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 2015

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 2015 (the "Reporting Period").

Financial Highlights

- Turnover up 20.7% to RMB3,553.4 million (2014: RMB2,945.1 million)
- Profit for the year down 4.5% to RMB996.5 million (2014: RMB1,043.0 million), which would be up 20.4% compared with RMB827.9 million of profit for last year after excluding gain of RMB215.1 million arising from investment in Tibet Rhodiola Pharmaceutical Holding Company ("Tibet Pharmaceutical") listed on the Shanghai Stock Exchange when it became an associate from available for sale investment
- Basic earnings per share down 6.8% to RMB0.4037 (2014: RMB0.4330) , which would be up 17.4% compared with RMB0.3440 of basic earnings per share for last year after excluding gain arising from investment in Tibet Pharmaceutical when it became an associate from available for sale investment
- As at 31 December 2015, the Group's cash and bank deposits amounted to RMB508.5 million while readily realizable bank acceptance bills amounted to RMB233.3 million
- Proposed final dividend of RMB0.0809 per share, bringing the total dividend for the year ended 31 December 2015 to RMB0.1603 per share, representing an increase of 16.9% from last year (2014: final dividend of RMB0.0692 and total dividend of RMB0.1371 per share respectively)

* *For Identification Only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	NOTES	2015 RMB'000	2014 RMB'000
Turnover	3	3,553,431	2,945,131
Cost of goods sold		(1,507,335)	(1,290,503)
Gross profit		2,046,096	1,654,628
Other gains and losses	4	31,547	275,271
Selling expenses		(814,122)	(631,145)
Administrative expenses		(192,721)	(151,896)
Finance costs	5	(24,109)	(16,733)
Share of results of associates		17,400	(621)
Profit before tax		1,064,091	1,129,504
Income tax expense	6	(67,625)	(86,509)
Profit for the year	7	996,466	1,042,995
Other comprehensive (expense) income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(432)	1,793
Change in fair value on available-for-sale investments			
- fair value gain		-	241,133
- deferred tax relating to change in fair value		-	(55,264)
Reclassification adjustment when the Group acquired additional interest in the available-for-sale investments that become the Group's associate, net of deferred tax		-	(215,055)
Share of other comprehensive income of associates		431	19
Other comprehensive expense for the year, net of income tax		(1)	(27,374)
Total comprehensive income for the year		996,465	1,015,621
Profit (loss) for the year attributable to:			
Owners of the Company		995,935	1,045,702
Non-controlling interests		531	(2,707)
		996,466	1,042,995
Total comprehensive income (expense) attributable to:			
Owners of the Company		995,934	1,018,328
Non-controlling interests		531	(2,707)
		996,465	1,015,621
		RMB	RMB
Earnings per share	9		
Basic		0.4037	0.4330

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment		325,936	253,876
Prepaid lease payments		61,379	51,080
Interests in associates		1,321,793	1,308,462
Intangible assets		1,026,242	440,896
Goodwill		1,384,535	1,184,591
Available-for-sale investments		-	-
Deposit paid for acquisition of property, plant and equipment and intangible assets		127,650	90,179
Interest-bearing and secured loan receivable		10,642	11,183
Deferred tax assets	10	24,903	19,418
		4,283,080	3,359,685
Current assets			
Inventories		385,177	189,456
Trade and other receivables	11	1,164,013	876,245
Tax recoverable		21,701	-
Amount due from an associate		35,096	26,899
Pledged bank deposits	12	-	209,481
Bank balances and cash and deposits	12	508,516	243,515
		2,114,503	1,545,596
Current liabilities			
Trade and other payables	13	392,717	252,643
Bank borrowings	14	463,903	484,241
Deferred consideration payables		13,595	5,500
Tax payable		33,009	46,287
		903,224	788,671
Net current assets		1,211,279	756,925
Total assets less current liabilities		5,494,359	4,116,610
Capital and reserves			
Share capital	15	85,200	82,974
Reserves		5,210,807	3,907,865
Equity attributable to owners of the Company		5,296,007	3,990,839
Non-controlling interests		56,461	-
		5,352,468	3,990,839

	NOTE	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Deferred tax liabilities	10	108,613	81,177
Deferred consideration payables		33,278	44,594
		141,891	125,771
		5,494,359	4,116,610

1. GENERAL

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

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

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

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

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

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

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

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

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

1 Effective for annual periods beginning on or after 1 January 1 2018.
2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective for annual periods beginning on or after 1 January 2016.
5 Effective for annual periods beginning on or after 1 January 2017.
6 Effective for annual periods beginning on or after a date to be determined.

IFRS 9 *Financial Instruments*

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

Key requirements of IFRS 9 are described below:

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

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

IFRS 9 *Financial Instruments* - continued

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

- the new general hedge accounting requirements retain the three types of hedge accounting mechanising currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

IFRS 15 *Revenue from Contracts with Customers*

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

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

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

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

IFRS 15 *Revenue from Contracts with Customers* - continued

The directors of the Company anticipate that the application of IFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

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

3. 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

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

Notes:

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

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

5. FINANCE COSTS

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

6. INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
Current tax:		
PRC Enterprise Income Tax	75,977	86,656
Hong Kong Profits Tax	2,034	1,999
Other jurisdictions	31	37
	78,042	88,692
Overprovision in prior years:		
PRC Enterprise Income Tax	(3,006)	-
Hong Kong Profits Tax	(20)	(8)
	(3,026)	(8)
Deferred taxation (note 10):		
- Current year	(7,391)	(2,175)
	67,625	86,509

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

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

Starting from 1 January 2009, 天津康哲醫藥科技發展有限公司 (Tianjin Kangzhe Pharmaceutical Technology Development Co., Ltd.) ("Tianjin Kangzhe") is entitled to a reduced tax rate of 15% granted by the local tax authority until 7 December 2018. Starting from 15 October 2014, 康哲(湖南)制藥有限公司 (Kangzhe (Hunan) Medical Co., Ltd.) ("Kangzhe Hunan") is entitled to a reduced tax rate of 15% granted by local tax authority until 14 October 2017. 廣西康哲廣明藥業有限公司 (Guangxi Kangzhe Guangming Pharmaceutical Co., Ltd.) ("Kangzhe Guangming") is entitled to reduced tax rate of 15% for 10 years, starting from 1 January 2011. The disposal of Kangzhe Guangming was completed on 27 March 2014.

Pursuant to EIT Law, enterprises engaged in prescribed agriculture projects are exempted from EIT. In 2014 and 2015, 湖南康哲農牧業發展有限公司 (Hunan Kangzhe Agricultural Development Co., Ltd.) ("Kangzhe Agricultural") is eligible for such tax concession.

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

Pursuant to the Labuan Offshore Business Activity Tax Act 1990 ("Labuan Tax Act") in Malaysia, CMS Pharma Co., Ltd ("CMS Pharma") (formerly known as CMS Pharmaceutical Agency Co., Ltd.) is eligible to elect to pay a lump sum taxation charge of MYR 20,000 (equivalent to approximately RMB36,000) or 3% on net audited profits. For the years ended 31 December 2015 and 2014, CMS Pharma elected to pay a lump sum tax.

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

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

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

Note: The applicable PRC Enterprise Income Tax rate of 25% (2014: 25%) is the prevailing tax rate applicable to Shenzhen Kangzhe Pharmaceutical Co., Ltd. ("Shenzhen Kangzhe"), a major operating subsidiary of the Group.

7. PROFIT FOR THE YEAR

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

8. DIVIDENDS

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

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

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:

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

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

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

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 2014	19,231	(19,950)	(8,700)	231	(9,188)
Credit (charge) to profit or loss for the year (note 6)	146	2,219	-	(190)	2,175
Charge to other comprehensive income for the year (note a)	-	-	(55,264)	-	(55,264)
Disposal of a subsidiary	-	518	-	-	518
At 31 December 2014	19,377	(17,213)	(63,964)	41	(61,759)
Credit (charge) to profit or loss for the year (note 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)

Note:

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

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

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

At 31 December 2015, the Group had unused tax losses of approximately RMB15,835,000 (2014: RMB9,092,000). No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Tax losses of approximately RMB32,079,000 arose from the acquisition of Hebei Xinglong Xili Pharmaceutical Co., Ltd. ("Xili Pharmaceutical") on 16 February 2015. Included in unrecognised tax losses at 31 December 2015 are tax losses of approximately RMB9,218,000 (2014: RMB2,474,000) that will be expired within 5 years from the year of originating. Other tax losses may be carried forward indefinitely. During the year ended 31 December 2015, tax losses of approximately RMB602,000 (2014: RMB429,000) was expired.

As at 31 December 2015, the Group had deductible temporary differences of RMB596,446,000 (2014:RMB306,617,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB94,804,000 (2014: RMB77,587,000) of such deductible temporary difference. No deferred tax asset has been recognised in respect of the remaining balance of RMB501,642,000 (2014: RMB229,030,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary, from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB1,571,546,000 (2014: RMB1,250,422,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

11. TRADE AND OTHER RECEIVABLES

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

The Group normally allows a credit period ranging from 0 to 90 days to its trade customers, but longer credit period up to four months is allowed to some selected customers.

An aging analysis of trade receivables (net of allowance for bad and doubtful debts) presented based on the invoice date at the respective reporting period, which approximated the respective revenue recognition date is as follows:

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

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

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

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB61,353,000 (2014: RMB51,645,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Based on the historical experiences of the Group, trade receivables past due but not impaired are generally recoverable. The Group does not hold any collateral over these balances.

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

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

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

Movement in the allowance for bad and doubtful debts:

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

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

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

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

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

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

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

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

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

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:

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

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

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

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

14. BANK BORROWINGS

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

Note:

(a) Balance represented bills receivable discounted to banks for cash proceeds of RMB484,241,000. The receivables arose from intra-group transactions which had then been fully eliminated on consolidation. If the bills receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. The receivables were matured and fully settled during the year.

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

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

Note:

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

15. SHARE CAPITAL

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

Note:

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

16. KEY EMPLOYEE BENEFIT SCHEME

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

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

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

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

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

During the year ended 31 December 2015, the Company contributed cash amounting to RMB4,140,000 (2014: RMB3,158,000) to the Fund and which were recognised as key employee benefit expenses in the profit or loss in the consolidated statement of profit or loss and other comprehensive income.

17. EVENTS AFTER THE REPORTING PERIOD

(a) Acquisition of exclusive license in relation to Plendil

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

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

(b) Asset purchase agreement in relation to Imdur

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

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

Management Discussion and Analysis

Business Review

China Medical System Holdings Limited (the "Company", together with its subsidiaries, the "Group") is pleased to announce that for the year ended 31 December 2015(the "Reporting Period"), the Group recorded turnover of RMB3,553.4 million (2014: RMB2,945.1 million), representing an increase of 20.7% over the same period of the previous year. Profit reached RMB 996.5 million (2014: RMB1,043.0 million), down 4.5% over the same period of the previous year, which would be up 20.4% compared with RMB827.9 million of profit for last year after excluding gain of RMB215.1 million arising from investment in Tibet Pharmaceutical when it became an associate from available for sale investment. Basic earnings per share was RMB0.4037 (2014: RMB0.4330), down 6.8% over the same period the previous year, which would be up 17.4% compared with RMB0.3440 of basic earnings per share for last year after excluding gain arising from investment in Tibet Pharmaceutical when it became an associate from available for sale investment.

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

Product Introduction and Development

1. **Product Introduction**

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

During the Reporting Period, the Group continued to introduce new products by purchasing assets related to products for the China market or through equity investment in the manufacturers of the products. For domestic products, the Group introduces new products mainly through equity participation in the domestic manufacturers; for overseas products, the Group prefers to introduce new products through purchasing their

assets for the Chinese market. The acquisition model not only enables the Group to ensure the products rights, but also bring more profit to the Group. In 2015, the Group made a great achievement in introducing new products with high quality. This new product introduction model can ensure steady control over product rights while generating higher profit for the Group.

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

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

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

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

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

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

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

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

On 8 May, 2015, a private company 100% owned by Dr. Lam Kong (the controlling shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing

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

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

2. Existing Product Development

2.1 Main Products under the Direct Network

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

Deanxit (Flupentixol and Melitracen)

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

The Group has continued to strengthen its expert network and reinforce its brand image through multi-level academic conferences. It has set up research projects to offer more evidence-based medicine. In addition, the Group continued to penetrate the rural market and increase the coverage. As at 31 December 2015, sales of Deanxit covered over 13,000 hospitals throughout China.

Ursofalk (Ursodeoxycholic Acid)

Ursofalk, manufactured by Dr. Falk Pharma GmbH of Germany, is used for the treatment of cholesterol gallstones, cholestatic liver disease and bile reflux gastritis and is on the National Reimbursement

Drug List ("NRDL"). Based on IMS data in 2015, Ursofalk is the best-selling ursodeoxycholic acid drug in China, and ranked first in sales among digestive products in the Chinese cholagogue market. During the Reporting Period, Ursofalk recorded sales of RMB661.5 million, an increase of 12.0% when compared with the same period the previous year, accounting for 18.6% of the Group's turnover.

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

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

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

The Group continued to make use of academic promotion, develop and expand network of key hospitals and new therapeutic departments, and maintain the expert network. The manufacturer of XinHuoSu gained Chinese new GMP approval on 11 February 2015. As at 31 December 2015, sales of XinHuoSu covered around 1,800 hospitals throughout China.

Salofalk (Mesalazine)

Salofalk, manufactured by Dr. Falk Pharma GmbH of Germany, with 3 formulations namely coated tablets, suppositories and enemas, which are mainly used to treat Ulcerative Colitis and Crohn's disease. During the Reporting Period, Salofalk recorded sales of RMB183.0 million, an increase of 22.6% when compared with the same period the previous year, accounting for around 5.2 % of the Group's turnover.

The Group widened market exposure and raised diagnosis rate of IBD disease through domestic and international academic conferences at all levels and through continued education of doctors. It increased the number of educational activities for patients, thereby improving patient compliance and increasing brand loyalty. As at 31 December 2015, sales of Salofalk covered around 3,400 hospitals throughout China.

Bioflor (Saccharomyces Boulardii)

Bioflor, manufactured by Biocodex of France, is a probiotics agent used to treat diarrhea for both adults and children, as well as diarrhea symptoms caused by the disturbance of intestinal flora. Bioflor is the only Saccharomyces Boulardii in the current Chinese market. Bioflor recorded sales of RMB170.1 million during the Reporting Period, an increase of 20.2% compared with the same period the previous year, accounting for 4.8% of the Group's turnover. Sales of Bioflor maintained a rapid growth trend.

The Group continued to develop new hospitals coverage and led academic promotions, conducted extensive education events among doctors — including tours of lectures by renowned European experts on micro-ecology to improve penetration rate of Bioflor. As at 31 December 2015, sales of Bioflor covered around 2,500 hospitals throughout China.

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

Augentropfen Stulln Mono Eye-drops, manufactured by Pharma Stulln GmbH of Germany, is used to treat age-related macular degeneration and all forms of ocular asthenopia. Augentropfen Stulln Mono Eye-drops is the only preservative-free eye-drops product approved by the China Food and Drug Administration (CFDA) for the treatment of macular degeneration. Augentropfen Stulln Mono Eye-drops recorded sales of RMB159.1 million during the Reporting Period, an increase of 20.0% when compared with the same period the previous year, accounting for 4.5% of the Group's turnover.

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

DanShenTong Capsule

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

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

NuoDiKang Capsule

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

aforementioned symptoms. During the Reporting Period, NuoDiKang capsule recorded sales of RMB82.0 million, accounting for 2.3% of the Group's turnover.

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

Hirudoid

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

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

Combizym (Oryz-Aspergillus Enzyme and Pancreatin Tablet)

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

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

Lamisil® Tablet (Terbinafine Hydrochloride)

Lamisil® tablet is a product from Novartis AG and Novartis Pharma AG ("Novartis") that the Group introduced via purchase of all assets related to the product for the China market in 2014. The product is manufactured by Beijing Novartis Pharma Ltd. The active ingredient of Lamisil® tablet is terbinafine hydrochloride, and the drug is an original product from Novartis, has been marketed in China for many years,

and is included on the NRDL. The drug is used to treat fungal infections on skin and hair caused by dermatophytes such as trichophyton, microsporum canis and epidermophyton floccosum, as well as onychomycosis due to infection with dermatophyte (Hyphomycetes). Oral terbinafine is one of the systemic antifungal agents recommended by Chinese guidelines on tinea corporis and tinea cruris, tinea pedis, tinea capitis and onychomycosis. The Group is processing the transfer of the Drug Production License for Lamisil® tablet, and the production of Lamisil® tablet will be transferred to Kangzhe Hunan after properties transfer is done.

Parlodel® Tablet (Bromocriptine Mesilate)

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

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

MOVICOL®（Macrogol Sodium Potassium Powder）

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

GanFuLe Tablet

GanFuLe tablet is manufactured by Kangzhe Lengshuijiang Pharmaceutical Co., Ltd. ("Kangzhe Lengshuijiang"), and is used for the treatment of primary liver cancer, cirrhosis and liver fibrosis. GanFuLe has been in clinical use for two decades, and is included on the NRDL. During the Reporting Period, *GanFuLe* recorded sales of RMB 63.1 million, an increase of 14.3% when compared with the same period of the previous year, accounting for 1.8% of the Group's turnover.

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

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

ShaDuoLiKa (YanHuNing Injection)

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

YiNuoShu (Ambroxol Hydrochloride for Injection)

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

XiDaKang (Protein Hydrolysate Oral Solution/Oral Protein Hydrolysate)

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

Yin Lian Qing Gan Ke Li

Yin Lian Qing Gan Ke Li, manufactured by Beijing Yadong Biological Pharmaceutical Co., Ltd., is an exclusive TCM product that has been awarded a National New Drug Certificate. It is mainly used to treat various acute and chronic forms of hepatitis, alcoholic liver, and fatty liver. It is included on the NRDL. The Group repositioned Yin Lian Qing Gan Ke Li and highlighted the differentiation, and continued to improve the efficacy of agent recruitment. However, as the market base of this product is relatively weak, during the

Reporting Period, Yin Lian Qing Gan Ke Li recorded sales of RMB3.7 million, an decrease of 9.1% when compared with the same period of the previous year influenced by the medical industry environment, accounting for 0.1% of the Group's turnover.

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

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

2.3 Other Products

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

3. Pipeline Products

3.1 Products undergoing application process for Import Drug Registration

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

Products	**Indications**	**Manufacturers**	**CFDA Pending Number**	**Report Process**
Budenofalk	Mainly used to treat Inflammatory Bowel Disease (IBD) and Crohn's Disease	Dr. Falk Pharma GmbH (Germany)	JXHL1100207 國 (Capsule)	Clinical Trial Approved
			JXHL1100106 國 (Foam Aerosol)	Clinical Trial Approved

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

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

3.2 Products with Independent Intellectual Property Rights

3.2.1 Tyroserleutide (CMS024)

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

Based on the positive results from the follow-up study and analysis of earlier clinical trials, the Group has decided to carry out a new extended phase III clinical trial for Tyroserleutide, with plans to enroll 352 subjects (with an expected three years from the first enrollment to completion of the study). During the

Reporting Period, the phase III extended clinical trial was under preparation and the production for all the clinical trial drugs was completed. The costs of the clinical trial will still be borne by Kangzhe Pharmaceutical Research and Development (Shenzhen) Limited ("Kangzhe R&D"), and the Group will pay 13% of sales revenue to Kangzhe R&D as royalty fees after the successful launch of the product. If Tyroserleutide is successfully launched to the market, it will not only have great potential in the China market, but will also have a major overall impact on human health.

3.2.2 Traumakine®

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

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

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

As there are currently no targeted drug treatments for ARDS, once the product is approved, it will become the first life-saving drug in the world for the treatment of ARDS. Morbidity of ARDS is 59/100,000 per year

in China, and the mortality rate is high (around 50% in China, and around 35-45% in Europe and the US). The product has great market potential once it is approved and launched in the market.

Network Development

1. Direct Network

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

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

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

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

2. Agency Network

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

Agency Network while improving information technology management system to make a more efficient cost management.

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

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

Production Development

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

Outlook and Future Development

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

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

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

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

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

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

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

Financial Review

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

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

Turnover

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

Gross Profit and Gross Profit Margin

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

Selling Expenses

Selling expenses increased by 29.0% from RMB631.1 million for the year ended 31 December 2014 to RMB814.1 million for the year ended 31 December 2015, primarily reflecting an increase in turnover and

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

Administrative Expenses

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

Other Gains and Losses

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

Share of Result of Associates

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

Finance Costs

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

Profit for the Year

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

Inventories

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

Trade Receivables

Trade receivables increased by 26.4% from RMB582.5 million as at 31 December 2014 to RMB736.3 million as at 31 December 2015, primarily reflecting an increase in turnover and the addition from the

acquired subsidiary Xili Pharmaceutical. Average trade receivables turnover days increased from 60 days for the year ended 31 December 2014 to 68 days for the year ended 31 December 2015.

Trade Payables

Trade payables increased by 20.7% from RMB79.2 million as at 31 December 2014 to RMB95.6 million as at 31 December 2015, mainly reflecting the addition from the acquired subsidiary Xili Pharmaceutical. Average trade payables turnover days remained 21 days as same as that for the year ended 31 December 2014.

Liquidity and Financial Resources

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

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Net cash from operating activities	614,552	843,198
Net cash used in investing activities	(852,503)	(936,211)
Net cash from (used in) financing activities	219,729	(149,937)
Net decrease in cash and cash equivalent	(18,222)	(242,950)
Cash and cash equivalent at beginning of the year	243,515	487,943
Effect of foreign exchange rate changes	4,043	(1,478)
Cash and cash equivalent at end of the year	229,336	243,515

Net cash from operating activities

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

Net cash used in investing activities

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

Net cash from (used in) financing activities

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

Net Current Assets

	As at 31 December	
	2015	2014

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

Capital Expenditures

The following table shows our capital expenditure:

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

Debts

The following table shows the Group's debts:

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

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

Market Risks

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

Dividend

For the year ended 31 December 2015, the Group paid an interim dividend for 2015 and a final dividend for 2014 of RMB197.5 million and RMB172.1 million, respectively. For the year ended 31 December 2014, the Group paid an interim dividend for 2014 and a final dividend for 2012 of RMB164.0 million and RMB127.1 million, respectively.

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

Issue of new shares

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

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

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 2015 to 31 December 2015, except for a deviation from the Code provision A.2.1 in respect of the roles of Chairman and CEO which shall not be performed by the same individual.

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

Audit Committee

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

The primary duties of the Audit Committee are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Company, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors. The Audit Committee also oversees the company's appointment of external auditors. The annual result announcement and annual report for the year ended 31 December 2015 have been reviewed by the Audit Committee, and with recommendation to the Board for approval. The Audit Committee meets at least twice a year with the external auditors in absence of the executive Directors. The terms of reference of the Audit Committee are posted on the Stock Exchange 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 2015, the Audit Committee has held two meetings. At the meetings, the Audit Committee reviewed the annual results for 2014 and the interim results for 2015 respectively with the external auditors, the activities of the Group's internal control functions and also reviewed and approved the arrangement of the annual audit work and then proposed the recommendations to the Board. Below is the attendance rate of the committee members:

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

Cash Dividend

The Company has paid an interim dividend of RMB0.0794 (equivalent to HK$0.0963) per ordinary share of the Company (the "Share") for the six months ended 30 June 2015. The Board of Directors is pleased to recommend a final dividend of RMB0.0809 (equivalent to HK$0.097) per Share for the year ended 31 December 2015 to shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 3 May 2016 (the "Record Date"). The register of members of the Company will be closed from Thursday, 28 April 2016 to Tuesday, 3 May 2016 (both days inclusive). The final dividend will be paid to shareholders in Hong Kong dollars on Monday, 9 May 2016 after the shareholders' approval at the Annual General Meeting ("AGM") of the Company dated on Friday, 22 April 2016.

Closure of Register of Members

The Register of Members will be closed from Thursday, 28 April 2016 to Tuesday, 3 May 2016 (both days inclusive), during which period no transfer of Shares will be effected. The last day for dealing in the Shares on a cum-entitlement basis will be Monday, 25 April 2016.

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 Wednesday, 27 April 2016.

Directors' Securities Transactions

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (amended from time to time) as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for Directors' securities transactions. Having made specific inquiries of all Directors in relation to the compliance with the Model Code for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code for the year ended 31 December 2015. The Model Code also applies to other specified senior management of the Company.

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

Disclosure of Information

The information provided in this announcement is only the summary of 2015 Annual Report of the Company. The 2015 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

21 March 2016, Hong Kong

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