China Traditional Chinese Medicine Co. Limited

(Incorporated in Hong Kong with Limited Liability)
(Stock code: 00570)

ANNUAL REPORT **2015**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. WU Xian *(Chairman)*
Mr. YANG Bin *(Managing Director)*
Mr. WANG Xiaochun

Non-executive Directors

Mr. LIU Cunzhou
Mr. ZHANG Jianhui
Mr. DONG Zenghe
Mr. ZHAO Dongji

Independent Non-executive Directors

Mr. ZHOU Bajun
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LO Wing Yat

COMPANY SECRETARY

Mr. HUEN Po Wah

AUDIT COMMITTEE

Mr. XIE Rong *(Chairman)*
Mr. ZHOU Bajun
Mr. LO Wing Yat

REMUNERATION COMMITTEE

Mr. ZHOU Bajun *(Chairman)*
Mr. LIU Cunzhou
Mr. XIE Rong
Mr. LO Wing Yat

NOMINATION COMMITTEE

Mr. WU Xian *(Chairman)*
Mr. YANG Bin
Mr. ZHOU Bajun
Mr. XIE Rong
Mr. LO Wing Yat

STRATEGIC COMMITTEE

Mr. LIU Cunzhou *(Chairman)*
Mr. WU Xian
Mr. YANG Bin
Mr. WANG Xiaochun
Mr. ZHOU Bajun
Mr. YU Tze Shan Hailson

REGISTERED OFFICE

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STOCK CODE

The shares of China Traditional Chinese Medicine Co. Limited are listed on The Stock Exchange of Hong Kong Limited

Stock code: 00570

AUDITORS

KPMG
Certified Public Accountants
8th Floor
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10 Chater Road
Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-16
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Industrial and Commercial Bank of China Limited
(Foshan Branch)
China Merchants Bank Co., Ltd. (Foshan Branch)
Foshan Shunde Rural Commercial Bank Co., Ltd.

WEBSITE

http://www.china-tcm.com.cn

FIVE YEAR FINANCIAL SUMMARY

(Expressed in RMB)

	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014* RMB'000	**2015* RMB'000**	2011-2015 Compound Annual Growth Rate
Results						
Revenue	841,075	1,031,766	1,394,613	2,650,454	**3,709,406**	44.92%
Gross profit	454,016	564,013	825,779	1,643,389	**2,193,953**	48.27%
Profit from operations	84,563	235,795	272,757	551,696	**755,748**	72.90%
Profit before taxation	78,198	216,406	237,575	489,119	**769,370**	77.11%
Profit attributable to the shareholders of the Company	59,667	168,526	198,463	413,090	**621,692**	79.66%
Profitability						
Gross profit margin	53.98%	54.66%	59.21%	62.00%	**59.15%**	
Operating profit margin	10.05%	22.85%	19.56%	20.82%	**20.37%**	
Net profit margin	7.26%	16.77%	14.29%	15.53%	**17.24%**	
Earnings per share						
Basic & Diluted	3.34 cents	9.45 cents	9.68 cents	16.30 cents	**16.86 cents**	49.89%
Financial position						
Total assets	1,315,566	1,554,220	5,066,470	5,331,852	**18,229,210**	
Total equity attributable to equity shareholders of the Company	768,945	828,454	2,759,853	3,183,756	**11,129,468**	
Total liabilities	533,795	708,449	2,231,707	2,074,730	**6,391,449**	
Cash and cash equivalents	34,336	46,258	345,411	439,416	**2,101,856**	
Debt asset ratio	40.58%	45.58%	44.05%	38.91%	**35.06%**	

* The information of revenue, gross profit, profit from operations and profit before taxation in 2014 excludes the information of Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries ("Guizhou Zhongtai"); the Group completed the disposal of 31% of its equity holding in Guizhou Zhongtai in November 2015. After completion of the transaction, the Group still holds 20% equity interest in Guizhou Zhongtai, it becomes an associate of the Company. The information of revenue, gross profit, profit from operations and profit before taxation in 2015 excludes the information of Guizhou Zhongtai from January to October 2015.

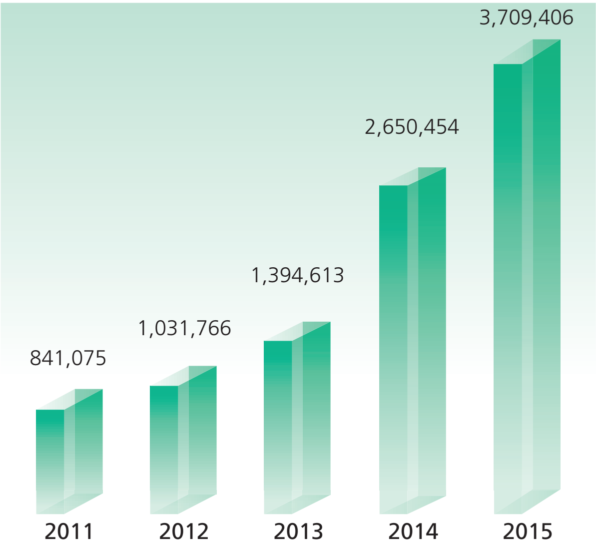
(Expressed in RMB)

REVENUE

RMB'000

Annual Growth of 2014-2015

39.95%

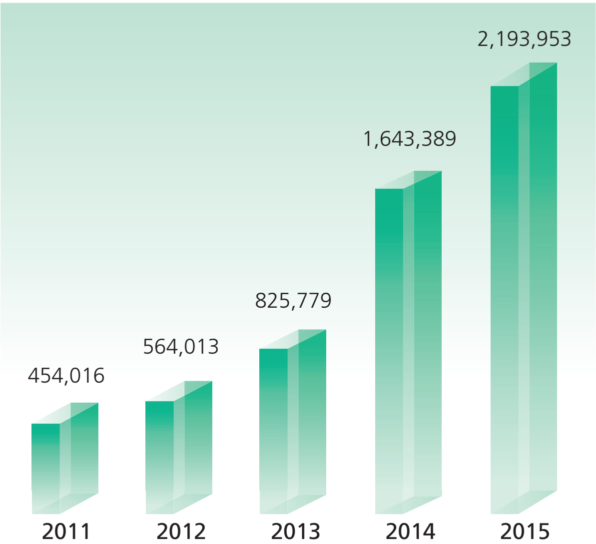


GROSS PROFIT

RMB'000

Annual Growth of 2014-2015

33.50%

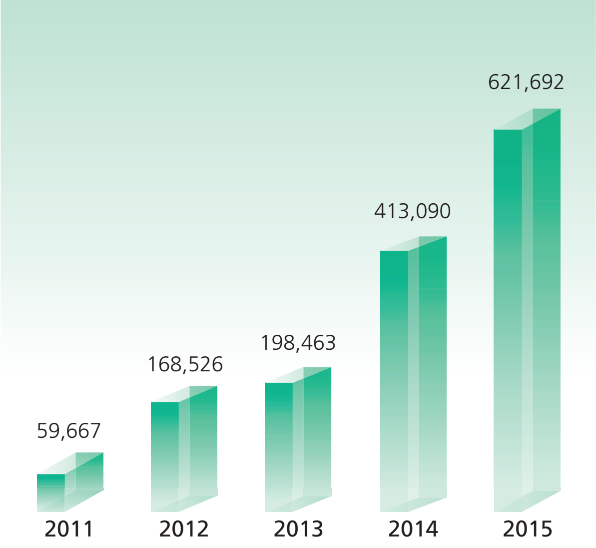


PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

RMB'000

Annual Growth of 2014-2015

50.50%

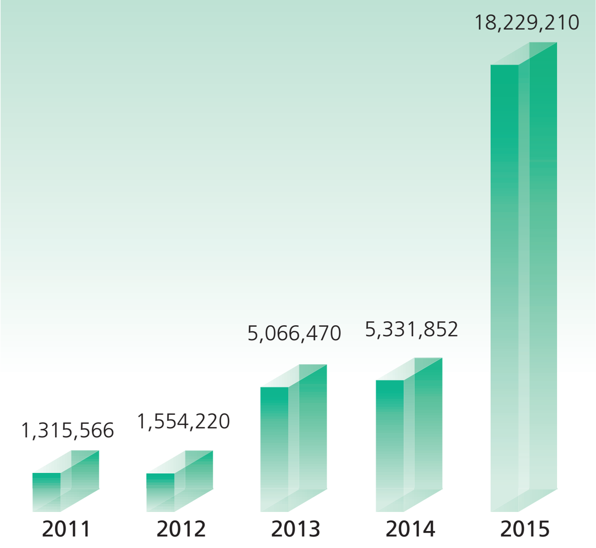


TOTAL ASSETS

RMB'000

Annual Growth of 2014-2015

241.89%



Chairman's Statement

CHAIRMAN'S STATEMENT

Dear Shareholders,

I would like to express my gratitude to our shareholders and other stakeholders for their continued attention and substantial support to us. On behalf of the board (the "Board") of directors (the "Directors") of China Traditional Chinese Medicine Co. Limited (the "Company"), I am pleased to present the audited Annual Report of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015.

In 2015, the Group completed another major project after the acquisition of Tongjitang Chinese Medicines Company and its subsidiaries ("Tongjitang") in 2013 – the acquisition of 87.3% equity interest of Jiangyin Tianjiang Pharmaceutical Co., Ltd. and its subsidiaries ("Tianjiang Pharmaceutical") at approximately RMB8.76 billion. This is the largest acquisition project in the healthcare industry of China to date, fully illustrating the strength of the Company as the platform for China National Pharmaceutical Group Corporation ("CNPGC") to engage in the Chinese medicine industry.

According to the requirements of Hong Kong Accounting Standards, after completing the acquisition of Tianjiang Pharmaceutical, the Group consolidated the financial statements of Tianjiang Pharmaceutical since October 2015. The audited revenue from continuing operations of the Group for the year 2015 was approximately RMB3,709,406,000, representing an increase of 40.0% compared to approximately RMB2,650,454,000 in last year. The audited profit attributable to shareholders was approximately RMB621,692,000, representing an increase of 50.5% compared to approximately RMB413,090,000 in last year. Although the Company issued and allotted approximately 1.95 billion new shares to raise funds for acquiring Tianjiang Pharmaceutical in the year, the audited basic earnings per share increased slightly from RMB16.30 cents in last year to RMB16.86 cents in 2015, representing an increase of 3.4%.

COMPLETING ACQUISITION OF TIANJIANG PHARMACEUTICAL DEVELOPING CONCENTRATED TCM GRANULES MARKET

In 2015, the Group completed the acquisition of 87.3% equity interest of Tianjiang Pharmaceutical and entered into the market of concentrated traditional Chinese medicine ("TCM") granules. Concentrated TCM granules will be an important development in TCM in the future. According to the information of an independent third party research institution, the sales revenue is expected to reach approximately RMB18.8 billion in 2018. As the regulations and ancillary policies for liberalising the sector will be gradually implemented, concentrated TCM granules will certainly enter into the golden age of its development as a market with immense growth potential.

Tianjiang Pharmaceutical is the forerunner in China among all TCM manufacturers specialising in the research and development ("R&D") and production of concentrated TCM granules as well as the leader in the sector. Based on its market share in terms of revenue, it is the largest manufacturer of concentrated TCM granules in China. The acquisition will allow the Company to get immediate access to the market of concentrated TCM granules with a strong position in the sector. At the same time, concentrated TCM granules are an important supplement to the existing TCM finished drugs manufactured by the Company. It will also be a strong boost towards the Company's goal of establishing itself as the leader in the TCM industry.

The acquisition was completed successfully in October 2015. Integration is currently being carried out in an orderly manner. Tianjiang Pharmaceutical has a clear development strategy, solid business growth and stable management team. It achieved good results in 2015, which met the expectation of the Company.

ENTERING INTO TCM SERVICES SECTOR EXPLORING THE INDUSTRIAL CHAIN ON MULTIPLE LEVELS

The Company strives to expand its business scope and explore the Chinese medicine industrial chain at multiple levels. In November 2015, the first TCM healthcare complex of the Company opened for business in Foshan, Guangdong. TCM healthcare complex will have face-to-face diagnosis as the core service, supplemented by Chinese medicine physiotherapy, display and sale of Chinese medicine/healthcare products. It is an effective channel for promoting the brands and products of the Group. The Company will continue to grow its TCM healthcare complex business through self-expansion and acquisition, gradually forming a network in major cities throughout China. 2 to 3 more shops are expected to begin operation in 2016.

In January 2016, the Group announced the joint venture of a rehabilitation hospital and a geriatric hospital with Foshan TCM Hospital and a subsidiary of Foshan Municipal State-Owned Assets Supervision and Administration Commission. Foshan TCM Hospital is a well-known TCM hospital in China, who is renowned for treating orthopedic diseases, and post-surgery rehabilitation for orthopedic patients is a market yet to be developed in China. The cooperation with Foshan TCM Hospital helps the Group to promptly understand the needs of the patients and reduce risks.

In response to the increasing demand for elderly care services, Foshan Municipal Government planned to set up an elderly care industrial park of approximately 148 acres in Foshan City in 2015. A subsidiary of the Group, Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. ("Feng Liao Xing"), is located at the centre of the park. According to the government's policy of encouraging the development of Chinese medicine elderly care services, the Group believes the joint establishment of geriatric hospital will become a core component of the Foshan elderly care industrial park. As the facilities of the park come into use, the demand for the medical services of the hospital will continue to increase.

The Group will begin to restructure its production operations in Foshan in 2016. Feng Liao Xing will be relocated to Shunde, in order to coordinate with the progress of the above mentioned joint venture hospital project.

SEIZING OPPORTUNITIES TO BECOME LEADER IN THE TCM INDUSTRY

The principal business of the Group starts with R&D, manufacturing and sales of TCM finished drugs. It owns various long-lasting and well-known brands such as "Dezhong", "Fengliaoxing" and "Tongjitang", and possesses production approvals for more than 500 drugs, including over 60 exclusive products and specifications. 7 of its exclusive products, namely Xianling Gubao Capsule/Tablet (仙靈骨葆膠囊／片), Yu Ping Feng Granules (玉屏風顆粒), Jingshu Granules (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Bi Yan Kang Tablet (鼻炎康片), Fengshi Gutong Capsule (風濕骨痛膠囊) and Zaoren Anshen Capsule (棗仁安神膠囊), are on the National Essential Drug List ("EDL"). The acquisition of Tianjiang Pharmaceutical allows the Group to enter into concentrated TCM granules sector and to integrate it with TCM decoction pieces business, so as to enlarge its business scale, enrich its product mix and become a pharmaceutical company which can provide both traditional and modern TCM products.

On this basis, the Group extends its business to downstream TCM healthcare services sector by establishing TCM healthcare complex and setting up joint venture specialist hospital to satisfy different needs of various stakeholders in the market. The Group is of the view that TCM healthcare products and services have a unique edge in specific medical areas. In particular, incorporating Chinese medicine with elderly care inherits traditional Chinese culture and is also in consistency with the government's industrial guidance. Upon gaining further experience, the Group will gradually increase its investment in the healthcare services sector and set up healthcare services network with the characteristics of Chinese medicine, in order to improve the health and quality of life of Chinese people.

As the flagship of CNPGC in Chinese medicine industry, the development strategy of the Company is, based on its solid existing businesses, to enter into different sectors of Chinese medicine industry in accordance with market conditions and the Company's own characteristics, with the target to cover the entire industrial value chain by upstream and downstream consolidation. To achieve the target, the Company will lay equal stress on organic growth and merger and acquisition by further exploring the potential of the current businesses, while seeking for new opportunities of co-operation and identifying targets for acquisition in the market. The Company will fully leverage on CNPGC's firm background and powerful brand to consolidate industrial resources.

2015 was a challenging year to pharmaceutical industry. Compared to previous years, there was an apparent slow-down in the growth of the industry. With the start of 2016, pharmaceutical companies, including the Group, still face many uncertainties. Tendering in many regions was delayed. The pressure to reduce drug price remained high. Cost control on medical insurance reimbursement became more stringent and regulation policies changed rapidly. In the medium to long run, however, with the continuous economic development and an ageing population in China, the demand for healthcare products and services is bound to increase, and Chinese medicine will play an essential role. The government has always been supporting the development of Chinese medicine industry. At the end of 2015, the first Chinese Medicine Law (draft) （《中醫藥法（草案）》） was passed in the executive meeting of the State Council. Initiatives to promote Chinese medicine were also proposed in early 2016. The Company will seize opportunities to explore the market and strengthen its management. The Company will strive to maintain continuous growth in its revenue and profitability, turning into the leader in Chinese medicine industry and creating more values for all shareholders.

Wu Xian
Chairman

21 March 2016

Management Discussion and Analysis

GROUP OVERVIEW

The Group is a leading TCM manufacturer in China. Its products include TCM decoction pieces, concentrated TCM granules, TCM finished drugs and healthcare products. The Group has over 700 concentrated TCM granules products and over 500 finished drugs, including over 200 finished drugs being listed on National Drugs List for Basic Medical Insurance. The Group has over 100 finished drugs being listed on the EDL, 7 of which are exclusive products, namely Xianling Gubao Capsule/Tablet (仙靈骨葆膠囊／片), Yu Ping Feng Granules (玉屏風顆粒), Bi Yan Kang Tablet (鼻炎康片), Jingshu Granules (頸舒顆粒), Moisturising & Anti-Itching Capsule (潤燥止癢膠囊), Fengshi Gutong Capsule (風濕骨痛膠囊) and Zaoren Anshen Capsule (棗仁安神膠囊). The Group has accumulated extensive technical experience in extraction of Chinese medicinal herbs, preparation of traditional and modern Chinese medicine and sustained or controlled release preparation.

The Group has manufacturing facilities in Foshan of Guangdong Province, Guiyang of Guizhou Province, Jiangyin of Jiangsu Province, Xuancheng and Bozhou of Anhui Province, Jining and Linyi of Shandong Province, Longxi of Gansu Province, Mianyang of Sichuan Province and Xining of Qinghai Province. All production lines are certified with GMP as required by law. 68,000 tonnes of Chinese medicinal herbs can be preprocessed and extracted annually. The annual production capacity is 10.2 billion packs of granules, 5.65 billion tablets and 3.65 billion capsules.

Besides, the Group opened its first TCM healthcare complex in Foshan, Guangdong and will start rehabilitation hospital and geriatric hospital in the form of joint venture in the same region.

During the year under review, sales of TCM finished drugs accounted for appropriately 66.6% of the Group's revenue, sales of concentrated TCM granules made up approximately 26.4% of the revenue and sales of chemical medicine accounted for approximately 7.0% of the revenue.

INDUSTRY OVERVIEW

The Opportunity of Development for Chinese Medicine Industry

Chinese medicine is an essential part of Chinese culture. It plays an indispensible role in the thriving of Chinese people over several thousand years. Chinese medicine has unique efficacy in rebalancing human body functions, prevention against illness and treatment of chronic diseases. As the aging population in China has created growing demand for elderly care, healthcare and medical care, it is time to continue the development of Chinese medicine.

The Chinese government has always supported and nurtured the development and growth of TCM industry. On 8 May 2015, the General Office of State Council published "Development Plan of TCM Healthcare Services (2015-2020)" (《中醫藥健康服務發展規劃(2015-2020年)》), indicating seven key jobs: 1) to develop TCM services for preserving longevity by supporting TCM healthcare institutions; 2) to encourage investment on TCM healthcare services by all sources of funding; 3) to promote TCM rehabilitation services; 4) to support the development of TCM nursing home for the elderly where medical treatment and care services are combined; 5) to nurture TCM culture and healthcare-related tourism; 6) to back up the R&D, manufacturing and utilization of TCM-related healthcare products; and 7) to promote TCM healthcare services trading in order to attract more TCM-related consumption in China and to facilitate the overseas markets of TCM healthcare service.

On 9 December 2015, Premier Li Keqiang chaired and convened an executive meeting of the State Council and approved Chinese Medicine Law (Draft) (《中醫藥法（草案）》). The draft proposed the policy of putting equal weight on TCM and western medicine and encouraging the combination of TCM and western medicine. It also requested government at different levels to provide corresponding protection policies by including eligible Chinese medical healthcare institutions in the designated institutions of urban medical insurance, employee medical insurance and New Rural Cooperative Medical Care System, and including eligible Chinese medical treatment, TCM decoction pieces, TCM finished drugs and TCM preparations by healthcare institutions in the medical insurance reimbursement.

On 14 February 2016, an executive meeting of the State Council was convened and measures of promoting Chinese medicine were launched again, including promoting the protection, inheritance and excavation of TCM and ethnic medicine, training TCM talents, improving the function of TCM for emergency treatment, prevention and treatment; facilitating the combination of TCM and western medicine, strengthening the prevention and treatment against complicated diseases and chronic diseases by TCM and new product development of TCM, improving the standard system of TCM; relaxing the entry barrier of TCM services, improving TCM services network covering urban and rural areas, ensuring equal rights for private and public Chinese medical healthcare institutions in practice; developing TCM healthcare services, integrating TCM with elderly care and tourism; increasing investment and policy support in TCM and adding more TCM products to the EDL.

The Group is the TCM business platform of CNPGC. It focuses on Chinese medicine, with over 93% of its revenue generated from TCM products. After the acquisition of Tianjiang Pharmaceutical, the Group became one of the largest TCM manufacturers in China. In addition, the Group will enter into TCM healthcare services sector by establishing TCM healthcare complex and forming joint ventures of rehabilitation hospital and geriatric hospital. The support and nurturing to the industry from the government will create extra room for the Group's continuous efforts in TCM industry. The Group will benefit from the development of TCM healthcare product and services market, taking the role of consolidator and leader in the industry.

Rapid growth of the concentrated TCM granules market

Concentrated TCM granules is an important branch of TCM products and takes a significant role in the future development of TCM. Concentrated TCM granules carry forward the TCM theory of "treatment based on syndrome differentiation and modification based on symptoms", and ensure the quality of TCM drugs, aligning with the trend of Chinese medicine modernisation. Concentrated TCM granules were introduced in 1970s and currently have leading position in the Chinese medicine market in Japan, Korea, and Taiwan. In China, concentrated TCM granules are currently classified as products on trial with 6 production licenses held by 5 companies, of which Tianjiang Pharmaceutical is the forerunner in the sector, having worked on concentrated TCM granules for over 30 years. Since it is classified as a product on trial, the prescription of concentrated TCM granules is restricted to TCM hospitals which have made filing to local healthcare authorities. Compared to TCM decoction pieces or TCM finished drugs, the market size of concentrated TCM granules is rather insignificant.

In recent years, concentrated TCM granules have been more accepted by doctors and patients. The regulators are considering to approve concentrated TCM granules as formal drugs and to liberalise the sector, allowing more eligible companies to manufacture and sell concentrated TCM granules. Furthermore, regulatory authorities also plan to allow the prescription of the products in all TCM hospitals and TCM clinics, and to include concentrated TCM granules in the National Drugs List for Basic Medical Insurance. On 24 December 2015, China Food and Drug Administration ("CFDA") issued the "Regulations on the Administration of Concentrated TCM Granules (Draft for Comments)" (《中藥配方顆粒管理辦法（徵求意見稿）》), inviting the industry's opinion on important aspects such as entry requirements for manufacturer, traceability of the source of medicinal herbs, quality standard of products, filing of production and technical procedures and the monitoring of product manufacturing and utilisation.

With reference to the history of the development of concentrated TCM granules in overseas markets, the Group believes that the concentrated TCM granules market in China will experience a rapid growth in the coming 5 to 10 years, upon the liberalisation of the sector and the implementation of the various ancillary policies. Concentrated TCM granules is going to enter into its golden age of development. The Group completed the acquisition of Tianjiang Pharmaceutical at the right time, taking the largest share in the concentrated TCM granules market in China and a decisive position in the sector. Despite the entry of new competitors, the Group will continue to take advantage of the leading position of Tianjiang Pharmaceutical in the sector, integrate industrial resources and make appropriate plans to prepare for the coming opportunities in the development of concentrated TCM granules.

Reform of Pricing System of Drugs

On 7 May 2015, 7 government departments including National Development and Reform Commission ("NDRC") jointly issued the "Notice Regarding Reforms to the Pricing of Drugs" (《關於印發推進藥品價格改革意見的通知》), pursuant to which government pricing for most drugs will be lifted and drug procurement mechanism will be improved. Medical insurance will play a more important role in controlling reimbursement expenses and drug price shall come about mainly through market competition. In connection therewith, the medical insurance department will establish the procedures, basis and methods, together with other relevant departments, in respect of the payment standard of those drugs covered by the medical healthcare insurance fund, so as to explore a reasonable mechanism for determining drug price. For patent drugs and exclusive drugs, price should be determined through the mechanism of open and transparent negotiation among multiple parties.

To suppress unreasonable price increase in drugs, in the "Notice Regarding Strengthening Focused Monitoring of Drug Price and Related Issues (Draft for Comments)" (《關於加強藥品價格重點監測及有關問題的通知（徵求意見稿）》) issued in July 2015, NDRC intended to monitor the price of 270 drugs which are substantially covered by medical insurance, including 141 patent and exclusive drugs, 60 drugs with large sales volume and high frequency of clinical use, and 69 drugs which draw attention of the public. Four of the main products of the Group, including Xianling Gubao Capsule,Yu Ping Feng Granules, Jingshu Granules and Moisturising & Anti-Itching Capsule, were on the monitoring list.

The reform of pricing system of drugs led to new opportunities and challenges for the Group. The Group has numerous drugs with long-lasting history, well-known brand and high popularity. However, due to increasing costs and the control of selling price, the Group is forced to supply such products in small volume or even suspend production. After the liberalisation of drug price, the Group will have the flexibility of pricing according to costs and market conditions to expand or resume the production of such drugs. Certain products, especially some OTC drugs, will benefit immensely. On the other hand, hospital prescription is the major sales channel for most of the main products of the Group and the process of bidding, price negotiation and payment by medical insurance fund is inevitable. As the government strengthens the control of medical insurance payment and drug expenses, such products will face more pressure on price reduction. However, the revenue of TCM finished drugs of the Group is mainly generated from 7 exclusive EDL products, which are widely accepted by doctors and patients and provide the sales team with certain bargaining power. Moreover, the Group has always been making efforts on maintaining the pricing system of its main products throughout the national market. The Group is confident in keeping relatively stable price of its major products in various provinces in China and the growth in sales volume of such products.

Approval and management of new drugs

On 22 July 2015, CFDA issued the "Notice Regarding Self-Review of Clinical Trial Data of Drugs" (《關於開展藥物臨床試驗資料自查核查的公告》), launching the review of clinical trial data of drugs pending approval for registration. As at January 2016, among the 1,622 applications included in the self-review, 1,184 were withdrawn or rejected. This is the most stringent review on clinical data by the regulator so far, which will have profound influence on the quality of clinical trials and in consequence, improve the quality and efficacy of new drugs. Meanwhile, the withdrawal or rejection of a large number of applications will have adverse impact on the launch of new drugs in the coming years.

Currently, the Group has over 10 new products at different stages of R&D, and will continue its dedication in R&D of new drugs to ensure all research data and clinical data are well-supported. However, as regulator becomes more cautious and stringent in approval of new drugs, new drug launch of the Group will be delayed. As the Group possesses production approval of over 500 drugs, this is sufficient to support the short to mid-term growth of its finished drug business.

BUSINESS REVIEW

Sales of Products

During the year under review, the Group's revenue from continuing operations increased by 40.0% from approximately RMB2,650,454,000 in last year to approximately RMB3,709,406,000. Upon the completion of acquiring 87.3% equity interest of Tianjiang Pharmaceutical, the Group began to consolidate its financial statements in October 2015. In addition, as the Group completed the disposal of the majority part of its equity holding in Guizhou Zhongtai, its revenue was not included in the continuing operations in the consolidated financial statements in the year under review, which is different from the presentation of last year. The financial results of Guizhou Zhongtai was shown in the discontinued operation in the consolidated financial statements in the year under review.

Continuing Operations

Analysis by TCM finished drugs, concentrated TCM granules and chemical medicine:

	For the year ended 31 December				
	2015 RMB'000	**Percentage to revenue**	2014 RMB'000	Percentage to revenue	Change
TCM finished drugs	**2,472,358**	**66.6%**	2,380,766	89.8%	3.8%
Concentrated TCM granules	**978,892**	**26.4%**	–	–	N/A
Chemical medicine	**258,156**	**7.0%**	269,688	10.2%	-4.3%
Total	**3,709,406**	**100.0%**	2,650,454	100.0%	40.0%

Finished Drug Business

Sales Analysis of Top Ten Products:

	For the year ended 31 December				
	2015 RMB'000	**Percentage to revenue**	2014 RMB'000	Percentage to revenue	Change
Xianling Gubao（仙靈骨葆）	**862,188**	**31.6%**	850,358	32.1%	1.4%
Yu Ping Feng Granules（玉屏風顆粒）	**271,139**	**9.9%**	250,049	9.4%	8.4%
Jingshu Granules（頸舒顆粒）	**224,912**	**8.2%**	200,534	7.6%	12.2%
Moisturising & Anti-Itching Capsule（潤燥止癢膠囊）	**202,503**	**7.4%**	158,455	6.0%	27.8%
Bi Yan Kang Tablet（鼻炎康片）	**168,706**	**6.2%**	255,841	9.7%	-34.1%
Sheng Tong Ping（聖通平）	**99,514**	**3.6%**	87,303	3.3%	14.0%
Fengshi Gutong Capsule（風濕骨痛膠囊）	**73,671**	**2.7%**	52,790	2.0%	39.6%
Zaoren Anshen Capsule（棗仁安神膠囊）	**71,183**	**2.6%**	57,909	2.2%	22.9%
Feng Liao Xing Medicinal Wine（馮了性藥酒）	**65,942**	**2.4%**	81,585	3.1%	-19.2%
Gao De（高德）	**59,325**	**2.2%**	87,113	3.3%	-31.9%
Other products	**631,431**	**23.2%**	568,517	21.3%	11.1%
Total	**2,730,514**	**100.0%**	2,650,454	100.0%	3.0%

Note: The revenue of other products for the year ended 31 December 2014 does not include the sales revenue of Guizhou Zhongtai for the same period.

Concentrated TCM Granules Business

Tianjiang Pharmaceutical, a subsidiary of the Group, produces more than 700 concentrated TCM granules products. It is the largest manufacturer of concentrated TCM granules in China. After the completion of acquiring 87.3% equity interest in Tianjiang Pharmaceutical, the Group started to consolidate its financial statements in October 2015. Tianjiang Pharmaceutical contributed sales approximately RMB978,892,000 for the year ended 31 December 2015.

Research and Development

In 2015, the Group obtained production approvals for Fexofenadine/Pseudophedrine Sustained-Release Capsule, a class 3.2 new chemical medicine, and Gong Yan Ping Capsule, a TCM finished drug. The Group also passed the on-site inspection by CFDA on Wuwei Huoxiang Tablet, a TCM new drug targeting mild depression. Pursuant to the guidelines of CFDA in the "Notice Regarding Self-Review of Clinical Trial Data of Drugs" (《關於開展藥物臨床試驗資料自查核查工作的公告》), the Group withdrew the registration application of Wuwei Huoxiang Tablet and intended to provide supplementary and updated data for the application. Currently, the Group has over 10 new products at different R&D stages, with the focus on drugs targeting diseases of the ageing population, such as neural degradation and cerebro-cardiovascular diseases.

During the year under review, the Group continued to push forward the project of "Yu Ping Feng Granules Re-evaluation" and substantially completed the pharmacological research on strengthening immunological effect in collaboration with Shanghai Institute of Pharmaceutical Industry ("SIPI"). Multi-centre clinical trials on using Yu Ping Feng Granules for the treatment against COPD, child repeated infection of upper respiratory tract and child asthma with high IgE and eosinophils increase and the study on molecular biology mechanism have achieved initial results. The Group also began further pharmacology and pharmacodynamics study on Jingshu Granules against cervical diseases and planned to initiate new clinical trials. In the future, the Group intend to conduct clinical trials and researches on multiple core TCM finished drugs in order to verify their medical theoretical foundation, ascertain applicable symptoms, strengthen academic promotion and facilitate product sales.

Progress of Investment Projects

Acquisition of Tianjiang Pharmaceutical

During the year under review, the Group entered into a series of agreement with various vendors to conditionally acquire 87.3% equity interest of Tianjiang Pharmaceutical at the consideration of RMB8,736,223,527. In May 2015, the Company completed the placing of 1,752,098,682 new shares to raise approximately HKD8,200,000,000 (equivalent to approximately RMB6,566,686,000). In November 2015, the Company placed 197,749,762 new shares to two of the vendors, who are key management members of Tianjiang Pharmaceutical, to raise approximately HKD832,922,000 (equivalent to approximately RMB666,337,000). The balance of the consideration was paid by bank loans of approximately RMB1,000,000,000 and the Group's internal resources of RMB567,215,000. The transaction was completed in October 2015, and the consideration after fair value adjustment is approximately RMB8,758,337,000.

For details of the transaction, please refer to the circular of the Company dated 24 June 2015 and the announcements of the Company dated 13 July 2015, 29 September 2015, 14 October 2015 and 5 November 2015.

Disposal of Guizhou Zhongtai

In January 2015, the Group and China Biotechnology Co., Ltd. (中國生物技術股份有限公司) ("China Biotechnology Co") entered into an agreement to sell 31% equity interest in Guizhou Zhongtai to China Biotechnology Co for a consideration of RMB139,500,000. The Group considered that the main business of Guizhou Zhongtai was R&D, production and sale of plasma-based biopharmaceutical products, which was not the core business of the Group. The disposal of Guizhou Zhongtai allows the Group to allocate more resources to focus on the development of TCM business. As the controlling shareholder of China Biotechnology Co is CNPGC, this transaction constitutes a connected transaction.

The disposal transaction was completed in November 2015. As agreed by both parties, the consideration was adjusted to RMB139,148,000. After completion of the transaction, the Group still holds 20% equity interest in Guizhou Zhongtai and such 20% equity interest will be sold to China Biotechnology Co at an appropriate price under certain conditions.

For the first ten months of the year under review, loss of Guizhou Zhongtai was approximately RMB11,444,000.

For details of the transaction, please refer to the announcement of the Company dated 27 January 2015.

Construction of Headquarters Building

The Group is working with an independent third party to build its headquarter, R&D centre and ancillary facilities in Chan Cheng District, Foshan City. The allocation of the space of the building will be based on the amount of investment from the Group divided by cost per unit area. The construction work of this project has been commenced in the year under review. It is expected that the project will be completed in 2017 and put in use in 2018.

Manufacturing Facilities at Guiyang Economic & Technology Development Zone

During the year under review, the Group continued with the construction of the manufacturing base located at Guiyang Economic & Technology Development Zone, Guizhou Province (new factory of Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd.). The project is expected to be completed in 2016 and trial operation will be gradually started in 2017. The facilities will be in full compliance with new GMP requirements and will significantly enhance the production capacity to meet the need of business expansion of the Group.

Joint Venture Hospitals

In January 2016, the Group announced that it formed joint ventures with Foshan TCM Hospital and a subsidiary of Foshan Municipal State-Owned Assets Supervision and Administration Commission. The joint ventures are controlled by the Group and will invest a total of RMB1,600,000,000 in establishing a rehabilitation hospital and a geriatric hospital equipped with 500 beds and 1,500 beds, respectively. Business registration of the joint ventures has been completed. The construction of the hospital project is expected to commence in mid-2016.

For details of the project, please refer to the announcement of the Company dated 13 January 2016.

FINANCIAL REVIEW

After the acquisition of 87.3% equity interest in Tianjiang Pharmaceutical, the Group began to consolidate financial statements of Tianjiang Pharmaceutical in October 2015.

Continuing Operations

Revenue

During the year under review, the Group's revenue amounted to approximately RMB3,709,406,000, representing an increase of 40.0% from approximately RMB2,650,454,000 of last year. The growth of revenue was mainly attributable to the newly acquired concentrated TCM granules business after the acquisition of Tianjiang Pharmaceutical. Of which, the revenue of finished drug business was approximately RMB2,730,514,000, representing an increase of 3.0% compared to approximately RMB2,650,454,000 of last year. The revenue contributed by the concentrated TCM granules business was approximately RMB978,892,000.

Cost of sales and gross profit margin

During the year under review, the Group's cost of sales was approximately RMB1,515,453,000, representing an increase of 50.5% as compared to approximately RMB1,007,065,000 for last year. Gross profit for the year was approximately RMB2,193,953,000, representing an increase of RMB550,564,000 as compared with RMB1,643,389,000 of last year. Gross profit margin dropped to 59.1% from 62.0% of last year. The decrease in gross profit margin was mainly attributable to the lower gross profit margin of concentrated TCM granules business than that of finished drug business.

Regarding the finished drug business, the cost of sales for the year was approximately RMB1,079,016,000, representing an increase of 7.1% as compared with RMB1,007,065,000 of last year. Gross profit amounted to approximately RMB1,651,498,000, representing an increase of RMB8,109,000 from RMB1,643,389,000 of last year. The gross profit margin was 60.5%, representing a fall of 1.5% as compared to 62.0% of last year. The decrease in gross profit margin is attributable to the enhancement of procurement standards of TCM medicinal herbs for further improvement of product quality.

Regarding the concentrated TCM granules business, the cost of sales for the year was approximately RMB436,437,000, including the amount of approximately RMB32,590,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical, which was allocated to the cost of sales in the consolidated financial statements. Gross profit amounted to approximately RMB542,455,000 and the gross profit margin was 55.4%.

Other revenue

During the year under review, the Group's other revenue was RMB129,919,000, representing an increase of 253.4% compared to approximately RMB36,759,000 for last year.

Finished drug business:

	2015 **RMB'000**	2014 RMB'000	Change
Interest income	**92,640**	1,380	6,613.0%
Government grants	**31,012**	34,368	-9.8%
Rental income	**866**	1,011	-14.3%
Total	**124,518**	36,759	238.7%

Interest income increased as the fund raised from new share placement in the year under review was deposited in banks, which generated income of approximately RMB84,210,000.

Concentrated TCM granules business:

	2015 **RMB'000**	2014 RMB'000	Change
Interest income	**3,658**	–	N/A
Government grants	**1,743**	–	N/A
Total	**5,401**	–	N/A

Other net income/(expenses)

During the year under review, the Group's other net income was approximately RMB12,426,000 (2014: other net expenses of approximately RMB3,474,000). For finished drug business, approximately RMB3,474,000 of other net expenses was changed to approximately RMB13,369,000 of other net income, which was mainly attributable to a net gain on forward exchange contracts of approximately RMB9,842,000 and foreign exchange gain of approximately RMB7,193,000 due to changes in exchange rates. Other net expenses of the concentrated TCM granules business was approximately RMB943,000.

Selling and distribution costs

During the year under review, the Group's sales and distribution costs amounted to approximately RMB1,195,636,000 (2014: RMB903,418,000).

Finished Drug Business:

	2015 RMB'000	2014 RMB'000	Change
Advertising, promotion and traveling expenses	**483,529**	499,424	-3.2%
Salary expenses of sales and marketing staff	**335,095**	244,008	37.3%
Distribution costs	**26,930**	27,747	-2.9%
Other sales and distribution costs	**115,183**	132,239	-12.9%
Total	**960,737**	903,418	6.3%

Selling and distribution costs increased by 6.3% as compared to that of last year, which was mainly attributable to the adjustment of remuneration policy of the Group. During the year under review, selling and distribution costs of the finished drug business as a percentage to its revenue was 35.2%, as compared to 34.1% for last year.

Concentrated TCM granules business:

	2015 RMB'000	2014 RMB'000	Change
Advertising, promotion and traveling expenses	**137,826**	–	N/A
Salary expenses of sales and marketing staff	**14,395**	–	N/A
Distribution costs	**9,018**	–	N/A
Other sales and distribution costs	**73,660**	–	N/A
Total	**234,899**	–	N/A

The amount of approximately RMB682,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical was allocated to the selling and distribution costs in the consolidated financial statements. The sales and distribution costs of concentrated TCM granules business in the consolidated financial statements accounted for 24.0% of its revenue. The sales and distribution costs were mainly marketing and promotional expenses.

Administrative Expenses

During the year under review, the Group's administrative expenses amounted to approximately RMB384,914,000 (2014: RMB221,560,000).

Finished drug business:

	2015 **RMB'000**	2014 RMB'000	Change
Staff salary	**68,893**	59,646	15.5%
Depreciation and amortisation	**15,600**	16,623	-6.2%
Expenses for product research and development	**79,985**	67,727	18.1%
Office rental cost and other expenses	**101,335**	77,564	30.6%
Total	**265,813**	221,560	20.0%

Administrative expenses increased by 20.0% as compared to RMB221,560,000 for last year. The increase was attributable to the professional service fee of RMB10,849,000 related to the acquisition of Tianjiang Pharmaceutical in the year and the increase in R&D expenses of approximately RMB12,258,000. The administrative expenses of the finished drug business as a percentage to its revenue was 9.7%, as compared to 8.4% for last year.

Concentrated TCM granules business:

	2015 **RMB'000**	2014 RMB'000	Change
Staff salary	**22,549**	–	N/A
Depreciation and amortisation	**3,843**	–	N/A
Expenses for product research and development	**32,339**	–	N/A
Office rental cost and other expenses	**60,370**	–	N/A
Total	**119,101**	–	N/A

The amount of approximately RMB738,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical was allocated to the administrative expenses in the consolidated financial statements. Administrative expenses of the concentrated TCM granules business accounted for 12.2% of its revenue in the consolidated financial statements.

Profit from Continuing Operations

During the year under review, the Group's profit from operations was RMB755,748,000, representing an increase of 37.0% as compared to RMB551,696,000 for last year, while operating profit margin (defined as profit from operations divided by revenue) slightly decreased to 20.4% from 20.8% for last year.

Regarding the finished drug business, the profit from operations was approximately RMB562,834,000, representing an increase of 2.0% as compared to RMB551,696,000 for last year. The operating profit margin slightly decreased from 20.8% for last year to 20.6% for the year. Regarding the concentrated TCM granules business, the profit from operations was approximately RMB192,914,000 (after deducting depreciation and amortisation of approximately RMB34,010,000 resulted from the fair value assessment of identifiable assets arising from the acquisition of Tianjiang Pharmaceutical in the consolidated financial statements). The operating profit margin was 19.7%.

Finance Costs

During the year under review, the Group's finance costs amounted to approximately RMB70,180,000 (2014: RMB62,577,000). The increase as compared to last year was due to the increase in bank loans for the acquisition transaction in 2015. Bank and other loans held by the Group as at 31 December 2015 amounted to approximately RMB2,450,359,000. The Group's bank and other loans carry fixed and variable interest rates (see note 28(c) to the financial statements). During the year under review, the effective interest rate was 3.91% (2014: 4.98%). The Group will continue to pay attention to the changes in market interest rates and adjust the methods of borrowings and raise funds on a timely basis. When an opportunity for price negotiation arises, the Group would refinance the existing loans or secure new bank loans.

Gain from disposal of equity interest in a subsidiary and share of loss from an associate

During the year under review, the Group sold 31% equity interest of Guizhou Zhongtai and made an investment gain of approximately RMB85,439,000. Upon the completion of the transaction, the Group still holds 20% equity interest in Guizhou Zhongtai, which became an associate to the Group. The Group incurred an investment loss in an associate of approximately RMB1,637,000 from Guizhou Zhongtai for the year.

Earnings per share

For the year under review, basic earnings per share of continuing and discontinued operations was RMB16.86 cents, representing an increase of 3.4% as compared to RMB16.30 cents for last year. Profit attributable to equity shareholders of the Company for the year increased by 50.5% to approximately RMB621,692,000 (2014: RMB413,090,000). For the same year, the Company issued and placed new shares for its acquisition transaction. The number of issued shares increased substantially to 4,483,747,630 shares. The weighted average number of issued ordinary shares for the year was 3,686,873,104 shares.

Liquidity and Financial Resources

As at 31 December 2015, the Group's current assets amounted to RMB6,872,568,000 (31 December 2014: RMB2,094,478,000), which included cash, cash equivalents and deposits with banks of RMB2,137,886,000 (31 December 2014: RMB439,721,000), among which the carrying amount of restricted deposits with banks amounted to approximately RMB36,030,000 (31 December 2014: nil). Those restricted deposits with banks were mainly pledged as securities for bank loans of the Group, gas facilities and letter of credit. Trade and other receivables of RMB3,398,227,000 (31 December 2014: RMB1,236,400,000). Current liabilities amounted to RMB4,490,989,000 (31 December 2014: RMB1,133,841,000). Net current assets aggregated to approximately RMB2,381,579,000 (31 December 2014: RMB960,637,000). The Group's current ratio was 1.5 (31 December 2014: 1.8). The gearing ratio (defined as bank and other loans divided by equity attributable to equity shareholders of the Company) decreased to 0.22 from 0.37 as at 31 December 2014. Gearing ratio decreased as the equity attributable to equity shareholders of the Company increased from RMB3,183,756,000 for the year ended 31 December 2014 to RMB11,129,468,000 due to the increase in retained earnings and the issuance of new shares.

Bank and other Loans and Pledge of Assets

As at 31 December 2015, the balance of the Group's bank and other loans was approximately RMB2,450,359,000 (31 December 2014: RMB1,172,213,000), of which RMB462,080,000 (31 December 2014: RMB406,547,000) was secured by the Group's assets with book value of approximately RMB346,279,000 (31 December 2014: RMB302,526,000) in total. The new bank loan was mainly for paying the consideration for acquiring Tianjiang Pharmaceutical. The balance of the Group's bank and other loans includes RMB1,600,059,000 and RMB850,300,000, which are required to be paid within 1 year and 1 to 3 years respectively (31 December 2014: RMB501,648,000 and RMB670,565,000 respectively).

Capital source

The Group satisfies its operating capital needs mainly through operating business and external financing. During the year under review, the net cash inflow generated from the operating business of the Group was approximately RMB518,701,000, representing an increase of 59.6% as compared with that of approximately RMB324,999,000 in 2014, mainly due to the increase in operating revenue of the year; the net cash outflow generated from the investing activities was RMB7,157,901,000, representing an increase of approximately RMB7,076,679,000 as compared with that of approximately RMB81,222,000 in 2014, mainly due to the payment of consideration for acquisition of Tianjiang Pharmaceutical in the year, the total cash outflow net of cash acquired was approximately RMB7,451,568,000; the net cash inflow generated from financing activities was approximately RMB8,329,666,000 and the net cash outflow generated from financing activities in 2014 was approximately RMB149,684,000, the net cash flow generated from financing activities changed from cash outflow to cash inflow was mainly due to the cash inflow of approximately RMB7,199,974,000 as a result of the additional placing of new shares and the cash inflow of approximately RMB1,202,178,000 as a result of the increase in bank and other loans. The outstanding bank facilities of the Group were approximately RMB502,104,000. The Group has sufficient working capital and its financial position is healthy.

Financing capacity

As at 31 December 2015, the capital commitments outstanding and not provided for in the financial statements were approximately RMB593,633,000 (31 December 2014: RMB491,021,000). Such capital commitments was mainly used in the construction of plants, acquisition of facilities and payment of the expense for research and development. The Group's major funding needs also included the remaining payment of consideration for acquisition of Tianjiang Pharmaceutical and the investment in the joint venture with Foshan TCM Hospital and a subsidiary of Foshan Municipal State-Owned Assets Supervision and Administration Commission. The Group believes that, with the available cash balances, the undrawn bank facilities already granted by the bank and the fact that it has been well recognized and supported by the major financial institutions, the Group will be capable of fully satisfying the liquidity needs and the above mentioned funding needs.

Contingent Liabilities

The Group did not have any contingent liabilities as at 31 December 2015 (31 December 2014: nil).

Financial risks

The Group mainly operates in mainland China with most of the transactions originally denominated and settled in RMB, of which foreign exchange risk is considered insignificant. However, as the Company and other investment holding subsidiaries incorporated in the Cayman Islands, British Virgin Islands and Hong Kong have their functional currencies in USD or HKD, any appreciation or depreciation of RMB against USD or HKD will expose the Group to foreign exchange risk. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and to mitigate the impact on exchange rate fluctuations by entering into currency hedging arrangement, if necessary.

Details of financial risk management of the Group are set out in note 28 to the financial statements.

Employee and Remuneration Policies

As at 31 December 2015, the Group had a total of 9,420 (31 December 2014: 6,579, excluding the employees of discontinued operation) employees (including directors of the Company), of which the number of sales staff, manufacturing staff and those engaged in R&D, administration and senior management were 4,529, 3,418 and 1,473 respectively. Remuneration packages are mainly comprised of salary and discretionary bonus based on individual performance. The Group's total remuneration amount during the year was RMB563,551,000 (2014: RMB405,678,000, excluding the remuneration of the employees of discontinued operation).

FINAL DIVIDEND

The Board has not recommended the payment of a final dividend for the year ended 31 December 2015 (2014: nil).

REPORT OF THE DIRECTORS

The Directors have the pleasure in presenting the annual report together with the audited financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sale of Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2015, and an indication of likely future development in the Group's business, can be found in the "Five Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Financial Statements" sections of this Annual Report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's key relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" sections of this Annual Report.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 60 to 150 of this report.

No interim dividend was paid during the year (six months ended 30 June 2014: Nil).

The Board has not recommended to declare a final dividend for the year ended 31 December 2015 (2014: Nil). The Company shall review its dividend policy from time to time and would distribute dividend to shareholders at appropriate time.

TRANSFER TO RESERVES

Profits attributable to shareholders, before dividends, of RMB621,692,000 (2014: RMB413,090,000) have been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity in the financial statements.

INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

Details of movements in investment property, other property, plant and equipment and leasehold land during the year are set out in note 11 to the financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 27 and the Consolidated Statement of Changes in Equity in the financial statements, respectively.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Allot and Issue of Shares" of this report, no equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2015 are set out in note 23 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 3 to 4 of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2015 are set out in note 15 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

DIRECTORS

The Board comprises the following Directors during the financial year and up to the date of this report:

Executive Directors

Mr. WU Xian	*Chairman*
Mr. YANG Bin	*Managing Director*
Mr. WANG Xiaochun	

Non-executive Directors

Mr. LIU Cunzhou
Mr. ZHANG Jianhui
Mr. DONG Zenghe
Mr. ZHAO Dongji

Independent Non-executive Directors

Mr. ZHOU Bajun	
Mr. XIE Rong	
Mr. YU Tze Shan Hailson	
Mr. LO Wing Yat	*(appointed on 27 January 2015)*

The Company has received from each independent non-executive Director an annual confirmation pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and the Company considers all the independent non-executive Directors to be independent.

All the Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company.

In accordance with Article 101 of the Company's Articles of Association, Mr. YANG Bin, Mr. LIU Cunzhou, Mr. XIE Rong and Mr. YU Tze Shan Hailson shall retire by rotation at the annual general meeting of the Company (the "AGM") and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Biographical details of the existing Directors as at the date of this annual report, including the particulars required under paragraph 12 of Appendix 16 the Listing Rules (if and as applicable and appropriate), are set out on pages 54 to 57 of this report.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. WU Xian entered into an appointment letter with the Company for a term of two years commencing from 5 February 2013.

In 2014, Mr. WU Xian entered into an employment agreement with the Company with effect from 22 June 2014 and which shall automatically be effective thereafter until terminated by either party to the service agreement by giving a one month's prior notice. Mr. WU is subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Articles of Association.

Mr. YANG Bin entered into a service agreement with the Company for an initial term of two years commencing from 21 June 2009 which shall automatically be renewed thereafter until terminated by either party to the service agreement by giving a six months' prior notice.

Mr. WANG Xiaochun renewed into an appointment letter with the Company for a term of two years commencing from 23 October 2015.

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. LIU Cunzhou and Mr. ZHAO Dongji renewed an appointment letter with the Company for a term of two years commencing from 5 February 2015.

Mr. ZHANG Jianhui entered into an appointment letter with the Company for a term of two years commencing from 30 August 2014.

Mr. DONG Zenghe renewed an appointment letter with the Company for a term of two years commencing from 6 March 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS

Mr. ZHOU Bajun and Mr. XIE Rong renewed an appointment letter with the Company for a term of two year commencing from 5 February 2015.

Mr. YU Tze Shan Hailson renewed an appointment letter with the Company for a term of two years commencing from 25 November 2015.

Mr. LO Wing Yat entered into an appointment letter with the Company for a term of two years commencing from 27 January 2015.

MANAGEMENT CONTRACTS

No contract other than employment contracts, concerning the management and administration of the whole or any substantial party of the Company's business was entered into or existed during the year.

DIRECTORS OF SUBSIDIARIES

A list of names of the directors who held office in the Company's subsidiaries during the year and up to the date of this report is available on the Company's website at www.china-tcm.com.cn.

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration committee (the "Remuneration Committee") and the emoluments of the non-executive Director and independent non-executive Directors are recommended by the Remuneration Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2015, the fee for the eligible executive and independent non-executive Directors were fixed at HK$234,000 and HK$250,000 per annum respectively.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that every Director or other officer shall be indemnified out of assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. Such provisions were in force during the course of the year and remained in force as of the date of this report.

The Articles of Association of the Company provides that every Director and officer shall be entitled to be insured against any liability to the Company, a related company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or a related company. Every Director and officer shall be entitled to be insured against any liability incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company. The Company has arranged appropriate liability insurance to indemnify its directors and officers in respect of legal actions against the Directors. The amount of coverage is reviewed on an annual basis.

CHANGES OF DIRECTOR'S INFORMATION UNDER RULES 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information of the Company since the date of the 2015 Interim Report is as follows:

- For the year ended 31 December 2015, the directors' fee for the eligible independent non-executive Directors was increased from HK$234,000 to HK$250,000. In addition, special allowance amounted HK$10,000 is permitted for the eligible independent non-executive Directors who attend in person each board meeting.

- Mr. Lo Wing Yat has resigned as an executive director of FDG Kinetic Limited (formerly known as CIAM Group Limited) (Stock Code: 378) with effect from 11 March 2016.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2015, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Long positions and short positions in shares and underlying shares of the Company as at 31 December 2015:

Name of Directors	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
YANG Bin	Interest of controlled corporation	376,735,042 (long position) *(Note 1)*	8.40%
	Interest of controlled corporation	71,037,863 (short position) *(Note 2)*	1.58%
WANG Xiaochun	Interest of controlled corporation	376,735,042 (long position) *(Note 3)*	8.40%
	Interest of controlled corporation	150,000,000 (short position) *(Note 4)*	3.35%

Notes:

1. The 376,735,042 shares are held by Profit Channel Development Limited ("Profit Channel"), which is wholly owned by Mr. YANG Bin.

2. Of the 376,735,042 shares, 71,037,863 shares were pledged by Profit Channel to CNPGC as security in connection to the Company's bank borrowing to finance the Company's acquisition of Tongjitang.

3. The 376,735,042 shares are held by Hanmax Investment Limited ("Hanmax"), which is wholly owned by Mr. WANG Xiaochun.

4. On 26 March 2014, of the 376,735,042 shares, 150,000,000 shares were charged by Hanmax as security to guarantee the liabilities of a private company wholly owned by Mr. WANG Xiaochun under an agreement dated 3 March 2014.

Save as disclosed above, none of the Directors and chief executives of the Company had, as at 31 December 2015, any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

As at 31 December 2015, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions and short positions in shares and underlying shares of the Company as at 31 December 2015:

Name of Substantial Shareholders	Capacity	Number of Ordinary Shares	Approximate Percentage of Total Interests to Issued Shares
Sinopharm Hongkong	Beneficial owner	1,614,313,642 (long position) *(Note 1)*	36.00%
CNPGC	Interest of controlled corporations	1,685,351,505 (long position) *(Note 1)*	37.59%
CNPGC	Security interest	71,037,863 (long position) *(Note 2)*	1.58%
Profit Channel	Beneficial owner	376,735,042 (long position)	8.40%
	Beneficial owner	71,037,863 (short position) *(Note 2)*	1.58%
Hanmax	Beneficial owner	376,735,042 (long position)	8.40%
	Beneficial owner	150,000,000 (short position) *(Note 3)*	3.35%
GIC Private Limited	Investment Manager	99,378,000 (long position) *(Note 4)*	2.21%
	Interest of controlled corporations	213,674,000 (long position) *(Note 4)*	4.77%

Notes:

1. The 1,614,313,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by CNPGC.

2. Profit Channel (wholly owned by Mr. Yang Bin) pledged 71,037,863 shares to CNPGC as security in connection with the Company's bank borrowing to finance the Company's acquisition of the Tongjitang.

3. On 26 March 2014, Hanmax (wholly owned by Mr. WANG Xiaochun) charged 150,000,000 shares as security to guarantee the liabilities of a private company wholly owned by Mr. WANG Xiaochun under an agreement dated 3 March 2014.

4. The number of shares held by GIC Private Limited is based on the information of Corporate Substantial Shareholder Notice (Form 2) dated 27 November 2015 which is available on the website of the Stock Exchange.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2015.

ALLOT AND ISSUE OF SHARES

The Sinopharm Subscription

On 22 March 2015, the Company entered into a subscription agreement with Sinopharm Hongkong pursuant to which the Company conditionally agreed to allot and issue, and Sinopharm Hongkong conditionally agreed to subscribe for, 598,290,598 shares (the "Sinopharm Shares") at the total subscription price of HK$2,800,000,000, equivalent to the issue price of HK$4.68 per share (the "Sinopharm Subscription"). The net proceed from the Sinopharm Subscription is approximately HK$2,798.4 million. Accordingly, the net issue price per Sinopharm Share is approximately HK$4.677.

Sinopharm Hongkong is the controlling shareholder of the Company. Accordingly, Sinopharm Hongkong is a connected person of the Company and the Sinopharm Subscription constitutes a connected transaction of the Company under the Listing Rules.

The Yang Subscription

On 22 March 2015, the Company and Mr. YANG Bin, an executive Director and the managing director of the Company, entered into a subscription agreement pursuant to which the Company conditionally agreed to allot and issue, and Mr. YANG Bin conditionally agreed to subscribe for, 42,735,042 shares (the "Yang Shares") at the total subscription price of HK$200,000,000, equivalent to the issue price of HK$4.68 per share (the "Yang Subscription"). The net proceed from the Yang Subscription is approximately HK$199.8 million. Accordingly, the net issue price per Yang Share is approximately HK$4.676.

By virtue of Mr. YANG Bin's directorship and substantial shareholding interest in the Company, Mr. YANG Bin is a connected person of the Company and the Yang Subscription constituted a connected transaction of the Company under Listing Rules.

The Wang Subscription

On 22 March 2015, the Company and Mr. WANG Xiaochun, an executive Director of the Company, entered into a subscription agreement pursuant to which the Company conditionally agreed to allot and issue, and Mr. WANG Xiaochun conditionally agreed to subscribe for, 42,735,042 shares (the "Wang Shares") at the total subscription price of HK$200,000,000, equivalent to the issue price of HK$4.68 per share (the "Wang Subscription"). The net proceed from the Wang Subscription is approximately HK$199.8 million. Accordingly, the net issue price per Wang Share is approximately HK$4.676.

By virtue of Mr. WANG Xiaochun's directorship and substantial shareholding interest in the Company, Mr. WANG Xiaochun is a connected person of the Company and the Wang Subscription constituted a connected transaction of the Company under Listing Rules.

The Investors Subscriptions

On 25, 26 and 27 March 2015 and 14 April 2015, the Company entered into the agreements with 26 investors (the "Investors") pursuant to which the Company conditionally agreed to allot and issue, and the Investors conditionally agreed to subscribe for 1,068,338,000 shares (the "Investors Shares") at the total subscription price of approximately HK$5,000,000,000 at the issue price of HK$4.68 per share (the "Investors Subscriptions"). The net proceed from the Investors Subscriptions is approximately HK$4,960.7 million. Accordingly, the net issue price per Investors Share is approximately HK$4.643.

The Company will use the net proceeds from the Sinopharm Subscription, Yang Subscription, Wang Subscription and Investors Subscription to finance part of the consideration for the acquisition of Tianjiang Pharmaceutical (the "Acquisition"). The Sinopharm Shares, the Yang Shares, the Wang Shares and the Investors Shares were allotted and issued under a specific mandate. The issue price of the Sinopharm Shares, the Yang Shares, the Wang Shares and the Investors Shares of HK$4.68 per share represents an approximately 2.09% discount to the closing price of HK$4.78 per share on 17 March 2015 (being the last trading day of the shares prior to the signing of the respective agreements for the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Investors Subscription). All transactions contemplated under the subscriptions and all the subscriptions agreements were approved by the Company's independent shareholders at the extraordinary general meeting of the Company held on 7 May 2015. Details of the subscription were disclosed in the Company's announcements dated 30 March 2015 and 14 April 2015 and the Company's circular dated 21 April 2015. The subscriptions of new shares were completed on 12 May 2015 and 14 May 2015, please refer to the announcement of the Company for completion of subscription dated 12 May 2015 and 14 May 2015.

The Vendors Trustee Subscriptions by Mr. Tan Dengping ("Vendor C") and Ms. Zhou Jialin ("Vendor E")

On 15 May 2015, the Company and Hwabao Trust Co., Ltd. (the "Trustee") entered into a trustee subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, the Trustee conditionally agreed to subscribe on behalf of and for the benefit of Vendor C for, 80,149,157 shares (the "Vendor C Shares") at the total subscription price equivalent to RMB270,070,600 (equivalent to approximately HK$337.6 million) at the issue price of HK$4.212 per share (the "Vendor C Subscription"). The net proceed from the Vendor C Subscription is approximately RMB270.0 million (equivalent to approximately HK$337.5 million). Accordingly, the net issue price per Vendor C Share is approximately HK$4.211. Vendor C Shares will be subject to a lock-up period of 24 months from the date of completion of the Vendor C Subscription. The exchange rate at which the payment from Vendor C Trustee is converted into HK$ is fixed at RMB1: HK$1.25.

On the same date, the Company and the Trustee entered into a trustee subscription agreement, pursuant to which the Company conditionally agreed to allot and issue, the Trustee conditionally agreed to subscribe on behalf of and for the benefit of Vendor E for, 117,600,605 shares (the "Vendor E Shares") at the total subscription price equivalent to RMB396,267,000 (equivalent to approximately HK$495.3 million) at the issue price of HK$4.212 per share (the "Vendor E Subscription"). The net proceed from the Vendor E Subscription is approximately RMB396.2 million (equivalent to approximately HK$495.2 million). Accordingly, the net issue price per Vendor E Share is approximately HK$4.211. Vendor E Shares will be subject to a lock-up period of 24 months from the date of completion of the Vendor E Subscription. The exchange rate at which the payment from Vendor E Trustee is converted into HK$ is fixed at RMB1: HK$1.25. The issue price of the Vendor C Shares and the Vendor E Shares of HK$4.212 per share represents an approximately 28.37% discount to the closing price of HK$5.88 per share on 15 May 2015 (being the dates of the respective agreements for the Vendor C Subscription and Vendor E Subscription).

The vendors trustee subscriptions of new shares were completed on 5 November 2015, please refer to the announcement of the Company for completion of subscription dated 5 November 2015.

The Company will use the proceeds from the Vendors Trustee Subscriptions to finance part of the consideration for the Acquisition.

The issuance of new shares allowed the Company to raise the necessary fund to finance part of the consideration for the Acquisition. The Investors Subscriptions would broaden the shareholders base and enhance the profile of the Company given that the Investors comprise professional and international institutional Investors, and increase the trading liquidity of the shares of the Company. Although the issuance of new shares would dilute the existing shareholdings, it is a cost efficient method without imposing any interest burden or finance cost to the Group. The directors consider the dilution impact on the shareholdings of the public shareholders resulting from the fund raising exercise is acceptable.

The Sinopharm Subscription, the Yang Subscription and the Wang Subscription has shown the continuing support from Sinopharm Hongkong, Mr. Yang and Mr. Wang, and would build up investors' confidence in the Group. Vender C & Vendor E are the key management of Tianjiang Pharmaceutical. The Vendors Trustee Subscriptions demonstrate a long-term commitment and support from Vendor C and Vendor E to the continuous development of Tianjiang Pharmaceutical.

CONTINUING CONNECTED TRANSACTIONS

New Master Purchase Agreement and New Master Supply Agreement with CNPGC

On 11 December 2013, the Company entered into a New Master Purchase Agreement and a New Master Supply Agreement with CNPGC for the three financial years ending 31 December 2014, 2015 and 2016.

Pursuant to the New Master Purchase Agreement, the Group agreed to purchase and CNPGC and its subsidiaries ("CNPGC Group") conditionally agreed to sell the materials during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the New Master Purchase Agreement, the value of the Purchase Transactions does not exceed the annual cap of RMB35 million, RMB39 million and RMB45 million for each of the three financial years ending 31 December 2014, 2015 and 2016 respectively.

Pursuant to the New Master Supply Agreement, the Group agreed to supply and CNPGC Group conditionally agreed to purchase products during the three-year period from 1 January 2014 to 31 December 2016. Pursuant to the New Master Supply Agreement, the value of the Supply Transactions does not exceed the annual cap of RMB500 million, RMB610 million and RMB740 million for each of the three financial years ending 31 December 2014, 2015 and 2016 respectively.

CNPGC is beneficially interested in 1,140,179,044 shares and 1,614,313,642 shares as at 11 December 2013 and 31 December 2015, representing approximately 45.00% and 36.00% respectively, of the total issued shares of the Company and is the controlling shareholder and a connected person of the Company under the Listing Rules. The sales and purchases of the products and the materials contemplated under the New Master Supply Agreement and the New Master Purchase Agreement respectively, constituted continuing connected transactions of the Company under Listing Rules.

For details of these new continuing connected transactions, please refer to the announcement and the circular of the Company dated 12 December 2013 and 14 December 2013 respectively. The New Master Purchase Agreement, the New Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at an extraordinary general meeting of the Company held on 3 January 2014.

Based on the background of CNPGC and the previous business relationship with CNPGC Group, CNPGC Group is a reliable business partner of the Group who has a strong supply capacity as well as a well-established distribution network. The New Master Purchase Agreement enables the Group to source stable and quality materials from CNPGC Group while the New Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of CNPGC Group in the PRC. The role of CNPGC Group will be enhanced as a business partner of the Group to distribute the products to hospitals and retail pharmacies.

During the period from 1 January 2015 to 31 December 2015, the purchases of materials by the Group from CNPGC Group amounted to RMB14,902,000 (including value added tax) which was below the cap amount of RMB39 million for the year ended 31 December 2015.

During the period from 1 January 2015 to 31 December 2015, the sales of products by the Group to CNPGC Group amounted to RMB441,808,000 (including value added tax) which was below the cap amount of RMB610 million for the year ended 31 December 2015.

Research and Development Agreements with SIPI and SPERC

On 23 December 2013 and 5 March 2014, Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. (previously known as "Guangdong Medi-World Pharmaceutical Co., Ltd.", "Guangdong Medi-World"), an indirect wholly-owned subsidiary of the Company, entered into research and development agreements (the "R&D Agreements") with SIPI and Shanghai Pharmaceutical Engineering Research Centre Co., Ltd. (上海現代藥物製劑工程研究中心有限公司 or "SPERC") respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements amounts to approximately RMB136,270,000.

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry ("CSIPI"), which is a subsidiary of CNPGC. CNPGC is the ultimate holding company of Sinopharm Hongkong which is in turn the controlling shareholder beneficially interested in 1,139,879,044 shares, 1,121,023,044 shares and 1,614,313,642 shares as at 23 December 2013, 5 March 2014 and 31 December 2015 respectively, representing approximately 44.99%, 44.24% and 36.00% respectively, of the total issued shares of the Company respectively. Accordingly, each of SIPI and SPERC is a connected person of the Company and the transactions contemplated under the R&D Agreements constitute continuing connected transaction of the Company under the Listing Rules.

SIPI is principally engaged in the research of organic synthesized pharmaceuticals, microbiological and biochemical pharmaceuticals, biotechnological drugs, traditional Chinese medicines and novel preparations, pharmaceutical preparations, and new drug delivery systems.

SPERC is principally engaged in the development, consultancy, service and transfer of applied technology on traditional Chinese medicine, chemical drug, healthcare product and medicinal materials, design, analysis and sale of pharmaceutical equipment, research of technical test on medicinal material and packaging material.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the PRC. With the expertise and technical know-how of SIPI and SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development.

For details of the R&D Agreements, please refer to the announcements of the Company dated 23 December 2013 and 5 March 2014.

During the period from 1 January 2015 to 31 December 2015, the research and development fee payable by the Group to SIPI and SPERC amounted to RMB11,768,000 (including value added tax). The sum of such fees payable by the Group to SIPI and SPERC during 2014 and 2015 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

The independent non-executive directors have reviewed the above continuing connected transactions of the Group and have confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from Independent third parties; and

(ii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Review by the Auditors

For the propose to Rule 14A.56 of the Listing Rules, the auditors of the Company has provided a letter to the Board, confirmed that nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with relevant agreements governing the transactions; and

(iv) have exceeded the annual cap.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Allot and Issue of Shares" of this report, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the section headed "Allot and Issue of Shares" of this report, at no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the year, Mr. YANG Bin and Mr. WANG Xiaochun, both executive Directors, have material interests directly or indirectly in the contracts which are listed above under the section headed "Allot and Issue of Shares" in this report.

Save as disclosed above, no transactions, arrangements or contracts of significance to which the Company or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company or his connected entity had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 10.2% and 26.3% of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 10.2% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and five largest suppliers accounted for around 12.5% and 21.3% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 1.0% of the Group's total purchases during the year.

Save as disclosed above, at no time during the year, none of the Directors, their close associates, or any shareholders of the Company (which to the best knowledge of the directors own more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement plans of the Group are set out in notes 5(b) and 25 to the financial statements.

AUDITOR

KPMG shall retire as auditor upon the expiration of its current term of office and, being eligible, offer themselves for re-appointment.

A resolution for the re-appointment or appointment of auditor of the Company for the financial year ending 31 December 2016 is to be proposed at the forthcoming annual general meeting. If it is intended at the forthcoming annual general meeting to appoint an auditor other than the retiring auditor or to provide expressly that the retiring auditor shall not be re-appointed, an announcement in relation to the proposed change of auditor will be made by the Company as soon as practicable.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2015 have been reviewed by the audit committee ("Audit Committee"). Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 38 to 53 of this annual report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 38 to 53 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this annual report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

WU Xian
Chairman

Hong Kong, 21 March 2016

CORPORATE GOVERNANCE REPORT

The Board believes that corporate governance is essential to safeguard the interests of the shareholders and enhance the performance of the Group. The Board is committed to maintaining and ensuring high standards of corporate governance. The Company has applied the principles and complied with all of the applicable code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2015 except for the deviation of code provision A.5.1 of the Code as disclosed in the section headed "Nomination Committee" in this report.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD COMPOSITION AND BOARD PRACTICES

Composition and Role

There is no relationships between members of the Board, in terms of financial, business, family or other significant relationship and the Board comprises the following Directors during the year and up to the date of this report:

Executive Directors:

Mr. WU Xian	*Chairman*
Mr. YANG Bin	*Managing Director*
Mr. WANG Xiaochun	

Non-executive Directors:

Mr. LIU Cunzhou
Mr. ZHANG Jianhui
Mr.DONG Zenghe
Mr. ZHAO Dongji

Independent Non-executive Directors:

Mr. ZHOU Bajun	
Mr. XIE Rong	
Mr. YU Tze Shan Hailson	
Mr. LO Wing Yat	*(appointed on 27 January 2015)*

As of the date of this report, the Board comprises eleven Directors, including three executive Directors, four non-executive Directors and four independent non-executive Directors. The existing Directors have a mix of core competence and experiences in areas such as pharmaceutical, finance, accounting, management and marketing strategies. With a wide range of expertise and a balance of skills, the independent non-executive Directors bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at Board meetings and the relevant committee works. In addition, Mr. XIE Rong, an independent non-executive Director, possesses appropriate professional accounting qualifications and financial management expertise. Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all the independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Pursuant to Rule 3.10A of the Listing Rules, the independent non-executive directors of a listed issuer must represent at least one-third of the board of directors. On 25 November 2014, due to the resignation of Mr. FANG Shuting as an independent non-executive Director, the number of independent non-executive Directors fell below one-third of the Board as required under Rule 3.10A of the Listing Rules. In compliance with the requirement of the Listing Rules, the Board appointed Mr. LO Wing Yat as an independent non-executive Director to fill the vacancy on 27 January 2015.

The Directors are regularly updated on governance and regulatory matters. There is an established procedure for Directors to obtain independent professional advice at the expense of the Company when necessary. New Directors are offered a comprehensive, formal and tailored induction upon appointment. The Company has also arranged appropriate Directors and officers liability insurance to indemnify their liabilities arising out of the corporate activities. The insurance coverage is reviewed on an annual basis.

The Board schedules four meetings a year at approximately quarterly intervals. Ad-hoc meetings are convened when necessary. The Company Secretary assists the Chairman in setting the agenda of the Board meeting and Directors are invited to present any issue at such meetings. Notices of all regular Board meetings are issued at least 14 days before the meetings. The agenda and the accompanying board papers are sent to the Directors within reasonable time before the meetings. Draft minutes of Board meetings are circulated to the Directors for comment within a reasonable time prior to confirmation. Minutes of the Board meetings are open for inspection by Directors.

The Board is charged with providing effective and responsible leaderships for the Company. The matters subject to the Board's review and approval include:

- issue and buy back of shares of the Company;
- setting the Group's overall objectives and strategies;
- approval of annual budgets and business plans;
- evaluating and monitoring operating and financial performance;
- reviewing and monitoring internal control and risk management;
- approval of announcements of financial results;
- declaration and recommendation of the payment of dividend;
- appointment of new directors;
- appointment and dismissal of senior management of the Company.

The Board delegates the authority and responsibility for implementation of the day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board Committees.

Details of the Directors' remuneration and the five individuals with the highest emoluments as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 7 and 8 to the financial statements.

The remuneration of the members of the senior management, other than Directors, by band for the year ended 31 December 2015 is set out below:

Remuneration Band (RMB'000)	**Number of persons**
0 to 500	1
501 to 1,000	3
1,001 to 1,500	1

For the year ended 31 December 2015, the Company had convened four Board meetings, the 2015 annual general meeting (the "2015 AGM") and two extraordinary general meetings (collectively terms as the "General Meetings"). The following table shows the details of Directors' attendance:

	Attendance/Number of Meetings		
Directors	**Board Meetings**	**2015 AGM**	**Extraordinary General Meetings**
Executive Directors:			
Mr. WU Xian (Chairman)	4/4	1/1	2/2
Mr. YANG Bin	4/4	1/1	2/2
Mr. WANG Xiaochun	4/4	0/1	2/2
Non-executive Directors:			
Mr. LIU Cunzhou	4/4	0/1	1/2
Mr. ZHANG Jianhui	4/4	1/1	1/2
Mr. DONG Zenghe	4/4	0/1	0/2
Mr. ZHAO Dongji	4/4	1/1	2/2
Independent Non-executive Directors:			
Mr. ZHOU Bajun	4/4	1/1	0/2
Mr. XIE Rong	4/4	0/1	0/2
Mr. YU Tze Shan Hailson	4/4	0/1	2/2
Mr. LO Wing Yat *(appointed on 27 January 2015)*	4/4	0/1	1/2

Chairman and Managing Director

As at the date of this report, Mr. WU Xian, an executive Director, is the Chairman of the Board, and Mr. YANG Bin, an executive Director, is the Managing Director of the Company.

The Chairman is responsible for the leadership of effective operation of the Board, ensuring that all major and appropriate issues are discussed by the Board on a timely basis and in a constructive manner.

Managing Director is responsible for implementing the important policies and development strategies approved by the Board and he has direct management responsibility of the daily operations of the Group.

Appointment and Re-election of Directors

The nomination committee (the "Nomination Committee") is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors of the Company.

All the Directors are appointed for a specific term and subject to retirement by rotation once every three years and re-election in accordance with the Articles of Association of the Company.

According to the Articles of Association of the Company, newly appointed Directors are required to offer themselves for re-election at the next following general meeting (in the case of filling a causal vacancy) or at the next following AGM (in the case of an addition to the Board) following their appointment.

Continuous Professional Development of Directors

All Directors receive comprehensive, formal and tailored induction on appointment, so as to ensure understanding of the business and operations of the Group and Directors' responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All Directors are continually updated on developments in the statutory and regulatory regime, and the business and market changes to facilitate the discharge of their responsibilities and obligations under the Listing Rules and relevant statutory requirements. Continuing briefings and professional development for Directors will be arranged as necessary.

Pursuant to the requirements of the Code, all Directors should provide their training record to the Company. According to the training records provided by the Directors, the training attended by them during the reporting period is summarized as follows:

Directors	Corporate Governance, Regulatory Development and Trainings on other relevant topics
Executive Directors:	
Mr. WU Xian	✓
Mr. YANG Bin	✓
Mr. WANG Xiaochun	✓
Non-executive Directors:	
Mr. LIU Cunzhou	✓
Mr. ZHANG Jianhui	✓
Mr. DONG Zenghe	✓
Mr. ZHAO Dongji	✓
Independent Non-executive Directors:	
Mr. ZHOU Bajun	✓
Mr. XIE Rong	✓
Mr. YU Tze Shan Hailson	✓
Mr. LO Wing Yat *(appointed on 27 January 2015)*	✓

Nomination Committee

The Board established the Nomination Committee in 2012. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually, identify individuals suitably qualified to become members of the Board, assess the independence of independent non-executive Directors, develop and formulate the relevant procedures for nomination and appointment of Directors. The written terms of reference which describe the authority and duty of the Nomination Committee are posted on the websites of the Company and the Stock Exchange.

Due to Mr. FANG Shuting's resignation with effect from 25 November 2014, the number of independent non-executive Directors acting as members of the Nomination Committee decreased from three to two, less than the majority of the independent non-executive Directors required under the terms of reference of the nomination committee and being deviated from code provision A.5.1 of the Code. In compliance with the requirements of the Listing Rules, the Board appointed Mr. LO Wing Yat as an independent non-executive Director of the Company to fill the vacancy on 27 January 2015. As at the date of this report, the Nomination Committee comprises of the two executive Directors and three independent non-executive Directors.

During the year, two Nomination Committee meetings were held and has duly discharged the above duties. The individual attendance of each member is set out below:

Members of the Nomination Committee	Attendance/Number of Meetings
Executive Directors:	
Mr. WU Xian *(Chairman)*	2/2
Mr. YANG Bin	2/2
Independent Non-executive Directors:	
Mr. ZHOU Bajun	2/2
Mr. XIE Rong	2/2
Mr. LO Wing Yat *(appointed on 27 January 2015)*	1/1

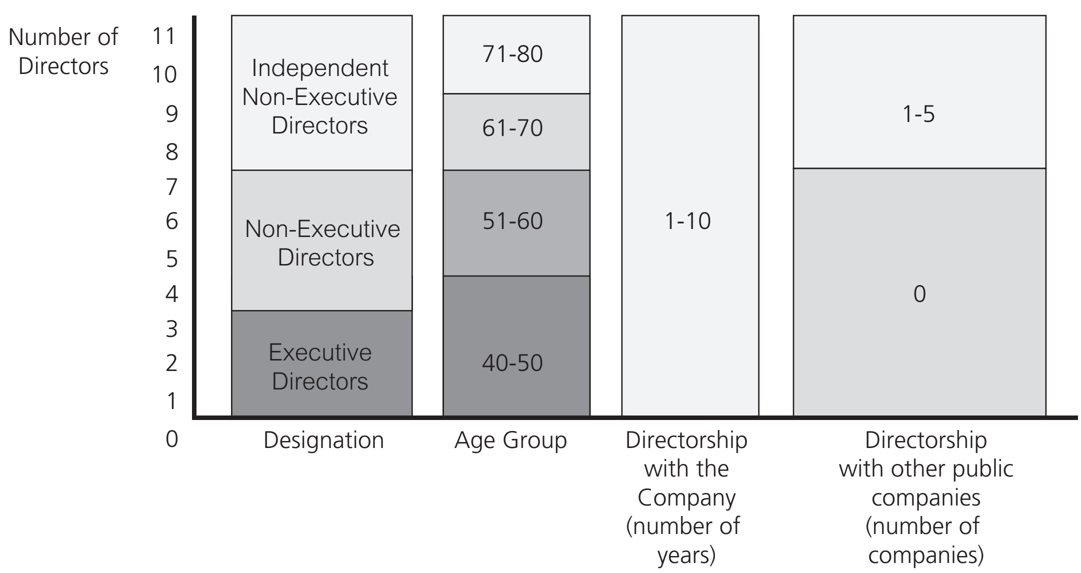
Board Diversity Policy

The Board adopted the board diversity policy in August 2013. The policy sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board.

The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to age, educational background, professional experience, skills and knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board developed measurable objectives to implement the board diversity policy, where selection of candidates will be based on a range of diversity perspectives as set out above, and the ultimate decision will be based on merit and contribution that the selected candidate will bring to the Board.

An analysis of the Composition of the current Board based on a range of diversity perspectives is set out below:



Audit Committee

Due to Mr. FANG Shuting's resignation with effect from 25 November 2014, the number of members of the Audit Committee decreased from three to two, below the minimum number required under Rule 3.21 of the Listing Rules. In compliance with the requirements of the Listing Rules, the Board appointed Mr. LO Wing Yat as an independent non-executive Director of the Company to fill the vacancy on 27 January 2015. As at the date of this report, the Audit Committee comprises of the three independent non-executive Directors. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The Board approved the adoption of the Audit Committee's revised terms of reference, with effect from 1 April 2012 (the "Old Version"). The Old Version has been revised, with effect from 1 January 2016 and are available on the websites of the Company and the Stock Exchange.

Major roles and functions of the Audit Committee include:

– reviewing financial information of the Group;

– overseeing the Group's financial reporting system and internal control procedures; and

– reviewing the appointment of the external auditor including a review on the scope of audit and approval of audit fees.

During the year, two Audit Committee meetings were held and has duly discharged the above duties. The individual attendance of each member is set out below:

Members of the Audit Committee	**Attendance/Number of Meetings**
Independent Non-executive Directors:	
Mr. XIE Rong *(Chairman)*	2/2
Mr. ZHOU Bajun	2/2
Mr. LO Wing Yat *(appointed on 27 January 2015)*	2/2

During the year, the Audit Committee reviewed the final results and the audited financial statements of the Group for the year ended 31 December 2014 and the interim results and the interim report of the Group for the year 2015, as well as the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

Remuneration Committee

The Remuneration Committee was established in 2005. Due to Mr. FANG Shuting's resignation with effect from 25 November 2014, the number of members of the Remuneration Committee decreased from four to three, below the minimum number required under the terms of reference of the Remuneration Committee. With the fulfillment of the requirements of the terms of reference of the Remuneration Committee, the Board appointed Mr. LO Wing Yat as an independent non-executive Director of the Company to fill the vacancy on 27 January 2015. As at the date of this report, the Remuneration Committee comprises of the one non-executive Director and three independent non-executive Directors.

The main roles and functions of the Remuneration Committee are as follows:

(a) making recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) either: (i) determining, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or (ii) making recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

(d) considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(e) reviewing and approving the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(f) reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

(g) making recommendations to the Board on the remuneration of non-executive Directors.

The Company has adopted the model whereby the Remuneration Committee is delegated the responsibility to determine the remuneration packages of individual executive Directors and senior management.

The Board approved the adoption of the Remuneration Committee's revised terms of reference, with effect from 1 April 2012. The revised written terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

In determining the emolument payable to the Directors, the Remuneration Committee takes into account factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

The principal objectives of the Company's remuneration policy include:

– providing an equitable and competitive package so as to attract and retain the best available human resources to serve corporate needs;

– providing basic remuneration to the employees that is competitive to the industry and general market condition;

– awarding employees in recognition of good individual and corporate performance; and

– encouraging future employee contributions to achieve overall corporate goals.

During the year, four Remuneration Committee meetings were held and has duly discharged the above duties. The individual attendance of each member is set out below:

Members of the Remuneration Committee	**Attendance/Number of Meetings**
Non-Executive Directors:	
Mr. LIU Cunzhou	4/4
Independent Non-executive Directors:	
Mr. ZHOU Bajun *(Chairman)*	4/4
Mr. XIE Rong	4/4
Mr. LO Wing Yat *(appointed on 27 January 2015)*	3/3

During the year, the Remuneration Committee determined the remuneration packages of all executive Directors and senior management and made recommendation to the Board of the remuneration of the non-executive Directors and independent non-executive Directors.

Strategic Committee

The Board set up a strategic committee ("Strategic Committee") in January 2014, which comprises of the six Directors including Mr. WU Xian, Mr. YANG Bin, Mr. WANG Xiaochun, Mr. LIU Cunzhou, Mr. ZHOU Bajun and Mr. YU Tze Shan Hailson. Mr. LIU Cunzhou was appointed as the chairman.

Strategic Committee is a specific working body set up by the Board. Its main responsibilities are to conduct researches and submit proposals to the Board in respect of medium-to-long term development strategies and material investment decisions of the Group. The Board considers that the proposals submitted by Strategic Committee will strengthen the core competitiveness of the Group, determine its development plans as well as improve its procedures of making investment decisions, so as to enhance the effectiveness and quality of material investment decisions and perfect its corporate governance structure.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, the Group was in full compliance with relevant laws and regulations required by the location of operations.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group attaches high importance on environmental management and has developed a comprehensive environmental management and monitoring system to strictly perform in accordance with relevant laws and regulations governing the amount and standard of emissions. Apart from monitoring its own emission data, the Group has also entrusted third parties to monitor its sewage emission on a quarterly basis and the emission of exhaust gases from boilers every six months. Having established the hazardous waste management system, the transfer of hazardous waste generated from production is recorded and the waste is recycled or disposed of regularly by local qualified professional hazardous waste recycling companies. The storage area of the hazardous waste is monitored, and relevant information filed by the local environmental protection department.

The Group promotes the concept of green production to achieve the goals of saving energy, reducing consumption and alleviating pollution. Striving to improve the environment surrounding the plant, the Group has put much efforts into the improvement of facilities over the years by replacing oil-burning boilers with gas-burning boilers and upgrading the sewage treatment facilities. In addition, through corporate culture education, the Group carries out the resources conservation campaigns and promotes the importance of green living to all staff, encouraging them to join the green living community.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group values the development and construction for talents and keeps building the platform for the mutual growth of all staff together with the Group through various means. The Group strictly complies with the requirements of Law of the People's Republic of China on Employment Contracts and the Labour Legislation of Hong Kong Special Administrative Region, and abides by the open, fair and just principles while providing employment opportunities, remuneration, leave, benefits, etc. without discriminatory acts towards differences on gender, religion, culture, educational background, etc. All of the labour standards and recruitment procedures are conducted in strict compliance with the relevant labour laws of the PRC to avoid child labour or forced labour.

Moreover, the Group understands the importance of training and development for the employees. Starting from the appointment of a new staff member, induction course on corporate culture, business operation, regulations and so on is provided. Staff members of different grading are further provided with different training on marketing, production, human resources, financial management, etc. to ensure that staff members can solve their problems encountered in work and their comprehensive capabilities can be enhanced.

The Group strives to take care of the interests of customers and maintain product safety. All production lines are GMP certified as required by laws and regulations. Regarding the research and development of new drugs, the Group would perform all research and development procedures in compliance with the regulations and requirements of regulatory authorities to ensure the passing of clinical tests and the successful registration of new drugs. Currently more than 10 new drugs are at different research and development stages and the Group possesses production approvals for more than 500 drugs.

In addition, the Group maintained good and stable working relationship with the major suppliers of raw materials.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. After making specific enquiry, all of the Directors who held their office during the reporting year have confirmed that they had complied with the required standard set out in the Model Code throughout the year. In addition, the Board has adopted the provisions of the Model Code as written guidelines for relevant employees in respect of their dealings in securities of the Company. Such relevant employees who may possess or have access to inside information, have been required to comply with the provisions of the Model Code as well.

FINANCIAL REPORTING

The Board presents a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. Management shall provide such explanations and information to all Directors so as to enable them to make an informed assessment of the financial and other information at board meetings for approval.

DIRECTORS' AND AUDITORS' RESPONSIBILITY STATEMENTS

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2015, the Directors have:

– approved the adoption of all applicable Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are issued by the Hong Kong Institute of Certified Public Accountants;

– selected and applied consistently appropriate accounting policies;

– made judgments and estimates that are prudent and reasonable; and

– prepared the accounts on a going concern basis.

The statement about the auditors' reporting responsibilities is set out in the Independent Auditor's Report on pages 58 to 59 of this report.

AUDITORS' REMUNERATION

The fee charged by the Group's external auditors for statutory audit and non-audit service are set out below:

Services rendered	**Fee paid/payable in 2015**
	RMB'000
Audit service	3,800
Non-audit service *(Note)*	4,791
Total	8,591

Note: Non-audit services include reviewing interim financial report of the Group, professional services on acquisition of Tianjiang Pharmaceutical, tax services and other services during the year.

COMPANY SECRETARY

The Company engages a representative of an external service provider, Mr. HUEN Po Wah, as its Company secretary, and the Company secretary may contact Mr. SITU Min, the Acting Chief Financial Officer of the Company pursuant to code provision F.1.1 of the Code. Mr. HUEN confirmed that he had taken not less than 15 hours' relevant professional training during the year.

INTERNAL CONTROLS

The Board has an overall responsibility for the system of internal controls of the Group and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interest of shareholders and the Group's assets. The Board has conducted an annual review of the effectiveness of system of internal controls which covered relevant financial, operational, compliance control and risk management function within an established framework. The annual review also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The Board believed that the effectiveness of the Group's internal controls and key areas of the Group's system of internal controls are reasonably implemented, which provide prevention of material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting, efficiency of operations and ensure compliance with applicable laws and regulation. Nevertheless, the Board will endeavour its best effort to enhance and improve the internal controls in all aspects of the Group, and will regularly monitor the issues raised by the Audit Committee to ensure appropriate remedial measures have been implemented.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTOR RELATIONS

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of announcements and circulars on the websites of the Stock Exchange and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the interim and full financial year via the websites of the Stock Exchange and the Company;

(c) interim reports, annual reports and circulars that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings;

(e) general meetings; and

(f) meetings with investors and analysts.

The Company also maintains a website at www.china-tcm.com.cn as a communication platform with shareholders and investors, where the Group's business developments and operations, financial information, corporate governance practices and other information are available for public access. Shareholders and investors may also contact the Company's Investor Relationship for any inquiries with the contact details set out below:

Email:	publicrelation@china-tcm.com.cn
Telephone:	(852) 2854 3393
Fax:	(852) 2544 1269
Address:	Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong

Inquiries are dealt with in an informative and timely manner.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties set out in the code provision D.3.1 of the Code. The Board review the compliance of the Code and disclosure in this Corporate Governance Report from time to time. The Board also reviewed the training and continuous professional development of Directors and senior management.

CONSTITUTIONAL DOCUMENT

During the reporting year, there is no change in the Company's constitutional document.

SHAREHOLDERS' RIGHTS

As one of the measures to safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Pursuant to the Listing Rules, any resolution put forward at shareholders' meetings will be voted by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on a show of hands and the poll results will be posted on the websites of the Stock Exchange at "www.hkexnews.hk" and the Company at "www.china-tcm.com.cn" after the relevant shareholders' meetings.

Convening of General Meeting on Request

In accordance with Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), the Directors are required to call a general meeting if the Company has received requests to do so from members of the Company representing at least 5% of the total voting rights of all the members having a right to vote at general meeting. Such requests must state the general nature of the business to be dealt with at the meeting, and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. Such requests may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); and must be authenticated by the person or persons making it. In accordance with Section 567 of the Companies Ordinance, the Directors must call a meeting within 21 days after the date on which they become subject to the requirement under Section 566 of the Companies Ordinance and such meeting must be held on a date not more than 28 days after the date of the notice convening the meeting.

Putting Forward Proposals at Annual General Meeting

To put forward a resolution at an annual general meeting, shareholders are requested to follow the requirements and procedures set out in Sections 615 and 616 of the Companies Ordinance.

Section 615 of the Companies Ordinance provides that the Company must give notice of a resolution if it has received requests that it do so from (a) the members of the Company representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution at the annual general meeting to which the requests relate; or (b) at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate. Such requests (a) may be sent to the Company in hard copy form (by depositing at the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong for the attention of the Board) or in electronic form (by email: publicrelation@china-tcm.com.cn); (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the person or persons making it; and (d) must be received by the Company not later than (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting. Section 616 of the Companies Ordinance provides that the Company that is required under Section 615 of the Companies Ordinance to give notice of a resolution must send a copy of it at the Company's own expense to each member of the Company entitled to receive notice of the annual general meeting (a) in the same manner as the notice of the meeting; and (b) at the same time as, or as soon as reasonably practicable after, it gives notice of the meeting.

Pursuant to article 105 of the articles of association of the Company, no person, other than a retiring director, shall, unless recommended by the Directors for election, be eligible for election to the office of director at any general meeting, unless notice in writing of the intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to the Company provided that the minimum length of the period, during which such notices are given, shall be at least seven days. The period for lodgment of such notices shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting. Detailed procedures for shareholders to propose a person for election as a Director can be found on the Company's website.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. WU Xian, aged 55, was appointed to the Board on 5 February 2013. Mr. WU is the Chairman of the Board with effect from 28 February 2013. Mr. WU graduated from Shanxi College of Finance and Economics with a bachelor's degree in economics in July 1985, and completed a master's course in business administration from Harbin University of Commerce in September 2002. Mr. WU has over 28 years of production and financial management experience in pharmaceutical and healthcare products industry. Mr. WU was previously the head of the planning and development department of Harbin Pharmaceutical Group Co., Ltd., deputy plant manager of Harbin Pharmaceutical Group Co., Ltd. General Pharm. Factory and deputy general manager of Harbin Pharmaceutical Group Bioengineering Co., Ltd. from November 1997 to June 2005. He was also the director and general manager of China National Medicines Guorui Pharmaceutical Co., Ltd. from July 2005 to August 2010. He has been the director, general manager and deputy secretary to the Party Committee of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since August 2010.

Mr. YANG Bin, aged 48, was appointed to the Board on 6 February 2009. Mr. YANG was the Managing Director of the Company since 11 February 2009. Mr. YANG graduated from中央民族大學 (Minzu University of China*) majoring in Biochemistry. Mr. YANG engaged in research and development of new products in 佛山市醫藥總公司 (Foshan City Medical Corporation*), and served as the Deputy General Manager of 佛山市醫藥銷售有限公司 (Foshan City Medical Sale Co., Ltd.*), director of 佛山市生物化學製藥廠 (Foshan City Biochemical Pharmaceutical Factory*) and General Manager of 佛山市華衛醫藥有限公司 (Foshan City Huawei Medical Co., Ltd.*). Mr. YANG has over 20 years of experience in registration of medicines and drugs, research and development and sale of medical products. He had successfully launched a series of new products with good response from the market and enjoys high reputation in the sales market. Mr. YANG is currently the Chairman and a director of Guangdong Medi-World and a director of 山東魯亞製藥有限公司 (Shandong Luya Pharmaceutical Co., Ltd.*).

Mr. WANG Xiaochun, aged 48, was appointed to the Board on 23 October 2013. Mr. WANG was the chairman of the board of directors and the chief executive officer of Tongjitang Chinese Medicines Company, which was listed on the New York Stock Exchange in 2007 and subsequently privatised in 2011. He has been a director of Tongjitang Pharmaceutical (Hong Kong) Limited (a subsidiary of the Tongjitang Chinese Medicines Company) since 2008, a director of Unisources Enterprises Limited (a subsidiary of Tongjitang Chinese Medicines Company) since 2005 and the chairman of the board of directors and the president of Guizhou Tongjitang Pharmaceutical Co., Ltd. (a subsidiary of Tongjitang Chinese Medicines Company) since 1997. Mr. WANG received his bachelor's degree in law from the Southwest University of Political Science and Law in China in 1989.

NON-EXECUTIVE DIRECTORS

Mr. LIU Cunzhou, aged 71, was appointed to the Board on 5 February 2013. Mr. LIU completed a master's course in management engineering from Harbin University of Science and Technology in March 1997. Mr. LIU has over 35 years of management experience in pharmaceutical equipment, pharmaceutical and healthcare products industry. Mr. LIU is currently the chief expert of CNPGC. Mr. LIU was the head of equipment department and engineer of Harbin Pharmaceutical Factory from January 1976 to March 1983, and the deputy plant manager for production and plant manager of Harbin Pharmaceutical Factory from April 1984 to April 1989. From April 1989 to July 1997, Mr. LIU was the deputy general manager of Harbin Pharmaceutical Group Co., Ltd. and plant manager of Harbin Pharmaceutical Factory. He was the chairman and general manager of Harbin Pharmaceutical Group Co., Ltd. from August 1997 to October 2004. Mr. LIU was also a director of CNPGC from December 2005 to October 2011, and had served as the chairman from August 2007 to May 2009. Mr. LIU is also a director of Jihua Group Corporation Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., both of which are listed on the Shanghai Stock Exchange ("SSE").

Mr. ZHANG Jianhui, aged 71, was appointed to the Board on 30 August 2014. Mr. ZHANG was the independent non-executive Director of the Company from June 2009 to February 2013. Mr. ZHANG graduated from Institute of Chemical Engineering, Faculty of Biochemistry of Zhejiang University. Mr. ZHANG is a senior engineer and licensed pharmacist. Mr. ZHANG has 40 years of experience in management of pharmaceutical manufacturing and has obtained the National Technological Advancement Third Class Award. Mr. ZHANG is entitled to the Special Allowance from State Council and is an Excellent Talent of the Professional Technique in the Shandong Province. Mr. ZHANG had been Chairman of Shandong Lukang Pharmaceutical Group and Chairman of Shandong Lukang Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600789). Mr. ZHANG is currently appointed as Deputy Director of the 中國化學制藥工業協會專家委員會 (Specialist Committee of China Pharmaceutical Industry Association) and Consultant of 山東省醫藥工業協會顧問 (Shandong Pharmaceutical Industry Association). Mr. ZHANG is the director of China National Pharmaceutical Group Corporation, the controlling shareholder of the Company, since December 2011.

Mr. DONG Zenghe, aged 50, was appointed to the Board on 6 March 2013. Mr. DONG graduated from East China Institute of Chemical Technology (華東化工學院) (currently known as East China University of Science and Technology (華東理工大學)) with a bachelor's degree in engineering in 1989 and obtained a master's degree of business administration in 2011 from the School of Economics and Management of Tsinghua University, majoring in Senior Business Administration. Mr. DONG is also a senior engineer. Mr. DONG has over 24 years of experience in the pharmaceutical production and management industry. Mr. DONG had been the chief of 東北製藥總廠 ("Northeast General Pharmaceutical Factory"), the chairman of the board of 東北製藥集團股份有限公司 ("Northeast Pharmaceutical Group Co., Ltd.") (a company listed on the Shenzhen Stock Exchange, stock code: 000597), as well as the chairman of the board and general manager of 東北製藥有限責任公司 (Northeast Pharmaceutical Group Co., Ltd.*) from February 2005 to January 2007. Mr. DONG had also been the deputy general engineer of CNPGC from January 2007 to September 2007 and has been the deputy general manager of CNPGC since September 2007 as well as the chairman of the board of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since June 2012.

Mr. ZHAO Dongji, aged 48, was appointed to the Board on 5 February 2013. Mr. ZHAO obtained a bachelor's degree in engineering from Harbin Institute of Technology in 1989, and also obtained a master's degree in business administration from Harbin Institute of Technology in 2004. Mr. ZHAO has over 25 years of related working experience, including over 15 years of management experience in pharmaceutical and health products industry. Mr. ZHAO acted as the deputy head and head of Enterprise Management Department, head of Asset Management Department and Legal Department of Harbin Pharmaceutical Group Co., Ltd. from 2000 to 2011. He also acted as a director of Harbin Pharm Group Sanjing Pharmaceutical Shareholding Co., Ltd (a company listed on the SSE) from June 2004 to February 2011. Mr. ZHAO has served as the manager of Investment Management Department of China National Traditional Chinese Medicine Corporation (formerly named as China National Corp. of Traditional & Herbal Medicine) since 2011. Mr. ZHAO is the deputy general manager of China National Traditional Chinese Medicine Corporation since November 2014.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHOU Bajun, aged 67, was appointed to the Board on 5 February 2013. Mr. ZHOU obtained a doctorate degree in economics from East China Normal University in October 1988. Mr. ZHOU has over 29 years of working experience, including over 12 years working experiences in China's securities market. Mr. ZHOU worked in Sun Hung Kai Financial Group as head of China Business and Director of China Studies from November 1990 to November 1998. Mr. ZHOU worked as deputy general manager of the China Business Department of Hong Kong Construction (Hong Kong) Limited from March 1999 to February 2000, and has been a director of China Everbright Research Limited since March 2000 to June 2014. Since February 2002 to present, he has been senior research fellow of China Everbright Holdings Company Limited. Mr. ZHOU was a member of the Commission on Strategic Development of the Hong Kong Special Administrative Region from November 2005 to June 2012. He was a visiting professor of School of Business, Hong Kong Baptist University from October 2007 to August 2009. He has been a standing commissioner of the Hong Kong and Macau Research Center of Shanghai Academy of Social Science since March 2007. Mr. ZHOU has served as an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since August 2009 to September 2014.

Mr. XIE Rong, aged 64, was appointed to the Board on 5 February 2013. Mr. XIE has over 44 years of working experience. He obtained a doctorate degree in economics, majoring in accounting from Shanghai University of Finance and Economics, in January 1993. He was the deputy head of the Accounting Department of Shanghai University of Finance and Economics and a partner of KPMG China (Shanghai) from September 1994 to November 1997 and from December 1997 to October 2002, respectively. Mr. XIE has been a director of SAIC Motor Corporation Limited (a company listed on the SSE) since April 2003 and was its independent director from April 2003 to June 2008. Mr. Xie was an independent non-executive director of each of China Shipping Development Company Limited (a company listed on the Stock Exchange and the SSE), China Eastern Airlines Corporation Limited (a company listed on the Stock Exchange and the SSE), China CITIC Bank Corporation Limited (a company listed on the Stock Exchange and the SSE), Tianjin Capital Environmental Protection Group Company Limited (a company listed on the Stock Exchange and the SSE) and Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) from May 2003 to May 2009, from June 2003 to May 2010, from February 2007 to October 2012, from April 2008 to April 2014 and from August 2007 to September 2014 respectively. Mr. XIE has been an independent non-executive director of each of Shanghai Baosight Software Co. Ltd. (a company listed on the SSE), China Everbright Bank Company Limited (a company listed on the SSE) and Shenwan Hongyuan Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since April 2010, January 2013 and January 2015, respectively. Mr. XIE was the vice-president of the Shanghai National Accounting Institute from October 2002 to August 2012 and is currently a professor of the Shanghai National Accounting Institute, a member of the Master of Accounting Professional Education Guidance Committee of the State Department Degree Committee.

Mr. YU Tze Shan Hailson, aged 59, was appointed to the Board on 25 November 2013. Upon completing the Electrical Engineering Degree in 1979, Mr. YU worked as an assistant engineer in Ampex Ferrotec Limited (安培泛達有限公司). After three years, he became the manager of equipment maintenance and testing laboratory and subsequently managed the computer engineering and system engineering team for product and system design, product development plan and the establishment of CAD center. In 1987, Mr. YU joined China International Trust and Investment Corporation Hong Kong (Holdings) Limited (中國國際信託投資(香港集團)有限公司) as a general manager of engineering research and development department. During such period, he improved the business of subsidiaries engaged in technology sector and monitored the venture capital operation in respect of the high-technology business of the U.S. company. He also made contribution to the successful listing of two subsidiaries in the U.S. and the asset trading of several subsidiaries and later became the consultant for oil development and LPG terminal project. In 1998, Mr. YU was a deputy managing director of Versitech Limited (港大科橋有限公司), a technology transfer and commercial company of the The University of Hong Kong which mainly commercializes and transfers achievements in scientific research to the business sectors. Additional, Mr. YU has been an independent non-executive director of Sinopharm Group Co., Ltd. (a company listed on the Stock Exchange) since September 2014.

Mr. YU possesses bachelor's and master's degree in Electrical Engineering and a master of arts degree in Arbitration and Dispute Resolution. He completed the Postgraduate Diploma in Investment Management and Graduate Certificates in Hong Kong Laws and Chinese Medicine. He is a fellow of Hong Kong Institution of Engineers, Engineering Council in United Kingdom, Hong Kong Institute of Arbitrators and the Institute of Arbitrators of the United Kingdom.

Mr. LO Wing Yat, aged 57, was appointed to the Board on 27 January 2015. Mr. LO was an independent non-executive director of the Company from February 2009 to February 2013. Mr. LO is an executive director of FDG Electric Vehicles Limited (Stock Code: 729) and has been an executive director of FDG Kinetic Limited (formerly known as CIAM Group Limited (Stock Code: 378) from April 2008 to March 2016, both shares are listed on The Stock Exchange of Hong Kong Limited. He is also the Chief Executive Officer of CITIC International Assets Management Limited and CITIC International Financial Holdings Limited. Mr. LO graduated from the University of Hong Kong with a bachelor's degree in Laws. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. He served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and a partner of Linklaters. During his legal career, Mr. LO was specialized in banking project financing primarily in the PRC.

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the members of
China Traditional Chinese Medicine Co. Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Traditional Chinese Medicine Co. Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 60 to 150, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015
(Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000 (restated – see note 15(b))
Continuing operations			
Revenue	*3(a)*	**3,709,406**	2,650,454
Cost of sales		**(1,515,453)**	(1,007,065)
Gross profit		**2,193,953**	1,643,389
Other revenue	*4*	**129,919**	36,759
Other net income/(expenses)	*4*	**12,426**	(3,474)
Selling and distribution costs		**(1,195,636)**	(903,418)
Administrative expenses		**(384,914)**	(221,560)
Profit from operations		**755,748**	551,696
Finance costs	*5(a)*	**(70,180)**	(62,577)
Share of loss of an associate	*16*	**(1,637)**	–
Gain on disposal of a subsidiary	*15(b)*	**85,439**	–
Profit before taxation	*5*	**769,370**	489,119
Income tax	*6*	**(118,328)**	(70,386)
Profit from continuing operations for the year		**651,042**	418,733

	Note	**2015 RMB'000**	2014 RMB'000 (restated – see note 15(b))
Discontinued operation			
Loss from discontinued operation (net of tax)	*15(b)*	**(11,444)**	(7,187)
Profit for the year		**639,598**	411,546
Attributable to:			
Equity shareholders of the Company			
– Continuing operations		**627,528**	416,755
– Discontinued operation		**(5,836)**	(3,665)
		621,692	413,090
Non-controlling interests			
– Continuing operations		**23,514**	1,978
– Discontinued operation		**(5,608)**	(3,522)
		17,906	(1,544)
Profit for the year		**639,598**	411,546
Earnings/(loss) per share			
Basic and diluted	*10*		
– Continuing operations		**17.02 cents**	16.45 cents
– Discontinued operation		**(0.16) cents**	(0.15) cents
		16.86 cents	16.30 cents

The notes on pages 68 to 150 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015
(Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Profit for the year		**639,598**	411,546
Other comprehensive income for the year (after tax)	*9*		
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")		**56,331**	(687)
Cash flow hedge:			
– Effective portion of changes in fair value of hedging instruments recognised during the period		**(122,887)**	–
– Amount transferred to initial carrying amount of hedged item	*15(a)*	**122,887**	–
Other comprehensive income for the year		**56,331**	(687)
Total comprehensive income for the year		**695,929**	410,859
Attributable to:			
Equity shareholders of the Company		**678,023**	412,403
Non-controlling interests		**17,906**	(1,544)
Total comprehensive income for the year		**695,929**	410,859

The notes on pages 68 to 150 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015
(Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Non-current assets			
Investment properties	11	**2,513**	2,651
Other property, plant and equipment	11	**1,490,168**	674,696
Interests in leasehold land held for own use under operating leases	11	**307,666**	282,893
Construction in progress	12	**179,086**	76,074
Other receivables	20	**135,678**	12,569
		2,115,111	1,048,883
Intangible assets	13	**3,638,341**	948,005
Goodwill	14	**5,389,508**	1,191,052
Interest in an associate	16	**88,136**	–
Other financial assets	18	**–**	1,010
Deferred tax assets	26(b)	**125,546**	48,424
		11,356,642	3,237,374
Current assets			
Other financial assets	18	**100,594**	662
Inventories	19	**1,235,861**	417,695
Trade and other receivables	20	**3,398,227**	1,236,400
Deposits with banks	21	**36,030**	305
Cash and cash equivalents	21	**2,101,856**	439,416
		6,872,568	2,094,478
Current liabilities			
Trade and other payables	22	**2,660,470**	540,113
Bank and other loans	23	**1,600,059**	501,648
Current taxation	26(a)	**148,580**	47,743
Current portion of deferred government grants	24	**81,880**	44,337
		4,490,989	1,133,841
Net current assets		**2,381,579**	960,637
Total assets less current liabilities		**13,738,221**	4,198,011

At 31 December 2015 (continued)
(Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Non-current liabilities			
Deferred tax liabilities	*26(b)*	**901,497**	245,022
Deferred government grants	*24*	**148,663**	25,302
Bank loans	*23*	**850,300**	670,565
		1,900,460	940,889
NET ASSETS		**11,837,761**	3,257,122
CAPITAL AND RESERVES			
Share capital	*27(c)*	**9,809,935**	2,542,246
Reserves		**1,319,533**	641,510
Total equity attributable to equity shareholders of the Company		**11,129,468**	3,183,756
Non-controlling interests		**708,293**	73,366
TOTAL EQUITY		**11,837,761**	3,257,122

Approved and authorised for issue by the board of directors on 21 March 2016.

YANG Bin
Director

WANG Xiaochun
Director

The notes on pages 68 to 150 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Note	Share capital *(note 27(c))* RMB'000	Share premium RMB'000	Capital redemption reserve RMB'000	Exchange reserve *(note 27(d))* RMB'000	Reserve fund *(note 27(e))* RMB'000	Other reserve *(note 27(i))* RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		235,087	2,306,840	319	(116,222)	110,236	(64,539)	288,132	2,759,853	74,910	2,834,763
Changes in equity for 2014:											
Profit for the year		–	–	–	–	–	–	413,090	413,090	(1,544)	411,546
Other comprehensive income		–	–	–	(687)	–	–	–	(687)	–	(687)
Total comprehensive income for the year		–	–	–	(687)	–	–	413,090	412,403	(1,544)	410,859
Waiver of amount due to a non-controlling shareholder	*27(i)*	–	–	–	–	–	11,500	–	11,500	–	11,500
Transition to no-par value regime on 3 March 2014	*27(c)*	2,307,159	(2,306,840)	(319)	–	–	–	–	–	–	–
Transfer to reserve fund		–	–	–	–	47,710	–	(47,710)	–	–	–
At 31 December 2014		2,542,246	–	–	(116,909)	157,946	(53,039)	653,512	3,183,756	73,366	3,257,122

	Note	Attributable to equity shareholders of the Company										
		Share capital (note 27(c))	Share premium	Capital redemption reserve	Exchange reserve (note 27(d))	Reserve fund (note 27(e))	Hedging reserve (note 27(h))	Other reserve (note 27(i))	Retained profits	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015		2,542,246	–	–	(116,909)	157,946	–	(53,039)	653,512	3,183,756	73,366	3,257,122
Changes in equity for 2015:												
Profit for the year		–	–	–	–	–	–	–	621,692	621,692	17,906	639,598
Other comprehensive income												
– Exchange differences on translation of financial statements of operations outside the PRC		–	–	–	56,331	–	–	–	–	56,331	–	56,331
– Cash flow hedge: Effective portion of changes in fair value of hedging instruments recognised during the period		–	–	–	–	–	(122,887)	–	–	(122,887)	–	(122,887)
– Cash flow hedge: Amount transferred to initial carrying amount of hedged item		–	–	–	–	–	122,887	–	–	122,887	–	122,887
Subtotal of other comprehensive income		–	–	–	56,331	–	–	–	–	56,331	–	56,331
Total comprehensive income for the year		–	–	–	56,331	–	–	–	621,692	678,023	17,906	695,929
New shares issued during the year	27(c)	7,267,689	–	–	–	–	–	–	–	7,267,689	–	7,267,689
Acquisition of subsidiaries	15(a)	–	–	–	–	–	–	–	–	–	670,726	670,726
Disposal of a subsidiary	15(b)	–	–	–	–	–	–	–	–	–	(47,554)	(47,554)
Dividends declared from a subsidiary in respect of the current year		–	–	–	–	–	–	–	–	–	(7,621)	(7,621)
Capital injection from a non-controlling equity holder		–	–	–	–	–	–	–	–	–	1,470	1,470
Transfer to reserve fund		–	–	–	–	32,224	–	–	(32,224)	–	–	–
At 31 December 2015		9,809,935	–	–	(60,578)	190,170	–	(53,039)	1,242,980	11,129,468	708,293	11,837,761

The notes on pages 68 to 150 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2015
(Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Operating activities			
Cash generated from operations	*21(b)*	**667,349**	417,843
PRC enterprise income tax paid	*26(a)*	**(148,648)**	(92,844)
Net cash generated from operating activities		**518,701**	324,999
Investing activities			
Payment for the purchase of property, plant and equipment		**(76,869)**	(28,778)
Payment for the purchase of intangible assets		**–**	(644)
Payment for the purchase of leasehold land held for own use under operating leases		**(11,907)**	(11,174)
Proceeds from disposal of property, plant and equipment		**989**	14,572
Payment for construction in progress		**(148,914)**	(65,826)
(Decrease)/increase in deposits with banks		**(35,725)**	3,934
Payment for purchase of available-for-sale securities		**(500,000)**	(5,000)
Proceeds from disposal of available-for-sale securities		**800,979**	10,000
Cash consideration paid for the acquisition of subsidiaries, net of cash acquired	*15(a)*	**(7,451,568)**	–
Proceeds from disposal of a subsidiary, net of cash disposed	*15(b)*	**110,390**	–
Proceeds from disposal of financial assets at fair value through profit or loss		**55,665**	–
Proceeds from forward exchange contracts		**9,842**	–
Interest received		**89,217**	1,694
Net cash used in investing activities		**(7,157,901)**	(81,222)
Financing activities			
Proceeds from new bank and other loans		**3,386,508**	749,648
Net proceeds from shares issued	*27(c)*	**7,199,974**	–
Repayment of proceeds from a related party		**–**	(5,000)
Repayment of bank loans		**(2,184,330)**	(821,884)
Interest paid		**(58,269)**	(64,217)
Other borrowing costs paid		**(14,217)**	(8,231)
Net cash generated from/(used in) financing activities		**8,329,666**	(149,684)
Net increase in cash and cash equivalents		**1,690,466**	94,093
Cash and cash equivalents at 1 January		**439,416**	345,411
Effect of foreign exchange rate changes		**(28,026)**	(88)
Cash and cash equivalents at 31 December		**2,101,856**	439,416

The notes on pages 68 to 150 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set at below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

As at 31 December 2015, the Company's current liabilities exceeded its current assets by RMB973,173,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. Most of the PRC subsidiaries of the Company are realising earnings and the Company is able to control the timing of dividend distribution of these PRC subsidiaries in order to improve the liquidity position. The directors have evaluated all the relevant facts available to them and are of the opinion that there are good track records or relationships with banks which enhance the Company's ability to renew the current bank loans upon expiry or to secure other adequate banking facilities to enable the Company to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the financial statement of the Company has been prepared on a going concern basis. Should the Company be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for any further liabilities which might arise. The effect of these adjustments has not been reflected in the financial statement of the Company.

Other than certain financial instruments classified as available-for-sale and derivative financial instruments stated at their fair value (as explained in accounting policy set out in notes 1(i) and 1(j) respectively), the basis of preparation of the financial statements is the historical cost basis.

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(cc)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(c) Changes in accounting policies

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

- *Annual Improvements to HKFRSs 2010-2012 Cycle*

- *Annual Improvements to HKFRSs 2011-2013 Cycle*

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

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, Related party disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group measures any non-controlling interests at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(t) or (u) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(i) or, where appropriate, the cost on initial recognition of an investment in an associate (see note 1(e)).

In the Company's statement of financial position, investment in a subsidiary is stated at cost less impairment losses (see note 1(q)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(cc)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(cc)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(h) and (q)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(i)).

In the Company's statement of financial position, investments in associates, if any, are stated at cost less impairment losses (see note 1(q)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(cc)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Joint arrangements

A joint arrangement is a contractual arrangement between the Group and other parties, where they have contractually agreed to share joint control, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

(g) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances. The Group recognises its interest in the joint operation from the date that joint control commences until the date on which the Group ceases to have joint control over the joint operation.

Unrealised profits and losses resulting from transactions between the Group and its joint operations are eliminated to the extent of the Group's interest in the joint operation, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over the joint operation, it is accounted for as a disposal of the entire interest in the joint operation, with a resulting gain or loss being recognised in profit or loss.

(h) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(q)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(z)(iii) and (iv).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(q)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in note 1(z)(iii) and (iv), respectively. Foreign exchange gains and losses resulting from charges in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(q)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(j) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(k)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(l) Investment property

Investment properties are property held either to earn rental income or for capital appreciation. Investment properties are measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the investment property. Rental income from investment properties is accounted for as described in note 1(z)(ii).

(m) Other property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(q)).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, borrowing cost and any other costs directly attributable to bringing the asset to a working condition for its intended use.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Other property, plant and equipment (continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

– Plant, machinery and equipment	3-15 years
– Motor vehicles	4-10 years
– Others	2-12 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(n) Construction in progress

Construction in progress represents buildings and, various plant and equipment under construction and pending installation, and is stated at cost less any impairment losses (see note 1(q)). Cost comprises direct costs of construction as well as borrowing cost, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to borrowing costs, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(o) Intangible assets (other than goodwill)

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Intangible assets (other than goodwill) (continued)

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(q)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Product protection rights	over their expected useful life
– Trademarks with finite useful life	10-50 years
– Distribution network	10 years
– Customer relationship	3-21 years
– Software	3-10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(p) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Leased assets (continued)

(i) Classification of assets leased to the Group (continued)

Property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(l)).

(q) Impairment of assets

(i) Impairment of investments in debt and equity securities and trade and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and trade and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(q)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(q)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and trade and other receivables (continued)

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- investment properties;
- interests in leasehold land classified as being held under an operating lease;
- construction in progress;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(q)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(r) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(s) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(q)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(u) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note1(y)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(w) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(x) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Income tax (continued)

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(y) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(y)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(y)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(y)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(z) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Revenue recognition (continued)

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(aa) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency assets used to hedge a foreign currency risk of a committed future transaction which are recognised in other comprehensive income (see note 1(k)).

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Translation of foreign currencies (continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(bb) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(cc) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(cc) Non-current assets held for sale and discontinued operations (continued)

(i) Non-current assets held for sale (continued)

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(dd) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personal services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ee) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ee) Segment reporting (continued)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Notes 11(b), 14 and 28 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

2 ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

(a) Impairment

If circumstances indicate that the net book value of property, plant and equipment, goodwill, intangible assets and interests in leasehold land held for own use under operating leases may not be recoverable, these assets may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, selling price, material costs and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including sales volume, expected changes to selling prices and operating costs, and discount rate.

In addition, the Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the trade and other receivables balance, credit-worthiness of the debtors and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated and amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account upgrading and improvement work performed, anticipated technological changes, and legal or similar limits on the use of assets. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(c) Write down of inventories

The Group determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in market condition.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

Continuing operations

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

	2015	2014
	RMB'000	RMB'000
Sales of pharmaceutical products		
– Pills and tablets	**1,912,282**	1,781,062
– TCM Granules	**978,892**	–
– Granules	**551,646**	494,005
– Injections	**104,813**	115,363
– Medicine wine	**65,942**	81,585
– Others	**95,831**	178,439
	3,709,406	2,650,454

The Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Group's revenues (2014: Nil).

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

(b) Segment reporting

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

- Sinopharm Group Dezhong (Foshan) Pharmaceutical Co., Ltd. (previously known as "Foshan Dezhong Pharmaceutical Co., Ltd.", "Dezhong")

- Sinopharm Group Feng Liao Xing (Foshan) Pharmaceutical Co., Ltd. (previously known as "Foshan Feng Liao Xing Pharmaceutical Co., Ltd.", "Feng Liao Xing")

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

- Sinopharm Group Guangdong Medi-World Pharmaceutical Co., Ltd. (previously known as "Guangdong Medi-World Pharmaceutical Co., Ltd.", "Guangdong Medi-World")
- Sinopharm Group Luya (Shandong) Pharmaceutical Co., Ltd. (previously known as "Shandong Luya Pharmaceutical Co., Ltd.", "Luya")
- Sinopharm Group Feng Liao Xing (Foshan) Medicinal Material & Slices Co., Ltd. (previously known as "Foshan Feng Liao Xing Medicinal Material & Slices Co., Ltd.", "Feng Liao Xing Material & Slices")
- Foshan Winteam Pharmaceutical Sales Company Limited ("Winteam Sales")
- Sinopharm Group Tongjitang (Guizhou) Pharmaceutical Co., Ltd. (previously known as "Guizhou Tongjitang Pharmaceutical Co., Ltd.", "Tongjitang Pharmaceutical")
- Sinopharm Group Jingfang (Anhui) Pharmaceutical Co., Ltd. (previously known as "Anhui Jingfang Pharmaceutical Co., Ltd.", "Jingfang")
- Sinopharm Group Longlife (Guizhou) Pharmaceutical Co., Ltd. (previously known as "Guizhou Longlife Pharmaceutical Co., Ltd.", "Guizhou LLF")
- Qinghai Pulante Pharmaceutical Co., Ltd. ("Pulante")
- Guizhou Zhongtai Biological Technology Company Limited and its subsidiaries ("Guizhou Zhongtai", discontinued operation)
- Jiangyin Tianjiang Pharmaceutical Co., Ltd. and its subsidiaries (newly acquired in October 2015, "Jiangyin Tianjiang Group")

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities

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

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

Year ended 31 December 2015

	Continuing operations												Discontinued operation	
	Dezhong RMB'000	Feng Liao Xing RMB'000	Guangdong Medi-World RMB'000 *(note)*	Luya RMB'000	Feng Liao Xing Material & Slices RMB'000	Winteam Sales RMB'000	Tongjitang Pharmaceutical RMB'000	Jingfang RMB'000	Guizhou LLF RMB'000	Pulante RMB'000	Jiangyin Tianjiang Group RMB'000	Subtotal RMB'000	Guizhou Zhongtai RMB'000	Total RMB'000
Revenue from external customers	11,168	5,801	31,993	19,343	51,468	1,055,504	1,188,348	310,149	56,740	-	978,892	3,709,406	19,772	3,729,178
Inter-segment revenue	275,824	215,637	391,998	48,973	53,383	232	643	6	39	29,173	-	1,015,908	-	1,015,908
Reportable segment revenue	286,992	221,438	423,991	68,316	104,851	1,055,736	1,188,991	310,155	56,779	29,173	978,892	4,725,314	19,772	4,745,086
Reportable segment profit/(loss) (adjusted EBITDA)	77,093	54,690	92,316	32,505	6,580	20,466	250,842	78,172	11,012	11,609	245,916	881,201	(9,403)	871,798
Interest income	1,770	21	86,791	5	9	78	726	2,693	511	35	3,659	96,298	103	96,401
Interest expenses	4,348	5,276	15,501	-	673	458	14,399	703	-	-	-	41,358	1,413	42,771
Depreciation and amortisation for the year	16,968	5,168	17,489	5,445	539	596	54,715	7,344	149	1,204	57,461	167,078	1,325	168,403
Reportable segment assets (including interest in an associate)	936,859	629,130	721,925	128,523	148,429	464,390	3,140,538	576,198	113,702	96,469	11,271,583	18,227,746	-	18,227,746
Additions to non-current assets during the year	1,016	9,262	124,444	670	3,379	166	112,858	5,934	248	6	3,866,643	4,124,626	1,179	4,125,805
Reportable segment liabilities	480,377	285,900	919,549	39,371	145,787	299,867	664,364	195,157	48,375	18,515	931,699	4,028,961	-	4,028,961

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results, assets and liabilities (continued)

Year ended 31 December 2014

	Continuing operations											Discontinued operation	
	Dezhong RMB'000	Feng Liao Xing RMB'000	Guangdong Medi-World RMB'000 *(note)*	Luya RMB'000	Feng Liao Xing Material & Slices RMB'000	Winteam Sales RMB'000	Tongjitang Pharmaceutical RMB'000	Jingfang RMB'000	Guizhou LLF RMB'000	Pulante RMB'000	Subtotal RMB'000	Guizhou Zhongtai RMB'000	Total RMB'000
Revenue from external customers	6,183	26,756	19,886	36,321	35,424	1,046,716	1,150,884	259,100	48,455	20,729	2,650,454	39,719	2,690,173
Inter-segment revenue	277,272	171,637	324,344	35,220	52,621	90	1,312	–	31	6,232	868,759	–	868,759
Reportable segment revenue	283,455	198,393	344,230	71,541	88,045	1,046,806	1,152,196	259,100	48,486	26,961	3,519,213	39,719	3,558,932
Reportable segment profit (adjusted EBITDA)	94,953	30,088	67,815	27,316	3,078	45,225	352,464	60,713	8,691	8,817	699,160	4,169	703,329
Interest income	143	151	34	10	15	149	251	387	164	76	1,380	314	1,694
Interest expenses	9,886	5,393	8,427	–	540	743	37,588	–	–	–	62,577	1,640	64,217
Depreciation and amortisation for the year	17,571	5,815	18,485	5,505	419	576	53,141	4,358	140	1,278	107,288	11,810	119,098
Reportable segment assets	1,024,135	370,105	530,795	175,780	232,043	433,783	3,053,801	300,378	52,062	66,225	6,239,107	244,334	6,483,441
Additions to non-current assets during the year	9,068	841	19,104	999	1,723	457	60,711	6,656	69	303	99,931	683	100,614
Reportable segment liabilities	478,881	94,233	611,032	17,993	211,627	425,937	399,701	120,855	17,077	14,922	2,392,258	36,475	2,428,733

Note: The reportable segment assets of Guangdong Medi-World as at 31 December 2015 excluded RMB887,301,000 of investments in subsidiaries (31 December 2014: RMB503,086,000).

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

	2015 Continuing operations RMB'000	2015 Discontinued operation RMB'000	2015 Total RMB'000	2014 Continuing operations RMB'000	2014 Discontinued operation RMB'000	2014 Total RMB'000
Revenue						
Reportable segment revenue	**4,725,314**	**19,772**	**4,745,086**	3,519,213	39,719	3,558,932
Elimination of inter-segment revenue	**(1,015,908)**	**–**	**(1,015,908)**	(868,759)	–	(868,759)
Consolidated revenue	**3,709,406**	**19,772**	**3,729,178**	2,650,454	39,719	2,690,173
Profit						
Reportable segment profit	**881,201**	**(9,403)**	**871,798**	699,160	4,169	703,329
Elimination of inter-segment profits	**(69,424)**	**–**	**(69,424)**	(23,694)	(277)	(23,971)
Reportable segment profit derived from the Group's external customers	**811,777**	**(9,403)**	**802,374**	675,466	3,892	679,358
Gain on disposal of a subsidiary	**85,439**	**–**	**85,439**	–	–	–
Share of loss of an associate	**(1,637)**	**–**	**(1,637)**	–	–	–
Other revenue and net income	**142,345**	**653**	**142,998**	33,285	1,612	34,897
Depreciation and amortisation	**(167,078)**	**(1,325)**	**(168,403)**	(107,288)	(11,810)	(119,098)
Finance costs	**(41,358)**	**(1,413)**	**(42,771)**	(62,577)	(1,640)	(64,217)
Unallocated head office and corporate expenses	**(60,118)**	**–**	**(60,118)**	(49,767)	–	(49,767)
Consolidated profit/(loss) before taxation	**769,370**	**(11,488)**	**757,882**	489,119	(7,946)	481,173

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (continued)

	At 31 December 2015 RMB'000	At 31 December 2014 RMB'000
Assets		
Reportable segment assets	**18,227,746**	6,483,441
Elimination of inter-segment receivables	**(1,201,957)**	(1,318,451)
	17,025,789	5,164,990
Other non-current financial assets	**–**	1,010
Other current financial assets	**100,594**	662
Deferred tax assets	**125,546**	48,424
Unallocated head office and corporate assets	**977,281**	116,766
Consolidated total assets	**18,229,210**	5,331,852
Liabilities		
Reportable segment liabilities	**4,028,961**	2,428,733
Elimination of inter-segment payables	**(1,201,957)**	(1,318,451)
	2,827,004	1,110,282
Current tax liabilities	**148,580**	47,743
Deferred tax liabilities	**901,497**	245,022
Unallocated head office and corporate liabilities	**2,514,368**	671,683
Consolidated total liabilities	**6,391,449**	2,074,730

(iii) Geographic information

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

4 OTHER REVENUE AND NET INCOME/(EXPENSES)

Continuing operations

	2015 RMB'000	2014 RMB'000
Other revenue		
Government grants		
– Unconditional subsidies	**28,166**	30,551
– Conditional subsidies (note 24)	**4,589**	3,817
Interest income	**96,298**	1,380
Rental income	**866**	1,011
	129,919	36,759

	2015 RMB'000	2014 RMB'000
Other net income/(expenses)		
Net loss on disposal of property, plant and equipment	**(650)**	(559)
Gain on disposal of available-for-sale securities	**566**	–
Unrealised loss on equity securities (at fair value)	**(68)**	(502)
Net gain on forward exchange contracts	**9,842**	–
Exchange gain/(loss)	**7,433**	(1,688)
Others	**(4,697)**	(725)
	12,426	(3,474)

5 PROFIT BEFORE TAXATION

Continuing operations

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

		2015 RMB'000	2014 RMB'000
(a)	Finance cost		
	Interest on bank advances and other borrowings	**70,180**	62,577
(b)	Staff costs:		
	Salaries, wages and other benefits	**528,167**	385,905
	Contributions to defined contribution retirement plans	**35,384**	19,773
		563,551	405,678
(c)	Other items		
	Auditors' remuneration	**8,591**	6,257
	Depreciation		
	– investment properties	**138**	162
	– interests in leasehold land held for own use under operating leases	**5,015**	4,881
	– other property, plant and equipment	**84,478**	55,970
	Amortisation		
	– intangible assets	**77,447**	46,275
	Impairment losses		
	– trade receivables (note 20(b))	**56,039**	5,627
	– other receivables	**6,155**	(1,327)
	Operating lease charges: minimum lease payments	**2,604**	4,538
	Research and development costs	**112,324**	67,727
	Rentals receivable from investment properties	**(866)**	(1,011)
	Cost of inventories[#] (note 19)	**1,515,453**	1,007,065

[#] Cost of inventories includes RMB255,473,000 (2014: RMB187,894,000) relating to staff cost, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2015 **RMB'000**	2014 RMB'000
Current tax		
PRC enterprise income tax for the year	**163,872**	91,149
Under/(over)-provision in respect of prior years	**697**	(2,331)
	164,569	88,818
Deferred tax		
Origination and reversal of temporary differences	**(46,285)**	(18,106)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**–**	(1,085)
Income tax expenses	**118,284**	69,627
Representing:		
Income tax expenses from continuing operations	**118,328**	70,386
Income tax benefits from discontinued operation (note15(b))	**(44)**	(759)
Income tax expenses	**118,284**	69,627

No provision has been made for the Hong Kong Profits Tax as the Company and its Hong Kong incorporated subsidiaries sustained losses in Hong Kong for taxation purposes during the year (2014: Nil).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

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

Pursuant to the Corporate Income Tax Law of the PRC, the statutory tax rate applicable to the Group's PRC subsidiaries is 25%, except for:

1) Jingfang and Luya were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% from 2014 to 2016 pursuant to documents issued by local government authorities. Feng Liao Xing, Dezhong, Guangdong Medi-World are applying for the extension of "Advanced and New Technology Enterprise" and the entitlement of the preferential income tax rate for the years of 2014 to 2016. In the opinion of directors, they do not foresee any difficulties to obtain the approval of the preferential income tax rate for 2014 to 2016. The PRC income tax rate applicable to Feng Liao Xing, Dezhong, Guangdong Medi-World, Jingfang and Luya was of 15% for the year ended 31 December 2015 (2014: 15%);

2) Guangdong Yifang Pharmaceutical Co., Ltd. ("GD Yifang") and Jiangyin Tianjiang Pharmaceutical Co., Ltd. ("JY Tianjiang"), which were recognised as advanced and new technology enterprises to enjoy a preferential enterprise income tax rate of 15% from 2015 to 2017 and the middle of 2015 to 2018 respectively pursuant to documents issued by local government authorities. The PRC income tax rate applicable to GD Yifang and JY Tianjiang was of 15% for 2015 (GD Yifang and JY Tianjiang were newly acquired in October 2015); and

3) Tongjitang Pharmaceutical, Guizhou LLF, Pulante, Guizhou Zhongtai Biological Technology Company Limited and Longxi Yifang Pharmaceutical Co., Ltd. ("Longxi Yifang"), being a qualified enterprise located in the western region of the PRC, enjoys a preferential income tax rate of 15% for the years ended 31 December 2015 and 2014, which will be effective to 31 December 2020 pursuant to CaiShui [2011] No. 58 dated 27 July 2011.

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

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

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

As a part of the continuing evaluation of the funding needs of its subsidiaries, the directors have determined that certain of the undistributed profits of the Group's PRC subsidiaries (except for the Jiangyin Tianjiang Group) before 1 January 2013 will not be distributed in the foreseeable future. As such, the deferred tax liabilities as at 31 December 2012 in the amount of RMB12,000,000 were reversed during the year ended 31 December 2014. In addition, the directors have also determined that the undistributed profits of the Group's PRC subsidiaries (except for the Jiangyin Tianjiang Group) on or after 1 January 2013 will not be distributed in the foreseeable future. As such, no further deferred tax liabilities in this regard have been recognised on the undistributed profits earned by the Group's PRC subsidiaries (except for the Jiangyin Tianjiang Group) on or after 1 January 2013 as at 31 December 2015 and 2014 (note 26(d)).

As for the Jiangyin Tianjiang Group, the directors has declared that the retained profits of RMB60,000,000 was distributed according to the board resolution dated on 16 December 2015. The Company would receive the dividend of RMB49,080,000 from the Jiangyin Tianjiang Group according to its equity interest in the Jiangyin Tianjiang Group. Withholding tax of RMB4,908,000 was recognised in current taxation in respect of the actual dividend declared to the Company. The directors have determined that there is no further plan for dividend distribution of the Jiangyin Tianjiang Group in the foreseeable future since 31 December 2015.

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

	2015 RMB'000	2014 RMB'000
Profit before taxation	**757,882**	481,173
Notional tax on profit before taxation, calculated at rates applicable to profits in the jurisdictions concerned	**194,366**	123,637
Tax effect on non-deductible expenses	**15,609**	10,534
Tax effect on non-taxable income	**(17,024)**	–
Income tax concessions	**(80,601)**	(50,836)
Under/(over)-provision in respect of prior years	**697**	(2,331)
Tax effect of unused tax losses not recognised	**329**	2,241
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**–**	(1,085)
Effect of tax losses not recognised in prior years but utilised in current year	**–**	(533)
Provision/(reversal) of withholding tax on retained profits	**4,908**	(12,000)
Actual tax expense	**118,284**	69,627

7 DIRECTORS' REMUNERATION

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	2015				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	739	–	15	754
Yang Bin	191	1,704	407	100	2,402
Wang Xiaochun	191	1,664	407	77	2,339
Non-executive directors					
Liu Cunzhou	–	–	–	–	–
Zhao Dongji	–	–	–	–	–
Dong Zenghe	–	–	–	–	–
Zhang Jianhui (ii)	–	–	–	–	–
Independent non-executive directors					
Zhou Bajun	204	33	–	–	237
Xie Rong	204	33	–	–	237
Yu Tze Shan Hailson	204	33	–	–	237
Lo Wing Yat (iv)	189	24	–	–	213
	1,183	4,230	814	192	6,419

7 DIRECTORS' REMUNERATION (CONTINUED)

	2014				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Wu Xian	–	950	–	–	950
Yang Bin	185	1,701	–	100	1,986
Wang Xiaochun	185	1,661	–	78	1,924
Non-executive directors					
Liu Cunzhou	185	–	–	–	185
She Lulin (i)	–	–	–	–	–
Zhao Dongji	–	–	–	–	–
Dong Zenghe	–	–	–	–	–
Zhang Jianhui (ii)	–	–	–	–	–
Independent non-executive directors					
Zhou Bajun	185	–	–	–	185
Xie Rong	185	–	–	–	185
Fang Shuting (iii)	167	–	–	–	167
Yu Tze Shan Hailson	185	–	–	–	185
Lo Wing Yat (iv)	–	–	–	–	–
	1,277	4,312	–	178	5,767

Notes:

(i) Resigned on 30 August 2014.

(ii) Appointed as a non-executive director on 30 August 2014.

(iii) Resigned on 25 November 2014.

(iv) Appointed as an independent non-executive director on 27 January 2015.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2014: three) are directors whose remuneration is disclosed in note 7. The aggregate of the emoluments in respect of the other two (2014: two) individual was as follows:

	2015 RMB'000	2014 RMB'000
Salaries and other emoluments	**2,212**	1,685
Retirement scheme contributions	**106**	92
	2,318	1,777

The emoluments of the two (2014: two) individuals with highest emoluments are within the following bands:

	2015 Number of individuals	2014 Number of individuals
HKD		
Nil – 1,000,000	**–**	1
1,000,001 – 1,500,000	**1**	–
1,500,001 – 2,000,000	**1**	1

9 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2015			2014		
	Before-tax amount RMB'000	**Tax (expense)/ benefit RMB'000**	**Net-of-tax amount RMB'000**	Before-tax amount RMB'000	Tax (expense)/ benefit RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation of: – financial statements of operations outside the PRC	**56,331**	**–**	**56,331**	(687)	–	(687)
Cash flow hedge: net movement in hedging reserve	**–**	**–**	**–**	–	–	–
Other comprehensive income	**56,331**	**–**	**56,331**	(687)	–	(687)

(b) Components of other comprehensive income

	2015 RMB'000	2014 RMB'000
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**(122,887)**	–
Amount transferred to initial carrying amount of hedged item	**122,887**	–
Net movement in the hedging reserve during the period recognised in other comprehensive income	**–**	–

10 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB621,692,000 (2014: RMB413,090,000) and the weighted average of 3,686,873,104 ordinary shares (2014: 2,533,899,186 ordinary shares) in issue during the year, calculated as follows:

	2015	2014
Profit attributable to the equity shareholders of the Company (RMB'000)	**621,692**	413,090
Number of ordinary shares in issue for the purpose of basic earnings per share (thousands)	**3,686,873**	2,533,899
Basic earnings per share (RMB per share)	**16.86 cents**	16.30 cents
Continuing operations		
Profit attributable to the equity shareholders of the Company (RMB'000)	**627,528**	416,755
Number of ordinary shares in issue for the purpose of basic earnings per share (thousands)	**3,686,873**	2,533,899
Basic earnings per share (RMB per share)	**17.02 cents**	16.45 cents
Discontinued operation		
Loss attributable to the equity shareholders of the Company (RMB'000)	**(5,836)**	(3,665)
Number of ordinary shares in issue for the purpose of basic loss per share (thousands)	**3,686,873**	2,533,899
Basic loss per share (RMB per share)	**(0.16) cents**	(0.15) cents

(i) Weighted average number of ordinary shares

	2015	2014
	'000	'000
Issued ordinary shares at 1 January	**2,533,899**	2,533,899
Effect of shares issued (note 27(c))	**1,152,974**	–
Weighted average number of ordinary shares at 31 December	**3,686,873**	2,533,899

(b) Diluted earnings per share

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

11 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Others RMB'000	Sub-total RMB'000	Investment properties RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2014	418,985	332,911	29,215	78,073	859,184	7,160	170,761	1,037,105
Additions	3,993	10,531	1,944	7,446	23,914	–	160,120	184,034
Transfer from construction in progress (note12)	60,918	15,378	179	2,522	78,997	–	–	78,997
Disposals	(352)	(4,903)	(764)	(882)	(6,901)	–	(28,500)	(35,401)
Exchange adjustments	5	–	1	7	13	–	–	13
At 31 December 2014	483,549	353,917	30,575	87,166	955,207	7,160	302,381	1,264,748
At 1 January 2015	483,549	353,917	30,575	87,166	955,207	7,160	302,381	1,264,748
Additions	14,862	19,731	4,253	26,576	65,422	–	11,907	77,329
Acquisition of subsidiaries (note 15(a))	555,158	143,906	4,732	105,762	809,558	–	120,450	930,008
Transfer from construction in progress (note12)	66,066	25,625	–	7,769	99,460	–	–	99,460
Disposals	(5,634)	(1,737)	(863)	(3,235)	(11,469)	(908)	(94,722)	(107,099)
Disposal of a subsidiary (note 15(b))	(42,521)	(35,219)	(1,879)	(8,683)	(88,302)	–	(9,861)	(98,163)
Exchange adjustments	91	–	50	178	319	–	–	319
At 31 December 2015	1,071,571	506,223	36,868	215,533	1,830,195	6,252	330,155	2,166,602
Accumulated depreciation and amortisation:								
At 1 January 2014	38,474	139,659	9,138	35,484	222,755	4,347	14,311	241,413
Charge for the year	24,100	24,783	4,347	10,478	63,708	162	5,238	69,108
Written back on disposals	(141)	(4,413)	(579)	(826)	(5,959)	–	(61)	(6,020)
Exchange adjustments	1	–	1	5	7	–	–	7
At 31 December 2014	62,434	160,029	12,907	45,141	280,511	4,509	19,488	304,508
At 1 January 2015	62,434	160,029	12,907	45,141	280,511	4,509	19,488	304,508
Charge for the year	33,742	35,029	3,889	12,749	85,409	138	5,104	90,651
Written back on disposals	(5,426)	(932)	(774)	(2,698)	(9,830)	(908)	(1,429)	(12,167)
Disposal of a subsidiary (note 15(b))	(5,118)	(8,020)	(521)	(2,664)	(16,323)	–	(674)	(16,997)
Exchange adjustments	52	–	43	165	260	–	–	260
At 31 December 2015	85,684	186,106	15,544	52,693	340,027	3,739	22,489	366,255
Net book value:								
At 31 December 2015	985,887	320,117	21,324	162,840	1,490,168	2,513	307,666	1,800,347
At 31 December 2014	421,115	193,888	17,668	42,025	674,696	2,651	282,893	960,240

11 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (CONTINUED)

(a) The interests in leasehold land held for own use under operating leases and investment properties are held on medium-term leases of 50 to 70 years in the PRC. At 31 December 2015, the remaining period of the land use rights ranged from 22 years to 49 years.

(b) The Group leases out investment properties under operating leases. The leases typically run for an initial period of five years, with an option to renew the lease after that date at which time all terms are renegotiated. One of the leases runs for twenty years with three months' notice for termination. Lease payments of this lease are gradually increased during the lease period to reflect market rentals. None of the leases includes contingent rentals.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2015 **RMB'000**	2014 RMB'000
Within 1 year	**342**	342

All investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The fair value of the investment properties as at 31 December 2015 is RMB14,410,000 (2014: RMB15,820,000) by reference to net rental income allowing for reversionary income potential. The valuations of the investment properties as at 31 December 2015 and 31 December 2014 were both carried out by an independent firm of professional valuers.

(c) Certain interests in leasehold land held for own use under operating leases and buildings with carrying value of RMB41,449,000 were pledged as securities of bank loans of the Group as at 31 December 2015 (2014: RMB131,776,000) (see note 23).

(d) The Jiangyin Tianjiang Group was in the process of applying for the title certificates of certain interests in leasehold lands and buildings with an aggregate carrying amount of RMB143,155,000 as at 31 December 2015. Certain revenue of the Jiangyin Tianjiang Group is generating from the usage of these lands and buildings during the year ended 31 December 2015.

12 CONSTRUCTION IN PROGRESS

	2015 **RMB'000**	2014 RMB'000
At 1 January	**76,074**	89,245
Acquisition of subsidiaries (note 15(a))	**53,558**	–
Additions	**148,914**	65,826
Transfer to property, plant and equipment (note 11)	**(99,460)**	(78,997)
At 31 December	**179,086**	76,074

Construction in progress mainly represents premises and equipments under construction as at 31 December 2015 and 2014.

13 INTANGIBLE ASSETS

	Product protection rights RMB'000	Trademarks RMB'000	Distribution network RMB'000	Software RMB'000	Customer relationship RMB'000	Total RMB'000
Cost:						
At 1 January 2014	647,858	300,558	59,818	1,232	107,081	1,116,547
Additions	–	–	–	644	–	644
Disposals	–	–	–	(100)	–	(100)
At 31 December 2014	647,858	300,558	59,818	1,776	107,081	1,117,091
At 1 January 2015	647,858	300,558	59,818	1,776	107,081	1,117,091
Acquisition of subsidiaries (note 15(a))	1,004,078	–	–	–	1,787,794	2,791,872
Disposal of a subsidiary (note 15(b))	(30,009)	–	(818)	(634)	–	(31,461)
At 31 December 2015	1,621,927	300,558	59,000	1,142	1,894,875	3,877,502
Accumulated amortisation and impairment loss:						
At 1 January 2014	73,559	13,801	29,110	644	2,082	119,196
Amortisation for the year	31,178	1,729	6,002	298	10,783	49,990
Written back on disposals	–	–	–	(100)	–	(100)
At 31 December 2014	104,737	15,530	35,112	842	12,865	169,086
At 1 January 2015	104,737	15,530	35,112	842	12,865	169,086
Amortisation for the year	38,190	1,703	5,909	413	31,537	77,752
Disposal of a subsidiary (note 15(b))	(7,110)	–	(213)	(354)	–	(7,677)
At 31 December 2015	135,817	17,233	40,808	901	44,402	239,161
Net book value:						
At 31 December 2015	1,486,110	283,325	18,192	241	1,850,473	3,638,341
At 31 December 2014	543,121	285,028	24,706	934	94,216	948,005

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

13 INTANGIBLE ASSETS (CONTINUED)

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

	2015 **RMB'000**	2014 RMB'000
– Tongjitang Pharmaceutical	**198,972**	198,972
– Jingfang	**37,779**	37,779
– Guizhou LLF	**10,075**	10,075
– Pulante	**5,037**	5,037
	251,863	251,863

The recoverable amount of the trademark that has indefinite useful life is determined based on value-in-use calculations by preparing cash flow projections of the relevant CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows for the five-year period are extrapolated to cover a period of five (2014: five) more years (the "Extrapolated Period") using an estimated increased rate of 3% (2014: 3%) in selling prices and costs with no growth in sales volume. Cash flows beyond the Extrapolated Period are forecasted using an estimated selling price and cost in the last year of the Extrapolated Period with no growth in sales volume. The pre-tax rate used to discount the forecast cash flows at 17.99% (2014: 17.64%). No impairment loss was recognised during the year ended 31 December 2015 (2014: Nil).

Certain product protection rights with carrying value of RMB3,776,000 were pledged as securities of bank loans of the Group as at 31 December 2015 (2014: RMB4,203,000) (see note 23).

14 GOODWILL

	2015 **RMB'000**	2014 RMB'000
Cost and carrying amount:		
At 1 January	**1,191,052**	1,191,052
Addition acquired through business combination (note 15(a))	**4,292,443**	–
Disposal of a subsidiary (note 15(b))	**(93,987)**	–
At 31 December	**5,389,508**	1,191,052

14 GOODWILL (CONTINUED)

Impairment tests for cash-generating units containing goodwill

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

	2015	2014
	RMB'000	RMB'000
Manufacture and sale of pharmaceutical products		
– Dezhong	**100,391**	100,391
Manufacture and sale of pharmaceutical products		
– Feng Liao Xing	**23,664**	23,664
Manufacture and sale of pharmaceutical products		
– Guangdong Medi-World	**26,055**	26,055
Manufacture and sale of pharmaceutical products		
– Luya	**11,221**	11,221
Sale of pharmaceutical products		
– Feng Liao Xing Material & Slices	**2,449**	2,449
Sale of pharmaceutical products		
– Winteam Sales	**5,390**	5,390
Manufacture and sale of pharmaceutical products		
– Tongjitang Group		
– Tongjitang Pharmaceutical	**733,037**	733,037
– Jingfang	**139,184**	139,184
– Guizhou LLF	**37,116**	37,116
– Pulante	**18,558**	18,558
Manufacture and sale of pharmaceutical products		
– Guizhou Zhongtai (note 15(b))	**–**	93,987
Manufacture and sale of pharmaceutical products		
– Jiangyin Tianjiang Group (note 15(a))	**4,292,443**	–
	5,389,508	1,191,052

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

The Group determined the value-in-use by preparing cash flow projections of each of the CGU derived from the most recent financial forecast approved by the management covering a four-year period (2014: four). Cash flows beyond the fifth year to the sixth year period are extrapolated using an estimated increased rate of 3% (2014: 3%) in selling prices and costs with no growth in sales volume (2014: Nil). Cash flows beyond the six-year period are extrapolated using an estimated selling prices and costs in the sixth year with no growth in sales volume. The pre-tax rates used to discount the forecast cash flows range from 15.75% to 19.92% (2014: 15.59% to 21.50%). The discount rates reflect specific risks relating to the relevant CGUs.

(Expressed in Renminbi unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

All of these are controlled subsidiaries as defined under note 1(d) and have been consolidated into the Group's financial statements.

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Dezhong (note (i))	The PRC 1 November 1998	USD6,460,000	–	96.94%	Manufacture and sale of Chinese pharmaceutical products
Feng Liao Xing (note (i))	The PRC 16 March 2000	USD7,526,100	–	98.00%	Manufacture and sale of Chinese pharmaceutical products
Guangdong Medi-World (note (ii))	The PRC 13 November 1992	USD27,340,000	–	100%	Manufacture and sale of pharmaceutical products and investment holding
Luya (note (iii))	The PRC 6 November 2000	RMB24,529,300	–	100%	Manufacture and sale of pharmaceutical products
Feng Liao Xing Material & Slices (note (iv))	The PRC 6 March 1982	RMB5,500,000	–	100%	Trading of pharmaceutical products
Winteam Sales (note(iv))	The PRC 1 August 2002	RMB10,000,000	–	100%	Trading of pharmaceutical products
Tongjitang Pharmaceutical (note (v))	The PRC 29 June 2005	RMB249,759,458	–	100%	Development, manufacturing, marketing and sales of medicine products
Jingfang (note (iv))	The PRC 7 March 2000	RMB39,000,000	–	100%	Development, manufacturing, marketing and sales of medicine products
Guizhou LLF (note (iv))	The PRC 23 October 2001	RMB50,000,000	–	100%	Development, manufacturing, marketing and sales of medicine products

(Expressed in Renminbi unless otherwise indicated)

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation/ establishment and operation	Issued and paid up share capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Pulante (note (iv))	The PRC 1 June 2000	RMB27,520,000	–	100%	Development, manufacturing, marketing and sales of medicine products
JY Tianjiang (note (vi))	The PRC 18 September1998	RMB94,555,556	–	87.3%	Development, manufacturing, and sales of traditional Chinese medicine granules
GD Yifang (note (iv))	The PRC 10 February 1993	RMB64,491,680	–	87.3%	Development, manufacturing, and sales of traditional Chinese medicine granules
Longxi Yifang (note (iv))	The PRC 19 September 2006	RMB30,000,000	–	87.3%	Development, manufacturing, and sales of traditional Chinese medicine granules
Anhui Tianxiang Pharmaceutical Co., Ltd. ("Tianxiang") (note (iv))	The PRC 20 December 2010	RMB30,000,000	–	87.3%	Manufacturing, and sales of traditional Chinese medicine granules
Jiangyin Tianjiang Chinese Medical Clinics Ltd. ("TCM Clinics") (note (iv))	The PRC 3 November 2011	RMB2,000,000	–	87.3%	Provision of traditional Chinese medical consultation services
Sichuan Tianhao Pharmaceutical Company Limited ("Sichuan Tianhao") (note (iv))	The PRC 22 January 2015	RMB10,000,000	–	51%	Plantation, purchase and sales of traditional Chinese medical products

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Notes:

(i) Dezhong and Feng Liao Xing are sino-foreign equity joint ventures established in the PRC pursuant to the law of the PRC on sino-foreign equity joint ventures. Dezhong and Feng Liao Xing have joint venture periods of 50 years expiring on 30 October 2048 and 15 March 2050, respectively.

(ii) Guangdong Medi-World is a wholly foreign owned enterprise established pursuant to the Wholly Foreign-owned Enterprise Law of the PRC. Guangdong Medi-World's period of operation is 30 years expiring on 13 November 2022.

(iii) Luya is a sino-foreign equity joint venture established pursuant to the law of the PRC on sino-foreign equity joint ventures. Luya has joint venture periods of 30 years expiring on 5 November 2030.

(iv) Feng Liao Xing Material & Slices, Winteam Sales, Jingfang, Guizhou LLF, Pulante, GD Yifang, Longxi Yifang, Tianxiang, TCM Clinics and Sichuan Tianhao, were established pursuant to the Company Law of the PRC.

(v) Tongjitang Pharmaceutical is wholly foreign owned enterprises established pursuant to the Wholly Foreign-owned Enterprise Law of the PRC. The period of operation for Tongjitang Pharmaceutical is 30 years expiring on 28 June 2035.

(vi) JY Tianjiang is a sino-foreign equity joint venture established pursuant to the law of the PRC on sino-foreign equity joint ventures. JY Tianjiang has joint venture periods of 40 years expiring on 17 September 2038.

(a) Acquisition of subsidiaries

(i) The Jiangyin Tianjiang Group

In October 2015, the Group acquired 87.3% of the equity interests in Jiangyin Tianjiang Group for a consideration of RMB8,758,337,000.

The management considers this as the acquisition of a business. The principal activity of the Jiangyin Tianjiang Group is manufacturing and sales of traditional Chinese medicine granules. The following summaries the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Acquisition of subsidiaries (continued)

(i) The Jiangyin Tianjiang Group (continued)

Identified assets acquired and liabilities assumed of the Jiangyin Tianjiang Group at the acquisition date:

	Note	Pre-acquisition carrying amount RMB'000	Fair value adjustments RMB'000	Recognised on acquisition RMB'000
Property, plant and equipment	11	785,594	23,964	809,558
Interests in leasehold land for own use under operating leases	11	90,784	29,666	120,450
Construction in progress	12	53,558	–	53,558
Other receivables – non-current assets		39,899	–	39,899
Intangible assets	13	–	2,791,872	2,791,872
Deferred tax assets	26(b)	44,321	–	44,321
Other financial assets		448,134	–	448,134
Inventories		783,252	–	783,252
Trade and other receivables		1,575,091	–	1,575,091
Cash and cash equivalents		227,827	–	227,827
Trade and other payables		(767,060)	–	(767,060)
Current taxation	26(a)	(83,553)	–	(83,553)
Deferred government grant	24	(107,868)	–	(107,868)
Deferred tax liabilities	26(b)	–	(675,973)	(675,973)
Minority interests		(3,172)	–	(3,172)
Net identifiable assets		3,086,807	2,169,529	5,256,336
Share of net identifiable assets				87.3%
Total consideration				8,758,337
				4,169,556
Transferred from hedging reserve	9(b)			122,887
Goodwill	14			4,292,443
Analysis of the net cash outflow in respect of the acquisition of subsidiaries				
Total consideration (note (i))				8,758,337
Less: Fair value adjustment (note (ii))				(67,715)
Less: Outstanding consideration to be paid				(1,011,227)
Cash paid for the year				7,679,395
Cash and cash equivalent of the subsidiaries acquired				(227,827)
Net cash outflow				7,451,568

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) Acquisition of subsidiaries (continued)

(i) The Jiangyin Tianjiang Group (continued)

Notes:

(i) On 30 November 2015, the Company delivered a notice to all of the ex-shareholders of the Jiangyin Tianjiang Group. Pursuant to the notice, the Company declared that it was entitled to claim a total compensation of RMB145,599,000 from all of the ex-shareholders for potential loss of future revenue of the Jiangyin Tianjiang Group due to a litigation against three distributors of the Jiangyin Tianjiang Group incurred before the acquisition. Certain ex-shareholders agreed with a compensation of RMB45,601,000, which has been deducted from the total consideration as at 31 December 2015. However, the remaining ex-shareholders are currently negotiating with the remaining compensation of RMB99,998,000. As at the reporting date, the management of the Group believes the total consideration of RMB8,758,337,000 represents a provisional amount, RMB99,998,000 of which may be further to deduct against the goodwill during the measurement period after the date of acquisition. Accordingly, RMB99,998,000 has not been deducted from the consideration in the consolidated financial statements.

(ii) On 15 May 2015, the Company and Mr. Tan Dengping and Ms. Zhou Jialin, entered into a trustee subscription agreement respectively, pursuant to which Mr. Tan Dengping and Ms. Zhou Jialin agreed, subject to fulfilment of certain conditions including approval from the shareholders at an extraordinary general meeting to be held, to subscribe for 197,749,000 shares at HKD4.212 (approximately RMB3.370) per share for a total amount of HKD832,922,000 (approximately RMB666,337,000). The amount to be paid for shares subscription would be obtained through the acquisition of the Jiangyin Tianjiang Group. Mr. Tan Dengping and Ms. Zhou Jialin were two of the ex-shareholders of the Jiangyin Tianjiang Group. On 5 November 2015, Mr. Tan Dengping and Ms. Zhou Jialin completed the share subscriptions and the fair value adjustment of RMB67,715,000 represents the excess of the fair value of shares subscribed as at the acquired date over the agreed amounts to be paid according to the trustee subscription agreements.

(b) Disposal of a subsidiary

(i) Guizhou Zhongtai

On 27 January 2015, the Group agreed with a fellow subsidiary, China Biotechnology Co., Ltd. (中國生物技術股份有限公司), which is a wholly-owned subsidiary of China National Pharmaceutical Group Corporation ("CNPGC"), that the Group conditionally sold 31% of equity interest in Guizhou Zhongtai at a consideration of RMB139,500,000. On 27 January 2015, the board of directors of the Group approved to dispose of 31% of equity interest in Guizhou Zhongtai. On 1 December 2015, the Group further agreed with China Biotechnology Co., Ltd. on the adjustment of consideration, which was finally agreed to be RMB139,148,000 (note 15(b) d)). The transaction has been completed on 4 November 2015. Upon the completion of transaction, the Group remains 20% of equity interest in Guizhou Zhongtai, which becomes the associate to the Group. CNPGC is the ultimate controlling shareholder of the Group.

Accordingly, the operating results of Guizhou Zhongtai for the first ten months ended 31 October 2015 are consolidated and presented as discontinued operation in this financial statement. The presentation of comparative information in respect of the year ended 31 December 2014 has been reclassified to conform to the current year's presentations.

All the assets and liabilities of Guizhou Zhongtai have been derecognised during the year ended 31 December 2015.

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(b) Disposal of a subsidiary (continued)

(i) Guizhou Zhongtai (continued)

a) Result of the discontinued operation:

	Ten months ended 31 October 2015 RMB'000	2014 RMB'000
Revenue (note 3(b)(ii))	**19,772**	39,719
Expenses	**(31,260)**	(47,665)
Loss before taxation (note 3(b)(ii))	**(11,488)**	(7,946)
Income tax benefit (note 6)	**44**	759
Loss for the period	**(11,444)**	(7,187)

b) Result of the discontinued operation is arrived at after charging:

		Ten months ended 31 October 2015 RMB'000	2014 RMB'000
i)	Other revenue:		
	Government grants (note 24)	**556**	1,340
	Interest income	**103**	314
		659	1,654
ii)	Other net expenses:	**6**	42
iii)	Finance costs:		
	Interest expense	**1,413**	1,640
iv)	Staff costs:		
	Salaries, wages and other benefits	**7,918**	7,710
	Contributions to defined contribution retirement plan	**888**	1,390
		8,806	9,100

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(b) Disposal of a subsidiary (continued)

(i) Guizhou Zhongtai (continued)

b) Result of the discontinued operation is arrived at after charging (continued):

	Ten months ended 31 October 2015 RMB'000	2014 RMB'000
v) Other items:		
Depreciation		
– interests in leasehold land held for own use under operating leases	**89**	357
– other property, plant and equipment	**931**	7,738
Amortisation		
– intangible assets	**305**	3,715
Operating lease charges: minimum lease payments	**100**	80
Research and development costs	**799**	148
Cost of inventories	**12,009**	28,785

c) Cash flows of the discontinued operation:

	Ten months ended 31 October 2015 RMB'000	2014 RMB'000
Net cash (used in)/generated from operating activities	**(5,063)**	15,702
Net cash used in investing activities	**(793)**	(2,941)
Net cash used in financing activities	**(477)**	(1,640)
Net cash (outflows)/inflows for the period	**(6,333)**	11,121

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(b) Disposal of a subsidiary (continued)

(i) Guizhou Zhongtai (continued)

d) Net cash inflow from the disposal

	Note	For the year ended 31 December 2015 RMB'000
Net assets disposed of:		
Property, plant and equipment	*11*	**71,979**
Interests in leasehold land for own use under operating leases	*11*	**9,187**
Intangible assets	*13*	**23,784**
Other receivables – non-current assets		**1,012**
Inventories		**21,300**
Trade and other receivables		**1,040**
Cash and cash equivalents		**14,808**
Trade and other payables		**(37,841)**
Deferred government grant	*24*	**(3,698)**
Deferred tax liabilities	*26(b)*	**(4,522)**
Net identifiable assets		**97,049**
Group's effective interest		**51%**
Group's share of net assets of the subsidiary		**49,495**
Goodwill	*14*	**93,987**
Less: Fair value of 20% equity interest of the associate under equity-method		**(89,773)**
Gain on disposal of a subsidiary		**85,439**
		139,148
Satisfied by:		
Consideration (note 15(b)(i))		**139,148**
Analysis of the net cash inflow in respect of the disposal of a subsidiary:		
Cash received		**125,198**
Cash and cash equivalent of the subsidiaries disposed of		**(14,808)**
Net cash inflow from the disposal		**110,390**

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(c) The following table lists out the information relating to the Jiangyin Tianjiang Group, the only sub-group of the Group which has material non-controlling interest (NCI) as at 31 December 2015. Sichuan Tianhao is a 51% owned subsidiary of the Jiangyin Tianjiang Group and the effective interest owned by the Group in Sichuan Tianhao is 44.5%.The summarised financial information presented below represents the amounts before any inter-company elimination. Carrying amount of NCI included 55.5% of minority interest in Sichuan Tianhao, amounting to RMB4,496,000.

	2015 **RMB'000**
NCI percentage	**12.70%**
Current assets	**3,268,002**
Non-current assets	**3,858,897**
Current liabilities	**(1,009,723)**
Non-current liabilities	**(757,296)**
Net assets	**5,359,880**
Carrying amount of NCI	**685,201**
Revenue	**978,892**
Profit for the year	**163,400**
Total comprehensive income	**163,400**
Profit allocated to NCI	**20,626**
Cash flows generated from operating activities	**257,490**
Cash flows generated from investing activities	**301,075**
Cash flows generated from financing activities	**–**

15 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(c) (continued)

The following table lists out the information relating to Guizhou Zhongtai, the only sub-group of the Group which has material non-controlling interest (NCI) as at 31 December 2014. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2014 RMB'000
NCI percentage	49%
Current assets	44,235
Non-current assets	105,762
Current liabilities	(33,034)
Non-current liabilities	(8,469)
Net assets	108,494
Carrying amount of NCI	53,162
Revenue (note 15(b))	39,719
Loss for the year (note 15(b))	(7,187)
Total comprehensive loss	(7,187)
Loss allocated to NCI	(3,521)
Cash flows generated from operating activities (note 15(b))	15,702
Cash flows used in investing activities (note 15(b))	(2,941)
Cash flows used in financing activities (note 15(b))	(1,640)

16 INTEREST IN AN ASSOCIATE

The following list contains only the particulars of material associates, Guizhou Zhongtai, all of which are unlisted corporate entities whose quoted market price is not available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
Guizhou Zhongtai Biological Technology Company Limited	Incorporated	The PRC	RMB16,333,000	20%	–	20%	Development, manufacturing, marketing and sales of medicine
Guixi Zhongtai Plasma Station Company Limited	Incorporated	The PRC	RMB1,000,000	20%	–	20%	Collecting and selling human plasma
Shibing Plasma Station	Incorporated	The PRC	RMB8,600,000	20%	–	20%	Dormant
Fenyi Zhongtai Plasma Station Company Limited	Incorporated	The PRC	RMB1,000,000	20%	–	20%	Collecting and selling human plasma

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

Summarised financial information of Guizhou Zhongtai, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Guizhou Zhongtai 2015 RMB'000
Gross amounts of the associate's	
Current assets	**22,446**
Non-current assets	**106,477**
Current liabilities	**(35,020)**
Non-current liabilities	**(5,040)**
Equity	**88,863**
Revenue	**3,203**
Loss from operations	**(8,186)**
Total comprehensive loss	**(8,186)**
Reconciled to the Group's interest in the associate	
Gross amounts of net assets of the associates	**88,863**
Group's effective interest	**20%**
Group's share of net assets of the associates	**17,773**
Goodwill	**70,363**
Carrying amount in the consolidated financial statements	**88,136**

17 INTERESTS IN A JOINT OPERATION

On 14 August 2013, Foshan Winteam Pharmaceutical Development Company Limited ("Winteam Development"), a wholly-owned subsidiary of the Company, acquired a land use right in Foshan City, Guangdong Province of the PRC from the PRC government authority at a consideration of RMB234,050,000, for which the Group has paid RMB94,722,000. The Group entered into a cooperation and development agreement (the "Agreement") with an independent third party for the purpose of construction of buildings on the land. According to the Agreement, the Group and the independent third party jointly control through unanimous consent for all decisions and entitle to certain percent of buildings after completion based on their investments proportion in the construction project. On 20 November 2015, The Group entered into another agreement with this independent third party, pursuant to which the independent third party injected RMB120,000,000 as additional capital into Winteam Development and controlled 80% of equity interest in Winteam Development during the year ended 31 December 2015. As of the end of the reporting period, the carrying amount of the land use right contributed by the Group was RMB94,000,000 and was recorded under the other receivables (31 December 2014: RMB93,294,000 recorded as interests in leasehold land held for own use under operating leases) in the consolidated statement of financial position.

18 OTHER FINANCIAL ASSETS

	2015 **RMB'000**	2014 RMB'000
Non-current		
Available-for-sale equity securities		
– Unlisted equity securities, at cost	**–**	1,010
	–	1,010
Current		
Equity securities listed in HK		
(at fair value) – held for trading	**594**	662
Available-for-sale securities – unlisted	**100,000**	–
	100,594	662
Market value of listed securities	**594**	662

Investments in unlisted equity securities do not have a quoted market price in an active market. Quoted prices in active market for similar financial assets or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted equity securities are stated at cost less impairment, if any, in the financial statements.

None of the available-for-sale equity securities are past due or impaired.

19 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2015	2014
	RMB'000	RMB'000
Raw materials	**332,248**	137,441
Work in progress	**497,737**	141,846
Finished goods	**362,534**	115,254
	1,192,519	394,541
Packaging materials	**30,420**	17,479
Low value consumables	**12,922**	5,675
	1,235,861	417,695

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss from continuing operations is as follows:

	2015	2014
	RMB'000	RMB'000
Carrying amount of inventories sold	**1,509,267**	1,002,866
Write down of inventories	**6,186**	4,199
	1,515,453	1,007,065

20 TRADE AND OTHER RECEIVABLES

	2015	2014
	RMB'000	RMB'000
Current		
Trade receivables	**2,275,939**	565,218
Bills receivable	**1,126,175**	608,653
Less: allowance for doubtful debts (note 20(b))	**(184,488)**	(20,728)
	3,217,626	1,153,143
Other receivables	**180,601**	83,257
	3,398,227	1,236,400
Non-current		
Other receivables	**135,678**	12,569
	3,533,905	1,248,969

20 TRADE AND OTHER RECEIVABLES (CONTINUED)

Non-current other receivables mainly represent the prepayments for construction works and equipment amounted to RMB39,080,000 (2014: RMB11,086,000), prepayment for arrangement fees relating to a long-term loan amounted to RMB2,598,000 (2014: RMB1,483,000) and payment for the interests in leasehold land held for own use under operating leases amounted to RMB94,000,000 (2014: Nil).

Bills receivable with carrying value of RMB269,004,000 (2014: RMB166,547,000) were pledged as securities of bank loan of the Group as at 31 December 2015 (see note 23(i)).

(a) Ageing analysis

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

	2015	2014
	RMB'000	RMB'000
Within 3 months of invoice date	**2,378,541**	1,029,755
3 to 6 months after invoice date	**403,268**	84,433
More than 6 months less than 12 months after invoice date	**433,311**	29,453
More than 12 months after invoice date	**2,506**	9,502
	3,217,626	1,153,143

Trade and bills receivables are due within 30 to 180 days from the date of billing. All of the trade and bills receivables are expected to be recovered within one year. Further details on the Group's credit policy are set out in note 28(a).

20 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly (see note 1(q)(i)).

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	**20,728**	16,431
Acquisition of subsidiaries	**109,509**	–
Impairment loss recognised (note 5(c))	**56,039**	5,627
Uncollectible amounts written off	**(1,788)**	(1,330)
At 31 December	**184,488**	20,728

At 31 December 2015, the Group's gross trade and bills receivables of RMB435,218,000 (2014: RMB31,463,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is not expected to be recovered. Consequently, specific allowances for doubtful debts of RMB184,488,000 were recognised (2014: RMB20,728,000). The Group does not hold any collateral over these balances.

(c) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2015 RMB'000	2014 RMB'000
Within 3 months of invoice date	**2,303,381**	1,025,959
3 to 6 months after invoice date	**364,791**	82,360
More than 6 months less than 12 months after invoice date	**296,218**	24,587
More than 12 months after invoice date	**2,506**	9,502
	2,966,896	1,142,408

20 TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Trade and bills receivables that are not impaired (continued)

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality of the customers and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2015 **RMB'000**	2014 RMB'000
Deposits with banks and other financial institutions	**36,030**	305
Cash at bank and in hand	**2,101,856**	439,416
Cash and cash equivalents in the statement of financial position	**2,137,886**	439,721
Less: Bank deposits	**(36,030)**	(305)
Cash and cash equivalents	**2,101,856**	439,416

As at 31 December 2015, deposits with banks of RMB32,050,000 were pledged as securities of bank loans of the Group (31 December 2014: Nil) (see note 23). The remaining balance of RMB3,980,000 (31 December 2014: Nil) was pledged as securities for gas facilities and letter of credit.

21 CASH AND CASH EQUIVALENTS (CONTINUED)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	**2015 RMB'000**	2014 RMB'000
Operating activities			
Profit/(loss) before taxation from			
– Continuing operations		**769,370**	489,119
– Discontinued operation	*15(b)*	**(11,488)**	(7,946)
Adjustments for:			
Depreciation and amortisation		**168,403**	119,098
Impairment loss recognised on/(written back)			
– trade receivables	*5(c)*	**56,039**	5,627
– other receivables	*5(c)*	**6,155**	(1,327)
Finance costs		**71,593**	64,217
Interest income		**(96,401)**	(1,694)
Loss on disposal of property, plant and equipment	*4*	**650**	559
Unrealised loss on equity securities (at fair value)	*4*	**68**	502
Gain on disposal of available-for-sale securities	*4*	**(566)**	–
Gain on forward exchange contracts	*4*	**(9,842)**	–
Foreign exchange (gain)/loss	*4*	**(7,433)**	1,688
Gain on disposal of a subsidiary	*15(b)*	**(85,439)**	–
Share of loss of an associate	*16*	**1,637**	–
Changes in working capital:			
Increase in inventories		**(56,214)**	(12,191)
Increase in trade and other receivables		**(635,229)**	(223,624)
Increase/(decrease) in trade and other payables		**496,046**	(16,185)
Cash generated from operations		**667,349**	417,843

22 TRADE AND OTHER PAYABLES

	2015	2014
	RMB'000	RMB'000
Trade creditors	**508,688**	133,143
Other creditors and accrued charges	**1,976,222**	333,940
Advances received from customers	**175,560**	73,030
	2,660,470	540,113

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

	2015	2014
	RMB'000	RMB'000
Due within 1 month or on demand	**508,688**	133,143

Other creditors and accrued charges mainly include the payables for outstanding consideration (note 15(a)), accrued staff costs and benefits, accrued sales rebates to customers and other tax payables.

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

23 BANK AND OTHER LOANS

At 31 December 2015, the Group's bank and other loans were repayable as follows:

	2015	2014
	RMB'000	RMB'000
Within 1 year or on demand	**1,600,059**	501,648
After 1 year but within 3 years	**850,300**	670,565
	2,450,359	1,172,213

23 BANK AND OTHER LOANS (CONTINUED)

At 31 December 2015, the Group's bank and other loans were secured as follows:

	2015 **RMB'000**	2014 RMB'000
Bank loans		
– Secured	**462,080**	406,547
– Unsecured	**1,988,279**	762,666
	2,450,359	1,169,213
Other secured loan	**–**	3,000
	2,450,359	1,172,213

Notes:

(i) The following assets were pledged as securities for bank loans:

	Carrying Value	
	At 31 December 2015 RMB'000	At 31 December 2014 RMB'000
Interests in leasehold land and buildings (note 11(c))	**41,449**	131,776
Product protection rights (note 13)	**3,776**	4,203
Deposits with banks (note 21(a))	**32,050**	–
Bills receivable (note 20)	**269,004**	166,547
	346,279	302,526

(ii) As at 31 December 2014, RMB3,000,000 was borrowed from Foshan Shunde Industry Service Innovation Center and guaranteed by Mr. Yang Bin, who is the director of the Company. The loan was interest free and repayable on 18 December 2015.

(iii) Banking facilities of RMB2,952,463,000 (31 December 2014: RMB1,904,312,000) were utilised to the extent of RMB2,450,359,000 (31 December 2014: RMB1,169,213,000). The bank loans drawn were secured by assets as set out in note 23(i).

Parts of the Group's banking facilities, amounted to RMB1,718,025,000 (2014: RMB911,665,000) are subject to the fulfillment of covenants relating to certain of the balance sheet ratios of the subsidiaries of the Group, which are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31 December 2015, none of the covenants relating to drawn down facilities had been breached (2014: Nil).

24 DEFERRED GOVERNMENT GRANTS

The movements in deferred government grants as stated under current and non-current liabilities are as follows:

	2015 RMB'000	2014 RMB'000
At the beginning of the year	**69,639**	63,979
Additions	**61,879**	10,817
Addition through acquisition (note 15(a))	**107,868**	–
Disposal of a subsidiary (note 15(b))	**(3,698)**	–
Credited to profit or loss		
– Continuing operations (note 4)	**(4,589)**	(3,817)
– Discontinued operation (note 15(b))	**(556)**	(1,340)
At the end of the year	**230,543**	69,639
Representing:		
Current portion	**81,880**	44,337
Non-current portion	**148,663**	25,302
	230,543	69,639

As at 31 December 2015 and 2014, deferred government grants of the Group mainly includes various conditional government grants for research and development projects of new or existing pharmaceutical products and subsidies relating to purchase of property, plant and equipment.

Deferred government grants relating to research and development projects will be recognised as income in the same periods in which the expenses for the development project are incurred. Deferred government grants relating to purchase of property, plant and equipment will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

25 EMPLOYEES RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD30,000 (HKD25,000 prior to June 2014). Contributions to the plan vest immediately.

Employees in the Group's PRC subsidiaries are members of the state-managed retirement scheme. The PRC subsidiaries are required to contribute a specified percentage of the payroll to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The Group has no other material obligation for payment of retirement benefits beyond the annual contributions as described above.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2015 RMB'000	2014 RMB'000
Provision for corporate income tax for the year	**165,932**	90,118
Corporate income tax paid	**(148,648)**	(92,844)
	17,284	(2,726)
Acquisition of subsidiaries (note 15(a))	**83,553**	–
Balance of PRC corporate income tax relating to prior years	**47,743**	50,469
	148,580	47,743

(b) Deferred tax assets/(liabilities) recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Intangible assets RMB'000	Depreciation allowances in excess of related depreciation RMB'000	Allowance for impairment of doubtful debts RMB'000	Withholding tax on undistributed profits of PRC subsidiaries RMB'000	Unrealised inter-segment profit RMB'000	Others RMB'000	Total RMB'000
At 1 January 2014	(219,497)	(27,529)	7,136	(22,574)	11,899	33,471	(217,094)
Effect of change in tax rate	1,031	1,264	(657)	–	–	(553)	1,085
Credited/(charged) to profit or loss	7,812	1,166	526	12,000	(6,589)	3,191	18,106
Transferred to current tax	–	1,100	–	200	–	–	1,300
Exchange adjustments	–	–	–	5	–	–	5
At 31 December 2014	(210,654)	(23,999)	7,005	(10,369)	5,310	36,109	(196,598)
At 1 January 2015	**(210,654)**	**(23,999)**	**7,005**	**(10,369)**	**5,310**	**36,109**	**(196,598)**
Addition through acquisition (note 15(a))	**(663,512)**	**(12,461)**	**21,259**	**–**	**6,236**	**16,826**	**(631,652)**
Effect of change in tax rate	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Credited/(charged) to profit or loss	**11,897**	**1,587**	**8,291**	**–**	**8,592**	**15,918**	**46,285**
Transferred to current tax	**–**	**–**	**–**	**1,363**	**–**	**–**	**1,363**
Disposal of a subsidiary (note 15(b))	**3,245**	**1,277**	**–**	**–**	**–**	**–**	**4,522**
Exchange adjustments	**–**	**–**	**–**	**129**	**–**	**–**	**129**
At 31 December 2015	**(859,024)**	**(33,596)**	**36,555**	**(8,877)**	**20,138**	**68,853**	**(775,951)**

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS (CONTINUED)

(b) Deferred tax assets/(liabilities) recognised (continued)

Reconciliation to the consolidated statement of financial position:

	2015 **RMB'000**	2014 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**125,546**	48,424
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(901,497)**	(245,022)
	(775,951)	(196,598)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(x), the Group has not recognised deferred tax assets in respect of cumulative tax losses of the Company and certain PRC subsidiaries of RMB73,588,000 as at 31 December 2015 (2014: RMB73,259,000). The Group determined that it was not probable that future taxable income against which the losses could be utilised in the foreseeable future.

(d) Deferred tax liabilities not recognised

Deferred tax liabilities of RMB81,697,000 (2014: RMB37,848,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future (note 6(a)).

27 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital	Share premium	Capital redemption reserve	Hedging reserve note 27(h)	Exchange reserve	Retained profits/ (accumulated losses)	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014		235,087	2,306,840	319	–	(205,286)	(56,265)	2,280,695
Total comprehensive income for the year		–	–	–	–	7,986	(34,855)	(26,869)
Transition to no-par value regime on 3 March 2014	*27(c)*	2,307,159	(2,306,840)	(319)	–	–	–	–
At 1 January 2015		**2,542,246**	**–**	**–**	**–**	**(197,300)**	**(91,120)**	**2,253,826**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**172,081**	**172,081**
Other comprehensive income								
– Exchange differences on translation of long-term investments in subsidiaries in the PRC		**–**	**–**	**–**	**–**	**546,889**	**–**	**546,889**
– Cash flow hedge: Effective portion of changes in fair value of hedging instruments recognised during the period		**–**	**–**	**–**	**(122,887)**	**–**	**–**	**(122,887)**
– Cash flow hedge: Amount transferred to initial carrying amount of hedged item		**–**	**–**	**–**	**122,887**	**–**	**–**	**122,887**
Subtotal of other comprehensive income		**–**	**–**	**–**	**–**	**546,889**	**–**	**546,889**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**546,889**	**172,081**	**718,970**
Shares issued	*27(c)*	**7,267,689**	**–**	**–**	**–**	**–**	**–**	**7,267,689**
At 31 December 2015		**9,809,935**	**–**	**–**	**–**	**349,589**	**80,961**	**10,240,485**

27 CAPITAL AND RESERVES (CONTINUED)

(b) Dividends

No final dividend has been proposed by the Company for the year ended 31 December 2015 (2014: Nil).

(c) Share capital

(i) Issued share capital

	2015		2014	
	Number of shares '000	**RMB'000**	Number of shares '000	RMB'000
Ordinary shares, issued and fully paid				
At 1 January	**2,533,899**	**2,542,246**	2,533,899	235,087
Transition to no-par value regime on 3 March 2014 (note 1))	**–**	**–**	–	2,307,159
Shares issued (note 2))	**1,949,848**	**7,267,689**	–	–
At 31 December	**4,483,747**	**9,809,935**	2,533,899	2,542,246

Notes:

1) The transition to the no-par value regime under the Hong Kong Companies Ordinance occurred automatically on 3 March 2014. On that date, the share premium account and any capital redemption reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been in accordance with the requirements of Parts 4 and 5 of the Ordinance.

2) The Company allotted and issued 1,538,425,000 and 213,674,000 ordinary shares at HKD4.68 (approximately RMB3.75) per share on 12 May 2015 and 14 May 2015 respectively. In addition, the Company allotted and issued 197,749,000 ordinary shares at HKD4.212 (approximately RMB3.370) per share on 5 November 2015 to Mr. Tan Dengping and Ms. Zhou Jialin (note 15(a)). The total net proceeds from the share issues amounted to RMB7,199,974,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries with operations outside the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 1(aa).

27 CAPITAL AND RESERVES (CONTINUED)

(e) Reserve fund

In accordance with the accounting principles and financial regulations applicable in the PRC, the PRC subsidiaries are required to transfer part of its profit after taxation to the reserve fund. The transfer amounts are determined by the subsidiary's board of directors in accordance with the articles of association and the transfers are made before profit distribution to the equity holders of the subsidiary. Reserve fund can only be used to make good losses, if any, and for increasing paid-in capital.

(f) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale equity securities held and other financial instruments at the end of the financial year, and is dealt with in accordance with the accounting policy set out in note 1(i).

(g) Distributability of reserves

At 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was HKD94,142,000 (equivalents to RMB80,961,000) (2014: Nil).

(h) Hedging reserve

Hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(k). RMB122,887,000 of hedging reserve was transferred to goodwill upon the business combination occurred in note 15(a).

(i) Other reserve

Other reserve represented premium paid for acquisition of non-controlling interests in Dezhong and Feng Liao Xing and related reserves as at 31 December 2014. The addition of RMB11,500,000 during 2014 represented the waiver of amount due to a non-controlling shareholder.

(j) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

27 CAPITAL AND RESERVES (CONTINUED)

(j) Capital management (continued)

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) plus unaccrued proposed dividends, if any, less cash and cash equivalents. Adjusted capital comprises all components of equity, other than amounts recognised in equity relating to cash flow hedges (if any), less unaccrued proposed dividends, if any.

During 2015, the Group's strategy, which was unchanged from 2014, was to maintain the capital in order to cover any debt position.

The adjusted debt-to-equity ratios at 31 December 2015 and 2014 are as follows:

	2015 RMB'000	2014 RMB'000
Current liabilities:		
Trade and other payables	**2,660,470**	540,113
Bank and other loans	**1,600,059**	501,648
	4,260,529	1,041,761
Non-current liabilities:		
Bank loans	**850,300**	670,565
Total debt	**5,110,829**	1,712,326
Less: Cash and cash equivalents	**(2,101,856)**	(439,416)
Adjusted net debt	**3,008,973**	1,272,910
Total equity	**11,837,761**	3,257,122
Adjusted net debt-to-equity ratio	**25%**	39%

Except for covenants relating to certain of the banking facilities of the subsidiaries of the Group as disclosed in note 23, neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days from the date of billing. Debtors with balances that are more than three months overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At 31 December 2015, the Group has no concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of the asset in the consolidated statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period and the earliest date the Group can be required to pay:

	2015					2014				
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**	**More than 1 year but less than 2 years RMB'000**	**More than 2 years but less than 3 years RMB'000**	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 3 years RMB'000
Trade and other payables	**2,660,470**	**2,660,470**	**2,660,470**	**–**	**–**	540,113	540,113	540,113	–	–
Bank and other loans	**2,450,359**	**2,517,195**	**1,634,856**	**12,903**	**869,436**	1,172,213	1,228,526	536,801	691,725	–
	5,110,829	**5,177,665**	**4,295,326**	**12,903**	**869,436**	1,712,326	1,768,639	1,076,914	691,725	–

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period.

	2015		2014	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Net fixed rate borrowings:				
Bank loans	**5.19%**	**962,333**	6.27%	498,648
Other loan	**0%**	**–**	0%	3,000
		962,333		501,648
Variable rate borrowings:				
Bank loans	**2.87%**	**1,488,026**	4.11%	670,565
Total net borrowings		**2,450,359**		1,172,213
Net fixed rate borrowings as a percentage of total net borrowings		**39.3%**		42.8%

(ii) Sensitivity analysis

As at 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB14,880,000 (2014: RMB6,705,000). Other components of equity would not be affected by the changes in interest rates.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest risk for financial investments in existence at those dates. The analysis is preferred on the same basis for 2014.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign currency risk

Individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the Company and other investment holding subsidiaries incorporated in the Cayman Islands, British Virgin Islands and Hong Kong have their functional currencies in USD or HKD, therefore any appreciation or depreciation of RMB against USD or HKD will affect the Group's financial position and be reflected in the exchange reserve.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as held for trading equity securities (see note 18), which are listed on the Stock Exchange of Hong Kong. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Group's liquidity needs.

The following table indicates the approximate change in the Group's equity in response to reasonably possible changes in the share price of equity securities to which the Group has significant exposure at the end of the reporting period.

	Increase/ (decrease) in share price	**2015 Effect on equity RMB'000**	2014 Effect on equity RMB'000
Change in market price of equity investments:			
– increase	20%	**119**	132
– decrease	(20%)	**(119)**	(132)

The sensitivity analysis has been determined assuming that the reasonably possible changes in share price of equity investments had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the share price over the period until the next annual date of financial position. The analysis is performed on the same basis for 2014.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair values

(i) Financial instruments and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2015 categorised into				Fair value measurements as at 31 December 2014 categorised into		
	Fair value at 31 December 2015 RMB'000	**level 1 RMB'000**	**level 2 RMB'000**	**level 3 RMB'000**	Fair value at 31 December 2014 RMB'000	level 1 RMB'000	level 2 RMB'000	level 3 RMB'000
Assets								
Available-for-sale equity securities:								
– Listed in HK	**594**	**594**	**–**	**–**	662	662	–	–
Available-for-sale securities – unlisted	**100,000**	**–**	**100,000**	**–**	–	–	–	–
	100,594	**594**	**100,000**	**–**	622	662	–	–

During the years ended 31 December 2014 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair values

(i) Financial instruments and liabilities measured at fair value (continued)

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of unlisted available-for-sale financial assets is the estimated amount that the Group would receive or pay to terminate the financial assets at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the asset counterparty.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014 and 2015.

29 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:

	2015 **RMB'000**	2014 RMB'000
Contracted for	**237,225**	137,948
Authorised but not contracted for	**356,408**	353,073
	593,633	491,021

(b) At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015 **RMB'000**	2014 RMB'000
Within 1 year	**1,954**	2,394
After 1 year but within 5 years	**3,240**	–
After 5 years	**5,990**	–
	11,184	2,394

Operating lease payments represent rentals payable by the Group for its office and production premises, and leasehold land held under operating leases. The lease was negotiated for an average term of two to fifteen years with fixed rental. The lease did not include any contingent rentals.

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2015 **RMB'000**	2014 RMB'000
Short-term employee benefits	**8,439**	7,274
Post-employments benefits	**298**	270
	8,737	7,544

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Other related party transactions

During the year ended 31 December 2015 and 2014, transactions with the following parties are considered to be related party transactions:

Name of related party	**Relationship**
Mr. Wu Xian	Executive director of the Company
Mr. Yang Bin	Executive director and a shareholder of the Company
Mr. Wang Xiaochun	Executive director and a shareholder of the Company
CNPGC	Ultimate controlling shareholder
CNPGC's subsidiaries	Fellow subsidiaries of the Group

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions (continued)

Particulars of significant transactions between the Group and the related parties are as follows:

(i) Sales of finished goods to:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
CNPGC's subsidiaries		
– Continuing operations	**377,614**	386,549
– Discontinued operation	**–**	1,115
	377,614	387,664

(ii) Purchase of raw materials from:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
CNPGC's subsidiaries		
– Continuing operations	**12,737**	20,120

(iii) Research and development services provided by:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
CNPGC's subsidiaries		
– Continuing operations	**11,768**	10,012

30 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions (continued)

(iii) Research and development services provided by: (continued)

The above related party transactions (i), (ii) and (iii) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Connected transactions" of the section headed "Report of the Directors" of this annual report.

Particulars of significant balance between the Group and the related parties are as follows:

(iv) Trade and other receivable balances due from related parties:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
CNPGC's subsidiaries	**238,579**	101,206

(v) Trade and other payable balances due to related parties:

	Year ended 31 December	
	2015	2014
	RMB'000	RMB'000
CNPGC's subsidiaries	**52,903**	9,626

31 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2015 RMB'000	2014 RMB'000
Non-current assets			
Investments in subsidiaries		**12,061,360**	3,178,121
Other receivables		**2,598**	1,483
		12,063,958	3,179,604
Current assets			
Other receivables		**68,717**	22,714
Deposits with banks		**–**	–
Cash and cash equivalents		**909,359**	10,432
		978,076	33,146
Current liabilities			
Short-term loans		**637,726**	–
Trade and other payables		**1,313,523**	288,359
		1,951,249	288,359
Net current liabilities		**(973,173)**	(255,213)
Total assets less current liabilities		**11,090,785**	2,924,391
Non-current liabilities			
Bank loans		**850,300**	670,565
NET ASSETS		**10,240,485**	2,253,826
CAPITAL AND RESERVES	*27*		
Share capital		**9,809,935**	2,542,246
Reserves		**430,550**	(288,420)
TOTAL EQUITY		**10,240,485**	2,253,826

Approved and authorised for issue by the board of directors on 21 March 2016.

YANG Bin
Director

WANG Xiaochun
Director

(Expressed in Renminbi unless otherwise indicated)

32 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 13 January 2016, the Group entered into two cooperation agreements with two independent third parties to set up two companies established in the PRC with limited liability, which are intended to be principally engaged in the provision of general hospital services, investments in medical industry and provision of hospital management consultancy services. The cooperation agreements will be effective upon the approval and consent from relevant regulatory authorities. According to the agreements, the Group will inject total RMB1,280,000,000 as capital of the two newly established companies.

33 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

The directors consider the immediate controlling party as at 31 December 2015 to be Sinopharm Group Hongkong Co., Limited, while the ultimate controlling party of the Company as at 31 December 2015 to be China National Pharmaceutical Group Corporation.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs 2012-2014 Cycle	1 January 2016
Amendments to HKFRS 10 and HKAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 9, *Financial instruments: Hedge accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.