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CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED
中國中藥有限公司

(*Incorporated in Hong Kong with limited liability*)

(Stock Code: 570)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

RESULTS HIGHLIGHTS

	Year ended 31 December		
	2014	2013	Change
	RMB'000	*RMB'000*	
Turnover	**2,690,173**	1,394,613	92.9%
Gross Profit	**1,654,323**	825,779	100.3%
Profit from operations	**545,390**	272,757	100.0%
Profit before taxation	**481,173**	237,575	102.5%
Profit attributable to equity shareholders of the Company	**413,090**	198,463	108.1%
Basic earnings per share (RMB cent)	**16.30**	9.68	68.4%

CHAIRMAN'S STATEMENT

Dear Shareholders,

I would like to express my gratitude to our shareholders and other stakeholders for their continued attention and substantial support to us. On behalf of the board (the "Board") of directors (the "Directors") of China Traditional Chinese Medicine Company Limited (the "Company"), I am pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2014.

IMPROVED PERFORMANCE THROUGH TOTAL INTEGRATION

The year 2014 is the first complete fiscal year for consolidating the financial statements of Tongjitang Chinese Medicine Company and its subsidiaries ("Tongjitang") subsequent to the acquisition of Tongjitang which was completed in October 2013. The audited revenue of the Group was RMB2,690,173,000, representing an increase of 92.9% compared to RMB1,394,613,000 in last year; the audited profit attributable to shareholders was RMB413,090,000, representing a growth of 108.1% compared to RMB198,463,000 in last year. Audited earnings per share increased to RMB16.30 cents from RMB 9.68 cents from last year, representing an increase of 68.4%.

The aforementioned improved performance was a manifestation of the successful integration after the acquisition of Tongjitang. At present, the Company has set up a centralized sales and marketing management center, responsible for the promotion and selling of all major products of the Group, covering both prescription and OTC markets of over 30 provinces, autonomous regions and municipalities throughout mainland China. On top of that, the Company has set up its financial center, R&D center, manufacturing center, purchasing center, human resources center and information center, unifying and improving the rules and regulations of each management center, and achieving synergy from all functions of the business. The whole of the integration process was smoothly completed in mid 2014.

AGGRESSIVE ENTRY INTO CONCENTRATED TCM GRANULES MARKET

Between the end of 2014 and the beginning of 2015, the Company signed agreements for the acquisition of 81.48% of the equity interest of Jiangyin Tianjiang Pharmaceutical Co., Limited ("Tianjiang Pharmaceutical"). In terms of market share by revenue, Tianjiang Pharmaceutical is the biggest concentrated Traditional Chinese Medicine ("TCM") granules manufacturer in China. Concentrated TCM granules is one of the most important trends for the future of TCM. According to the statistics from an independent third party research institute, the market size of concentrated TCM granules grew at a compound annual growth rate of over 50% for the period from 2006 to 2013, which was much greater than other categories of TCM products. The market size is expected to reach approximately RMB 18.8 billion in 2018.

Tianjiang Pharmaceutical is the forerunner among all TCM manufactueres specializing in the research and development and production of concentrated TCM granules; with its role as leader in the industry, its revenue figure took up about 50% of the market share. The acquisition of Tianjiang Pharmaceutical enables the Company an immediate entry into the concentrated TCM granules market and to hold a dominant position in the industry. At the same time, concentrated TCM granules are an important supplement to the TCM products that are currently manufactured by the Company. It will also be a strong boost towards the Company's goal of establishing itself as the leader of TCM industry.

Currently, various steps of the acquisition of Tianjiang Pharmaceutical are being undertaken in a tense but orderly manner; it is expected that the transaction will be completed by mid 2015. The Company is experienced in mergers and acquisitions ("M&A") and post-deal integration, and has flexible business practices and effective incentive mechanisms. The Company is confident that the acquisition and integration processes will be successfully completed, with the purpose of creating synergy and raising earnings per share soon.

ENDEAVORING TO BE THE LEADER OF TCM INDUSTRY

As the flagship company of China National Pharmaceutical Group Corporation ("CNPGC") in the Chinese medicine sector, the Company's goal is to establish itself as the leader of TCM industry in China.

The Company will fully leverage on the strong brand of "CNPGC" to develop and flourish such historical and well-known brands as "Dezhong", "Fengliaoxing" and "Tongjitang", with a view to establishing and strengthening the advantageous position held by the Company in the market and the industry. The Company possesses production approvals for more than 500 TCM and chemical drugs, including over 60 exclusive products and specifications. The Company has 26 exclusive products which are listed on the National Drugs List for Basic Medical Insurance, among which, Xianling Gubao Capsule/Tablet, Yu Ping Feng Granule, Bi Yan Kang Tablet, Jingshu Granule, Moisturising & Anti-Itching Capsule, Fengshi Gutong Capsule and Zaoren Anshen Capsule are exclusive products on the National Essential Drug List (2012 edition) ("EDL"). The Company has achieved healthy business growth in the past few years and is confident in maintaining such momentum.

The Company has established its base in the Chinese medicine sector and maintains a staunch stand in its strategy of organic growth and M&As. On the foundation of a sustainable growth of its existing TCM business and the entry into concentrated TCM granules market, the Company will continue to seek for resources in the relevant sector in order to support the development in the above two businesses and to enhance the value chain of TCM manufacturing. Meanwhile, the Company will explore entering into TCM service sector in accordance with the characteristics of TCM theory and practice, with a view to expanding its business scope and leveraging on its superior resources in the sector.

Currently, with the complex economic conditions, there is an apparent slow-down in the growth of various industries, including healthcare. The ongoing change in government policy and the intense competition during the process of industry consolidation, together with the impact of new technology on the market, have increased uncertainties faced by pharmaceutical companies. However, the Company has a firm SOE-background with CNPGC being its controlling shareholder, while maintaining flexible and down-to-earth business strategies for a private enterprise. With established corporate governance mechanism and sustainable business model, as well as benefiting from the efficient capital market in Hong Kong, the Company will be able to maintain continuous growth in its revenue size and profitability. The Company will become the leader in China's TCM industry and create value for all shareholders.

Wu Xian
Chairman

16 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP OVERVIEW

The Group is a leading pharmaceutical company in China with excellent brands. It has a total of 332 products and 526 product specifications, 63 of which are national exclusive products. The Group has 58 products being listed on the 2012 edition of EDL, 7 of which are exclusive products, namely Xianling Gubao Capsule/Tablet（仙靈骨葆膠囊／片）, Yu Ping Feng Granule（玉屏風顆粒）, Bi Yan Kang Tablet（鼻炎康片）, Jingshu Granule（頸舒顆粒）, Moisturising & Anti-Itching Capsule（潤燥止癢膠囊）, Fengshi Gutong Capsule（風濕骨痛膠囊）and Zaoren Anshen Capsule（棗仁安神膠囊）. The Group has over 200 products being listed on National Drugs List for Basic Medical Insurance, 26 of which are exclusive products. The Group has accumulated extensive technical experience in extraction of Chinese medicinal herbs, preparation of modern Chinese medicine, sustained or controlled release preparation, manufacturing of traditional Big Candid Pills（大蜜丸）and enhancement of quality.

The Group has 11 manufacturing facilities in Foshan of Guangdong Province, Guiyang and Kaili of Guizhou Province, Xuancheng of Anhui Province, Jining of Shandong Province and Xining of Qinghai Province, with over 49 GMP (2010 edition) certified production lines and annual production capacity of 870 million packs of granules, 5.65 billion tablets and 3.2 billion capsules, as well as 22,000 tonnes of Chinese medicine preprocessing and extraction.

During the year under review, sales of TCM accounted for approximately 88.5% of the Group's turnover, sales of chemical medicine made up approximately 10.0% of the turnover, and sales of bio-medicine accounted for approximately 1.5%.

INDUSTRY OVERVIEW

More Emphasis on Healthcare at Grass-Roots Level

The reform of healthcare system of the State focus on strengthening healthcare protection at grass-roots level. The key points include expanding the scope and raising the level of medical insurance coverage, improving the overall capability of primary hospitals and reinforcing the use of essential drugs.

On 28 May 2014, the General Office of State Council promulgated the "Notice of Key Tasks in Intensifying Reform of Healthcare System in 2014"（深化醫藥衛生體制改革2014年重點工作任務的通知）. It highlighted the comprehensive reform of public hospital at county level and initiated the second pilot scheme of the reform, aiming at covering over 50% of the counties and 500 million rural residents in China.

On 17 July 2014, the National Health and Family Planning Commission ("Health Commission") issued the "Notice on Several Key Tasks of New Rural Cooperative Medical System" ("NCMS"), (《關於做好新型農村合作醫療幾項重點工作的通知》), proposing raising the financing and protection level of NCMS in 2014, and increasing the subsidy to NCMS by all levels of government to RMB320 per person per year, and the average payment by individuals to RMB90 per person per year, respectively. Each region should adjust and optimize the compensation plan. The reimbursement ratio of in-patient care under NCMS coverage should be over 75%, and the medication expenses reimbursement ratio of out-patient should be raised to around 50%.

On 26 August 2014, the Health Commission published the "Notice on Enhancing the Overall Capability of Hospitals at County Level" (《全面提升縣級醫院綜合能力工作方案的通知》), proposing to build up the capability of hospitals at county level with focuses on talent, technology and key specialist. It specified that in stage 1, from 2014 to 2017, 500 hospitals at county level would be chosen among those under the pilot scheme of reform of public hospital at county level based on the infrastructure and medical service capability, aiming to improve the overall capability of such 500 hospitals. In stage 2 (2018-2020), the overall capability of all hospitals at county level should be enhanced.

On 23 January 2015, the Health Commission published the "Key Tasks of Healthcare and Family Planning Work in 2015" (《2015年衛生計生工作要點》), with the key points of 1) to formulate and carry out the "Opinion on theFull-Scale Implementation of Overall Reform of Public Hospitals at County Level" (《關於全面推廣縣級公立醫院綜合改革的實施意見》) in order to expand the reform to all counties in the country; 2) to improve the national medical insurance system and increase government subsidy to urban resident medical insurance and NCMS; 3) to enhance the essential drug system and its operation at primary healthcare institutions by strengthening the stocking and prescription of essential drugs; 4) to improve the supply system of drugs and to link the sourcing mechanisms of essential drugs and non-essential drugs; 5) to promote impartiality in public basic healthcare service; 6) to push forward the system of tiered medical service by producing guidance and pilot scheme and to start trial of tiered medical service in the region undertaking urban public hospital reform; 7) to develop healthcare service sector, with focus on optimizing the macro-environment of private hospitals, regulating the reform of public hospitals, carrying forward the pilot scheme of reform for hospitals owned by SOE, and improving policies of foreign investment on healthcare.

The Group has 7 exclusive products listed on the 2012 edition EDL, and always keeps track of the primary healthcare institution market, including penetrating into hospitals at county level and rural/community hospitals with a strong sales and marketing team of over 1,600 staff. The Group will benefit from government's increasing focus and allocation of more resources in the primary healthcare sector, and is confident to achieve rapid growth in the primary healthcare market.

Flourishing Chinese Medicine Industry

The culture of Chinese medicine is an indispensible element in Chinese civilization, and is a treasure for Chinese people. Traditional Chinese medicines are made from natural substances with minimal toxic side effect and drug resistance, and the expenses of treatment are relatively lower. Traditional Chinese medicine has unique efficacy in rebalancing bodily functions of human being, prevention of illness, and treatment of chronic diseases. As the aging population in China has created huge demand for healthcare products and services, it is high time to carry forward and promote Chinese medicine.

On 24 July 2014, the Legal Affairs Office of the State Council published the notice of invitation for public opinion on "Chinese Medicine Law of the People's Republic of China (Draft for Comments)" (《中華人民共和國中醫藥法(徵求意見稿)》), citing the key points of: 1) Chinese medicine, i.e. traditional Chinese medicine, is the collective name of the medicines of all nationalities in China. It has specific theories and systems with the characteristics of Chinese culture, which is different from western medicine; 2) the government encourages TCM practitioners to coach apprentices in order to nurture TCM physicians and technicians, while engaging in TCM practices; 3) when making up TCM preparations, healthcare institutions should acquire "Dispensing Permit for Medical Organization" (《醫療機構製劑許可證》) according to the stipulations of "Law on the Administration of Pharmaceuticals of the People's Republic of China" (《中華人民共和國藥品管理法》). An organization should make filing at the local drug administration authority when entrusting subcontractors to make up TCM preparations.

On 29 July 2014, China Food and Drug Administration ("CFDA") issued the "Notice on Strengthening the Supervision and Administration of Extraction and Extracts during the Production of TCM" (《加強中藥生產中提取和提取物監督管理的通知》), requiring: 1) TCM manufacturers must possess extraction ability which is appropriate to the type of products and scale of production. Starting from 1 January 2016, TCM extraction by subcontractors will be forbidden, with the exception of setting up extraction workshop at different location or sharing extraction workshop between companies with shareholding relationship. 2) The "Detailed Rules for Implementing the Administration of Filing of TCM Extracts" (《中藥提取物備案管理實施細則》) specify the scope, procedures and requirement of the filing, impose the responsibility of quality on the users of TCM extracts, i.e. producers of finished products. No further approval is needed for those TCM extracts for which fillings have been made.

With an aging population, the trend of "combining medical service with care for the old" is inevitable. For those elderly who are incapable of taking care of themselves in particular, combining care service with medical treatment provides a good solution to their demand. At the end of 2014, Jiangsu Province selected sites in 6 cities to build up TCM nursing home in order to set up models for others. The TCM nursing homes will be owned or managed by TCM hospitals so that the elderly could benefit from TCM ways of keeping good health.

Through TCM legislations and regulating TCM products, the government strengthens the supervision of TCM industry and enhances the quality of TCM products, this will benefit large companies with operation in scale. With focus on TCM business, the Group has always been emphasizing on operation management and product quality, and has accumulated rich experience in the areas of TCM herb sourcing, extracting and finished products manufacturing. While investing on research and development of new drugs, the Group applied the method of evidence-based medicine to its existing key TCM products, and carried out several phase IV clinical trails with the aim to collect more scientific data to support market promotion. The Group is an industry consolidator, and will be the leader of TCM industry in China.

Reform of Pricing System of Drugs

On 8 May 2014, National Development and Reform Commission ("NDRC") released the "Notice of the Issues Related to Improving the Pricing System of Low-Price Drugs" (《關於改進低價藥品價格管理有關問題的通知》), publishing the list of low-price drugs of which the pricing is controlled by NDRC. It also requested the price administration authority of each province to release, before 1 July 2014, the list of low-price drugs of which the pricing is controlled by the local authority.

It is reported that NDRC issued a draft for comments to the pricing departments of each province at the end of October 2014 to discuss the liberalization of drug pricing control. The document proposed that by the end of 2014, it would first liberalize the pricing control of four categories of drugs, namely plasma-based products, preventative and immunity drugs and contraceptive drugs and devices under centralized sourcing by the government, class one psychotropic and anaesthetic drugs, and patented drugs. Regarding the price adjustment of the drugs on the National Drugs List for Basic Medical Insurance, NDRC proposed that the mechanism should be changed to allow medical insurance department, together with other government authorities, to fix the reimbursement standards, and the actual purchase and selling prices would then be determined by market competition.

The reform of pricing system of drugs will promote the market-based pricing mechanism for pharmaceutical products, which will benefit pharmaceutical companies with good quality and good services to win competition advantages. Setting up a medical insurance reimbursement standard will change the current trend of focusing on price only during the tender process. Doctors and patients will have more freedom in the selection of drugs, and manufacturers will focus on the quality and efficacy of their products, rather than making every effort to cut cost to reduce price. The introduction of the low-price drug list will allow pharmaceutical companies more room to improve their product quality and to enhance market promotion. The Group has over 100 products being included in NDRC's low-price drug list, including the exclusive EDL product Bi Yan Kang Tablet (鼻炎康片). The Group will further verify the applicable symptoms and diseases of the existing major products by means of in-depth clinical trials, so that to get well prepared for the forthcoming changes brought by the reform of pricing system of drugs.

BUSINESS REVIEW

Sales of Products

During the year under review, the Group's turnover increased by 92.9% from RMB1,394,613,000 for the corresponding period last year to RMB2,690,173,000, which was mainly attributable to the full-year consolidation of the financial statements of Tongjitang. At the same time, the Group's 7 exclusive products listed on the National Essential Drug List recorded satisfactory growth in sales revenue.

Analysis by TCM, Chemical and Bio-medicine:

	For the year ended 31 December				
	2014	**Percentage to turnover**	2013	Percentage to turnover	Change
	RMB'000		*RMB'000*		
TCM	**2,380,766**	**88.5%**	1,160,708	83.2%	105.1%
Chemical medicine	**269,688**	**10.0%**	195,424	14.0%	38.0%
Bio-medicine	**39,719**	**1.5%**	38,481	2.8%	3.2%
Total	**2,690,173**	**100.0%**	1,394,613	100.0%	92.9%

Sales Analysis of Top Ten Products:

	For the year ended 31 December				
	2014	**Percentage to turnover**	2013	Percentage to turnover	Change
	RMB'000		*RMB'000*		
Xianling Gubao (仙靈骨葆)	**850,358**	**31.6%**	207,340	14.9%	310.1%
Bi Yan Kang Tablet (鼻炎康片)	**255,841**	**9.5%**	215,338	15.4%	18.8%
Yu Ping Feng Granule (玉屏風顆粒)	**250,049**	**9.3%**	218,459	15.7%	14.5%
Jingshu Granule (頸舒顆粒)	**200,534**	**7.5%**	38,238	2.7%	424.4%
Moisturising & Anti-Itching Capsule (潤燥止癢膠囊)	**158,455**	**5.9%**	30,942	2.2%	412.1%
Sheng Tong Ping (聖通平)	**87,303**	**3.2%**	90,231	6.5%	-3.2%
Gao De (高德)	**87,113**	**3.2%**	61,066	4.4%	42.7%
Feng Liao Xing Medicinal Wine (馮了性藥酒)	**81,585**	**3.0%**	85,102	6.1%	-4.1%
Zaoren Anshen Capsule (棗仁安神膠囊)	**57,909**	**2.2%**	8,364	0.6%	592.4%
Fengshi Gutong Capsule (風濕骨痛膠囊)	**52,790**	**2.0%**	8,212	0.6%	542.8%
Other products	**608,236**	**22.6%**	431,321	30.9%	41.0%
Total	**2,690,173**	**100.0%**	1,394,613	100.0%	92.9%

Xianling Gubao (仙靈骨葆), Jingshu Granule (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Zaoren Anshen Capsule (棗仁安神膠囊) and Fengshi Gutong Capsule (風濕骨痛膠囊) are main products of Tongjitang. The turnover of Tonjitang's products in November and December 2013 was consolidated since the completion of acquisition.

Research and Development

In 2014, the Group passed the on-site inspection by CFDA regarding Fexofenadine/Pseudophedrine Sustained-release capsule（非索偽麻緩釋膠囊）, a class 3.2 drug, and obtained the new drug certificate and approval for production at the beginning of 2015. During the year under review, the Group also received notice of on-site inspection from CFDA regarding a TCM class 6 new drug-Wuwei Huoxiang Tablet（五味藿香片）which is for curing medium and mild depression. It is expected that the on-site inspection will be carried out in mid 2015.

During the year under review, the Group actively pushed forward the project of "Yu Ping Feng Granule（玉屏風顆粒）Re-evaluation", which will provide more solid medical theoretical foundation for prescribing Yu Ping Feng Granule（玉屏風顆粒）to suitable patients, and in turn will help the academic promotion of this product in healthcare institutions at all levels. The projects which have already started include the study on the efficacy of bi-directional immunological regulation with Shanghai Institute of Pharmaceutical Industry（上海醫工院）, the multi-centre clinical trial for the treatment of COPD led by Dr. Zhong Nanshan, the multi-centre clinical trial for curing child repeated infection of upper respiratory tract, and the multi-centre clinical trial for the treatment of child asthma with high IgE and eosinophils increase and the study on molecular biology mechanism. The revaluation project is expected to last for several years, and may draw subsidy from CNPGC and government.

The Group will focus on investing in R&D projects of new drugs for neural degradation diseases, cerebro-cardiovascular drugs and drugs for diseases of the ageing population.

Progress of Investment Projects

Acquisition of Tianjiang Pharmaceutical

On 31 December 2014 and 15 January 2015, the Company entered into agreements with various vendors, pursuant to which the Company conditionally agreed to acquire approximately 81.48% equity interest in Tianjiang Pharmaceutical, with a total consideration between RMB7,595,900,000 and RMB8,346,000,000. The consideration will be paid in cash generated from equity finance, debt finance and internal resources. Details of the acquisition are set out in the announcement of the Company dated 27 January 2015.

Tianjiang Pharmaceutical is the largest manufacturer of concentrated TCM granules in China. The acquisition will allow the Company to get prompt access to the market of concentrated TCM granules with a leading position. Moreover, there is potential to achieve synergy between the Company and Tianjiang Pharmaceutical in terms of raw material purchasing, production, R&D and distribution network.

The transaction has not yet been completed till now.

Guizhou Zhongtai

On 27 January 2015 the Group and 中國生物技術股份有限公司 (China Biotechnology Co., Ltd.) ("China Biotechnology Co") entered into an agreement to conditionally sell 31% equity interest in Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries ("Guizhou Zhongtai") to China Biotechnology Co for a consideration of RMB139,500,000. The Group considered that the main business of Guizhou Zhongtai was R&D, production and sale of plasma-based biopharmaceutical products, which was not the core business of the Group. The disposal of Guizhou Zhongtai will allow the Group to allocate more resources to focus on the development of TCM business.

The transaction can only be completed after all conditions specified in the agreement are met. Upon completion of the transaction, the Group will hold 20% equity interest of Guizhou Zhongtai, which will subsequently be sold to China Biotechnology Co at an appropriate price under certain conditions. As the controlling shareholder of China Biotechnology Co is CNPGC, this transaction constitutes a connected transaction.

For the year under review, turnover of Guizhou Zhongtai was approximately RMB39,719,000, and its loss was approximately RMB7,187,000.

Construction of Headquarters Building

On 19 April 2014, the Group acquired a land parcel at the south part of Kui Qi Road and the east part of Ling Nan Road, Chan Cheng Area, Foshan City of Guangdong Province. The Group will construct its headquarters, R&D center and ancillary facilities on the land parcel. The Group is working with an independent third party to develop the project. The allocation of the space of the buildings will be based on the amount of investment from each of the two parties. During the year under review, construction work was started. The Group expects the project to be completed in 2016.

Manufacturing Facilities at Guiyang Economic & Technology Development Zone

During the year under review, the construction work for the manufacturing base located at Guiyang Economic & Technology Development Zone, Guizhou Province (new factory of Tongjitang) has been started. It is expected the project will be completed in 2016. The new facilities will be in full compliance with new GMP requirements and, upon operational, will significantly improve the production capacity of the Group and meet the business expansion needs.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2014
(*Expressed in Renminbi*)

	Note	**2014** **RMB'000**	2013 RMB'000
Turnover	2(*a*)	**2,690,173**	1,394,613
Cost of sales		**(1,035,850)**	(568,834)
Gross profit		**1,654,323**	825,779
Other revenue	3	**38,413**	15,769
Other net (expenses)/income	3	**(3,516)**	8,146
Selling and distribution costs		**(903,493)**	(404,629)
Administrative expenses		**(240,337)**	(172,308)
Profit from operations		**545,390**	272,757
Finance costs	4(*a*)	**(64,217)**	(35,182)
Profit before taxation	4	**481,173**	237,575
Income tax	5	**(69,627)**	(38,218)
Profit for the year		**411,546**	199,357
Attributable to:			
Equity shareholders of the Company		**413,090**	198,463
Non-controlling interests		**(1,544)**	894
Profit for the year		**411,546**	199,357
Earnings per share			
Basic and diluted	6	**16.30 cent**	9.68 cent

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2014
(*Expressed in Renminbi*)

	2014	2013
	RMB'000	*RMB'000*
Profit for the year	**411,546**	199,357
Other comprehensive income for the year (after tax)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")	**(687)**	(1,149)
Other comprehensive income for the year	**(687)**	(1,149)
Total comprehensive income for the year	**410,859**	198,208
Attributable to:		
Equity shareholders of the Company	**412,403**	197,314
Non-controlling interests	**(1,544)**	894
Total comprehensive income for the year	**410,859**	198,208

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2014
(*Expressed in Renminbi*)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Fixed assets			
– Investment properties		**2,651**	2,813
– Other property, plant and equipment		**674,696**	636,429
– Interests in leasehold land held for own use under operating leases		**282,893**	156,450
Construction in progress		**76,074**	89,245
Other receivables	9	**12,569**	161,464
		1,048,883	1,046,401
Intangible assets	7	**948,005**	997,351
Goodwill	8	**1,191,052**	1,191,052
Other financial assets		**1,010**	1,010
Deferred tax assets		**48,424**	52,506
		3,237,374	3,288,320
Current assets			
Other financial assets		**662**	6,164
Inventories		**417,695**	405,504
Trade and other receivables	9	**1,236,400**	1,016,832
Deposits with banks		**305**	4,239
Cash and cash equivalents		**439,416**	345,411
		2,094,478	1,778,150

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2014 (continued)
(Expressed in Renminbi)

	Note	**2014** **RMB'000**	2013 RMB'000
Current liabilities			
Trade and other payables	10	**540,113**	595,763
Bank and other loans		**501,648**	583,626
Current taxation		**47,743**	50,469
Current portion of deferred government grants		**44,337**	34,530
		1,133,841	1,264,388
Net current assets		**960,637**	513,762
Total assets less current liabilities		**4,198,011**	3,802,082
Non-current liabilities			
Deferred tax liabilities		**245,022**	269,600
Deferred government grants		**25,302**	29,449
Bank loans		**670,565**	668,270
		940,889	967,319
NET ASSETS		**3,257,122**	2,834,763
CAPITAL AND RESERVES			
Share capital: nominal value		–	235,087
Other statuary capital reserves		–	2,307,159
Share capital and other statuary capital reserves		**2,542,246**	2,542,246
Other reserves		**641,510**	217,607
Total equity attributable to equity shareholders of the Company		**3,183,756**	2,759,853
Non-controlling interests		**73,366**	74,910
TOTAL EQUITY		**3,257,122**	2,834,763

NOTES TO THE FINANCIAL STATEMENTS

(*Expressed in Renminbi unless otherwise indicated*)

1 Significant accounting policies

(*a*) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(*b*) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain financial instruments classified as available-for-sale are stated at their fair value.

The functional currency of the Company is Hong Kong Dollars ("HKD"). These consolidated financial statements are presented in Renminbi ("RMB") as the functional currency of the Group's major operating subsidiaries is RMB. These consolidated financial statements presented in RMB have been rounded to the nearest thousand.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(*c*) *Changes in accounting policies*

The HKICPA has issued the following amendments to HKFRSs and one new interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit ("CGU") whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on these financial statements because the Group does not have any impaired non-financial assets for the years ended 31 December 2013 and 2014.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

2 Turnover and segment reporting

(*a*) *Turnover*

The principal activities of the Group are manufacturing and sale of pharmaceutical products in the PRC. Turnover represents the sales value of goods sold less returns, discounts, value added tax, and sales tax and is analysed as follows:

	2014	2013
	RMB'000	*RMB'000*
Sales of pharmaceutical products		
– Pills and tablets	**1,781,062**	800,851
– Granules	**494,005**	287,594
– Injections	**155,082**	118,896
– Medicine wine	**81,585**	85,102
– Others	**178,439**	102,170
	2,690,173	1,394,613

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenues (2013: Nil).

Further details regarding the Group's principal activities are described below:

(*b*) *Segment reporting*

The Group manages its businesses by subsidiaries. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following eleven reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Foshan Dezhong Pharmaceutical Co., Ltd. ("Dezhong")
- Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("Feng Liao Xing")
- Guangdong Medi-World Pharmaceutical Co., Ltd. ("Guangdong Medi-World")
- Shandong Luya Pharmaceutical Co., Ltd. ("Luya")
- Foshan Feng Liao Xing Medicinal Material & Slices Co., Ltd. ("Feng Liao Xing Material & Slices")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")
- Guizhou Tongjitang Pharmaceutical Co., Ltd. ("Tongjitang Pharmaceutical")
- Anhui Jingfang Pharmaceutical Co., Ltd. ("Jingfang")

- Guizhou Longlife Pharmaceutical Co., Ltd. ("Guizhou LLF")

- Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante")

- Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries ("Guizhou Zhongtai")

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade payables, and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income. To arrive at adjusted EBITDA the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below.

Year ended 31 December 2014

	Dezhong	Feng Liao Xing	Guangdong Medi-World (note)	Luya	Feng Liao Xing Material & Slices	Winteam Sales	Tongjitang Pharmaceutical	Jingfang	Guizhou LLF	Pulante	Guizhou Zhongtai	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	6,183	26,756	19,886	36,321	35,424	1,046,716	1,150,884	259,100	48,455	20,729	39,719	2,690,173
Inter-segment revenue	277,272	171,637	324,344	35,220	52,621	90	1,312	–	31	6,232	–	868,759
Reportable segment revenue	283,455	198,393	344,230	71,541	88,045	1,046,806	1,152,196	259,100	48,486	26,961	39,719	3,558,932
Reportable segment profit (adjusted EBITDA)	94,953	30,088	67,815	27,316	3,078	45,225	352,464	60,713	8,691	8,817	4,169	703,329
Interest income	143	151	34	10	15	149	251	387	164	76	314	1,694
Interest expenses	9,886	5,393	8,427	–	540	743	37,588	–	–	–	1,640	64,217
Depreciation and amortisation for the year	17,571	5,815	18,485	5,505	419	576	53,141	4,358	140	1,278	11,810	119,098
Reportable segment assets	1,024,135	370,105	530,795	175,780	232,043	433,783	3,053,801	300,378	52,062	66,225	244,334	6,483,441
Additions to non-current assets during the year	9,068	841	19,104	999	1,723	457	60,711	6,656	69	303	683	100,614
Reportable segment liabilities	478,881	94,233	611,032	17,993	211,627	425,937	399,701	120,855	17,077	14,922	36,475	2,428,733

Year ended 31 December 2013

	Dezhong	Feng Liao Xing	Guangdong Medi-World (note)	Luya	Feng Liao Xing Material & Slices	Winteam Sales	Tongjitang Pharmaceutical	Jingfang	Guizhou LLF	Pulante	Guizhou Zhongtai	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	10,303	11,226	15,432	46,614	24,281	930,859	254,872	48,946	7,492	6,107	38,481	1,394,613
Inter-segment revenue	302,569	216,479	314,691	22,230	114,388	4,803	–	–	–	–	–	975,160
Reportable segment revenue	312,872	227,705	330,123	68,844	138,669	935,662	254,872	48,946	7,492	6,107	38,481	2,369,773
Reportable segment profit (adjusted EBITDA)	95,765	44,377	99,539	21,822	5,039	10,975	74,718	12,079	2,174	2,103	12,226	380,817
Interest income	40	25	7,386	10	–	–	110	121	6	17	33	7,748
Interest expenses	11,286	5,229	9,447	–	124	1,470	7,107	–	–	–	519	35,182
Depreciation and amortisation for the year	19,542	6,310	14,225	6,473	262	339	8,918	390	24	201	11,597	68,281
Reportable segment assets	1,085,293	464,179	738,298	158,040	318,383	493,046	2,798,319	246,733	35,222	58,926	319,172	6,715,611
Additions to non-current assets during the year	19,608	2,484	146,245	3,364	37	1,615	1,126,012	105,160	2,013	32,117	129,088	1,567,743
Reportable segment liabilities	592,015	205,949	774,707	16,278	293,933	512,606	366,712	120,983	7,387	14,406	103,643	3,008,619

Note: The reportable segment assets of Guangdong Medi-World as at 31 December 2014 excluded RMB503,086,000 of investment in subsidiaries (31 December 2013: RMB503,086,000).

(ii) Reconciliations of reportable segment revenues and profit or loss

	2014 *RMB'000*	2013 *RMB'000*
Revenue		
Reportable segment revenue	**3,558,932**	2,369,773
Elimination of inter-segment revenue	**(868,759)**	(975,160)
Consolidated turnover	**2,690,173**	1,394,613
Profit		
Reportable segment profit	**703,329**	380,817
Elimination of inter-segment profits	**(23,971)**	(28,960)
Reportable segment profit derived from the Group's external customers	**679,358**	351,857
Other revenue and net (expenses)/income	**34,897**	23,915
Depreciation and amortisation	**(119,098)**	(68,281)
Finance costs	**(64,217)**	(35,182)
Unallocated head office and corporate expenses	**(49,767)**	(34,734)
Consolidated profit before taxation	**481,173**	237,575

(iii) Geographic information

Analysis of the Group's turnover and results as well as analysis of the amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

3 Other revenue and net (expenses)/income

	2014	2013
	RMB'000	*RMB'000*
Other revenue		
Government grants		
– Unconditional subsidies	**30,551**	5,064
– Conditional subsidies	**5,157**	2,326
Interest income	**1,694**	7,748
Rental income	**1,011**	631
	38,413	15,769

	2014	2013
	RMB'000	*RMB'000*
Other net (expenses)/income		
Net loss on disposal of fixed assets	**(559)**	(892)
Available-for-sale securities:		
– gain on disposal reclassified from equity	**–**	9,621
Unrealised loss on equity securities (at fair value)	**(502)**	–
Exchange (loss)/gain	**(1,688)**	1,412
Others	**(767)**	(1,995)
	(3,516)	8,146

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2014	2013
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on bank advances and other borrowings wholly repayable within five years	**64,217**	35,182
(b) Staff costs:		
Salaries, wages and other benefits	**393,615**	208,982
Contributions to defined contribution retirement plans	**21,163**	17,290
	414,778	226,272
(c) Other items		
Auditors' remuneration	**6,257**	3,967
Depreciation		
– investment properties	**162**	162
– interests in leasehold land held for own use under operating leases	**5,238**	2,566
– other property, plant and equipment	**63,708**	47,149
Amortisation		
– intangible assets	**49,990**	18,404
Impairment losses		
– trade receivables	**5,627**	1,108
– other receivables	**(1,327)**	413
Operating lease charges: minimum lease payments	**4,618**	4,563
Research and development costs	**67,875**	45,947
Rentals receivable from investment properties	**(1,011)**	(631)
Cost of inventories	**1,035,850**	568,834

5 Income tax in the consolidated statement of profit or loss

(a) Taxation in the consolidated statement of profit or loss represents:

	2014	2013
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax for the year	**91,149**	54,769
(Over)/under-provision in respect of prior years	**(2,331)**	269
	88,818	55,038
Deferred tax		
Reversal of temporary differences	**(18,106)**	(16,820)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(1,085)**	–
Income tax expenses	**69,627**	38,218

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the year (2013: Nil).

Pursuant to the Corporate Income Tax Law of the PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for: 1) Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang and Luya, which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% from 2011 to 2013 pursuant to documents issued by local government authorities. Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang and Luya are applying for the extension of "Advanced and New Technology Enterprise" and the entitlement of the preferential income tax rate for the years of 2014 to 2016. In the opinion of directors, they do not foresee any difficulties to obtain the approval of the preferential income tax rate for 2014 to 2016. The PRC income tax rate applicable to Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang and Luya was of 15% for the year ended 31 December 2014 (2013: 15%); and 2) Tongjitang Pharmaceutical, Guizhou LLF, Pulante and Guizhou Zhongtai Biological Technology Company Limited, being a qualified enterprise located in the western region of the PRC, enjoys a preferential income tax rate of 15% effective retroactively from 1 January 2011 to 31 December 2020 pursuant to CaiShui [2011] No. 58 dated 27 July 2011.

Pursuant to the Corporate Income Tax Law of the PRC and its relevant regulations, PRC-resident enterprises are levied withholding income tax at 10% on dividends to their non-PRC-resident corporate investors for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. Under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of the equity interest of a PRC-resident enterprise is entitled to a reduced withholding tax rate of 5%. The Group's certain Hong Kong incorporated subsidiaries, which are the qualified Hong Kong tax residents, are subject to withholding tax rate of 5% on retained earnings beginning on 1 January 2008.

As a part of the continuing evaluation of the funding needs of its subsidiaries, the directors have determined that certain of the undistributed profits of the Group's PRC subsidiaries before 1 January 2013 will not be distributed in the foreseeable future. As such, the deferred tax liabilities as at 31 December 2012 in the amount of RMB12,000,000 were reversed during the year ended 31 December 2014. In addition, the directors have also determined that the undistributed profits of the Group's PRC subsidiaries on or after 1 January 2013 will not be distributed in the foreseeable future. As such, no further deferred tax liabilities in this regard have been recognised on the undistributed profits earned by the Group's PRC subsidiaries on or after 1 January 2013 as at 31 December 2014 and 2013.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2014	2013
	RMB'000	*RMB'000*
Profit before taxation	**481,173**	237,575
Notional tax on profit before taxation, calculated at rates applicable to profits in the jurisdictions concerned	**123,637**	58,505
Tax effect on non-deductible expenses	**4,012**	2,462
Income tax concessions	**(50,836)**	(27,020)
(Over)/under-provision in respect of prior years	**(2,331)**	269
Tax effect of unused tax losses not recognised	**8,763**	4,002
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(1,085)**	–
Effect of tax losses not recognised in prior years but utilised in current year	**(533)**	–
Tax effect of withholding tax on undistributed profits	**(12,000)**	–
Actual tax expense	**69,627**	38,218

6 Earnings per share

(*a*) *Basic earnings per share*

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB413,090,000 (2013: RMB198,463,000) and the weighted average of 2,533,899,186 ordinary shares (2013: 2,050,558,456 ordinary shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2014	2013
	'000	*'000*
Issued ordinary shares at 1 January	**2,533,899**	1,783,411
Effect of shares issued	**–**	267,147
Weighted average number of ordinary shares at 31 December	**2,533,899**	2,050,558

(*b*) *Diluted earnings per share*

There were no dilutive potential ordinary shares during the years presented and, therefore, diluted earnings per share is not presented.

7 Intangible assets

	The Group					
	Product protection rights	Trademarks	Distribution network	Software	Customer relationship	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2013	65,400	48,695	59,000	782	744	174,621
Additions	–	–	–	588	–	588
Acquisition of subsidiaries	582,458	251,863	818	–	106,337	941,476
Disposals	–	–	–	(138)	–	(138)
At 31 December 2013	647,858	300,558	59,818	1,232	107,081	1,116,547
At 1 January 2014	647,858	300,558	59,818	1,232	107,081	1,116,547
Additions	–	–	–	644	–	644
Disposals	–	–	–	(100)	–	(100)
At 31 December 2014	647,858	300,558	59,818	1,776	107,081	1,117,091
Accumulated amortisation and impairment loss:						
At 1 January 2013	65,400	11,765	23,108	496	161	100,930
Amortisation for the year	8,159	2,036	6,002	286	1,921	18,404
Written back on disposals	–	–	–	(138)	–	(138)
At 31 December 2013	73,559	13,801	29,110	644	2,082	119,196
At 1 January 2014	73,559	13,801	29,110	644	2,082	119,196
Amortisation for the year	31,178	1,729	6,002	298	10,783	49,990
Written back on disposals	–	–	–	(100)	–	(100)
At 31 December 2014	104,737	15,530	35,112	842	12,865	169,086
Net book value:						
At 31 December 2014	543,121	285,028	24,706	934	94,216	948,005
At 31 December 2013	574,299	286,757	30,708	588	104,999	997,351

The amortisation charge for the year is mainly included in "cost of sales" in the consolidated income statement.

Trademark with the carrying amount of RMB251,863,000, acquired through the acquisition of Tongjitang Chinese Medicines Company and its subsidiaries (the "Tongjitang Group") in 2013, are assessed to have indefinite useful lives when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The recoverable amount of the trademark that has indefinite useful life is estimated annually whether or not there is any indication of impairment.

The recoverable amount of the trademark that has indefinite useful life is determined based on value-in-use calculations by preparing cash flow projections of the relevant cash-generating units ("CGU") derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows for the five-year period are extrapolated to cover a period of five (2013: six) more years (the "Extrapolated Period") using an estimated increased rate of 3% (2013: 3%) in selling prices and costs with no growth in sales volume. Cash flows beyond the Extrapolated Period are forecasted using an estimated selling price and cost in the last year of the Extrapolated Period with no growth in sales volume. The rates used to discount the forecast cash flows at 15.35% (2013: 15.26%). No impairment loss was recognised during the year ended 31 December 2014 (2013: Nil).

8 Goodwill

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Cost and carrying amount:		
At 1 January	**1,191,052**	169,170
Addition acquired through business combination	**–**	1,021,882
At 31 December	**1,191,052**	1,191,052

Impairment tests for cash-generating units containing goodwill

Goodwill acquired through business combination is allocated to the Group's CGU identified as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Manufacture and sale of pharmaceutical products		
– Dezhong	**100,391**	100,391
Manufacture and sale of pharmaceutical products		
– Feng Liao Xing	**23,664**	23,664
Manufacture and sale of pharmaceutical products		
– Guangdong Medi-World	**26,055**	26,055
Manufacture and sale of pharmaceutical products		
– Luya	**11,221**	11,221
Sale of pharmaceutical products		
– Feng Liao Xing Material & Slices	**2,449**	2,449
Sale of pharmaceutical products		
– Winteam Sales	**5,390**	5,390
Manufacture and sale of pharmaceutical products		
– Tongjitang Group		
– Tongjitang Pharmaceutical	**733,037**	733,037
– Jingfang	**139,184**	139,184
– Guizhou LLF	**37,116**	37,116
– Pulante	**18,558**	18,558
Manufacture and sale of pharmaceutical products		
– Guizhou Zhongtai	**93,987**	93,987
	1,191,052	1,191,052

The recoverable amount of the CGU is determined based on value-in-use calculations. The key assumptions used in the valuations are those regarding the expected changes to selling prices and costs, and discount rates. The changes in selling prices and costs are based on historical operating records and expectation of future changes in the market. Discount rates applied are able to reflect the current market assessments of the time value of money and the risks specific to the CGU.

The Group determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a four-year period (2013: four). Cash flows beyond the fifth year to the sixth year period are extrapolated using an estimated increased rate of 3% (2013: 3%) in selling prices and costs with no growth in sales volume (2013: Nil). Cash flows beyond the six-year period are extrapolated using an estimated selling prices and costs in the sixth year with no growth in sales volume. The rates used to discount the forecast cash flows range from 12.84% to 18.32% (2013: 14.09% to 15.03%).

9 Trade and other receivables

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Current		
Trade receivables	**565,218**	415,275
Bills receivables	**608,653**	508,327
Less: allowance for doubtful debt	**(20,728)**	(16,431)
	1,153,143	907,171
Other receivables	**83,257**	109,661
	1,236,400	1,016,832
Non-current		
Other receivables	**12,569**	161,464
	1,248,969	1,178,296

(*a*) *Ageing analysis*

As of the end of the financial year, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date, is as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Within 3 months of invoice date	**421,102**	320,585
3 to 6 months after invoice date	**84,433**	53,314
More than 6 months less than 12 months after invoice date	**29,453**	22,106
More than 12 months after invoice date	**30,230**	19,270
	565,218	415,275

Trade receivables are due within 30 to 90 days from the date of billing. All of the trade and bills receivables are expected to be recovered within one year.

10 Trade and other payables

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Trade creditors	**133,143**	152,364
Other creditors and accrued charges	**333,940**	426,258
Advances received from customers	**73,030**	17,141
	540,113	595,763

As of the end of the financial year, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	The Group	
	2014	2013
	RMB'000	*RMB'000*
Due within 1 month or on demand	**133,143**	152,364

Other creditors and accrued charges mainly include accrued staff costs and benefits, accrued sales rebates to customers and other tax payables.

All of the trade and other payables are expected to be settled within one year or payable on demand.

11 Dividends

No final dividend has been proposed by the Company for the year ended 31 December 2014 (2013: Nil).

FINANCIAL REVIEW

Turnover

During the year under review, the Group's turnover amounted to RMB2,690,173,000, representing an increase of 92.9% from RMB1,394,613,000 of last year. The growth of turnover was mainly attributable to the full-year consolidation of Tongjitang's financial statements. In addition, synergy from the integration of the sales force also facilitated the growth of turnover.

Cost of sales and gross profit margin

During the year under review, the Group's cost of sales was RMB1,035,850,000, representing an increase of 82.1% as compared to RMB568,834,000 for last year. Direct raw materials, direct labor and production overhead accounted for 74.8%, 9.6% and 15.6% of the total cost of sales, respectively, as compared to 74.3%, 13.0% and 12.7% for last year. Gross profit for the year was RMB1,654,323,000, or an increase of RMB828,544,000 from RMB825,779,000 of last year. Gross profit margin also rose to 61.5% from 59.2% of last year.

Other revenue

During the year under review, the Group's other revenue was RMB38,413,000, representing an increase of 143.6% compared to RMB15,769,000 for last year.

	2014	2013	Change
	RMB'000	*RMB'000*	
Interest income	**1,694**	7,748	-78.1%
Government grants	**35,708**	7,390	383.2%
Rental income	**1,011**	631	60.2%
Total	**38,413**	15,769	143.6%

Interest income decreased, which was because the interest compensation for land premium of the land for headquarter was received in the last year, and the remaining interest income was confirmed as non-recurring income, which was terminated this year. The increase in government grants was mainly due to the construction of the headquarter building, which brought in a local government incentive of RMB22,000,000, as the project met the conditions.

Other net (expenses)/income

During the year under review, the Group's other net expenses were RMB3,516,000(2013: other net income of RMB8,146,000). The change from other net income to other net expenses was mainly due to the net income derived from the sale of equity investments in the market last year, which was a non-recurring income and was terminated in the year. In addition, there was an exchange loss due to the change in exchange rate in the year.

Selling and distribution costs

During the year under review, the Group's sales and distribution costs amounted to RMB903,493,000 (2013: RMB404,629,000).

	2014	2013	Change
	RMB'000	*RMB'000*	
Advertising, promotion and traveling expenses	**499,424**	227,509	119.5 %
Salary expenses of sales and marketing staff	**244,012**	109,440	123.0%
Distribution costs	**27,817**	13,263	109.7%
Other sales and distribution costs	**132,240**	54,417	143.0 %
Total	**903,493**	404,629	123.3%

Selling and distribution costs increased by 123.3% as compared to that of last year, as after the acquisition of Tongjitang, the size of sales and marketing teams of the Group increased significantly. At the same time, the Group strengthened the promotion of its products and brands, such that the related expenses increased. During the year under review, selling and distribution costs as a percentage to turnover was 33.6%, as compared to 29.0% for last year.

Administrative Expenses

During the year under review, the Group's administrative expenses amounted to RMB240,337,000 (2013: RMB172,308,000).

	2014	2013	Change
	RMB'000	*RMB'000*	
Staff salary	**64,731**	52,099	24.2%
Depreciation and amortisation	**20,895**	15,412	35.6%
Expenses for product research and development	**67,875**	45,947	47.7%
Office rental cost and other expenses	**86,836**	58,850	47.6%
Total	**240,337**	172,308	39.5%

Administrative expenses increased to RMB240,337,000 after full-year consolidating Tongjitang's financial statements, representing an increase of 39.5% as compared to RMB172,308,000 for last year. However, the Group effectively controlled expenses and improved efficiency by post-merger integration. Administrative expenses as a percentage to turnover decreased from 12.4% for last year to 8.9% for the year.

Profit from Operations

During the year under review, the Group's profit from operations was RMB545,390,000, representing an increase of 100.0% as compared to RMB272,757,000 for last year, while operating profit margin (defined as profit from operations divided by turnover) increased to 20.3% from 19.6% for last year.

Finance Costs

During the year under review, the Group's finance costs amounted to RMB64,217,000 (2013: RMB35,182,000), and the higher finance costs as compared with last year was attributable to the bank loans for the acquisition projects in 2013. As at 31 December 2014, long-term bank loans of the Group was RMB670,565,000. In addition, the full-year consolidation of Tongjitang's financial statements increased the interest expenses by RMB8,486,000. During the year under review, the effective interest rate for loans was 5.04% (2013: 5.17%).

Earnings per share

During the year under review, the basic earnings per share was RMB16.30 cents, representing an increase of 68.4% as compared to RMB9.68 cents for last year. Basic earnings per share increased because of the acquisition of Tongjitang which generated good performance and synergy effect. Profit attributable to equity shareholders of the Company for the year increased by 108.1% to RMB413,090,000 (2013: RMB198,463,000).

Liquidity and Financial Resources

As at 31 December 2014, the Group's current assets amounted to RMB2,094,478,000 (31 December 2013: RMB1,778,150,000), which included cash, cash equivalents and deposits with banks of RMB439,721,000 (31 December 2013: RMB349,650,000), as well as trade and other receivables of RMB1,236,400,000 (31 December 2013: RMB1,016,832,000). Current liabilities amounted to RMB1,133,841,000 (31 December 2013: RMB1,264,388,000). Net current assets aggregated to RMB960,637,000 (31 December 2013: RMB513,762,000). The Group's current ratio was 1.8 (31 December 2013: 1.4). The gearing ratio (defined as bank and other loans divided by equity attributable to equity shareholders of the Company) decreased to 0.37 from 0.45 as at 31 December 2013. Gearing ratio decreased as the Group repaid part of the bank loans with its cash surplus from operating activities, and retained profits increased as well.

Bank and other Loans and Pledge of Assets

As at 31 December 2014, the balance of the Group's bank and other loans was RMB1,172,213,000 (31 December 2013: RMB1,251,896,000), of which RMB409,547,000 (31 December 2013: RMB338,928,000) was secured by the Group's assets with book value of RMB302,526,000 (31 December 2013: RMB189,003,000) in total and guaranteed by a shareholder. Bank loans decreased as the Group repaid part of the bank loans with its cash surplus from operating activities, so as to reduce finance costs.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2014 (31 December 2013: nil).

Employee and Remuneration Policies

As at 31 December 2014, the Group had a total of 6,791 (31 December 2013: 6,719) employees (including directors of the Company), of which the number of sales staff, manufacturing staff and those engaged in R&D, administration and senior management were 3,813, 2,098 and 880 respectively. Remuneration packages are mainly comprised of salary and discretionary bonus based on individual performance. The Group's total remuneration amount during the year was RMB414,778,000 (2013: RMB226,272,000).

FINAL DIVIDEND

The Board has not recommended the payment of a final dividend for the year ended 31 December 2014 (2013: nil).

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance. The Company has complied with the Code on Corporate Governance Practices as set out in the Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2014 except for the deviation of the code provision A.5.1 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

Mr. Fang Shuting resigned as an independent non-executive director, a member of the audit committee, a member of the remuneration committee and a member of the nomination committee of the Company with effect from 25 November 2014. Due to Mr. Fang Shuting's resignation, the number of members of the audit committee decreased from three to two, below the minimum number required under Rule 3.21 of the Listing Rules. In addition, the number of members of the remuneration committee decreased from four to three, below the minimum number required under the terms of reference of the remuneration committee and the number of independent non-executive directors acting as members of the nomination committee decreased from three to two, less than the majority of the independent non-executive directors required under the terms of reference of the nomination committee and being deviated from code provision A.5.1 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

In compliance of with the code provision A.5.1 of the Corporate Governance Code set out in Appendix 14 of the Listing Rules, Mr. Lo Wing Yat was appointed as an independent non-executive director, a member of the audit committee, a member of the remuneration committee and a member of the nomination committee of the Company with effect from 27 January 2015.

AUDIT COMMITTEE

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board. The Audit Committee comprises three members who are all independent non-executive Directors, namely Mr. Xie Rong, Mr. Zhou Bajun and Mr. Lo Wing Yat. Mr. Xie Rong, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee. The Company's audit committee has met with the Group's senior management and the auditors to review the annual results and the financial statements for the year ended 31 December 2014.

By Order of the Board
China Traditional Chinese Medicine Co. Limited
WU Xian
Chairman

Hong Kong, 16 March 2015

As at the date of this announcement, the Board comprises 11 directors, of which Mr. WU Xian, Mr. YANG Bin and Mr. WANG Xiaochun are executive Directors; Mr. LIU Cunzhou, Mr. ZHANG Jianhui, Mr. DONG Zenghe and Mr. ZHAO Dongji are non-executive Directors; and Mr. ZHOU Bajun, Mr. XIE Rong, Mr. YU Tze Shan Hailson and Mr. LO Wing Yat are independent non-executive Directors.