中新药业

ZHONG XIN PHARMACEUTICAL

2014 ANNUAL REPORT

CONTENTS

COMPANY INFORMATION

Name of the Company:	Tianjin Zhong Xin Pharmaceutical Group Corporation Limited
Registered address:	17 Baidi Road, Nankai District, Tianjin, PRC
Office address:	Zhong Xin Mansion, #17 Baidi Road, Nankai District, Tianjin, PRC
Post code:	300193
Telephone:	86-22-27020892
Bank of Deposit:	Chengdudao Sub-office, Tianjin Xinhua Sub-branch, the Industrial and Commercial Bank of China
REGISTRY OF S-SHARES AND SINGAPORE SHARE	
Transfer Office:	Boardroom Corporate & Advisory Services Pte. Ltd.
Address of "S" Shares Registrar:	50 Raffles Place, Singapore Land Tower #32-01, Singapore 048623
Registry of A-shares:	China Securities Depository & Clearing Co., Ltd Shanghai Branch.
Address of "A" Shares Registrar:	36F China Insurance Mansion #166 Lujiazui East Road Pudong New District, Shang Hai, China, 200120
AUDITORS:	
PRC Auditors:	Ruihua Certified Public Accountants LLP
International Auditors:	RSM Chio Lim LLP
BOARD OF DIRECTORS:	
Chairman:	Mr. Wang Zhi Qiang
Executive Directors:	Mr. Xu Dao Qing, Mr. Zhou Hong
Non-executive Directors:	Mr. Zhang Jian Jin, Mr. Ma Gui Zhong
Independent Directors:	Mr. Timothy Chen Teck Leng, Mr. Vincent Toe Teow Heng, Mr. Gao Xue Min
Secretary to the Board:	Mr. Wong Gang (Singapore), Ms. Jiao Yan
SUPERVISORY COMMITTEE:	
Chairman:	Mr. Xu Shi Hui
Supervisors:	Ms. Yu Hong, Mr. Xie Qing Feng
SENIOR EXECUTIVES:	
General Managers:	Mr. Wang Zhi Qiang
Deputy General Managers:	Mr. Xu Dao Qing, Mr. Zhang Jian, Mr. Tian Gang, Ms. Wang Xin, Ms. Wang Lei
Chief Financial Officer:	Ms. Yan Min
Chief Engineer:	Mr. Xu Dao Qing
AUDIT COMMITTEE:	
Chairman:	Mr. Timothy Chen Teck Leng
Members:	Mr. Vincent Toe Teow Heng, Mr. Gao Xue Min
STRATEGY COMMITTEE:	
Chairman:	Mr. Wang Zhi Qiang
Members:	Mr. Zhang Jian Jin, Mr. Ma Gui Zhong, Mr. Xu Dao Qing, Mr. Gao Xue Min
NOMINATION COMMITTEE:	
Chairman:	Mr. Gao Xue Min
Members:	Mr. Vincent Toe Teow Heng, Mr. Ma Gui Zhong
REMUNERATION COMMITTEE:	
Chairman:	Mr. Vincent Toe Teow Heng
Members:	Mr. Timothy Chen Teck Leng, Mr. Zhang Jian Jin

BRIEF INTRODUCTION OF THE COMPANY

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited ("Zhong Xin Pharmaceutical" or "The Company") is the core pharmaceutical manufacturing arm of Tianjin Pharmaceutical Group Corporation Limited ("Pharmaceutical Group"). With a long history, the Company is recognized as a state-class high-tech enterprise featured with innovations in traditional Chinese medicine. It was listed on the Singapore Exchange in 1997 and on the Shanghai Stock Exchange in 2001.

Zhong Xin Pharmaceutical takes Chinese traditional medicine as its core business, boasting a complete industrial chain, product chain and human resource chain. It currently owns 25 branch companies, 6 fully owned subsidiaries, 11 controlled subsidiaries and 10 associates with minor stakes. Among the 52 units, 7 are Companies that are involved in distribution of chemical drug, bio-medicine and other strategic sectors and operated jointly with world famous pharmaceutical giants like SmithKline and Baxter, while the rest are branches and subsidiaries that are mainly engaged in traditional Chinese medicine manufacturing and medical commerce. The two major business blocks have given play to their respective and combined competitive edges and posted steady growth, helping the Company to rank among well-performing listed companies in recent years. Da Ren Tang, Le Ren Tang and Long Shun Rong, known as China Time-honored Brands under the flag of the Company, have all won the honorable title of "Famous Chinese Trade Mark", and the brand of Song Bo for No. 6 Chinese Medicine Plant, a modern Chinese medicine making icon, has also been awarded the honorable title. All this has helped Zhong Xin Pharmaceutical to advance to a leading enterprise in protecting China Time-honored Brands.

Following the business philosophy of "pursuing harmony between the mankind and nature for benefit of all human beings" and the development strategy of having innovations of traditional Chinese medicine direct operations, Zhong Xin Pharmaceutical is devoted to innovative research, development and manufacture of full-range, good quality, high efficiency and quick-acting medicine. At present, it owns 560 varieties of preparations in 17 types, 587 certificates of approval for preparations, and 9 certificates of approval for crude drugs. Among them, 4 Chinese medicine have been honored as National Treasure-like creations; Su Xiao Jiu Xin Pill (for treatment of cardio-vascular ailments), invented by famous Chinese medicine manufacture expert Professor Zhang Chengui, who is also senior adviser of Zhong Xin Pharmaceutical and honorable director of its Technology Center, has been designated as a national confidential prescription; Niu Huang Jiang Ya Pill (for treatment of hypertension), Niu Huang Jiang Ya Capsule (for treatment of hypertension) and Jing Wan Hong (for treatment of scald) have been classified as state secret of their respective prescriptions and ingredients; 10 products have become state-protected Chinese medicine; 101 product varieties are exclusively produced by the Company; 67 drugs have been listed in the National Basic Medicine Catalog, and 267 products are now available in the national medical insurance service system. The Company has built up a nationwide marketing network, and many of its high-quality products have also been exported to more than 30 countries around the world, enjoying high reputation in the medicine community.

Currently, the Company has one state-level enterprise technology centre, five municipality-level enterprise technology centres, one municipality-level modern technology engineering centre on Chinese medicine, and a science and technology work station for post-doctoral studies approved by the Ministry of Personnel. It has 858 patents, including 461 for inventions, 60 for exclusive prescriptions and 41 for exclusive preparation formulas. After years of medical experiments and experiences, the Company has integrated and improved the world's most advanced equipment and technology on Chinese medicine to form an integrated modern Chinese medicine development platform with Zhong Xin Pharmaceutical's unique characteristics. It implements the GAP, GLP, GCP, GMP and GSP series of standards on a full scale and carries out full-course quality control to ensure product safety and quality.

Zhong Xin Pharmaceutical has dedicated its career to the people's health care, cherished harmony, honesty and responsibility, and adhered to the business philosophy of "pursuing harmony between the mankind and nature for the benefit of all human beings". It is progressing to its strategic targets of "being a listed company with top-grade performance, a well-known quality brand at home and abroad, and a leader in modernization of Chinese medicine". Under the backdrop of market economy, the Company will foster and deepen its social responsibility awareness and philosophy of sustainable development, balance interested parties' expectation and requirement for sustainable development, persist in win-win cooperation with interested parties, stick to environmental protection, abide by social morality and business ethics, and integrate social responsibility and philosophy of sustainable development in its operations. It will always be the Company's conscientious pursuit in its course of development to uphold Chinese people's good traditions, observe the objective law of business development, and promote harmony between business development and social progress.

EQUITY STRUCTURE OF THE COMPANY

- Tradable state shares with limit on sale (Tianjin Pharmaceutical Group Co. Ltd.) — 44.075%
- Tradable LP shares with limit on sale — 28.110%
- Overseas public shares — 27.052%[1]
- Domestic public shares — 0.763%

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

(24 branches)

- Long Shun Rong
- La Ren Tang
- Da Ren Tang
- No. 6 Chinese Medicine Plant
- Zhong Xin Pharmaceutical Plant
- Xinxin Pharmaceutical Plant
- Sales Co.
- Marketing Co.
- Medicine Co.
- Sales Center
- Medicinal Materials Co.
- Eight-District Branch
- International Trade Co.
- Xinxin Chemical Medicine Branch
- Sales Branch Company of No. 6 Chinese Medicine Plant
- Sales Branch Company of Le Ren Tang
- Sales Branch Company of Da Ren Tang
- Long Shun Rong Beverage

(18 wholly-owned or controlled subsidiaries)

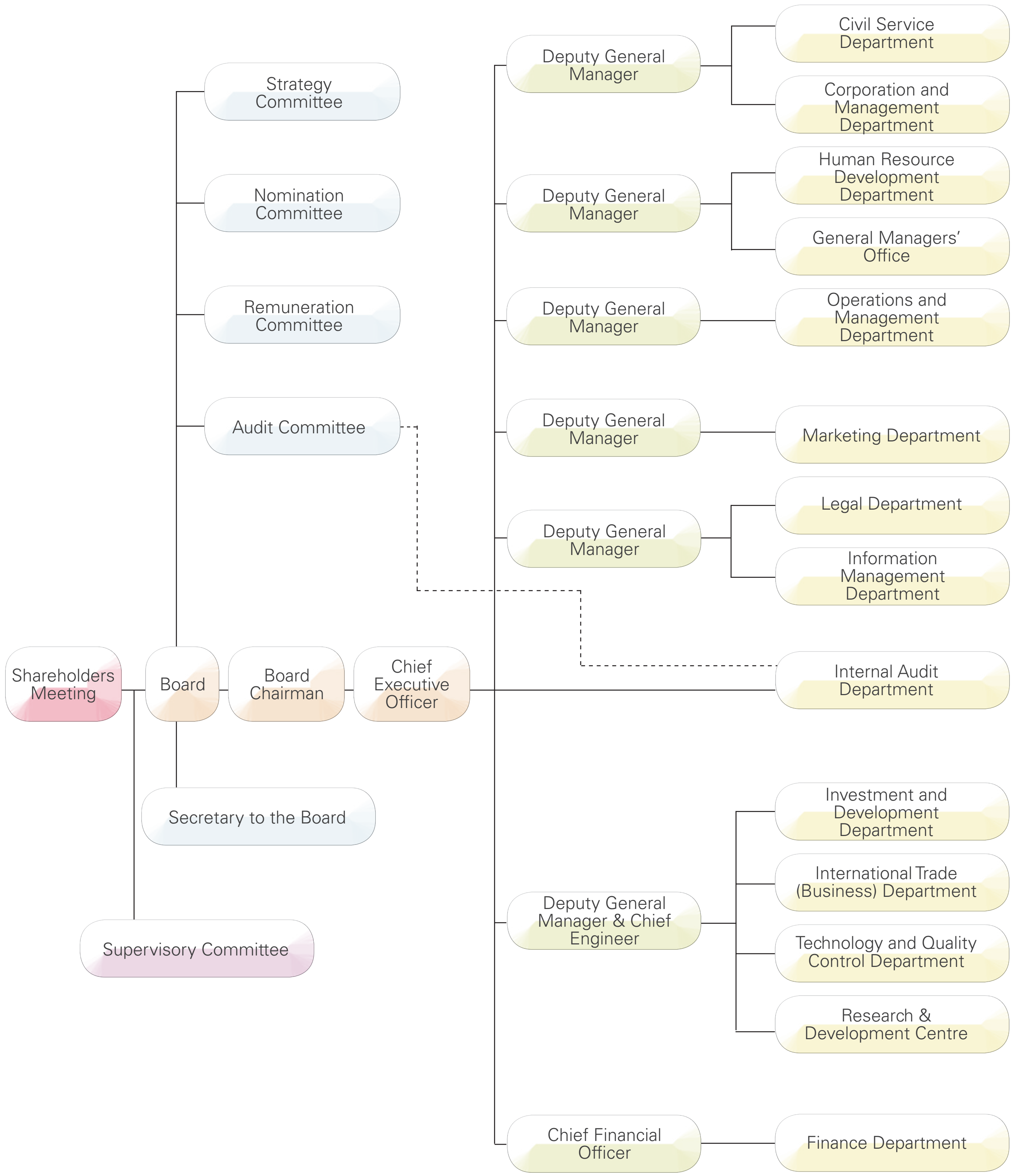
- Tianjin Da Ren Tang Jinwanhong Pharmaceutical (52%)
- Tianjin Shin Poong Pharmaceutical (55%)
- Chengdu Zhongxin Pharmaceutical (51%)
- Chengdu Zhongxin Chain Store Co., Ltd. (51%)
- Chengdu Zhongxin Pharmaceutical Zigong (50.4%)
- Zigong Zhongxin Pharmaceutical Chain Co. (50.4%)
- Tianjin Xinlong Pharmaceutical Ltd. (51%)
- Zhongxin Pharmaceutical Tangshan Xinhua Medicine Co. (51%)
- Tianjin Zhongxin Pharmaceutical Binhai Co. (53.6%)
- Beijing Zhongxin Yaogu Medicine Co. (100%)
- Zhongxin Bohai Rim Pharmaceutical Co. (100%)
- Tianjin Long Shun Rong Dev. Pharmaceutical Co. (100%)
- Tianjin Zhongxin Chuyun Trading Co. (100%)
- Tianjin Zhongxin Pharmaceutical Guowei Medicine Co. (51%)
- Tianjin Zhongxin Pharmaceutical Group Xuzhi Medicine Science and Technology Co., Ltd. (51%)
- Tianjin Da Ren Tang (Bozhou) Chinese Medicine Co., Ltd. (51%)
- Zhejiang Zhongxin Chuang Rui Investment Co., Ltd. (100%)
- Darentang Hospital Co., Ltd. (100%)

(8 associates)

- Tianjin SmithKline & French Lab., Ltd. (25%)
- Hualida Biological Engineering Co. (40%)
- Baxter Healthcare (Tianjin) Co. (30%)
- Tianjin Yiyao Printing Co. (35%)
- Tianjin Bio-chip Co. (26.4%)
- Tianjin Zhong Xin Keju Biological Pharmaceutical Co. (35%)
- Tianjin Pharm Group Tech Dev. Co. (33%)
- Tianjin Hong Ren Tang Pharmaceutical Co., Ltd. (40%)
- Chengdu Zhong Xin Consulting Co. Ltd. (38%)
- Dujiangyan Zhong Xin Chinese Herbs Cultivation Co. Ltd. (30%)

[1] Includes 0.712% held by Tianjin Pharmaceutical Group Co Ltd

STRUCTURE OF THE COMPANY



RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

DIRECTORS

The particulars of our Directors are as follows:

Name	Age	Address	Current Occupation
Mr. Wang Zhi Qiang	55	3-6-511 Huayu Li Nanfeng Road, Nankai District, Tianjin, PRC	Chairman of Board of Directors
Mr. Zhang Jian Jin	58	86-401 Yu Xian li, Binshui Road, Hexi District, Tianjin, PRC	Non-Executive Director
Mr. Ma Gui Zhong	59	#3 YangFuNan Road, HePing District Tianjin, PRC	Non-Executive Director
Mr. Xu Dao Qing	52	2-1-502 Shuxiang Yuan Wandezhuang Road, Nankai District, Tianjin, PRC	Executive Director and Deputy General Manager
Mr. Zhou Hong	44	3-4-101 Yibo li, Hongqiao District, Tianjin, PRC	Executive Director
Mr. Timothy Chen Teck Leng	60	7 Goldhill Ave., Singapore 309005	Independent Director
Mr. Vincent Toe Teow Heng	46	30 Raffles Place #20-02, Chevron House, Singapore 048622	Independent Director
Mr. Gao Xue Min	76	18-3-703 Xiajiayuan, Taiyang Xingcheng, Chaoyang District, Beijing, PRC	Independent Director

Information on the business and working experience of our Directors is set out below:

Mr. Wang Zhi Qiang, vice-head Chinese pharmacist, postgraduate. He is the general manager, with responsibility for the manufacturing operations of the Company. He had previously held the positions of deputy manager and manager in Medical Group Heping Company and Yier Subsidiary and was appointed the deputy general manager of Medicine Group Company in 1998. He joined the Company as a standing vice general manager in 2000.

Mr. Zhang Jian Jin, senior economist postgraduate. From September 1974 to August 1981, he was appointed by Tianjin Lisheng Pharmaceutical Plant as Secretary to its Plant Committee sub-division, Secretary to Party's Sub-committee and Deputy Director of the Reform Committee. From August 1981 to October 1992, he was appointed by Tianjin Pharmaceutical Bureau as Secretary to its Youth Committee and Head of Operation Division; From October 1992 to November 1994, he was appointed by Tianjin Pharmaceutical Industrial Sales Co. Ltd as the Manager and Secretary to Party's Sub-committee. From November 1994 to May 1996, he was appointed as the Deputy Director of Tianjin Pharmaceutical Bureau cum General Manager of the Medical Supplies Group Co. Ltd. from May 1996 to March 1997, he was the Deputy General Manager of Tianjin Pharmaceutical Company. From March 1997 to May 2000, he was appointed by Tianjin Pharmaceutical Group Co. Ltd as its Deputy General Manager. From May 2000 to July 2007, he was the Secretary to the Party Committee and Head of the Tianjin Food and Medicine Supervision Bureau. From September 2006 to July 2011, he was the Chairman of the board of directors, General Manager and Deputy Secretary to the Party Committee of Tianjin Pharmaceutical Group Co., Ltd. He is the Secretary to the Party Committee, General Manager and Chairman of the board of directors of Tianjin Pharmaceutical Group Co., Ltd. since July 2011. He is also a Director of the Company since January 2007.

Mr. Ma Gui Zhong, master degree of finance and economy, Senior Accountant. He graduated from Tianjin University of Finance and Economics in September 1983 with a bachelor degree of accounting. He has been a section member, supervisory section member, Deputy Director and Director of the Finance Department of Tianjin Pharmaceutical Bureau. Currently, he is holding the position of the Member of the Party Committee, Deputy General Manager, Chief Accountant and General Legal Counsel of Tianjin Pharmaceutical Group Co. Ltd. Mr. Ma Gui Zhong is also Supervisor of the Supervisory Committee since May 1999.

Mr. Xu Dao Qing, bachelor degree, major in chemical pharmaceuticals, Senior Engineer. He graduated from Tianjin University of Finance and Economics with a master degree of business management in 2000. From July 1983 to May 2001,he worked with the Tianjin Central Pharmaceutical Co., Ltd, holding the positions of Research Team Leader, Office Manager and Deputy Director of the Research Institute, Deputy Director and Director of the Sales Department, and Deputy General Manager of the company. From May 2001 to December. 2006, he was the Chairman of Xinxin Pharmaceutical Plant of Tianjin Zhong Xin Pharmaceutical Group. From Febuary 2004 to January 2007, he was concurrently the Deputy General Manager of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited. From December 2006 – May 2007, he was the Secretary of the Party Committee and Deputy Director of Long Shunrong Pharmaceutical Factory. From May 2007 to August 2010, he was the General Manager of Tianjin Xinfeng Pharmaceutical Co., Ltd. From August 2010 to date, he is the Deputy General Manager of the Company.

Mr. Zhou Hong, a senior engineer and master degree of science. For the period from July 1992 to December 2007, he held the position as Sales Executive, Deputy Director of Factory Workshop, Director of Factory Workshop, Leader of the technical process and Head of the Technology Department. From December 2007 to January 2010, he held the position of Deputy Director of Tianjin Zhong Xin Pharmaceutical Factory #6. From January 2010 to July 2011, he was promoted to the Executive Deputy Director of Tianjin Zhong Xin Pharmaceutical Factory #6. From July 2011 to date, he is the Director and Executive Deputy Secretary of Tianjin Zhong Xin Pharmaceutical Factory #6.

Mr. Timothy Chen Teck Leng, who is an independent director and the chairman of the Audit Committee of the Company, has obtained his B.Sc. from the University of Tennessee in 1979 and his MBA from the Ohio State University in 1981, majoring in finance and asset/liability management for financial institutions. He further attended Executive Management Development Program of Harvard Business School in 2002 and awarded Certified Corporate Director (I CD.D) qualification by the Canadian Institute of Corporate Director in 2006.

Mr. Chen has over 30 years of senior management experience in international finance, insurance, banking and company advisory fields. Mr. Chen started his professional career with the Bank of America, Singapore between 1981 and 1982 as loans officer. From 1982 to 1983, he was the Assistant Vice President of Wells Fargo Bank, Singapore. From 1983 to 1985, he was the Account Manager at the International Banking Centre of the Bank of Nova Scotia. Mr. Chen was appointed as the Senior Representative of Sun Life Assurance Company of Canada from 1986 to 1999. From 2000 to 2005, he was the President & CEO of SunlifeEverbright Life Insurance Company in China. He was also the General Manager of Sun Life Financial, China during the same period.

Mr. Chen is currently sitting on several Singapore listed companies. He is the independent director and the audit committee chairman for Xinren Aluminum Holdings Ltd, Yangzijiang Shipbuilding Holdings Ltd, and TMC Education Corporation Ltd. He is also the independent director for HuAn Cable Holdings Ltd and Logistics Holdings Ltd.

RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

Mr. Vincent Toe Teow Heng, graduated from the Business Faculty of Nanyang Technological University with a first-class honours degree in finance and obtained the certificate of Chartered Financial Analyst in 1998. Mr. Zhou used to work in DBS Bank Ltd. and the investment banking department of JP Morgan Chase & Co. He also worked as an associated director in United Bank of Switzerland (Singapore Branch) and had responsibility for investment banking activities for Transport, Leisure and Hotels in Asia. He was appointed as director of certain companies which operates mainly in China, including but not limited to Yangzijiang Shipbuilding (Holdings) Ltd and Hu An Cable Holdings Ltd.

Mr. Gao Xue Min, famous expert of traditional Chinese medicine, professor with Beijing University of Chinese Medicine, doctorate tutor of clinical Chinese medicine course. Mr. Gao served as professor, director and doctorate tutor with Teaching and Research Office of Chinese Medicine at Basic Medicine College of Beijing University of Chinese Medicine from 1990 to 1995; professor, doctorate tutor and head of academic team for clinical Chinese medicine research with Teaching and Research Office of Chinese Medicine at Basic Medicine College of Beijing University of Chinese Medicine from 1995 to 2008; independent director of the Company since May 2009.

SUPERVISOR

The particulars of members of our Supervisory Committee are as follows:

Name	Age	Address	Current Occupation
Mr. Xu Shi Hui	55	3-5-85 Yibinxili Changjiang Road, Nankai District, Tianjin, PRC	Chairman of the Supervisory Committee
Ms. Yu Hong	40	24-5-501 Yicheng Li Youyi Road, Hexi District, Tianjin, PRC	Supervisor
Mr. Xie Qing Feng	45	8-2-202 Fenghexin Yuan Xishi Road, Nankai District, Tianjin, PRC	Supervisor

The business and working experience of our supervisors are as follows:

Mr. Xu Shi Hui, senior politician, graduated from CCP Central Party School, Faculty of Economic Management in December 1997, and obtained a postgraduate certificate from Tianjin Finance College, Faculty of Business Administration in April 2000. From March 1981 to September 1987, he was engaged by Tianjin Biological Pharmaceutical Plant as a safety and technological technical personnel and deputy secretary to party's subdivision. From September 1987 to May 2003, he was engaged by the youth committee, party's committee office and promotions department of Tianjin Pharmaceutical Bureau as secretary to youth committee and Tianjin Pharmaceutical Group Co. Ltd. From July 1994 to May 2003, he was engaged by Tianjin Pharmaceutical Bureau and Tianjin Pharmaceutical Group Co. Ltd as the deputy head of the party's committee office, head of party's committee office cum promotions head. He has been the director, deputy secretary to party's committee, secretary to the discipline committee and union chairman of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited since June 2003.

Ms. Yu Hong, graduated from Tianjin University of Finance and Economic and now holds a master degree of accounting and is also a senior accountant. From July 1997 to April 2002, she was working in the audit department of Tianjin Pharmaceutical Group Co., Ltd. From April 2002 to November 2008, she held the position of Senior Executive in the Accounting Department of Tianjin Pharmaceutical Group Co., Ltd.. From November 2008 to November 2011, she held the position of Deputy Director of the Accounting Department of Tianjin Pharmaceutical Group Co., Ltd.. From November 2011 to date, she is the Director of the Finance Department of Tianjin Pharmaceutical Group Co., Ltd.

Mr. Xie Qing Feng, is a senior engineer and licensed pharmacist and holds master degree of management. Engaged by Tianjin No.6 Chinese Medicine Plant from July 1990 to October 2001, Mr. Xie was serving in succession as the plant's technician, technical head, head of General Office, head of Management Office and Deputy Factory Director. From October 2001 to November 2007, he held the position of Deputy Manager of Tianjin Zhong Xin Pharmaceutical Sales Company. Between November 2007 and June 2009, he was appointed by Tianjin No.6 Chinese Medicine Plant as Deputy Factory Director and administrative Deputy Factory Director. From June 2009 to date, he is the General Manger of Tianjin Zhong Xin Pharmaceutical Sales Company.

MANAGEMENT

The particulars of our key management personnel are as follows:–

Name	Age	Address	Current Occupation
Mr. Wang Zhi Qiang	55	3-6-511 Huayu Li Nanfeng Road, Nankai District, Tianjin PRC	General Manager
Mr. Xu Dao Qing	52	2-1-502 Shuxiang Yuan Wandezhuang Road, Nankai District, Tianjin, PRC	Vice General Manager and Chief Engineer
Ms. Wang Lei	43	A-805 Jinbin Yadu Apartment Shaoxing Road, Hexi District, Tianjin PRC	Vice General Manager
Mr. Zhang Jian	51	5-A-403 Changshou Apartment House, Rongye Ave, Heping District, Tianjin PRC	Vice General Manager
Mr. Tian Gang	50	31-4-304 Minhou Road, Hexi District, Tianjin PRC	Vice General Manager
Ms. Wang Xin	43	18-5-401 Fenghexin Yuan Xishi Road, Nankai District, Tianjin, PRC	Vice General Manager

The business and working experience of our key management personnel are as follows:–

Ms. Wang Lei, Senior Engineer and PhD in Engineering. From July 1993 to March 2001, she held the posts of the Technician in workshop, Cadre in the Sale Department, and Chief in the After Sale Service Section of Tianjin Zhongxin Darentang Pharmaceutical Factory. For the period from March 2001 to April 2004, she was firstly appointed as Deputy Director of Planning Division and then as the Deputy Director of Industry Department in the Company. From April 2004 to January 2013, she served as the Deputy Director, Executive Deputy Director, Secretary of the Party Committee, Director cum Deputy Secretary of the Party Committee in succession and further promoted as Director cum Secretary of the Party Committee from January 2013 to date in Tianjin Zhongxin Lerentang Pharmaceutical Factory. From 15 May 2013 to 23 June 2013, she was also a Supervisor of the Board of Supervisors of the Company. From June 2014 to present, she is the deputy general manger of the Company.

Mr. Zhang Jian, From October 1990, he worked in the Sales Department of Tianjin Medicinal Materials Group and was the Sales Manager of Patent Medicine Branch of Tianjin Medicinal Materials Company in 1998. Between 1999 and November 2001, he was the General Manager of Patent Medicine Branch of Tianjin Medicinal Materials Group. Between November 2001 and August 2007, he was our Deputy General Manager and was the General Manager of "Tianjin Pharmaceutical Sales Company" in August 2007.

Mr. Tian Gang, economist and MBA from Nankai University. From July 1986 to August 1989, he worked with Tianjin Renmin Pharmaceutical Plant and was appointed by Tianjin Pharmaceutical Bureau as the Cadre to its Youth Committee from August 1989 to May 1990. Thereafter till July 1997, he held the position as the Manager of Pharmaceuticals Department in North China Pharmaceutical Goods Company and then became Deputy Director of the Marketing Department and Director

RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

of the Planning Department in Tianjin Amino Company. From July 1997 to March 1999, he served as the Deputy Director of the Operation Department in Tianjin Zhongxin Pharmaceutical Group Corporation Limited. He was promoted as the Deputy Manager of Tianjin Zhongxin Pharmaceutical Hongqiao Company and Tianjin Zhongxin Pharmaceutical and Health Products Company, from March 1999 to January 2000 and from January 2000 to February 2003, respectively. Henceforth till December 2007, he held the post of the General Manager in Tianjin Zhongxin Pharmaceutical Guowei Company. Meanwhile, he served as Deputy Manager of Domestic Trade Department in Tianjin Zhongxin Pharmaceutical Group Corporation Limited, General Manger in Tianjin Zhongxin Pharmaceutical Binhai Corporation Limited, Manager and Deputy Secretary of the Party Committee in Tianjin Zhongxin Pharmaceutical Heping Hexi Branch. From the year of 2007 to date, he is the General Manager in Tianjin Zhongxin Pharmaceutical Medicine Company and Domestic Sale Centre of Tianjin Zhongxin Pharmaceutical Group Corporation Limited.

Ms. Wang Xin, engineer, bachelor degree in Mechanical Design and MBA from Tianjin University. From July 1993 to August 1997, she assumed the office of Deputy Secretary of the Youth Committee in Tianjin Zhongxin Lerentang Pharmaceutical Factory. Then from August 1997 to November 2006, Tianjin Zhong Xin Pharmaceutical Group Corporation Limited appointed her as the Secretary to its Youth Committee and the Head of its Brand Strategy Division. From November 2006 to date, she was appointed as the Head of General Manager Office and as the Assistant of General Manager from January 2010 in Tianjin Zhong Xin Pharmaceutical Group Corporation Limited.

CHAIRMAN'S WORK REPORT

CHAIRMAN'S WORK REPORT

Dear Shareholders,

In 2014, guided by the Group's overall strategic plans and requirements for "reform, innovation and scientific development" and supported by the entire staff's vision for a "Quality Zhong Xin" and their commitment to the Company's basic tune of "great vitality on reforms, pragmatic work for progress" and the enterprise spirit for "pragmatism, innovation, integrity and responsibility" in strengthening top level design and corporate management and control, Tianjin Zhong Xin Pharmaceutical implemented its various strategic goals according to schedule and met its economic targets set at the beginning of the year, continuing its businesses in stability and harmony.

Now, on behalf of the Board, allow me to present our 2014 work report to the general shareholders' meeting and express our gratitude to all of our shareholders.

I. Steady improvement in the quality of economic undertakings and good momentum for growth in operating results

In 2014, the Company further enhanced its scientific management and control to deepen and cement its various tasks. Through joint efforts of all employees, the overall standard and efficiency of the Company's operations were enhanced and the established objectives were accomplished. In 2014, the Company's achievements in terms of operations were reflected in the following aspects:

1. *Cultivation of end-user sales helps expand the market for major products*

In 2014, the Company strengthened the management and control of its sales and marketing process and established an echelon monitoring system. We have established a system to trace and centrally manage the manufacturing and sales of all products of our subsidiaries. We have also completed a report, "An Analysis of the Profitability of the Major Products of Zhong Xin Pharmaceuticals in 2013". Revenue from the Company's 25 major products for the year amounted to RMB2,014 million, representing a year-on-year increase of RMB162 million or 8.78%. As Suxiao Jiuxin Pills, Jinqi Jiangtang Pills, Qingfei Xiaoyan Pills and Weichang'an Pills continued to achieve steady revenue growth, Zhihai Chuanbei Pipa Dripping Pills is another product to achieve revenue of more than RMB50 million.

2. *Innovations in marketing model help improve quality of production process*

Our sales companies strengthened the set up of the sales channels and personnel network and intensified their sales effort at end-users. By setting targets for our sales team in terms of their respective service areas, customers, revenue levels, other requirements and appraisals, we have established a positive development model by driving sales through end-users. Long Shun Rong diversified its sales model by strengthening Tianjin, focusing on five major areas, cultivating potential areas and transforming the problem areas. Da Ren Tang focused on building up its sales network, targeting key customers, strengthening the management and monitoring of the sales process, implementing the four

plates operating mode, and adopting the KA bundling sales model. It has teamed up with the 100 biggest chains in the country to improve its sales capability.

3. *Unified management helps expand the market, Tianjin business division grows steadily*

The Company continued to apply its policy of "unified management, centralized purchasing, channel distribution and regional operation" at its business divisions in Tianjin. We innovated the hospital-drugstore operating model and established collaboration with hospitals for exclusive drug distribution to strengthen our bargaining power. We extended the major product strategy to achieve bulk sales, and we also saw higher revenue from over-the-counter sales. We introduced internal tenders to enhance our operating capability. As our industry faced a slowdown in receivables collection while on-line drugstores expand their operations aggressively, the Tianjin business divisions were able to grow in a difficult market and contributed to the Company's sales.

4. Enhancements in raw materials purchasing platform help improve efficiency and transparency of supply chain management

By aiming at "high target, fine management, precise strategy, excellent quality and suitable staff", the raw materials company innovated its purchasing model and built an electronic purchasing platform. This improves the efficiency and transparency in the purchase, supply and sales of raw materials between the raw materials company and the production factories. We also set up an information centre in Anguo to collect information at the market and reinvigorate our inventory. We also expanded our business with related parties, explored new sales channels, and profited from our raw materials sourcing.

5. Extend the value chain and make use of funding capability

In 2014, our Da Ren Hospital was approved by the Health Bureau and the Civil Affairs Bureau as a first grade medical insurance-designated hospital. Under its motto of "Precision in consultation, authenticity in medication and benevolence in morality", the hospital has hired a team of expert medical staff and attracted a great number of outpatients. We launched the Tianjin Pharmaceutical Group Zhong Xin Pharmaceuticals Haozhou Industrial Park, completed the registration of the Tianjin Da Ren Tang (Haozhou) Traditional Chinese Medicine Drinking Pills Company Limited, began the joint development of the GAP base, and set up a joint venture, Dujiangyan Zhong Xin Chinese herbs cultivation Company Limited with the Dujiangyan Chunsheng Company Limited. In June last year, we also formally launched an "A-share" private placement programme to raise a proposed RMB836 million to support the Company's future development.

6. Enhancement of the internal control system

In 2014, the Company further enhanced the construction of the financial control system. Based on the Tianjin business divisions, we have set up the Zhong Xin Pharmaceutical business financial settlement centre which centralises the management of the financial functions of more than a dozen entities including the pharmaceutical company and the domestic sales centre to achieve five major centralisations. Le Ren Tang has strengthened its management of receivables and established a system for analysis its receivables by the months, thus enabling an alert mechanism on receivable limits and credit terms.

CHAIRMAN'S WORK REPORT

To sum up, the Company achieved stable growth in operating results on the back of a continuously positive momentum in the overall business environment in 2014. As of 31 December 2014, the Group's total and net asset was RMB5.44 billion and RMB2.76 billion, respectively, representing a year-on-year growth of 3.32% and 14.33%, respectively. In 2014, revenue of the Group amounted to RMB7.09 billion, achieving a year-on-year increase of 17.92%. The Group's net profit attributable to the parent company was RMB358 million, of which profit from self-operated businesses was RMB329 million, representing an increase of 10.06% over that of last year (RMB299 million), maintaining a relatively steady momentum of development in recent years.

II. Further enhancing the corporate governance structure and effectively safeguarding the interests of shareholders

The Company is a dual-listed company at the Singapore Exchange and the Shanghai Stock Exchange and therefore it is obliged to comply with the regulations of the two exchanges as well as the laws and regulations of PRC and Singapore. The Company's regulation and governance have always been carried out in strict accordance with rules and regulations such as the "Articles of Association", the "Rules of Procedures of the General Shareholders' Meeting", the "Rules of Procedures of the Board of Directors" and the "Rules of Procedures of the Supervisory Committee". In 2014, the General Shareholders' Meetings, Board of Directors' Meetings and Supervisory Committee' meetings of the Company were convened and decisions were made in compliance with the provisions of relevant laws and regulations. The Company made earnest efforts in safeguarding the legitimate rights and interests of all shareholders, especially minority shareholders.

As always, the Company is committed to improving the level of corporate governance and gradually enhancing its operations. The company has conducted a series of work in accordance with the relevant requirements of China Securities Regulatory Commission, the Shanghai Stock Exchange and the Singapore Exchange. In 2014, the Company continued to carry out investor protection campaigns to guide investors on the risk tolerance and investment preferences and goals through multi-mode and multi-channel promotions keeping pace with the public and markets. Relatively good social effects were achieved and the desired purposes were also attained. On 6 May 2014, the Company held an on-line briefing of its 2013 results with the participation of the Company's chairman, chief accountant and secretary of the board, thus expanding our communications with investors through the Internet. On 15 May, the Company held its 2013 General Shareholders' Meeting, which considered and approved the profit distribution plan for 2013, hence further safeguarding the rights and interests of our shareholders in receiving returns on their investments. On 15 July, 2014, the Company executed the 2013 profit distribution plan as planned, under which cash dividend of RMB1.0 (including tax) was distributed to all shareholders for every ten shares held on the share capital of 739,308,720 shares as of 31 December, 2013. This was an action taken for bringing tangible rewards to shareholders. In 2014, the Company placed importance on the strengthening of insider information management and properly carried out work on the registration of insider files and the notification of the duty of confidentiality in strict accordance with the "Inside Information Management System" of the Company. In their work for the 2014 annual report, all independent directors of the Audit Committee were able to implement examination and verification in strict accordance with relevant systems. Overall, all of the Company's rules and regulations were effectively implemented in 2014.

The Company has always upheld the principle of "more over less, strictness over leniency" in its information disclosure in strict compliance with the regulatory requirements of the PRC and Singapore. In 2014, the Company carried out its information disclosure activities in strict compliance with the "Information Disclosure Management System", securing the authenticity, accuracy, timeliness and completeness of notice information and the consistency of information disclosed at home and abroad. At the same time, the Company was enthusiastic in receiving investors and their consultation, enhancing communications with investors through legal and full disclosure of information to facilitate their understanding and recognition of the Company and maintain good investor relation. This has established a good image of the Company.

III. Strengthening scientific and technological innovation capabilities and improving core competitive advantages

Riding on the favourable opportunities of the state-supported Chinese medicine industry and supported by its own advance technical equipment and rich Chinese medicine varieties and resources, Zhong Xin Pharmaceutical strives to enhance its independent innovation capabilities and improve the level of scientific and technological R&D with the objectives of developing new Chinese medicine and promoting industry upgrade.

In terms of scientific and technological R&D, in 2014, all our entities implemented the Company's scientific and technological R&D plan to advance our scientific and technological capabilities. We conducted research on 24 new products and secondary research on 10 existing products including Qingfei Xiaoyan Pills, Shengxue Pills and Qinggong Shoutao Pills. We also began preparation work to confirm the formal research into two new first-class medicines. Further, we did a comprehensive work on the evaluation of the 2014 "quality-assured pharmaceutical factories" with Rong Shun Long Pharmaceutical Factory, Da Ren Tang Pharmaceutical Factory, Le Ren Tang Pharmaceutical Factory, the Sixth Chinese Medicine Factory, the Zhong Xin Pharmaceutical Factory and Xin Feng Pharmaceuticals being rated as Tianjin's "A" grade enterprises ("quality-assured pharmaceutical factories). In 2014, all 22 of our operating entities in the pharmaceutical business have obtained their GSP accreditation.

In terms of the protection of intellectual property rights, in 2014, the Company strengthened our work on protecting our intellectual property rights and strengthened our core competitiveness. We were selected by the government as a pilot enterprise for intellectual property reform in 2014, while our research and development centre was accredited as an intellectual property demonstration unit at the Tianjin Development Zone for 2013. At the end of 2014, we had a total of 217 trademarks registered in China and 21 registered outside the country. During the year, we applied for a total of 83 patents, including 61 invention patents, five utility model patents and 17 design patents. We also signed the "Agreement on a Task (Project) with Dedicated Tianjin Intellectual Property Rights Funding" with the Intellectual Property Rights Bureau and began our work as a demonstration unit of Tianjin's intellectual property rights reform according to the government's plan, having received the first round of RMB60,000 funding.

For scientific and technological awards, the project of "systematic development of Shunao Xindi Pills" by No.6 Chinese Medicine Production Plant received the Third Grade Science and Technology Progress Award of Tianjin city in 2014. The invention patent of Da Ren Tang's Huoxiang Chengqi Soft Capsules has been awarded an Outstanding Prize in Tianjin's Intellectual Property Awards. The construction of the "Standard Materials Platform for Chinese Medicine Quality Control" by our R&D Centre has been included in Tianjin's 2014 programme for the construction of technological

CHAIRMAN'S WORK REPORT

innovation systems and platforms, with funding totalling RMB750,000. The "Clinical Re-evaluation and Automation Research of Suxiao Jiuxin Pills" project applied for inclusion as a key project in the incubation of leading enterprises among Tianjin's Science and Technology Little Giants, and has received RMB3 million of financial grants from the city government. Long Shun Rong's "Research and Clinical Re-evaluation into Zilong Gold Pills", Da Ren Tang's "Research and Clinical Re-evaluation into Qinggong Shoutao Pills", Le Ren Tang's "Research and Clinical Re-evaluation into Tongmai Yangxin Pills" and Zhong Xin Pharmaceutical's "Research into New Method for the Efficient Enzymatic Synthesis of Theanine" were included in Tianjin's 2014 technology support programme and received a total of RMB6 million of government subsidies.

IV. Caring for the livelihood of employees and striving to build a harmonious enterprise

The Company has always cared for the livelihood of its employees and has safeguarded their legitimate rights and interests according to law in order to build a harmonious enterprise and fulfil its corporate responsibilities. In 2014, adhering to the enterprise philosophy of "following the law of nature and benefiting people's livelihood", the company continued the practice of social responsibility which was recognised by various sectors of the community. As a representative of six Chinese pharmaceutical enterprises, Zhong Xin Pharmaceutical was awarded a certificate in issuing social responsibility report by six industry associations including the China Association of Pharmaceutical Commerce, China Pharmaceutical Industry Association and the China Association of Traditional Chinese Medicine. It also received a "Jointly Build Beautiful Tianjin, Jointly Build the China Dream" development contribution award by Xinhua News Agency's Oriental Outlook Weekly Magazine and the Jinwannbao Newspaper. It further received an "Outstanding Contribution" award from the Tianjin People's Radio and a "Tianjin Example" corporate social responsibility certificate from seven government entities including the Tianjin Federation of Industry and Commerce and the Tianjin Commercial Commission. For the fifth consecutive year it was also given a "Most Influential Award" by the Tianjin People's Radio. Long Shun Rong's old medicine production technique, Angong Niuhuang Pills production technique and Jingwanhong ointment formula and production technique have been included in the National Intangible Cultural Heritage.

The Company earnestly protected the personal interests of all employees. Together with the labour unions of our subsidiaries, we launched a cooling-off campaign in summer with donation of goods worth RMB60,000, and visited employees who had to work at the front line in simmering heat. We upheld our two-tier Company-enterprise aid system, and our senior leaders visited more than 200 needy employees, party members, retired employees and widows of former employees, offering them gifts totaling more than RMB100,000. The Needy Staff Aid Fund has a total of RMB600,000 currently, representing an increase of RMB200,000 from a year ago. We reassessed 77 needy staff and earmarked RMB184,800 for their regular support. We also offered more than RMB170,000 in assistance to more than 90 staff who had temporary difficulties. For the tenth consecutive year we offered "Golden Autumn Scholarship" to those

who had financial difficulties. We fully implemented the collective consultation system for employee compensation, and for the fifth consecutive year we raised our employee compensation by more than 10%, thus earnestly sharing the fruits of enterprise development with our employees. In 2014, we were again rated as Tianjin's "civilised unit".

V. Profit distribution in 2014

For 2014, the Company planned to distribute its profit in the following manner: "cash dividend of RMB1.5 (including taxes) to be distributed to all shareholders for every ten shares held, based on the issued capital of 739,308,720 shares as of 31 December 2014, amounting to RMB110,896,308".

VI. Significant legal disputes

As of now, the Company is not involved in any significant legal dispute.

VII. Implementation of related party transaction contracts

In 2014, the Company was involved in related party transactions for the purchase of goods and services from companies such as Tianjin Pharmaceutical Holdings Limited (TJPH), Tianjin Lisheng Pharmaceutical Company Limited, Tianjin Centralpharm Company Limited, Tianjin Tong Ren Tang Pharmaceutical Sales Company Limited, Tianjin Hong Ren Tang Pharmaceutical Sales Company Limited, Tianjin Haoda Medical Equipment Company Limited, Tianjin City Pharmaceutical Company, TJPH Taiping Pharmaceutical Company Limited, TJPG Ji County Company, TJPH Ninghe Company, Tianjin Taiping Longlong Pharmaceutical Company Limited, Tianjin Taiping Xiangyun Pharmaceutical Company Limited, Tianjin Traditional Chinese Medicine Drinking Pills Factory Company Limited, Tianjin Jinyao Pharmaceutical Development LLC, TJPH Jingyitang Chain Store Company Limited, TJPH Hongze Pharmaceutical Company Limited, Tianjin Yiyao Printing Service Company Limited, Tianjin Cinorch Pharmaceutical Company Limited, Tianjin Tong Ren Tang Group Company Limited, Tianjin Hong Ren Tang Pharmaceutical Company Limited, and Tianjin Institute of Pharmaceutical Research.

The Company did not make any single interested party transaction exceeding S$100,000. All the above transactions were in the ordinary course of the Group's business and were not detrimental to the interests of the Company.

All of the interested person transactions referred to above were in the ordinary course of the Group's business and were not detrimental to the interests of the Company.

Pursuant to Rule 920(1)(a)(ii) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "Listing Manual"), the Company discloses the aggregate value of interested person transactions as follows:–

In RMB'000

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted during the financial year under review under a shareholders' mandate pursuant to Rule 920 of SGX Listing Manual (excluding transactions less than S$100,000)
Total	NIL	NIL

VIII. Major work in 2015

In 2014, the Company will conscientiously implement requirements for the new round of intensified reforms on state-owned enterprises and deepen understanding of the prevailing severe and complex economic environment. It will also combine the pharmaceutical group's innovative practices for "new normal, new driving force, new undertakings" with continued discussion and practice of "great vitality on reforms, pragmatic work for progress" so as to appreciate the three main characteristics of the new normal, namely the changing speed, the enhanced structure and the dynamic transformation

CHAIRMAN'S WORK REPORT

of economic development. This will allow us to clearly determine the new trends in the development of the pharmaceutical industry, and deepen the exploration and practice of "Quality Zhong Xin". In 2015, the Company will focus on the following aspects:

1. *Cultivate and expand the dual drivers and promote increased sales volume and revenue of major products*

We will focus on the Company's strategic goals and further investigate the characteristics of the major products, identify our end customers, strengthen our sales and marketing team to increase our sales capability. For products that are mainly sold to the institutional market, we'll strengthen our academic research and intensify academic promotions to broaden our hospital market and achieve breakthrough in sales. For products sold through the community and large chain stores, we will strengthen our sales and marketing control, and implement project-based expense management to ensure that sales policy and control measures are applied to end-users so that sales volume can be improved by higher quality sales.

2. *Accelerate the consolidation of sales and marketing to create models that benefit multiple entities*

We'll enlarge the advantage of integration and launch a pilot scheme in the consolidation of the sales and marketing of different products and brands. For similar products supplied by different entities with varying degrees of resource utilisation, we will consolidate their sales and marketing in locations where there is a mismatch of resources so as to improve efficiency and utilisation of resources. We will accelerate the sales and marketing integration of traditional Chinese medicines to realise the seamless connection of products, teams and markets.

3. *Relying on the Tianjin business divisions to explore new growth areas for business sales*

The Company will adhere to the policy of "unified management, centralised purchasing, channel distribution and regional operation" and begin to cultivate the market for second-tier products while maintaining the strength of first-tier products. We will continue to support the sales growth of group products and unleash the economies of scale of our major product. We will deepen such new models as operating outlets within hospitals, work with medical institutions to expand the sales of drinking pills of traditional Chinese medicines and of medical devices and consumables in order to create new profit centres. The Company will ensure proper convergence of upstream and downstream customer information systems to enhance value-added services. We'll also accelerate the construction of our electronic commerce platform and take the lead in the transformation of our business model.

4. *Continue to strengthen the management of purchasing and sales, improve the set up of the supply-demand platform for medicinal raw materials*

The Company will utilise the electronic purchasing and sales platform of the medicinal raw materials company and achieve the electronic purchasing of all raw materials and the information management of internal industrial supplies. This will also be implemented across the whole Company. We will strictly implement the management and control of proper purchase and supply of raw materials for traditional Chinese medicine, enhance their sense and quality of service, and achieve a smooth link between the supply of the medicinal raw materials company and the production of the manufacturing enterprises. According to the conditions of the market and our inventories, we will stock up on low cost commodities and merchandises with potential, pick our high-quality customers and expand our sales channels to increase revenue from external customers.

5. *Advance our R&D process and increase the contribution of technological innovation*

The Company will continue to implement the "358" scientific research and development programmes and pursue the R&D of new products with our eyes set on the future but our feet firmly planted on the ground. For the year, we aim to complete all clinical test cases for the "Research and Clinical Re-evaluation into Tongmai Yangxin Pills" project and start the statistical analysis of the clinical data, and launch the "Clinical Re-evaluation and Automation Research of Suxiao Jiuxin Pills" project. We will focus on nine technical improvement projects through optimising the production process, improving product quality and reducing production costs. We will conduct detailed and systematic analysis of major products in the areas of quality standards, new dosage types, new indications and evidence-based medicines, and achieve the secondary development of 10 major traditional Chinese medicines such as Qingfei Xiaoyan Pills and Weichang'an Pills.

6. *Improve the management and control system for R&D quality and prevent risks in R&D and quality*

The Company will strengthen the management and control of key scientific research projects, publish a series of newly revised systems for the management of scientific research and monitor their implementation, and analyse interim results of major R&D projects to provide scientific support to market demand. By making use of the government's supplementary test methods for risky raw materials, we'll build and improve a standards system for the internal control of raw materials quality. Through the internal audit of quality, we will strengthen the monitoring of results of restructuring and reform of problem areas. By strengthening the control of key procedures or key steps of the production process, we will advance the monitoring of quality controls. We will set up an internal testing centre and devise our internal flying monitoring rules. We will establish penalty and reward rules for the performance of our quality control and affirm our accreditation of GMP and GSP certificates, thus ensuring regular and proper management. We will also strengthen the monitoring and analysis of our announcements on drug R&D, regulation and quality to enhance our risk prevention capability.

7. *Strengthen risk management and improve the internal control system*

Based on the principle of "Top level design, Group management and control", we will continue to improve all regulations and their relevant workflow and reporting cards of the Company and its subsidiaries. By establishing a "risk library," we will enable all staff to identify and prevent risks. We will increase the frequency and enlarge the scope of the internal audit of our subsidiaries to refine the mechanism for the reform of our risk audits. In the evaluation of the annual compensation of the chief executives of our subsidiaries, we will strengthen the evaluation of their execution of the Company's strategies and of their risk control, thus enhancing the scientific management of our Company. In 2015, we will apply our comprehensive financial management system and extend our financial management work to all fronts of operations and management. On the basis of an improved financial settlement centre for our businesses, we will accelerate the pilot test of consolidating the financial work of the pharmaceutical sales company, Da Reng Tang and Le Ren Tang.

We will also refine the manufacturing management work and strengthen the analysis of quality data from the production process so that we can quantify the achievement of production cost reduction. By improving our work on energy conservation and emission reduction, we can lower our energy consumption. We will also implement safe production responsibility system, promote standardised management of safety, and ensure production safety.

Our 2014 review shows that Zhong Xin Pharmaceutical has achieved a steady yet relatively rapid development, with all projects developing smoothly. In 2015, Zhong Xin is entering a critical moment in its development and needs to find new progress and achieve new breakthroughs in the face of both challenges and opportunities. All our managers and staff will have to work as a team and contribute all of their efforts to uphold the Company's basic tune of "great vitality on reforms, pragmatic work for progress", focus on the "Quality Zhong Xin" blueprint, and work for the upgrade of the corporate development of Zhong Xin Pharmaceutical, in order to achieve better results to repay our shareholders.

FINANCIAL REVIEW

A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business.

(a) Revenue:

The Group's revenue for the financial year ended 31 December 2014 ("FY2014") was approximately RMB 7,087 million, an increase of approximately RMB 1,077 million, or 18%, from RMB 6,010 million for the financial year ended 31 December 2013 ("FY2013"). The increase was due to strengthening the control of the marketing process, and creating innovative marketing models to boost sales through brand influence.

(b) Gross profit margin:

The Group's gross profit in FY2014 increased by approximately 12% from approximately RMB 1,873 million in FY2013 to approximately RMB 2,102 million. Gross profit margin decreased from 31.2% in FY2013 to 29.7% in FY2014. The decrease in gross profit margin was mainly due to the increase in the percentage of revenue contributed by the Group's allocation businesses which generally yields lower gross profit margins.

(c) Other operating income:

Other gains in FY2014 was approximately RMB 36 million, a decrease of approximately RMB 41 million over the previous year, which was RMB 77 million. The decrease in other gains was mainly attributable to a decrease in gains on disposal of associate in FY2013.

(d) Major expenses:

(i) Marketing and Distribution costs in FY2014 was approximately RMB 1,366 million, an increase of approximately RMB 160 million, or 13% over the previous year. The increase in Marketing and Distribution costs was due mainly to an increase in advertising expenses, so as to build greater brand awareness for the Group's products.

(ii) Administration expenses in FY2014 increased by approximately RMB 12 million, from approximately RMB 264 million in FY2013 to approximately RMB 276 million. The increase in administrative expenses was mainly due to an increase in the salaries of employees.

(iii) Other losses in FY2014 increased by approximately RMB 6 million, from approximately RMB 10 million in FY2013 to approximately RMB 16 million. The increase in other losses was mainly due to the increase in accrual for employment termination benefits and impairment allowance on trade receivables and inventories.

(iv) Finance costs in FY2014 decreased by approximately RMB 5 million or 8% from approximately RMB 56 million to approximately RMB 51 million. The decrease in finance costs was mainly due to repayments of loans and lower interest rates during the financial year.

(e) Shares of results of associated companies:

The Group's share of results of associated companies in FY2014 increased by RMB 9 million, or 15%, from approximately RMB 58 million in FY2013 to approximately RMB 67 million. This was mainly because Sino-American Tianjin Smithkline & French Lab., Ltd. and Baxter Healthcare (Tianjin) Co., Ltd.'s profit in FY2014 increased over the last year.

(f) Total comprehensive income:

The Group's total comprehensive income (net of tax) in FY2014 was approximately RMB 405 million, an increase of 12% over the previous year. The profit attributable to equity holders of parent (net of tax) in FY2014 was approximately RMB 358 million, an increase of approximately RMB 6 million, or 2%, from FY2013.

(g) Major changes in statement of financial positions:

As at 31 December 2014, the Group's cash and cash equivalents amounted to approximately RMB 631 million, which is a decrease of approximately RMB 114 million, or 15% over last year. As at 31 December 2014, the Group's short-term borrowings were approximately RMB 922 million, which is a decrease of approximately RMB 368 million, or 29% over last year. This is contributed by the partial repayment of short-term borrowings.

Trade and other receivables was approximately RMB 1,694 million at 31 December 2014, which is an increase of approximately RMB 245 million, or 17% over last year. The increase in trade and other receivables was mainly due to trade receivables increased by approximately RMB 321 million. Inventories increased by 5% to approximately RMB 860 million to meet the anticipated higher sales in the coming months.

Other current assets increased by approximately 57% or RMB 72 million to approximately RMB 198 million as at 31 December 2014. This was mainly attributed to the increase in procurement of which advance payments are required.

Investments in associates increased by 3% to approximately RMB 542 million, which is mainly attributable to the Group's share of the associates' profits in FY2014.

Property, plant and equipment decreased by approximately RMB 16 million or 2% to RMB 870 million.

(h) Changes in cash flow position:

In FY2014, the Group recorded net cash inflow from operating activities of approximately RMB 269 million.

Cash inflow from investment activities was approximately RMB 108 million in FY2014.

Cash outflow used in financing activities was approximately RMB 479 million in FY2014.

A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any know factors or events that may affect the group in the next reporting period and the next 12 months.

The Group has managed to overcome the difficulties caused by the increases in the competition of pharmaceutical marketing, employees' salaries and financing costs, and improved its operating results in recent years. Taking into account the competitive environment, the Group is continuing to carry out its established policies in order to improve its capabilities in the following areas: -

(1) strengthening its innovation efforts to accelerate the transformation and upgrading of the Group;

(2) expanding its marketing programs to improve sale;

(3) strengthening technology innovation of the Group;

(4) expanding its production; and

(5) strengthening the internal controls, risk management and the industrial management of the Group to enhance the Group's management.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WORK REPORT OF THE SUPERVISORY COMMITTEE

Dear Supervisors,

In 2014, the Board of Supervisors of Tianjin Zhongxin Pharmaceutical Group Corporation Limited performed its duties conscientiously, devoting itself wholeheartedly to safeguarding the interests of shareholders and the Company following the principle of good faith and approaching its tasks in a reasonable, prudent, diligent and proactive manner in accordance with the *Company Law, Securities Law, Listing Rules of the Shanghai Stock Exchange* and *Code of Corporate Governance for Listed Companies* of China, relevant laws and regulations of Singapore and the provisions of the *Articles of Association*.

In 2014, the Board of Supervisors of the Company convened altogether four meetings, all of which were attended by all supervisors. At the same time, the Board of Supervisors attended the Board of Directors' meeting, the annual shareholders' general meeting and the extraordinary shareholders' general meeting held during the year as non-voting attendees and supervised the Company's proceedings according to law. The Board of Supervisors of the Company is of the view that the Board of Directors of the Company was able to regulate operations and make reasonable business decisions to achieve further strengthening and improvement of internal control in strict accordance with the *Company Law, Securities Law, Stock Listing Rules* of the Shanghai Stock Exchange, *Listing Manual* of the Singapore Exchange, the *Articles of Association* as well as the requirements of other laws and regulations; directors and senior management personnel of the Company had neither violated any laws, regulations and the *Articles of Association* nor engaged in any acts detrimental to the interests of the Company when performing their duties; the Board of Directors of the Company had fully demonstrated the role of independent directors in paying attention to the protection of the legitimate rights and interests of minority shareholders; in 2014, the Company continued to focus on strengthening insider administration, ensuring that the work on insider file registration and confidentiality notice is properly done in strict accordance with the Company's *Insider Administrative System*; pursuant to the instructions and requirements of the *Circular on Matters Relating to Further Implementation of Cash Dividends by Listed Companies* of China Securities Regulatory Commission, the Company reinforced the awareness towards generating return for shareholders and established a scientific, sustained and stable profit distribution policy in order to better safeguard the legitimate rights and interests of investors and the Company succeeded in implementing the 2013 profit distribution plan cum cash dividend scheme in July 2014; recurrent related party transactions made between the Company and related parties were priced at a fair and reasonable level and contracts of the related party transactions were formulated in a reasonable and legitimate manner without causing any damage to the interests of the listed company.

After the supervision and inspection of the Company's financial system and situation, the Board of Supervisors of the Company is of the view that the Company's financial report for 2014 has truly and accurately reflected the Company's financial situation and operating results. The assessment of matters contained in the audit opinions issued by Ruihua Certified Public Accountants and RSM Chio Lim LLP in accordance with the Chinese Accounting Standards and the International Accounting Standards respectively are objective and just.

The Board of Supervisors is of the view that, in 2014, the Company successfully accomplished all stated targets and achieved a relatively good business performance. At the same time, the Company's overall operational quality was improved substantially, hence laying a solid foundation for the sustained growth of the Company. We believe that, under the leadership of the Board of Directors and with the efforts of management, the Company can certainly make greater progress in 2015 and reward shareholders with better results.

FINANCIAL **CONTENTS**

CORPORATE GOVERNANCE STATEMENT

The Board of Directors (the "Board") and management of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the "Company", and together with its subsidiaries, the "Group") subscribe fully to the importance of practising high standards of corporate governance and recognise that the principles and guidelines contained in the Code of Corporate Governance 2012 (the "Code") represent best practices and the pursuit of which would enhance the standard of corporate governance. Pursuant to Rule 710 of the Listing Manual (the "Listing Manual") of the Singapore Exchange Securities Trading Limited (the "SGX-ST"), this statement outlines the main corporate governance practices that were in place during the financial year.

BOARD MATTERS

Role of the Board of Directors

The Board's primary role is to protect and enhance long-term shareholder value. It sets the overall strategy for the Group and supervises executive management. To fulfil this role, the Board is responsible for the overall corporate governance of the Group including setting its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Board Processes

To facilitate the execution of its responsibilities, the Board has established a number of Board Committees including a Strategy Committee, an Audit Committee, a Nominating Committee and a Remuneration Committee. These committees function within clearly defined terms of reference and operating procedures, which are reviewed as and when necessary.

The full Board holds 4 scheduled quarterly meetings each year. In addition, it holds such additional meetings as are necessary to consider any matters that require the Board's attention. To facilitate efficient discharge of the Board's business, the Company's Articles provide for the Board and its Committees to decide on matters by way of circular resolution. The Articles also provide for Board members to participate in meetings via telephone or video conferencing.

Matters Requiring Board Approval

The directors have identified a number of areas for which the Board has direct responsibility for decision-making. The Board meets to consider the following matters, among others:

- review and approval of quarterly and annual results and earnings announcements;
- review and approval of the annual report and accounts;
- declaration of dividends;
- convening of shareholders' meetings;
- review and approval of corporate strategies; and
- review and approval of material acquisitions and disposals, and material investments and borrowings.

CORPORATE GOVERNANCE STATEMENT

All other matters are delegated to committees or to the executive management whose actions are reported to and monitored by the Board.

Access to Information

Directors are furnished with information concerning the Group to keep them informed of the operations and performance of the Group and the decisions and actions of the executive management. All directors have unrestricted access to the Company's management and records. Board papers containing information on matters to be discussed are prepared for each meeting of the Board and are normally circulated a week in advance of each meeting. All the independent directors have access to all levels of senior executives in the Group, and are at liberty to speak to other employees to seek additional information if they so require.

The Company Secretary attends all Board meetings and is responsible to ensure that established procedures and all relevant statues and regulations which are applicable to the Company are complied with.

Each director has the right to seek independent legal and other professional advice, at the Company's expense, concerning any aspect of the Group's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Directors' Meetings held in 2014

During the year, the Board had had 11 meetings, and attendance is as follows:

Name of director	Number of Board Meetings held	Attendance
Wang Zhi Qiang	11	11
Zhang Jian Jin	11	11
Ma Gui Zhong	11	11
Xu Dao Qing	11	11
Sun Jun (stepped down on 13 November 2014)	11	10
Zhou Hong	11	11
Vincent Toe Teow Heng	11	11
Gao Xue Min	11	11
Wong Gang (whose term of office expired on 15 May 2014)	5	5
Timothy Chen Teck Leng (appointed on 15 May 2014)	6	6

Training of Directors

The Company will provide training and orientation for any newly appointed Directors. Our new directors are also invited to visit the Group's operational facilities and to meet with management to gain a better understanding of the Group's business and operations.

The Directors participate in discussions with professionals to keep themselves updated on the latest changes and developments concerning the Group and keep abreast of the latest regulatory changes.

CORPORATE GOVERNANCE STATEMENT

Board Composition and Balance

Presently, the Board comprises three executive directors, two non-executive directors and three independent directors. The participation of the Directors in the committees is as follows:

Name of Director	Appointed on	Date of last re-election	Board	Audit Committee	Strategy Committee	Remuneration Committee	Nominating Committee
Wang Zhi Qiang	28 December 2007	15 May 2013	Chairman		C		
Zhang Jian Jin	31 January 2007	18 December 2012	Non-Executive Director		M	M	
Ma Gui Zhong	18 December 2012	N.A.	Non-Executive Director		M		M
Xu Dao Qing	18 December 2012	N.A.	Executive Director		M		
Zhou Hong	18 December 2012	N.A.	Executive Director				
Vincent Toe Teow Heng	15 May 2013	N.A.	Independent Director	M		C	M
Gao Xue Min	15 May 2009	15 May 2012	Independent Director	M	M		C
Timothy Chen Teck Leng	15 May 2014	N.A.	Independent Director	C		M	

The Board is of the view that the current Board members comprise persons whose diverse skills, experience and attributes provide for effective direction for the Group, given the nature and scope of business of the Group's operations. This ensures that each director with his special contributions brings to the Board an independent and objective perspective to enable balanced and well considered decisions to be made.

The composition of the Board is determined in accordance with the following principles:–

- at least half of the Board members shall be independent or non-executive directors;
- the Board should have enough directors to serve on various committees of the Board so that each member will be able to fully discharge his responsibilities;
- the Board should comprise members with varied core competencies and experience needed for effective Board performance.

The composition of the Board is reviewed on an annual basis by the Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience.

Independent Members of the Board of Directors

The Board of Directors has three independent members: Mr. Vincent Toe Teow Heng, Mr. Gao Xue Min, Mr. Timothy Chen Teck Leng. The criterion of independence is based on the definition given in the Code. The Board considers an "independent" director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent judgment of the Group's affairs.

CORPORATE GOVERNANCE STATEMENT

Pursuant to Article 14 under the "Guidelines of Filing and Training for Independent Director in the Listed Companies" promulgated by Shanghai Stock Exchange in 2010, an independent director cannot serve on the board of a listed company for more than six years. As the Company adheres to this Article 14, it does not have, and will not have, any independent directors who have served on the Board for more than nine years.

Chairman and Chief Executive Officer

Our Group's Executive Chairman and Chief Executive Officer is Mr. Wang Zhi Qiang. Our Board is of the view that at the current stage of our Company's development, having a Chairman who also exercises executive functions would facilitate the decision-making process of the Group.

The Executive Chairman is assisted by the General Manager's Executive Meeting. Members attending the General Manager's Executive Meeting include: General Manager Mr. Wang Zhi Qiang, Deputy General Manager & Chief Engineer Mr. Xu Dao Qing, Deputy General Manager Mr. Zhang Jian, Deputy General Manager Mr. Tian Gang, Deputy General Manager Ms. Wang Xin, and Deputy General Manager Ms. Wang Lei. The General Manager's Executive Meeting is responsible for the day-to-day running of the Group as well as the exercise of control over the quality, quantity and timeliness of information flow between the Board and management.

5 out of 8 Directors are either Independent Directors or Non-Executive Directors. All major decisions made by the Executive Chairman are reported to and subject to review by the Board. His performance and appointment to the Board is reviewed by the Nominating Committee and his remuneration package is reviewed by the Remuneration Committee. The Board believes that the existing governance structure involving the delegation of certain functions and authority to several Board Committees, and the fact that these Committees comprised a majority of independent directors and the each of them is chaired by an independent director, would provide for a balance of power and authority within the Board.

Board Committees

To assist the Board in the execution of its duties, the Board has delegated specific functions to the following committees:

Strategy Committee

The Strategy Committee was established in 2002. It was chaired by Mr. Wang Zhi Qiang and its other members are Mr. Zhang Jian Jin, Mr. Ma Gui Zhong, Mr. Xu Dao Qing and Mr. Gao Xue Min in FY2014. The Strategy Committee was entrusted with the conduct of the Group's business and affairs, in line with the overall strategy set by the Board. The Committee meets periodically and on such other times where necessary.

The number of Strategy Committee meetings held and attendance during the year were as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Wang Zhi Qiang	Executive Chairman	1	1
Zhang Jian Jin	Non-executive Director	1	1
Ma Gui Zhong	Non-executive Director	1	1
Xu Dao Qing	Executive Director	1	1
Gao Xue Min	Independent Director	1	1

CORPORATE GOVERNANCE STATEMENT

Audit Committee

The Audit Committee was established in 1997. It is chaired by Mr. Timothy Chen Teck Leng and its other members are Mr. Vincent Toe Teow Heng and Mr.Gao Xue Min. All the members of the Audit Committee are independent directors of the Company.

During the year, the Audit Committee carried out the following functions:

- reviewed the audit plans and scope of audit examination of the external auditors;
- reviewed with the external auditors their findings arising from the audit and making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
- reviewed internal audit findings and internal audit plan;
- reviewed the annual and quarterly financial statements and the draft earnings announcements before their submission to the Board for approval;
- reviewed interested person transactions; and
- reviewing the adequacy of the Company's internal control.

The Audit Committee has full access to and co-operation of the management and has full discretion to invite any Director or executive officer of the Company to attend its meeting. The Audit Committee also has power to conduct or authorise investigations into any matters within its scope of responsibility. The Audit Committee is authorised to obtain independent professional advice if it deems necessary in the discharge of its responsibilities. Such expenses will be borne by the Company.

The Audit Committee has conducted a review and the Company confirms that it is in compliance with Rules 712 and 716 of the SGX-ST Listing Manual for the financial year ended 31 December 2014. The Audit Committee and the Board have satisfied themselves that the appointment of different auditing firms of certain of associates would not compromise the standard and effectiveness of the audit of the Group. The Audit Committee also conducts a review to ensure the independence of the external auditors annually. During the year under review, the Group has agreed an aggregate of approximately RMB4,218,000 to the external auditors for their audit services, and an aggregate of approximately RMB60,000 to the external auditors for their other non-audit services. The Audit Committee, having reviewed the range and value of non-audit services performed by the external auditors, RSM Chio Lim LLP and Ruihua Certified Public Accountants LLP, was satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors.

The Audit Committee had had two meetings with the external auditors to discuss any issues or observations arising from the audit, including the level of cooperation rendered by the Management to the auditors.

The Audit Committee takes measures to keep abreast of the changes to accounting standards and issues which have impact on financial statements, by participating in training conducted by professionals or external consultants.

CORPORATE GOVERNANCE STATEMENT

The number of Audit Committee meetings held and attendance during the year were as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Timothy Chen Teck Leng (appointed on 15 May 2014)	Independent Director	2	2
Vincent Toe Teow Heng	Independent Director	6	6
Gao Xue Min	Independent Director	6	6

Nominating Committee

This committee was established in 2002 and comprises two independent directors and one non-executive director. The chairman of the Nominating Committee is Mr. Gao Xue Min, and the other members are Mr. Ma Gui Zhong and Mr. Vincent Toe Teow Heng.

The responsibilities of the Nominating Committee are to determine the criteria for identifying and reviewing nominations for the appointment and re-appointment of directors to the Board. As part of the process, the Nominating Committee will evaluate the relevant background, skills and experience of the proposed director, to ensure that his skills and experience are a good fit for the Board's existing attributes and requirements. The Nominating Committee is also charged with the function of recommending a framework for evaluating the effectiveness of the Board and the contribution of each individual director to the effectiveness of the Board. The Nominating Committee will also carry out such evaluation and present its findings and recommendations to the Board.

Pursuant to Article 151 of the Articles of Association of the Company, the tenure of an Independent Director shall be three (3) years which may be extended upon re-election, with a maximum term of no more than six (6) years. The Board, the Supervisory Board, or shareholders who, singly or jointly, hold more than 1% issued share of the listed company, may nominate candidates for appointment as independent directors, and the shareholders in the shareholders' meeting shall decide the nomination.

The Nominating Committee has not set a limit on the maximum number of listed company board representations which directors may hold, as such a limit is not meaningful. The contributions of each director should be assessed based on the specific circumstances applicable to him, such as whether he has a full time vocation or other responsibilities, his capabilities, and his appointment in the Company. The Nominating Committee will assess each director on a regular basis to ensure that he is adequately carrying out his duties as a director. Specific considerations are also given to their attendance, responsibility, contributions and individual capabilities. Following the review, the Board is of the view that the Board and its Board Committees operate effectively and each director is contributing to the overall effectiveness of the Board.

In addition, the Nominating Committee also performs the following functions:

- determine on an annual basis whether a director is independent; and

- identify gaps in the mix of skills, experience and other qualities required for an effective board, and where appropriate, nominate or recommend suitable candidates to fill the gaps.

CORPORATE GOVERNANCE STATEMENT

The number of Nominating Committee meetings held and attendance during the year were as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Gao Xue Min	Independent Director	2	2
Vincent Toe Teow Heng	Independent Director	2	2
Ma Gui Zhong	Non-executive Director	2	2

Remuneration Committee

This committee was established in 2002 and comprises two independent directors and one non-executive director. The Remuneration Committee is chaired by Mr. Vincent Toe Teow Heng, and the members are Mr. Zhang Jian Jin and Mr. Timothy Chen Teck Leng.

The Remuneration Committee reviews and approves recommendations on remuneration policies and packages for all Directors and key executives. The review covers all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, share options, and benefits-in-kind. The committee's recommendations are made in consultation with the chairman of the Board and submitted for endorsement by the entire Board.

Annual reviews of the compensation of directors and key executives are carried out by the Remuneration Committee to ensure that the remuneration of the executive directors and senior management are commensurate with their performance and value-add to the Group, giving due regard to the financial and commercial health and business needs of the Group.

The number of Remuneration Committee meetings held and attendance during the year were as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Vincent Toe Teow Heng	Independent Director	1	1
Timothy Chen Teck Leng (appointed on 15 May 2014)	Independent Director	0	0
Zhang Jian Jin	Non-executive Director	1	1

Remuneration Matters

The Group's remuneration policy is to provide compensation packages at market rates which reward good performance and attract, retain and motivate managers and directors, within the constraints that a State-owned enterprise like the Company is subject to.

The Remuneration Committee determines the remuneration packages for the Executive Chairman and the executive directors based on the performance of the Group, and the Independent directors are paid directors' fees, determined by the full Board based on the effort, time spent and responsibilities of the independent directors. The amount of directors' fees is subject to approval of the Company at each AGM.

CORPORATE GOVERNANCE STATEMENT

The Executive and Non-Executive Directors' remuneration are set out below in bands of S$250,000:

	Salary %	Bonus %	Termination, Retirement and Post-employment benefits %	Other Benefits %	Total %
Below S$250,000					
Zhang Jian Jin	100	–	–	–	100
Ma Gui Zhong	100	–	–	–	100
Xu Dao Qing	100	–	–	–	100
Sun Jun	100	–	–	–	100
Zhou Hong	100	–	–	–	100
Below S$750,000					
Wang Zhi Qiang	100	–	–	–	100

The remuneration of each individual Executive and Non-Executive Director is not disclosed as the Company believes that disclosure may be prejudicial to its business interests given the highly competitive environment it is operating in.

The director fees paid to the independent directors of the Company for the year ended 31 December 2014 are set out below:

Name of director	Salary	Bonus	Directors' fees	Total
Vincent Toe Teow Heng	0	0	S$55,000	S$55,000
Gao Xue Min	0	0	RMB60,000	RMB60,000
Wong Gang (whose term of office expired on 15 May 2014)	0	0	S$22,900	S$22,900
Timothy Chen Teck Leng (appointed on 15 May 2014)	0	0	S$40,000	S$40,000

No share-based incentives and awards were granted to the directors and the Chief Executive Officer.

Details of remuneration paid to the executives (who are not directors of the Company) of the Group for the year ended 31 December 2014 are set out below:

Unit: RMB

Name of executive	*Total Remuneration
Xu Shi Hui	RMB800,000
Xie Qing Feng	RMB1,291,700
Zhang Jian	RMB550,000
Tian Gang	RMB760,900
Wang Xin	RMB550,000
Wang Lei	RMB1,268,000

CORPORATE GOVERNANCE STATEMENT

A breakdown of the level and mix of remuneration of the top 6 key executives is as follows:

	Salary %	Bonus %	Termination, Retirement and Post-employment benefits %	Other Benefits %	Total %
Xu Shi Hui	100	–	–	–	100
Xie Qing Feng	100	–	–	–	100
Zhang Jian	100	–	–	–	100
Tian Gang	100	–	–	–	100
Wang Xin	100	–	–	–	100
Wang Lei	100	–	–	–	100

The aggregate total remuneration paid to or accrued to the 6 key executives amounted to RMB5.22 million.

There are no employees of the Company who are immediate family members of a director or the Chief Executive Officer, and whose remuneration exceeds S$50,000 during the year. The Company does not currently have any employee share schemes.

The Company adopts a remuneration policy for executive directors and key management personnel comprising a fixed component and a variable component. The fixed component is in form of a base salary. The variable component is in the form of a variable bonus that is linked to the Company and individual performance.

Accountability and Audit

In presenting the quarterly and annual financial statements and earnings announcements to shareholders, it is the aim of the Board to provide the shareholders with sufficient information that would enable shareholders to have a proper understanding of the Group's financial position and prospects.

Internal Controls

The Board is responsible for the overall internal control framework. The Board recognises that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Company will ensure that through the review of the findings of the internal audit and of the external auditors, and such other reviews and examinations as are considered necessary from time to time, the Board seeks to ascertain the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems.

The Board had received assurance from the Chief Executive Officer and Chief Financial Officer that the financial records as at 31 December 2014 have been properly maintained and the financial statements for the financial year ended 31 December 2014 give a true and fair view of the Company's operations and finances and regarding the effectiveness of the Company's risk management and internal control systems.

CORPORATE GOVERNANCE STATEMENT

After taking into account the above factors, various management controls put in place, as well as the assistance/services rendered to the Company by both of its internal and external auditors, the Board is of the view that the present internal controls of the Group, including financial, operational, compliance and information technology controls, and risk management systems, are adequate for the nature and the size of the Group's operations and business. The Audit Committee similarly concurs with the views of the Board on the adequacy of the present internal controls of the Group, including financial, operational, compliance and information technology controls, and risk management systems, to address its risk areas.

The Company has put in place a whistle-blowing policy whereby the staff can have direct access to the Discipline Inspection Committee to raise concerns about possible improprieties, suspected corruption, bribery, embezzlement, or other matters within the Group.

Internal Audit

The effectiveness of the internal control systems and procedures is monitored by management and reviewed by the Audit Committee. The internal audit function is carried out by the Group's internal audit department which reports both to the Executive Chairman and the Audit Committee. Internal audit reports are submitted at regular intervals to the Audit Committee for review.

Communication with Shareholders

The Company does not practise selective disclosure. In line with continuous disclosure obligations of the Company pursuant to the SGX-ST's Listing Rules, the Board's policy is that all shareholders should have equal and timely access to all major developments that can reasonably be expected to have a material impact on the Group.

Information is communicated to shareholders on a timely basis through SGXNET:

- quarterly and annual results, and annual report;
- notices of and explanatory memoranda for annual general meetings and extraordinary general meetings(also advertised in newspapers);
- press releases on major developments of the Group; and
- other disclosures as are required under the SGX-ST Listing Rules and listing rules of the Shanghai Securities Exchange.

Shareholders in Singapore are encouraged to attend the Company's video conference of the AGM held in the PRC. The AGM is the principal forum for dialogue with shareholders. The notice of the AGM is dispatched to shareholders at least 45 days before the meeting, in accordance with the requirements of the Shanghai Securities Exchange. Additional information will be provided in explanatory notes or in a circular on items of special business. The Board welcomes questions from shareholders on performance and operations of the Group. The Chairmen of the Audit, Remuneration and Nominating Committees are normally available at the meeting to answer those questions relating to the work of the respective Committees. The Company also holds conferences on online platforms from time to time, where shareholders may log on to attend and participate.

CORPORATE GOVERNANCE **STATEMENT**

Dealing in Securities

The Group has procedures in place prohibiting dealings in the Company's shares by the Group and its officers while in possession of price sensitive information and during the period commencing one month prior to the announcement of the Company's quarterly, half-yearly and full year results. Directors and executives are observed not to deal in the Company's shares on short term consideration and also expected to observe insider trading laws at all times.

Compliance with Existing Best Practices Guide of the Singapore Exchange

The Board of Directors confirms that for the financial year ended 31 December 2014, the Company has complied with the principal corporate governance recommendations set out in the Best Practices Guide issued by the SGX-ST.

DIRECTORS' REPORT

The directors of the Company are pleased to present their report together with the audited consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the reporting year ended 31 December 2014.

1. Directors at Date of Report

The directors of the Company in office at the date of this report are:

Wang Zhi Qiang
Zhang Jian Jin
Ma Gui Zhong
Xu Dao Qing
Zhou Hong
Timothy Chen Teck Leng@Chen Teck Leng (Appointed on 15 May 2014)
Vincent Toe Teow Heng
Gao Xue Min

2. Arrangements to Enable Directors to Acquire Benefits by Means of the Acquisition of Shares and Debentures

Neither at the end of the reporting year nor at any time during the reporting year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3. Director's Interests in Shares and Debentures

The directors of the Company holding office at the end of the reporting year had no interests in the share capital of the Company and related corporations except for Mr Wang Zhi Qiang who holds 1,280 ordinary A shares in the capital of Company at the beginning and at the end of the reporting year. The director's interests as at 21 January 2015 were the same as those at the end of the reporting year.

4. Contractual Benefits of Director

Since the beginning of the reporting year, no director of the Company has received or become entitled to receive a benefit, by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a Company in which he has a substantial financial interest except as disclosed in the financial statements.

There were certain transactions (shown in the financial statements under related party transactions) with corporations in which certain directors have an interest.

DIRECTORS' REPORT

5. Shares Options

During the reporting year, no option to take up unissued shares of the Company or any subsidiary was granted and there were no shares of the Company or any subsidiary issued by virtue of the exercise of an option to take up unissued shares.

At the end of the reporting year, there were no unissued shares of the Company or any subsidiary under option.

6. Independent Auditors

The independent auditors, RSM Chio Lim LLP and Ruihua Certified Public Accountants LLP, have expressed their willingness to accept re-appointment.

On Behalf of The Directors

Wang Zhi Qiang
Director

Xu Dao Qing
Director

30 March 2015

STATEMENT BY DIRECTORS

In the opinion of the directors,

(a) the accompanying statements of financial position, consolidated statement of profit or loss and other comprehensive income, statements of changes in equity, consolidated statement of cash flows, and notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the results and cash flows of the Group and changes in equity of the Company and of the Group for the reporting year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors approved and authorised these financial statements for issue.

On Behalf of The Directors

....

Wang Zhi Qiang
Director

....

Xu Dao Qing
Director

30 March 2015

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED (REGISTRATION NO.120000000004711)

Report on the Financial Statements

We have audited the accompanying financial statements of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group, and statement of changes in equity of the Company for the reporting year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED (REGISTRATION NO.120000000004711)

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014 and of the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the reporting year ended on that date.

RSM Chio Lim LLP
Public Accountants and Chartered Accountants

8 Wilkie Road,
#03-08 Wilkie Edge,
Singapore 228095

30 March 2015

Partner-in-charge: Chan Weng Keen
Effective from year ended 31 December 2012

Ruihua Certified Public Accountants LLP
Certified Public Accountants

5-11F, West Tower,
No. 8, XiBinhe Road, YongDing Men
DongCheng District, Beijing,
People's Republic of China 100077

30 March 2015

Partner-in-charge: Luo Jun
Effective from year ended 31 December 2013

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2014

	Notes	2014 RMB'000	2013 RMB'000
Revenue	4	**7,086,879**	6,010,137
Cost of Sales		**(4,985,259)**	(4,137,339)
Gross Profit		**2,101,620**	1,872,798
Other Items of Income			
Interest Income	5	**5,832**	6,402
Dividend Income		**1,080**	1,422
Other Gains	6	**35,661**	76,845
Other Items of Expense			
Marketing and Distribution Costs		**(1,366,133)**	(1,206,078)
Research and Development Costs		**(71,003)**	(62,300)
Administrative Expenses		**(275,775)**	(264,171)
Finance Costs	7	**(50,995)**	(55,534)
Other Losses	6	**(16,042)**	(10,069)
Share of Profits From Equity-Accounted Associates		**66,634**	58,111
Profit Before Income Tax		**430,879**	417,426
Income Tax Expense	9	**(51,442)**	(56,473)
Profit, Net of Tax		**379,437**	360,953
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss:			
Share of Other Comprehensive Income From Equity-Accounted Associates, Net of Tax	24A	**1,913**	949
Available-For-Sale Financial Assets, Net of Tax	24C	**23,648**	1,202
Other Comprehensive Income for the Year, Net of Tax		**25,561**	2,151
Total Comprehensive Income for the Year		**404,998**	363,104
Profit, Net of Tax Attributable to:			
Owners of the Parent		**357,801**	352,264
Non-Controlling Interests		**21,636**	8,689
		379,437	360,953
Total Comprehensive Income for the Year Attributable to:			
Owners of the Parent		**383,362**	354,415
Non-Controlling Interests		**21,636**	8,689
		404,998	363,104
Earnings Per Share			
Earnings Per Share Currency Unit		**RMB**	**RMB**
Basic and Diluted	10	**0.48**	0.48

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Notes	Group 2014 RMB'000	Group 2013 RMB'000	Company 2014 RMB'000	Company 2013 RMB'000
ASSETS					
Non-Current Assets					
Property, Plant and Equipment	12	**870,231**	886,215	**732,802**	775,596
Investment Properties	13	**26,710**	27,658	**24,878**	25,747
Land Use Rights	14	**183,596**	188,602	**153,064**	157,549
Intangible Assets	15	**9,488**	9,984	**4,882**	6,071
Investments in Subsidiaries	16	**–**	–	**314,366**	305,606
Investments in Associates	17	**542,053**	524,766	**510,431**	509,531
Other Financial Assets, Non-Current	18	**319,499**	334,829	**83,065**	55,243
Deferred Tax Assets	9D	**88,122**	84,819	**83,920**	78,293
Other Assets, Non-Current	19	**15,539**	17,853	**15,946**	13,046
Total Non-Current Assets		**2,055,238**	2,074,726	**1,923,354**	1,926,682
Current Assets					
Inventories	20	**859,891**	816,887	**645,638**	635,786
Trade and Other Receivables	21	**1,693,613**	1,448,984	**1,515,793**	1,306,909
Other Financial Assets, Current	18	**–**	51,250	**–**	–
Other Assets, Current	19	**197,530**	125,752	**154,449**	85,514
Cash and Cash Equivalents	22	**630,935**	744,730	**408,586**	496,614
Total Current Assets		**3,381,969**	3,187,603	**2,724,466**	2,524,823
Total Assets		**5,437,207**	5,262,329	**4,647,820**	4,451,505
EQUITY AND LIABILITIES					
Equity Attributable to Owners of the Parent					
Share Capital	23	**739,308**	739,308	**739,308**	739,308
Share Premium		**414,042**	414,042	**414,042**	414,042
Retained Earnings		**1,239,347**	954,190	**1,095,568**	825,893
Other Reserves	24	**371,080**	309,840	**447,058**	387,731
Equity Attributable to Owners of the Parent		**2,763,777**	2,417,380	**2,695,976**	2,366,974
Non-Controlling Interests		**182,860**	157,584	**–**	–
Total Equity		**2,946,637**	2,574,964	**2,695,976**	2,366,974
Non-Current Liabilities					
Deferred Tax Liabilities	9D	**8,504**	4,331	**8,504**	4,331
Trade Payables, Non-Current	25	**53,947**	55,179	**53,507**	54,580
Other Liabilities, Non-Current	26	**66,173**	75,287	**39,680**	50,440
Total Non-Current Liabilities		**128,624**	134,797	**101,691**	109,351
Current Liabilities					
Income Tax Payable		**8,735**	11,507	**4,886**	9,507
Trade and Other Payables	27	**1,380,160**	1,173,093	**1,095,889**	928,766
Other Financial Liabilities	28	**921,700**	1,289,200	**720,000**	978,000
Other Liabilities, Current	26	**51,351**	78,768	**29,378**	58,907
Total Current Liabilities		**2,361,946**	2,552,568	**1,850,153**	1,975,180
Total Liabilities		**2,490,570**	2,687,365	**1,951,844**	2,084,531
Total Equity and Liabilities		**5,437,207**	5,262,329	**4,647,820**	4,451,505

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2014

Group	Total Equity RMB'000	Attributable to Parent Sub-Total RMB'000	Share Capital RMB'000	Share Premium RMB'000	Retained Earnings RMB'000	Other Reserves RMB'000	Non-Controlling Interest RMB'000
Current Year:							
Opening Balance at 1 January 2014	**2,574,964**	**2,417,380**	**739,308**	**414,042**	**954,190**	**309,840**	**157,584**
Total Comprehensive Income for the Year	**404,998**	**383,362**	–	–	**357,801**	**25,561**	**21,636**
Dividends Paid (Note 11)	**(36,965)**	**(36,965)**	–	–	**(36,965)**	–	–
Appropriation of Statutory Common Reserve (Note 24B)	–	–	–	–	**(35,679)**	**35,679**	–
Increase in Capital Contributed by Non-Controlling Interests	**8,515**	–	–	–	–	–	**8,515**
Distribution to Non-Controlling Interests	**(4,875)**	–	–	–	–	–	**(4,875)**
Closing Balance at 31 December 2014	**2,946,637**	**2,763,777**	**739,308**	**414,042**	**1,239,347**	**371,080**	**182,860**
Previous Year:							
Opening Balance at 1 January 2013	2,278,772	2,136,897	739,308	414,042	709,922	273,625	141,875
Total Comprehensive Income for the Year	363,104	354,415	–	–	352,264	2,151	8,689
Dividends Paid (Note 11)	(73,932)	(73,932)	–	–	(73,932)	–	–
Appropriation of Statutory Common Reserve (Note 24B)	–	–	–	–	(34,064)	34,064	–
Increase in Capital Contributed by Non-Controlling Interests	9,850	–	–	–	–	–	9,850
Distribution to Non-Controlling Interests	(2,830)	–	–	–	–	–	(2,830)
Closing Balance at 31 December 2013	2,574,964	2,417,380	739,308	414,042	954,190	309,840	157,584

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2014

Company	Total Equity RMB'000	Share Capital RMB'000	Share Premium RMB'000	Retained Earnings RMB'000	Other Reserves RMB'000
Current Year:					
Opening Balance at 1 January 2014	**2,366,974**	**739,308**	**414,042**	**825,893**	**387,731**
Total Comprehensive Income for the Year	**365,967**	**–**	**–**	**342,319**	**23,648**
Dividends Paid (Note 11)	**(36,965)**	**–**	**–**	**(36,965)**	**–**
Appropriation of Statutory Common Reserve (Note 24B)	**–**	**–**	**–**	**(35,679)**	**35,679**
Closing Balance at 31 December 2014	**2,695,976**	**739,308**	**414,042**	**1,095,568**	**447,058**
Previous Year:					
Opening Balance at 1 January 2013	2,009,887	739,308	414,042	504,072	352,465
Total Comprehensive Income for the Year	431,019	–	–	429,817	1,202
Dividends Paid (Note 11)	(73,932)	–	–	(73,932)	–
Appropriation of Statutory Common Reserve (Note 24B)	–	–	–	(34,064)	34,064
Closing Balance at 31 December 2013	2,366,974	739,308	414,042	825,893	387,731

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2014

	2014 RMB'000	2013 RMB'000
Cash Flows from Operating Activities		
Profit Before Income Tax	**430,879**	417,426
Interest Income	**(5,832)**	(6,402)
Interest Expense	**50,995**	55,534
Dividend Income	**(1,080)**	(1,422)
Gain Upon Disposal of Held-to-Maturity Investments	**(15,892)**	(1,804)
Share of Profits of Equity-Accounted Associates	**(66,634)**	(58,111)
Gain on Disposal of Interests in an Associate	**–**	(44,153)
Depreciation of Property, Plant and Equipment and Investment Property, and Amortisation of Land Use Rights and Intangible Assets	**88,841**	88,621
Losses on Disposal of Property, Plant and Equipment, Intangible Assets and Other Non-Current Assets	**640**	1,197
Impairment/(Reversal) of Receivables and Inventories	**6,282**	(12,764)
Operating Cash Flows Before Changes in Working Capital	**488,199**	438,122
Inventories	**(46,441)**	(45,487)
Trade and Other Receivables	**(247,475)**	(248,363)
Other Assets	**(71,778)**	20,543
Trade and Other Payables	**233,111**	131,462
Other Liabilities	**(27,417)**	2,424
Net Cash Flows From Operations	**328,199**	298,701
Income Tax Paid	**(58,815)**	(81,444)
Net Cash Flows From Operating Activities	**269,384**	217,257
Cash Flows From Investing Activities		
Purchase of Property, Plant and Equipment, Investment Property, Land Use Rights and Intangible Assets	**(70,151)**	(72,422)
Proceeds From Disposals of Property, Plant and Equipment, Intangible Assets and Other Assets	**311**	530
Acquisition of Available-For-Sales Financial Assets	**(21,123,407)**	(3,155,768)
Proceeds From Disposal of Available-For-Sale Financial Assets	**21,220,865**	2,823,496
Proceeds From Disposal of an Associate	**–**	60,000
Proceeds From Deemed Disposal of Interest in a Subsidiary	**1,665**	–
Acquisition of Investment in an Associate	**(900)**	–
Interest Income Received	**5,832**	6,402
Dividends Income Received From Associates and Available-For-Sale Financial Assets	**73,605**	177,947
Net Cash Flows From/(Used in) Investing Activities	**107,820**	(159,815)

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2014

	2014 RMB'000	2013 RMB'000
Cash Flows From Financing Activities		
Increase in Capital Contributed by Non-Controlling Interests	**6,850**	9,850
Proceeds From New Borrowings	**1,038,000**	1,599,000
Repayment of Borrowings	**(1,311,000)**	(1,414,000)
Proceeds From Other Borrowings	**38,776,320**	3,005,682
Repayment of Other Borrowings	**(38,878,324)**	(2,776,275)
Dividends Paid to Equity Owners	**(69,413)**	(105,168)
Distribution to Non-Controlling Interests	**(4,430)**	(2,830)
Interest Expense Paid	**(49,003)**	(49,792)
Cash Restricted Maturing/(in Use) After 3 Months	**11,638**	(10,224)
Net Cash Flows (Used in)/From Financing Activities	**(479,362)**	256,243
Net (Decrease)/Increase in Cash and Cash Equivalents	**(102,158)**	313,685
Effect of Exchange Rate Changes on Cash and Cash Equivalents Held	**1**	879
Cash and Cash Equivalents, Consolidated Statement of Cash Flows, Beginning Balance	**659,219**	344,655
Cash and Cash Equivalents, Consolidated Statement of Cash Flows, Ending Balance (Note 22)	**557,062**	659,219

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

1. GENERAL

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the "Company") is incorporated in the People's Republic of China as a joint stock limited company. The Company is listed on the Singapore Exchange Securities Trading Limited and the Shanghai Stock Exchange.

The financial statements are presented in Chinese Renminbi ("RMB") and they cover the Company and its subsidiaries (collectively, the "Group").

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors.

The principal activities of the Company are investment holding, production and sale of traditional chinese medicine, western medicine and healthcare products.

The principal activities of the subsidiaries are disclosed in Note 16 to the financial statements below.

The registered office of the Company is located at 17 Baidi Road, Nankai District, Tianjin, People's Republic of China 300193. The principal place of business of the Company is in Tianjin, People's Republic of China.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Convention

The financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS"), being standards and interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2014.

These financial statements comprise statements of financial position of the Group and the Company as at 31 December 2014, and consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group, and statements of changes in equity of the Group and the Company for the reporting year ended 31 December 2014, and notes.

Income and expenses, excluding the components of other comprehensive income, are recognised in the statement of profit or loss. Other comprehensive income comprises items of income and expenses (including reclassification adjustments) that are not recognised in the statement of profit or loss, as required or permitted by IFRS. Reclassification adjustments are amounts reclassified to profit or loss in the current reporting year that were recognised in other comprehensive income in the current or previous reporting years. Transactions with the owners of the Group in their capacity as owners are recognised in the statement of changes in equity.

The Group presents the statement of profit or loss and other comprehensive income using the classification by function of expenses. The Group believes this method provides more useful information to the readers of the financial statements as it better reflects the way operations are run from a business point of view. The statement of financial position format is based on a current/non-current distinction.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of preparation of the financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies. The areas requiring management's most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at the end of this note to the financial statements, where applicable.

Basis of Consolidation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the company and all of its subsidiaries. The consolidated financial statements are the financial statements of the Group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity and are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions, including income, expenses and cash flows are eliminated on consolidation. Subsidiaries are consolidated from the date the reporting entity obtains control of the investee and cease when the reporting entity loses control of the investee. Control exists when the Group has the power to govern the financial and operating policies so as to gain benefits from its activities.

Changes in the Group's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the Group's and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the Group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at fair value at the date when control is lost and is subsequently accounted as available-for-sale financial assets in accordance with IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Measurement Bases

The financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, an exit price). It is a market-based measurement, not an entity-specific measurement. When measuring fair value, management uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value. In making the fair value measurement, management determines the following: (a) the particular asset or liability being measured (these are identified and disclosed in the relevant notes below); (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation techniques to use when measuring fair value. The valuation techniques used maximise the use of relevant observable inputs and minimise unobservable inputs. These inputs are consistent with the inputs a market participant may use when pricing the asset or liability.

The fair value measurements and related disclosures categorise the inputs to valuation techniques used to measure fair value by using a fair value hierarchy of three levels. These are recurring fair value measurements unless state otherwise in the relevant notes to the financial statements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The level is measured on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting year. If a financial instrument measured at fair value has a bid price and an ask price, the price within the bid-ask spread or mid-market pricing that is most representative of fair value in the circumstances is used to measure fair value regardless of where the input is categorised within the fair value hierarchy. If there is no market, or the markets available are not active, the fair value is established by using an acceptable valuation technique.

The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value. The fair values of non-current financial instruments may not be disclosed separately unless there are significant differences at the end of the reporting year and in the event the fair values are disclosed in the relevant notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Application of new and revised pronouncements

For the preparation of these financial statements, the following new or amended pronouncements are mandatory for the first time for the financial year beginning 1 January 2014. Unless specifically stated, these new or revised standards did not require any modification of the measurement methods or the presentation in the financial statements.

- Amendments to IAS 32 titled Offsetting Financial Assets and Financial Liabilities (issued in December 2011) – The amendments, that are effective retrospectively, do not change the existing offsetting model for financial instruments but clarify the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. As the Group does not have offsetting arrangements in place, there was no effect on its consolidated financial statements.

- Amendments to IAS 36 titled Recoverable Amount Disclosures for Non-Financial Assets (issued in May 2013) – The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less costs of disposal is determined using a present value technique. The Group's consolidated financial statements reflect the new disclosure (see Note 11).

- Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (issued in June 2013) – The amendments permit the continuation of hedge accounting in a situation where the counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as "novation of derivatives"), as a consequence of laws or regulations, if specific conditions are met. In the absence of such transactions, the amendments had no effect on the Group's consolidated financial statements.

- Amendment to IFRS 2 (Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013) – The amendment clarifies the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment is applicable prospectively to share-based payment transactions for which the grant date is on or after 1 July 2014 and had no effect on the Group's consolidated financial statements.

- Amendment to IFRS 3 (Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013) – The amendment, applicable prospectively to business combinations for which the acquisition date is on or after 1 July 2014, requires any contingent consideration that is classified as an asset or a liability (ie non-equity) to be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. It had no effect on the Group's consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Application of new and revised pronouncements (Cont'd)

- Amendments to IFRS 10, IFRS 12 and IAS 27 titled Investment Entities (issued in October 2012) – The amendments define "investment entities" and provide them an exemption from the consolidation of subsidiaries (except those which provide services relating to the investment entity's investment activities); instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9/IAS 39, and to account for its investment in the same way in its consolidated and separate financial statements; additional disclosures are introduced. The amendments apply retrospectively with transitional provisions. The amendments had no effect on the Group's consolidated financial statements as the parent company is not an investment entity.

- Amendment to IFRS 13 (Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013) – This amendment to the standard's basis for conclusions only clarifies that the ability to measure certain short-term receivables and payables on an undiscounted basis is retained.

- IFRIC 21 Levies (issued in May 2013) – The interpretation provides guidance on when to recognise a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognised either progressively if the obligating event occurs over a period of time, or when the minimum threshold is reached if an obligation is triggered on reaching that minimum threshold. IFRIC 21 has had no effect on the Group.

New and revised pronouncements in issue but not yet effective

The Group has not applied the following new or amended pronouncements that have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2014 (the list does not include information about new or amended requirements that affect interim financial reporting or first-time adopters of IFRS – eg IFRS 14 Regulatory Deferral Accounts (issued in January 2014) – since they are not relevant to IFRS Statements Limited). The Directors anticipate that the new standards and amendments will be adopted in the Group's consolidated financial statements when they become effective. The Group has assessed, where practicable, the potential effect of all these new standards and amendments that will be effective in future periods.[1]

- Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014) – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. They are prospectively effective for annual periods beginning on or after 1 January 2016. The Directors do not anticipate a material effect on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New and revised pronouncements in issue but not yet effective (Cont'd)

• Amendment to IAS 16 and IAS 38 (Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013) – The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies how the gross carrying amount and the accumulated depreciation/amortisation are treated where an entity uses the revaluation model. The Directors do not anticipate any effect on the financial statements as the Group does not use the revaluation model.

• Amendments to IAS 16 and IAS 41 titled Agriculture: Bearer Plants (issued in June 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) – and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41. As the Group does not have agricultural activity, the Directors do not anticipate any effect on its financial statements.

[• Amendments to IAS 19 titled Defined Benefit Plans: Employee Contributions (issued in November 2013) – The amendments, applicable retrospectively to annual periods beginning on or after 1 July 2014, clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In particular, contributions that are independent of the number of years of service can be recognised as a reduction in the service cost in the period in which the related service is rendered (instead of attributing them to the periods of service). As the Group has no post-employment benefit plans requiring employees or third parties to meet some of the cost of the plan, the application of the amendments are not expected to have any effect on the financial statements.

• Amendment to IAS 19 (Annual Improvements to IFRSs 2012-2014 Cycle, issued in September 2014) – The amendment, applicable to annual periods beginning on or after 1 January 2016, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. This is not expected to have a material effect on the financial statements.

• Amendment to IAS 24 (Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013) – The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies how payments to entities providing key management personnel services are to be disclosed. This is not expected to have a material effect on the financial statements.

• Amendments to IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014) – The amendments, applicable to annual periods beginning on or after 1 July 2016, reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Directors anticipate that the Amendments to IAS 27 will be adopted in the financial statements when it becomes mandatory and that the application of the amended standard might have a significant effect on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New and revised pronouncements in issue but not yet effective (Cont'd)

- Amendment to IAS 40 (Annual Improvements to IFRSs 2011-2013 Cycle, issued in December 2013) – The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies that IFRS 3 and IAS 40 are not mutually exclusive: while IAS 40 assists preparers to distinguish between investment property and owner-occupied property, IFRS 3 helps them to determine whether the acquisition of an investment property is a business combination. This is not expected to have a material effect on the financial statements.

- Amendment to IFRS 3 (Annual Improvements to IFRSs 2011-2013 Cycle, issued in December 2013) – The amendment, applicable prospectively to annual periods beginning on or after 1 July 2014, clarifies that IFRS 3 excludes from its scope the accounting for the formation of any joint arrangement in the financial statements of the joint arrangement itself. This is not expected to have a material effect on the financial statements.

- Amendment to IFRS 5 (Annual Improvements to IFRSs 2012-2014 Cycle, issued in September 2014) – The amendment, applicable prospectively to annual periods beginning on or after 1 January 2016, adds specific guidance when an entity reclassifies an asset (or a disposal Group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued. This is not expected to have a material effect on the financial statements.

- Amendment to IFRS 7 (Annual Improvements to IFRSs 2012-2014 Cycle, issued in September 2014) – The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset. This is not expected to have a material effect on the financial statements.

- Amendment to IFRS 8 (Annual Improvements to IFRSs 2010-2012 Cycle, issued in December 2013) – The amendment, applicable to annual periods beginning on or after 1 July 2014, requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of the total of the reportable segments' assets to the entity's assets are required only if the segment assets are reported regularly. This is not expected to have a material effect on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New and revised pronouncements in issue but not yet effective (Cont'd)

- IFRS 9 Financial Instruments (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

  IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

  For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

  For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.

  For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

  The derecognition provisions are carried over almost unchanged from IAS 39.

  This is not expected to have a material effect on the financial statements.

- Amendments to IFRS 10 and IAS 28 titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014) – The amendments, applicable prospectively to annual periods beginning on or after 1 January 2016, address a current conflict between the two standards and clarify that gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business. This is not expected to have a material effect on the financial statements.

- Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014) – The amendments, applicable prospectively to annual periods beginning on or after 1 July 2016, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). This is not expected to have a material effect on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New and revised pronouncements in issue but not yet effective (Cont'd)

- Amendment to IFRS 13 (Annual Improvements to IFRSs 2011-2013 Cycle, issued in December 2013) – The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies that the portfolio exception in IFRS 13 – allowing an entity to measure the fair value of a Group of financial assets and financial liabilities on a net basis – applies to all contracts (including non-financial) within the scope of IAS 39/IFRS 9. This is not expected to have a material effect on the financial statements.

- FRS 15 Revenue from Contracts with Customers (issued in May 2014) – The new standard, effective for annual periods beginning on or after 1 January 2017, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (eg the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). The Directors anticipate that IFRS 15 will be adopted in the Group's consolidated financial statements when it becomes mandatory and that the application of the new standard might have a significant effect on the financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Segment Reporting

The Group discloses financial and descriptive information about its consolidated reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Revenue Recognition

The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the year arising from the course of the activities of the entity and it is shown net of related sales taxes, returns and rebates. Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenue from rendering of services that are not significant transactions is recognised as the services are provided or when the significant acts have been completed. Rental income is recognised on a time-proportion basis that takes into account the effective yield on the asset on a straight-line basis over the lease term. Interest income is recognised using the effective interest method. Dividend income from equity instrument is recognised when the entity's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Employee Benefits

- The Group contributes to a local pension scheme, under which the Group pays fixed contributions into a defined contribution retirement scheme organised by the local municipal government for eligible employees, and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Contributions to the scheme are charged to profit or loss as they fall due.

- Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial position date are discounted to their present value.

- For employee leave entitlement the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur. A liability for bonuses is recognised where the entity is contractually obliged or where there is constructive obligation based on past practice.

Operating Leases

(a) When the Group/Company is the lessee:

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(b) When the Group/Company is the lessor:

Assets leased out under operating leases are included in property, plant and equipment and are stated at cost less accumulated depreciation and impairment losses. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

Borrowing Costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. The interest expense is calculated using the effective interest method. Borrowing costs are recognised as an expense in the period in which they are incurred except that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of that asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income Tax

The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws by the end of the year; the effects of future changes in tax laws or rates are not anticipated. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting year in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at the end of each reporting year and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability or asset is recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

Foreign Currency Transactions

The functional currency of the Company and all its subsidiaries and associates is Chinese Renminbi ("RMB") as it reflects the primary economic environment in which these companies operate. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At the end of each reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value measurement dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when recognised in other comprehensive income. The presentation is in the functional currency.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Property, Plant and Equipment

Depreciation is provided on a straight-line basis to allocate the gross carrying amounts of the assets less their residual values over their estimated useful lives of each part of an item of these assets as follows:

	Useful life	**Residual value**
Buildings	7 – 35 years	4 – 10%
Plant and machinery	5 – 15 years	4 – 10%
Motor vehicles and other equipment	5 – 10 years	4 – 5%
Electronic equipment	3 – 10 years	5 – 10%

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at the end of each reporting year-end and, if expectations differ significantly from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted.

Cost also includes acquisition cost, borrowing cost capitalised and any cost directly attributable to bringing the asset or component to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent cost are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred.

Cost includes the initial estimate (if material) of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Investment Property

Investment property is property owned or held under a finance lease to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business. It includes an investment property in the course of construction. After initial recognition at cost including transaction costs, the cost model is used to measure the investment property, that is, at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis over estimated useful lives ranging from 30 to 35 years. An investment property that meets the criteria to be classified as held for sale is carried at the lower of carrying amount and fair value less costs to sell. For disclosure purposes, the fair values are determined periodically on a systematic basis at least once yearly by management.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Land Use Rights

Land use rights acquired are classified as operating leases, recorded at cost and presented net of accumulated amortisation and impairment allowance. The prepaid lease payments are amortised on a straight-line basis over the lease periods ranging from 40 to 50 years.

Intangible Assets

An identifiable non-monetary asset without physical substance is recognised as an intangible asset at acquisition cost if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. After initial recognition, an intangible asset with finite useful life is carried at cost less any accumulated amortisation and any accumulated impairment losses. An intangible asset with an indefinite useful life is not amortised. An intangible asset is regarded as having an indefinite useful life 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 entity.

Research and development – Research expenditure are expensed when incurred. Development costs are typically internally generated intangible assets. Costs incurred in relation to individual projects are capitalised only when the future economic benefit of the project is probable and the following main conditions are met: (i) the development costs can be measured reliably, (ii) the technical feasibility of the product has been ascertained and (iii) therefore it is the intention of management to complete the intangible asset and use or sell it.

The amortisable amount of an intangible asset with finite useful life is allocated on a straight-line basis over the best estimate of its useful life from the point at which the asset is ready for use as follows:

Production technology	–	10 – 30 years
Patents	–	10 years
Software	–	3 – 10 years
Trademarks	–	10 years
Development costs	–	5 years

Subsidiaries

A subsidiary is an entity including unincorporated and special purpose entity that is controlled by the reporting entity and the reporting entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of substantive potential voting rights that the reporting entity has the practical ability to exercise (that is, substantive rights) are considered when assessing whether the reporting entity controls another entity.

In the reporting entity's separate financial statements, an investment in a subsidiary is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a subsidiary is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of the investment in a subsidiary are not necessarily indicative of the amount that would be realised in a current market exchange.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Associates

An associate is an entity including an unincorporated entity in which the reporting entity has a significant influence and that is neither a subsidiary nor a joint arrangement of the reporting entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. An investment in an associate includes goodwill on acquisition, which is accounted for in accordance with IFRS 3 Business Combinations. However the entire carrying amount of the investment is tested under IAS 36 for impairment, by comparing its recoverable amount (higher of value in use and fair value) with its carrying amount, whenever application of the requirements in IAS 39 indicates that the investment may be impaired.

In the consolidated financial statements, the accounting for investments in an associate is on the equity method. Under the equity method the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The carrying value and the net book value of the investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. Losses of an associate in excess of the reporting entity's interest in the relevant associate are not recognised except to the extent that the reporting entity has an obligation. Profits and losses resulting from transactions between the reporting entity and an associate are recognised in the financial statements only to the extent of unrelated reporting entity's interests in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed where necessary to ensure consistency with the policies adopted by the reporting entity. The reporting entity discontinues the use of the equity method from the date that when its investment ceases to be an associate and accounts for the investment in accordance with IAS 39 from that date. Any gain or loss is recognised in profit or loss. Any investment retained in the former associate is measured at fair value at the date that it ceases to be an associate.

In the company's separate financial statements, an investment in an associate is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for an associate is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of an investment in the associate are not necessarily indicative of the amounts that would be realised in a current market exchange.

Business Combinations

A business combination is transaction or other event which requires that the assets acquired and liabilities assumed constitute a business. It is accounted for by applying the acquisition method of accounting. The cost of a business combination includes the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree. The acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received except for any costs to issue debt or equity securities are recognised in accordance with IAS 32 and IAS 39. As of the acquisition date, the acquirer recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree measured at acquisition-date fair values as defined in and that meet the conditions for recognition under IFRS 3.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Business Combinations (Cont'd)

If there is gain on bargain purchase, a reassessment is made of the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the business combination and any excess remaining after this reassessment is recognised immediately in profit or loss. For business combinations achieved in stages, any equity interest held in the acquiree is remeasured immediately before achieving control at its acquisition-date fair value and any resulting gain or loss is recognised in profit or loss.

Where the fair values are estimated on a provisional basis they are finalised within one year from the acquisition date with consequent retrospective changes to the amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

Non-Controlling Interests

The non-controlling interest is equity in a subsidiary not attributable, directly or indirectly, to the reporting entity as the parent. The non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. For each business combination, any non-controlling interest in the acquiree (subsidiary) is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Where the non-controlling interest is measured at fair value, the valuation techniques and key model inputs used are disclosed in the relevant Note. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Goodwill is recognised as of the acquisition date measured as the excess of (a) over (b); (a) being the aggregate of: (i) the consideration transferred which generally requires acquisition-date fair value; (ii) the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3 (measured either at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets); and (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; and (b) being the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this IFRS 3.

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Irrespective of whether there is any indication of impairment, goodwill (and also an intangible asset with an indefinite useful life or an intangible asset not yet available for use) are tested for impairment, at least annually. Goodwill impairment is not reversed in any circumstances.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Goodwill (Cont'd)

For the purpose of impairment testing and since the acquisition date of the business combination, goodwill is allocated to each cash-generating unit, or groups of cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree were assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and is not larger than a segment.

Impairment of Non-Financial Assets

Irrespective of whether there is any indication of impairment, an annual impairment test is performed at the same time every year on an intangible asset with an indefinite useful life or an intangible asset not yet available for use. The carrying amount of other non-financial assets is reviewed at the end of each reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. When the fair value less costs of disposal method is used, any available recent market transactions are taken into consideration. When the value in use method is adopted, in assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At the end of each reporting year, non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been measured, net of depreciation or amortisation, if no impairment loss had been recognised.

Inventories

Inventories are measured at the lower of cost (weighted average method) and net realisable value. 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. A write down on cost is made where the cost is not recoverable or if the selling prices have declined. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Assets

Initial recognition, measurement and derecognition:

A financial asset is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. The initial recognition of financial assets is at fair value normally represented by the transaction price. The transaction price for financial asset not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs incurred on the acquisition or issue of financial assets classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date.

Irrespective of the legal form of the transactions performed, financial assets are derecognised when they pass the "substance over form" based on the derecognition test prescribed by IAS 39 relating to the transfer of risks and rewards of ownership and the transfer of control. Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Subsequent measurement:

Subsequent measurement based on the classification of the financial assets in one of the following four categories under IAS 39 is as follows:

#1. Financial assets at fair value through profit or loss: Assets are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading assets) or have been classified in this category because the conditions are met to use the "fair value option" and it is used. All changes in fair value relating to assets at fair value through profit or loss are recognised directly in profit or loss. They are classified as non-current assets unless management intends to dispose of the asset within 12 months of the end of the reporting year.

#2. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that are for sale immediately or in the near term are not classified in this category. These assets are carried at amortised costs using the effective interest method (except that short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant) minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. The methodology ensures that an impairment loss is not recognised on the initial recognition of an asset. Losses expected as a result of future events, no matter how likely, are not recognised. For impairment, the carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Typically the trade and other receivables are classified in this category.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial Assets (Cont'd)

Subsequent measurement (cont'd):

#3. Held-to-maturity financial assets: These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intention and ability to hold to maturity. Financial assets that upon initial recognition are designated as at fair value through profit or loss or available-for-sale and those that meet the definition of loans and receivables are not classified in this category. These assets are carried at amortised costs using the effective interest method minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred. For impairment, the carrying amount of the asset is reduced through use of an allowance account. The gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. Impairment losses recognised in profit or loss are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. Non-current investments in bonds and debt securities are usually classified in this category.

#4. Available-for-sale financial assets: These are non-derivative financial assets that are designated as available-for-sale on initial recognition or are not classified in one of the previous categories. These assets are carried at fair value. Changes in fair value of available-for-sale financial assets (other than those relating to foreign exchange translation differences on monetary investments) are recognised in other comprehensive income and accumulated in a separate component of equity under the heading revaluation reserves. Such reserves are reclassified to profit or loss when realised through disposal. When there is objective evidence that the asset is impaired, the cumulative loss is reclassified from equity to profit or loss as a reclassification adjustment. A significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment. If, in a subsequent period, the fair value of an equity instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss, it is reversed against revaluation reserves and is not subsequently reversed through profit or loss. However for debt instruments classified as available-for-sale impairment losses recognised in profit or loss are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. The weighted average method is used when determining the cost basis of publicly listed equities being disposed of. For non-equity instruments classified as available-for-sale the reversal of impairment is recognised in profit or loss. These financial assets are classified as non-current assets unless management intends to dispose of the investments within 12 months of the end of the reporting year. Usually non-current investments in equity shares and debt securities are classified in this category but it does not include subsidiaries, joint ventures, or associates. Unquoted investments are stated at cost less allowance for impairment in value where there are no market prices, and management is unable to establish fair value by using valuation techniques except that where management can establish fair value by using valuation techniques the relevant unquoted investments are stated at fair value. For unquoted equity instruments impairment losses are not reversed.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash and Cash Equivalents

Cash and cash equivalents include bank and cash balances, on demand deposits and any highly liquid debt instruments purchased with an original maturity of three months or less. For the consolidated statement of cash flows, the item includes cash and cash equivalents less cash subject to restriction and bank overdrafts payable on demand that form an integral part of cash management.

Financial Liabilities

Initial recognition, measurement and derecognition:

A financial liability is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument and it is derecognised when the obligation specified in the contract is discharged or cancelled or expires. The initial recognition of financial liability is at fair value normally represented by the transaction price. The transaction price for financial liability not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Transaction costs incurred on the acquisition or issue of financial liability classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date. Financial liabilities including bank and other borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

Subsequent measurement:

Subsequent measurement based on the classification of the financial liabilities in one of the following two categories under IAS 39 is as follows:

#1. Liabilities at fair value through profit or loss: As at the end of the reporting year, there were no financial liabilities classified in this category. Financial guarantee contracts if significant are initially recognised at fair value and are subsequently measured at the greater of (a) the amount measured in accordance with IAS 37 and (b) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18. All changes in fair value relating to liabilities at fair value through profit or loss are charged to profit or loss as incurred.

#2. Other financial liabilities: All liabilities, which have not been classified as in the previous category fall into this residual category. These liabilities are carried at amortised cost using the effective interest method. Trade and other payables and borrowings are usually classified in this category. Items classified within current trade and other payables are not usually re-measured, as the obligation is usually known with a high degree of certainty and settlement is short-term.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Classification of Equity and Liabilities

A financial instrument is classified as a liability or as equity in accordance with the substance of the contractual arrangement on initial recognition. Equity instruments are contracts that give a residual interest in the net assets of the reporting entity. Where the financial instrument does not give rise to a contractual obligation on the part of the issuer to make payment in cash or kind under conditions that are potentially unfavourable, it is classified as an equity instrument. Ordinary shares are classified as equity. Equity instruments are recognised at the amount of proceeds received net of incremental costs directly attributable to the transaction. Dividends on equity are recognised as liabilities when they are declared. Interim dividends are recognised when declared by the directors.

Provisions

A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is made using best estimates of the amount required in settlement and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Changes in estimates are reflected in profit or loss in the reporting year they occur.

Government Grants

A government grant is recognised at fair value when there is reasonable assurance that the conditions attaching to it will be complied with and that the grant will be received. A grant in recognition of specific expenses is recognised as income in profit or loss over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. A grant related to depreciable assets is allocated to income over the periods in which such assets are used in the project subsidised by the grant. A government grant related to assets, including non-monetary grants at fair value, is presented in the statement of financial position as deferred income.

Critical Judgements, Assumptions and Estimation Uncertainties

The critical judgements made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities currently or within the next reporting year are discussed below. These estimates and assumptions are periodically monitored to ensure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Critical Judgements, Assumptions and Estimation Uncertainties (Cont'd)

Allowance for doubtful trade accounts:
An allowance is made for doubtful trade accounts for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. To the extent that it is feasible, impairment and uncollectibility is determined individually for each item. In cases where that process is not feasible, a collective evaluation of impairment is performed. At the end of the reporting year, the trade receivables carrying amount approximates the fair value and carrying amounts might change materially within the next reporting year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting year. The carrying amounts of trade receivables are disclosed in the Note on Trade and Other Receivables.

Net realisable value of inventories:
A review is made on inventory for excess inventory, and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. These reviews require management to consider future demand for the products. In any case the realisable value represents the best estimate of the recoverable amount and is based on the acceptable evidence available at the end of the reporting year and inherently involves estimates regarding the future expected realisable value. The usual considerations for determining the amount of allowance or write-down include ageing analysis, technical assessment and subsequent events. In general, such an evaluation process requires significant judgment and materially affects the carrying amount of inventories at the end of the reporting year. Possible changes in these estimates could result in revisions to the valuation of inventory. The carrying amounts of inventories are disclosed in the Note on Inventories.

Impairment of property, plant and equipment:
An assessment is made at the end of each reporting year whether there is any indication that the asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. The recoverable amounts of cash-generating units if applicable is determined based on fair value less cost to sell method and value-in-use calculations. The value-in-use calculations require the use of estimates. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amounts of property, plant and equipment are disclosed in the Note on Property, Plant and Equipment.

Useful lives of property, plant and equipment:
The estimates for the useful lives and related depreciation charges for property, plant and equipment is based on commercial and production factors which could change significantly as a result of innovations and in response to market conditions. The depreciation charge is increased where useful lives are less than previously estimated lives, or the carrying amounts written off or written down for technically obsolete items or assets that have been abandoned. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amounts of the assets of the Group and the Company at the end of the reporting year affected by the assumption were RMB807 million (2013: RMB842 million) and RMB704 million (2013: RMB752 million) respectively.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Critical Judgements, Assumptions and Estimation Uncertainties (Cont'd)

Title to properties:
As at the end of the reporting year, the legal titles of certain assets of the Group are held by related companies (see Notes 12, 13 and 14). These properties were transferred to the Group during the early days of its operations under a restructuring exercise. Management has exercised significant judgement and considers the beneficial interests of these assets for which the titles have not been obtained rest with the Group and there are no circumstances that affect the Group's rights to such interests. Management has obtained confirmations from the related companies that the beneficial interests of these assets belong to the Group and does not foresee any difficulties in getting the titles when the need arises. The carrying amounts of these affected assets are disclosed in Notes 12, 13 and 14.

Estimated impairment of associate:
Where an associate is in net equity deficit and or has suffered losses, a test is made whether the investment in the investee has suffered any impairment. This determination requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. The carrying amounts of the specific assets of the Group and the Company at the end of the reporting year affected by the assumption were RMB57 million (2013: RMB77 million) and RMB88 million (2013: RMB126 million) respectively.

Estimated impairment of unquoted equity investments:
Where an investee is in net equity deficit and or has suffered losses, a test is made whether the investment in the investee has suffered any impairment, in accordance with the stated accounting policy. This determination requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. The carrying amount of the relevant investment of the Group and the Company at the end of the reporting year was RMB20 million (2013: RMB20 million) (Note 18B).

Income tax amounts:
The entity recognises tax liabilities and assets tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual amount arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax amounts in the period when such determination is made. In addition management judgement is required in determining the amount of current and deferred tax recognised and the extent to which amounts should or can be recognised. A deferred tax asset is recognised if it is probable that the entity will earn sufficient taxable profit in future periods to benefit from a reduction in tax payments. This involves the management making assumptions within its overall tax planning activities and periodically reassessing them in order to reflect changed circumstances as well as tax regulations. Moreover, the measurement of a deferred tax asset or liability reflects the manner in which the entity expects to recover the asset's carrying value or settle the liability. As a result, due to their inherent nature assessments of likelihood are judgmental and not susceptible to precise determination. The income tax and deferred tax amounts are disclosed in Note 9.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Critical Judgements, Assumptions and Estimation Uncertainties (Cont'd)

Retirement and termination benefits:
Retirement benefits are estimated based on financial assumptions such as retirement age, discount rates, salary and benefit levels. Such assumptions are subject to judgements and may develop materially different than expected and therefore resulting in significant impact on defined benefits obligations. The carrying amount of the liability of the Group at the end of the reporting year affected by the assumption is disclosed in Note 25 and Note 27.

Title to investments as available-for-sale at fair value through other comprehensive income:
As at the end of the reporting year, the legal titles of certain investments of the Group are held by a related company (see Note 18). These investments were transferred to the Group during the early days of its operations under a restructuring exercise. Management has exercised significant judgement and considers the beneficial interests of these investments for which the titles have not been obtained rest with the Group and there are no circumstances that affect the Group's rights to such interests. Management has obtained confirmations from the related company that the beneficial interests of these assets belong to the Group and does not foresee any difficulties in getting the titles when the need arises. The carrying amounts of these affected investments are disclosed in Notes 18.

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

IAS 24 defines a related party as a person or entity that is related to the reporting entity and it includes (a) A person or a close member of that person's family if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. (b) An entity is related to the reporting entity if any of the following conditions apply: (i) The entity and the reporting entity are members of the same Group. (ii) One entity is an associate or joint venture of the other entity. (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 reporting entity or an entity related to the reporting entity. (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 personnel services to the reporting entity or to the parent of the reporting entity.

3A. Related companies

The Company is a subsidiary of Tianjin Pharmaceutical Group Co., Ltd and its ultimate parent company is Tianjin Tsinlien Investment Holding Co., Ltd group. Both parent companies are registered in the People's Republic of China. The ultimate controlling party is Tianjin State-owned Assets Supervision and Administration Commission.

Related companies in these financial statements refer to subsidiaries and associates of the Company.

NOTES TO THE FINANCIAL STATEMENTS

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3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

3A. Related companies (cont'd)

There are transactions and arrangements between the Company and its related companies and the effects of these on the basis determined between the parties are reflected in these financial statements. The current related company balances are unsecured without fixed repayment terms and interest unless stated otherwise. An interest or charge is charged or imputed for any significant non-current balances and significant financial guarantees unless stated otherwise.

Intra-group transactions and balances that have been eliminated in these consolidated financial statements are not disclosed as related party transactions and balances below.

Significant related company transactions:

In addition to the transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Sale of goods to associates	**1,088**	1,753
Purchase of goods from associates	**(90,146)**	(82,329)

The movements in other receivables from and other payables to related companies are as follows:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Other receivables from/(other payables to) associates:		
Balance at beginning of the year	**3,897**	10,997
Amounts paid out and settlement of liabilities on behalf of another party	**10,056**	3,902
Amounts paid in and settlement on behalf of the Company	**(12,954)**	(11,002)
Balance at end of the year	**999**	3,897
Presented in the statement of financial position as follows:		
Other Receivables (Note 21)	**999**	3,904
Other Payables (Note 27)	**–**	(7)
	999	3,897

3B. Related parties other than related companies

All members of the ultimate parent company's group of companies other than subsidiaries and associates of the Company are considered related parties in these financial statements.

There are transactions and arrangements between the Group and its related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The current related party balances are unsecured without fixed repayment terms and interest unless stated otherwise. An interest or charge is charged or imputed for any significant non-current balances and significant financial guarantees unless stated otherwise.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONT'D)

3B. Related parties other than related companies (Cont'd)

Significant related party transactions:

In addition to the transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Sale of goods to related parties	**709,434**	336,333
Purchase of goods from related parties	**(862,838)**	(545,928)

The movements in other receivables from and other payables to related parties are as follows:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Other receivables from/(other payables to) related parties:		
Balance at beginning of the year	**(1,508)**	122
Amounts paid out and settlement of liabilities on behalf of another party	**9,927**	1,153
Amounts paid in and settlement on behalf of the Company	**(9,954)**	(2,783)
Balance at end of the year	**(1,535)**	(1,508)
Presented in the statement of financial position as follows:		
Other Receivables (Note 21)	**556**	126
Other Payables (Note 27)	**(2,091)**	(1,634)
	(1,535)	(1,508)

3C. Key management compensation

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Salaries and other short-term employee benefits	**10,996**	9,220

The above amount is included under employee benefits expense. Included in the above amount is the following item:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Remuneration of directors of the Company	**5,883**	5,045

Key management personnel include the directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The above amounts for key management compensation are for all the directors and other key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

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4. REVENUE

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Sale of goods	**7,066,939**	5,990,448
Rental and service income	**11,060**	13,008
Others	**8,880**	6,681
	7,086,879	6,010,137

5. INTEREST INCOME

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Interest income	**5,832**	6,402

6. OTHER GAINS AND (OTHER LOSSES)

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Allowance for impairment on trade receivables – (loss)/reversal	**(2,221)**	15,346
Allowance for impairment on other receivables	**(623)**	(2,072)
Impairment losses on inventories	**(3,438)**	(510)
Employment termination benefits	**(8,303)**	(6,290)
Foreign currency translation (losses)/gain, net	**(877)**	776
Losses on disposal of property, plant and equipment, intangible assets and land use rights, net	**(580)**	(1,197)
Government grants/subsidies	**18,566**	13,303
Gain on disposal of an associate	**–**	44,153
Gain upon disposal of held-to-maturity investments	**15,892**	1,804
Compensation income	**315**	–
Others	**888**	1,463
Net	**19,619**	66,776
Presented in Profit or Loss as:		
Other Gains	**35,661**	76,845
Other Losses	**(16,042)**	(10,069)
Net	**19,619**	66,776

In addition to the charges and credits disclosed elsewhere in the notes to the financial statement, this item includes the following charges:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Audit fees to the independent auditors of the Company	**4,218**	3,977
Other fees to the independent auditors of the Company	**60**	60

NOTES TO THE FINANCIAL STATEMENTS

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7. FINANCE COSTS

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Interest expense	**47,850**	52,116
Imputed interest on accrued retirement and termination benefits	**3,145**	3,418
	50,995	55,534

8. EMPLOYEE BENEFITS EXPENSE

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Salaries and bonuses	**396,279**	333,925
Contributions to defined contribution plans and other welfare	**151,311**	134,145
Termination benefits	**8,303**	6,290
Other benefits	**–**	124
Total employee benefits expense	**555,893**	474,484

9. INCOME TAX

9A. Components of tax expense (income) recognised in profit or loss include:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Current tax expense	**58,537**	55,086
Under adjustments to current tax in respect of prior years	**(3,792)**	–
Subtotal	**54,745**	55,086
Deferred tax (income)/expense	**(3,303)**	1,387
Total income tax expense	**51,442**	56,473

The Company qualifies for New and High Technology Enterprise status in the People's Republic of China and enjoys a preferential corporate income tax rate of 15% (2013: 15%) while most of its subsidiaries are subject to the statutory corporate income rate of 25% (2013: 25%).

The income tax expense varied from the amount determined by applying the statutory corporate income rate of 25% (2013: 25%) to profit before income tax as a result of the following differences:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Profit before income tax	**430,879**	417,426
Less: Share of profits from equity-accounted associates	**(66,634)**	(58,111)
	364,245	359,315

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2014

9. INCOME TAX (CONT'D)

9A. Components of tax expense recognised in profit or loss include (cont'd):

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Income tax expense at the above rate	**91,061**	89,829
Differential in tax rate	**(32,394)**	(43,421)
Not deductible items	**2,166**	10,028
Tax loss utilised and deferred tax asset recognised	**(48)**	(252)
Unrecognised deferred tax assets	**451**	–
Other tax incentives	**(5,325)**	–
Over adjustment to current tax in respect of prior years	**(3,792)**	–
Other minor items less than 3% each	**(677)**	289
Total income tax expense	**51,442**	56,473

Dividends payable to "S" shareholders are subject to People's Republic of China withholding tax at 10%.

9B. Deferred tax income recognised in profit or loss include:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Deferred tax expenses/(income)	**1,614**	(725)
Tax loss carryforwards	**213**	553
Provisions and allowances	**(5,130)**	1,559
Total deferred tax (income)/expense recognised	**(3,303)**	1,387

9C. Tax income recognised in other comprehensive income include:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Available-for-sale financial assets	**4,511**	212

9D. Deferred tax balance in the statements of financial position

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Deferred tax assets:				
Deferred income	**3,202**	4,816	**3,202**	4,816
Tax loss carryforwards	**–**	213	**–**	–
Accruals and allowances	**84,920**	79,790	**80,718**	73,477
	88,122	84,819	**83,920**	78,293
Deferred tax liabilities:				
Available-for-sale investments	**(8,504)**	(4,331)	**(8,504)**	(4,331)

Deferred income tax assets are recognised for tax loss carryforwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2014

9. INCOME TAX (CONT'D)

9E. Unrecognised deferred tax assets

Group	2014 Gross Amount RMB'000	2014 Tax Effect RMB'000	2013 Gross Amount RMB'000	2013 Tax Effect RMB'000
Deferred income	**22,545**	**3,381**	20,898	3,135
Tax loss carryforwards	**10,420**	**1,563**	6,315	947
Accruals and allowances	**22,037**	**3,306**	24,783	3,717
	55,002	**8,250**	51,996	7,799

As at the end of the reporting year, the Group did not recognise deferred tax assets in respect of tax losses carryforwards, deferred income of which tax had been paid, provision and allowances as the future profit streams are not probable.

The unutilised tax losses are expiring in the following years:

Group	Unutilised Tax Losses 2014 RMB'000	Unutilised Tax Losses 2013 RMB'000	Unrecognised Deferred Tax Assets 2014 RMB'000	Unrecognised Deferred Tax Assets 2013 RMB'000
Expiring in 31 December 2014	**–**	945	**–**	141
Expiring in 31 December 2015	**89**	89	**13**	13
Expiring in 31 December 2016	**826**	826	**124**	124
Expiring in 31 December 2017	**2,537**	2,537	**381**	381
Expiring in 31 December 2018	**1,918**	1,918	**288**	288
Expiring in 31 December 2019	**5,050**	–	**757**	–
	10,420	6,315	**1,563**	947

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the consolidated profit net of tax attributable to the owners of the Company of RMB357,801,000 (2013: RMB352,264,000) by the weighted average number of shares in issue of 739,308,720 (2013: 739,308,720) during the reporting year.

Diluted earnings per share for the reporting years ended 31 December 2014 and 2013 are same as basic earnings per share because there were no potential dilutive shares existing during the respective reporting years.

NOTES TO THE FINANCIAL STATEMENTS

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11. DIVIDENDS ON EQUITY SHARE

	Group and Company			
	Rate per share			
	2014	2013	2014	2013
	RMB	RMB	RMB'000	RMB'000
Dividend paid net of income tax	**0.05**	0.10	**36,965**	73,932

On 25 March 2015, the directors had proposed to declare a final dividend of an aggregate amount of RMB110,896,000 (2013: RMB36,965,000) on the basis of RMB1.5 (2013: RMB0.5) for every 10 shares in the capital of the Company. The proposed dividend is payable in respect of 739,308,720 (2013: 739,308,720) issued ordinary shares in the capital of the Company as at 31 December 2014. This dividend is subject to approval of shareholders at the next annual general meeting and has not been included as a liability in the financial statements.

12. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Plant and Machinery	Construction in Progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 January 2013	1,001,788	672,670	33,146	1,707,604
Reclassifications	1,974	23,642	(25,616)	–
Additions	6,250	24,238	36,499	66,987
Disposals	(3,055)	(24,533)	–	(27,588)
Transfer from investment properties (Note 13)	95	–	–	95
At 31 December 2013	1,007,052	696,017	44,029	1,747,098
Reclassifications	2,674	16,081	(18,755)	–
Additions	2,590	21,495	37,655	61,740
Disposals	(2)	(9,388)	–	(9,390)
Written off	–	(1,750)	–	(1,750)
Transfer from investment properties (Note 13)	293	–	–	293
Transfer to investment properties (Note 13)	(457)	–	–	(457)
At 31 December 2014	**1,012,150**	**722,455**	**62,929**	**1,797,534**
Accumulated depreciation and impairment loss:				
At 1 January 2013	323,568	474,660	–	798,228
Depreciation for the year	30,284	44,647	–	74,931
Disposals	(147)	(12,185)	–	(12,332)
Transfer from investment properties (Note 13)	56	–	–	56
At 31 December 2013	353,761	507,122	–	860,883
Depreciation for the year	29,482	47,266	–	76,748
Disposals	(2)	(8,712)	–	(8,714)
Written-off	–	(1,494)	–	(1,494)
Transfer from investment properties (Note 13)	126	–	–	126
Transfer to investment properties (Note 13)	(246)	–	–	(246)
At 31 December 2014	**383,121**	**544,182**	**–**	**927,303**
Net book value:				
At 1 January 2013	678,220	198,010	33,146	909,376
At 31 December 2013	653,291	188,895	44,029	886,215
At 31 December 2014	**629,029**	**178,273**	**62,929**	**870,231**

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Buildings RMB'000	Plant and Machinery RMB'000	Construction in Progress RMB'000	Total RMB'000
Cost:				
At 1 January 2013	908,779	578,230	31,315	1,518,324
Reclassifications	1,974	19,305	(21,279)	–
Additions	1,873	17,514	13,150	32,537
Disposals	(2,799)	(18,902)	–	(21,701)
Transfer from investment properties (Note 13)	95	–	–	95
At 31 December 2013	909,922	596,147	23,186	1,529,255
Reclassifications	–	346	(346)	–
Additions	1,751	14,513	5,901	22,165
Disposals	(2)	(7,136)	–	(7,138)
Written off	–	(1,532)	–	(1,532)
Transfer from investment properties (Note 13)	293	–	–	293
Transfer to investment properties (Note 13)	(457)	–	–	(457)
At 31 December 2014	**911,507**	**602,338**	**28,741**	**1,542,586**
Accumulated depreciation and impairment loss:				
At 1 January 2013	281,877	416,702	–	698,579
Reclassifications	2,145	(2,145)	–	–
Depreciation for the year	25,597	36,958	–	62,555
Disposals	(78)	(7,453)	–	(7,531)
Transfer from investment properties (Note 13)	56	–	–	56
At 31 December 2013	309,597	444,062	–	753,659
Depreciation for the year	24,490	39,785	–	64,275
Disposals	(2)	(6,742)	–	(6,744)
Written off	–	(1,286)	–	(1,286)
Transfer from investment properties (Note 13)	126	–	–	126
Transfer to investment properties (Note 13)	(246)	–	–	(246)
At 31 December 2014	**333,965**	**475,819**	**–**	**809,784**
Net book value:				
At 1 January 2013	626,902	161,528	31,315	819,745
At 31 December 2013	600,325	152,085	23,186	775,596
At 31 December 2014	**577,542**	**126,519**	**28,741**	**732,802**

NOTES TO THE FINANCIAL STATEMENTS

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12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Allocation of the depreciation expense:

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cost of sales	**45,382**	43,545	**40,366**	38,505
Distribution expenses	**1,611**	1,420	**645**	379
Administrative expenses	**29,755**	29,966	**23,264**	23,671
Total	**76,748**	74,931	**64,275**	62,555

(a) The Group has not obtained titles to certain buildings with net book value of approximately RMB60 million (2013: RMB63 million) as at the end of the reporting year. See Note 2 "Critical Judgements, Assumptions and Estimation Uncertainties".

(b) Property, plant and equipment are allocated to the Group's cash generating unit ("CGU") identified according to product lines. As of reporting year end, property, plant and equipment of a CGU with carrying amount of RMB206 million (2013: RMB209 million) was subject to an impairment allowance of RMB67 million (2013: RMB67 million). The recoverable amount of a CGU is determined based on value-in-use calculations.

The value-in-use calculations use cash flow projections based on financial forecasts prepared by management covering a 2 to 10 years operation period and product cycle, with key assumptions on revenue growth and gross margin. Management determined these key assumptions based on past performance and expectations on market development. Management expect that there will be net cash flows to be received for the disposal of property and plant at the end of the assets' useful lives. The present value (Level 3) of cash flow projections is calculated by using a pre-tax discount rate of approximately 14-15%, which is the estimated return on assets of the Company perceived by the market.

(c) Certain property, plant and equipment with total net book value of RMB12 million (2013: RMB13 million) at the end of the reporting year are pledged as securities for bank facilities (Note 28).

NOTES TO THE FINANCIAL STATEMENTS

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13. INVESTMENT PROPERTIES

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cost:				
At beginning of the year	**36,704**	36,799	**33,876**	33,971
Transfer from property, plant and equipment (Note 12)	**457**	–	**457**	–
Transfer to property, plant and equipment (Note 12)	**(293)**	(95)	**(293)**	(95)
At end of the year	**36,868**	36,704	**34,040**	33,876
Accumulated depreciation:				
At beginning of the year	**9,046**	8,169	**8,129**	7,330
Depreciation for the year	**992**	933	**913**	855
Transfer from property, plant and equipment (Note 12)	**246**	–	**246**	–
Transfer to property, plant and equipment (Note 12)	**(126)**	(56)	**(126)**	(56)
At end of the year	**10,158**	9,046	**9,162**	8,129
Net book value:				
At beginning of the year	**27,658**	28,630	**25,747**	26,641
At end of the year	**26,710**	27,658	**24,878**	25,747
Fair value:				
Fair value at end of the year	**180,241**	110,320	**168,540**	101,976
Rental and service income	**10,229**	9,067	**7,979**	4,264
Direct operating expenses	**992**	933	**913**	855

The depreciation expense is charged to cost of sales.

(a) All investment properties of the Group are located in Tianjin, People's Republic of China. These properties are leased out under operating leases. Also see Note 32 on operating lease income commitments.

(b) There are no restrictions on the realisability of investment properties or the remittance of income and proceeds of disposal.

(c) The fair value is estimated by the management based on the use of inputs other than quoted prices included within the observable for the assets or liability, either directly or indirectly. The valuation technique used is the comparison of market evidence of recent transaction prices for similar properties. In 2014, the management had obtained the market information from the same public available websites but different type of properties as they believe that such information that is more reflective of the market price of the properties held by the Group and the Company. The fair value is regarded as Level 2 for fair value measurement as the valuation includes inputs for the asset that are based on comparison with market evidence of recent transaction prices for similar properties. The observable inputs and range (weighted average) is RMB6,100 to RMB27,000 per square metre.

(d) The Group has not obtained titles to certain properties with net book value of approximately RMB8.4 million (2013: RMB8.8 million) as at the end of the reporting year. See Note 2 "Critical Judgements, Assumptions and Estimation Uncertainties".

NOTES TO THE FINANCIAL STATEMENTS

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14. LAND USE RIGHTS

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At cost:				
At beginning of the year	**248,799**	223,319	**211,217**	211,217
Additions	**–**	25,480	**–**	–
At the end of the year	**248,799**	248,799	**211,217**	211,217
Accumulated amortisation:				
At beginning of the year	**60,197**	55,192	**53,668**	49,184
Amortisation for the year	**5,006**	5,005	**4,485**	4,484
At the end of the year	**65,203**	60,197	**58,153**	53,668
Net book value:				
At beginning of the year	**188,602**	168,127	**157,549**	162,033
At end of the year	**183,596**	188,602	**153,064**	157,549

The amortisation expense is charged to administrative expenses.

The land use rights are for the land in the People's Republic of China.

The Group has not obtained titles to certain land use rights with net book value of RMB24 million (2013: RMB25 million) as at the end of the reporting year. See Note 2 "Critical Judgements, Assumptions and Estimation Uncertainties".

Certain land use rights of the Group with total net book value of RMB3.7 million (2013: Nil) at the end of the reporting year are pledged as securities for bank facilities (Note 28).

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15. INTANGIBLE ASSETS

Group	Production Technology RMB'000	Patents RMB'000	Trademarks RMB'000	Software RMB'000	Development Cost RMB'000	Total RMB'000
At cost:						
At 1 January 2013	9,137	1,278	1,760	8,091	955	21,221
Additions	–	–	–	295	569	864
At 31 December 2013	9,137	1,278	1,760	8,386	1,524	22,085
Additions	–	–	–	675	545	1,220
Disposal	–	–	–	(27)	–	(27)
At 31 December 2014	**9,137**	**1,278**	**1,760**	**9,034**	**2,069**	**23,278**
Accumulated amortisation:						
At 1 January 2013	4,134	179	1,760	4,371	–	10,444
Amortisation for the year	690	130	–	837	–	1,657
At 31 December 2013	4,824	309	1,760	5,208	–	12,101
Amortisation for the year	690	129	–	897	–	1,716
Disposal	–	–	–	(27)	–	(27)
At 31 December 2014	**5,514**	**438**	**1,760**	**6,078**	**–**	**13,790**
Net book value:						
At 1 January 2013	5,003	1,099	–	3,720	955	10,777
At 31 December 2013	4,313	969	–	3,178	1,524	9,984
At 31 December 2014	**3,623**	**840**	**–**	**2,956**	**2,069**	**9,488**

The amortisation expense is charged to administrative expenses.

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15. INTANGIBLE ASSETS (CONT'D)

Company	Production Technology RMB'000	Patents RMB'000	Trademarks RMB'000	Software RMB'000	Development Cost RMB'000	Total RMB'000
At cost:						
At 1 January 2013	5,997	1,278	1,760	6,751	386	16,172
Additions	–	–	–	276	107	383
At 31 December 2013	5,997	1,278	1,760	7,027	493	16,555
Additions	–	–	–	314	–	314
At 31 December 2014	**5,997**	**1,278**	**1,760**	**7,341**	**493**	**16,869**
Accumulated amortisation:						
At 1 January 2013	3,427	179	1,760	3,670	–	9,036
Amortisation for the year	590	130	–	728	–	1,448
At 31 December 2013	4,017	309	1,760	4,398	–	10,484
Amortisation for the year	590	130	–	783	–	1,503
At 31 December 2014	**4,607**	**439**	**1,760**	**5,181**	**–**	**11,987**
Net book value:						
At 1 January 2013	2,570	1,099	–	3,081	386	7,136
At 31 December 2013	1,980	969	–	2,629	493	6,071
At 31 December 2014	**1,390**	**839**	**–**	**2,160**	**493**	**4,882**

The amortisation expense is charged to administrative expenses.

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16. INVESTMENTS IN SUBSIDIARIES

	Company 2014 RMB'000	Company 2013 RMB'000
Unquoted equity interest at cost:		
At beginning of the year	**305,606**	189,956
Additions	**10,425**	115,650
Disposal	**(1,665)**	–
At end of the year	**314,366**	305,606

The subsidiaries that are wholly-owned by the Company and the Group are listed below:

Name of Subsidiaries	Principal Activities	Cost in Books of Company 2014 RMB'000	Cost in Books of Company 2013 RMB'000	Effective Equity Held by Group 2014 %	Effective Equity Held by Group 2013 %
Held by the Company					
Beijing Zhong Xin Yaogu Medical Co., Ltd.	Wholesale and retail sale of medicine	**11,000**	11,000	**100**	100
Tianjin Chuyun Co., Ltd.	Logistics, stocks, services, equipment installation, simple processing of medicine	**6,999**	6,999	**100**	100
Tianjin Long Shun Rong Development Co., Ltd.	Manufacture and sale of Chinese pharmaceutical products and biological products	**45,000**	45,000	**100**	100
Zhong Xin Bohai Rim Pharmaceutical Co., Ltd.	Wholesale and retail sale of medicine, biochemical pharmaceutical products and daily use products	**5,000**	5,000	**100**	100
Zhejiang Zhong Xin Chuang Rui Investment Co., Ltd	Investment holding	**100,000**	100,000	**100**	100
Tianjin Hebei Daren Hospital	Hospital	**3,500**	2,000	**100**	100
Held by the subsidiary					
Tianjin Long Shun Rong Health Products Co., Ltd.	Sale of pharmaceutical and biological products	**–**	–	**100**	100

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The subsidiaries held by the Company and the Group with non-controlling interests are listed below:

Name of Subsidiaries	Principal Activities	Cost in Books of Company		Effective Equity Held by Group	
		2014	2013	2014	2013
		RMB'000	RMB'000	%	%
Held by the Company					
Tianjin Darentang (Bo Zhou) Pharmaceutical Co., Ltd [b]	Manufacture and sale of Chinese medicine	**15,300**	11,100	**51**	60
Tianjin Shin Poong Pharmaceutical Co., Ltd.	Manufacture and sale of western pharmaceutical products	**41,315**	41,315	**55**	55
Bin Hai Zhong Xin Pharmaceutical Co., Ltd.	Sale of Chinese pharmaceutical products and biological products	**10,500**	10,500	**53.6**	53.6
Tianjin Da Ren Tang Jingwanhong Pharmaceutical Co., Ltd.	Manufacture and sale of Chinese pharmaceutical products and biological products	**13,072**	13,072	**52**	52
Chengdu Zhong Xin Pharmaceutical Co., Ltd.	Sale of Chinese pharmaceutical products and biological products	**14,220**	14,220	**51**	51
Zhong Xin Pharmaceutical Xuzhi Technology Co., Ltd. [c]	Sale of Chinese pharmaceutical products and biological products	**5,610**	2,550	**51**	51
Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd.	Wholesale and retail sale of medicine and biochemical pharmaceutical products	**15,300**	15,300	**51**	51
Tianjin Xin Long Pharmaceutical Co., Ltd.	Wholesale and retail sale of medicine	**15,300**	15,300	**51**	51
Tianjin Zhong Xin Pharmaceutical Group Guowei Medical Co., Ltd.	Wholesale and retail sale of medicine	**8,950**	8,950	**51**	51
Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd. [a]	Wholesale and retail sale of medicine	**3,000**	3,000	**30**	30
Zigong Zhong Xin Pharmaceutical Chain Co., Ltd. [a]	Wholesale and retail sale of medicine	**300**	300	**30**	30
		314,366	305,606		

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

The subsidiaries held by the Company and the Group with non-controlling interests are listed below (cont'd):

Name of Subsidiaries	Principal Activities	Effective Equity Held by Group 2014 %	2013 %
Held by the subsidiary			
Chengdu Zhong Xin Chain Store Co., Ltd.	Wholesale and retail sale of medicine and biochemical pharmaceutical products	**90**	90
Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd. [a]	Wholesale and retail sale of medicine	**50.4**	50.4
Zigong Zhong Xin Pharmaceutical Chain Co., Ltd. [a]	Wholesale and retail sale of medicine	**50.4**	50.4

All subsidiaries are registered in the People's Republic of China and audited by Ruihua Certified Public Accountants LLP, a member firm of RSM International of which RSM Chio Lim LLP is a member.

(a) Direct interest held was 30% while indirect interest held through a subsidiary was 20%.

(b) During the reporting year, the company disposed off 9% of its interest in the subsidiary without loss of control. The subsidiary is not material to the Group.

(c) During the reporting year, the company increased its cost of investment in the subsidiary without an increase in effective equity interest in the subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16A. Material subsidiaries

The summarised financial information of the subsidiary with non-controlling interests that are material to the Group, not adjusted for the percentage ownership held by the Group is, as follows:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Tianjin Da Ren Tang Jingwanhong Pharmaceutical Co., Ltd.		
Profit allocated to NCI of the subsidiary during the reporting year	**20,747**	10,734
Accumulated NCI of the subsidiary at the end of the reporting year	**63,582**	56,824
The summarised financial information of the subsidiary (not adjusted for the percentage ownership held by the Group and amounts before inter-company eliminations):		
Dividends paid to non-controlling interests	**3,840**	–
Current assets	**122,670**	113,759
Non-current assets	**55,119**	52,427
Current liabilities	**(29,491)**	(38,477)
Non-current liabilities	**(10,432)**	(9,325)
Revenues	**286,837**	250,568
Profit for the reporting year	**26,291**	21,862
Total comprehensive income	**27,483**	22,363
Operating cash flows, increase	**26,388**	37,506
Net cash flows, increase	**4,731**	18,100
Tianjin Shin Poong Pharmaceutical Co., Ltd.		
Profit allocated to NCI of the subsidiary during the reporting year	**1,377**	3,867
Accumulated NCI of the subsidiary at the end of the reporting year	**44,523**	43,171
The summarised financial information of the subsidiary (not adjusted for the percentage ownership held by the Group and amounts before inter-company eliminations):		
Current assets	**68,412**	99,062
Non-current assets	**41,838**	19,297
Current liabilities	**(11,254)**	22,424
Revenues	**110,191**	133,018
Profit for the reporting year	**3,049**	8,492
Total comprehensive income	**3,061**	8,594
Operating cash flows, increase	**16,897**	15,537
Net cash flows, (decrease)/increase	**(15,855)**	10,843

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17. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Equity interests, at cost	**513,853**	512,353	**513,253**	512,353
Less: Allowance for impairment	**(3,422)**	(3,422)	**(2,822)**	(2,822)
Share of other-equity items of associates	**(18,518)**	(19,832)	**–**	–
Share of post-acquisition profits, net of dividends received	**50,140**	35,667	**–**	–
	542,053	524,766	**510,431**	509,531

The associates held by the Company are listed below:

Name of Associates	Principal Activities	Equity held by the Group 2014 %	Equity held by the Group 2013 %
Tianjin Hongrentang Pharmaceutical Co., Ltd. ("THP") [a]	Manufacture and sale of pharmaceutical products	**40**	40
Sino-American Tianjin SmithKline & French Lab., Ltd. ("TSKF") [b]	Manufacture and sale of western medicine and biochemical products	**25**	25
Baxter Healthcare (Tianjin) Co., Ltd. [a] (Note 17D)	Manufacture and sale of western chemical products	**30**	30
Tianjin Yiyao Printing Co., Ltd. [a]	Packing of medical and other products and printing of paper for packaging purposes	**35**	35
Tianjin Hualida Biological Engineering Co., Ltd. [a] (Note 17D)	Manufacture and sale of western biochemical products and genes-related biological products	**40**	40
Tianjin Zhong Xin Keju Biological Pharmaceutical Co., Ltd. [a]	Manufacture and sale of biological medicine	**35**	35
Tianjin Bio-Chip Co., Ltd. [e] (Tianjin Zhengzhe Certified Public Accountants, LLP, PRC China)	Development and sale of biological products	**26.4**	26.4
Tianjin Pharmaceutical Group Technology Development Co., Ltd. [a] [d]	Research and development of new chinese and western medical products and technology	**33**	33
Chengdu Zhong Xin Consulting Co., Ltd. [c]	Medical and health, and management consulting	**38**	38
Dujiangyan Zhong Xin Chinese Herbs Cultivation Co., Ltd [f]	Cultivation and processing of Chinese herbs	**30**	–

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17. INVESTMENTS IN ASSOCIATES (CONT'D)

All associates of the Group are registered in the People's Republic of China.

(a) Audited by Ruihua Certified Public Accountants, LLP, a member firm of RSM International of which RSM Chio Lim LLP is a member.

(b) Audited by PricewaterhouseCoopers Zhong Tian CPAs Ltd. Co.

(c) In process of liquidation and not significant to the Group; fully provided for.

(d) Not significant to the Group; fully provided for.

(e) Other independent auditors. Audited by firms of accountants other than member firms of RSM International of which RSM Chio Lim LLP in Singapore is a member. Their names are indicated above.

(f) Not significant to the Group, auditors not appointed as at end of reporting year.

The Audit Committee and the Board of Directors of the Company have satisfied themselves that the appointment of different auditing firms of certain of the associates would not compromise the standard and effectiveness of the audit of the Group.

17A. Material associates

There are associates that are considered material to the reporting entity. The summarised financial information of each of the material associate and the amounts (and not the reporting entity's share of those amounts) based on the financial statements of the associates are as follows. These are adjusted to reflect adjustments made by the reporting entity when using the equity method.

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
THP:		
Current assets	**168,419**	96,542
Non-current assets	**254,589**	216,883
Current liabilities	**(87,310)**	(62,034)
Non-current liabilities	**(52,288)**	(2,351)
Net assets of the associate	**283,410**	249,040
Proportion of the Group's interest in the associate	**40%**	40%
	113,364	99,616
Goodwill	**92,336**	92,336
Fair value adjustments pertaining to purchase price allocation	**31,233**	37,034
Carrying amount of the Group's interest in the associate	**236,933**	228,986
Dividends received from the associate	**–**	2,312
Revenue	**287,373**	284,293
Profit for the reporting year	**31,684**	40,959
Other comprehensive income	**2,685**	2,881
Total comprehensive income	**34,369**	43,840

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17. INVESTMENTS IN ASSOCIATES (CONT'D)

17A. Material associates (cont'd)

	Group 2014 RMB'000	Group 2013 RMB'000
TSKF:		
Current assets	**821,782**	667,801
Non-current assets	**458,700**	478,284
Current liabilities	**(664,368)**	(553,347)
Net assets of the associate	**616,114**	592,738
Proportion of the Group's interest in the associate	**25%**	25%
Carrying amount of the Group's interest in the associate	**154,029**	148,185
Dividends received from the associate	**51,719**	169,543
Revenue	**1,378,469**	1,655,991
Profit for the reporting year	**233,343**	213,724
Other comprehensive loss	**(2,705)**	(6,463)
Total comprehensive income	**230,638**	207,261

In 2013, TSKF was visited by tax authorities of the People's Republic of China in relation to investigation into alleged irregularities and violation of laws by TSKF. TSKF is cooperating fully with the Chinese tax authorities in this investigation. It is not possible at this time to make a reliable estimate of the financial effect, if any, that could result from these matters.

17B. Aggregate for all non-material associates

There are associates that are considered not material to the reporting entity. The summarised financial information of all the non-material associates and the aggregate amounts (and not the reporting entity's share of those amounts) based on the financial statements of the associates are as follows. These are adjusted to reflect adjustments made by the reporting entity when using the equity method.

	Group 2014 RMB'000	Group 2013 RMB'000
Loss for the reporting year	**(9,092)**	(4,157)
Other comprehensive income	**5,591**	2,692
Total comprehensive loss	**(3,501)**	(1,465)
Net assets of the associates	**455,199**	88,458

There are no significant restrictions on the ability of the major associates to transfer funds to the Group in the form of cash dividends.

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17. INVESTMENTS IN ASSOCIATES (CONT'D)

17C. Impairment test on goodwill

THP was tested for impairment at the end of the reporting year. An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit (''CGU'') exceeds its recoverable amount. The recoverable amount of an asset or a CGU is the higher of its fair value less cost to sell or its value in use. The recoverable amounts of CGU have been measured based on the value is use method.

The value in use was determined by management using discounted cash flow valuation technique. The key assumptions used for value in use calculations, which are unobservable inputs, are as follows:

THP:
Valuation technique and unobservable inputs

Discounted cash flow method:	2014	2013
Estimated discount rates using pre-tax rates that reflect current market assessments at the risks specific to the CGUs (Average Rate)	**10.2% – 14.2% (12.2%)**	13.8% – 16.1% (15.0%)
Growth rates based on industry growth forecasts and not exceeding the average long-term growth rate for the relevant markets (Average Rate)	**6.5% – 9.8% (8.2%)**	5.8% – 14.5% (10.2%)
Cash flow forecasts derived from the most recent financial budgets and plans approved by management	**5 years**	5 years

17D. Disposal of associates

(a) In the seventh Board meeting held on 28 July 2014, the Board approved the proposal of the sale of the Company's 30% Shareholding in Baxter Healthcare (Tianjin) Co., Ltd ("Tianjin Baxter") (the "Sale").

As at 31 December 2014, although the Company and Baxter (China) Investment Co., Ltd. have signed a Property Rights Transfer Agreement pertaining to the sale at a consideration of RMB80,000,000, this is subject to the review and approval of the local authorities. Consequently, the asset is not classified as held-for-sale asset.

(b) On 30 December 2013, the immediate parent of the Company, Tianjin Pharmaceutical Group Co., Ltd, approved the public sale of the Company's 20% shareholdings in Tianjin Hualida Biological Engineering Co., Ltd ("Hualida"), an associate of the company (the "Public Sale").

As at 31 December 2014, the application for the Public Sale of 20% shareholding in Hualida to the local authorities has been completed at RMB40,000,000. However, this is subject to the review and approval of the local authorities. Consequently, the asset is not classified as held-for-sale asset.

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18. OTHER FINANCIAL ASSETS

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Investments as available-for-sale at fair value through other comprehensive income:				
Quoted equity shares in corporations as available-for-sale at fair value through other comprehensive income (Note 18A) (Level 1)	**63,065**	35,243	**63,065**	35,243
Investments as available-for-sale at amortised cost less allowances for impairment:				
Unquoted equity shares in corporations at cost less allowance for impairment (Note 18B)	**20,000**	20,000	**20,000**	20,000
Investments at fair value through profit or loss:				
Quoted bonds of corporations (Note 18C) (Level 1)	**–**	51,250	**–**	–
Held-to-Maturity investments at amortised cost:				
Quoted bonds of corporations (Note 18D) (Level 1)	**236,434**	279,586	**–**	–
	319,499	386,079	**83,065**	55,243
Presented in the statement of financial positions as;				
Other Financial Assets, Non Current	**319,499**	334,829	**83,065**	55,243
Other Financial Assets, Current	**–**	51,250	**–**	–
	319,499	386,079	**83,065**	55,243

18A. Investments as Available-for-Sale at Fair value through Other Comprehensive Income

	Group and Company	
	2014	**2013**
	RMB'000	**RMB'000**
Quoted equity shares in corporations	**63,065**	35,243
Movement during the year:		
Fair value at beginning of the year	**35,243**	33,829
Gains on re-measuring available-for-sale financial assets (Note 24C)	**27,822**	1,414
Fair value at end of the year	**63,065**	35,243

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18. OTHER FINANCIAL ASSETS (CONT'D)

18A. Investments as Available-for-Sale at Fair value through Other Comprehensive Income (Cont'd)

The information gives a summary of the significant sector concentrations within the investment portfolio:

		Group and Company	
	Level	2014	2013
		RMB'000	RMB'000
Quoted equity shares in corporations:			
Property development industry	1	**4,465**	3,154
Energy industry	1	**11,611**	6,798
Transportation and shipping	1	**28,797**	14,428
Pharmaceutical	1	**1,908**	1,668
Financial service industry	1	**16,284**	9,195
Total		**63,065**	35,243

Fair value of quoted equity shares in corporations are derived based on quoted prices in active markets of the Shenzhen and Shanghai Stock Exchange in the People's Republic of China.

The Group has not obtained titles to certain investment with fair value of approximately RMB30.5 million (2013: RMB17.4 million) as at the end of the reporting year. See Note 2 "Critical Judgements, Assumptions and Estimation Uncertainties".

The quoted equity shares in corporations are exposed to market price risk arising from uncertainties about future values of the investment securities.

Sensitivity analysis: The effect is as follows:

	2014	2013
A hypothetical 10% increase in the market index of quoted equity shares would have an effect on pre-tax profit of	**6,307**	3,524

For similar price decreases in the fair value of the above quoted equity shares in corporations, there would be comparable impacts in the opposite direction.

The quoted equity shares in corporations are denominated in the Group's functional currency.

The hypothetical changes in basis points are not based on observable market data (unobservable inputs).

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18. OTHER FINANCIAL ASSETS (CONT'D)

18B. Investments as Available-for-Sale at Amortised Cost less Allowances for Impairment

	Group and Company	
	2014	**2013**
	RMB'000	**RMB'000**
Unquoted equity shares at cost	**28,700**	28,700
Less: Allowance for impairment loss	**(8,700)**	(8,700)
Net carrying amount	**20,000**	20,000
Movements in allowance:		
Balance at beginning and end of the year	**8,700**	8,700

Unquoted equity shares in corporations represent investments unlisted equity interests on companies of the real estate industry, registered and operating in the People's Republic of China. The fair value of the unquoted investments as available-for-sale financial assets is deemed to be not reliably measurable as the probabilities of the various estimates within the range cannot be reasonably assessed as used in estimating fair values. Consequently the investment is carried at cost less allowance for impairment. Impairment losses recognised in profit or loss for equity investments are not reversed. The management are of the view that under such circumstances, it is also not possible to disclose the range of estimates within which a fair value is highly likely to lie.

18C. Investments at Fair Value through Profit or Loss

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Quoted bonds in corporations	**–**	51,250
Movements during the year:		
Fair value at beginning of the year	**51,250**	–
Additions	**427,201**	51,250
Disposals	**(478,451)**	–
Fair value at end of the year	**–**	51,250

Fair value of quoted equity bonds in corporations are derived based on quoted prices in active markets of the Shenzhen and Shanghai Stock Exchange in the People's Republic of China.

NOTES TO THE FINANCIAL STATEMENTS

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18. OTHER FINANCIAL ASSETS (CONT'D)

18D. Held-to-Maturity Investments at Amortised Cost

	Group	
	2014	2013
	RMB'000	**RMB'000**
Quoted bonds in corporations	**236,434**	279,586
Movements during the year – at amortised cost:		
Amortised cost at beginning of the year	**279,586**	–
Additions	**248,839**	279,586
Gain on disposal through profit or loss	**1,474**	–
Accretion in amortised cost, net	**951**	–
Disposal	**(294,416)**	–
Amortised cost at end of the year	**236,434**	279,586
Held-to-Maturity investments:		
Real estate and properties development industry:		
Quoted bonds in corporations with variable interest rates from 6.9% to 7.5% and maturing in reporting year 2018 (effective interest rates from 6.3% to 6.7%)	**19,739**	19,847
Quoted bonds in corporations with variable interest rates from 6.4% to 7.7% and maturing in reporting year 2019 (effective interest rates from 6.4% to 7.2%)	**140,592**	221,468
Quoted bonds in corporations with variable interest rates from 6.6% to 6.8% and maturing in reporting year 2020 (effective interest rates from 6.5% to 6.9%)	**15,963**	30,683
Quoted bonds in corporations with variable interest rates from 8.0% to 8.4% and maturing in reporting year 2021 (effective interest rates from 6.5% to 6.7%)	**60,140**	7,588
Total	**236,434**	279,586

The quoted bonds in corporations are rated at AA to AA+ by agencies approved by the Shenzhen and Shanghai Stock Exchange in the People's Republic of China.

The held-to-maturity investments are exposed to market price risk arising from uncertainties about future values of the investment securities.

Sensitivity analysis: The effect is as follows:

	2014	2013
A hypothetical 10% increase in the market index of quoted bonds would have an effect on pre-tax profit of	**23,439**	26,715

For similar price decreases in the fair value of the above bonds, there would be comparable impacts in the opposite direction.

The bonds are denominated in the Group's functional currency.

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31 DECEMBER 2014

18. OTHER FINANCIAL ASSETS (CONT'D)

18D. Held-to-Maturity Investments at Amortised Cost (Cont'd)

The hypothetical changes in basis points are not based on observable market data (unobservable inputs).

Quoted bonds in corporations of the Group amounting to RMB236 million (2013:RMB230 million) have been pledged as security for other loans payable (Note 28).

A summary of the maturity dates as at the end of reporting year is as follows:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Within 2 to 5 years	**160,331**	19,847
After 5 years	**76,103**	259,739
Total	**236,434**	279,586

Held-to-Maturity investments at amortised cost shown above are stated at cost. The fair values are:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Quoted bonds in corporations with variable interest rates from 6.9% to 7.5% and maturing in reporting year 2018 (effective interest rates from 6.3% to 6.7%)	**19,590**	18,758
Quoted bonds in corporations with variable interest rates from 6.4% to 7.7% and maturing in reporting year 2019 (effective interest rates from 6.4% to 7.2%)	**142,031**	212,466
Quoted bonds in corporations with variable interest rates from 6.6% to 6.8% and maturing in reporting year 2020 (effective interest rates from 6.5% to 6.9%)	**15,149**	28,717
Quoted bonds in corporations with variable interest rates from 8.0% to 8.4% and maturing in reporting year 2021 (effective interest rates from 6.5% to 6.7%)	**57,622**	7,204
Total	**234,392**	267,145

The fair values above were derived based on quoted prices in active markets of the Shenzhen and Shanghai Stock Exchange in the People's Republic of China.

None of the financial assets measured at amortised cost were reclassified to financial assets at fair value during the reporting year.

There were no transfers between Level 1, 2 and Level 3 of the fair value hierarchy during the reporting year.

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19. OTHER ASSETS

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Prepayments	**213,069**	143,605	**170,395**	98,560
Presented in the statement of financial positions as;				
Other Assets, Non-Current	**15,539**	17,853	**15,946**	13,046
Other Assets, Current	**197,530**	125,752	**154,449**	85,514
	213,069	143,605	**170,395**	98,560

20. INVENTORIES

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Work-in-progress	**89,528**	99,290	**82,698**	87,385
Raw materials	**293,381**	291,242	**262,248**	254,958
Finished goods	**476,982**	426,355	**300,692**	293,443
	859,891	816,887	**645,638**	635,786

Inventories are stated after allowance as follows:

Balance at beginning of year	**19,525**	22,207	**18,236**	20,938
Charge to profit or loss included under other charges (Note 6)	**3,438**	510	**414**	335
Used	**(6,122)**	(3,192)	**(5,947)**	(3,037)
Balance at end of year	**16,841**	19,525	**12,703**	18,236
Changes in inventories of finished goods and work-in-progress (increase)	**(40,864)**	(32,928)	**(6,653)**	(53,100)
Raw materials, consumables and goods for resale recognised as expenses	**4,544,565**	3,750,435	**3,689,827**	2,893,967

There are no inventories pledged as security for liabilities.

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21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade receivables:				
Bills receivable	**302,699**	389,664	**289,796**	369,748
Outside parties	**1,427,760**	1,140,665	**1,158,051**	922,783
Subsidiaries (Note 3)	**–**	–	**123,703**	98,002
Associate (Note 3)	**223**	541	**221**	540
Related parties (Note 3)	**53,618**	22,528	**34,958**	18,231
Less: Allowance for impairment	**(161,301)**	(159,080)	**(155,839)**	(154,747)
Subtotal	**1,622,999**	1,394,318	**1,450,890**	1,254,557
Other receivables:				
Outside parties	**98,719**	79,423	**35,467**	32,473
Subsidiaries (Note 3)	**–**	–	**44,664**	32,639
Associate (Note 3)	**999**	3,904	**999**	3,902
Related parties (Note 3)	**556**	126	**157**	126
Interest income receivable	**–**	250	**–**	–
Less: Allowance for impairment	**(29,660)**	(29,037)	**(16,384)**	(16,788)
Subtotal	**70,614**	54,666	**64,903**	52,352
Total trade and other receivables	**1,693,613**	1,448,984	**1,515,793**	1,306,909
Movements in above allowance for trade receivables:				
Balance at beginning of year	**159,080**	174,830	**154,747**	171,495
Charge for other receivables to profit or loss included in other charges	**2,608**	–	**1,496**	–
Reversed for trade receivables to profit or loss included in other credits	**(387)**	(15,346)	**(404)**	(16,748)
Used	**–**	(404)	**–**	–
Balance at end of year	**161,301**	159,080	**155,839**	154,747
Movements in above allowance for other receivables:				
Balance at beginning of year	**29,037**	26,965	**16,788**	14,900
Charge for other receivables to profit or loss included in other charges	**623**	2,072	**–**	1,888
Used	**–**	–	**(404)**	–
Balance at end of year	**29,660**	29,037	**16,384**	16,788

Bills receivable of the Group amounting to Nil (2013: RMB4 million) have been pledged with banks as security deposits for bills payable issued (Note 27).

Trade receivable of the Group amounting to RMB7.6 million (2013: Nil) have been pledged with bank as security deposits for bill payable issued (Note 27).

Allowance for impairment in the statement of financial position of the Group includes RMB8 million (2013: RMB8 million) on trade receivables due from related parties. The reversal of impairment charge for current year was RMB0.4 million (2013: RMB15 million).

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22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Not restricted in use:				
Cash and bank balances	**557,062**	459,219	**408,586**	296,614
Highly liquid debt instruments	**–**	200,000	**–**	200,000
Subtotal	**557,062**	659,219	**408,586**	496,614
Restricted in use:				
Bank deposits	**73,873**	85,511	**–**	–
Total	**630,935**	744,730	**408,586**	496,614

The highly liquid debt instruments matured 7 days after the end of the reporting year.

Restricted in use bank balances relate to security deposits to cover bills payable (Note 27).

The rate of interest for the cash on short-term bank deposits ranged from 0.35% – 2.75% (2013: 0.35% – 3.0%) per annum.

22A. Cash and Cash Equivalents in Consolidated Statement of Cash Flows:

	Group	
	2014	2013
	RMB'000	RMB'000
Amount as shown above	**630,935**	744,730
Restricted bank deposits for bank notes payables	**(73,873)**	(85,511)
Cash and cash equivalents for consolidated cash flows statement purposes at end of the year	**557,062**	659,219

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23. SHARE CAPITAL

The information on the share capital of the Group and the Company as at 1 January 2013, 31 December 2013 and 31 December 2014 is as follows:

	Group and Company	
	Number of Share Issued	Share Capital RMB'000
"A" shares		
Circulating Shares	**533,433,720**	533,433
Restricted Circulating Shares	**5,875,000**	5,875
Subtotal	**539,308,720**	539,308
"S" shares		
Circulating Shares	**200,000,000**	200,000
Total	**739,308,720**	739,308

All "S" and "A" shares rank pari passu in all aspects. The par value of these shares is RMB1. These shares are fully paid and carry one vote each and have no right to fixed income. The holders of these shares are entitled to receive dividends when declared by the Company. All shares carry one vote per share without restrictions at meetings of the Company.

In 1997, the Company issued 100 million "S" shares for listing on the Singapore Stock Exchange. On 9 May 2002, the Company issued 40 million "A" shares for listing on the Shanghai Stock Exchange.

The restricted circulating shares originated from legal person shares which were issued following the conversion of the Company from a state-owned enterprise to a Company limited by shares. Legal person shares are restricted in trading. Pursuant to a share reform exercise approved by the Company's shareholders on 10 July 2006, Tianjin Pharmaceutical Holdings, the former controlling shareholder of the Company and the other holders of non-circulating legal person shares collectively offered 2.8 shares for every 10 circulating "A" shares to the circulating "A" shareholders registered as at 19 July 2006.

The non-circulating shares cannot be sold in the market for a restricted period. The remaining 5,875,000 shares will remain restricted until applications are made with the Shanghai Stock Exchange to convert the shares to circulating shares.

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23. SHARE CAPITAL (CONT'D)

Capital Management:

The objectives when managing capital are: to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The management monitors the capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt/adjusted capital (as shown below). Net debt is calculated as total borrowings less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, and retained earnings).

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Net debt:		
All current and non-current borrowings	**921,700**	1,289,200
Less: Cash and cash equivalents	**(630,935)**	(744,730)
Net debt	**290,765**	544,470
Capital:		
Total Equity	**2,763,777**	2,417,380
Debt-to-adjusted capital ratio	**11%**	23%

The improvement as shown by the decrease in the debt-to-adjusted capital ratio for the reporting year resulted primarily from the decrease in external borrowing and there was a favourable change with improved retained earnings.

24. OTHER RESERVES

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Capital reserve (Note 24A)	**11,428**	9,515	**87,406**	87,406
Statutory common reserve (Note 24B)	**311,462**	275,783	**311,462**	275,783
Fair value reserve (Note 24C)	**48,190**	24,542	**48,190**	24,542
	371,080	309,840	**447,058**	387,731

24. OTHER RESERVES (CONT'D)

24A. Capital Reserve

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	**9,515**	8,566	**87,406**	87,406
Equity share of changes in other reserves of associates	**1,913**	949	**–**	–
Balance at end of the year	**11,428**	9,515	**87,406**	87,406

24B. Statutory Common Reserve

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Balance at beginning of the year	**275,783**	241,719
Appropriation from retained earnings	**35,679**	34,064
Balance at end of the year	**311,462**	275,783

Under the regulations in People's Republic of China, the Company and its subsidiaries are required to set up a statutory reserve which represents a non-distributable reserve made at a rate of 10% of net profit after tax until the reserve reaches 50% of the registered capital in accordance with their Articles of Association. The transfer to this reserve must be made before the payment of dividends to shareholders.

The statutory common reserve can only be used to set off against losses, to expand the entities' production operations or to increase its share capital. The Company and its subsidiaries may convert its statutory common reserve into share capital provided that the remaining balance of such reserve is not less than 25% of the share capital.

The Company and certain subsidiaries may transfer a portion of its net profit to the statutory welfare reserve in accordance with their Articles of Association, as recommended by directors and approved by shareholders.

The statutory welfare reserve can only be used for the collective welfare of the employees of the Company and its subsidiaries.

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24. OTHER RESERVES (CONT'D)

24C. Fair Value Reserve

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Balance at beginning of the year	**24,542**	23,340
Fair value gains on re-measuring available-for-sale financial assets	**27,822**	1,414
Deferred tax thereon	**(4,174)**	(212)
	23,648	1,202
Balance at end of the year	**48,190**	24,542

This was in respect of fair value gains on re-measuring available-for-sale financial assets, net of tax.

25. TRADE PAYABLES, NON-CURRENT

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued termination benefits	**53,947**	55,179	**53,507**	54,580

The Group and the Company reclassified its accrued termination benefits from current to non-current, as the liabilities are due more than 12 months after the end of the reporting year 2014.

26. OTHER LIABILITIES

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income	**43,893**	53,006	**21,348**	32,108
Advance payments received	**18,332**	18,332	**18,332**	18,332
Advances from customers	**51,350**	78,768	**29,378**	58,907
Miscellaneous	**3,949**	3,949	**–**	–
	117,524	154,055	**69,058**	109,347
Presented in the balance as:				
Other Liabilities, Non-Current	**66,173**	75,287	**39,680**	50,440
Other Liabilities, Current	**51,351**	78,768	**29,378**	58,907
Balance at end of the year	**117,524**	154,055	**69,058**	109,347

Deferred income represents grants from government and other third parties.

The advance payments above were received from related parties, so that immediate delivery of medical products can be made in event of any emergency needs.

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27. TRADE AND OTHER PAYABLES

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Trade payables:				
Bills payable	**120,674**	118,820	**4,135**	2,632
Outside parties	**606,315**	499,255	**501,668**	405,937
Associate (Note 3)	**16,341**	12,070	**14,545**	8,118
Related parties (Note 3)	**36,419**	43,271	**24,620**	29,670
Accrued retirement benefits	**1,166**	1,725	**1,166**	1,725
Accrued termination benefits	**12,232**	18,326	**12,048**	17,957
Accrued operating expenses	**384,617**	302,782	**368,755**	296,762
Subtotal	**1,177,764**	996,249	**926,937**	762,801
Other payables:				
Outside parties	**148,859**	97,412	**121,676**	96,995
Associates (Note 3)	**–**	7	**–**	–
Related parties (Note 3)	**2,091**	1,634	**2,134**	1,630
Other taxes payables	**41,447**	35,344	**35,143**	24,893
Dividend payable	**9,999**	42,447	**9,999**	42,447
Subtotal	**202,396**	176,844	**168,952**	165,965
Total trade and other payables	**1,380,160**	1,173,093	**1,095,889**	928,766

The bills payable are secured by pledges of trade receivables and bank deposits of the Group (Notes 21 and 22).

28. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Bank loans (unsecured)	**766,000**	1,044,000	**720,000**	978,000
Bank loans (secured)	**20,000**	15,000	**–**	–
Other loans (secured)	**135,700**	230,200	**–**	–
	921,700	1,289,200	**720,000**	978,000

The bank loans bore interest rates as follows:

	Group		Company	
	2014	2013	2014	2013
Bank loans (unsecured)				
– fixed rate	**4% – 5%**	4% – 7%	**4% – 5%**	4% – 7%
– floating rate	**5% – 6%**	5% – 6%	**5% – 6%**	5% – 6%
Bank loans (secured)				
– fixed rate	**7% – 8%**	7%	**–**	–
Other loans (secured)				
– floating rate	**2% – 33%**	7% – 17%	**–**	–

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28. OTHER FINANCIAL LIABILITIES (CONT'D)

Bank loans of RMB20 million (2013: RMB15 million) are secured on legal mortgages over the subsidiaries' property, plant and equipment (Note 12).

Bank loans totalled RMB23 million (2013: RMB33 million) are guaranteed by the non-controlling shareholder in a subsidiary. No fee is charged.

Other loans totalled RMB136 million (2013: 230 million) are secured by pledges of quoted bonds of corporations of the Group of the same amount (Note 18D).

29. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

29A. Classification of Financial Assets and Liabilities

The following table summarises the carrying amount of financial assets and liabilities recorded at the end of the reporting year by IAS 39 categories:

	Group		Company	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:				
Cash and cash equivalents	**630,935**	744,730	**408,586**	496,614
Loans and receivables	**1,693,613**	1,448,984	**1,515,793**	1,306,909
Financial assets at fair value through profit or loss	**–**	51,250	**–**	–
Held-to-maturity investments	**236,434**	279,586	**–**	–
Available-for-sale financial assets	**83,065**	55,243	**83,065**	55,243
	2,644,047	2,579,793	**2,007,444**	1,858,766
Financial liabilities:				
Borrowings at amortised cost	**921,700**	1,289,200	**720,000**	978,000
Trade and other payables at amortised cost	**1,434,107**	1,228,272	**1,149,396**	983,346
	2,355,807	2,517,472	**1,869,396**	1,961,346

Further quantitative disclosures are included throughout these financial statements.

29B. Financial Risk Management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. There are exposures to the financial risks on the financial instruments such as credit risk, liquidity risk and market risk comprising interest rate, and price risk exposures. The management has certain practices for the management of financial risks and action to be taken in order to manage the financial risks. The guidelines include the following:

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29. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

29B. Financial Risk Management (Cont'd)

Minimise interest rate, credit and market risks for all kinds of transactions.

Maximise the use of "natural hedge": favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency and therefore put in place hedging strategies only for the excess balance. The same strategy is pursued with regard to interest rate risk.

All financial risk management activities are carried out and monitored by senior management staff.

All financial risk management activities are carried out following market practices.

There have been no changes to the exposures to risk, the objectives, policies and processes for managing the risk and the methods used to measure the risk.

29C. Fair value of Financial Instruments

The analyses of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 are disclosed in the relevant notes to the financial statements. These include both the significant financial instruments stated at amortised cost and at fair value in the statement of financial position. The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value.

29D. Credit Risk on Financial Assets

Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner consist principally of cash balances with banks, cash equivalents, receivables and certain other financial assets. The maximum exposure to credit risk is: the total of the fair value of the financial assets; the maximum amount the entity could have to pay if the guarantee is called on; and the full amount of any payable commitments at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counter-parties are entities with acceptable credit ratings. Credit risk on other financial assets is limited because the other parties are entities with acceptable credit ratings. For credit risk on receivables, an ongoing credit evaluation is performed on the financial condition of the debtors and a loss from impairment is recognised in profit or loss. The exposure to credit risk with customers is controlled by setting limits on the exposure to individual customers and these are disseminated to the relevant persons concerned and compliance is monitored by management. There is no significant concentration of credit risk on receivables, as the exposure is spread over a large number of counter-parties and customers unless otherwise disclosed in the notes to the financial statements below.

As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to trade receivable customers is about 60 days (2013: 60 days). But some customers take a longer period to see settle the amounts.

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29. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

29D. Credit Risk on Financial Assets (Cont'd)

(a) Ageing analysis of the age of trade receivable amounts that are past due as at the end of the reporting year but are not impaired:

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
1 – 2 years	**13,607**	8,855	**6,469**	6,180
2 – 3 years	**2,261**	1,062	**1,126**	420
Over 3 years	**198**	314	**3,654**	3,652
	16,066	10,231	**11,249**	10,252

(b) Ageing analysis of trade receivable as at the end of the reporting year that are impaired:

	Group		Company	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
1 – 2 years	**4,273**	2,749	**2,508**	1,385
2 – 3 years	**2,273**	1,033	**1,201**	409
Over 3 years	**154,756**	155,298	**152,130**	152,953
	161,302	159,080	**155,839**	154,747

The allowance which is disclosed in the Note 21 on Trade Receivables is based on individual accounts totaling RMB161 million (2013: RMB159 million) and RMB156 million (2013: RMB155 million) for the Group and the Company respectively that are determined to be impaired at the end of reporting year. These are not secured.

Other receivables are normally with no fixed terms and therefore there is no maturity.

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29. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

29E. Liquidity Risk – Financial Liabilities Maturity Analysis

The following table analyses the financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows) as at the end of the reporting year:

Group:	Less than 1 year RMB'000	2 – 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2014				
Gross borrowings commitments	**814,441**	**–**	**–**	**814,441**
Trade and other payables	**1,367,945**	**40,890**	**20,063**	**1,428,898**
	2,182,386	**40,890**	**20,063**	**2,243,339**
2013				
Gross borrowings commitments	1,092,079	–	–	1,092,079
Trade and other payables	1,173,881	44,047	24,085	1,242,013
	2,265,960	44,047	24,085	2,334,092

Company:	Less than 1 year RMB'000	2 – 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2014				
Gross borrowings commitments	**740,390**	**–**	**–**	**740,390**
Trade and other payables	**1,103,667**	**40,415**	**20,053**	**1,164,135**
	1,844,057	**40,415**	**20,053**	**1,903,525**
2013				
Gross borrowings commitments	1,008,070	–	–	1,008,070
Trade and other payables	929,537	43,473	23,974	996,984
	1,937,607	43,473	23,974	2,005,054

Financial Guarantee Contracts – At the end of the reporting year, no claims on the financial guarantees are expected. The following table analyses the maturity analysis of the contingent liabilities:

	Less than 1 year			
	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Bank guarantees in favour of subsidiaries	**13,000**	23,000	**13,000**	23,000

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29. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS (CONT'D)

29E. Liquidity Risk – Financial Liabilities Maturity Analysis (Cont'd)

The above amounts disclosed in the maturity analysis are the contractual undiscounted cash flows and such undiscounted cash flows differ from the amount included in the statement of financial position. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to pay. At the end of the reporting year no claims on the financial guarantees are expected to be payable.

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be settled at their contractual maturity. The average credit period taken to settle trade payables is about 45 days (2013: 45 days). The other payables are with short-term durations. The classification of the financial assets is shown in the statement of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary. In order to meet such cash commitments, the operating activities are expected to generate sufficient cash inflows. In addition, the financial assets are held for which there is a liquid market and that are readily available to meet liquidity needs.

29F. Interest Rate Risk

The interest rate risk exposure is mainly from changes in fixed rate and floating interest rates and it mainly concerns financial liabilities which are both fixed rate and floating rate. The interest from financial assets including cash balances is not significant. The following table analyses the breakdown of the significant financial instruments by type of interest rate:

	Group		**Company**	
	2014	**2013**	**2014**	**2013**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets:				
Floating rate	**630,935**	544,730	**408,586**	296,614
Financial liabilities:				
Fixed rate	**486,000**	889,200	**420,000**	578,000
Floating rate	**435,700**	400,000	**300,000**	400,000
	921,700	1,289,200	**720,000**	978,000

The floating rate debt obligations are with interest rates that are re-set regularly at 3 to 6 month intervals. The interest rates are disclosed in the respective notes.

Sensitivity analysis: The effect on profit before income tax is not significant.

29G. Foreign Currency Risk

The Group is not exposed to significant foreign currency risk as its business transactions are primarily denominated in Chinese Renminbi, the functional currency of the Company and its subsidiaries.

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31 DECEMBER 2014

30. CONTINGENCIES

The Nankai branch of the Company entered into a relocation agreement with a property developer in June 2002 whereby a commercial property of 900 square metres was offered as compensation for the relocation. As the property developer failed to deliver the property in June 2005, a lawsuit was brought by the Company against the property developer in November 2008, claiming RMB20.6 million. The court has frozen RMB35.1 million of the assets of the property developer. As both companies were not satisfied with the first judgment passed in March 2010, an appeal was filed with the high court of Tianjin. A final judgment was passed on 28 January 2011 whereby the Nankai Branch of the Company was awarded a commercial property of 900 square metres, RMB3.47 million in liquidated damages and rent with effect from 1 January 2010 to end of the valid period of the judgment. As at the end of reporting year, management was not able to ascertain the fair value of the commercial property and the rent. The legal title of the commercial property has not been transferred to the Company. The property will be put up for auction by the court.

31. OPERATING LEASE PAYMENT COMMITMENTS

At the end of the reporting year, future minimum lease payment commitments under non-cancellable operating leases are as follows:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Not later than one year	**4,685**	5,161
Later than one year and not later than three years	**7,529**	8,330
Later than three years	**8,782**	11,986
Rental expense for the year	**5,372**	14,668

Operating lease payments are for rentals payable for certain property, plant and equipment.

32. OPERATING LEASE INCOME COMMITMENTS

At the end of the reporting year, total of future minimum lease receivables commitments under non-cancellable operating leases are as follows:

	Group	
	2014	**2013**
	RMB'000	**RMB'000**
Not later than one year	**11,121**	9,068
Later than one year and not later than three years	**19,989**	16,286
Later than three years	**23,902**	19,534

Operating lease income commitments are for the investment properties.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2014

33. FINANCIAL INFORMATION BY OPERATING SEGMENTS

Disclosure of information about operating segments, products and services, the geographical areas, and the major customers are made as required by IFRS 8 Operating Segments. This disclosure standard has no impact on the reported results or financial position of the Group.

For management purposes the Group is organised into the Chinese Medicine and Western Medicine major strategic operating segments. Any item that does not fall within these two categories is grouped under others. Other than the information disclosed below, other information is not available and the cost to develop it would be prohibitive.

The Chinese Medicine segment is a manufacturer of Chinese pharmaceutical products which are under brands owned by the Group.

The Western Medicine segment is a manufacturer of western pharmaceutical products through cooperation with foreign companies.

The financial information by operating segments for the Group is as follows:

	Revenue	**Cost of sales**	**Operating profit**
	RMB'000	RMB'000	RMB'000
2014			
Chinese Medicine	**4,167,850**	**2,265,602**	**1,902,248**
Western Medicine	**2,413,943**	**2,262,833**	**151,110**
Others	**485,146**	**401,665**	**83,481**
Total	**7,066,939**	**4,930,100**	**2,136,839**
2013			
Chinese Medicine	3,695,837	2,029,896	1,665,941
Western Medicine	2,029,328	1,872,348	156,980
Others	265,283	189,462	75,821
Total	5,990,448	4,091,706	1,898,742

The Group operates predominantly in the People's Republic of China. As a result, segmental information by geographical areas is not meaningful.

There are no customers with revenue transactions of over 10% of the revenue of the Group.

The non-current assets are located in the People's Republic of China.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

34. EVENTS AFTER THE END OF THE REPORTING YEAR

The Board of Directors (the "Board") of the Company in the sixth annual general meeting dated 26 June 2014 and extraordinary general meeting dated 18 August 2014, approved the proposed private placement of not more than 90,000,000 "A" shares of par value RMB1 each, for the purposes of funding 4 projects (the "Proposed Placement"). The targeted subscriber of the "A" shares shall not be more than ten and is subject to the approval by the China Securities Regulatory Commission ("CSRC") pursuant to the provisions of the Securities and Investment Fund Management Companies, Securities Companies, Financial companies, Trust Investment Companies, Insurance institutional investors, qualified foreign institutional investors and other institutional investors, natural persons and other legitimate investors. As at 31 December 2014, the CSRC is in the process of reviewing the Proposed Placement's applications.

On 28 January 2015, the Board announced the amendments to the Proposed Placement after considering various factors (the "Amendments"), including the financial position of the Company and the progress of the Proposed Placement, it has decided not to use any proceeds from the Proposed Placement for 1 of the projects. Accordingly the amendments to the Proposed Placement are as follows:

Number of A-Shares to be issued

The maximum number of A-Shares to be issued under the Proposed Placement shall be reduced from 90,000,000 to 65,166,000. The final number of shares to be issued will be determined by the Board through consultation with the Placement Agent of the Proposed Placement, and will be adjusted if an ex-right or ex-dividend matter has occurred during the period from the base date of pricing (being 27 June 2014) to the date of issuance of the Placement Shares.

Amount of proceeds and use of net proceeds

Prior to the Amendments, the total proceeds from the Proposed Placement of up to approximately RMB1.154 billion, and after deducting the offering expenses of approximately RMB30.1 million, were planned to be used in 4 projects. As the proceeds from the Proposed Placement will no longer be used for 1 of the projects, the use of proceeds will be amended. Accordingly, the total proceeds to be raised from the Proposed Placement will be reduced by RMB310.26 million, from RMB1.154 billion to RMB836.08 million.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2014

35. RECONCILIATION TO PEOPLE'S REPUBLIC OF CHINA ACCOUNTING REGULATIONS

Differences between the financial statements prepared in accordance with IFRS and the People's Republic of China Accounting Regulations in respect of comprehensive income and net assets are as follows:

	The Group		The Company
	Comprehensive Income	Net Assets*	Net Assets*
	RMB'000	RMB'000	RMB'000
2014			
As reported in the statutory financial statements prepared under People's Republic of China Accounting Regulations	**404,998**	**2,946,636**	**2,727,599**
Reversal of share of result of associates at Company level under IFRS	**–**	**–**	**(83,783)**
Recognition of dividends declared by associates at Company level under IFRS	**–**	**–**	**52,160**
As reported in the financial statements prepared under IFRS	**404,998**	**2,946,636**	**2,695,976**
2013			
As reported in the statutory financial statements prepared under People's Republic of China Accounting Regulations	362,542	2,574,965	2,382,211
Reversal of share of result of associates at Company level under IFRS	–	–	(187,695)
Recognition of dividends declared by associates at Company level under IFRS	–	–	172,458
Others	562	–	–
As reported in the financial statements prepared under IFRS	363,104	2,574,965	2,366,974

* Net assets refer to the to the equity.

The statutory financial statements prepared by the Directors in accordance with the People's Republic of China Accounting Regulations are audited by Ruihua Certified Public Accountants LLP, whose audit report dated 25 March 2015 expressed an unmodified opinion on those financial statements.

36. COMPARATIVE FIGURES

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with current year's financial statements but these did not require material modifications and reclassifications to financial statements measurements.

The Proposed Expansion of the Sub-items under the Main Categories of the Company's Business Scope

The Company's scope of business covers: production of Chinese traditional herbal medicine, Chinese traditional medicine, herbal pieces, western pharmaceutical preparation and chemical medicinal feedstock; processing, manufacturing, wholesale and retail of chemical preparation, new herbal medicinal products, medical apparatus and instruments, nutritional supplement and chemical reagents; processing and other logistics in relation to traditional Chinese medicinal products; purchases and sales through agents, and wholesale and retail of hygienic products, exercise machines, disinfection supplies for daily life and environment hygiene, skin protection medical products, general merchandise, closes, shoes and hats, home appliances, cigarettes; storage, advertising, technology development and transfer, economic information consultation service, house renting; purchases and sales through agents, and wholesale and retail of computers, software and analytical instruments; retail of family planning supplies; renting of medical equipments; exports of self-produced products and technologies; imports of feedstock, supplementary raw material, apparatus and instruments, machinery equipment, spare parts and corresponding technologies for the production of the Company (except commodities and technologies which are prohibited to be imported or exported by the PRC government or the sale and/or operation of which are limited to state-owned enterprises); business of processing with imported materials and forms of OEM and compensation trades.; purchases of Chinese traditional medicines. Business items to be conducted/operated by branches/divisions/subsidiaries of the Company: medical packaging material, veterinary, bait additives, feed, bait, production of drugs for livestock, production of feed additives, livestock breeding, fresh water animal breeding and planting, catering, conference services; retail of standard packaged food, edible oil, non-staple food, flavor; purified water and hygienic products; standard packaged drinking water; production and sales of bottle water; beverage; powder drinks, production and sales of tea drinks; operation limited only to branches: sales of antibiotics and bio-medicines and chemical medicines; The following business items may only be conducted/operated by branches/divisions/subsidiaries of the Company: medical diagnoses and treatment; medical tests, traditional Chinese medicine department, internal medicine, paediatrics, dermatology, Chinese Acupuncture, biological medicines, diagnostic medicine, sales of the second class psychoactive drugs; packaging and printing; road transportation; purchases and sales through agents, wholesale and retail of wines and alcohol, sugar, tea, beverage and bee products; narcotic drug (only limited to pericarpium papaveris); toxic drugs for medical use; protein assimilation agent; sales of wholesale of peptide hormone; food, pre-packaged food, unpacked food; research, development and sales of biological engineering and biological products, and chemical products (excluding hazardous chemicals); wholesale of health food (as licensed).(If the government has formulated monopoly operation over any of the abovementioned business items, the company shall comply with the relevant regulations).

Required by the expansion of operation, the Company is to add business content of "wholesale and retail of edible agricultural products (as licensed)" to the business item "to be conducted/operated by branches/divisions/subsidiaries of the Company", and will apply for relevant modification in business license records kept in industrial and commercial administrative authority. Now the proposal is submitted to the shareholders' general meeting for deliberation.

NOTICE OF ANNUAL GENERAL MEETING

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited will hold its annual general meeting for the financial year ended 31 December 2014 ("**FY2014**") at the meeting room of Banyan Tree Tianjin Riverside, No. 34 Haihe Eastern Road, Hebei District, Tianjin 300010, PRC on 15 May 2015 at 1:30 p.m.. Concurrently, a video conferencing for holders of "S" shares was proposed to be held at Pinnacle Suite, Wangz Business Centre,7 Temasek Boulevard, #44-01 Suntec Tower 1, Singapore 038987.

The agenda for the meeting shall be as follows:

1. To consider and approve the Chairman's Report for FY2014. (Resolution 1)
2. To consider and approve the Board of Directors' Report for FY2014. (Resolution 2)
3. To consider and approve the Supervisory Committee's Report for FY2014. (Resolution 3)
4. To consider and approve the Financial Report and Audit Reports for FY2014 audited by Ruihua Certified Public Accountants LLP and RSM Chio Lim LLP. (Resolution 4)
5. To consider and approve the scheme of profit distribution policy of the Company for FY2014. (Resolution 5)
6. To approve the remuneration of S$40,000 for independent director Mr. Timothy Chen Teck Leng for FY2014 (commencing from May 2014 and ending in December 2014). (Resolution 6)
7. To approve remuneration of S$55,000 for independent director Mr. Toe Teow Heng for FY2014. (Resolution 7)
8. To approve the remuneration of RMB60,000 for director Mr. Gao Xue Min for FY2014. (Resolution 8)
9. To approve the remuneration of S$22,900 for independent director Mr. Wong Gang for his appointment until 15 May 2014 (commencing from January 2014 and ending in May 2014). (Resolution 9)
10. To approve the aggregate remuneration for directors of Company for FY2014. (Resolution 10)
11. To approve the aggregate remuneration for members of supervisory committee for FY2014. (Resolution 11)
12. To appoint Mr. Qiang Zhi Yuan as independent director of the Company. (Resolution 12)
13. To appoint Ms. Wang Lei as a director of the Company. (Resolution 13)
14. To consider and approve the proposed expansion of the sub-items under the main categories of the Company's business scope. (Resolution 14)
15. To renew the shareholders' mandate for the interested person transactions. (Resolution 15)
    (a) such approval given in the "Shareholders' Mandate" shall, unless revoked or varied by the Company in a General Meeting, continue in force until the next Annual General Meeting of the Company; and
    (b) the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he/she may consider expedient or necessary or in the interests of the Company to give effect to the transactions contemplated and/or authorised by the Shareholders' Mandate and/or this Resolution.
16. To consider and approve the loan facilities granted to the Company aggregating to a limit of RMB5,980,000,000. (Resolution 16)

NOTICE OF ANNUAL GENERAL MEETING

17. To approve the re-election of "Ruihua Certified Public Accountants LLP" as PRC auditors of the Company, to hold the office until the conclusion of the next Annual General Meeting, and re-election of "RSM Chio Lim LLP" as International auditors of the Company to hold the office until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to determine their remuneration. (Resolution 17)
18. To approve internal responsibility system of the Company. (Resolution 18)

Other agenda to be resolved in the General Meeting shall, include any agenda proposed by a shareholder in accordance with Article 61 of the Articles of Association, which states: "When the Company is to hold an annual General Meeting, shareholders holding 5% or more of the voting shares of the Company shall be entitled to propose new motions in writing to the Company. The Company shall include in the agenda of the General Meeting those motions, the subject matter of which, are required to be decided by shareholders in General Meeting."

Notes:

1. A holder of shares entitled to attend and vote at the Annual General Meeting is entitled to appoint no more than two proxies to attend and vote in his or her stead. Such proxy need not be a shareholder of the Company.

   If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer of attorney.

2. To be effective, the instrument appointing a proxy or proxies must be lodged at the Company's "S" Shares Registrar and Singapore Transfer Office, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles' Place, #32-01 Singapore Land Tower, Singapore 048623 (in the case of a holder of "S" shares) no later than 1:30 p.m. on 13 May 2015.

3. Personal Data Privacy: By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

4. Pursuant to the Company's Articles of Association, a holder of tradable domestic shares with limiting conditions for sale shall notify the Company in writing not less than 20 days prior to the Annual General Meeting of his or her intention to attend the Annual General Meeting. A holder of "S" share shall be registered in the shareholder name list or in the Depository Register 48 hours before the appointed time for holding the Annual General Meeting.

5. A holder of tradable domestic shares with limiting conditions for sale who is planning to attend the Annual General Meeting must give a written notice to the Company no later than 24 April 2015.

6. A holder of "S" Shares must be registered in the shareholder name list or in the Depository Register pursuant to his/her identity card and share certificates no later than 1.30 p.m. on 13 May 2015.

7. the Annual General Meeting is expected to last for half a day and all accommodation and other expenses incurred by a shareholder or his/her proxy in connection with his attendance at the Annual General Meeting shall be borne by that Shareholder.

By order of the Board of Directors

Jiao Yan
Company Secretary

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PROXY FORM

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LTD

(Incorporated in the People's Republic of China)

ANNUAL GENERAL MEETING
PROXY FORM

(You are advised to read the notes below before completing this form)

I/We, ______________________________

of ______________________________

being a member/members of Tianjin Zhong Xin Pharmaceutical Group Corporation Ltd (the "**Company**"), hereby appoint:

Name	Address	NRIC/Passport No.	Proportion of Shareholding (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport No.	Proportion of Shareholding (%)

as my/our proxy to vote for me/us and on my/our behalf and, if necessary to demand a poll, at an Annual General Meeting of the Company to be held at the meeting room of Banyan Tree Tianjin Riverside, No. 34 Haihe Eastern Road, Hebei District, Tianjin 300010, PRC on 15 May 2015 at 1:30 p.m. and at any adjournment thereof.

I/We have indicated with an "√" in the appropriate box below how I/we wish my/our proxy to vote. If no specific direction as to voting is given, my/our proxy may vote or abstain at his discretion as he will on any other matters arising at the Annual General Meeting.

PROXY FORM

Date: 15 May 2015

No.	Items on the Agenda	For	Against
1.	To consider and approve the Chairman's Report for FY2014.		
2.	To consider and approve the Board of Directors' Report for FY2014.		
3.	To consider and approve the Supervisory Committee's Report for FY2014.		
4.	To consider and approve the Financial Report and Audit Reports for FY2014 audited by Ruihua Certified Public Accountants LLP and RSM Chio Lim LLP.		
5.	To consider and approve the scheme of profit distribution policy of the Company for FY2014.		
6.	To approve the remuneration of S$40,000 for independent director Mr. Timothy Chen Teck Leng for FY2014 (commencing from May 2014 and ending in December 2014).		
7.	To approve remuneration of S$55,000 for independent director Mr. Toe Teow Heng for FY2014.		
8.	To approve the remuneration of RMB60,000 for director Mr. Gao Xue Min for FY2014.		
9.	To approve the remuneration of S$22,900 for independent director Mr. Wong Gang for his appointment until 15 May 2014 (commencing from January 2014 and ending in May 2014).		
10.	To approve the aggregate remuneration for directors of Company for FY2014.		
11.	To approve the aggregate remuneration for members of supervisory committee for FY2014.		
12.	To appoint Mr. Qiang Zhi Yuan as independent director of the Company.		
13.	To appoint Ms. Wang Lei as a director of the Company.		
14.	To consider and approve the proposed expansion of the sub-items under the main categories of the Company's business scope.		
15.	To renew the shareholders' mandate for the interested person transactions. (a) such approval given in the "Shareholders' Mandate" shall, unless revoked or varied by the Company in a General Meeting, continue in force until the next Annual General Meeting of the Company; and (b) the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he/she may consider expedient or necessary or in the interests of the Company to give effect to the transactions contemplated and/or authorised by the Shareholders' Mandate and/or this Resolution.		
16.	To consider and approve the loan facilities granted to the Company aggregating to a limit of RMB5,980,000,000.		
17.	To approve the re-election of "Ruihua Certified Public Accountants LLP" as PRC auditors of the Company, to hold the office until the conclusion of the next Annual General Meeting, and re-election of "RSM Chio Lim LLP" as International auditors of the Company to hold the office until the conclusion of the next Annual General Meeting and to authorise the Board of Director to determine their remuneration.		

PROXY FORM

No.	Items on the Agenda	For	Against
18.	To approve internal responsibility system of the Company.		
	Other agenda to be resolved in the General Meeting shall, include any agenda proposed by a shareholder in accordance with Article 61 of the Articles of Association, which states: "When the Company is to hold an annual General Meeting, shareholders holding 5% or more of the voting shares of the Company shall be entitled to propose new motions in writing to the Company. The Company shall include in the agenda of the General Meeting those motions, the subject matter of which, are required to be decided by shareholders in General Meeting."		

Total Number of Shares Held in:	
(a) CDP Register	
(b) Register of Members	

Signature(s) of Members/Corporation's Common Seal

NOTES

a. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members of the Company, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, this instrument of proxy will be deemed to relate to all the Shares held by you.

b. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint no more than two proxies to attend and vote on his behalf and such proxy need not be a member of the Company. Where a member appoints two proxies, the appointment shall be deemed to be alternative unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.

c. A member of the Company which is a corporation is entitled to appoint its authorised representative or proxy by resolution of its directors or other governing body such person as it thinks fit to vote on its behalf.

d. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 50 Raffles' Place, #32-01 Singapore Land Tower, Singapore 048623 not later than forty-eight (48) hours before the time appointed for the Annual General Meeting.

e. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies.

f. In the case of members whose Shares are deposited with The Central Depository (Pte) Limited ("**CDP**"), the Company shall be entitled to reject any instrument appointing a proxy or proxies lodged if such members are not shown to have Shares entered against their names in the Depository Register as at forty-eight (48) hours before the time appointed for holding the Annual General Meeting as certified by the Central Depository (Pte) Limited to the Company.

g. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

h. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

i. By submitting an instrument appointing a proxy(ies) and/or representative(s), the member [•••] and agrees to the personal data privacy terms set out in the Notice of AGM dated 30 March 2015.

THIS ANNEXURE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

This Annexure is issued by Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the "Company"). **If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.**

If you have sold all your shares in the capital of the Company, you should immediately hand this Annexure, the Notice of Annual General Meeting and attached Proxy Form to the purchaser or to the bank, stockbroker or agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Annexure.

中新药业
ZHONG XIN PHARMACEUTICAL

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Incorporated in the People's Republic of China)
(Company Registration No.: 120000000004711)

ANNEXURE ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

DATED 30 APRIL 2015

in relation to

PROPOSED RENEWAL OF MANDATE FOR INTERESTED PERSON TRANSACTIONS

CONTENTS

DEFINITIONS

The following definitions apply throughout this Annexure unless the context otherwise requires:–

"AGM"	:	The annual general meeting of the Company
"Annexure"	:	This Annexure to Shareholders dated [date of despatch of this Annexure]
"Articles" or "Articles of Association"	:	The articles of association of the Company, as amended, supplemented or modified from time to time
"Associated Company"	:	Companies or corporations in which the first-mentioned corporation has not less than 20% and not more than 50% equity interest
"Audit Committee"	:	The audit committee of the Company for the time being
"Board" or "Board of Directors"	:	The board of directors of the Company
"CDP"	:	The Central Depository (Pte) Limited
"Company"	:	Tianjin Zhong Xin Pharmaceutical Group Corporation Limited
"Directors"	:	The directors of the Company as at the date of this Annexure
"Group"	:	The Group refers to the Company and its Subsidiaries and Associated Companies
"FY" or "Financial Year"	:	Financial year ended or, as the case may be, ending 31 December
"Independent Directors"	:	The directors that are deemed independent for the purposes of making the recommendation in Paragraph 2.10 of the Appendix A of the Annexure, namely, Wang Zhi Qiang, Xu Dao Qing, Zhou Hong, Toe Teow Heng, Timothy Chen Teck Leng and Gao Xue Min
"Interested Persons"	:	A director, chief executive officer or controlling shareholder of the Company or an associate of such director, chief executive officer or controlling shareholder
"Interested Person Transaction" or "IPT"	:	A transaction proposed to be entered into between the Group or any of its Subsidiaries or target associated companies with interested persons as defined under Chapter 9 of the Listing Manual
"Latest Practicable Date"	:	The latest practicable date prior to the despatch of this Annexure, being 17 April] 2015
"Listing Manual"	:	The listing manual of the SGX-ST, as amended, modified or supplemented from time to time
"Market Day"	:	A day on which the SGX-ST is open for trading of securities

"NTA"	:	Net tangible assets
"Securities Accounts"	:	The securities account maintained with CDP, but not including the securities accounts maintained with a Depository Agent
"SGX-ST"	:	Singapore Exchange Securities Trading Limited
"Shareholders"	:	Registered holders of Shares except that where the registered holder is CDP, the terms "Shareholders" in relation to Shares held by CDP shall mean the persons named as Depositors in the Depository Register maintained by CDP and to whose securities accounts such Shares are credited
"Shareholders' Mandate"	:	A general mandate pursuant to Chapter 9 of the Listing Manual permitting the Company, its Subsidiaries and Associated Companies or any of them to enter into certain types of recurrent transactions of a revenue and trading nature or those necessary for day-to-day operations with specified classes of the Company's interested persons
"Shares"	:	Ordinary shares in the capital of the Company
"Subsidiaries"	:	The subsidiaries of the Company (as defined in Section 5 of the Companies Act, Chapter 50 of Singapore) and "Subsidiary shall be constructed accordingly"
"Substantial Shareholder"	:	A person who has an interest of five per cent. (5%) or more of the total issued share capital of the Company
"TPG"	:	Tianjin Pharmaceutical Group Co., Ltd. (天津市医药集团有限公司)
"TPG Group"	:	Tianjin Pharmaceutical Group Co. Ltd., its Subsidiaries and Associated Companies
"TPG Sales and Marketing Branch Office"	:	The Sales and Marketing Branch Office of TPG (天津市医药集团有限公司营销分公司) which is not an independent legal entity and does not have the ability to sue or be sued on its own name
"PRC"	:	The People's Republic of China
"%"	:	Percentage and per centum

The terms "Depositor" and "Depository Agent" shall have the meanings ascribed to them respectively in Section 130A of the Companies Act, Chapter 50 of Singapore (the "**Act**").

Words importing the singular shall, where applicable, include the plural and vice versa. Words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. References to persons shall, where applicable, include corporations.

Any reference in this Annexure to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Act, the Listing Manual or any modification thereof and not otherwise defined in this Annexure shall have the same meaning assigned to it under the Act, the Listing Manual or any modification thereof, as the case may be.

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED
(Incorporated in the People's Republic of China)
(Company Registration No.: 120000000004711)

Board of Directors

Mr. Wang Zhi Qiang (Chairman)
Mr. Zhang Jian Jin (Non-Executive Director)
Mr. Ma Gui Zhong (Non-Executive Director)
Mr. Xu Dao Qing (Executive Director and Deputy General Manager)
Mr. Zhou Hong (Executive Director)
Mr. Timothy Chen Teck Leng (Independent Director)
Mr. Toe Teow Heng (Independent Director)
Mr. Gao Xue Min (Independent Director)

Registered Office

17 Baidi Road,
Nankai District,
Tianjin, the PRC

30 April 2015

To: The Shareholders of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

Dear Sir/Madam

1 INTRODUCTION

The Company has issued a notice of 2015 AGM (as defined below) on 30 March 2015 (the "**Notice of AGM**").

Proposed Resolution 19 of the Notice of AGM relates to the renewal of the general mandate for Interested Persons Transactions (the "**Proposed Renewal**") to authorise the Group to continue to enter into transactions with TPG Group in compliance with Chapter 9 of the Listing Manual.

The purpose of this Annexure is to provide the Shareholders of the Company with information pertaining to, and to seek Shareholders' approval for the Proposed Renewal at the forthcoming AGM to be held on 15 May 2015 (the "**2015 AGM**").

2 DIRECTORS' AND SUBSTANTIAL SHAREHOLDER'S INTERESTS

2.1 Directors' and Substantial Shareholder's interests in Shares

The details of the Directors' and Substantial Shareholders' interest in the Shares as at the Latest Practicable Date are set out below: -

	Direct Interest		Deemed Interest	
	No of Shares	%	No of Shares	%
Directors				
Wang Zhi Qiang	1,280	0.00017		
Zhang Jian Jin	–	–	–	–
Ma Gui Zhong	–	–	–	–
Xu Dao Qing	–	–	–	–
Sun Jun	–	–	–	–

	Direct Interest		Deemed Interest	
	No of Shares	**%**	**No of Shares**	**%**
Zhou Hong	–	–	–	–
Zhuo Qiao Xing	–	–	–	–
Wong Gang	–	–	–	–
Gao Xue Min	–	–	–	–
Substantial Shareholders				
TPG	331,111,998	44.787	–	–

2.2 TPG will abstain, and have undertaken to ensure that their respective associates will abstain, from voting at the 2015 AGM in respect of the Shares held by them respectively on Resolution 19 relating to the Proposed Renewal.

2.3 As Mr. Zhang Jian Jin is the legal representative of TPG, and Mr. Ma Gui Zhong is key management personnel in TPG, they will abstain from making any recommendation to the Shareholders on the Proposed Renewal pursuant to the listing rules of Shanghai Stock Exchange.

2.4 Saved as disclosed in this paragraph 2, none of the Directors or Substantial Shareholders has any interest in the Proposed Renewal.

3 DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Annexure and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Annexure constitutes full and true disclosure of all material facts about the Proposed Renewal, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in the Annexure misleading.

Where information in the Annexure has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Annexure in its proper form and context.

4 DOCUMENTS FOR INSPECTION

Copies of the following documents may be inspected at the registered office of the Company at 17 Baidi Road, Nankai District, Tianjin, the PRC, during normal business hours from the date of this Annexure up to and including the date of the 2015 AGM:–

(a) the Memorandum and Articles of Association of the Company;

(b) the Annual Report of the Company for the financial year ended 31 December 2014;

APPENDIX A

THE PROPOSED RENEWAL OF THE SHAREHOLDERS' MANDATE FOR TRANSACTIONS WITH INTERESTED PERSONS OF THE COMPANY

1. INTRODUCTION

TPG, directly holds approximately 44.787 % equity interest in the issued and paid up capital of the Company as at the Latest Practicable Date. As such, the TPG Group is deemed to be interested persons (as defined under Chapter 9 of the Listing Manual) in any interested person transaction between the Group and the TPG Group.

The Company had, at its annual general meeting held on 15 May 2014, sought and obtained approval from its Shareholders for a general mandate to enable the Company, its Subsidiaries and its Associated Companies, or any of them, to enter into certain types of recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations with the TPG Group.

Accordingly, it is proposed that the Shareholders' Mandate to be tabled to Shareholders for approval at the 2014 AGM for the renewal of the Shareholders' Mandate in order to authorise the Group to continue to enter into transactions with TPG Group in compliance with Chapter 9 of the Listing Manual. The purpose of this Annexure is to provide Shareholders with the relevant information pertaining to the renewal of the Shareholders' Mandate.

Chapter 9 of the Listing Manual applies to transactions which a listed company or any of its subsidiaries or associated companies proposes to enter into transactions with an interest person of the listed company.

Transactions that the Company is involved in are detailed in paragraph 2.3 of this Appendix A.

2. PROPOSED RENEWAL OF THE SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS

2.1 Requirements of Chapter 9 of Listing Manual

Under Chapter 9 of the Listing Manual ("**Chapter 9**"), where an entity at risk proposes to enter into a transaction with interested persons of the issuer, Shareholders' approval and/or an immediate announcement is required in respect of that transaction if its value is equal to or exceeds certain financial thresholds.

Pursuant to Listing Rule 906, Shareholders' approval (in additional to an immediate announcement) is required where:

(a) the value of such transaction is equal to or exceeds 5% of the Group's latest audited NTA; or

(b) the value of such transaction with interested persons when aggregated with the values of other transactions previously entered into with the same interested person during the same financial year, equals to or exceeds 5% of the Group's latest audited NTA, such aggregation need not include any transaction that has been approved by shareholders previously or is the subject of aggregation with another transaction that has been previously approved by shareholders.

Interested person transactions below $100,000 each are to be excluded.

Pursuant to Listing Rule 909, the value of a transaction is the amount at risk to the issuer. This is illustrated by the following examples:

(a) In the case of a party-owned subsidiary or associate company, the value of the transaction is the issuer's effective interest in that transaction;

(b) In the case of a joint venture, the value of the transaction includes the equity participation, shareholders' loans and guarantees given by the entity at risk; and

(c) In the case of borrowing of funds from an interested person, the value of the transaction is the interest payable on the borrowing. In the case of lending of funds to an interested person, the value of the transaction is the interest payable on the loan and the value of the loan.

2.2 Classes of Interested Persons under the Shareholders' Mandate

The renewed Shareholders' Mandate will apply to the following classes of Interested Persons:

(a) TPG (including the TPG Sales and Marketing Branch Office), which is a major Shareholder with 44.787% shareholdings in the Company;

(b) Wholly-owned Subsidiaries of TPG comprising: -

- (i) Tianjin Pharmaceutical Group Taiping Medicine Co., Ltd.;
- (ii) Tianjin Medicine Group Jixian Co., Ltd.;
- (iii) Tianjin Medicine Group Ninghe Co., Ltd.;
- (iv) Tianjin Pharmaceutical Group Jing Yi Tang Chain Co., Ltd. (formerly known as Tianjin Pharmaceutical Group Chain Co., Ltd.);
- (v) Tianjin Pharmaceutical Group Hongze Medicine Co., Ltd.;
- (vi) Tianjin Chinese Medicine Co., Ltd. (formerly known as Tianjin Chinese Medicinal Slices Factory)
- (vii) Tianjin Haoda Medical Device Co., Ltd.;
- (viii) Tianjin Pharmaceutical Company;
- (ix) Tianjin Jinyao Pharmaceutical Medicine Development Co., Ltd.; and
- (x) Tianjin Institute of Pharmaceutical Research.

(c) Tianjin Yiyao Printing Services Company Limited (formerly known as Tianjin Medicinal Products Packaging and Printing Company) ("**TYPS**"), which is 65% owned by TPG;

(d) Tianjin Lisheng Pharmaceutical Co. Ltd, which is 51.36% owned by TPG;

(e) Tianjin Central Pharmaceutical Co., Ltd., which is 51.36% owned by TPG;

(f) Tianjin Taiping Longlong Pharmaceutical Co., Ltd., which is 51% owned by TPG;

(g) Tianjin Taiping Xiangyun Pharmaceutical Co., Ltd., which is 50% owned by TPG;

(h) Tianjin Tong Ren Tang Group Co., Ltd., which is 40% owned by TPG; and

(i) Tianjin Tong Ren Tang Pharmaceutical Sales Co., Ltd., which is 40% owned by TPG.

2.3 Categories of Interested Person Transactions

The transactions with TPG Group that will be covered by the Shareholders' Mandate and the benefits to be derived therefrom are set out below:

2.3.1 Supply of Raw Materials

The "Supply of Raw Materials" contracts between the Group and the following interested persons for a period of 5 years beginning 1 January 2014 and ending 31 December 2018:

(a) Tianjin Chinese Medicine Co., Ltd. (formerly known as Tianjin Chinese Medicinal Slices Factory);

(b) Tianjin Tong Ren Tang Group Co., Ltd.;

(c) Tianjin Institute of Pharmaceutical Research;

(d) Tianjin Jinyao Pharmaceutical Medicine Development Co., Ltd.; and

(e) Tianjin Pharmaceutical Group Jing Yi Tang Chain Co., Ltd.(formerly known as Tianjin Pharmaceutical Group Chain Co., Ltd.).

The terms to these contracts(1) will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant one-year period. The Group has no obligation under these contracts should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate or any subsequent renewal.

Note:

(1) These contracts do not set the volume and price of raw materials to be provided to the Interested Persons. However it is provided for in the contract that the transactions with the respective Interested Person would be carried out on normal commercial terms and would not be detrimental to the interest of the Company and its minority Shareholders.

2.3.2 Sale and Purchase of Medicinal Products

The "Sale and Purchase of Medicinal Products" contracts[2] between the Group and the following interested persons for a period of 5 years beginning 1 January 2014 and ending 31 December 2018:

(a) The TPG Sales and Marketing Branch Office;

(b) Tianjin Medicine Group Ninghe Co., Ltd. [3];

(c) Tianjin Medicine Jixian Co., Ltd. [3];

(d) Tianjin Pharmaceutical Group Jing Yi Tang Chain Co., Ltd. (formerly known as Tianjin Pharmaceutical Group Co., Ltd.);

(e) Tianjin Pharmaceutical Group Hongze Medicine Co., Ltd.; and

(f) Tianjin Pharmaceutical Group Taiping Medicine Co., Ltd.

(g) Tianjin Lisheng Pharmaceutical Co., Ltd.;

(h) Tianjin Central Pharmaceutical Co., Ltd.;

(i) Tianjin Tong Ren Tang Pharmaceutical Sales Co., Ltd;

(j) Tianjin Haoda Medical Device Co., Ltd;

(k) Tianjin Pharmaceutical Company;

(l) Tianjin Taiping Longlong Pharmaceutical Co., Ltd;

(m) Tianjin Taiping Xiangyun Pharmaceutical Co., Ltd;

(n) Tianjin Jinyao Pharmaceutical Medicine Development Co., Ltd;

(o) Tianjin Chinese Medicine Co., Ltd. (formerly known as Tianjin Chinese Medicinal Slices Factory); and

(p) TYPS (formerly known as Tianjin Medicinal Products Packaging and Printing Company).

The terms of these contracts will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant one-year period. The Group has no obligation under these contracts should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate or any subsequent renewal.

Notes:

(2) The Group's business operations are separated into two main categories, namely production and retail. Under the production arm, the Group produces medicinal products under its own brand. Under the retail arm, the Group: (a) sells the medicinal products under its own brand to the wholesalers (including the Group's interested persons); and (b) purchases medicinal products under other brands from distributors and in turn on-sells these to other wholesalers (including the Group's interested person).

Accordingly, the Group may produce and sell medicinal products under its own house brand to the Group's interested persons and/or third parties. On the other hand, the Group may also purchase medicinal products from the Group's interested persons and/or third parties. These medicinal products are mainly traditional Chinese medicines and pharmaceutical chemicals (化学药).

(3) These contracts state that if discounts are given to unrelated third parties by the Interested Persons for purchases (the "**Unrelated Parties Discount**"), the Interested Persons will accordingly give discounts (that are no lower than the Unrelated Parties Discount) to the Group for similar transactions.

Apart from the aforesaid contracts, the other contracts do not set the volume and price of products to be provided to and/or purchased from the Interested Persons. However it is provided for in the contract that the transactions with the respective Interested Person would be carried out on normal commercial terms and would not be detrimental to the interest of the Company and its minority Shareholders.

2.3.3 Packaging materials and services from TYPS

The Group obtains its packaging materials and services for traditional Chinese medicine from TYPS. The contract between the Group and TYPS is for a period of 5 years beginning 1 January 2014 and ending 31 December 2018. The terms of this contract will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant one-year period. The Group has no obligation under this contract should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate or any subsequent renewal. The contract does not set the volume and price of products and services to be purchased from TYPS. However it is provided for in the contract that the transactions with the respective Interested Person would be carried out on normal commercial terms and would not be detrimental to the interest of the Company and its minority Shareholders.

2.4 Rationale and Benefits for the Shareholders' Mandate

The Shareholders' Mandate will give the Company the flexibility to enter into transactions with the TPG Group in the ordinary course of the Group's business without the need to seek Shareholders' approval each time. It is likely that such transactions will occur and could arise at any time and from time to time. Given that the transactions would be entered into on normal commercial terms, the Directors are of the view that it will be beneficial to the Group to transact or continue to transact with the TPG Group. The Company sources and sells supplies and products from the Interested Persons at favourable prices as compared to available market rates of similar products. By transacting with these Interested Persons, the Company is able to secure favourable prices for its supplies and manufactured products and optimise other factors such as quality of goods and suitability of time schedules.

The Shareholders' Mandate will also enhance the Group's ability to pursue business opportunities which are time-sensitive in nature, and will eliminate the need for the Company to announce and convene separate general meetings on each occasion to seek Shareholders' prior approval for, the entry by the Group into such transactions. This will substantially reduce the expenses associated with the convening of such general meetings from time to time, improve administrative efficacy, and allow resources and time to be focused towards other corporate and business opportunities.

2.5 Guidelines and Review Procedures for Interested Person Transactions

To ensure that the Interested Person Transactions are carried out at arm's length, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders, the Company has put in place the following procedures for the review and approval of Interested Person Transactions under the Shareholders' Mandate:–

(a) When purchasing products or services from an Interested Person, quotations or market rates (wherever possible or available) will be obtained from the Interested Person and at least two other unrelated parties in respect of substantially similar types of transactions. The Deputy Distribution General Manager of the Domestic Trade (Business) Department of the Group (who has no interest, directly or indirectly, in the transaction) will approve the purchase after reviewing these quotations, taking into account all pertinent factors including, but not limited to pricing (including discounts, if any, accorded for bulk purchases as well as the credit terms offered), quality of the products or service and terms of delivery and track record, to ensure that the interests of the minority Shareholders are not disadvantaged.

(b) When selling products or services to an Interested Person, the prices and terms of at least two other successful sales of similar products to third parties or market rates (wherever possible or available) for comparison. The Deputy Distribution General Manager of the Domestic Trade (Business) Department of the Group (who has no interest, directly or indirectly, in the transaction) will approve the sales after reviewing these prices and terms or market rates, taking into account all pertinent factors including, but not limited to price, government pricing regulations, quality and quantity of products, terms of delivery and credit worthiness of the customers, to ensure that the interests of minority Shareholders are not disadvantaged.

(c) Interested Person Transactions will not be approved unless:–

(i) they are in accordance with the usual industry practice and business policies of the Group;

(ii) the pricing and terms of the Interested Person Transactions are not, in transactions where the Group purchases goods and/or obtains services from Interested Persons, less favourable to the Group than those available in other substantially similar types of transactions between the Group and unrelated third parties. The Company takes into consideration, primarily, pricing, terms of the contracts with the Interested Persons as stated in paragraph 2.3 of this Appendix A, the availability, suitability and quality of the products and services and promptness of delivery of such products and services; and

(iii) the pricing and terms of the Interested Person Transactions are not, in transactions where the Group sells goods to Interested Persons, more favourable to the Interested Person than those extended to unrelated third parties for substantially similar types of transactions, after taking into factors (where applicable) such as, but not limited to, pricing, the contracts with the Interested Persons as stated in paragraph 2.3 of this Appendix A, the availability, suitability and quality of the products to be sold, terms of delivery and the creditworthiness of the customers.

(d) In the event that it is not possible to obtain market rates or quotations from unrelated third parties (for example, where there are no suppliers for certain goods or for a specified quantity which the Group requires or if the product or service is proprietary) to determine whether the terms of the Interested Person Transactions are more or less favourable than that of the aggregate terms quoted by unrelated third parties, factors such as the quality of goods, standard of services and terms of delivery and, where applicable, discounts accorded for bulk purchases will be taken into and give due and proper consideration.

(e) Where the prevailing market rates or prices are not available due to the nature of the products to be sold (for instance, if there are no other purchasers or customers for similar products, or if the products is proprietary), the terms of supply will, where applicable, be in accordance with the Group's usual business practices and pricing policies, consistent with the usual margin of the Group for the same or substantially similar types of transaction with unrelated parties.

(f) All transactions in the excess of $100,000 each will be summarised and presented to the Audit Committee and external auditors of the Company for review of whether the transactions are in accordance with the contractual terms and conditions and in accordance with Company policies and procedures, and are carried out on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders. The Company's external auditors will also review such transactions as part of its regular audit. Furthermore, the Company's internal audit department will conduct review of the transactions, and submit its finding to the Audit Committee.

(g) The Audit Committee shall review all Interested Person Transactions, at least on a quarterly basis, to ensure that they are carried out at arm's length basis and on normal commercial terms and in accordance with the procedures outlined in this paragraph 2.5. All relevant non-quantitative factors will also be taken into account. Such review includes the examination of transaction and its supporting documents or such other data deemed necessary by the Audit Committee. The Audit Committee shall, when it deems fit, have the rights to require the appointment of independent sources, advisers or valuers to provide additional information pertaining to the transaction under review. In the event that a member of the Audit Committee is interested in any Interested Person Transactions, he shall abstain from participating in the review of that particular transaction.

(h) Pursuant to Rule 920 (1) (a) of the Listing Manual:–

(i) disclosure will be made in the annual report of the Company, giving details of the aggregate value of all Interested Person Transactions conducted with Interested Persons pursuant to the respective Shareholders' Mandate during the financial year under review (in the form set out in Rule 907 of the Listing Manual) and in the annual reports for the subsequent financial years during which the respective Shareholders' Mandate is in force, as required by the provisions of the Listing Manual; and

(ii) announcements will be made with regards to the aggregate value of transactions conducted pursuant to the respective Shareholders' Mandate for the financial periods which the Company is required to report on pursuant to Rule 705 of the Listing Manual within the time required for the announcement of such report (in the form set out in Rule 907 of the Listing Manual).

(i) If, arising from the Audit Committee's periodic reviews, the Audit Committee is of the view that the procedures have become inappropriate or are insufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders, or in the event of any amendment to Chapter 9 of the Listing Manual, it will consult with the Board and take such actions as it deems proper including modifying or implementing such additional policies and procedures as may be necessary and the Company shall submit the revised policies and procedures to Shareholders for a fresh mandate.

2.6 Validity Period of the Shareholders' Mandate

If approved at the 2015 AGM, the Shareholders' Mandate will take effect from the date of the passing of the resolution to be proposed at the 2015 AGM and will (unless revoked or varied by the Company in a general meeting) continue to be in force until the subsequent AGM. The renewal of the Shareholders' Mandate has to be made in accordance with, and in the manner prescribed by the rules in the Listing Manual, and such other laws and regulations as may for the time being be applicable. It shall also be subject to satisfactory review by the Audit Committee and advisers of the continued requirements of the Shareholders' Mandate and the procedures for the transactions.

2.7 Disclosure to Shareholders

Pursuant to Rule 920(1)(a) of the Listing Manual, the Company will disclose the Shareholders' Mandate and the aggregate value of the Interested Person Transactions conducted pursuant to the Shareholders' Mandate in the annual report of the Company for the current financial year, and in the annual reports for the subsequent financial years during which the Shareholders' Mandate is in force. In addition, the Company will announce the aggregate value of the Interested Person Transactions conducted pursuant to the Shareholders' Mandate for the financial periods which it is required to report on (pursuant to Rule 705 of the Listing Manual) within the time required for the announcement of such report. These disclosures will be in the form set out in Rule 907 of the Listing Manual.

2.8 Audit Committee's Statement

The Audit Committee has reviewed the terms of the proposed Shareholders' Mandate and is satisfied and of the view that:

(a) the review procedures for the Interested Person Transactions concerning TPG Group have not changed since the last Shareholder approval on 15 May 2014;

(b) the review procedures for the Interested Person Transactions concerning TPG Group as well as the reviews to be made periodically by the Audit Committee in relation thereto, are adequate to ensure that the Interested Person Transactions concerning TPG Group will be transacted on arm's length basis and on normal commercial terms and will not be on terms or conditions that would be prejudicial to the interests of the Company and/or its minority Shareholders.

However, in the event the Audit Committee is subsequently no longer of this view, the Company shall revert to Shareholders for a fresh mandate for the Interested Person Transactions concerning TPG Group based on new guidelines and/or review procedures.

2.9 Directors' Recommendation

Having considered, inter alia, the terms, rationale and benefits set out in paragraph 2.4 of this Appendix A for the proposed renewal of the Shareholders' Mandate, the Independent Directors believe that the renewal of the Shareholders' Mandate is in the interest of the Company and recommend that Shareholders vote in favour of the Resolution No. 19 relating to the proposed renewal of the Shareholders' Mandate as set out in the Notice of the AGM.

2.10 Abstention from voting

TPG which holds 44.787% of the shareholdings in the Company, will abstain, and has undertaken to ensure that its respective associates will abstain, from voting at the 2015 AGM in respect of the ordinary resolutions approving the proposed renewal of the Shareholders' Mandate as it is, in relation to the said one transaction or many transactions, an Interested Person as defined under the Listing Manual. It should also not accept nomination as proxies or otherwise for voting at the 2015 AGM in respect of the aforesaid ordinary resolutions unless specific instructions have been given in the proxy instrument on how the shareholders wish their votes to be cast for each of the ordinary resolutions.

INFORMATION **ON SHAREHOLDING**

Registered Capital: RMB739,308,720

Class of Shares: Ordinary shares of RMB1.00 each (of which 539,308,720 shares are Domestic Investment Shares and 200,000,000 shares are Foreign Investment Shares)

Voting Rights: one vote per share

Foreign Shareholder's Information as at 31 March 2015

Range of Shareholdings	**No. Of Shareholders**	**%**	**No. Of Shares**	**%**
100-1,000	30	1.50	27,712	0.01
1,001-10,000	1,367	68.25	6,605,267	3.30
10,001-1,000,000	588	29.35	32,693,729	16.35
1,000,001 and above	18	0.90	160,673,292	80.34
Total	**2,003**	**100.00**	**200,000,000**	**100.00**

Foreign Substantial Shareholders as at 31 March 2015
The Company has not received any notice of change of substantial shareholding of the "S" shares.

The percentage of shareholding held in the hands of public pursuant to Rule 1207(9)(e) is 27.052%, and the Company hereby confirms that Rule 723 has been complied with.

Domestic Substantial Shareholders as at 31 March 2015

Name	**Direct Interests**	**%**	**Deemed Interests**	**%**
Tianjin Pharmaceutical Group Co.,Ltd.	331,111,998	44.787	–	–

INFORMATION ON SHAREHOLDING

Major Foreign Shareholder's List as at 31 March 2015

	Name	No. Of Shares	%
1	CITIBANK NOMINEES SINGAPORE PTE LTD	36,327,500	18.16
2	RAFFLES NOMINEES (PTE) LIMITED	35,018,600	17.51
3	PHILLIP SECURITIES PTE LTD	22,718,592	11.36
4	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	13,028,900	6.51
5	OCBC SECURITIES PRIVATE LIMITED	12,394,300	6.20
6	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	7,307,300	3.65
7	DBS NOMINEES (PRIVATE) LIMITED	6,148,200	3.07
8	BANK OF CHINA NOMINEES (PTE) LTD	5,727,000	2.86
9	DB NOMINEES (SINGAPORE) PTE LTD	5,566,000	2.78
10	TAN SWEE TECK MICHAEL OR TAN TOH HEAH	3,950,000	1.98
11	HSBC (SINGAPORE) NOMINEES PTE LTD	3,275,800	1.64
12	BANK OF SINGAPORE NOMINEES PTE. LTD.	2,020,000	1.01
13	TAN SWEE TECK MICHAEL	1,350,000	0.68
14	PEH CHIN CHIONG	1,308,000	0.65
15	KUEK SIAW KIA @ QUEK SHIEW POH	1,214,000	0.61
16	LU ZU LIANG	1,200,000	0.60
17	ABN AMRO CLEARING BANK N.V.	1,118,200	0.56
18	DBSN SERVICES PTE. LTD.	1,000,900	0.50
19	HIN CHAI @ ONG HIN CHAI	866,000	0.43
20	UOB KAY HIAN PRIVATE LIMITED	730,900	0.37
	Total	**162,270,192**	**81.13**

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