382	5,296,007
Non-controlling interests		58,442	56,461
		6,267,824	5,352,468

	NOTE	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Deferred tax liabilities	10	105,563	108,613
Deferred consideration payables		22,039	33,278
		127,602	141,891
		6,395,426	5,494,359

1. GENERAL

China Medical System Holdings Limited, 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 and major subsidiaries.

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

Amendments to HKFRSs that are mandatorily effective for the current year

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 IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

New and amendments to IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.

IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets. Key requirements of IFRS 9 which are relevant to the Group is 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 recognized.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, the application of IFRS 9 in the future may have impact on the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

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

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.

In 2016, the IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

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

IFRS 16 *Leases* - continued

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group had non-cancellable operating lease commitments of RMB9,873,000. The application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

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

3. TURNOVER AND SEGMENT INFORMATION

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

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

The Group only has one reportable operating segment, that is marketing, promotion, sales and manufacturing of pharmaceutical products. No operating results and discrete financial information is available for the assessment of performance of the respective business divisions and resources allocation purpose.

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

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

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

4. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Interest income	20,005	10,039
Government subsidies (note a)	25,330	29,083
Loss on disposal of property, plant and equipment	(314)	(1,044)
Net foreign exchange loss	(50,776)	(8,070)
Impairment loss on intangible assets	(20,000)	-
Others	3,677	1,539
	(22,078)	31,547

Note:

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

5. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings wholly repayable within five years	39,040	19,985
Imputed interest on deferred consideration payables	3,480	4,124
	42,520	24,109

6. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax:		
PRC Enterprise Income Tax	127,831	75,977
Hong Kong Profits Tax	3,258	2,034
Other jurisdictions	39	31
	131,128	78,042
Underprovision (overprovision) in prior years:		
PRC Enterprise Income Tax	-	(3,006)
Hong Kong Profits Tax	87	(20)
	87	(3,026)
Deferred taxation (note 10):		
- Current year	(8,691)	(7,391)
	122,524	67,625

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for the 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. Starting from 1 January 2015 ,西藏康哲醫藥科技有限公司 (Tibet Kangzhe Pharmaceutical Technology Co., Ltd.) ("Tibet Kangzhe Technoloy") and 西藏康哲藥業發展有限公司(Tibet Kangzhe Pharmaceutical Development Co., Ltd) ("Tibet Kangzhe Development") are entitled to a reduced tax rate of 9% granted by local tax authority until 31 December 2017.

Pursuant to EIT Law, enterprises engaged in prescribed agriculture projects are exempted from EIT. In 2015 and 2016, 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.

6. 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 2016 and 2015, 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:

	2016 RMB'000	2015 RMB'000
Profit before tax	1,500,441	1,064,091
Tax at the applicable tax rate (note)	375,110	266,023
Tax effect of share of results of associates	(12,153)	(4,350)
Tax effect of expenses that are not deductible in determining taxable profit	29,570	17,366
Tax effect of income that is not taxable in determining taxable profit	(3,993)	(3,464)
Tax effect of tax losses not recognised	1,350	384
Tax effect of deductible temporary differences not recognised	2,555	68,153
Tax effect of tax concession	(98,467)	(51,574)
Effect on different applicable tax rates of subsidiaries	(3,357)	(1,124)
Effect of tax benefit arising from Labuan Tax Act	(168,734)	(218,754)
Underprovision (overprovision) in prior years	87	(3,026)
Utilisation of tax losses previously not recognised	(1,431)	(6,568)
Others	1,987	4,559
Income tax expense for the year	122,524	67,625

Note: The applicable PRC EIT rate of 25% (2015: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group.

7. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration		
Fees	1,092	1,022
Other emoluments	2,332	2,296
Pension costs	114	99
	3,538	3,417
Other staff costs	290,048	247,360
Pension costs	18,141	16,397
Employee benefit expense (note 16)	64,982	4,140
Total staff costs	376,709	271,314
Auditor's remuneration	2,295	2,046
Allowance for bad and doubtful debts	2,313	1,644
Allowance for inventories	2,940	2,701
Release of prepaid lease payments	1,672	1,639
Depreciation of property, plant and equipment	24,976	19,263
Amortisation of intangible assets (included in cost of goods sold)	150,883	58,488
Impairment loss on intangible assets	20,000	-
Cost of inventories recognised as an expense	1,828,085	1,438,291
Minimum lease payment under operating lease in respect of property	8,835	7,498

8. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividend paid		
Dividends recognised as distributions during the year:		
2016 Interim - RMB0.1052 (2015: 2015 interim dividend RMB0.0794) per share	261,658	197,486
2015 Final - RMB0.0809 (2015: 2014 final dividend RMB0.0692) per share	201,218	172,118
	462,876	369,604
Dividend proposed		
Dividend proposed during the year:		
2016 final - RMB0.1164 (2015: 2015 final dividend of RMB0.0809) per share	289,516	201,218

The Board of Directors have declared a final dividend of RMB0.1164 per ordinary share of par value of US$0.005 for the year ended 31 December 2016 (2015: RMB0.0809 per ordinary share of par value of US$0.005).

9. EARNINGS PER SHARE

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

	2016 RMB'000	2015 RMB'000
Earnings for the purposes of basic earnings per share (profit attributable to owners of the Company)	1,375,936	995,935

	Number of ordinary shares as at 31 December	
	2016	2015
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,487,247,512	2,466,788,608

The Group has no outstanding potential ordinary shares as at 31 December 2016 and 2015 and during the years ended 31 December 2016 and 2015. Therefore, no diluted earnings per share is presented.

10. DEFERRED TAX

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

	Unrealised profits on inventories RMB'000	Fair value adjustments to assets acquired in business combinations RMB'000	Unrealised profit of available-for-sale investments RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	19,377	(17,213)	(63,964)	41	(61,759)
Credit (charge) to profit or loss for the year (note 6)	4,324	3,105	-	(38)	7,391
Acquisition of a subsidiary	-	(30,541)	-	1,199	(29,342)
At 31 December 2015	23,701	(44,649)	(63,964)	1,202	(83,710)
Credit (charge) to profit or loss for the year (note 6)	5,642	3,050	-	(1)	8,691
At 31 December 2016	29,343	(41,599)	(63,964)	1,201	(75,019)

10. DEFERRED TAX - continued

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

	2016 RMB'000	2015 RMB'000
Deferred tax assets	30,544	24,903
Deferred tax liabilities	(105,563)	(108,613)
	(75,019)	(83,710)

At 31 December 2016, the Group had unused tax losses of approximately RMB14,322,000 (2015: RMB15,835,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses at 31 December 2016 are tax losses of approximately RMB4,743,000 (2015: RMB9,218,000) 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 2016, tax losses of approximately RMB778,000 (2015: RMB602,000) was expired.

As at 31 December 2016, the Group had deductible temporary differences of RMB624,418,000 (2015:RMB596,446,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB116,320,000 (2015: RMB94,804,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB508,098,000 (2015: RMB501,642,000) 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 RMB2,202,450,000 (2015: RMB1,571,546,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

11. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	1,074,577	740,208
Less: Allowance for bad and doubtful debts	(6,096)	(3,914)
	1,068,481	736,294
Bills receivables	423,624	233,269
Purchase prepayment	35,947	23,756
Value added tax receivable	88,479	121,325
Other receivables and deposits	65,889	49,369
Total trade and other receivables	1,682,420	1,164,013

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:

	2016 RMB'000	2015 RMB'000
0 - 90 days	976,052	671,069
91 - 365 days	91,820	63,618
Over 365 days	609	1,607
	1,068,481	736,294

The bills receivables of the Group are of the age within six months at the end of the reporting period. As at 31 December 2016, RMB263,801,000 (2015: nil) was discounted to banks for cash proceeds, of which RMB224,297,000 (2015: nil) arose from intra-group transactions which had then been fully eliminated on consolidation.

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 RMB108,993,000 (2015: RMB61,353,000) 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.

11. TRADE AND OTHER RECEIVABLES - continued

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

	2016 RMB'000	2015 RMB'000
0 - 90 days	103,388	59,250
91 - 365 days	5,018	1,359
Over 365 days	587	744
	108,993	61,353

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:

	2016 RMB'000	2015 RMB'000
Balance at beginning of the reporting period	3,914	2,270
Impairment losses recognised on receivables	2,313	1,644
Amount written off as uncollectible	(131)	-
Balance at end of the reporting period	6,096	3,914

12. BANK BALANCES AND CASH/DEPOSITS

	2016 RMB'000	2015 RMB'000
Bank balances and cash	482,451	229,336
Deposits	-	279,180
	482,451	508,516

At 31 December 2015, the bank deposits carried interest at the prevailing market rate of 0.5% to 3.8% per annum.

The deposits amounting to approximately RMBnil (2015: RMB279,180,000) represented structured deposits denominated in RMB that were arranged by banks in the PRC. The structured deposits carried interest at rates which varied depending on the performance of the underlying money market instruments and debt instruments. The structured deposits were redeemable anytime from the date of purchase to the date of maturity. The structured deposits were designated at FVTPL on initial recognition as they contained non-closely related embedded derivatives. The directors of the Company were of the opinion that the fair values of the structured deposits approximated 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:

	2016 RMB'000	2015 RMB'000
United State dollar ("US$")	17,902	905
Euro ("EURO")	9,780	14,211
Hong Kong Dollars ("HK$")	849	2,321
RMB	-	59,874

13. TRADE AND OTHER PAYABLES

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

	2016 RMB'000	2015 RMB'000
0 - 90 days	106,681	92,496
91 - 365 days	29,624	3,025
Over 365 days	1,285	74
	137,590	95,595
Payroll and welfare payables	123,517	58,003
Other tax payables	28,424	36,594
Deferred promotion income	78,310	60,542
Payables for acquisition of property, plant and equipment	14,474	29,138
Other payables	78,378	37,358
Accruals	118,429	75,487
	579,122	392,717

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:

	2016 RMB'000	2015 RMB'000
EURO	7,663	6,118
USD	99,757	-

14. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank loans	1,348,597	463,903
Advance from banks on discounted bills receivables with recourse - repayable within one year (Note a)	263,801	-
	1,612,398	463,903
Analysed as:		
Secured	288,801	25,000
Unsecured	1,323,597	438,903
	1,612,398	463,903
Carrying amount repayable within one year	288,801	25,000
Carrying amounts of bank loans that contain a repayment on demand clause		
Within one year	962,045	438,903
Within a period of more than one year but not exceeding two years	142,150	-
Within a period of more than two years but not exceeding five years	219,402	-
Amount due within one year shown under current liabilities	1,612,398	463,903

Note:

(a) Balance represented bills receivable discounted to banks for cash proceeds of approximately RMB263,801,000. 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 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:

14. BANK BORROWINGS - continued

	2016 RMB'000	2015 RMB'000
Fixed-rate borrowings		
Denominated in RMB (range from 2.91% to 5.22% per annum as at 31 December 2016 and 6.42% per annum as at 31 December 2015)	563,935	25,000
Denominated in EUR (nil as at 31 December 2016 and 2.8% as at 31 December 2015)	-	141,898
	563,935	166,898
Variable-rate borrowings		
Denominated in EUR (range from 1.5% to 2.25% as at 31 December 2016 and range from 1% to 2.5% as at 31 December 2015) (Note b)	1,048,463	297,005
Total	1,612,398	463,903

Note:

(b) Variable rates range from Euro Interbank Offered Rate ("EURIBOR") plus 1.5% to 2.25% as at 31 December 2016 (2015: EURIBOR plus 1.0% to 2.5%).

As at 31 December 2016, the Group has unutilised banking facilities of approximately RMB919,916,000.

15. SHARE CAPITAL

	Number of shares '000	Amount RMB'000
Authorised share capital:		
At 1 January 2015, 31 December 2015 and 31 December 2016	20,000,000	765,218
Issued and fully paid:		
At 1 January 2015	2,414,747	82,974
Issue of shares on 13 April 2015 (Note)	72,500	2,226
At 31 December 2015, 1 January 2016, and 31 December 2016	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.

16. EMPLOYEE BENEFIT SCHEME

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

(a) The purpose of the 2009 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 2009 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 2009 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 2009 Scheme is classified as defined contribution scheme.

16. EMPLOYEE BENEFIT SCHEME - continued

On 22 December 2016, the Board has resolved to adopt two new employee incentive schemes, with details as follows:

(a) CMS Employee Incentive Scheme (the "Bonus Scheme")

i. This scheme is for the purpose of providing discretionary cash bonuses to selected employees of the Group to recognise their contribution to the Group.
ii. This scheme is open to the employees employed by the Group, except for the directors of the Company.

(b) CMS Key Employee Benefit Scheme (the " New KEB Scheme")

i. The New KEB Scheme will replace the 2009 Scheme and shall comprise terms which are substantially similar to the 2009 Scheme.
ii. The subsisting rights of all participants under 2009 Scheme will be rolled over to the New KEB Scheme.

For the purposes of effecting the merger and facilitating the administration of the Bonus Scheme and the New KEB Scheme, the Company has resolved to set up a new trust comprising the Bonus Scheme and KEB Scheme (collectively referred to as the "Master Scheme"). Unless terminated earlier by the Board, the Master Scheme shall be valid and effective until the later of the termination of the Bonus Scheme or the New KEB Scheme. The term of each of the Bonus Scheme and the New KEB Scheme is 20 years subject to the terms of their respective scheme rules. TMF Trust (HK) Limited ("TMF"), a company incorporated in Hong Kong, is appointed as the initial trustee of the new trust (the "New Trustee").

A summary of some of the principal terms of the Bonus Scheme is set out in below:

(a) The Company will, on a yearly basis, contribute the sum equal to an amount of 5% to 15% on the net profit growth on the audited consolidated financial statements of the Group ("Annual Contribution"), subjected to the approval from the Benefit Scheme Executive Committee, comprising executive directors of the Company. No contribution will be made by the Company if there is no growth on the net profit in the year.

(b) The amount payable to the members of the Bonus Scheme in a financial year depends on a variety of factors, including the value of the assets held by the New Trustee (the "New Fund"), the appreciation in the value of the assets held under the New Fund, the financial performance of the Group and the performances of individual employees during the year. The New Fund is independent from the Company and the change in value of the New Fund has no impact on the Group's financial performance and financial position. The only obligation of the Company is to make the Annual Contributions to the New Fund subject to the terms of the scheme rules of the Bonus Scheme. As such, the Bonus Scheme is classified as a discretionary scheme of the Company.

During the year ended 31 December 2016, the Company contributed cash amounting to RMB4,982,000 (2015: RMB4,140,000) to the Fund and recognised RMB60,000,000 on the Master Scheme based on the Group's financial performance. RMB64,982,000 (2015: RMB4,140,000) were recognised as employee benefit expenses in the consolidated statement of profit or loss and other comprehensive income.

Management Discussion and Analysis

Business Review

The Company is pleased to announce that for the year ended 31 December 2016 (the "Reporting Period"), the Group recorded turnover of RMB4,900.8 million (2015: RMB3,553.4 million), representing an increase of 37.9% over the same period last year. Profit reached RMB1,377.9 million (2015: RMB996.5 million), up 38.3% over the same period last year. Basic earnings per share were RMB0.5532 (2015: RMB0.4037), representing an increase of 37.0% over the same period last year.

In 2016, the supervisory department of the industry continued to update and issue multiple policies related to cost control in medical insurance, tendering and price cuts, second price negotiations, consistency in evaluations of generics, two-invoice system, adjustment of National Reimbursement Drug List ("NRDL"), as well as self-examination and inspection of clinical trial data of drugs. This further advanced the Chinese healthcare and pharmaceutical industry to a competition pattern focusing on the academic value, quality and efficiency, boosting the survival of the fittest in the industry. Facing the accelerating atmosphere of the industry's reform, the Group achieved satisfactory rapid-growth during the Reporting Period. This was on account of the Group's continuous introduction of new products, quality and diverse product portfolio, well-cultivated and professional academic promotional networks, and effective operational management system.

Product Introduction and Development

1. Product Introduction

The products serve a solid foundation for the Group's development. The Group has high product selection criteria as well as a professional evaluation system, selecting and purchasing quality products from the global market with good efficacy and high academic value. The group has established a multilevel (the short-term, mid-term and long-term) new product introduction system. Short-term, directly-launched products refer to overseas products for which Import Drug Licenses（"IDL"）have been obtained in China, and domestic products which have been granted production license approvals. These products can be sold immediately after introduction. The mid-term pipeline products refer to the products that have launched in overseas markets but have yet to gain IDL in China. Long-term pipeline products refer to innovative drug candidates at late stages of development. The multilevel product introduction strategy can ensure that the Group has a sufficient and constant supply of products to launch into the markets at any stage, and strongly supports its sustainable long-term growth.

The Group's preferred method of introducing products is to control the product's rights. For the rights control of domestic products, the Group introduces new products mainly through equity investment in domestic manufacturers; for the rights control of overseas products, the Group prefers to introduce new products through purchasing their assets related to the Chinese market or their long-term exclusive sales rights. This "rights control" introduction model ensures steady control over product rights while generating higher profits for the Group in the mid-term and long-term.

During the Reporting Period, the Company entered into an exclusive license agreement with AstraZeneca AB, acquiring a 20-year exclusive license for the commercialization of Plendil in the People's Republic of China ("PRC"), excluding the Hong Kong Special Administrative Region ("Hong Kong SAR"), the Macau Special Administrative Region ("Macau SAR") and Taiwan. The wholly-owned subsidiary of Tibet Rhodiola Pharmaceutical Holdings Co., Ltd. ("Tibet Pharmaceutical", an associate company of the Group), entered into an asset purchase agreement with AstraZeneca AB. Pursuant to the agreement, Tibet Pharmaceutical agreed to purchase Imdur's global market assets (US market excluded). Key information is listed below:

1.1 Added product that can be directly launched to the market via acquiring the 20-year exclusive license for the commercialization of the product

On 26 February 2016 (London time), the Company entered into an exclusive license agreement with AstraZeneca AB, pursuant to which AstraZeneca AB grants an exclusive license to the Company for the commercialization of Plendil (Felodipine Sustained Release Tablet) in the PRC (excluding Hong Kong SAR, and Macau SAR and Taiwan). The term of the exclusive license agreement is 20 years and it shall be automatically renewed for another 5 years subject to the terms in the agreement. 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 obtaining continued growth of its business.

1.2 Added product that can be directly launched to the market via acquiring the global market assets by the Group's associate company Tibet Pharmaceutical

On 26 February 2016 (London time), a wholly-owned subsidiary of Tibet Pharmaceutical entered into an asset purchase agreement with AstraZeneca AB ("Asset Purchase Agreement"). Pursuant to the agreement, Tibet Pharmaceutical acquires global assets (US market excluded) of Imdur (Isosorbide Mononitrate Sustained Release Tablet), including the trade marks, the know-how used exclusively for the manufacture of the product, the goodwill, the product records and the legal rights and interests in the relevant regulatory approvals ("Imdur Assets"). At the shareholders meeting of Tibet Pharmaceutical held on 27 April 2016, a resolution was passed to approve the transactions contemplated under the asset purchase agreement. Completion of the sale and purchase of the Imdur assets between a wholly-owned subsidiary of Tibet

Pharmaceutical and AstraZeneca AB took place on 1 May 2016. Tibet Pharmaceutical also approved the appointment of the Group to promote Imdur in the PRC (excluding Hong Kong SAR, and Macau SAR and Taiwan) on an exclusive basis.

Before the above mentioned two products were added to the Group's portfolio, they had gained a certain market scale and brand recognition in China, so they could be directly launched into the market to contribute to the Group's revenue. The newly added products will also enrich the portfolio of the cardiovascular and cerebral vascular product line under the direct academic promotion network (the "direct network") of the Group, while further enhancing the promotional synergies.

2. Existing Product Development

2.1 Main Products under the Direct Network

During the Reporting Period, the Group continued to focus on academic promotion, insisted on exploiting and supplementing the differentiated academic characteristics of each product, and formulated promotion strategies conforming to the Chinese local market. The Group also extended its market coverage while enhancing the output from the markets it covered, through deeply solidifying expert network of products and refining the market layout.

Plendil (Felodipine Sustained Release Tablet)

Plendil is the Company's newly introduced product under the Direct Network via granting a 20-year exclusive license for the commercialization in the PRC (excluding Hong Kong SAR, and Macau SAR and Taiwan) during the Reporting Period. Plendil is an original product manufactured by AstraZeneca Pharmaceutical Co., Ltd. (阿斯利康制药有限公司), and Plendil is used to treat hypertension and stable angina pectoris, and is on the NRDL. Felodipine is a commonly used calcium channel blocker to treat hypertension, this class of medicine is recommended by the Chinese Guidelines for the Management of Hypertension. Plendil is the sustained release formulation of Felodipine, which controls the blood pressure smoothly with clear efficacy and low rates of instances of side effects. During the Reporting Period, Plendil recorded sales of RMB935.0 million, accounting for 19.1% of the Group's turnover.

In 2016, the Group completed the market handover of the product and started the promotion work. The Group inculcated the core academic promotion information of the product by cooperating with academic platforms. Meanwhile, the Group utilized the Group's resources efficiently to strengthen the construction of an expert network. As at 31 December 2016, sales of Plendil covered around 20,000 hospitals throughout China.

Deanxit (Flupentixol and Melitracen)

Deanxit, manufactured by H. Lundbeck A/S of Denmark, is used in the treatment of mild to moderate depression and anxiety and is on the NRDL. Based on IMS data in 2016, Deanxit is the most prescribed antidepressant drug in China. During the reporting period, Deanxit recorded sales of RMB917.9 million, an increase of 1.5% compared with the same period last year, accounting for 18.7% of the Group's turnover.

The Group continued to dig into the academic advantages of the product, and further reinforced its brand image with product's efficacy and quality. The Group also expanded advanced expert networks through hosting and participating in academic conferences at various academic levels and multi-departments. The Group further enhanced its contribution from existing markets while exploiting new markets for the product. As at 31 December 2016, sales of Deanxit covered over 18,000 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 NRDL. Based on IMS data in 2016, 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 RMB771.9 million, an increase of 16.7% compared with the same period last year, accounting for 15.8% of the Group's turnover.

The Group continued the differentiated academic promotion strategies, and extensively developed brand education activities through leading and participating plenty of domestic and overseas advanced academic conferences. Furthermore, the Group cooperated with major medical institutions, in order to enhance the domestic treatment level for related diseases. As at 31 December 2016, sales of Ursofalk covered around 8,000 hospitals throughout China.

XinHuoSu (Nesiritide, Lyophilized Recombinant Human Brain Natriuretic Peptide, "rhBNP")
XinHuoSu, manufactured by Chengdu Rhodiola Biological Pharmaceutical Co., Ltd., a subsidiary of Tibet Pharmaceutical in which the Group holds a 26.61% stake, XinHuoSu is a National Class One biological agent used to treat acute heart failure, and also is the only Recombinant Human Brain Natriuretic Peptide (rhBNP) currently on the Chinese market. It is recommended by the first "Acute Heart Failure Diagnosis and Treatment Guideline" in China, and has gradually become the standard medication for treating acute heart failure. During the Reporting Period, XinHuoSu recorded sales of RMB537.4 million, an increase of 25.2% compared with the same period last year, accounting for 11.0% of the Group's turnover.

Continuing with the academic-oriented promotion model, the Group extensively carried out related academic education conferences, and established a multi-level academic expert network. Meanwhile, the Group

continued to enhance the development efforts at the core hospitals. As at 31 December 2016, sales of XinHuoSu covered around 1,800 hospitals throughout China.

Salofalk (Mesalazine)

Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany and its entrusted manufacturers, is mainly used to treat Ulcerative Colitis and Crohn's disease. It is on the NRDL, and is the Mesalazine with the widest dosage forms in China, including coated tablets, suppositories and enemas. During the Reporting Period, Salofalk recorded sales of RMB220.9 million, an increase of 20.7% compared with the same period last year, accounting for 4.5% of the Group's turnover.

During the Reporting Period, the Group strengthened the education work on doctors and patients through domestic and overseas multi-level academic conferences, and expanded the brand influence of Salofalk. As at 31 December 2016, sales of Salofalk covered around 3,600 hospitals throughout China.

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

The Group owns Augentropfen Stulln Mono Eye-drops' related assets for the China (including Hong Kong SAR and Macau SAR) market, and has entrusted the manufacture to Pharma Stulln GmbH of Germany. Augentropfen Stulln Mono Eye-drops is used to treat age-related macular degeneration and all forms of ocular asthenopia, and is the only eye-drops product approved by the China Food and Drug Administration (CFDA) for the treatment of macular degeneration, and it is preservative-free. During the Reporting Period, Augentropfen Stulln Mono Eye-drops recorded sales of RMB181.1 million, an increase of 13.8% compared with the same period last year, accounting for 3.7% of the Group's turnover.

The Group improved the expert network, solidified the brand image in the treatment area of ocular fundus disease, and reinforced the status in the treatment direction of ocular asthenopia by participating a variety of conferences on ophthalmology and collaborating several projects. As at 31 December 2016, sales of Augentropfen Stulln Mono Eye-drops covered over 6,000 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 probiotics agent with the most adequate evidence base to treat acute gastroenteritis for children, and also is the only Saccharomyces Boulardii currently in the Chinese market. The newest publication of 2016 "The Clinical Practice Guidelines of Chinese Children with Acute Infectious Diarrhea" gave Bioflor the highest level of recommendations. During the Reporting Period, Bioflor recorded sales of RMB176.2 million, an increase 3.6% compared with the same period last year, accounting for 3.6% of the Group's turnover.

During the Reporting Period, the Group analyzed expert recommended guidelines and carried out a variety of academic conferences to strengthen the status of Bioflor in terms of having adequate evidence on the treatment of diarrhea for children and prevention of antibiotics related diarrhea. Meanwhile, the Group enhanced the therapeutic department's layout, and strengthened the development efforts of new markets. As at 31 December 2016, sales of Bioflor covered around 2,500 hospitals throughout China.

DanShenTong Capsule

DanShenTong capsule is owned and manufactured by Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Heibi Xili") in which the Group holds more than 50% shares, and is on the NRDL. DanShenTong capsule is a plant-based and multi-functional antibiotic (broad spectrum) with explicit molecular structure; 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 RMB147.9 million, an increase of 24.3% compared with the same period last year, accounting for 3.0% of the Group's turnover.

During the Reporting Period, the Group further systemized and clarified the promotion strategies and direction of DanShenTong capsule by relying on the construction of promotion platform with large-scale activities and issuance of academic promotional guidelines. As at 31 December 2016, sales of DanShenTong capsule covered over 3,500 hospitals throughout China.

NuoDiKang Capsule

NuoDiKang capsule is manufactured by Sichuan NuoDiKangWeiGuang Pharmaceutical Co., Ltd., a 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 RMB122.0 million, an increase of 48.8% compared with the same period last year, accounting for 2.5% of the Group's turnover.

The Group actively participated in academic conferences hosted by medical association and association of physicians etc. and strongly promoted the core academic value of NuoDiKang capsule with the support of

the Group's well established network and brand image in cardiovascular field. As at 31 December 2016, sales of NuoDiKang capsule covered over 3,600 hospitals throughout China.

Hirudoid (Mucopolysaccharido Polysulfate Cream)

The Group owns Hirudoid's related assets for the China (excluding Hong Kong SAR, and Macau SAR and Taiwan) market, and the product is manufactured by Mobilat Produktions GmbH (Germany). The active ingredient of Hirudoid is mucopolysaccharide polysulfate, the drug is used for the treatment of blunt trauma with formed or unformed hematoma, and superficial phlebitis which cannot be cured by pressing therapy. Hirudoid has broad indication with high quality, efficacy and safety. During the Reporting Period, Hirudoid recorded sales of RMB102.7 million, an increase of 80.2% compared with the same period last year, accounting for 2.1% of the Group's turnover.

The Group strengthened the construction on brand and expert network of Hirudoid, and deepened academic reengineering works by collaborating in scientific research and clinical project with association. The Group further improved the market layout with the support of the Group's fully covered academic network. As at 31 December 2016, sales of Hirudoid covered over 5,300 hospitals throughout China.

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablet)

The Group owns Combizym's related assets for the China (including Hong Kong SAR, and Macau SAR and Taiwan) market and other designated countries or areas. Combizym is manufactured by Nordmark Arzneimittel GmbH & Co. KG (Germany). The main ingredients of Combizym are pancreatin and aspergillus oryzae enzymes, which is used for the treatment of dyspepsia caused by decreases in digestive enzymes. Combizym is included on the NRDL. During the Reporting Period, Combizym recorded sales of RMB52.8 million, an increase of 104.1% compared with the same period last year, accounting for 1.1% of the Group's turnover.

During the Reporting Period, the Group continued to promote the concept of the clinical application of digestive enzymes, and reinforced market development efforts with the support of the Group's well-established expert network in digestive department. As at 31 December 2016, sales of Combizym covered over 1,000 hospitals throughout China.

GanFuLe Tablet

GanFuLe tablet, the Group's self-owned product, is used for the treatment of primary liver cancer, cirrhosis and liver fibrosis. GanFuLe tablet has been in clinical use for two decades, and is included on the NRDL. During the Reporting Period, due to the solid preparation workshop of Kangzhe (Hunan) Medical Co., Ltd., ("Kangzhe Hunan"), a wholly-owned subsidiary of Group, was reconstructing according to the China's new

GMP, the Group has entrusted the manufacture to Sichuan NuoDiKangWeiGuang Pharmaceutical Co., Ltd., a subsidiary of Tibet Pharmaceutical. The manufacture of GanFuLe tablet would be transferred to Kangzhe Hunan after obtaining the certification of new GMP. During the Reporting Period, GanFuLe recorded sales of RMB47.8 million, a decrease of 24.2% compared with the same period last year, accounting for 1.0% of the Group's turnover.

During the Reporting Period, the Group continued to solidify brand image, expanded the promotion of indications of liver cancer, and reinforced the doctor's recognition of product by operating a variety of academic promotion activities. As at 31 December 2016, sales of GanFuLe tablet covered around 700 hospitals throughout China.

Parlodel® Tablet (Bromocriptine Mesilate)

The Group owns Parlodel® Tablet's related assets for the China (including Hong Kong SAR and Taiwan) market, and has entrusted the manufacture to Novartis Farma S.P.A. in Italy. The active ingredient of Parlodel® tablet is bromocriptine mesilate. It is an original product, 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. During the Reporting Period, Parlodel® tablet recorded sales of RMB21.4 million, accounting for 0.4% of the Group's turnover. As at 31 December 2016, sales of Parlodel® covered around 900 hospitals throughout China.

Imdur (Isosorbide Mononitrate Sustained Release Tablet)

Imdur, a newly introduced product that can be directly launched into the market under the Direct Network via acquiring its global assets (US market excluded) by the Group's associate company Tibet Pharmaceutical during the Reporting Period. The Group is responsible for Imdur's promotion in the China (excluding Hong Kong SAR, and Macau SAR and Taiwan) market. Imdur is a long-acting, oral nitrate preparation for long-term treatment of coronary artery disease and prophylactic angina pectoris. It is temporarily manufactured by AstraZeneca Pharmaceutical Co., Ltd. Nitrates hold a very important position and key advantages in the treatment of cardiovascular diseases. This class of medicine is cited or recommended as a first-line anti ischemic agent by some Chinese and international guidelines for cardiovascular diseases. Isosorbide mononitrate has the largest market share among nitrates. Imdur uses the Durules sustained release technology of AstraZeneca and is suitable for long-term anti ischemic treatment. In China, Imdur has wide clinical use and high recognition among both doctors and patients. It is a NRDL product and listed in local EDL in some areas. It is one of the indispensably important drugs for anti-ischemic treatment of coronary artery disease. During the Reporting Period, Imdur recorded promotional service revenues of RMB20.4 million, accounting for 0.4% of the Group's turnover.

In May 2016, the Group started the handover of the China market and actively conducted the promotion activities. The Group rebuilt the first-brand position of oral nitrates by strengthening standardized usage concept of nitrates and establishing various expert network and platform. As at 31 December 2016, sales of Imdur covered around 5,500 hospitals throughout China.

Lamisil® Tablet (Terbinafine Hydrochloride)

The Group owns Lamisil® Tablet's related assets for the China (excluding Hong Kong SAR, Macau SAR and Taiwan) market, and the product is manufactured by Beijing Novartis Pharma Ltd. The active ingredient of Lamisil® tablet is terbinafine hydrochloride. The drug is an original product, and is included on the NRDL. It is used to treat fungal infections on skin and hair caused by dermatophytes such as trichophyton, microsporumcanis 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. The production of Lamisil® tablet will be transferred to Kangzhe Hunan after the properties transfer is done. The promotion and sales work for Lamisil® tablet has been handled by Novartis, and Novartis has settled profit to the Group based on an agreement during the license transformation period. During the Reporting Period, the Group received Lamisil® tablet's settled profits revenues of RMB8.9 million, accounting for 0.2% of the Group's turnover.

MOVICOL® (Macrogol Sodium Potassium Powder)

The Group owns MOVICOL®'s related assets for the China (including Hong Kong SAR and Macao SAR) market, and has entrusted the manufacture to British Norgine B.V. The active ingredients of MOVICOL® are macrogol 3350, sodium bicarbonate, sodium chloride and potassium chloride. 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, and has a broad target market in China. The IDL for MOVICOL® is ready, but the product had yet to be sold in the China market before. During the Reporting Period, the Group started the relevant promotion work for MOVICOL® in the China market, such as tendering and market development, and the product produced a small amount of sales revenue.

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

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

XiDaKang, the Group's self-owned product, is the only protein hydrolysate enteral nutrition agent approved by CFDA, and is sold in the form of an oral solution and granules. XiDaKang is manufactured by Kangzhe Hunan. Since the Group made adjustments from the original agency model to the commission model for

XiDaKang aimed at hospitals, and achieving mutually beneficial long-term partnerships with agents since the second half of 2014, the new model has been gradually enhanced. During the Reporting Period, the Group concentrated on breaking into new markets, accelerated the speed of market development, and intensifying the academic promotion investment as well as constructed the expert resource network. During the Reporting Period, XiDaKang recorded sales of RMB217.6 million, an increase of 50.1% compared with the same period last year, accounting for 4.4% of the Group's turnover.

YiNuoShu (Ambroxol Hydrochloride for Injection)

The Group owns YiNuoShu's product controlling rights. The Group mainly entrusted the manufacture to TIPR Pharmaceutical Responsible Co., Ltd. ("TIPR Pharmaceutical") and the production is also subcontracted to Kangzhe Hunan by TIPR Pharmaceutical. YiNuoShu is the first generic version of an ambroxol hydrochloride injection in China, and it is an expectorant product used for respiratory diseases, and is included on the NRDL. During the Reporting Period, the Group continued to refine the agent recruitment, actively penetrated to the rural markets. However, due to the effects caused by the overall healthcare and pharmaceutical policy environment, during the Reporting Period, YiNuoShu recorded sales of RMB137.5 million, a decrease of 4.9% compared with the same period last year, accounting for 2.8% of the Group's turnover.

YinLianQingGanKeLi

The Group owns the 20-year exclusive sales rights of YinLianQingGanKeLi in China market. The product, 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. During the Reporting Period, the Group continued to intensify market coverage and to optimize merchandise choice, to strengthen the development effort in the secondary market and specialized hospitals. However, as the market base of this product is relatively weak, and influenced by the overall healthcare and pharmaceutical policy environment, during the Reporting Period, YinLianQingGanKeLi recorded sales of RMB3.7 million, a decrease of 1.4% compared with the same period last year, accounting for 0.1% of the Group's turnover.

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

Introduction	**Products**	**As a Percentage of the Group's Revenue （%）**
Rights Control	Plendil	19.1
	XinHuoSu	11.0
	XiDaKang	4.4
	Stulln	3.7
	DanShenTong	3.0
	YiNuoShu	2.8
	NuoDiKang	2.5
	Hirudoid	2.1
	Combizym	1.1
	Ganfule	1.0
	Parlodel	0.4
	Imdur	0.4
	Lamisil	0.2
	YinLianQingGan	0.1
	MOVICOL	0.0
	Subtotal	**51.8**
Exclusive Agency Contract	Deanxit	18.7
	Ursofalk	15.8
	Salofalk	4.5
	Bioflor	3.6
	Subtotal	**42.6**

2.3 Other Products

Apart from the products mentioned above, other products sold by the Group such as Cystistat, Exacin, ShaDuoLiKa, XiangFuYiXueKouFuYe, recorded total sales amounting to approximately RMB277.8 million, accounting for approximately 5.6% 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 seven products undergoing the application process for Import Drug Registration during the Reporting Period, which will contribute to the Group's revenue after they are officially issued IDL by the CFDA. Key information of these products is listed below:

Products	**Indications**	**Manufacturers**	**CFDA Pending Number**	**Registration 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
Ze 339	For the treatment of allergic rhinitis	Max Zeller Söhne AG (Switzerland)	JXZL1500004	CDE Review
Ze 440	For the treatment of pre-menstrual syndrome and menstrual cycle disorder		JXZL1500003	CDE Review
Ze 450	For the treatment of menopausal discomfort		JXZL1500002	CDE Review
Succinylated Gelatin Injection (Two)	For initial management of hypovolaemic shock	Beacon Pharmaceuticals Limited (UK)	Material Preparation	Material Preparation

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

During the Reporting Period, due to the commercial and technical consideration of Uro-Vaxom® and Stimol® (citrulline malate effervescence powder), the Group agreed to terminate their IDL registration.

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 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. During the Reporting Period, the phase III extended clinical trial of Tyroserleutide is progressing smoothly in about ten research centers nationwide. 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 commercialization of the product. If Tyroserleutide is successfully launched to the market, it will not only have great market potential in China, but will also have a major overall impact on human health.

3.2.2 Traumakine®

In May 2015, 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 investment, and transferred the assets to CMS Pharma Co., Ltd., 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 fees in respect of a percentage of the sales revenue of the product in China after the successful commercialisation 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 one of common acute and critical clinical syndromes. ARDS involves several clinical sections, and common causes of ARDS include systemic infection, trauma, shock, burns, acute severe pancreatitis, etc. Four use patents for and related to Traumakine® have been filed around the world. Among them, two have been directly filed in China via Patent Cooperation Treaty (PCT), with one having been granted, while the remaining two patents were granted in the EU, US, Japan, etc. A formulation patent protecting the intravenous use of interferon-beta has been accepted by the Finnish patent office in October 2016, and filings will be expanded over the next 2 years to almost all countries worldwide under the PCT. In addition, the product was designated as an orphan drug for acute lung injury by the EU on 29 November, 2007.

The Phase I/II clinical studies of Traumakine® was conducted 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). Related research result has been published on the famous Lancet Respir Med Journal (Lancet RespirMed.2014Feb; 2(2): 98-107). 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. Since December 2015, the first study has been ongoing. It is a randomized, double-blind, parallel-group comparison of efficacy and safety of interferon-beta and placebo in the treatment of moderate to severe ARDS patients to be recruited from multi-centers in Europe.

As there are currently no targeted drug treatments for ARDS, once the product is approved subject to the positive clinical trial results, 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 America). The product has great market potential once it is approved and launched into the market.

Network development

1. Direct Network

The Direct Network enhanced during the Reporting Period, as management mechanisms kept improving and upgrading. The headquarters of the Group formulates the macro-policy, while the regional management levels manage and supervise the provincial levels. The provincial and district levels implement the strategy accordingly and provide feedback to top line management. During the entire process, the headquarters delegate power to the regional levels and return the managing power to the markets, which ensures that the Group can respond to the market changes more quickly. Under the regional management framework, the Direct Network extends further into the rural markets, increases the hospital coverage and hosts more products. With more quality products added to the portfolio, in an effort to optimize the energy and resources for sales staff, during the Reporting Period, the Group divided promotional teams from the provincial and district levels into different promotional lines, mainly into cardiovascular and cerebral vascular products line, digestive and dermatology products line, etc. Through the effective implementation of product promotional lines, the work force allocation became more rational, and frontline sales staff became more focused and professional. This not only enhanced the synergy of the products and efficiency of the sales staff, but also helped tap further market potential.

The Group has begun to recruit fresh graduates from medical and pharmaceutical schools nationwide since 1998 and developed a well-established campus recruiting and training system. The Twenty-first Campus Recruitment and Product-line Divided Training Programs ended successfully. New employees completed market internships in the regions and passed examination, have started their work officially. The Group started the Twenty-second Campus Recruitment in September 2016, and continued to expand the professional sales team through “Internship Program” and recruit medical and pharmaceutical graduates at a master level or above through “Professional Growth Plans”, to supplement more professionals for the Group’s rapid growth.

Based on the successful operation of the new operational framework and consistently expanding network and sales team, during the Reporting Period, the Group enhanced the training for professional promotional staff on knowledge of medical science, pharmaceutical academics and compliance. Meanwhile, the Group is actively exploring a better compensation system. This system is based on an individual’s comprehensive capacity and oriented towards value creation. The Group believes that this adequate professional knowledge training and reasonable incentive system will make sales representatives focus on performance growth, and stimulate representatives’ potential in depth, which can improve the efficiency of the Direct Network.

As of 31 December 2016, the Group’s Direct Network had covered over 38,000 hospitals in China with around 2,800 promoting and sales representatives.

2. Agency Network

During the Reporting Period, facing the severe industry policies the Group made the overall deployment and positive adjustment, further enhanced the efficiency of its agency management mechanism. With regard to the agency trainings, other than explanation of product information, the Group actively organized seminars which focus on the subjects of industry environment and policy response, making the agencies more cooperative with the Group's management model from the perspective of the policy movement. With regard to the agency management, through the communication mechanism enhancement, the Group strengthened the sales management of key markets and key agents and implemented the academic oriented business development. With regard to the internal management, the Group made timely upgrade to the information management system according to the business transformation, to achieve more effective management of personnel, cost and business.

Since the second half of 2014, the Group began to explore a hospital-based commission model to achieve a closer partnership with agencies. The Group successfully completed the transition from the traditional district agency model to the commission model by using XiDaKang as a pilot product. Learning from the successful experience of XiDaKang and responding to the national "two-invoice system" policy, during the Reporting Period, other products in agency network have been successively adjusted to the commission model.

As of 31 December of 2016, the Group has signed agreements with around 600 agencies or third-party sales representatives, and covered nearly 5,500 hospitals across the country.

Production Development

During the Reporting Period, Kangzhe Hunan of the Group has been completed the restructuring of the solid preparation workshop according to the requirement of the China's new GMP, and submitted the GMP certification application. KangZheLengShuiJiang Pharmaceutical Co., Ltd. of the Group was merged by Kangzhe Hunan.

Outlook and Future Development

In recent years, with influence and drive of policies related to cost control and industry regulation, the development of Chinese healthcare and pharmaceutical industry has moved to a regulated fast lane. With the medical needs of Chinese residents, the change in population characteristics, the increase of income, the promotion of government on the "Healthy China 2030" plan and the further improvement of healthcare

system, the healthcare and pharmaceutical industry is one of the pillar industries which will drive the growth of the Chinese economy in the future. The Group delivers sustainable and stable growth by adhering to its two core development strategies: continuous product introduction and development and promotional network expansion, and by continuously adjusting and upgrading its internal management based on the industry policies and market status.

As for product introduction and development, the Group will base on the strict product selection criteria, and will continue to search and acquire quality products that meet the needs of the China market. On the other hand, the Group will further develop growth potential of existing products, further strengthen the academic platforms of products, and build out a product expert network that is more authoritative.

With respect to promotional network expansion, through developing the new market while increasing the output of the existing market, the Group will increasingly improve Direct Network that covers the entire China market. The Group will continue to optimize its Agency Network. The Group will continue to improve the cooperation policies with agencies according to the change of industry policies, endeavoring to maximize the advantage of the rapid development of its Agency Network.

Looking ahead, the Group will follow the reform pace of the industry, proactively grasp the opportunities, and implement strategic development direction to further improve the internal operation efficiency. Also, the Group will continue to optimize the internal governance structure, enhance risk control, and ensure standardized operations, to promote the healthy growth of the group. Furthermore, the Group will continue to provide Chinese doctors with professional academic service, and Chinese patients with premium products. The Group will continue to uphold the concept of "Green and Care", and remains committed to sustainable development and the fulfillment of its social responsibility. The Group will offer an ideal career development platform to its staff, and create more value for its 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 37.9% from RMB3,553.4 million for the year ended 31 December 2015 to RMB4,900.8 million for the year ended 31 December 2016, mainly due to a continuing increase in sales of original products, and the sales contributed by new products.

Gross Profit and Gross Profit Margin

Gross profit increased by 42.3% from RMB2,046.1 million for the year ended 31 December 2015 to RMB2,911.9 million for the year ended 31 December 2016; gross profit margin increased by 1.8 percentage points to 59.4% for the year ended 31 December 2016 from 57.6% for the year ended 31 December 2015, mainly due to an increase in turnover and sales weight of products with higher gross profit margin.

Selling Expenses

Selling expenses increased by 44.2% from RMB814.1 million for the year ended 31 December 2015 to RMB1,173.8 million for the year ended 31 December 2016; selling expenses as a percentage of turnover increased by 1.1 percentage points to 24.0% for year ended 31 December 2016 from 22.9% for year ended 31 December 2015, primarily reflecting the introduction of new products, an increase in academic promotion activities and human costs.

Administrative Expenses

Administrative expenses increased by 15.0 % from RMB192.7 million for the year ended 31 December 2015 to RMB221.7 million for the year ended 31 December 2016, mainly due to an increase in human costs and maintenance expenses. Benefiting from economies of scale, administrative expenses as a percentage of turnover decreased by 0.9 percentage point to 4.5% for year ended 31 December 2016 from 5.4% for year ended 31 December 2015.

Other Gains and Losses

Other gains and losses decreased by 170.0% from a gain of RMB31.5 million for the year ended 31 December 2015 to a loss of RMB22.1 million for the year ended 31 December 2016, mainly due to the exchange loss arising from the depreciation of Renminbi during the year, and an impairment for an intangible asset.

Share of Result of Associates

Share of result of associates increased by 179.4% from RMB17.4 million for the year ended 31 December 2015 to RMB48.6 million for year ended 31 December 2016, mainly reflecting an increase in the profit of the associate Tibet Pharmaceutical.

Finance Costs

Finance costs increased by 76.4% from RMB24.1 million for the year ended 31 December 2015 to RMB42.5 million for the year ended 31 December 2016, mainly reflecting an increase in the use of bank borrowings.

Profit for the Year

Profit for the year increased by 38.3% from RMB996.5 million for the year ended 31 December 2015 to RMB1,377.9 million for the year ended 31 December 2016, mainly due to the continuous growth in sales.

Inventories

Inventories increased by 32.1% from RMB385.2 million as at 31 December 2015 to RMB509.0 million as at 31 December 2016, mainly reflecting growth in turnover and the addition of new products. Average inventory turnover days increased from 70 days for the year ended 31 December 2015 to 82 days for the year ended 31 December 2016.

Trade Receivables

Trade receivables increased by 45.1% from RMB736.3 million as at 31 December 2015 to RMB1,068.5 million as at 31 December 2016, primarily reflecting an increase in turnover. Average trade receivables turnover days was 68 days for the year ended 31 December 2016, the same as 68 days for the year ended 31 December 2015.

Trade Payables

Trade payables increased by 43.9% from RMB95.6 million as at 31 December 2015 to RMB137.6 million as at 31 December 2016, mainly reflecting the addition of new products. Average trade payables turnover days was 21 days for the year ended 31 December 2016, the same as 21 days for the year ended 31 December 2015.

Liquidity and Financial Resources

As at 31 December 2016, the Group's cash and bank deposits amounted to RMB482.5 million while readily realizable bank acceptance bills amounted to RMB423.6 million. As at 31 December 2015, our cash and bank deposits amounted to RMB508.5 million while readily realizable bank acceptance bills amounted to RMB233.3 million.

As at 31 December 2016, the cash and cash equivalents of the Group were mainly denominated in RMB, with small amount denominated in United States Dollar ("USD"), Euro ("EUR") and Hong Kong Dollars ("HKD").

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

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Net cash from operating activities	1,067,880	614,552
Net cash used in investing activities	(1,461,339)	(852,503)
Net cash from financing activities	644,226	219,729
Net increase (decrease) in cash and cash equivalent	250,767	(18,222)
Cash and cash equivalent at beginning of the year	229,336	243,515
Effect of foreign exchange rate changes	2,348	4,043
Cash and cash equivalent at end of the year	482,451	229,336

Net cash from operating activities

The Group's net cash generated from operating activities was RMB1,067.9 million for the year ended 31 December 2016 compared with RMB614.6 million for the year ended 31 December 2015, an increase of 73.8% mainly reflecting a relatively lower occupation in working capital.

Net cash used in investing activities

For the year ended 31 December 2016, the Group's net cash used in investing activities was RMB1,461.3 million compared with RMB852.5 million for the year ended 31 December 2015, an increase of 71.4% mainly due to an increase in acquisition of drug rights, and a loan to an associate.

Net cash from financing activities

For the year ended 31 December 2016, the Group's net cash from financing activities was RMB644.2 million compared with RMB219.7 million for the year ended 31 December 2015, an increase of 193.2% mainly due to an increase in bank borrowings.

Net Current Assets

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current Assets		
Inventories	509,004	385,177
Trade receivables	1,068,481	736,294
Other receivables	613,939	427,719
Tax recoverable	14,240	21,701
Amount due from an associate	862,803	35,096
Bank balances and cash and deposits	482,451	508,516
	3,550,918	2,114,503
Current Liabilities		
Trade payables	137,590	95,595
Other payables	441,532	297,122
Bank borrowings	1,612,398	463,903
Deferred consideration payables	1,096,424	13,595
Tax payable	108,223	33,009
	3,396,167	903,224
Net current assets	154,751	1,211,279

The Group's liquidity requirements will be satisfied by a combination of cash flow generated from operating activities, long-term bank loans and other financing means which the Company may from time to time consider appropriate.

Capital Expenditures

The following table shows our capital expenditure:

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Purchase of intangible assets	1,008,732	486,019
Deposits for acquisition of intangile assets	16,150	51,132
Purchase of property, plant and equipment	48,891	43,150
Purchase of land use right	-	349
	1,073,773	580,650

Capital Structure and Gearing Ratio

The Company reviews the capital structure on a regular basis, and considers the cost of capital and the risks associated with each class of capital, for maximising the return to shareholders of the Company.

The following table shows the Group's debts:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Interest bearing bank borrowings	1,612,398	463,903

The Group had bank borrowings of RMB1,612.4 million as at 31 December 2016 (31 December 2015: RMB463.9 million). During the year ended 31 December 2016, the Group obtained new bank loans for granting a loan to TopRidge Pharma Limited (formerly known as Everest Future Limited, a wholly-owned subsidiary of Tibet Pharmaceutical, "TopRidge Pharma"), and acquiring the exclusive license for the commercialization of Plendil in China. The interest rate of loans ranged from 1.5% to 5.22% per annum. All the loans are short-term and are repayable within one year. The Group's bank borrowings are mainly denominated in EUR, and certain loans are denominated in RMB.

The Group's gearing ratio, calculated as bank borrowings divided by total assets, increased by 9.2 percentage points to 16.5% as at 31 December 2016 from 7.3% as at 31 December 2015, mainly reflecting an increase in bank borrowings resulting from acquisition of drug rights, and loan to an associate.

Intangible Assets

The intangible assets of the Group as at 31 December 2016 were RMB2,885.6 million (31 December 2015: RMB1,026.2 million), the increase was principally due to the acquisition of Plendil's exclusive license for the commercialization in China for 20 years.

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 30 to the consolidated financial statements.

Pledge of Assets

As at 31 December 2016, the Group has pledged property, plant and equipment and leasehold land with net book values of approximately RMB6,365,000 and RMB29,017,000, respectively to secure certain bank borrowings and general banking facilities granted to the Group.

Contingent Liabilities

As at 31 December 2016, the Group's contingent liabilities are set out in note 37 to the consolidated financial statements..

Advance to Entity

Pursuant to Rule 13.13 of the Listing Rules, a general disclosure obligation arises where an advance to an entity from the Group exceeds 8% of the total assets of the Group. Pursuant to Rule 13.20 of the Listing Rules, details as required under Rule 13.15 of the Listing Rules in respect of the advance which remained outstanding as at 31 December 2016 are set out below.

As disclosed in the section headed "Business Review" of this announcement, on 26 February 2016 (London time), TopRidge Pharma, a wholly-owned subsidiary of Tibet Pharmaceutical (as purchaser), entered into an agreement with AstraZeneca AB (as seller) for the sale and purchase of the Imdur Assets. Completion of the sale and purchase of the Imdur Assets took place on 1 May 2016. The Group granted a shareholder loan to TopRidge Pharma to finance part of the purchase price for the acquisition. As at 31 December 2016, total of the amount advanced to TopRidge Pharma which remained outstanding and its interest receivable was RMB742.5 million. The loan is for a term of one year expiring on 30 April 2017 and is unsecured and bears an interest rate of 2.2% or 2.4% per annum. Further details about the acquisition of the Imdur Assets by TopRidge Pharma and the background of the loan are set out in the announcements of the Company dated 29 February 2016, 15 March 2016, 3 May 2016 and 17 November 2016 respectively.

Advance to Entity was grouped under Amount Due from an Associate in the consolidated statement of financial position.

Dividend

For the year ended 31 December 2016, the Group paid an interim dividend for 2016 and a final dividend for 2015 of RMB261.7 million and RMB201.2 million, respectively. 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.

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

None of the Company or its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2016.

Employee Benefit Scheme

The Key Employee Benefit Scheme (the "2009 Scheme") established in 2009 has been terminated and merged into the CMS Key Employee Benefit Scheme (the "New KEB Scheme"). As approved by the board of the Company, the Company adopted a new employee incentive scheme (the "Bonus Scheme") for the purpose of providing discretionary bonuses to selected employees. Given the pool of the participants of the Bonus Scheme is significantly larger than that of the 2009 Scheme, the Company has appointed TMF Trust (HK) Limited, an independent professional trustee, to manage both the New KEB Scheme and the Bonus Scheme under a new trust with effect from 1 January 2017. As at 31 December 2016, 11,207,162 shares in the Company were held by Fully Profit Management (PTC) Limited (a company wholly owned by Mr. Lam Kong) as trustee of the 2009 Scheme. Fully Profit Management (PTC) Limited has ceased to become a trustee of the new trust and the trust funds of the 2009 Scheme were transferred to the New KEB Scheme and the Bonus Scheme which are managed by TMF Trust (HK) Limited with effect from 1 January 2017. Under the current arrangements, Mr. Lam Kong is not interested in such shares and Mr. Chen Hongbing, Ms. Chen Yanling and Ms. Sa Manlin are not beneficiaries of the new trust.

Corporate Governance Practices

The Company has complied with the applicable principles and code provisions of the applicable Corporate Governance Code as set out in Appendix 14 to the Listing Rules ("CG Code") from 1 January 2016 to 31 December 2016, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and CEO which shall not be performed by the same individual.

Mr. Lam Kong has been both the Chairman and CEO of the Company and his responsibilities are clearly set out in writing and approved by the Board. Given the Group's current stage of development, the Board

considers that vesting the roles of Chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operations. The Board shall nevertheless review the structure from time to time and shall consider any appropriate adjustments should new circumstances arise.

Audit Committee

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

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual result announcement and annual report for the year ended 31 December 2016 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 of Hong Kong Limited's website (http://www.hkexnews.hk) and the Company's website (http://www.cms.net.cn).

For the year ended 31 December 2016, the Audit Committee has held two meetings. At the meetings, the Audit Committee reviewed the annual results for 2015 and the interim results for 2016 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 2016
Mr. Wu Chi Keung	2/2
Mr. Cheung Kam Shing, Terry	2/2
Mr. Huang Ming	2/2

Cash Dividend

The Company has paid an interim dividend of RMB0.1052 (equivalent to HK$0.122) per ordinary share of the Company (the "Share") for the six months ended 30 June 2016. The Board of Directors is pleased to recommend a final dividend of RMB0.1164 (equivalent to HK$0.131) per Share for the year ended 31 December 2016 to shareholders whose names appear on the register of members of the Company at the close

of business on Thursday, 4 May 2017 (the "Record Date"). The register of members of the Company will be closed on Thursday, 4 May 2017. The final dividend will be paid to shareholders in Hong Kong dollars on Friday, 12 May 2017 after the shareholders' approval at the Annual General Meeting ("AGM") of the Company dated on Wednesday, 26 April 2017.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 21 April 2017 to Wednesday, 26 April 2017 (both days inclusive), during which the registration of transfer of Shares will be suspended. In order to qualify for attending and voting at the Annual General Meeting, all transfers of Shares accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 20 April 2017.

The Register of Members will be closed on Thursday, 4 May 2017, on which date no transfer of Shares will be effected. The last day for dealing in the Shares on a cum-entitlement basis will be Thursday, 27 April 2017. Shareholders are reminded that in order to qualify for the Final Dividend, all transfers of Shares must be duly completed, accompanied by the relevant share certificates and lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 2 May 2017.

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 the Company, 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 2016. 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.

Change of Person in Hong Kong Authorized Representative to Accept Service of Process and Notices on Behalf of the Company and the Company Secretary

The Board announces that Ms. Zhang Lingyan ("Ms. Zhang") has tendered her resignation as the authorized representative in Hong Kong to accept service of process and notices on behalf of the Company (the "Authorized Representative") as required under Part 16 of Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Company secretary with effect from 23 March 2017, due to her other work arrangements within the Group. Following her resignation, she will remain a full-time employee of the Group. Ms. Zhang confirmed that she has no disagreement with the Board and there are no matters in relation to her resignation that need to be brought to the attention of the shareholders of the Company.

During the Reporting Period, Ms. Zhang had received the professional training for no less than 15 hours in accordance with the requirements of the Listing Rules.

The Board also announces that Ms. Wu Sanyan ("Ms. Wu") has been appointed as the company secretary of the Company with effect from 23 March 2017. The Authorized Representative of the Company has been changed to Mr. Lam Kong on the same day.

The Board considers that Ms. Wu has the relevant experience to discharge her duties as company secretary of the Company in compliance with Rule 3.28 of the Listing Rules. The Board has fully considered all the factors stated in notes 2(a) to (d) to Rule 3.28 of the Listing Rules in considering whether Ms. Wu has the related experience to serve as a company secretary. Details are set out below.

(1) Ms. Wu joined the Group in 2009 and currently serves as Director of the Legal Department. Ms. Wu is primarily responsible for overseeing the legal and regulatory compliance matters of the Group (including compliance with the Listing Rules). The responsibilities of Ms. Wu since her joining of the Group include advising on compliance of laws and regulations applicable to the Group(including the Listing Rules). Considering that Ms. Wu is familiar with the Group matters and has extensive experience in compliance matters, the Board believes Ms. Wu is a qualified candidate for the position of company secretary.

(2) The specific responsibilities of Ms. Wu include advising on transactions of the Group and compliance matters relating to corporate activities, publishing announcements, circulars and announcements of financial reports, annual results, interim results in accordance with the Listing Rules. Furthermore, Ms. Wu was involved in the Company's listing on the Hong Kong Stock Exchange in September 2010. Her role at that time included assisting in devising and putting in place a corporate governance structure that complies with the Listing Rules as well as other law and regulations, making disclosure of relevant information in the prospectus, identifying connected transactions and ensuring such transactions comply with the Listing Rules.

The Board believes that Ms. Wu is acquainted with the Listing Rules and other related laws and regulations and is competent to serve as company secretary of the Company.

(3) Ms. Wu has attended training courses in relation to compliance with the Listing Rules organized by the professional advisers. Ms. Wu also has enrolled in related professional trainings for company secretaries to further strengthen her skills and knowledge and is committed to taking no less than 15 hours of relevant professional training in each financial year upon becoming the company secretary of the Company. Ms. Wu has completed six training courses related to company secretarial practices held by the Open University of Hong Kong and Hong Kong Institute of Certified Public Accountants. She has also attended training courses in relation to the disclosure of inside information and will attend other relevant trainings held by law firms.

(4) Ms. Wu has obtained a double bachelor's degree in history and law in 2004, and a master's degree in international law in 2008, both from the Wuhan University. The Board believes Ms. Wu has extensive experience and legal professional skills to handle legal and compliance matters.

Accordingly, considering that Ms. Wu has extensive experience in corporate governance, legal and compliance supervision, the Board believes that Ms. Wu is competent to serve as company secretary.

Disclosure of Information

The information provided in this announcement is only the summary of 2016 Annual Report of the Company. The 2016 Annual Report will be duly dispatched to shareholders of the Company and published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.cms.net.cn).

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

23 March 2017, Hong Kong

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