中新药业
ZHONGXIN PHARMACEUTICALS

TIANJIN ZHONG XIN PHARMACEUTICAL
GROUP CORPORATION LIMITED

FORESEEING GROWTH AND PROGRESSION

ANNUAL REPORT **2018**

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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, PRC 200120

AUDITORS:

PRC Auditors:	Ruihua Certified Public Accountants
International Auditors:	RSM Chio Lim LLP

BOARD OF DIRECTORS:

Chairman:	Mr. Li Liqun
Executive Directors:	Ms. Yu Hong, Mr. Wang Mai
Non-executive Director:	Ms. Yan Min
Independent and Non-executive Directors:	Mr. Timothy Chen Teck Leng, Mr. Vincent Toe Teow Heng, Mr. Qiang Zhiyuan
Secretary to the Board:	Mr. Wong Gang (Singapore), Ms. Jiao Yan

SUPERVISORY COMMITTEE:

Supervisors:	Mr. Zhao Zhibin, Ms. Guo Xiumei

SENIOR EXECUTIVES:

General Manager:	Ms. Yu Hong
Deputy General Manager:	Mr. Zhang Jian
Deputy General Manager and Chief Engineer:	Mr. Zhou Hong
Deputy Chief Accountant:	Ms. Niu Shengfang

AUDIT COMMITTEE:

Chairman:	Mr. Timothy Chen Teck Leng
Members:	Mr. Vincent Toe Teow Heng, Mr. Qiang Zhiyuan

STRATEGY COMMITTEE:

Chairman:	Mr. Li Liqun
Members:	Ms. Yu Hong, Mr. Qiang Zhiyuan

NOMINATION COMMITTEE:

Chairman:	Mr. Qiang Zhiyuan
Members:	Mr. Vincent Toe Teow Heng

REMUNERATION COMMITTEE:

Chairman:	Mr. Vincent Toe Teow Heng
Members:	Mr. Timothy Chen Teck Leng

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"). Boasting a long history, the Company is a national high and new-tech enterprise featuring innovation in Chinese traditional medicine. It was listed on the Singapore Exchange in 1997 and on the Shanghai Stock Exchange in 2001.

With green Chinese traditional medicine as its core business, Zhong Xin Pharmaceutical is equipped with a complete industry chain, product chain and talent chain integrating production, management and scientific research. Its business covers a number of areas including research, development and manufacturing of Chinese herbal medicines, proprietary Chinese medicines, chemical raw materials and preparations and nutritional and health products as well as pharmaceutical commerce. The Company has 25 branches, 17 wholly-owned and controlled subsidiaries or entities and six investees. Its two major business segments are complementary to each other, laying a solid foundation for the steady development of the Company and allowing Zhong Xin Pharmaceutical to rank among quality listed companies in recent years. Da Ren Tang (达仁堂), Le Ren Tang (乐仁堂), Long Shun Rong (隆顺榕) and other time-honoured Chinese brands and trademarks under Zhong Xin Pharmaceutical have all won the title of "Famous Chinese Trademark". "Song Bai" (松柏) brand of the Sixth Chinese Medicine Plant, an iconic modern Chinese medicine enterprise, has also been awarded the title of "Famous Chinese Trademark". The Company has become a leading enterprise in the protection of time-honoured Chinese brands.

Upholding the development philosophy of "inheriting the essence of Chinese medicine development and caring for healthy and quality life" and the corporate spirit of "inheritance and innovation", Zhong Xin Pharmaceutical is devoted to innovative research, development and manufacturing of general-purpose, good-quality, high-efficiency and quick-acting medicines with innovation in Chinese traditional medicine playing a commanding role in its business development ideas. It has obtained certificates of approval for 499 medicines belonging to 17 types of preparations, two of which are China's treasure-class Chinese traditional medicines. Suxiao Jiuxin Wan (速效救心丸) which was invented by Professor Zhang Chengui, senior consultant of Zhong Xin Pharmaceutical and honorary director of its technology centres as well as a

famous expert in Chinese medicine preparations in China, is a national classified variety. In addition, Jing Wan Hong (京万红) is a national protected variety. The Company has five product varieties being Chinese medicines protected by the State, 94 product varieties being exclusively produced by the Company, 75 product varieties being included in the National Essential Medicine Catalogue, 601 product varieties being processed Chinese medicine and 216 product varieties being covered by national medical insurance. Zhong Xin Pharmaceutical has a nationwide marketing network and many of its quality products, enjoying a high reputation, are exported to over 20 countries and regions around the world.

The Company has one national-level enterprise technology centre, five municipality-level enterprise technology centres, one municipality-level modern technological engineering centre on Chinese medicine and a key enterprise laboratory as well as postdoctoral workstations approved by the Ministry of Personnel. It has 1,222 patents, 738 of which are invention patents. It has six famous Chinese trademarks, namely Da Ren Tang, Le Ren Tang, Long Shun Rong, Song Bai, Jing Wan Hong and Bi Qi (痹祺), as well as four national-level and nine Tianjin-level representative intangible cultural heritage projects. After years of practices and explorations, the Company has integrated and optimised the world's most advanced Chinese

medicine equipment and technology to form an integrated modern Chinese medicine development platform unique to Zhong Xin Pharmaceutical. It implements the GAP, GLP, GCP, GMP and GSP series of standards on a full scale and carries out quality control throughout the process to ensure the safety and efficacy of its products.

Zhong Xin Pharmaceutical has always dedicated its career to healthcare, harmony, integrity and responsibility, resolutely marching towards the strategic positioning of being the "promoter of a sound China, guardian of national health and leader in scientific Chinese medicine". In the market environment, the Company actively establishes and intensifies the awareness of social responsibility and the concept of sustainable development, vigorously optimising the supply chain and streamlining business operations, continuously improving efficiency and saving resources, balancing stakeholders' expectation and long-term sustainable development planning, strictly complying with the laws and regulations of countries and regions where it operates, adhering to environmental protection, abiding by social morality and business ethics, and earnestly integrating social responsibility and sustainable development into the ordinary course of business. It will always be the Company's conscious pursuit in its development process to uphold the good traditions of the Chinese people, observe the objective law of business development, and promote harmony between business development and social progress.

EQUITY STRUCTURE OF THE COMPANY

- 43.066% Tradable state shares with limit on sale (Tianjin Pharmaceutical Group Co. Ltd)
- 30.531% Tradable LP shares with limit on sale
- 26.012% Overseas public shares
- 0.391% Domestic public shares

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

(25 branch companies)

- Long Shun Rong
- Le Ren Tang
- Da Ren Tang
- No. 6 Chinese Medicine Plant
- Zhongxin 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

(17 wholly-owned or controlled subsidiaries)

- Tianjin Da Ren Tang Jinwanhong Pharm (52%)
- Tianjin Shin Poong Pharmaceutical (55%)
- Binhai Zhongxin Pharm Co. Ltd. (53.6%)
- Beijin Zhongxin Yaogu Medicine Co. (100%)
- Zhongxin Bohai Rim Pharm Co. (100%)
- Tianjin Zhongxin Pharm Guowei Medicine Co. (51%)
- Tianjin Zhongxin Pharmaceutical Group Xuzhi Medical Science and Technology Co., Ltd. (51%)
- Tianjin Da Ren Tang (Bozhou) Chinese Medicine Co., Ltd. (100%)
- Zhejiang Zhongxin Chuang Rui Investment Co., Ltd. (100%)
- Tianjin Hebei Darentang Hospital Co., Ltd. (100%)
- Tianjin Chinese Medicinal Slices Co., Ltd (100%)
- Tianjin Zhongxin Chuyun Trading Co. (100%)
- Tianjin Xin Long Pharm Ltd (51%)
- Tianjin Long Shun Rong Dev. Pharm Co. (100%)
- Anguo Xinlong Chinese Herbal Medicine Co., Ltd. (100%)
- Tianjin Zhong Xin Xinxin Pharmaceutical (Cang Zhou) Co., Ltd. (100%)
- Tianjin Zhong Xin International Trading Co., Ltd. (100%)

(9 associates with minor stake)

- Sino-American Tianjin SmithKline & French Lab., Ltd. (25%)
- Tianjin Yiyao Printing Co. (35%)
- Tianjin Bio-chip Co. (26.4%)
- NewScen Coast Bio-Pharmaceutical Co., Ltd. (26.3%)
- Tianjin Hong Ren Tang Pharmaceutical Co., Ltd. (40%)
- Dujiangyan Zhong Xin Chinese Herbs Cultivation Co., Ltd. (30%)
- Chengdu Zhongxin Pharmaceutical (51%)
- Chengdu Zhongxin Chain Store Co., Ltd (51%)
- Zhongxin Pharmaceutical Tangshan Xinhua Co., Ltd. (51%)

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. Li Liqun	58	9-2-302 Huaxin Apartment Huachang Ave, Hedong District, Tianjin, PRC	Chairman of Board of Directors
Ms. Yu Hong	44	24-5-501 Yicheng Apartment Youyi Road, Hexi District, Tianjin, PRC	Executive Director and General Manager
Ms. Yan Min	49	8-1-402 Haida Mingyuan Apartment Jinzhonghe Ave, Hebei District, Tianjin, PRC	Non-executive Director
Mr. Wang Mai	48	2-1-302 Huimingyuan Apartment Heping District Tianjin, PRC	Executive Director
Mr. Timothy Chen Teck Leng	64	46, Meyer Road, #03-03, Singapore 437871	Lead Independent and Non-Executive Director
Mr. Vincent Toe Teow Heng	50	9 Temasek Boulevard, #38-02 Suntec Tower 2, Singapore 038989	Independent and Non-Executive Director
Mr. Qiang Zhiyuan	62	#25 Zhujiang Road, Hexi District, Tianjin, PRC	Independent and Non-Executive Director

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

Mr. Li Liqun had previously held the following positions: deputy secretary of the Party Committee and the No. 101 workshop supervisor of Tianjin Pharmaceutical Company, general manager and deputy secretary of the Party Committee of Tianjin Tianyao Pharmaceutical Co., Ltd, chairman of the board of Tianjin Wanning Health Products Co., Ltd, chairman of the board of Tianjin Gesibao Medicine Industry Co., Ltd, secretary of the Party Committee, secretary of the Disciplinary Committee and chairman of the Union of Tianjin Jinyao Group Co., Ltd, secretary of the Party Committee, secretary of the Disciplinary Committee and chairman of the Union of Tianjin Pharmaceuticals Group Co., Ltd, deputy chairman of the board of Lier Chemical Co., Ltd. From December 2013 to November 2015, he was appointed as chairman of the board of Tianjin Tianyao Pharmaceutical Co., Ltd. From December 2015 to August 2017, he was appointed as employee supervisor and Chairman of the board of supervisors of the Company. Since September 2015, he holds office as secretary of the Party Committee of the Company.

DIRECTORS

Ms. Yu Hong, born in April 1974, graduated from Tianjin University of Finance and Economic and now holds a master degree in 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 February 2018, she held the Director of the Finance Department of Tianjin Pharmaceutical Group Co., Ltd. From December 2012 to 15 March 2018, she was the member of the supervisory committee of the Company.

Ms.Yan Min, senior accountant, with bachelor degree and MBA, was appointed as the manager of the finance department of the Company from December 2009 to May 2014, the deputy chief accountant and the manager of the finance department of the Company since May 2014, and the assistant general manager of the Company since November 2014.

Mr. Wang Mai, born in August 1970, is an economist and holds a postgraduate and doctorate degree. From September 2004 to August 2014, he was appointed as the vice manager and manager of Tianjin Tianfa Pharmaceutical Import & Export Co., Ltd. From October 2006 to June 2017, he was appointed as the vice manager and manager of USA Dasheng Trading Technology Co., Ltd. From November 2010 to December 2012, he was appointed as the vice manager and board secretary of Tianjin Tianyao Pharmaceutical Co., Ltd. From December 2012 to December 2013, he was appointed as the assistant to general manager of Tianjin Pharmaceutical Company. From December 2012 to August 2014, he was appointed as the manager of Tianyao Medicine Sales Co., Ltd. of the Tianjin Jinyao Group. From December 2013 to June 2016, he was appointed as the vice manager of the enterprise management department of Tianjin Pharmaceutical Company. Since June 2017, he holds office as the chairman of the Union and the director of the organization department of the Company.

Mr. Timothy Chen Teck Leng, our Lead 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 was 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.

RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

DIRECTORS

Mr. Chen is currently sitting on the board of several Singapore-listed companies. He is an independent director in Yangzijiang Shipbuilding Holdings Ltd, TMC Education Corporation Ltd., Sysma Holdings Ltd, Tyesoon Ltd and Logistics Holdings Ltd.

Mr. Vincent Toe Teow Heng, Singaporean, holds a Bachelor of Business (First Class Honours, Gold Medal) degree from the Nanyang Technological University, graduating at the top of his class, and obtained his Chartered Financial Analyst certification in 1997. Mr. Toe used to work in DBS Bank Ltd. and JP Morgan Chase & Co (investment banking division). He was formerly an Associate Director of UBS AG in Hong Kong and Singapore, in which he was actively involved in the Transport, Leisure and Hotel industries' M&A advisory in Asia. Previously, he was the director of certain companies which operates primarily in China, including but not limited to Yangzijiang Shipbuilding (Holdings) Ltd and China Sunsine Chemical Holdings Ltd. He is the independent director of Tianjin Zhong Xin Pharmaceutical Co., Ltd since May 2013. Mr Toe also is currently the CEO of a fund management company in Singapore (ICH Gemini Pte Ltd).

Mr. Qiang Zhiyuan, born of Chinese nationality in April 1956, obtained a PhD in management (accounting), and is a professor at Tianjin University of Finance and Economics, a member of the American Management Association and China Market Association, the vice president of Tianjin Science Research Association, and a senior management consultant registered with the Certified Management Consultant (CMC). He was also the former director and former deputy director of economics research centre of Tianjin University of Finance and Economics, the vice president, president and vice Chairman of Tianjin Northern Talent Co., Ltd. From June 2009 to May 2014, he was the dean in Graduate School of Modern Economics Management of Tianjin University of Finance and Economics. From August 2007 to December 2013, he was appointed as independent director in Tianjin Lisheng Pharmaceutical Co., Ltd. From June 2014 to June 2016, he was a professor in Graduate School of Modern Economics Management of Tianjin University of Finance and Economics. Since July 2016, he has served as a professor (retired) at Tianjin University of Finance and Economics. From May 2015 to present, he has been the independent director of the Company.

SUPERVISORS

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

Name	Age	Address	Current Occupation
Mr. Zhao Zhibin	39	Wanke Chengshi Garden Apartment, Hebei District, Tianjin, PRC	Supervisor
Ms. Guo Xiumei	36	16-1-1502 Wantong Xinxinyuan Apartment Binhai District Tianjin, PRC	Supervisor

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

Mr. Zhao Zhibin, born in March 1979, holds a bachelor's degree and is a Senior Policy Advisor. From July 2001 to June 2008, Mr. Zhao was an employee of Tianjin Zhong Xin Pharmaceutical Factory No. 6. From June 2008 to June 2013, he was a senior staff member of the Labour Union of Tianjin Pharmaceutical Group Co., Ltd. From June 2013 to December 2013, he was a principal staff member of the Labour Union of Tianjin Pharmaceutical Group Co., Ltd. From December 2013 to December 2014, he was the assistant to the Vice Chairman of the Labour Union of Tianjin Pharmaceutical Group Co., Ltd. From December 2014 to present, he is the Vice Chairman of the Labour Union of Tianjin Pharmaceutical Group Co., Ltd.

Ms. Guo Xiumei, born in January 1982, is an Assistant Engineer and holds a bachelor degree. From September 2006 to July 2016, Ms. Guo was the employee in the Liquid and Packaging Workshop of Long Shun Rong Pharmaceutical Factory of Zhong Xin Pharmaceutical. From July 2016 to April 2018, she was the Integrated Workshop Supervisor and held a concurrent post of Vice Chairman of the Labour Union of Long Shun Rong Pharmaceutical Factory of the Company. From December 2018 to present, she holds a concurrent post of Vice Chairman of the Labour Union of the Company.

RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

MANAGEMENT

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

Name	Age	Address	Current Occupation
Ms. Yu Hong	44	24-5-501 Yicheng Li Youyi Road Hexi District Tianjin, PRC	General Manager
Mr. Zhang Jian	55	5-A-403 Changshou Apartment House Rongye Ave, Heping District, Tianjin PRC	Vice General Manager
Mr. Zhou Hong	48	3-4-101 Yibo li, Hongqiao District, Tianjin, PRC	Vice General Manager and Chief Engineer

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

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

Mr. Zhou Hong is a senior engineer and holds a master's degree in 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 of Tianjin Zhong Xin Pharmaceutical Factory #6. From December 2007 to January 2010, he held the position of Deputy Director. From January 2010 to July 2011, he was promoted to the Executive Deputy Director. From July 2011 to date, he is the Director and Executive Deputy Secretary of Tianjin Zhong Xin Pharmaceutical Factory #6. From December 2012 to present, he is working as the Director of the Company. From March 2017 to October 2017, he was an assistant to the General Manager of the Company. From October 2017 to present, he is the deputy general manager and chief engineer of the Company.

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

DEAR SHAREHOLDERS,

The year 2018 marked the beginning of the implementation of the spirit of the 19th National Congress of the Communist Party of China (NCCPC). It was also the first year of the "three-year multiplication" plan of Zhong Xin Pharmaceutical. Over the past year, upholding the banner of Xi Jinping's socialism with Chinese characteristics for the new era, Zhong Xin Pharmaceutical earnestly studied, publicised and implemented the spirit of the 19th NCCPC and firmly established the "four consciousnesses", thoroughly ensuring that the Party supervises its own conduct and enforces strict discipline on a full scale, adhering to high-quality development, firmly establishing a market-oriented philosophy, and vigorously implementing innovation, transformation and upgrading to promote the healthy and sustainable development of the Company.

I. The quality of economic operation steadily improved and sustained growth in operating performance was achieved

In 2018, the Company adhered to the work objectives for a "high standing, high base, broad layout and fast selling". As a result, the Company's overall operating level and operational efficiency were effectively improved, and the established work objectives were well accomplished. The Company's results achieved in business operations are mainly reflected in the following aspects:

1. Innovating marketing models to promote the growth in sales

In 2018, the Company's sales companies actively responded to the two-invoice system in intensifying academic promotion among iconic hospitals in the medical market, focusing on the strategic cooperation of chain pharmacies in the development of retail markets, expanding coverage of end users, and winning patient recognition through strengthening patient services, thus recording an annual sales revenue of Suxiao Jiuxin Wan amounting to over RMB1 billion. Adhering to the quality marketing concept, Da Ren Tang divided its business into five major sectors to create a new marketing model. Qingfei Xiaoyan Wan (清肺消炎丸) and Huxiang Zhengqi Soft Capsule (藿香正气软胶囊) achieved a year-on-year growth of 35.33% and 22.78% respectively in annual sales. The Sixth Chinese Medicine Plant accelerated transformation of the profit model of its self-operated varieties and strengthened strategic cooperation with the top 100 chains, recording a year-on-year growth of 52.1% in the annual sales of self-operated varieties.

2. Integrating superior resources to build a shared platform

Firstly, the Company set up a commercial and terminal platform and co-organised the secondary dealer brand sales control summit with Sinopharm Group Changsha. The marketing team was designated to visit the Shaanxi-Gansu-Ningxia region to hold business matching meetings with key customers to expand the Northwest China market. Secondly, the Company built a convention and exhibition platform and participated in important conferences such as PharmaChina and the "Xi Pu Meeting" with a unified image at which the Company's overall image and comprehensive strength was displayed. Thirdly, the Company set up a publicity and promotion platform and cooperated with the design company Dongdao on redesigning the visual identification system to upgrade the Company's external image. Attempts in e-commerce operation were made, and "Zhong Xin Pharmaceutical Product Zone" was put online on the Kangaiduo platform for sales.

3. Seizing market opportunities to strengthen the commercial segment

Actively responding to the market changes brought about by policies such as the "two-invoice system" and the "drug ratio policy", the Company cooperated with suppliers on appropriate quarterly pegged price bargaining work, screening high-quality varieties with high gross profit and great potential, and seizing the qualification for distribution. End customer activities were jointly carried out with suppliers to grab sales. At the same time, the Company continued to step up efforts on exploring customers. In 2018, it signed on 326 new suppliers in the commercial segment, increasing the number of suppliers to 3,136. It newly distributed 4,332 product varieties, and the number of varieties after the expansion was as many as 51,107. It developed 329 new customers and the total number of customers after the expansion was 4,409. The advantages of a comprehensive product mix, wide coverage and strong terminal were further expanded.

4. Consolidating fine management to save resources and tap potentials

The Company commenced collective procurement and took the lead in organising the collective procurement of four kinds of materials, namely alcohol, honey, PVC and aluminium foil, saving more than RMB1 million in procurement costs annually. It also took the lead in organising seven subordinate enterprises and Yiyao Printing for "package" bidding and approximately RMB2.3 million were saved in annual expenses. The Company strengthened the control of production costs, providing data support for the control of the procurement price of medicinal materials through the screening and analysis of factors accounting for the relatively high production costs of key products as a percentage of the total, thus effectively controlling production costs. Taking into account the needs of various departments, the Company pushed forward the development of projects including the office supplies procurement platform project and the HR informatisation project.

5. Strengthening financial management to improve the internal control system

The Company formulated the *Settlement Centre Management Policy* and the Standards for Funds Management Work, standardising capital flows and strengthening the management and control of funds. It carried out hierarchical financial management for controlled enterprises and targeted professional guidance, oversight and rectification supervision were implemented. The Company increased efforts to clean up accounts receivable. Throughout the year, its enterprises collected and cleaned up overdue receivables of RMB29.14 million. External audit institutions were engaged to conduct special audits of engineering projects to enhance the comprehensiveness and professionalism of internal control management.

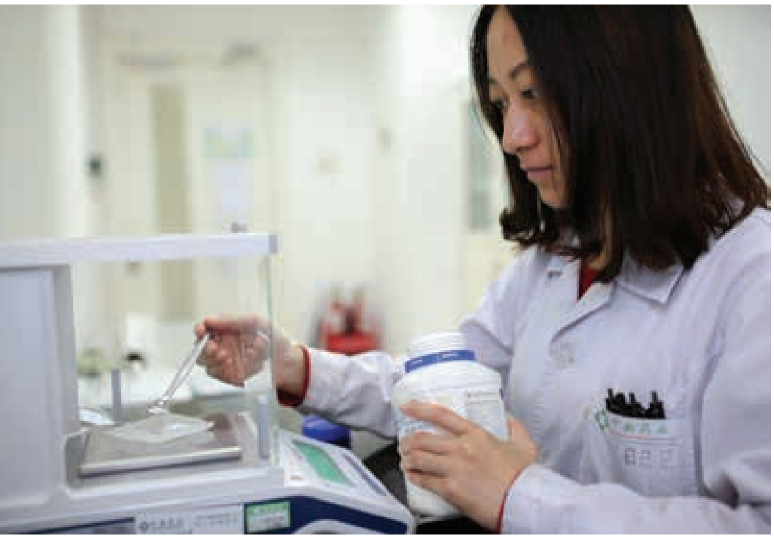
6. Reinforcing system construction to ensure safety and stability

The Company attempted to identify and quantify sources of risk to lay a good foundation for the systematic and hierarchical management of safety work. It established a sound and environmentally friendly system for the standardised management of records, which has improved the work on establishing occupational health records. Throughout the year, the Company organised 93 safety inspections to detect potential hazards which were immediately rectified.

7. Strengthening the building of corporate culture to create a harmonious and stable environment

The Company actively carried out the selection and establishment of advanced models. The Party Branch of Jianmin Pharmacy won the title of "Advanced Party Organisation at the Basic Level" of the municipality and the title of "Advanced Party Branch Pacesetter" of the Municipal State-owned Assets Supervision and Administration Commission. A total of 15 comrades in the system were rated as the "Good Pharmaceuticals Salesperson" and "Golden Worker" for pharmaceutical groups. A new image film of the Company was shot, which has further highlighted the core values and ideas of "Quality Zhong Xin". The Company intensified visiting, services

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS



marketing and other activities to promote development, listening to opinions and helping frontline marketing personnel to solve practical difficulties. It adhered to the maintenance of the legitimate rights and interests of its employees and, by offering condolences to employees in distress, providing smooth channels for democratic management, carrying out labour competitions and other ways, employees were able to share the fruits of corporate reform and development.

II. The corporate governance structure was more perfect and the interests of shareholders were effectively protected

The Company is a listed company that issues shares on both the Singapore Exchange and the Shanghai Stock Exchange. It is subject to the regulatory governance of both exchanges in Singapore and Shanghai and is required to comply with the laws and regulations of China and Singapore. The Company has always strictly followed the *Articles of Association, the Rules of Procedures of the General Meeting of Shareholders*, the *Rules of Procedures of Meetings of the Board of Directors*, the *Rules of Procedures of Meetings of the Supervisory Committee* and other regulations and policies to regulate governance. In 2018, the convening and decision-making of the Company's general meetings of shareholders, meetings of the board of directors and meetings of the supervisory committee were in compliance with relevant laws and regulations. The Company has effectively safeguarded the legitimate rights and interests of all shareholders, especially minority shareholders, from different perspectives.

The Company is committed to enhancing the quality of the listed company and improving the level of corporate governance so as to gradually perfect standardised operation. The Company has commenced a series of work in accordance with the relevant requirements of the China Securities Regulatory Commission, the Shanghai Stock Exchange and the Singapore Exchange. In 2018, the Company continued to carry out publicity activities on the protection of investors. Through multi-modal and multi-channel publicity close to the public and the market, the Company guided investors to recognise their own affordability, investment preferences and investment objectives, and achieved relatively good social effects. On 8 May 2018, the Company held the "2017 Online Performance Presentation" through online interaction. The management communicated with investors on the operating performance, profit distribution and other circumstances of the Company. On 2 November 2018, the Company held the "Investors' Exchange Tour to Zhong Xin Pharmaceutical (Sixth Plant)" event. More than 30 investors were briefed on the Company's special reports at the site. They visited the cultural exhibition hall where they interactively communicated with the participating enterprises and received product experience. The event has allowed investors and potential investors to gain a sufficient understanding of the Company's business development in a timely manner, thereby demonstrating the Company's good corporate image. To further protect the shareholders' right to obtain investment returns, the Company reviewed and approved the 2017 profit distribution plan at the 2017 Annual General Meeting of Shareholders, under which "a cash dividend of RMB2.0 (including tax) for every ten shares held amounting to cash dividends of RMB153,774,615.20 will be distributed to all shareholders based on the total share capital of 768,873,076 shares as at 31 December 2017" with the aim of paying back investors with practical actions. In 2018, the Company continued to focus on strengthening the management of insiders, and carried out insider filing and registration work and confidentiality notification work in strict accordance with the *Insider Management Policy* of the Company. In the 2018 annual report work, both the independent directors and the audit committee carried out the audit work in strict accordance with relevant policies. To sum up, in 2018, various rules and policies of the Company were effectively followed.

Based on the principles of more over less and stringency over leniency, the Company has always done a good job on information disclosure in strict compliance with the requirements of the regulatory authorities in China and Singapore. In 2018,

the Company strictly followed the *Information Disclosure Management Policy* in carrying out information disclosure work, achieving the truthfulness, accuracy, timeliness and completeness of the information announced, and ensuring the consistency of information disclosed at home and abroad. At the same time, the Company warmly welcomes investors' visits and consultations. Compliant and adequate disclosure of information has enabled the Company to strengthen communication with investors, foster the understanding and recognition of the Company among investors, maintain good relations with investors, and establish a positive image of the Company in the market.

III. Technological innovation was continuously strengthened to enhance core competitiveness

Adhering to the innovation-driven strategy, the Company accelerates product development with focus on the main business, and enhances the vitality of enterprise development with technological innovation.

1. Transforming scientific research mechanisms to stimulate scientific research

The Company focuses on the scientific research positioning of "serving production, supporting sales and leading the future" in the establishment and commencement of operation of the Zhong Xin Pharmaceutical Research Institute. In the past year, the Company conducted researches on 20 new products. Among which, Phase II clinical research on lungs-tonifying granules was kicked off; consistency evaluation work on five kinds of generic drug was carried out; argumentation of technical solutions on six secondary development projects for four large varieties with over hundred million sales were all completed; secondary development work on 17 Chinese medicine varieties proceeded according to plan, and the project research results further verified the clinical value of the products. In 2018, Suxiao Jiuxin Wan, Weichang An Wan (胃肠安丸), Qingfei Xiaoyan Wan and other varieties were selected for 14 clinical pathways and medication guidelines, laying a solid foundation for academic promotion.

2. Strengthening quality management to enhance product substance

The Company strictly implements the drug quality accountability system, strengthening the quality control and data analysis of key areas in the production and operation process to strengthen drug quality and safety firewalls. Guided by the prevention and control of problems and risks, the Company completed internal quality audit work for eight industrial enterprises and 37 commercial enterprises. It pushed forward the work on a revised version of GMP certification among enterprises in an orderly manner, and six industrial enterprises passed the GMP certification. The quality of drugs was widely recognised, with five industrial enterprises awarded the A-grade "Reassuring Medicine Plant" medal, and nine subordinate pharmacies awarded the A-grade "Reassuring Pharmacy" medal. 21 QC group projects were launched, 19 of which won the first prize for excellent quality management results published by QC groups in the national pharmaceutical industry. In the *National Essential Medicine Catalogue (2018 Edition)*, a total of 66 Chinese patent medicines and nine chemical medicines of the Company were selected, and the number of the Company's Chinese patent medicines selected accounted for nearly one-fourth of the Chinese patent medicines in the catalogue, thus consolidating the market status of the Company's products in the field of common and chronic diseases.

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

3. Focusing on the protection of property rights in developing a patent layout

The Company completed the patent navigation project, laying a solid foundation for the Company's patent layout for its major product varieties. It successfully applied for the patent promotion project of the National Intellectual Property Administration, taking control of industry-leading technological advantages through the construction of a patent layout. It also succeeded in applying for the 2018 Special Funds Project of Tianjin, and established a patent pool with focus on the award-winning patented products Long Qing Pian ("癃清片") and Weichang An Wan, stepping up efforts on the implementation and transformation of patent technology. In 2018, the Company made a total of 22 patent applications and 15 of which were invention items, including one PCT patent, nine patents, and eight invention grants. The Company was the only enterprise in Tianjin approved as the National Intellectual Property Demonstration Enterprise in 2018.

IV. The recruitment model was innovated to build talent teams

The Company adheres to the talent selection and training mechanisms featuring "high threshold for talent selection and follow-up training throughout the process" in reserving abundant human resources for the Company's development. A recruitment team of Zhong Xin was set up to take care of the recruitment work, and the starting salary standards for fresh graduates were standardised and raised to enhance the appeal to outstanding talents. In 2018, the Company employed a total of 133 official staff, an increase of 75 staff from 2017. Among them, 11 staff were graduates from Project 985, an increase of 9 staff from 2017; 17 staff were graduates from Project 211, an increase of 9 staff from 2017. The building of talent teams was strengthened. In 2018, on a company-wide basis, one employee was selected as the National Talent Inheriting Featured Technology of Traditional Chinese Medicine, one employee was included in the first level of "131 Innovative Talents Training Project" of the Tianjin Municipal Human Resources and Social Security Bureau, and one employee was selected as an expert with outstanding contribution in Tianjin.

V. Profit distribution in 2018

The Company plans to distribute cash dividends from the profits of 2018. Details of the profit distribution plan: "A cash dividend of RMB2.2 (including taxes) for every ten shares held amounting to RMB169,152,076.72 will be distributed to all shareholders based on the total share capital of 768,873,076 shares as at 31 December 2018."

VI. Significant legal disputes

Currently, the Company is not engaged in any significant legal disputes.

VII. Performance of related party transaction contracts

In 2018, the Company had related-party transactions on the purchase of goods and services with Tianjin Pharmaceutical Group Corporation, Tianjin Lisheng Pharmaceutical Co., Ltd., Tianjin Central Pharmaceutical Co., Ltd., Tianjin Hong Ren Tang Pharmaceuticals Distribution Co., Ltd., Tianjin Haoda Medical Devices Co., Ltd., Tianjin Pharmaceutical Company, Tianjin Pharmaceutical Holdings Pacific Co., Ltd., Tianjin Traditional Chinese Medicine Group Corporation Jixian Company, Tianjin Traditional Chinese Medicine Group Corporation Ninghe Company, Tianjin Taiping Longlong Pharmaceutical Co., Ltd., Tianjin Taiping Xiangyun Pharmaceutical Co., Ltd., Tianjin Processed Chinese Medicine Factory Co., Ltd., Tianjin Jinyao Pharmaceutical Development Co., Ltd., Tianjin Pharmaceuticals Group Jingyitang Chain Co., Ltd., Tianjin Pharmaceuticals Group Hongze Pharmaceutical Co., Ltd., Tianjin Yiyao Printing Co., Ltd., Tianjin Hongrentang Pharmaceutical Co., Ltd., Tianjin Institute of Pharmaceutical Research and other related companies.

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 of the SGX Listing Manual)	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)
Tianjin Pharmaceutical Group Finance Co., Ltd ("**TPGF**") (天津医药集团财务有限公司)	The interest payable on the credit facilities provided by TPGF: 2,217	0
Total	2,217	0

Note: As at 31 December 2018, placement of deposit with TPGF amounted to RMB566,619,790.

All of the aforesaid related party transactions were conducted normally and there was no related party transaction detrimental to the interests of the Company. The Company was engaged in related party transactions in the amount of more than S$100,000 as follows:

VIII. Major focus in 2019

In 2019, the Company will take the improvement of development quality and efficiency as the top priority. With the goal of multiplication over three years, it will harness the potential and vitality of all resources with innovative thinking, and further promote the Company's party-building, reform and adjustment, marketing, technological innovation, scientific management and control and other major work so as to complete all tasks for the whole year by aiming high, from a high base and at a high standard, hence creating "Quality Zhong Xin" and achieving leapfrog development.

In 2019, the Company will primarily tackle issues in the following aspects:

1. Reinforce academic thinking with focus on the transformation of achievements

Actively relying on various domestic associations, academies and organisations, the Company will specifically and strategically increase the academic exposure of key product varieties of Zhong Xin among authoritative experts in clinical academic studies, winning the recognition and trust of experts with clear clinical data and excellent product efficacy. At the same time, relying on the results of its scientific research projects, the Company will adopt effective approaches and measures to foster inclusion of its key product varieties into pathways, guidelines, programs, consensus and other authoritative catalogues and materials for clinical application, enhancing the discourse power of the Company's products in the academic circle and laying the foundation for market development.

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

2. Innovate marketing models to increase brand presence

Academic research has provided richer, clearer and more accurate data support for specialised clinical promotion. In the marketing work, the Company has to rely on the results of academic research. On one hand, it is necessary to provide practitioners with better treatment plans, greater case support and a larger number of treatment ideas and theories through academic conferences, departmental discussions and other means of academic promotion. On the other hand, it is necessary to build a platform for academic exchanges to allow more interaction among practitioners, between practitioners and consumers as well as among consumers, so that practitioners and consumers can better understand our brand and products and are tightly bonded to them, thereby enhancing brand presence and driving incremental end demand.

3. Develop featured operations for modern logistics

Taking the commencement of operation of the pharmaceutical logistics centre as an opportunity, the Company will integrate upstream and downstream resources to optimise the distribution process, and improve the awareness of service and efficiency to achieve scientific management. Capitalising on policy advantages, it will strive to obtain distribution rights for new varieties and expand efforts on medical equipment management. It will tie in the characteristics of managing retail pharmacies by category and level with the exploration of consumer-experience-oriented health consultation, medication guidance, data detection, auxiliary diagnosis and other professional pharmacy service business.

4. Adhere to the strategy of matching scientific research with the market to give full play to the advantages of resources

The Company adheres to the scientific research strategy of "taking market demand as the guide and secondary product development as the focus". Relying on the strength of experts, the Company's product varieties will be systematically sorted to form a three-year scientific research and development plan for key varieties. The Company will strive to resolve technical problems in areas including market, production and quality, and carry out a number of studies on improving processes. It will conduct 16 clinical and reassessment research studies with focus on key varieties. It will actively advance the progress in scientific research on four major varieties. It will continue to deliver good performance in the generic drug consistency evaluation work.

5. Deepen supervision on quality to consolidate the quality foundation

Giving full play to the two tier quality internal audit mechanisms for the Company and its enterprises, supervision and inspection of the rectification of defective items being implemented at the enterprises will be reinforced to ensure the quality and effectiveness of internal audit. At the same time, it will actively pay attention to national policies to normalise compliance for production and operation. The Company will strengthen quality supervision to ensure that Zhongxin Pharmaceutical Plant and Xinxin Pharmaceutical Plant will complete the GMP

re-inspection, and the processed medicine plant will complete the GSP re-inspection. It will ensure that appropriate quality management work will be carried out at commercial enterprises whose drug business license and GSP certification will expire in 2019 so as to get prepared for the renewal inspection. It will continue to implement advanced quality management methods such as QC teams and quality breakthroughs to improve the comprehensive ability and standard of production and quality management personnel while effectively solving practical problems in production and quality management.

6. Strengthen the level of management and control of the group to improve the scientific management system

Daily management processes of the Company's headquarters will be streamlined and improved. Business departments and offices will assume the responsibility for professional oversight and management, striving for more systematic, scientific-based and effective management to achieve an smooth operation and keep risks in control. Through strict implementation of its *Measures for the Management of Key Projects*, the Company will establish and improve the reasoning-based project management expertise to strengthen the scientific element and effectiveness of reasoning in the early stage of a project. It will make use of external professional expertise to increase the certainty and control over the project implementation process. The Company will enhance the development of project management professionals. Through keeping track of the management of one or two large projects, a team of project management personnel will be developed to adapt and meet the Company's project management needs in the next few years.

7. Build safety mechanisms to ensure safety and stability

A hierarchical corporate security risk management system will be established whereby enterprise security risk evaluation will be carried out to improve the nature and effectiveness of safety management. The Company's guidelines on production safety and environmental protection work will be formulated. Letters of assignment of responsibility on production and fire safety as well as environmental protection will be signed with subordinate enterprises to enhance accountability at all levels. The Company will timely replenish expert resources in production safety, fire safety, environmental protection and other areas to improve the building of expert teams. Drawing on safety management experiences, it will strengthen practical training to upgrade the production safety management capabilities. The Company will strengthen special emergency training so that in the event of a major emergency, it is able to respond immediately and manage effectively in a timely and systematic manner.

In 2019, both opportunities and challenges will be present in the Company's development process. Leading comrades and employees at all levels will implement the spirit of the 19th NCCPC and Xi Jinping's socialism with Chinese characteristics for the new era in intensifying the Party's strict self-governance. Concept of development will be updated. Urgency and consciousness of accelerating the transformation of economic development will be emphasized. Together with pioneering and innovation, these ensure that all indicators are accomplished in 2019 to achieve the strategic positioning of the Company.

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 2018 ("FY2018") was approximately RMB6,359 million, an increase of approximately RMB669 million, or 12%, from RMB5,689 million for the financial year ended 31 December 2017 ("FY2017").

(B) GROSS PROFIT MARGIN:

The Group's gross profit in FY2018 increased by approximately 20% from approximately RMB2,144 million in FY2017 to approximately RMB2,565 million. Gross profit margin increased from 38% in FY2017 to 40% in FY2018.

(C) OTHER OPERATING INCOME:

Other gains in FY2018 were approximately RMB40 million, a decrease of approximately RMB56 million over the previous year, which was RMB96 million. The decrease in other gains was mainly due to gain on disposal of equity interest of Tianjin Sinobioway Biomedicine Co., Ltd in the previous year.

(D) MAJOR EXPENSES:

(i) Marketing and Distribution costs in FY2018 was approximately RMB1,699 million, an increase of approximately RMB273 million, or 19% over the previous year. The increase in major expenses was due mainly to the increase in sales promotion expenses.

(ii) Research and Development costs in FY2018 increased by approximately RMB21 million, to approximately RMB101 million. This was mainly due to expenditure on generic drug evaluation.

(iii) Administrative expenses in FY2018 increased by approximately RMB2 million, from approximately RMB289 million in FY2017 to approximately RMB291 million.

(iv) Finance costs in FY2018 increased by approximately RMB2 million or 14% from approximately RMB12 million to approximately RMB14 million.

(v) Other losses in FY2018 increased by approximately RMB5 million, from approximately RMB29 million in FY2017 to approximately RMB34 million.

(E) SHARES OF RESULTS OF ASSOCIATED COMPANIES:

The Group's share of results of associated companies in FY2018 increased by RMB44 million, or 37%, from approximately RMB119 million in FY2017 to approximately RMB163 million. This was mainly due to the increase in profits of Sino-American Tianjin Smithkline & French Lab., Ltd and Tianjin Hong Ren Tang Pharmaceutical Co., Ltd in FY 2018 increased compared to FY2017.

(F) TOTAL COMPREHENSIVE INCOME:

The Group's total comprehensive income (net of tax) in FY2018 was approximately RMB561 million, an increase of 20% over the previous year. The total comprehensive income attributable to equity holders of parent (net of tax) in FY2018 was approximately RMB555 million, an increase of approximately RMB83 million, or 18%, from FY2017.

(G) MAJOR CHANGES IN STATEMENT OF FINANCIAL POSITIONS:

As at 31 December 2018, the Group's cash and cash equivalents amounted to approximately RMB1,467 million, which is an increase of approximately RMB475 million, or 48% over previous year. As at 31 December 2018, the Group's short-term borrowings were approximately RMB252 million, which is a decrease of approximately RMB244 million, or 49% over previous year.

Trade and other receivables amounted to approximately RMB1,729 million at 31 December 2018, which is an increase of approximately RMB187 million, or 12% over previous year. Bills receivable increased by approximately RMB118 million. Trade receivables increased by approximately RMB70 million. Other receivables decreased by approximately RMB0.6 million. Inventories increased by 20% to approximately RMB1,328 million.

Other current assets decreased by approximately 9% or RMB19 million to approximately RMB203 million as at 31 December 2018.

Investments in associates increased by approximately RMB68 million to approximately RMB631 million, which is mainly attributable to the higher profits of associates.

Property, plant and equipment increased by approximately RMB124 million or 12% to RMB1,120 million.

(H) CHANGES IN CASH FLOW POSITION:

In FY2018, the Group recorded net cash inflow from operating activities of approximately RMB339 million.

Cash inflow from investment activities was approximately RMB402 million in FY2018.

Cash outflow from financing activities was approximately RMB261 million in FY2018.

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.

In 2018, challenges in the external environment have exerted downward pressure on China's economy and triggered changes in the financial market. Under policy reforms in the pharmaceutical industry, the Company undergo reforms with improving quality and efficiency as the goal to ensure steady implementation of key tasks.

The Company achieved annual revenue of RMB6.359 billion, a year-on-year increase of 12%. Sales of 11 major product groups reached RMB2.406 billion, a year-on-year increase of 28%. This was evident in the newly introduced products Qingyan Pills, Huoxiang Zhengqi Capsule and Tezacef which together with 4 other products, achieved sales of over RMB100 million each.

With focus on its core business, while increasing sales, the Company also seeks to control its expenditure. Emphasis was made on boosting sales of its manufactured products to increase profitability. Total comprehensive income achieved was RMB561 million, a year-on-year increase of 20%. Total comprehensive income attributable to the parent company was RMB555 million, an increase of 18% over last year.

With optimal operating results, the Company strengthened its fund management which enhances its solvency and ability to withstand risks. Net cash inflow from operating activities for the year was RMB339 million, an increase of 353 million yuan. The Company's debt asset ratio at the end of the year is 29%.

In 2019, development will continue with improvement in quality and efficiency as the top priority through innovative use of its resources from the following key tasks:

1) Marketing: strengthen marketing and improve results of clinical trials; academic promotion to drive sales growth; innovate marketing to enhance branding; achieve optimal flow from production to market.

2) Innovation: accelerate the construction of research institutes, enhance innovation; optimum use of its resources to meet market demand; raise quality standards.

3) Management and control: effective match between production and sales; effective tracking to ensure product quality; strengthen project and risk management; build mechanism to ensure product safety and operational stability.

In the future, the Company will continue with its development towards operational efficiency through innovative use of its resources. High standards are set for its course towards becoming a high quality Company and at the same time, contributes to the national goal of a healthy nation.

WORK REPORT OF THE BOARD OF SUPERVISORS

DEAR SHAREHOLDERS:

In FY2018, in accordance with the *Company Law, Securities Law, Rules Governing the Listing of Stocks on 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*, the board of supervisors of Tianjin Zhongxin Pharmaceutical Group Corporation Limited conscientiously performed their duties and responsibilities to safeguard the interests of shareholders and the Company and carried out their work with reasonable care, diligence and initiation following the principle of good faith.

In 2018, the board of supervisors held a total of nine meetings at which the 2017 annual report, 1Q2018 report, 2018 interim report, 3Q2018 report, *2017 Profit Distribution Plan of the Company, 2017 Internal Control Assessment Report of the Company, Resolution on the Extension of Performance of Undertakings by Controlling Shareholder Tianjin Pharmaceuticals Group Co., Ltd., Resolution on the Company's Write-off of Assets and Allocation of Provisions for Impairment of Assets in 2017, Resolution on the Company's Continued Use of Some Idle Proceeds for Temporary Replenishment of the Company's Liquidity, Resolution on the Changes in Shareholding Structure of Some Implementing Entities for the Investment Projects and Amount of Proceeds Investment, Resolution on the Changes in Some Proceeds Investment Projects, Resolution on the Company's Implementation of the Newly Amended Accounting Standards by the Ministry of Finance in 2017* and other matters were considered. At the same time, the board of supervisors attended meetings of the board of directors and the annual shareholders' general meeting of FY2018 to exercise supervision of the Company's operations according to law.

The board of supervisors is of the view that the Company's directors were capable of carrying out regulated operations and making reasonable business decisions in strict accordance with the *Company Law, Securities Law*, Shanghai Stock Exchange's *Rules Governing the Listing of Stocks*, Singapore Exchange's *Listing Manual*, *Articles of Association* as well as other legal and regulatory requirements, therefore internal controls have been further strengthened and improved. In carrying out their duties, the Company's directors and senior management personnel were not in breach of any laws and regulations and the *Articles of Association*, nor did they cause any damage to the interests of the Company. The Company's board of directors had given full play to the role of independent directors, paying attention to the protection of the legitimate rights and interests of minority shareholders. In 2018, the Company continued to focus on strengthening insider management work to ensure that the registration of insider files and the notification of confidentiality obligations are properly done in strict accordance with *Insider Management System*. In accordance with the instructions and requirements of the *Circular on Further Implementing Matters Concerning Cash Dividends of Listed Companies* of the China Securities Regulatory Commission, the Company reinforced the sense of return to shareholders and established a scientific, sustainable and stable profit distribution policy aiming at safeguarding the legitimate rights and interests of investors. The 2017 profit distribution plan and cash dividend program was successfully implemented in July 2018. Prices of related transactions carried out between the Company and related parties through regular trade were fair and reasonable and the development of contracts on related transactions were rational and legitimate without damaging the interests of the listed company. The Company's decision-making and review procedures for matters concerning the use of proceeds were in compliance with laws and regulations. There were no cases of changes or covert changes in the use of proceeds and damage to the interests of the Company and shareholders, particularly minority shareholders.

The board of supervisors has inspected and examined the Company's financial systems and conditions and we believe that the Company's 2018 financial report has truly and accurately reflected the Company's financial conditions and operating results. The audit opinions issued by Ruihua Certified Public Accountants and RSM Chio Lim LLP for the Company in accordance with the China Accounting Standards and the International Financial Reporting Standards respectively as well as the evaluation of the matters involved were objective and fair.

The board of supervisors is of the view that, in FY2018, the Company was better in achieving the established targets and a stable performance was maintained. At the same time, the overall quality of the Company's operations was significantly improved which has laid a solid foundation for the Company's sustainable development. We believe that, under the leadership of the board of directors and with the efforts of the management, the Company would certainly make greater progress in 2019 and give better returns to shareholders.

ZHAO ZHIBIN
The Board of Supervisors

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 ended 31 December 2018 ("FY2018"), with specific references made to the Code.

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. In particular, the Board is also responsible for the following:

(a) Establishing a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders' interest and the Company's assets;

(b) Identifying key stakeholder groups and recognising that their perceptions affect the Company's reputation;

(c) Setting the Company's values and standards (including ethical standards), and ensuring that obligations to shareholders and other stakeholders are understood and met; and

(d) Considering sustainability issues as part of its strategic formulation.

In the course of carrying out their duties and responsibilities, all Directors are expected to consider at all times the interests of the Company. For FY2018, the Board is satisfied that all Directors have indeed discharged their duties objectively and sufficiently.

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 Board Committees function within clearly defined written 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 of Association provide for the Board and its Board Committees to decide on matters by way of circular resolution. The Articles of Association of the Company also provide for Board members to participate in meetings via telephone or video conferencing.

CORPORATE GOVERNANCE STATEMENT

Matters Requiring Board Approval

The Directors have identified a number of areas for which the Board has direct responsibility for decision-making. In this relation, there are internal guidelines adopted by the Group which govern the matters that require Board's approval. Amongst others, the Board meets for the following matters:

- review and approval of quarterly and annual results and earnings announcements;
- review and approval of annual report and accounts;
- consider the declaration of dividends;
- convening of shareholders' meetings;
- review and approval of corporate strategies;
- review and approval of material acquisitions and disposals exceeding 2% of the Group's net tangible assets ("**NTA**") value; and
- review and approval of any material investment and/or borrowing exceeding 2% of the Group's NTA.

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

Access to Information

Directors are furnished with adequate and updated information concerning the Group by the management in a timely and orderly fashion, in order to keep them informed of the operations and performance of the Group and the decisions and actions of the executive management. In respect of budgets, sufficient disclosure and explanation will be provided to the Board if there are any material variance between the projection and the actual results. 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 secretaries to the Board ("**Board Secretaries**") attends all Board meetings and are responsible to ensure that established procedures and all relevant statues and regulations which are applicable to the Company are complied with. All Directors have separate and independent access to the Board Secretaries, whose appointment and removal are subject to the Board's approval as a whole.

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.

CORPORATE GOVERNANCE STATEMENT

Directors' Meetings held in 2018

During FY2018, the Board had held 8 meetings, and the Directors' attendance at these meetings are as follows:

Name of director	Number of Board Meetings held	Attendance
Li Liqun	8	8
Yu Hong[1]	5	5
Yan Min	8	8
Zhou Hong[2]	8	8
Timothy Chen Teck Leng	8	8
Vincent Toe Teow Heng	8	8
Qiang Zhiyuan	8	8
Wang Lei[3]	3	0
Wang Mai[4]	–	–

Notes:

1. Ms. Yu Hong was appointed as an Executive Director with effect from 15 May 2018.
2. Mr. Zhou Hong ceased to be an Executive Director with effect from 12 March 2019.
3. Ms. Wang Lei ceased to be an Executive Director with effect from 15 May 2018.
4. Mr. Wang Mai was appointed as an Executive Director with effect from 12 March 2019.

Training of Directors

A formal letter of appointment setting out the duties and obligations expected of a director of the Company is provided to every new director. The Company will also provide comprehensive training and orientation programmes for any newly appointed director to the Board so that new directors are acquainted with the business, strategic plans and corporate governance practices of the Company. Where appropriate, such new directors will also receive training in areas relating to accounting, legal and other industry-related topics. The Company's new directors are also invited to visit the Group's operational facilities and to meet with management to gain a more in-depth understanding of the Group's business and operations.

As the Company places great value in promoting continuing education, the Directors are encouraged to participate in discussions with, or seminars or presentations conducted by, professionals to keep themselves updated on the latest changes and developments concerning the Group and keep abreast of the latest regulatory changes.

The Company believes that it is for the betterment of the Group if the Directors are kept updated and well-informed. As such, all costs arising from the aforementioned training activities are borne by the Company.

CORPORATE GOVERNANCE STATEMENT

Board Composition and Balance

Presently, the Board comprises 4 Executive Directors, and 3 Independent Directors. The participation of the Directors in the various Board Committees are as follows:

Name of Director	Appointed on	Date of last re-election	Board	Audit Committee	Strategy Committee	Remuneration Committee	Nominating Committee
Li Liqun	10 October 2017	N.A.	Chairman		C		
Yu Hong	15 May 2018	N.A.	Executive Director		M		
Yan Min	16 May 2016	N.A.	Non-Executive Director				
Wang Mai	12 March 2019	N.A.	Executive Director				
Timothy Chen Teck Leng	15 May 2014	15 May 2017	Lead Independent and Non-Executive Director	C		M	
Vincent Toe Teow Heng	15 May 2013	16 May 2016	Independent and Non-Executive Director	M		C	M
Qiang Zhiyuan	15 May 2015	15 May 2018	Independent and Non-Executive Director	M	M		C
Former Directors							
Wang Lei[1]	15 May 2015	N.A.	Executive Director		M		
Zhou Hong[2]	18 December 2012	22 December 2015	Executive Director				

Notes:

1. Ms. Wang Lei ceased to be an Executive Director with effect from 15 May 2018.
2. Mr. Zhou Hong ceased to be an Executive Director with effect from 12 March 2019.

Taking into account *inter alia* the nature and scope of the Group's operations, the requirements of the Group's businesses and the need to avoid undue disruptions from changes to the composition of the Board and its Board Committees, the Board is of the view that the current size of the Board is appropriate for the time being for facilitation of effective decision-making on the part of the Board. In addition, the current Board members comprise persons whose diverse skills, experience and attributes provide for effective direction for the Group as each Director with his/her special contributions brings to the Board an independent and objective perspective to enable balanced and well considered decisions to be made. There is also some gender diversity as there are 2 female Directors on the Board.

The profile of each of the Directors is disclosed in the "Resumes of Directors, Supervisors and Senior Managers – Directors" section of this Annual Report. In addition, the Directors proposed for appointment, re-election or re-appointment at the forthcoming annual general meeting ("**AGM**") is set out in the notice of AGM dated 29 March 2019, and information relating them as required under Appendix 7.4.1 of the Listing Manual is set out at the end of this report, in accordance with Rule 720(6) of the Listing Manual.

CORPORATE GOVERNANCE **STATEMENT**

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/her responsibilities; and
- the Board should comprise members with varied core competencies in management experience, strategic planning, accounting and finance, and industry knowledge, and diverse backgrounds 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. Keeping in mind the need for Board diversity, in identifying director nominees, the Nominating Committee will consider factors such as gender, age, ethnicity and other relevant factors, in addition to skills, background and experiences.

Taking into consideration the requirements of the China Securities Regulatory Commission, Shanghai Stock Exchange and the SGX-ST, the Board will use its best endeavours to meet the requirement for independent directors to make up at least half of the Board.

Independent Members of the Board of Directors

The Board of Directors has 3 independent members: Mr. Timothy Chen Teck Leng, Mr. Vincent Toe Teow Heng and Mr. Qiang Zhiyuan. 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 business judgment with a view to the best interests of the Company.

Pursuant to Article 14 under the "Guidelines of Filing and Training for Independent Director in the Listed Companies" promulgated by the Shanghai Stock Exchange in 2010, an independent director cannot serve on the board of a listed company for more than 6 years. As the Company adheres to this Article 14, it does not have, and will not have, any independent director who has served on the Board for more than 9 years.

Board Guidance

The Board and management believes that an effective and robust Board is fundamental to good corporate governance. As such, the Board members continually engage in open and constructive discussions and debate and the Board, in particular its Independent Directors and Non-Executive Directors, are updated and kept well informed of the Company's business and the industry in which such business operate. This enables the Directors to offer new perspectives and insights and specifically, facilitates Independent and/or Non-Executive Directors to constructively challenge and help develop proposals on strategy.

In addition, the Independent and/or Non-Executive Directors also review the performance of management in achieving predetermined goals and objectives and monitor the reporting of the management's performance. Whenever necessary, the Independent and/or Non-Executive Directors will also meet privately without the presence of management.

CORPORATE GOVERNANCE STATEMENT

Chairman and Chief Executive Officer

The Group keeps the roles of the Chairman and CEO separate. In this regard, there is a clear division of responsibilities between the Chairman and the CEO, which ensures that there is a balance of power and authority at the top of the Group.

Mr Li Liqun is the Executive Chairman of the Board. The Executive Chairman is responsible for leading the Board in mapping the strategic direction of the Group. For this purpose, he strives to foster a culture of openness and debate within Board members, maintain open channels of communication with management, and monitor the implementation and execution of the Board's decisions and directions. The Executive Chairman also approves the agendas for the Board meetings and ensures adequate amount of time is set aside for thorough discussion of each agenda item.

Ms. Yu Hong was appointed as the General Manager on 19 March 2018. She has over 20 years' experience in the pharmaceutical industry. Ms. Yu Hong's responsibilities include overseeing the Group's overall operations, general management, investment, business development and strategic planning. The Chairman and the General Manager are not related.

To promote effective communication with shareholders of the Company, the Executive Chairman also ensures that there is constructive and meaningful dialogue between the shareholders, Board and management at AGMs or other general meetings of the Company.

With the full support of the Directors, Board Secretaries and management, the Executive Chairman also takes charge in ensuring that the Company achieves and maintains high standards of corporate governance.

The Executive Chairman is assisted by the General Manager's Executive Meeting. Members attending the General Manager's Executive Meeting for FY2018 include: General Manager Ms. Yu Hong, Deputy General Manager Mr. Zhang Jian, Deputy General Manager and Chief Engineer Mr. Zhou Hong and Chief Financial Officer Ms. Yan Min. 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.

3 out of 7 Directors are Independent 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 each of them is chaired by an Independent Director, would provide for a balance of power and authority within the Board.

Lead Independent Director

In view that the Executive Chairman is part of the management team, and the Chairman is not an independent director, the Board has appointed Mr. Timothy Chen Teck Leng as Lead Independent Director to head and coordinate the activities of the Independent Directors, including but not limited to Independent Directors' meetings. Shareholders have access to the Lead Independent Director where they have concerns and for which contact through the normal channels of the Executive Chairman or Chief Financial Officer or the Supervisory Board has failed to resolve or is inappropriate. As Mr. Chen is the most experienced amongst all the Independent Directors, the Board is of the view that he is the most suitable choice for the role of Lead Independent Director.

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The Independent Directors, led by the Lead Independent Director, will meet amongst themselves without the presence of the other Directors where necessary, and the Lead Independent Director will provide any suggestion or feedback to the Executive Chairman after such meetings.

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. The Strategy Committee is currently chaired by Mr. Li Liqun and its other members are Ms. Yu Hong and Mr. Qiang Zhiyuan. The Strategy Committee is 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 at 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
Li Liqun	Executive Chairman	1	1
Yu Hong[1]	Executive Director	1	1
Wang Lei[2]	Executive Director	0	0
Qiang Zhiyuan	Independent Director	1	1

Notes:
1. Ms. Yu Hong was appointed as an Executive Director with effect from 15 May 2018.
2. Ms. Wang Lei ceased to be an Executive Director with effect from 15 May 2018.

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. Qiang Zhiyuan. All the members of the Audit Committee are Independent and Non-Executive Directors of the Company. None of the members of the Audit Committee were previous partners or directors of the Company's existing auditing firms, Ruihua Certified Public Accountants and RSM Chio Lim LLP. As the members of the Audit Committee collectively have relevant accounting or related financial expertise, the Board is satisfied that the members of the Audit Committee are appropriately qualified to discharge their responsibilities.

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 effectiveness of the Company's internal audit function;

CORPORATE GOVERNANCE STATEMENT

- 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

- reviewed the adequacy and effectiveness of the Company's internal control systems.

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 715 of the SGX-ST Listing Manual for FY2018. The Audit Committee also conducts a review to ensure the independence of the external auditors annually. During the year under review, the Company has agreed to pay an aggregate of approximately RMB3,286,000 to the external auditors for their provision of audit services, and an aggregate of approximately RMB1,203,000 to the external auditors for their provision of 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, was satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors.

In 2018, the Audit Committee had 3 meetings with the external auditors, without the presence of management, 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 also had 3 meetings with the internal auditors, without the presence of management, during FY2018.

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 trainings conducted by professionals or external consultants.

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	Independent Director	6	6
Vincent Toe Teow Heng	Independent Director	6	6
Qiang Zhiyuan	Independent Director	6	6

Nominating Committee

This committee was established in 2002. The chairman of the Nominating Committee is Mr. Qiang Zhiyuan, and the other member is Mr. Vincent Toe Teow Heng. Even though Mr. Timothy Chen Teck Leng has been appointed as Lead Independent Director, he is not a member of the Nominating Committee. The Board is of the view that Mr. Chen is the most suitable choice for the role of Lead Independent Director as he is the most experienced amongst all the Independent Directors.

The Company will endeavour to appoint an additional director to the Nominating Committee upon the appointment to the Board of the directors nominated by Tianjin Pharmaceutical Group Co., Ltd. ("**TPG**"), which the Company anticipates may take place within the financial year ending 31 December 2019.

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The responsibilities of the Nominating Committee are to determine the criteria for identifying suitable candidates 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/her 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. In addition to the foregoing, the Nominating Committee will also make recommendations to the Board on other relevant matters pertaining to *inter alia* board succession plans for Directors, in particular, the Executive Chairman, and the review of training and professional development programmes for the Board.

Pursuant to Article 156 of the Articles of Association of the Company, the tenure of an Independent Director shall be 3 years which may be extended upon re-election, with a maximum term of no more than 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, following which the Nominating Committee will review these nominated candidates for suitability and the shareholders in a general meeting shall make the final decision on the nomination of such candidates as independent directors.

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. Notwithstanding the foregoing, formal written guidelines have been instituted to address issues relating to competing time commitments when Directors serve on multiple boards in various companies. The contributions of each Director would be assessed based on the specific circumstances applicable to him/her, such as whether he/she has a full-time vocation or other responsibilities, his/her capabilities, and his/her appointment in the Company. The Nominating Committee will assess each Director on a regular basis to ensure that he/she is adequately carrying out his/her duties as a director. Specific considerations are also given to their attendance, responsibility, contributions and individual capabilities. Following the review, if necessary, the Executive Chairman will act on the results of the performance evaluation, and, in consultation with the Nominating Committee, propose, where appropriate, new members to be appointed to the Board or seek the resignation of Directors. For FY2018, 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.

When there is a need for a new appointment of a director to the Board, the senior management personnel, Board Secretaries and the human resources department of the Company will work together to ensure that the necessary preparatory work is completed, and the required materials are prepared, before the Nominating Committee meets to discuss the suitability of the list of potential candidates. The decision made by the Nominating Committee in such meetings will then be put forward to the Board for its consideration. If required, the Nominating Committee may engage the professional advisory services of an external consultant to assist the Nominating Committee in arriving at a decision.

With regard to the performance evaluation process undertaken by the Nominating Committee for FY2018, the Nominating Committee had conducted an assessment of Board performance based on numerous financial criteria such as the return on equity of the Group, etc. and other non-financial criteria such as *inter alia* the Board's input to strategy and the level of engagement with management. Such criteria employed by the Nominating Committee are comparable with industry peers and have not changed from year to year. Key areas for improvement or suggestions are then raised to the Board for discussion.

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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. When this occurs, the members of the Nominating Committee, together with the Executive Chairman, would conduct interviews on prospective candidates. Subsequently, those that are shortlisted are formally considered by the Nominating Committee for appointment to the Board.

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
Qiang Zhiyuan	Independent Director	2	2
Vincent Toe Teow Heng	Independent Director	2	2

Remuneration Committee

This committee was established in 2002. The Remuneration Committee is chaired by Mr. Vincent Toe Teow Heng, and the other member is Mr. Timothy Chen Teck Leng.

The Company will endeavour to appoint an additional director to the Remuneration Committee upon the appointment to the Board of the directors nominated by TPG, which the Company anticipates may take place within the financial year ending 31 December 2019.

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. If necessary, the Remuneration Committee will engage appropriate external consultants to provide expert advice on executive compensation. When this is the case, the Remuneration Committee will ensure that existing relationships, if any, between the Company and its appointed remuneration consultants will not affect the independence and objectivity of such remuneration consultants.

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 Remuneration Committee also reviews the Company's obligations arising in the event of termination of the Chief Executive Officer's and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses which are not overly generous.

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	Independent Director	1	1

Alternate Directors

The Company has no alternate directors on its Board.

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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 Board based on the effort, time spent and responsibilities of the Independent Directors. The amount of directors' fees is subject to approval of the shareholders at each AGM.

The 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					
Li Liqun	100	–	–	–	100
Yu Hong	100	–	–	–	100
Yan Min	100	–	–	–	100
Zhou Hong	100	–	–	–	100
Wang Mai[1]	100	–	–	–	100
Wang Lei[2]	100	–	–	–	100
Above S$250,000 but below S$750,000					
–	–	–	–	–	–

Notes:
1. Mr. Wang Mai was appointed as an Executive Director with effect from 12 March 2019.
2. Ms. Wang Lei ceased to be an Executive Director with effect from 15 May 2018.

The remuneration of each individual 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 directors' fees paid to the Independent Directors of the Company for FY2018 are set out below:

Name of Director	Salary	Bonus	Directors' fees	Total
Timothy Chen Teck Leng	0	0	S$60,000	S$60,000
Vincent Toe Teow Heng	0	0	S$55,000	S$55,000
Qiang Zhiyuan	0	0	RMB60,000	RMB60,000

No share-based incentives and awards were granted to the Directors and the Chief Executive Officer. There is also currently no long-term incentive scheme in place for Executive Directors and key management personnel.

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Details of remuneration paid to the executives (who are not Directors) of the Group for FY2018 are set out below:

Name of executive	*Total Remuneration
Li Yong	RMB656,100
Zhang Jian	RMB656,100
Wang Mai	RMB489,600

A breakdown of the level and mix of remuneration of the top 3 key executives is as follows:

	Salary %	Bonus %	Termination, Retirement and Post-employment benefits %	Other Benefits %	Total %
Li Yong	100	–	–	–	100
Zhang Jian	100	–	–	–	100
Wang Mai	100	–	–	–	100

The aggregate total remuneration paid to or accrued to the top 3 key executives amounted to RMB1,801,800.

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.

The Remuneration Committee is of the view that it is currently not necessary to use contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

ACCOUNTABILITY AND AUDIT

To enable the Board to make a balanced and informed assessment of the Company's performance, position and prospects, management provides all members of the Board with management accounts and such explanation and information on a quarterly basis, and as and when the Board may require such information from time to time.

In addition, the Board takes steps to ensure compliance with legislative and regulatory requirements, including requirements under the listing rules of SGX-ST, and will establish written policies in this relation, if appropriate.

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 balanced and understandable assessment of the Group's financial position and prospects.

CORPORATE GOVERNANCE STATEMENT

Internal Audit

The effectiveness of the internal control systems and procedures is monitored by management and progressively reviewed by the Audit Committee and the role of an internal audit function is to assist the Audit Committee in such review. The Audit Committee receives the audit findings and recommendations made by the Group's internal audit function and external auditors and deliberate on the treatment of such findings and recommendations. Subsequently, the internal audit function carries out follow-up actions to ensure that the implementation of decisions made by the Audit Committee are timely and appropriate, and internal audit reports are submitted at regular intervals to the Audit Committee for their review. The Audit Committee ensures that the internal audit function is adequately resourced and has appropriate standing within the Company.

The internal audit function is carried out by the Group's internal audit department which reports to the Audit Committee and the Board. The internal audit department has unfettered access to all of the Company's documents, records, properties and personnel, including access to the Audit Committee.

As the in-house internal audit department is treated similarly with the other departments in the Company, the Audit Committee does not deliberate nor approve the hiring, removal, evaluation and compensation of the head of the internal audit department. Nevertheless, the internal audit department is staffed by persons who are suitably qualified and experienced.

In carrying out the internal audit function, it is ensured that the principles set out in the *Basic Rules for Internal Control of Enterprises* («企业内部控制基本规范»), *Guidelines on the Application of Internal Control* («企业内部控制应用指引»), *Guidelines for the Evaluation of Enterprise Internal Control* («企业内部控制评价指引»), and the *Guidelines for Internal Control of Enterprises* («企业内部控制审计指引») are adhered to. In addition, the internal audit procedures are also in accordance with the external auditor's requirements, as well as relevant accounting standards.

The Audit Committee reviews the adequacy and effectiveness of the Group's internal audit function annually. For FY2018, the Audit Committee is of the view that the Group's internal audit function is independent, effective and adequately resourced.

Internal Controls and Risk Management

The Board is responsible for the overall internal control framework, which also encompasses risk management, and oversees management in the design, implementation and monitoring of such systems. 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. In terms of risk management, the Board determines the Company's levels of risk tolerance and put in place appropriate risk management policies to address potential issues. 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, in any case, at least annually, 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.

On a day-to-day basis, the Company has a corporate management department which develops the relevant rules and regulations relating to internal controls that are applicable to all the various departments in the Company, and also supervises the processes conducted by these departments. This is in addition to the internal audit department which, as mentioned above, conducts the internal review and is expected to inform the Audit Committee regularly on the progress of the internal audit. The Board of Supervisors is also involved in the process as it supervises all matters relating to the internal control framework and ultimately, the Board oversees the entire system that is in place.

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To ensure that the internal controls and risk management systems in place are not undermined as a result of mismanagement, the Company has developed internal regulations to hold any of the Directors, supervisors, senior management or other relevant employees of the Company personally liable, and to subject the relevant person(s) to corresponding punitive measures, in the event that there are any serious adverse effects or consequences to the Company as a result of any intentional misconduct or gross negligence by such person(s).

The Board had received assurance from the Chief Executive Officer and Chief Financial Officer that the financial records as at 31 December 2018 have been properly maintained and the financial statements for FY2018 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.

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 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 and effective 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 and effectiveness 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. The Audit Committee reviews the whistle-blowing policy and ensures that suitable arrangements are in place for concerns raised to be independently investigated, and for the appropriate follow-up action to be taken.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Communication with Shareholders

The Company does not practise selective disclosure. In line with the continuous disclosure obligations prescribed in the SGX-ST 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. Further, in disclosing any information to shareholders, the Company makes reasonable endeavours to be as forthcoming as possible, and avoid boilerplate disclosures, where appropriate.

The following information is communicated to shareholders on a timely basis through SGXNET:

- quarterly and annual results, and the 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 the listing rules of the Shanghai Stock Exchange.

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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 despatched 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. Where possible, all the Directors will attend the meeting. In particular, 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 Board Committees. External auditors and/or advisers of the Company are also present at such meeting to assist the Directors to address shareholders' queries, if necessary.

The Company provides for separate resolutions on each distinct issue at general meetings (including but not limited to AGMs). To encourage greater transparency in the voting process and in compliance with the SGX-ST Listing Rules, the Company conducts electronic poll voting for Shareholders holding "A" Shares, and manual poll voting for Shareholders holding "S" Shares, for all resolutions proposed at the general meetings. Shareholders are adequately informed of the rules governing general meetings of shareholders, including the voting procedures in place. An independent scrutineer is also appointed to tally and validate the votes that are cast at the meetings. The poll voting results showing the respective percentages for and against each resolution are immediately presented to shareholders after the votes are tallied and these results are also announced on SGXNET in a timely fashion after the general meeting. The minutes of the general meetings are also made available to shareholders upon their request.

The Articles of Association of the Company currently allows a Shareholder entitled to attend and vote at general meetings to appoint one or more persons (who need not also be Shareholders) to act as their proxies and to attend and vote in such general meetings on their behalf.

The Company is not implementing absentia voting methods until security and other relevant issues relating to *inter alia* authentication of votes cast by such methods are satisfactorily straightened out.

In order to solicit shareholders' views, the Company also holds conferences on online platforms from time to time, where shareholders may log on to attend and participate. The Company also has a dedicated and committed Investor Relations team that engages with institutional investors, if necessary, and addresses investors' queries as and when such queries are directed to the team.

Dividend Policy

The Company currently does not have any formal dividend policy. The Board considers that it is imperative to balance the Group's needs with the need to encourage shareholder loyalty. Accordingly, taking into account various factors such as the Group's cash flow and financial position, capital needs, and possible expansion plans, the Board will determine the frequency and appropriate amount of dividends to be declared in any financial year. Any dividend payment will be communicated to shareholders in a timely manner.

Pursuant to the issuance or amendment of *Guideline No. 3 – Issuance of Cash Dividends by Listed Companies promulgated by CSRC* («上市公司监管指引第3号-上市公司现金分红»), *Guideline for the Issuance of Cash Dividends by Listed Companies* («上市公司现金分红指引») promulgated by the Shanghai Stock Exchange, and other relevant laws and regulations, Article 224 of the Articles of Association of the Company was amended pursuant to a resolution passed by shareholders in an extraordinary general meeting held on 18 August 2014 to (i) state explicitly that when the conditions for distributing profits through cash dividends are met, the Company shall distribute profits through cash dividends; and (ii) set out the procedure and requisite contents of a scheme on return of investment to shareholders. More information on the foregoing can be found in the circular to shareholders dated 1 August 2014.

CORPORATE GOVERNANCE STATEMENT

DEALINGS IN SECURITIES

In line with Chapter 12, Rule 1207(19) of the Listing Manual, the Company has in place a policy on dealings in securities. The Directors and employees are prohibited from securities dealings whilst they are in possession of price-sensitive information. The Company issues regular circulars to its Directors, principal officers and relevant officers who have access to unpublished material price-sensitive information to remind them of the prohibition and to remind them of the requirement to report their dealing in shares of the Company.

The Directors and employees are also prohibited from dealing in the securities of the Company during the period commencing two weeks prior to the announcement of the Company's financial statements for each of the first three quarters of its financial year and one month before the announcement of the Company's financial statements for the full financial year.

Directors and employees of the Group are observed not to deal in the Company's shares on short-term consideration and when he or she is in possession of unpublished price-sensitive information relating to the Group. They are expected to observe the insider trading laws at all times even when dealing in securities within the permitted trading period.

COMPLIANCE WITH EXISTING BEST PRACTICES GUIDE OF THE SINGAPORE EXCHANGE

The Board of Directors confirms that for the financial year ended 31 December 2018, the Company has complied with the principal corporate governance recommendations set out in the Best Practices Guide issued by the SGX-ST.

INFORMATION AS REQUIRED UNDER APPENDIX 7.4.1 OF THE LISTING MANUAL

At the Company's forthcoming annual general meeting on 15 May 2019, the following resolutions will be tabled for shareholders' approval, amongst others:

(i) To consider and approve the appointment of Mr. Wong Gang as independent director of the Company;

(ii) To consider and approve the appointment of Mr. Zhou Hong as director of the Company; and

(iii) To consider and approve the appointment of Mr. Zhang Bingqiang as the member of the Supervisory Committee.

CORPORATE GOVERNANCE STATEMENT

Accordingly, in accordance with Rule 720(6) of the Listing Manual, information on the above individuals as required under Appendix 7.4.1 of the Listing Manual is set out hereunder.

(1) Information on Mr. Wong Gang

Date of Appointment	*15 May 2019 (subject to shareholders' approval)*
Date of last re-appointment (if applicable)	*Not applicable*
Name of person	*Wong Gang*
Age	*49*
Country of principal residence	*Singapore*
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	*Approve of the decision*
Whether appointment is executive, and if so, the area of responsibility	*Duties as an Independent and Non-executive Director of the Company*
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	*Independent and Non-executive Director*
Professional qualifications	*Bachelor of Law (Honours)*
Working experience and occupation(s) during the past 10 years	*He was a partner since 2002 at Shook Lin & Bok LLP, Head of Shook Lin & Bok LLP's China practice group and has advised multinational corporations and Singapore companies on cross border transactions in China, as well as on public offerings of securities in Singapore by companies from China, Hong Kong and South-East Asia. From May 2008 to May 2014, he was appointed as independent director in the Company. He is currently the independent director of JEP Holdings Ltd (listed on SGX Catalist) and Renewable Energy Asia Group Limited (listed on SGX Catalist).*
Shareholding interest in the listed issuer and its subsidiaries	*No*
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	*NIL*
Conflict of interest (including any competing business)	*NIL*
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	*To be submitted upon appointment*
Other Principal Commitments Including Directorships*	
** "Principal Commitments" has the same meaning as defined in the Code of Corporate Governance 2018*	

CORPORATE GOVERNANCE STATEMENT

Past (for the last 5 years)	*Bowsprit Capital Corporation Limited (stepped down in 2018);* *China Animal Healthcare Limited (stepped down in 2014);* *Tianjin Zhongxin Pharmaceutical Group Corporation Limited (stepped down in 2014)*
Present	*Independent director of JEP Holdings Ltd (listed on SGX Catalist);* *Independent director of Renewable Energy Asia Group Limited (listed on SGX Catalist);* *Partner of Shook Lin & Bok LLP*
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	*No*
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	*No*
(c) Whether there is any unsatisfied judgment against him?	*No*
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	*No*
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	*No*

CORPORATE GOVERNANCE **STATEMENT**

(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	*No*
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	*No*
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	*No*
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	*No*
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of :–	
(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	*No*
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	*No*
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	*No*

CORPORATE GOVERNANCE STATEMENT

(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	*No*
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	*No*
Any prior experience as a director of an issuer listed on the Exchange? *If yes, please provide details of prior experience.* *If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.*	*Yes. He is currently the independent director of JEP Holdings Ltd (listed on SGX Catalist) and Renewable Energy Asia Group Limited (listed on SGX Catalist).* *He was previously an independent director of the Company from 15 May 2008 to 15 May 2014.*
Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).	*Not applicable.*

(2) Information on Mr. Zhou Hong

Date of Appointment	*15 May 2019 (subject to shareholders' approval)*
Date of last re-appointment (if applicable)	*Not applicable*
Name of person	*Zhou Hong*
Age	*49*
Country of principal residence	*China*
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	*Approve of the decision*
Whether appointment is executive, and if so, the area of responsibility	*Duties as an Executive Director of the Company*
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	*Executive Director*
Professional qualifications	*Senior Engineer and holds a doctor's degree in science*

CORPORATE GOVERNANCE STATEMENT

Working experience and occupation(s) during the past 10 years	*From December 2007 to January 2010, he held the position of Deputy Director of Tianjin Zhong Xin Pharmaceutical Factory No. 6. From January 2010 to July 2011, he was promoted to the Executive Deputy Director of Tianjin Zhong Xin Pharmaceutical Factory No. 6. From July 2011 to October 2017, he was the Director and Executive Deputy Secretary of Tianjin Zhong Xin Pharmaceutical Factory No. 6. From December 2012 to March 2019, he was an Executive Director of the Company. From February 2017 to August 2017, he was an assistant to the General Manager of the Company. From October 2017 to present, he is the Deputy General Manager and Chief Engineer of the Company.*
Shareholding interest in the listed issuer and its subsidiaries	*No*
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	*NIL*
Conflict of interest (including any competing business)	*NIL*
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	*To be submitted upon appointment*
Other Principal Commitments Including Directorships * "Principal Commitments" has the same meaning as defined in the Code of Corporate Governance 2018*	
Past (for the last 5 years)	*NIL*
Present	*NIL*
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	*No*
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	*No*

CORPORATE GOVERNANCE **STATEMENT**

(c) Whether there is any unsatisfied judgment against him?	*No*
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	*No*
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	*No*
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	*No*
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	*No*
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	*No*
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	*No*

CORPORATE GOVERNANCE **STATEMENT**

(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of :–	
(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	*No*
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	*No*
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	*No*
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	*No*
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	*No*
Any prior experience as a director of an issuer listed on the Exchange? *If yes, please provide details of prior experience.* *If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.*	*Yes, he was an executive director of the Company from 18 December 2012 to 12 March 2019.*
Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).	*See above.*

CORPORATE GOVERNANCE STATEMENT

(3) Information on Mr. Zhang Bingqiang

Date of Appointment	*15 May 2019 (subject to shareholders' approval)*
Date of last re-appointment (if applicable)	*Not applicable*
Name of person	*Zhang Bingqiang*
Age	*50*
Country of principal residence	*China*
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	*Approve of the decision*
Whether appointment is executive, and if so, the area of responsibility	*Duties as a Supervisor of the Company*
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	*Supervisor*
Professional qualifications	*Senior Engineer*
Working experience and occupation(s) during the past 10 years	*From July 1996 to December 2012, he successively held the following positions in Tianjin Central Pharmaceutical Co., Ltd., Cadre and Deputy Section Chief of the Engineering Department, Minister of the Human Resources Department, Office Manager, Minister of the Equipment Dynamic Department, and Factory Manager of the Processing Factory. From December 2012 to August 2014, he was the Principal Staff Member of the Letters and Visits Office of Tianjin Pharmaceutical Group Co., Ltd. From July 2017 to August 2018, he was the Minister of the Comprehensive Security Department of Tianjin Pharmaceutical Group Co., Ltd. From June 2018 to present, Mr. Zhang was appointed as the Manager of the Party Committee Office and the Manager of the Board of Directors Office of Tianjin Pharmaceutical Group Co., Ltd.*
Shareholding interest in the listed issuer and its subsidiaries	*No*
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	*NIL*
Conflict of interest (including any competing business)	*NIL*
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	*Not applicable*
Other Principal Commitments Including Directorships* ** "Principal Commitments" has the same meaning as defined in the Code of Corporate Governance 2018*	
Past (for the last 5 years)	*NIL*

CORPORATE GOVERNANCE **STATEMENT**

Present	*NIL*
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	*No*
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	*No*
(c) Whether there is any unsatisfied judgment against him?	*No*
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	*No*
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	*No*
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	*No*

CORPORATE GOVERNANCE STATEMENT

(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	*No*
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	*No*
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	*No*
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of :–	
(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	*No*
(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	*No*
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	*No*
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	*No*
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	*No*

CORPORATE GOVERNANCE STATEMENT

Any prior experience as a director of an issuer listed on the Exchange? *If yes, please provide details of prior experience.* *If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.*	*Not applicable, as Mr. Zhang is proposed to be appointed as a Supervisor on the Board of Supervisors of the Company, and not as a director of the Company.*
Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).	*See above.*

DISCLOSURE REGARDING COMPANY'S RELATIONSHIP WITH TIANJIN SASAC

Tianjin Pharmaceutical Group Co., Ltd, the controlling shareholder of the Company, is ultimately owned by 天津市人民政府国有资产监督管理委员会 (State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government) ("**Tianjin SASAC**") through its wholly-owned subsidiaries, 天津渤海国有资产经营管理有限公司 (Tianjin Bohai State-owned Assets Management Co., Ltd.) and 天津津联投资控股有限公司 (Tianjin Tsinlien Investment Holding Co., Ltd). Notwithstanding the foregoing, under the laws of Singapore, Tianjin SASAC is not considered a controlling shareholder of the Company.

Pursuant to the *Law of the People's Republic of China on the State-Owned Assets of Enterprises (中华人民共和国企业国有资产法),* the State Council of the People's Republic of China ("**PRC**") ("**State Council**") and the local people's governments shall, in accordance with laws and administrative regulations, perform respectively the contributor's functions for state-invested enterprises and enjoy the contributor's rights and interests on behalf of the state. In this relation, the state-owned assets supervision and administration bodies established by the local people's governments according to the provisions of the State Council shall perform the contributor's functions for state-invested enterprises on behalf of and upon the authorisation of the corresponding people's government. Accordingly, the establishment and responsibilities of Tianjin SASAC are based on, and subject to, PRC laws, rules and regulations and Tianjin SASAC does not influence decisions on the financial and operating policies of the Company in normal circumstances. As such, under the Securities and Futures Act (Chapter 289) of Singapore and the listing manual of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), Tianjin SASAC is not considered to be able to exercise "control" over the Company and is therefore, not a controlling shareholder of the Company. In this relation, Tianjin SASAC and its associates are also not considered interested persons of the Company and hence, the interested person transaction requirements under the SGX-ST Listing Rules do not apply to them.

STATEMENT BY **DIRECTORS**

The directors of the Company are pleased to present the accompanying financial statements of the Company and of the Group for the reporting year ended 31 December 2018.

1. OPINION OF THE DIRECTORS

In the opinion of the directors,

(a) the accompanying financial statements and the consolidated financial statements are drawn up so as to give a true and fair view of the financial position and performance of the Company and, of the financial position and performance of the Group for the reporting year covered by the financial statements or consolidated financial statements; and

(b) at the date of the 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.

2. DIRECTORS

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

Li Liqun	
Yan Min	
Yu Hong	(Appointed on 15 May 2018)
Wang Mai	(Appointed on 12 March 2019)
Timothy Chen Teck Leng@Chen Teck Leng	
Vincent Toe Teow Heng	
Qiang Zhiyuan	

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the reporting year were not interested in shares in or debentures of the Company or other related body corporate. The directors' interests as at 21 January 2019 were the same as those at the end of the reporting year.

4. 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 arrangements to which the Company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

STATEMENT BY **DIRECTORS**

5. OPTIONS

During the reporting year, no option to take up unissued shares of the Company or any other body corporate in the Group was granted. During the reporting year, there were no shares 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 under option.

6. INDEPENDENT AUDITORS

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

On behalf of the directors

....	....
Li Liqun	Yu Hong
Director	Director

28 March 2019

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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 2018, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and consolidated statement of cash flows of the Group, and statement of changes in equity of the Company for the reporting year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying 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 ("IFRS") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2018 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the reporting year ended on that date.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current reporting year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (Cont'd)

(1) Impairment assessment of trade receivables

Please refer to Notes 2A, 2B and 21 to the financial statements for the relevant accounting policy and key assumptions used in assessing the impairment of trade receivables.

Trade receivables of the Group are significant as at the end of the reporting year. The allowance for impairment of trade receivables is estimated by management through the application of judgement and use of subjective assumptions. Any impairment of significant receivables could have material impact to the Group's and the Company's profit or loss.

The estimate of impairment allowance is based on the historical trend of trade receivables, which includes analysis of the age of these receivables, credit worthiness of the profile of the customers and historical default rates.

For the samples selected, our audit procedures included, but not limited to (a) assessing the recoverability of the significant aged debts by discussing with management, checking subsequent collections and corroborating to the historical payment records; (b) assessing whether disclosures in respect of the credit risk of trade receivables is appropriate and (c) evaluating the qualitative adjustment to the allowance and challenging the key assumptions in determining the allowance.

Based on the audit procedures performed, we found management's assessment to be consistent with the results of our procedures.

(2) Assessment of allowance for impairment of inventories

Please refer to Notes 2A, 2B and 20 to the financial statements for the relevant accounting policy and key assumptions used in assessing the impairment of inventories, respectively.

The Group is principally engaged in the manufacturing and sale of traditional Chinese and western medicine in the People's Republic of China. Inventories of the Group are significant as at the end of the reporting year. The cost of inventories may not be recoverable in full if those inventories are damaged, or if they become obsolete, or if their selling prices have declined. The allowance for impairment of inventories is estimated by management through the application of judgement and use of subjective assumptions.

The estimate of allowance for obsolete inventories is based on the age of the inventories, prevailing market conditions in the pharmaceutical industry and historical allowance experience which requires management's judgement, including judgement in the areas relating to inventory allowance based on forecast inventory usage. This methodology relies upon assumptions made in determining appropriate allowance percentages categories of inventory.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Key audit matters (Cont'd)

(2) Assessment of allowance for impairment of inventories (Cont'd)

For the samples selected, our audit procedures included, but not limited to (a) checking the net realisable value of the inventories by comparing cost to subsequent selling prices; (b) reviewing the inventory turnover days and aging of the inventories to assess if there were any significant build up of aged inventories and assessing the reasonableness of the allowance for inventory obsolescence; (c) obtaining assurance over the appropriateness of management's assumptions applied in calculating the value of inventory allowances by assessing the Group's inventory allowance policy, as well as inventory turnover calculations including the impact of demand from government procurement policy for pharmaceuticals and expectations for future sales and (d) assessing whether disclosures in respect of the impairment allowance of inventory is appropriate.

Based on the audit procedures performed, we found management's assessment to be consistent with the results of our procedures.

Other information

Management is responsible for the other information. The other information comprises the information included in the statement by directors and the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT
AUDITORS' REPORT

TO THE MEMBERS OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Auditors' responsibilities for the audit of the financial statements (Cont'd)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

RSM Chio Lim LLP
Public Accountants and Chartered Accountants

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

28 March 2019

Partner-in-charge: Ng Thiam Soon
Effective from year ended 31 December 2016

Ruihua Certified Public Accountants
Certified Public Accountants

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

28 March 2019

Partner-in-charge: Jiang Bin
Effective from year ended 31 December 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS **AND OTHER COMPREHENSIVE INCOME**

REPORTING YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	4	**6,358,622**	5,689,242
Cost of sales		**(3,794,042)**	(3,545,408)
Gross profit		**2,564,580**	2,143,834
Interest income	5	**11,115**	6,328
Dividend income		**1,488**	1,530
Other income and gains	6	**39,922**	96,183
Marketing and distribution costs		**(1,699,293)**	(1,426,702)
Research and development costs		**(100,926)**	(79,426)
Administrative expenses		**(291,100)**	(288,540)
Finance costs	7	**(13,899)**	(12,233)
Other losses	6	**(34,495)**	(29,528)
Share of profits from equity-accounted associates		**163,237**	119,554
Profit before income tax		**640,629**	531,000
Income tax expense	9	**(72,841)**	(57,740)
Profit, net of tax		**567,788**	473,260
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss:			
Fair value loss on equity investment measured at FVTOCI, net of tax	24C	**(9,653)**	–
Share of other comprehensive loss from equity-accounted associates, net of tax	24A	**(16,876)**	–
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive loss from equity-accounted associates, net of tax	24A	**–**	(3,217)
Fair value loss on remeasuring available-for-sale financial assets, net of tax	24C	**–**	(1,201)
Reclassification adjustments due to disposal of debt instruments at FVTOCI	24C	**19,379**	–
Total other comprehensive loss, net of tax		**(7,150)**	(4,418)
Total comprehensive income		**560,638**	468,842
Profit, net of tax attributable to:			
Owners of the parent		**561,680**	476,079
Non-controlling interests		**6,108**	(2,819)
		567,788	473,260
Total comprehensive income for the year attributable to:			
Owners of the parent		**554,530**	471,661
Non-controlling interests		**6,108**	(2,819)
		560,638	468,842
Earnings per share			
Earnings per share currency unit		**RMB**	**RMB**
Basic and diluted	10	**0.73**	0.62

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Notes	Group 2018 RMB'000	Group 2017 RMB'000	Company 2018 RMB'000	Company 2017 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**1,199,669**	1,075,695	**877,159**	810,984
Investment properties	13	**23,582**	25,186	**22,602**	23,587
Land use rights	14	**163,296**	168,020	**135,124**	139,605
Intangible assets	15	**11,563**	11,315	**8,605**	8,967
Investments in subsidiaries	16	**–**	–	**630,578**	437,080
Investments in associates	17	**630,925**	562,458	**630,925**	562,458
Other financial assets, non-current	18	**142,086**	691,169	**142,086**	149,221
Deferred tax assets	9	**133,290**	109,497	**124,806**	96,714
Other assets, non-current	19	**20,858**	17,912	**22,881**	19,570
Total non-current assets		**2,325,269**	2,661,252	**2,594,766**	2,248,186
Current assets					
Inventories	20	**1,328,371**	1,104,488	**1,229,042**	991,505
Trade and other receivables	21	**1,728,508**	1,541,127	**1,606,278**	1,619,286
Other financial assets, current	18	**53,307**	100,500	**–**	–
Other assets, current	19	**202,766**	222,260	**191,798**	208,055
Cash and cash equivalents	22	**1,467,085**	992,178	**993,131**	863,858
Total current assets		**4,780,037**	3,960,553	**4,020,249**	3,682,704
Total assets		**7,105,306**	6,621,805	**6,615,015**	5,930,890
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	23	**768,873**	768,873	**768,873**	768,873
Share premium		**1,198,817**	1,198,817	**1,198,817**	1,198,817
Retained earnings		**2,426,722**	2,018,817	**2,344,847**	1,922,178
Other reserves	24	**532,579**	490,251	**582,794**	540,449
Equity attributable to owners of the parent		**4,926,991**	4,476,758	**4,895,331**	4,430,317
Non-controlling interests		**127,406**	148,733	**–**	–
Total equity		**5,054,397**	4,625,491	**4,895,331**	4,430,317
Non-current liabilities					
Deferred tax liabilities	9	**5,911**	6,982	**5,911**	6,982
Trade payables, non-current	25	**41,450**	39,915	**41,241**	39,470
Other liabilities, non-current	26	**89,485**	87,956	**51,191**	48,586
Total non-current liabilities		**136,846**	134,853	**98,343**	95,038
Current liabilities					
Income tax payable		**41,185**	27,072	**39,146**	25,346
Trade and other payables	27	**1,385,479**	1,282,903	**1,109,652**	1,077,156
Other financial liabilities	28	**252,000**	496,357	**250,000**	260,000
Other liabilities, current	26	**235,399**	55,129	**222,543**	43,033
Total current liabilities		**1,914,063**	1,861,461	**1,621,341**	1,405,535
Total liabilities		**2,050,909**	1,996,314	**1,719,684**	1,500,573
Total equity and liabilities		**7,105,306**	6,621,805	**6,615,015**	5,930,890

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

STATEMENTS OF
CHANGES IN EQUITY

REPORTING YEAR ENDED 31 DECEMBER 2018

	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 Interests RMB'000
Group							
Current year:							
Opening balance at 1 January 2018	**4,625,491**	**4,476,758**	**768,873**	**1,198,817**	**2,018,817**	**490,251**	**148,733**
Adjustments to beginning balance (Note 2A)	**40,860**	**40,860**	**–**	**–**	**–**	**40,860**	**–**
Restated balance at 1 January 2018	**4,666,351**	**4,517,618**	**768,873**	**1,198,817**	**2,018,817**	**531,111**	**148,733**
Total comprehensive income/(loss) for the year	**560,638**	**554,530**	**–**	**–**	**561,680**	**(7,150)**	**6,108**
Dividends (Note 11)	**(153,775)**	**(153,775)**	**–**	**–**	**(153,775)**	**–**	**–**
Acquisition of non-controlling interest without a change in control (Note 16B)	**(8,697)**	**(17)**	**–**	**–**	**–**	**(17)**	**(8,680)**
Disposal of a subsidiary (Note 16C)	**(13,236)**	**–**	**–**	**–**	**–**	**–**	**(13,236)**
Distribution to non-controlling interests (Note 11B)	**(5,519)**	**–**	**–**	**–**	**–**	**–**	**(5,519)**
Equity share of changes in other net assets of associates (Note 24A)	**8,635**	**8,635**	**–**	**–**	**–**	**8,635**	**–**
Closing balance at 31 December 2018	**5,054,397**	**4,926,991**	**768,873**	**1,198,817**	**2,426,722**	**532,579**	**127,406**
Previous year:							
Opening balance at 1 January 2017	4,345,389	4,182,730	768,873	1,198,817	1,707,997	507,043	162,659
Total comprehensive income/(loss) for the year	468,842	471,661	–	–	476,079	(4,418)	(2,819)
Dividends (Note 11)	(115,331)	(115,331)	–	–	(115,331)	–	–
Acquisition of subsidiaries under common control (Note 16B)	(62,712)	(62,712)	–	–	–	(62,712)	–
Acquisition of non-controlling interest without a change in control (Note 16B)	(6,016)	(29)	–	–	–	(29)	(5,987)
Appropriation of statutory common reserve (Note 24B)	–	–	–	–	(49,928)	49,928	–
Distribution to non-controlling interests (Note 11B)	(5,120)	–	–	–	–	–	(5,120)
Equity share of changes in other net assets of associates (Note 24A)	439	439	–	–	–	439	–
Closing balance at 31 December 2017	4,625,491	4,476,758	768,873	1,198,817	2,018,817	490,251	148,733

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

STATEMENTS OF CHANGES IN EQUITY

REPORTING YEAR ENDED 31 DECEMBER 2018

	Total Equity RMB'000	Share Capital RMB'000	Share Premium RMB'000	Retained Earnings RMB'000	Other Reserves RMB'000
Company					
Current year:					
Opening balance at 1 January 2018	**4,430,317**	**768,873**	**1,198,817**	**1,922,178**	**540,449**
Adjustments to beginning balance (Note 2A)	**60,239**	**–**	**–**	**–**	**60,239**
Restated balance at 1 January 2018	**4,490,556**	**768,873**	**1,198,817**	**1,922,178**	**600,688**
Total comprehensive income/(loss) for the year	**549,915**	**–**	**–**	**576,444**	**(26,529)**
Dividends (Note 11)	**(153,775)**	**–**	**–**	**(153,775)**	**–**
Equity share of changes in other net assets of associates (Note 24A)	**8,635**	**–**	**–**	**–**	**8,635**
Closing balance at 31 December 2018	**4,895,331**	**768,873**	**1,198,817**	**2,344,847**	**582,794**
Previous year:					
Opening balance at 1 January 2017	4,083,298	768,873	1,198,817	1,601,496	514,112
Total comprehensive income/(loss) for the year	481,523	–	–	485,941	(4,418)
Dividends (Note 11)	(115,331)	–	–	(115,331)	–
Adjustment to merger reserve (Note 24D)	(19,612)	–	–	–	(19,612)
Appropriation of statutory common reserve (Note 24B)	–	–	–	(49,928)	49,928
Equity share of changes in other net assets of associates (Note 24A)	439	–	–	–	439
Closing balance at 31 December 2017	4,430,317	768,873	1,198,817	1,922,178	540,449

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

CONSOLIDATED STATEMENT OF CASH FLOWS

REPORTING YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
Cash flows from operating activities		
Profit before income tax	**640,629**	531,000
Adjustments for:		
Interest income	**(11,115)**	(6,328)
Interest expense	**13,899**	12,233
Dividend income	**(1,488)**	(1,530)
Gain on maturity and disposal of financial assets	**(2,173)**	(41,219)
Share of profits from equity-accounted associates	**(163,237)**	(119,554)
Gain on disposals of interests in a subsidiary, net	**(306)**	–
Gain on disposals of interests in associates, net	**–**	(35,025)
Fair value gains on financial assets at FVTPL	**(3,307)**	–
Fair value losses on derivative financial instruments	**–**	660
Depreciation of property, plant and equipment and investment property, and amortisation of land use rights, intangible assets and other assets	**81,340**	77,897
Gain on disposal of property, plant and equipment, intangible assets and other non-current assets	**(3,476)**	(4,047)
Impairment of receivables, inventories, property, plant and equipment	**2,510**	27,685
Operating cash flows before changes in working capital	**553,276**	441,772
Inventories	**(239,999)**	(183,748)
Trade and other receivables	**(170,830)**	(82,368)
Other assets	**10,000**	(38,640)
Trade and other payables	**85,519**	(84,677)
Other liabilities	**181,799**	1,041
Cash restricted in use	**5,045**	–
Net cash flows from operations	**424,810**	53,380
Income tax paid	**(85,779)**	(67,491)
Net cash flows from/(used in) operating activities	**339,031**	(14,111)
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	**(175,809)**	(114,420)
Proceeds from disposals of property, plant and equipment, intangible assets and other assets	**1,530**	588
Acquisition of financial assets	**(38,655,165)**	(37,491,934)
Proceeds from disposals of financial assets	**39,066,926**	37,411,171
Disposal of a subsidiary (net of cash disposed) (Note 16C)	**(11,582)**	–
Proceeds from disposals of interests in associates	**–**	51,208
Interest income received	**31,198**	36,732
Dividends income received from associates and equity investments at FVTOCI	**144,666**	–
Dividends income received from associates and available-for-sale financial assets	**–**	110,387
Cash restricted in use	**–**	200,000
Net cash flows from investing activities	**401,764**	203,732

CONSOLIDATED STATEMENT OF CASH FLOWS

REPORTING YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
Cash flows from financing activities		
Acquisition of subsidiaries accounted under common control	**–**	(62,712)
Acquisition of non-controlling interests without a changes in control	**(8,698)**	(6,016)
Proceeds from new borrowings	**372,000**	382,000
Repayments of borrowings	**(382,000)**	(424,500)
Proceeds from other borrowings	**12,379,238**	10,485,906
Repayment of other borrowings	**(12,451,188)**	(10,403,455)
Dividends paid to equity owners	**(153,034)**	(114,819)
Distribution to non-controlling interests	**(5,446)**	(5,120)
Interest expense paid	**(11,715)**	(12,642)
Cash restricted in use	**–**	3,812
Net cash flows used in financing activities	**(260,843)**	(157,546)
Net increase in cash and cash equivalents	**479,952**	32,075
Cash and cash equivalents, beginning balance	**975,114**	943,039
Cash and cash equivalents, ending balance (Note 22A)	**1,455,066**	975,114

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

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 and the Shanghai Stock Exchange.

The financial statements for the reporting year ended 31 December 2018 comprise those of the Company and its subsidiaries (collectively, the "Group") and the Group's interests in associates. All financial information presented in Chinese Renminbi ("RMB") have been rounded to the nearest thousand ("RMB'000"), unless when otherwise indicated.

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 the production and sale of traditional Chinese medicine, western medicine, healthcare products and investment holding.

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. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

2A. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), as appropriate for for-profit oriented entities.

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, whose audit report dated 28 March 2019 expressed an unmodified opinion on those financial statements.

There is no difference between the financial statements of the Group and of the Company prepared in accordance with IFRS and the People's Republic of China Accounting Regulations in respect of comprehensive income and net assets.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

New or amended Accounting Standards and Interpretations adopted

The Group and the Company adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB") that are mandatory for the current reporting year.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following new Accounting Standards are most relevant to the Group and the Company:

IFRS 9 Financial Instruments

The Group and the Company have adopted IFRS 9 from 1 January 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ("OCI"). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ("ECL") model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

IFRS 15 Revenue from Contracts with Customers

The Group and the Company have adopted IFRS 15 from 1 January 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

NOTES TO THE
FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

New or amended Accounting Standards and Interpretations adopted (Cont'd)

Impact of adoption

IFRS 9 was adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption as at 1 January 2018 was as follows:

	After restatement RMB'000	Before restatement RMB'000	Difference RMB'000
Group			
Statement of Financial Position as at 1 January 2018			
Investments in associates	619,108	562,458	56,650
Other financial assets, non-current	660,921	691,169	(30,248)
Deferred tax assets	115,957	109,497	6,460
Trade and other receivables	1,549,758	1,541,127	8,631
Other reserves	531,111	490,251	40,860
Deferred tax liabilities	7,615	6,982	633
Company			
Statement of Financial Position as at 1 January 2018			
Investments in associates	619,108	562,458	56,650
Other financial assets, non-current	153,443	149,221	4,222
Other reserves	600,688	540,449	60,239
Deferred tax liabilities	7,615	6,982	633

IFRS 15 was adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption as at 1 January 2018 was as follows:

	After restatement RMB'000	Before restatement RMB'000	Difference RMB'000
Group			
Statement of Financial Position as at 1 January 2018			
Trade and other payables, current	1,156,459	1,282,903	(126,444)
Other liabilities, current	181,573	55,129	126,444
Company			
Statement of Financial Position as at 1 January 2018			
Trade and other payables, current	950,712	1,077,156	(126,444)
Other liabilities, current	169,477	43,033	126,444

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2B.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2018 and the results of all subsidiaries for the reporting year then ended. The Company and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

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.

Foreign currency translation

The financial statements are presented in Chinese Renminbi ("RMB"), which is the functional and presentation currency of the Company and all its subsidiaries and associates.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue recognition

The financial reporting standard on revenue from contracts with customers establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer (which excludes estimates of variable consideration that are subject to constraints, such as right of return exists, trade discounts, volume rebates and changes to the transaction price arising from modifications), net of any related sales taxes and excluding any amounts collected on behalf of third parties. An asset (goods or services) is transferred when or as the customer obtains control of that asset. As a practical expedient the effects of any significant financing component is not adjusted if the payment for the good or service will be within one year.

Revenue from sale of goods is recognised at a point in time when the performance obligation is satisfied by transferring a promised good or service to the customer. Control of the goods is transferred to the customer, generally on delivery of the goods (in this respect, incoterms are considered).

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 as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividend income from equity instrument is recognised when the entity's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. Grants in recognition of specific expenses are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate. The grant related to assets is presented in the statement of financial position by recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset and in the proportions in which depreciation expense on those assets is recognised.

Employee benefits

- The Group contributes to a pension scheme in the People's Republic of China, 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 reporting 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

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 investment properties 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.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Income tax (Cont'd)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that there will be sufficient taxable profits available for the asset to be utilised within the same tax jurisdiction.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's and the Company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's and the Company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Property, plant and equipment

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. Depreciation is provided on a straight-line method 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 are as follows:

	Useful life	Residual value
Buildings	7 – 35 years	4 – 10%
Plant and machinery	3 – 15 years	4 – 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.

The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting year 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 costs 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.

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. 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.

Depreciation is calculated on a straight-line basis over estimated useful lives ranging from 30 to 35 years.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Land use rights

The land use rights are for the land in the People's Republic of China where the factories occupied by the Group are situated. The carrying amounts 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 Company'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.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

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.

Associates

Associates are entities over which the Group and the Company have significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Group's and the Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the Group's and the Company's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group and the Company discontinue the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Business combinations

Business combinations that are accounted for by applying the acquisition method

A business combination is transaction or other event which requires that the assets acquired and liabilities assumed constitute a business. There were no acquisitions during the reporting year. 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.

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.

Business combinations that are accounted for by applying the pooling-of-interests method

Where the business combination involved entities or business under common control that is, a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory, the business combination in such situation is accounted for under the pooling-of-interests or merger method. Such manner of presentation reflects the economic substance of the combined entities as a single economic enterprise.

Under the pooling-of-interests method, the financial statements of the Group are presented as if the Group had been in existence for all periods presented and the combined assets, liabilities and reserves of the pooled enterprises are recorded at their existing carrying amounts at the date of amalgamation. The excess or deficiency of the fair value of the purchase consideration over the net book value of assets acquired is adjusted to the merger reserve in equity.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Inventories

Raw materials, work-in-progress and finished goods are stated at the lower of cost (weighted average method) and net realisable value. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

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.

Financial instruments

Recognition and derecognition of financial instruments:

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires.

At initial recognition the financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

NOTES TO THE **FINANCIAL STATEMENTS**

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Financial instruments (Cont'd)

Classification and measurement of financial assets:

#1. Financial asset classified as measured at amortised cost: A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL), that is (a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Typically trade and other receivables, bank and cash balances are classified in this category.

#2. Financial asset that is a debt asset instrument classified as measured at fair value through other comprehensive income (FVTOCI): A debt asset instrument is measured at fair value through other comprehensive income (FVTOCI) only if it meets both of the following conditions and is not designated as at FVTPL, that is (a): the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets are not reclassified subsequent to their initial recognition, except when, and only when, the reporting entity changes its business model for managing financial assets (expected to be rare and infrequent events). The previously recognised gains, losses, or interest cannot be restated. When these financial assets are derecognised, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

#3. Financial asset that is an equity investment measured at fair value through other comprehensive income (FVTOCI): On initial recognition of an equity investment that is not held for trading, an irrevocably election may be made to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. Fair value changes are recognised in OCI but dividends are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. The gain or loss that is presented in OCI includes any related foreign exchange component arising on non-monetary investments (eg, equity instruments). On disposal, the cumulative fair value changes are not recycled to profit or loss but remain in reserves within equity. The weighted average or specific identification method is used when determining the cost basis of equities being disposed of.

#4. Financial asset classified as measured at fair value through profit or loss (FVTPL): All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, management may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Financial instruments (Cont'd)

Classification and measurement of financial liabilities:

Financial liabilities are classified as at fair value through profit or loss (FVTPL) in either of the following circumstances: (1) the liabilities are managed, evaluated and reported internally on a fair value basis; or (2) the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. All other financial liabilities are carried at amortised cost using the effective interest method. Reclassification of any financial liability is not permitted.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value. 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.

Contract liabilities

Contract liabilities represent the Group's and the Company's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group and the Company recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group and the Company has transferred the goods or services to the customer.

Provisions

Provisions are recognised when the Group and the Company have a present (legal or constructive) obligation as a result of a past event, it is probable the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

New accounting standards and interpretations not yet mandatory or early adopted

Accounting Standards that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group and the Company for the annual reporting period ended 31 December 2018. The Group's and the Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group and the Company, are set out below.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2A. Significant accounting policies (Cont'd)

New accounting standards and interpretations not yet mandatory or early adopted (Cont'd)

IFRS 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs).

In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under IFRS 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group and the Company will adopt this standard from 1 January 2019.

The transfer to the applicable new or revised standards from the effective dates is not expected to result in any significant modification of the measurement methods or the presentation in the financial statements for the following year from the known or reasonably estimable information relevant to assessing the possible impact that application of the new or revised standards may have on the entity's financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2B. 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.

Allowance for trade receivable:

The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates (over a period of certain months) over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined accordingly. The carrying amounts might change materially within the next reporting year but these changes may 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 21.

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 judgement 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 20.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION (CONT'D)

2B. Critical judgements, assumptions and estimation uncertainties (Cont'd)

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 reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amount of the assets of the Group at the end of the reporting year affected by the assumption was RMB218 million (2017: RMB200 million).

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 judgemental and not susceptible to precise determination. The income tax and deferred tax amounts are disclosed in Note 9.

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

The international financial reporting standard on related party disclosures requires the reporting entity to disclose: (a) transactions with its related parties; and (b) relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. A party is related to a party if the party controls, or is controlled by, or can significantly influence or is significantly influenced by the other party.

3A. Members of a group

The directors of the Company consider Tianjin Pharmaceutical Group Co., Ltd and Tianjin Tsinlien Investment Holding Co., Ltd as the Company's immediate parent company and ultimate parent company respectively. Tianjin Pharmaceutical Group Co., Ltd and Tianjin Tsinlien Investment Holding Co., Ltd are incorporated in the People's Republic of China. The ultimate controlling party is Tianjin State-owned Assets Supervision and Administration Commission of the State Council.

Related companies in these financial statements include members of the ultimate parent company's group of companies. Associates also include those that are associates of the parent and/or related companies.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2018

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

3B. Related companies transactions

There are transactions and arrangements between the Group and its subsidiaries and associates and the effects of these on the basis determined between the parties are reflected in these financial statements. The related company balances and transfer of resources, services or obligations if any are unsecured, without fixed repayment terms and interest or charge 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.

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

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Sale of goods to associates	**1,341**	1,361
Purchase of goods from associates	**(74,673)**	(73,534)
Rental income from an associate	**872**	2,595

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Associates:		
Balance at beginning of the year	**26,944**	16,146
Amounts paid out and settlement of liabilities on behalf of associates	**2,342**	29,482
Amounts paid in and settlement on behalf of the Group	**(390)**	(18,684)
Balance at end of the year	**28,896**	26,944
Presented in the statements of financial position as follows:		
Other receivables (Note 21)	**28,936**	26,984
Other payables (Note 27)	**(40)**	(40)
	28,896	26,944

3C. Related parties other than related companies

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

There are transactions and arrangements between the Group and its related companies and the effects of these on the basis determined between the parties are reflected in these financial statements. The related company balances and transfer of resources, services or obligations if any are unsecured, without fixed repayment terms and interest or charge unless stated otherwise.

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

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

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

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Sale of goods to related parties	**147,449**	203,036
Purchase of goods from related parties	**(204,114)**	(363,695)
Interest income from a related party	**2,279**	837
Interest expense payable to a related party	**(2,217)**	(1,935)

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Related parties:		
Balance at beginning of the year	**9,959**	9,794
Amounts paid out and settlement of liabilities on behalf of related parties	**–**	71,294
Amounts paid in and settlement on behalf of the Group	**(11,022)**	(71,129)
Balance at end of the year	**(1,063)**	9,959
Presented in the statements of financial position as follows:		
Other receivables (Note 21)	**74**	22,702
Other payables (Note 27)	**(1,137)**	(12,743)
	(1,063)	9,959

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

3D. Key management compensation

	Group	
	2018	2017
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**6,305**	6,482

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

	Group	
	2018	2017
	RMB'000	RMB'000
Remuneration of directors of the Company	**3,875**	4,311

Further information about the remuneration of individual directors is provided in the report on corporate governance statement in the annual report.

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.

3E. Assets held in trust by related parties

Title to properties and land use rights:

As at the end of the reporting year, the legal titles of certain properties and land use rights of the Group and of the Company are held by related parties (see Notes 12, 13 and 14). These properties and land use rights were transferred to the Group and to the Company under a restructuring exercise during the early days of its operations. Management considers the beneficial interests of these assets for which the titles have not been obtained rest with the Group and with the Company and there are no circumstances that affect the Group's and the Company's rights to such interests. Management has obtained confirmations from the related parties that the beneficial interests of these properties and land use rights belong to the Group and to the Company 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.

Title to investments:

As at the end of the reporting year, the legal titles of certain investments of the Group are held by a related party (see Note 18). These investments were transferred to the Group and to the Company under a restructuring exercise during the early days of its operations. Management considers the beneficial interests of these investments for which the titles have not been obtained rest with the Group and with the Company and there are no circumstances that affect the Group's and the Company's rights to such interests. Management has obtained confirmations from the related party that the beneficial interests of these investments belong to the Group and to the Company and does not foresee any difficulties in getting the titles when the need arises. The carrying amounts of the relevant investments are disclosed in Note 18.

4. REVENUE

4A. Revenue classified by type of good or service

	Group	
	2018	2017
	RMB'000	RMB'000
Sale of goods	**6,336,322**	5,667,207
Rental and service income	**20,077**	19,469
Others	**2,223**	2,566
	6,358,622	5,689,242

4B. Revenue classified by duration of contract

All the contracts are less than 12 months.

4C. Revenue classified by timing of revenue recognition

	Group	
	2018	2017
	RMB'000	RMB'000
Point in time	**6,336,322**	5,667,207
Over time	**22,300**	22,035
	6,358,622	5,689,242

4D. Revenue classified by market or type of customer

The customers are retailers and wholesalers. A small portion of the goods is exported.

5. INTEREST INCOME

	Group	
	2018	2017
	RMB'000	RMB'000
Interest income	**11,115**	6,328

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6. OTHER INCOME AND GAINS AND (OTHER LOSSES)

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Allowance for impairment on other receivables – reversal/(loss)	**19,087**	(13,640)
Allowance for impairment on trade receivables	**(5,481)**	(4,320)
Employment termination benefits	**(9,713)**	(1,183)
Fair value (loss)/gains on derivative financial instruments	**–**	(660)
Gains on fair value changes of investments at FVTPL	**3,307**	–
Foreign currency translation (losses)/gains, net	**(1,806)**	1,059
Gain on disposals of interests in associates, net	**–**	35,025
Gain on disposals of interests in a subsidiary (Note 16C)	**306**	–
Gain on disposals of financial assets	**2,173**	41,219
Government grants and subsidies	**11,573**	10,308
Impairment losses on inventories	**(16,116)**	(8,337)
Impairment losses on intangible assets, property, plant and equipment	**–**	(1,388)
Gain on disposal and write-off of property, plant and equipment, and intangible assets, net	**3,476**	4,047
Others	**(1,379)**	4,525
Net	**5,427**	66,655
Presented in profit or loss as:		
Other income and gains	**39,922**	96,183
Other losses	**(34,495)**	(29,528)
	5,427	66,655

7. FINANCE COSTS

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Interest expense	**11,382**	9,541
Imputed interest on accrued retirement and termination benefits	**2,517**	2,692
	13,899	12,233

8. EMPLOYEE BENEFITS EXPENSE

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Salaries and bonuses	**539,384**	497,272
Contributions to defined contribution plans and other welfare	**103,545**	100,668
Post-employment benefits	**81,623**	76,743
Termination benefits	**9,713**	1,183
	734,265	675,866

9. INCOME TAX

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

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Current tax expense		
Current tax expense	**95,322**	74,950
Under adjustments in respect of prior years	**1,311**	709
Subtotal	**96,633**	75,659
Deferred tax income		
Deferred tax income	**(23,792)**	(17,919)
Total income tax expense	**72,841**	57,740

The income tax expense varied from the amount determined by applying the PRC statutory corporate income tax rate of 25% (2017: 25%) to profit before income tax as a result of the following differences:

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Profit before income tax	**640,629**	531,000
Less: Share of profits from equity-accounted associates	**(163,237)**	(119,554)
	477,392	411,446
Income tax expense at the above rate	**119,348**	102,862
Effect of concessionary tax rate at 15%	**(22,371)**	(23,100)
Other tax incentives	**(8,525)**	(5,248)
Not deductible items	**5,874**	865
Not taxable items	**(28,436)**	(27,448)
Unrecognised deferred tax assets	**5,640**	9,100
Under adjustments to tax in respect of prior periods	**1,311**	709
Total income tax expense	**72,841**	57,740

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% (2017: 15%) while most of its subsidiaries are subject to the statutory corporate income tax rate of 25% (2017: 25%).

Dividends payable to "S" shareholders are subject to withholding tax at 10% (2017: 10%) payable to tax authority in the People's Republic of China.

Dividends payable to "A" shareholders are subject to the differential tax rates set out in the Tax Law of People's Republic of China.

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9. INCOME TAX (CONT'D)

9B. Deferred tax income recognised in profit or loss

	Group	
	2018	2017
	RMB'000	RMB'000
Deferred income	**(391)**	(567)
Accruals and allowances	**(421)**	(17,252)
Contract liabilities	**(22,980)**	–
Fair value through profit or loss investments	**–**	(100)
Total deferred tax income recognised	**(23,792)**	(17,919)

9C. Tax income recognised in other comprehensive income

	Group	
	2018	2017
	RMB'000	RMB'000
Available-for-sale financial assets (Note 24C)	**–**	(211)
Financial assets at FVTOCI (Note 24C)	**(1,704)**	–
	(1,704)	(211)

The tax income recognised in other comprehensive income from financial assets at FVTOCI were classified as tax income recognised in other comprehensive income from available-for-sale financial assets in 2017 before the adoption of IFRS 9 Financial Instruments.

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

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
Deferred income	**3,954**	3,563	**3,954**	3,340
Contract liabilities	**22,980**	–	**22,980**	–
Accruals and allowances	**106,356**	105,934	**97,872**	93,374
	133,290	109,497	**124,806**	96,714

9. INCOME TAX (CONT'D)

9D. Deferred tax balance in the statements of financial position (Cont'd)

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax liabilities:				
Available-for-sale investments	**–**	(6,982)	**–**	(6,982)
Fair value through other comprehensive income investments	**(5,911)**	–	**(5,911)**	–
	(5,911)	(6,982)	**(5,911)**	(6,982)

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.

9E. Unrecognised deferred tax assets

	2018		2017	
	Gross amount	Tax effect	Gross amount	Tax effect
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Group</u>				
Deferred income	**24,345**	3,652	**25,420**	3,813
Tax loss carryforwards	**108,445**	16,267	**85,059**	12,759
Accruals and allowances	**42,117**	6,318	**43,619**	6,543
	174,907	26,237	**154,098**	23,115

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, accruals and allowances as the future profit streams are not probable.

The unutilised tax losses are expiring in the following years:

	Unutilised tax losses		Unrecognised deferred tax assets	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Group</u>				
Expiring in 31 December 2018	**–**	715	**–**	107
Expiring in 31 December 2019	**4,289**	5,128	**644**	770
Expiring in 31 December 2020	**22,403**	22,591	**3,360**	3,389
Expiring in 31 December 2021	**32,723**	30,355	**4,908**	4,553
Expiring in 31 December 2022	**25,044**	26,270	**3,757**	3,940
Expiring in 31 December 2023	**23,986**	–	**3,598**	–
	108,445	85,059	**16,267**	12,759

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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 RMB561,680,000 (2017: RMB476,079,000) by the weighted average number of shares in issue of 768,873,076 (2017: 768,873,076) during the reporting year.

Diluted earnings per share for the reporting years ended 31 December 2018 and 2017 are the same as basic earnings per share because there were no potential dilutive shares existing during the respective reporting years.

11. DIVIDENDS ON EQUITY SHARE

11A. Dividend to owners of the Company

	Rate per share			
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Group and Company				
Dividend paid net of income tax	**0.20**	0.15	**153,775**	115,331

On 28 March 2019, the directors had proposed a final dividend of an aggregate amount of RMB169,152,000 (2017: RMB153,775,000) on the basis of RMB2.2 (2017: RMB2.0) for every 10 shares in the capital of the Company. This dividend is subject to approval of shareholders at the next annual general meeting and has not been included as a liability in these financial statements. The proposed dividend is payable in respect of all ordinary shares in issue at the end of the reporting year and including any new qualifying shares issued up to the date the dividend becomes payable.

11B. Dividends to non-controlling interest

Interim exempt (1-tier) dividends totalled RMB5,519,000 (2017: RMB5,120,000) were declared by certain subsidiaries to their non-controlling shareholders.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and Machinery RMB'000	Construction in Progress RMB'000	Total RMB'000
Group				
Cost:				
At 1 January 2017	1,058,105	775,135	167,005	2,000,245
Additions	5,700	17,078	127,530	150,308
Disposals/written-off	(3,134)	(38,516)	–	(41,650)
Reclassifications	3,387	9,442	(12,829)	–
Transfer to intangible assets (Note 15)	–	–	(2,000)	(2,000)
At 31 December 2017	1,064,058	763,139	279,706	2,106,903
Additions	6,355	38,278	150,291	194,924
Disposals/written-off	(798)	(35,070)	–	(35,868)
Reclassifications	19,716	49,976	(69,692)	–
Transfer from investment properties (Note 13)	1,007	–	–	1,007
Transfer to intangible assets (Note 15)	–	–	(417)	(417)
Elimination on disposal of a subsidiary (Note 16C)	–	(581)	–	(581)
At 31 December 2018	**1,090,338**	**815,742**	**359,888**	**2,265,968**
Accumulated depreciation and impairment loss:				
At 1 January 2017	431,900	572,942	–	1,004,842
Depreciation for the year	35,291	31,690	–	66,981
Disposals/written-off	(2,283)	(38,332)	–	(40,615)
At 31 December 2017	464,908	566,300	–	1,031,208
Depreciation for the year	32,384	36,428	–	68,812
Disposals/written-off	(697)	(33,001)	–	(33,698)
Transfer from investment properties (Note 13)	459	–	–	459
Elimination on disposal of a subsidiary (Note 16C)	–	(482)	–	(482)
At 31 December 2018	**497,054**	**569,245**	**–**	**1,066,299**
Carrying value:				
At 1 January 2017	626,205	202,193	167,005	995,403
At 31 December 2017	599,150	196,839	279,706	1,075,695
At 31 December 2018	**593,284**	**246,497**	**359,888**	**1,199,669**

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

	Buildings RMB'000	Plant and Machinery RMB'000	Construction in Progress RMB'000	Total RMB'000
Company				
Cost:				
At 1 January 2017	927,545	635,628	58,534	1,621,707
Additions	4,647	10,864	99,404	114,915
Disposals/written-off	(2,973)	(28,974)	–	(31,947)
Reclassifications	970	7,027	(7,997)	–
Transfer to intangible assets (Note 15)	–	–	(2,000)	(2,000)
At 31 December 2017	930,189	624,545	147,941	1,702,675
Additions	6,197	35,077	77,853	119,127
Disposals/written-off	(787)	(28,234)	–	(29,021)
Reclassifications	508	41,064	(41,572)	–
At 31 December 2018	**936,107**	**672,452**	**184,222**	**1,792,781**
Accumulated depreciation and impairment loss:				
At 1 January 2017	380,378	496,087	–	876,465
Depreciation for the year	27,956	19,095	–	47,051
Disposals/written-off	(2,106)	(29,719)	–	(31,825)
At 31 December 2017	406,228	485,463	–	891,691
Depreciation for the year	24,994	26,187	–	51,181
Disposals/written-off	(687)	(26,563)	–	(27,250)
At 31 December 2018	**430,535**	**485,087**	**–**	**915,622**
Carrying value:				
At 1 January 2017	547,167	139,541	58,534	745,242
At 31 December 2017	523,961	139,082	147,941	810,984
At 31 December 2018	**505,572**	**187,365**	**184,222**	**877,159**

Allocation of the depreciation expense:

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Cost of sales	**39,000**	35,684	**27,660**	23,691
Distribution expenses	**806**	1,264	**151**	290
Administrative expenses	**29,006**	30,033	**23,370**	23,070
	68,812	66,981	**51,181**	47,051

Titles to certain buildings of the Group and the Company with carrying value of approximately RMB86 million and RMB44 million respectively (2017: RMB47 million and RMB46 million) as at the end of the reporting year were held in the name of certain related parties. See Note 3E "Assets held in trust by related parties".

13. INVESTMENT PROPERTIES

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cost:				
At beginning of the year	**39,518**	39,518	**36,690**	36,690
Transfer to property, plant and equipment (Note 12)	**(1,007)**	–	**–**	–
At end of the year	**38,511**	39,518	**36,690**	36,690
Accumulated depreciation:				
At beginning of the year	**14,332**	13,270	**13,103**	12,118
Depreciation for the year	**1,056**	1,062	**985**	985
Transfer to property, plant and equipment (Note 12)	**(459)**	–	**–**	–
At end of the year	**14,929**	14,332	**14,088**	13,103
Carrying value:				
At beginning of the year	**25,186**	26,248	**23,587**	24,572
At end of the year	**23,582**	25,186	**22,602**	23,587
Fair value:				
Fair value at end of the year	**223,803**	241,051	**212,188**	222,449
Rental and service income	**9,352**	9,531	**7,616**	7,581
Direct operating expenses	**1,055**	1,062	**984**	985

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. The management had obtained the market information from the publicly available website based on recent transactions in the vicinity of the investment properties held by the Group and the Company. The fair value is regarded as Level 3 (2017: Level 3) 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 RMB10,500 to RMB34,600 (2017: RMB10,200 to RMB34,200) per square metre.

(d) Titles to certain investment properties of the Group and the Company with carrying value of approximately RMB7 million (2017: RMB8 million) as at the end of the reporting year were held in the name of certain related parties. See Note 3E "Assets held in trust by related parties".

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14. LAND USE RIGHTS

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At beginning and at end of the year	**246,926**	246,926	**211,217**	211,217
Accumulated amortisation:				
At beginning of the year	**78,906**	74,177	**71,612**	67,126
Amortisation for the year	**4,724**	4,729	**4,481**	4,486
At the end of the year	**83,630**	78,906	**76,093**	71,612
Carrying value:				
At beginning of the year	**168,020**	172,749	**139,605**	144,091
At end of the year	**163,296**	168,020	**135,124**	139,605

The amortisation expense is charged to administrative expenses.

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

(b) Titles to certain land use rights of the Group and the Company with carrying value of RMB21 million (2017: RMB22 million) as at the end of the reporting year were held in the name of certain related parties. See Note 3E "Assets held in trust by related parties".

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15. INTANGIBLE ASSETS

	Production Technology RMB'000	Patents RMB'000	Trademarks RMB'000	Software RMB'000	Development Cost RMB'000	Total RMB'000
Group						
At cost:						
At 1 January 2017	9,817	1,778	1,760	9,934	1,269	24,558
Additions	–	–	–	2,938	–	2,938
Transfer from construction in progress (Note 12)	–	–	–	2,000	–	2,000
Disposal	–	–	–	(178)	–	(178)
At 31 December 2017	9,817	1,778	1,760	14,694	1,269	29,318
Additions	–	–	–	1,323	63	1,386
Transfer from construction in progress (Note 12)	–	–	–	417	–	417
Disposal	–	–	–	(150)	–	(150)
At 31 December 2018	**9,817**	**1,778**	**1,760**	**16,284**	**1,332**	**30,971**
Accumulated amortisation:						
At 1 January 2017	6,841	691	1,760	7,358	–	16,650
Amortisation for the year	377	174	–	859	–	1,410
Disposal	–	–	–	(57)	–	(57)
At 31 December 2017	7,218	865	1,760	8,160	–	18,003
Amortisation for the year	290	170	–	1,095	–	1,555
Disposal	–	–	–	(150)	–	(150)
At 31 December 2018	**7,508**	**1,035**	**1,760**	**9,105**	**–**	**19,408**
Carrying value:						
At 1 January 2017	2,976	1,087	–	2,576	1,269	7,908
At 31 December 2017	2,599	913	–	6,634	1,269	11,315
At 31 December 2018	**2,309**	**743**	**–**	**7,179**	**1,332**	**11,563**

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15. INTANGIBLE ASSETS (CONT'D)

	Production Technology RMB'000	Patents RMB'000	Trademarks RMB'000	Software RMB'000	Total RMB'000
Company					
At cost:					
At 1 January 2017	8,122	1,778	1,760	8,621	20,281
Additions	–	–	–	4,677	4,677
At 31 December 2017	8,122	1,778	1,760	13,298	24,958
Additions	875	–	–	964	1,839
At 31 December 2018	**8,997**	**1,778**	**1,760**	**14,262**	**26,797**
Accumulated amortisation:					
At 1 January 2017	5,757	692	1,760	6,662	14,871
Amortisation for the year	309	174	–	637	1,120
At 31 December 2017	6,066	866	1,760	7,299	15,991
Amortisation for the year	1,097	170	–	934	2,201
At 31 December 2018	**7,163**	**1,036**	**1,760**	**8,233**	**18,192**
Carrying value:					
At 1 January 2017	2,365	1,086	–	1,959	5,410
At 31 December 2017	2,056	912	–	5,999	8,967
At 31 December 2018	**1,834**	**742**	**–**	**6,029**	**8,605**

The amortisation expense is charged to administrative expenses.

16. INVESTMENTS IN SUBSIDIARIES

	Company 2018 RMB'000	Company 2017 RMB'000
Equity interests, at cost	**637,711**	444,213
Less: Allowance for impairment	**(7,133)**	(7,133)
Net carrying amount	**630,578**	437,080
Movements in carrying value:		
At beginning of the year	**437,080**	380,413
Additions	**208,798**	56,667
Disposal	**(15,300)**	–
At end of the year	**630,578**	437,080
Movements in allowance for impairment loss:		
At beginning and end of the year	**(7,133)**	(7,133)

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16A. Subsidiaries held by the Group

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

Name of subsidiaries	Principal activities	Cost		Effective equity held	
		2018	2017	2018	2017
		RMB'000	RMB'000	%	%
Held by the Company					
Tianjin Da Ren Tang (Bo Zhou) Chinese Medicine Co., Ltd [Note 16B(a)]	Manufacture and sale of Chinese medicine	**180,014**	21,317	**100**	71
Beijing Zhong Xin Yaogu Medical Co., Ltd.	Wholesale and retail sale of medicine	**11,000**	11,000	**100**	100
Tianjin Zhong Xin Chuyun Trading Co., Ltd.	Logistics, stocks, services, equipment installation, simple processing of medicine	**6,999**	6,999	**100**	100
Tianjin Long Shun Rong Development Pharm Co., Ltd. [Note 16D]	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	**200,000**	200,000	**100**	100
Tianjin Hebei Daren Hospital	Operation of hospital	**17,050**	17,050	**100**	100
Tianjin Chinese Medicinal Slices Co., Ltd. [Note 16B(b)]	Manufacture and sale of Chinese pharmaceutical products and biological products	**43,100**	43,100	**100**	100
Tianjin Zhong Xin Xinxin Pharmaceutical (Cang Zhou) Co., Ltd.	Manufacture and sale of Chinese pharmaceutical products and biological products	**50,000**	–	**100**	–
Tianjin Zhong Xin International Trading Co., Ltd.	Dormant	**100**	–	**100**	–

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16A. Subsidiaries held by the Group (Cont'd)

Name of subsidiaries	Principal activities	Cost		Effective equity held	
		2018	2017	2018	2017
		RMB'000	RMB'000	%	%
Held by subsidiaries					
Tianjin Long Shun Rong Health Products Co., Ltd.	Sale of pharmaceutical and biological products			**100**	100
Anguo Xinlong Chinese Herbal Medicine Co.,Ltd.	Investment holding			**100**	100

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

Name of subsidiaries	Principal activities	Cost		Effective equity held	
		2018	2017	2018	2017
		RMB'000	RMB'000	%	%
Held by the Company					
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
Tianjin Xin Long Pharmaceutical Co., Ltd. [Note 16C]	Wholesale and retail sale of medicine	**–**	15,300	**–**	51
Tianjin Zhong Xin Pharmaceutical Group Guowei Medical Co., Ltd.	Wholesale and retail sale of medicine	**8,950**	8,950	**51**	51
Tianjin Zhong Xin Pharmaceutical Group Xuzhi Medical Science and Technology Co., Ltd.	Sale of Chinese pharmaceutical products and biological products	**5,610**	5,610	**51**	51

All subsidiaries are registered in the People's Republic of China and audited by Ruihua Certified Public Accountants.

16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16B. Acquisitions of subsidiaries

(a) The Company acquired an additional interest of 20% in Tianjin Da Ren Tang (Bo Zhou) Chinese Medicine Co., Ltd in 2017 for RMB6.02 million in cash and further additional interest of 29% in 2018 for RMB8.7 million in cash. The equity interest held by the Company increased from 51% to 71% in 2017 and to 100% in 2018. Changes in the ownership interest in a subsidiary that do not result in change in control are accounted as transactions with owners in their capacity as owners (as equity transactions). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amounts by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent. The proportionate share of the carrying amount of the net assets of Tianjin Da Ren Tang (Bo Zhou) Chinese Medicine Co., Ltd. has been transferred from non-controlling interest amounted to RMB5.99 million and RMB8.68 million in 2017 and 2018 respectively and loss and gain included in capital reserve in equity amounted to RMB29,000 and RMB17,000 in 2017 and 2018 respectively.

Subsequent to the completion of acquisition, the Company injected additional RMB150 million as share capital of the subsidiary.

(b) On 1 July 2017, the Company acquired 100% equity interest in Tianjin Chinese Medicinal Slices Co., Ltd. from a related company. The acquisition is accounted using pooling-of-interest method as the Company and the related company are under common control of the same ultimate parent company. The financial statements of the Group are presented as if the Group had been in existence for all periods presented and the combined assets, liabilities, and reserves of the pooled enterprises are recorded at their existing carrying amounts at the date of consideration. The excess of the fair value of the purchase consideration over the net book value of the assets acquired is adjusted to the capital reserve in equity. The carrying amount of the net assets of Tianjin Chinese Medicinal Slices Co., Ltd. at the date of consolidation amounted to RMB7.6 million and the difference between consideration paid and net assets of the subsidiary on date of consolidation amounted to RMB70.3 million has been included in merger reserve in equity.

Upon completion of the acquisition on 1 July 2017, the cost of investment in Tianjin Chinese Medicinal Slices Co., Ltd. of RMB62.7 million has been adjusted against the merger reserve in the equity of the Group and the Company respectively (Note 24D).

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16C. Disposal of a subsidiary

Tianjin Xin Long Pharmaceutical Co., Ltd. was disposed in January 2018 to a third party. The following table is a summary of the carrying value of assets and liabilities at the date when the Company dispose the subsidiary and the cash effect:

Group

	RMB'000
Property, plant and equipment	99
Trade and other receivables	99
Other assets, current	1,356
Cash and cash equivalents	25,664
Trade and other payables	(206)
Net assets derecognised	27,012
Less: Non-controlling interests	(13,236)
Net assets disposed of	13,776
Gain on disposals of interests in a subsidiary (Note 6)	306
Total proceeds received	14,082
Net cash outflow on disposal of a subsidiary	(11,582)

16D. Impairment of a subsidiary

Tianjin Long Shun Rong Development Pharm Co., Ltd. is continuing suffering losses over the years. As at the end of the reporting year, an impairment test was performed on the Company's carrying amount of investment in the subsidiary amounting to RMB37,867,000. An impairment loss of RMB7,133,000 has been recognised in 2016.

The value-in-use was measured by the management using discounted cash flow valuation technique (Level 3). The key assumptions used for value-in-use calculations, which are unobservable inputs, are as follows:

	2018	2017
Valuation technique:	Discounted cashflow method	
Unobservable inputs:		
Estimated discount rates using pre-tax rates that reflect current market assessments at the risks specific to the CGUs	11.37%	11.37%
Growth rates based on industry growth forecasts and not exceeding the average long-term growth rate for the relevant markets (average rate)	4% – 32% (19%)	8% – 34% (13%)
Cash flow forecasts derived from the most recent financial budgets and plans approved by management	10 years	10 years

There is no further impairment loss recognised in 2017 and 2018 as the recoverable amount approximately the carrying amount of investment.

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16E. Material subsidiaries with non-controlling interests

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

	Group	
	2018	2017
	RMB'000	RMB'000
Tianjin Da Ren Tang Jingwanhong Pharmaceutical Co., Ltd.		
Profit for the year allocated to NCI of the subsidiary	**7,397**	2,468
Accumulated NCI of the subsidiary at the end of the reporting year	**82,951**	80,353

The summarised financial information of the subsidiary (not adjusted for the percentage ownership held by the Group and amounts before inter-company eliminations):

	2018	2017
Dividends paid to non-controlling interests	**4,800**	4,800
Current assets	**263,203**	178,862
Non-current assets	**50,068**	55,928
Current liabilities	**(98,541)**	(37,279)
Non-current liabilities	**(11,275)**	(12,341)
Revenue	**350,676**	317,616
Profit for the reporting year	**28,285**	17,260
Total comprehensive income	**28,285**	17,260
Operating cash flows, increase	**48,443**	41,007
Net cash flows, increase/(decrease)	**139,113**	(73,156)

17. INVESTMENTS IN ASSOCIATES

	Group and Company	
	2018	2017
	RMB'000	RMB'000
Equity interests, at cost	**388,153**	388,153
Share of post-acquisition profits, net of dividends received	**213,618**	193,560
Share of other-equity items of associates	**29,154**	(19,255)
Net carrying value	**630,925**	562,458
Movements in carrying value:		
Balance at beginning of the year	**562,458**	561,031
Impact on adoption of IFRS 9 (Note 2A)	**56,650**	–
Restated balance at beginning of the year	**619,108**	561,031
Disposal	**–**	(16,183)
Share of the profits for the year	**163,237**	119,554
Dividends received	**(143,179)**	(98,727)
Share of other comprehensive loss, net	**(16,876)**	(3,217)
Share of capital contribution by other shareholders	**8,635**	–
Balance at end of the year	**630,925**	562,458

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17. INVESTMENTS IN ASSOCIATES (CONT'D)

The associates held by the Group are listed below:

Name of associates	Principal activities	Effective equity held 2018 %	Effective equity held 2017 %
Held by the Company			
Tianjin Hong Ren Tang 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
Tianjin Yiyao Printing Co., Ltd.[(a)]	Packing of medical and other products and printing of paper for packaging purposes	**35**	35
NewScen Coast Bio-Pharmaceutical Co., Ltd.[(a)]	Manufacture and sale of biological medicine	**26.3**	35
Tianjin Bio-Chip Co., Ltd.[(c)]	Development and sale of biological products	**26.4**	26.4
Dujiangyan Zhong Xin Chinese Herbs Cultivation Co., Ltd.[(d)]	Cultivation and processing of Chinese Herbs	**30**	30
Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd.[(d)]	Wholesale and retail sale of medicine and biochemical pharmaceutical products	**51**	51
Chengdu Zhong Xin Pharmaceutical Co., Ltd.[(d)]	Sale of Chinese pharmaceutical products and biological products	**51**	51
Held by the associates			
Chengdu Zhong Xin Chain Store Co., Ltd.[(d)]	Wholesale and retail sale of medicine	**51**	51

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

(a) Audited by Ruihua Certified Public Accountants.

(b) Audited by Deloitte Touche Tohmatsu Certified Public Accountant LLP.

(c) Audited by Tianjin Zhengzhe Certified Public Accountants LLP.

(d) 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 associates would not compromise the standard and effectiveness of the audit of the Group.

17. INVESTMENTS IN ASSOCIATES (CONT'D)

17A. Material associates

There are associates that are considered material to the Group and the Company. The summarised financial information of each of the material associate and the amounts (and not the Group's and the Company'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 and Company	
	2018	2017
	RMB'000	RMB'000
THP:		
Current assets	**144,895**	173,692
Non-current assets	**359,832**	259,873
Current liabilities	**(45,367)**	(63,587)
Non-current liabilities	**(2,400)**	(1,897)
Net assets of the associate	**456,960**	368,081
Equity interest	**40%**	40%
Proportion of the Group's and Company's interest in the associate	**182,784**	147,232
Goodwill	**92,336**	92,336
Fair value adjustments pertaining to purchase price allocation	**13,750**	17,756
Carrying amount of the Group's and Company's interest in the associate	**288,870**	257,324
Dividends received from the associate	**(36,000)**	–
Revenue	**283,998**	261,399
Profit for the reporting year	**70,060**	43,433
Total comprehensive income	**24,399**	43,433

	Group and Company	
	2018	2017
	RMB'000	RMB'000
TSKF:		
Current assets	**1,303,779**	1,189,701
Non-current assets	**521,027**	537,468
Current liabilities	**(929,660)**	(921,910)
Net assets of the associate	**895,146**	805,259
Proportion of the Group's and Company's interest in the associate	**25%**	25%
Carrying amount of the Group's and Company's interest in the associate	**223,787**	201,315
Dividends received from the associate	**(105,330)**	(94,545)
Revenue	**2,341,524**	2,153,298
Profit for the reporting year	**509,669**	419,782
Total comprehensive income	**509,669**	419,782

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17. INVESTMENTS IN ASSOCIATES (CONT'D)

17B. Aggregate for all non-material associates

There are associates that are considered not material to the Group and the Company. The summarised financial information of all the non-material associates and the aggregate amounts (and not the Group's and the Company'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 and Company	
	2018	**2017**
	RMB'000	**RMB'000**
Profit for the reporting year	**24,565**	6,733
Other comprehensive income/(loss)	**9,625**	(4,505)
Total comprehensive income	**34,190**	2,228
Net assets of the associates	**387,448**	301,615

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

17C. Disposal of associates in 2017

(a) In 2017, the Company disposed of 20% equity interest in Tianjin Sinobioway Biomedicine Co., Ltd. to a third party for a consideration of RMB47.8 million.

(b) In 2017, the Company disposed of 50.4% equity interest in Zigong Zhong Xin Pharmaceutical Chain Co., Ltd. for a consideration of RMB1.

(c) In 2017, the Company disposed of its 20% equity interest in Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd. ("Chengdu Zigong") for a consideration of RMB2.54 million. The Company's 51% owned associate, Chengdu Zhong Xin Pharmaceutical Co., Ltd. disposed of its 40% equity interest in Chengdu Zigong during the reporting year. Subsequent to the disposal, the Group and the Company has no significant influence over the financial and operating decision of the investee company. Hence, it was reclassified to other financial assets classified as available-for-sale and measure at cost less allowance for impairment in 2017 (see Note 18E).

18. OTHER FINANCIAL ASSETS

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Investments in equity shares at FVTOCI (Note 18A)	**120,780**	–	**120,780**	–
Investments at FVTPL (Note 18B)	**53,307**	–	**–**	–
Investments in debt assets instruments at FVTOCI (Note 18C)	**–**	–	**–**	–
Investments in unquoted equity interest at cost through OCI (Note 18D)	**21,306**	–	**21,306**	–
Investments as available-for-sale at cost less allowances for impairment (Note 18E)	**–**	196,806	**–**	96,306
Investments as available-for-sale at fair value through other comprehensive income (Note 18F)	**–**	52,915	**–**	52,915
Held-to-maturity investments at amortised cost (Note 18G)	**–**	541,948	**–**	–
	195,393	791,669	**142,086**	149,221
Presented in the statements of financial position as:				
Other financial assets, non-current	**142,086**	691,169	**142,086**	149,221
Other financial assets, current	**53,307**	100,500	**–**	–
	195,393	791,669	**142,086**	149,221

18A. Investments in equity shares at FVTOCI

	Group and Company	
	2018	**2017**
	RMB'000	**RMB'000**
Quoted equity shares (Note 18A1)	**39,420**	–
Unquoted equity interest (Note 18A2)	**81,360**	–
	120,780	–

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18. OTHER FINANCIAL ASSETS (CONT'D)

18A1. Quoted equity shares

	Group and Company	
	2018	2017
	RMB'000	RMB'000
Quoted equity shares (Level 1)	39,420	–
Movements during the year:		
Transfer from investments as available-for-sale at fair value through other comprehensive income (Note 18F)	52,915	–
Decrease in fair value through other comprehensive income (Note 24C)	(13,495)	–
Fair value at end of the year	39,420	–

The investments were classified as available-for-sale at fair value through other comprehensive income in 2017. See Note 18F.

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

		Group and Company	
	Level	2018	2017
		RMB'000	RMB'000
Property development	1	3,088	–
Energy	1	8,190	–
Transportation and shipping	1	11,399	–
Pharmaceutical	1	2,878	–
Financial services	1	13,865	–
Total		39,420	–

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

The Group has not obtained titles to certain investments with fair value of approximately RMB23 million as at the end of the reporting year. The titles of these investments are held in trust by related parties. See Note 3E "Assets held in trust by related parties".

18. OTHER FINANCIAL ASSETS (CONT'D)

18A2. Unquoted equity interest

	Group and Company	
	2018	**2017**
	RMB'000	**RMB'000**
Unquoted equity interest (Level 3)	**81,360**	–
Movements during the year:		
Transfer from investments as available-for-sale at cost less allowances for impairment (Note 18E)	**75,000**	–
Impact on adoption of IFRS 9 (Note 2A)	**4,222**	–
Restated balance at beginning of the year	**79,222**	–
Increase in fair value through other comprehensive income (Note 24C)	**2,138**	–
Fair value at end of the year	**81,360**	–

The investments were classified as available-for-sale at cost less allowances for impairment in 2017. See Note 18E.

For fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation techniques and information about the significant unobservable inputs used in the fair value measurement are as follows:

Unquoted equity shares:	**Valuation technique**	**Unobservable input**	**Range**
Finance service Industry	Net asset value	Not applicable	Not applicable

The management has determined that the reported net asset value represents fair value at the end of the reporting year as the investee company only provide service to related parties.

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18. OTHER FINANCIAL ASSETS (CONT'D)

18A3. Sensitivity analysis for price risk of equity shares at FVTOCI

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

Sensitivity analysis:

	Group and Company	
	2018	2017
	RMB'000	RMB'000
A hypothetical 10% increase in the market index of quoted equity shares would have an effect on pre-tax profit of	3,942	–
A hypothetical 10% increase in the market index that relates to unquoted equity interest would have an effect on fair value of	8,136	–

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

The quoted equity shares and unquoted equity interest in corporations are denominated in the Company's functional currency which is RMB.

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

18B. Investments at FVTPL

	Group	
	2018	2017
	RMB'000	RMB'000
Unquoted bonds in corporations (Level 3)	53,307	–
Movements during the year:		
Fair value at beginning of the year	–	–
Transfer from investments in debts assets instruments at FVTOCI (Note 18C)	507,479	–
Additions	50,000	–
Increase in fair value included through profit or loss under other income and gains (Note 6)	3,307	–
Disposal	(507,479)	–
Fair value at end of the year	53,307	–

18. OTHER FINANCIAL ASSETS (CONT'D)

18B. Investments at FVTPL (Cont'd)

The unquoted bonds are issued by corporations in the energy industry. These bond bear fixed interest rate at 8.3% per annum and mature in 2020.

The fair values above were based on transacted prices in trading platform of brokerage house in the People's Republic of China.

The unquoted bonds in corporations are not rated by reputable agencies.

	Group	
	2018	2017
	RMB'000	RMB'000
A hypothetical 10% increase in the market index of unquoted bond in corporations would have an effect on pre-tax profit of	5,331	–

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

The unquoted bonds in corporations are denominated in the Company's functional currency which is RMB.

18C. Investments in debt assets instruments at FVTOCI

	Group	
	2018	2017
	RMB'000	RMB'000
Unquoted bonds in corporations and country	–	–
Movements during the year:		
Transfer from held-to-maturity investments at amortised cost (Note 18G)	541,948	–
Impact on adoption of IFRS 9 (Note 2A)	(34,469)	–
Fair value at beginning of the year	507,479	–
Transfer to investments at FVTPL (Note 18B)	(507,479)	–
Fair value at end of the year	–	–

The investments were classified as held-to-maturity investments at amortised cost in 2017. See Note 18G.

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18. OTHER FINANCIAL ASSETS (CONT'D)

18C. Investments in debt assets instruments at FVTOCI (Cont'd)

Management has assessed the business models for managing the financial assets and the contractual cash flow characteristics that are applicable on 1 January 2018 to debt assets so as to classify the investments into the appropriate categories under the IFRS 9, that is, at FVTOCI.

During the reporting year, management has reassessed the business model of the financial asset and reclassified the investments to appropriate categories, that is FVTPL and the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

The unquoted bonds in corporations and country were rated at AA to AA+ by agencies in the People's Republic of China.

The fair values above were based on transacted prices in trading platform of brokerage houses in the People's Republic of China.

18D. Investments in unquoted equity interest at cost through OCI

	Group and Company	
	2018	**2017**
	RMB'000	**RMB'000**
Unquoted equity interest	**21,306**	–
Movements during the year:		
Transfer from investments as available-for-sale at cost less allowances for impairment (Note 18E)	**21,306**	–
Balance at end of the year	**21,306**	–

The investments were classified as investments as available-for-sale at cost less allowances for impairment in 2017. See Note 18E.

Unquoted equity interest represent equity interests in companies in the real estate, financial services industry, wholesale and retail sale of medicine industries, registered and operating in the People's Republic of China.

The financial reporting standard on financial instruments require that all investments in unquoted equity interest and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. When information about the performance and operations of the investee becomes available after the date of initial recognition and that relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the unquoted equity interest have to be measured at fair value.

18. OTHER FINANCIAL ASSETS (CONT'D)

18D. Investments in unquoted equity interest at cost through OCI (Cont'd)

There are no indicators that cost might not be representative of fair value such as:

(a) a significant change in the performance of the investee compared with budgets, plans or milestones.

(b) changes in expectation that the investee's technical product milestones will be achieved.

(c) a significant change in the market for the investee's equity or its products or potential products.

(d) a significant change in the global economy or the economic environment in which the investee operates.

(e) a significant change in the performance of comparable entities, or in the valuations implied by the overall market.

(f) internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.

(g) evidence from external transactions in the investee's equity, either by the investee (such as a fresh issue of equity), or by transfers of equity instruments between third parties.

Management has not identified a market for these unquoted equity instruments and it has not made a decision on how and when it intends to dispose of them in the foreseeable future.

Management has determined that the cost of investment in these unquoted equity interest approximate fair value due to the basis state above.

18E. Investments as available-for-sale at cost less allowances for impairment

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Unquoted investments	**–**	100,500	**–**	–
Unquoted equity interest	**–**	96,306	**–**	96,306
	–	196,806	**–**	96,306

Unquoted equity interest were stated after deducting allowance for impairment loss as follows:

	Group and Company	
	2018	2017
	RMB'000	RMB'000
Balance at beginning of the year	**8,700**	8,700
Transfer to investments in equity shares at FVTOCI (Note 18A)	**(8,700)**	–
Balance at end of the year	**–**	8,700

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18. OTHER FINANCIAL ASSETS (CONT'D)

18E. Investments as available-for-sale at cost less allowances for impairment (Cont'd)

Unquoted investments represent financial products of banks registered and operating in the People's Republic of China. The banks were rated BBB by an independent financial services company. The fair value of the unquoted investments as available-for-sale financial assets was 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 was carried at cost less allowance for impairment. Impairment losses recognised in profit or loss for equity investments were not reversed. The management were 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 and matured in 2018.

Unquoted equity interest represent equity interests in companies in the real estate, financial services industry, wholesale and retail sale of medicine industries, registered and operating in the People's Republic of China. The fair value of the unquoted investments as available-for-sale financial assets was 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 was carried at cost less allowance for impairment. Impairment losses recognised in profit or loss for equity investments were not reversed. The management were of the view that under such circumstances, it was also not possible to disclose the range of estimates within which a fair value was highly likely to lie. The investments in unquoted equity interest have been reclassified to investments in equity shares at FVTOCI and unquoted equity interest at cost through OCI on adoption of IFRS 9 Financial Instruments. See Note 18A and Note 18D.

18F. Investments as available-for-sale at fair value through other comprehensive income

	Group and Company	
	2018	**2017**
	RMB'000	**RMB'000**
Quoted equity shares	–	52,915
Movements during the year:		
Fair value at beginning of the year	–	54,327
Fair value loss on re-measuring available-for-sale financial assets (Note 24C)	–	(1,412)
Fair value at end of the year	–	52,915

The investments in quoted equity shares have been reclassified to investment in equity shares at FVTOCI on adoption of IFRS 9 Financial Instrument. See Note 18A.

18. OTHER FINANCIAL ASSETS (CONT'D)

18F. Investments as available-for-sale at fair value through other comprehensive income (Cont'd)

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

		Group and Company	
	Level	**2018**	**2017**
		RMB'000	**RMB'000**
Property development	1	–	6,090
Energy	1	–	10,674
Transportation and shipping	1	–	17,373
Pharmaceutical	1	–	3,907
Financial services	1	–	14,871
Total		–	52,915

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

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

Sensitivity analysis:

	Group and Company	
	2018	**2017**
	RMB'000	**RMB'000**
A hypothetical 10% increase in the market index of quoted equity shares would have an effect on pre-tax profit of	–	5,292

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 Company's functional currency which is RMB.

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

The Group has not obtained titles to certain investments with fair value of approximately RMB27 million in 2017. The titles of these investments are held in trust by related parties. See Note 3E "Assets held in trust by related parties".

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18. OTHER FINANCIAL ASSETS (CONT'D)

18G. Held-to-maturity investments at amortised cost

	Group	
	2018	2017
	RMB'000	RMB'000
Unquoted bonds in corporations and country	–	541,948

	Group	
	2018	2017
	RMB'000	RMB'000
Movements during the year – at amortised cost:		
Amortised cost at beginning of the year	–	466,469
Additions	–	839,141
Gain on disposal through profit or loss	–	1,600
Accretion in amortised cost, net	–	5,076
Disposals	–	(770,338)
Amortised cost at end of the year	–	541,948

The above investments have been reclassified to investments in debt assets instruments at FVTOCI on adoption of IFRS 9 Financial Instruments. See Note 18C.

	Group	
	2018	2017
	RMB'000	RMB'000
Real estate and properties development industry and government bonds:		
Unquoted bonds in corporations with interest rates of 7.2% per annum in 2017 and maturing in reporting year 2019	–	21,700
Unquoted bonds in corporations and government bonds with variable interest rates from 3.1% to 8.0% per annum in 2017 and maturing in reporting year 2020	–	64,626
Unquoted bonds in corporations with variable interest rates from 3.0% to 7.2% per annum in 2017 and maturing in reporting year 2021	–	43,624
Unquoted bonds in corporations with variable interest rates from 3.9% to 7.0% per annum in 2017 and maturing in reporting year 2022	–	216,199

18. OTHER FINANCIAL ASSETS (CONT'D)

18G. Held-to-maturity investments at amortised cost (Cont'd)

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Real estate and properties development industry and government bonds (Cont'd):		
Unquoted bonds in corporations with variable interest rates from 5.3% to 6.1% per annum in 2017 and maturing in reporting year 2024	–	51,278
Unquoted government bonds with interest rates of 3.7% per annum in 2017 and maturing in reporting year 2025	–	52,803
Unquoted government bonds with interest rates of 2.9% per annum in 2017 and maturing in reporting year 2026	–	30,758
Unquoted bonds in corporations and government bonds with variable interest rates from 3.5% to 4.4% per annum in 2017 and maturing in reporting year 2027	–	30,615
Unquoted government bonds with interest rates of 3.3% per annum in 2017 and maturing in reporting year 2046	–	30,345
Total	–	541,948

As at 31 December 2017, unquoted bonds in corporations of the Group amounting to RMB234 million have been pledged as securities for other loans (Note 28).

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

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Within 2 to 5 years	–	346,149
After 5 years	–	195,799
	–	541,948

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18. OTHER FINANCIAL ASSETS (CONT'D)

18G. Held-to-maturity investments at amortised cost (Cont'd)

The fair values of held-to-maturity investments at amortised cost shown above were as follows:

	Group	
	2018	2017
	RMB'000	RMB'000
Real estate and properties development industry and government bonds		
Unquoted bonds in corporations with interest rates of 7.2% per annum in 2017 and maturing in reporting year 2019	–	20,150
Unquoted bonds in corporations and government bonds with variable interest rates from 3.1% to 8.0% per annum in 2017 and maturing in reporting year 2020	–	61,150
Unquoted bonds in corporations with variable interest rates from 3.0% to 7.2% per annum in 2017 and maturing in reporting year 2021	–	40,699
Unquoted bonds in corporations with variable interest rates from 3.9% to 7.0% per annum in 2017 and maturing in reporting year 2022	–	209,017
Unquoted bonds in corporations with variable interest rates from 5.3% to 6.1% per annum in 2017 and maturing in reporting year 2024	–	50,000
Unquoted bonds in corporations with interest rates of 3.7% per annum in 2017 and maturing in reporting year 2025	–	46,174
Unquoted government bonds with interest rates of 2.9% per annum in 2017 and maturing in reporting year 2026	–	27,780
Unquoted bonds in corporations with variable interest rates from 3.5% to 4.4% per annum in 2017 and maturing in reporting year 2027	–	28,797
Unquoted government bonds with interest rates of 3.3% per annum in 2017 and maturing in reporting year 2046	–	23,712
Total	–	507,479

The fair values above were based on transacted prices in trading platform of brokerage houses in the People's Republic of China.

The unquoted bonds in corporations and country were rated at AA to AA+ by agencies in the People's Republic of China.

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

18. OTHER FINANCIAL ASSETS (CONT'D)

18G. Held-to-maturity investments at amortised cost (Cont'd)

Sensitivity analysis:

	Group	
	2018	2017
	RMB'000	RMB'000
A hypothetical 10% increase in the transacted prices of unquoted bonds would have an effect on pre-tax profit of	–	50,748

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

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

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

19. OTHER ASSETS

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	**223,624**	240,172	**214,679**	227,625
Presented in the statements of financial position as:				
Other assets, non-current	**20,858**	17,912	**22,881**	19,570
Other assets, current	**202,766**	222,260	**191,798**	208,055
	223,624	240,172	**214,679**	227,625

20. INVENTORIES

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	**464,332**	396,833	**446,363**	126,120
Work-in-progress	**141,421**	134,688	**133,774**	371,241
Finished goods	**722,618**	572,967	**648,905**	494,144
	1,328,371	1,104,488	**1,229,042**	991,505

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20. INVENTORIES (CONT'D)

Inventories are stated after allowance as follows:

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	**24,882**	20,135	**21,880**	18,261
Charge to profit or loss included under other losses (Note 6)	**16,116**	8,337	**14,304**	9,108
Used	**(4,281)**	(3,590)	**(4,090)**	(5,489)
Balance at end of the year	**36,717**	24,882	**32,094**	21,880
Changes in inventories of finished goods and work-in-progress (increase)	**(156,384)**	(147,144)	**(162,415)**	(150,502)
Raw materials, consumables and goods for resale recognised as expenses	**3,317,909**	3,151,178	**2,976,681**	2,709,508

There are no inventories pledged as security for liabilities.

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21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables:				
Bills receivable	**386,554**	269,008	**359,123**	239,312
Outside parties	**1,432,513**	1,371,470	**1,137,262**	1,139,539
Less: Allowance for impairment	**(133,605)**	(154,215)	**(126,580)**	(149,760)
Subsidiaries (Note 3)	**–**	–	**162,845**	172,453
Less: Allowance for impairment	**–**	–	**–**	(19)
Associates (Note 3)	**6,109**	8,772	**6,109**	8,568
Less: Allowance for impairment	**(5,868)**	(5,011)	**(5,868)**	(5,011)
Related parties (Note 3)	**26,892**	37,261	**21,172**	30,947
Less: Allowance for impairment	**(6,170)**	(8,833)	**(6,039)**	(8,467)
Subtotal	**1,706,425**	1,518,452	**1,548,024**	1,427,562
Other receivables:				
Outside parties	**42,947**	41,984	**29,675**	26,202
Less: Allowance for impairment	**(23,546)**	(23,643)	**(15,905)**	(15,995)
Subsidiaries (Note 3)	**–**	–	**41,804**	178,062
Associates (Note 3)	**28,936**	26,984	**28,934**	26,984
Less: Allowance for impairment	**(26,254)**	(23,529)	**(26,254)**	(23,529)
Related parties (Note 3)	**74**	22,702	**74**	74
Less: Allowance for impairment	**(74)**	(21,823)	**(74)**	(74)
Subtotal	**22,083**	22,675	**58,254**	191,724
Total trade and other receivables	**1,728,508**	1,541,127	**1,606,278**	1,619,286
Movements in above allowance for trade receivables – outside parties:				
Balance at beginning of the year	**154,215**	152,550	**149,760**	148,638
Charge for trade receivables to profit or loss included in other income and gains/(losses)	**4,624**	1,665	**1,808**	1,122
Used	**(25,234)**	–	**(24,988)**	–
Balance at end of the year	**133,605**	154,215	**126,580**	149,760
Movements in above allowance for trade receivables – subsidiaries:				
Balance at beginning of the year	**–**	–	**19**	15
Charge for trade receivables to profit or loss included in other income and gains/(losses)	**–**	–	**–**	4
Used	**–**	–	**(19)**	–
Balance at end of the year	**–**	–	**–**	19

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21. TRADE AND OTHER RECEIVABLES (CONT'D)

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Movements in above allowance for trade receivables – associates:				
Balance at beginning of the year	**5,011**	2,461	**5,011**	2,461
Charge for trade receivables to profit or loss included in other income and gains/(losses)	**857**	2,550	**857**	2,550
Balance at end of the year	**5,868**	5,011	**5,868**	5,011
Movements in above allowance for trade receivables – related parties:				
Balance at beginning of the year	**8,833**	8,728	**8,467**	8,812
Charge for trade receivables to profit or loss included in other income and gains/(losses)	**–**	105	**–**	–
Used	**(2,663)**	–	**(2,428)**	(345)
Balance at end of the year	**6,170**	8,833	**6,039**	8,467
Movements in above allowance for other receivables – outside parties:				
Balance at beginning of the year	**23,643**	23,152	**15,995**	15,675
(Reversal)/charge for other receivables to profit or loss included in other income and gains/(losses)	**(63)**	491	**(90)**	320
Used	**(34)**	–	**–**	–
Balance at end of the year	**23,546**	23,643	**15,905**	15,995
Movements in above allowance for other receivables – associates:				
Balance at beginning of the year	**23,529**	14,272	**23,529**	13,957
Charge for other receivables to profit or loss included in other income and gains/(losses)	**2,725**	9,257	**2,725**	9,572
Balance at end of the year	**26,254**	23,529	**26,254**	23,529
Movements in above allowance for other receivables – related parties:				
Balance at beginning of the year	**21,823**	17,931	**74**	429
(Reversal)/charge for other receivables to profit or loss included in other income and gains/(losses)	**(21,749)**	3,892	**–**	–
Used	**–**	–	**–**	(355)
Balance at end of the year	**74**	21,823	**74**	74

21. TRADE AND OTHER RECEIVABLES (CONT'D)

The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The methodology applied for impairment loss is the simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates (over a period of 36 months) over the expected life of the trade receivables and is adjusted for forward-looking estimates.

At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined as follows:

	Group			Company		
	Gross amount RMB'000	ELR %	Loss allowance RMB'000	Gross amount RMB'000	ELR %	Loss allowance RMB'000
2018						
Within 1 year	1,280,748	0.03	384	1,156,863	0.03	298
1 – 2 years	45,383	20.00	9,077	39,230	20.00	7,846
2 – 3 years	6,401	50.00	3,200	1,905	50.00	953
Over 3 years	132,982	100.00	132,982	129,390	100.00	129,390
Total	1,465,514		145,643	1,327,388		138,487

ELR = Expected Loss Rate

IFRS 9 was adopted using the modified retrospective approach and as such comparatives have not been provided for disaggregation of trade and other receivables.

Trade receivables are written-off when there are indications that there is no reasonable expectation of recovery or the failure of a debtor to make contractual payments over an extended period.

There is no concentration of credit risk with respect to trade receivables, as there are a large number of customers.

The other receivables at amortised cost shown above are subject to the expected credit loss model under the financial reporting standard on financial instruments. The other receivables at amortised cost and which can be graded as low risk individually are considered to have low credit risk. At the end of the first reporting period a loss allowance is recognised at an amount equal to 12-month expected credit losses because there has not been a significant increase in credit risk since initial recognition.

As at 31 December 2017, bills receivable of the Group amounting to RMB21 million were pledged with banks as securities for bills payable issued (Note 27).

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22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Not restricted in use:				
Cash and bank balances	**1,455,066**	975,114	**993,131**	863,858
Restricted in use:				
Bank deposits	**12,019**	17,064	**–**	–
Total	**1,467,085**	992,178	**993,131**	863,858

Restricted in use bank balances include security deposits to cover bills payable (Note 27) which has a maturity date within 3 months from the end of the reporting year.

The rate of interest for the cash on short-term bank deposits ranged from 0.35% – 2.03% (2017: 0.35% – 2.75%) per annum.

The bank balances of the Group and the Company include placement of deposit with a related party amounted to RMB567 million (2017: 288 million) and RMB475 million (2017: RMB240 million) respectively.

22A. Cash and cash equivalents in consolidated statement of cash flows

	Group	
	2018	2017
	RMB'000	RMB'000
Amount as shown above	**1,467,085**	992,178
Restricted bank deposits	**(12,019)**	(17,064)
Cash and cash equivalents in consolidated statement of cash flows	**1,455,066**	975,114

22B. There are no non-cash changes in liabilities arising from financing activities.

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23. SHARE CAPITAL

	Group and Company	
	Number of Ordinary Share Issued	Share Capital RMB'000
"A" shares		
Balance at 1 January 2017, 31 December 2017 and 31 December 2018	568,873,076	568,873
"S" shares		
Balance at 1 January 2017, 31 December 2017 and 31 December 2018	200,000,000	200,000
Total	768,873,076	768,873

	Group and Company	
	Number of Ordinary Share Issued	Share Capital RMB'000
"A" shares		
Circulating shares	565,868,076	565,868
Restricted circulating shares	3,005,000	3,005
Subtotal	568,873,076	568,873
"S" shares		
Circulating shares	200,000,000	200,000
Total	768,873,076	768,873

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23. SHARE CAPITAL (CONT'D)

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

On 10 July 2015, the Company carried out a share placement exercise and issued 29,564,356 "A" shares with par value of RMB1 for cash at RMB28.28 each 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 Co., Ltd, 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. During the reporting year, the Shanghai Stock Exchange approved the Company's application to convert 100,000 restricted circulating shares into circulating shares. The remaining 3,005,000 shares will remain restricted until applications are made with the Shanghai Stock Exchange to convert the restricted circulating shares to circulating shares.

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.

There are no significant external borrowings. The debt-to-adjusted capital ratio does not provide a meaningful indicator of the risk of borrowings.

24. OTHER RESERVES

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Capital reserve (Note 24A)	**57,111**	8,719	**134,542**	86,133
Statutory common reserve (Note 24B)	**434,365**	434,365	**434,365**	434,365
Fair value reserve (Note 24C)	**33,499**	39,563	**33,499**	39,563
Merger reserve (Note 24D)	**7,604**	7,604	**(19,612)**	(19,612)
	532,579	490,251	**582,794**	540,449

24A. Capital reserve

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Balance at beginning of the year	**8,719**	11,526	**86,133**	88,911
Impact on adoption of IFRS 9 (Note 2A)	**56,650**	–	**56,650**	–
Restated balance at beginning of the year	**65,369**	11,526	**142,783**	88,911
Equity share of changes in other reserves of associates	**(16,876)**	(3,217)	**(16,876)**	(3,217)
Acquisition from non-controlling interest without a change in control	**(17)**	(29)	**–**	–
Share of capital contribution by other shareholders	**8,635**	439	**8,635**	439
Balance at end of the year	**57,111**	8,719	**134,542**	86,133

The capital reserve comprises mainly reserve arising from the share of associates' other comprehensive income and the acquisition or disposal of equity interest in subsidiaries without a change in control.

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24. OTHER RESERVES (CONT'D)

24B. Statutory common reserve

	Group and Company	
	2018	2017
	RMB'000	RMB'000
Balance at beginning of the year	**434,365**	384,437
Appropriation from retained earnings	**–**	49,928
Balance at end of the year	**434,365**	434,365

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. As at end of the reporting year, the Group's and the Company's statutory common reserve have reached the limit of 50% on the registered capital and no further transfer was made during the reporting year.

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.

24C. Fair value reserve

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	**39,563**	40,764	**39,563**	40,764
Impact on adoption of IFRS 9 (Note 2A)	**(15,790)**	–	**3,589**	–
Restated balance at beginning of the year	**23,773**	40,764	**43,152**	40,764
Fair value loss on equity investment measured at FVTOCI	**(11,357)**	–	**(11,357)**	–
Fair value loss on re-measuring available-for-sale financial assets	**–**	(1,412)	**–**	(1,412)
Deferred tax thereon	**1,704**	211	**1,704**	211
	(9,653)	(1,201)	**(9,653)**	(1,201)
Reclassification adjustments due to disposal of debt instruments at FVTOCI	**19,379**	–	**–**	–
Balance at end of the year	**33,499**	39,563	**33,499**	39,563

24. OTHER RESERVES (CONT'D)

24D. Merger reserve

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Balance at beginning of the year	**7,604**	70,316	**(19,612)**	–
Arising from application of pooling-of-interest method (Note 16B)	**–**	(62,712)	**–**	(19,612)
Balance at end of the year	**7,604**	7,604	**(19,612)**	(19,612)

The merger reserve arises from the effects of business combination between entities under common control.

In applying pooling-of-interests or merger accounting, financial statement items of the combining entities for the reporting period in which the common control combination occurs, and for the comparative periods disclosed are included in the consolidated financial statements of the Group as if the combination had occurred from the date when the combining entities first came under the control of the controlling party or parties.

Upon completion of the acquisition on 1 July 2017, the cost of investment in Tianjin Chinese Medicinal Slices Co., Ltd. of RMB62.7 million has been adjusted against the merger reserve in the Group and the Company respectively.

25. TRADE PAYABLES, NON-CURRENT

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Accrued termination benefits	**41,450**	39,915	**41,241**	39,470

Termination benefits are payable when employment is terminated by the Group before the official retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

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26. OTHER LIABILITIES

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities (Note 26A)	**235,399**	–	**222,543**	–
Deferred income	**50,704**	49,175	**26,359**	23,754
Advance payments received	**34,832**	34,832	**24,832**	24,832
Advances from customers	**–**	55,129	**–**	43,033
Others	**3,949**	3,949	**–**	–
	324,884	143,085	**273,734**	91,619

Presented in the statements of financial position as:

	Group		Company	
	2018	2017	2018	2017
Other liabilities, non-current	**89,485**	87,956	**51,191**	48,586
Other liabilities, current	**235,399**	55,129	**222,543**	43,033
	324,884	143,085	**273,734**	91,619

Deferred income represents grants from government and other third parties.

Advances from customers have been reclassified to contract liabilities on adoption of IFRS 15 Revenue from Contracts with Customers. See Note 26A.

26A. Contract liabilities

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities on expected refunds to customers	**235,399**	–	**222,543**	–

26. OTHER LIABILITIES (CONT'D)

26A. Contract liabilities (Cont'd)

The movement in the contract liabilities are as follows:

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at the beginning of the year	–	–	–	–
Impact on adoption of IFRS 15				
– Transfer from trade and other payables, current (Note 2A)	126,444	–	126,444	–
– Transfer from advances from customers	55,129	–	43,033	–
Restated balance at beginning of the year	181,573	–	169,477	–
Refunds	(99,376)	–	(100,136)	–
Changes in transaction price	153,202	–	153,202	–
Balance at end of the year	235,399	–	222,543	–

The contract liabilities amounting to RMB7 million (2017: RMB25 million) of the Group and the Company were from related parties, so that immediate delivery of medical products can be made in event of any emergency needs.

Contract liabilities related primarily to advances from and volume rebate to customers.

Transaction price allocated to the remaining performance obligations:

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Expected to be recognised within 1 year	235,399	–	222,543	–

IFRS 15 was adopted using the modified retrospective approach and as such comparatives have not been provided.

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27. TRADE AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables:				
Bills payable	**12,382**	117,987	**–**	100,988
Outside parties	**572,537**	521,383	**454,603**	365,705
Accrued retirement benefits	**719**	1,315	**719**	1,315
Accrued termination benefits	**12,913**	14,209	**12,839**	13,954
Accrued operating expenses	**465,859**	389,876	**438,373**	380,655
Subsidiaries (Note 3)	**–**	–	**14,174**	21,607
Associates (Note 3)	**7,022**	3,753	**6,352**	2,886
Related parties (Note 3)	**8,675**	12,913	**5,965**	35,726
Subtotal	**1,080,107**	1,061,436	**933,025**	922,836
Other payables:				
Outside parties	**235,487**	161,769	**111,481**	94,342
Other taxes payables	**55,960**	34,908	**42,359**	25,499
Dividends payable	**12,748**	12,007	**12,748**	12,007
Subsidiaries (Note 3)	**–**	–	**9,527**	9,323
Associates (Note 3)	**40**	40	**40**	40
Related parties (Note 3)	**1,137**	12,743	**472**	13,109
Subtotal	**305,372**	221,467	**176,627**	154,320
Total trade and other payables	**1,385,479**	1,282,903	**1,109,652**	1,077,156

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

28. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans A (unsecured)	**200,000**	210,000	**200,000**	260,000
Other loans A (unsecured)	**52,000**	52,000	**50,000**	–
Other loans B (secured)	**–**	234,357	**–**	–
	252,000	496,357	**250,000**	260,000

28. OTHER FINANCIAL LIABILITIES (CONT'D)

The bank loans bore interest rates per annum as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
Bank loans A (unsecured)				
– fixed rate	**4%**	4%	**4%**	4%
– floating rate	**–**	4%	**–**	4%
Other loans A (unsecured)				
– fixed rate	**5%**	5%	**5%**	–
Other loans B (secured)				
– floating rate	**–**	8.5% – 14.6%	**–**	–

Other loans A

Other loans were due to a related party.

Other loans B

In 2017, other loans B totalled RMB234 million were secured by pledges of unquoted bonds in corporations and country of the same amount (Note 18G).

29. CONTINGENCIES

As disclosed in prior year, 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 judgement passed in March 2010, an appeal was filed with the high court of Tianjin. A final judgement 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 judgement. There were no further development during the reporting year.

30. CAPITAL COMMITMENTS

Estimated amounts committed at the end of the reporting year for future capital expenditure but not recognised in the financial statements are as follows:

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Contractual obligations to purchase and construct	**11,155**	15,260

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

31. OPERATING LEASE PAYMENT COMMITMENTS – AS LESSEE

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

	Group	
	2018 RMB'000	2017 RMB'000
Not later than one year	**2,790**	1,642
Later than one year and not later than three years	**2,515**	2,257
Later than three years	**1,835**	2,119
Rental expense for the year	**17,789**	16,484

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

32. OPERATING LEASE INCOME COMMITMENTS – AS LESSOR

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

	Group	
	2018 RMB'000	2017 RMB'000
Not later than one year	**8,555**	8,925
Later than one year and not later than three years	**11,991**	12,868
Later than three years	**7,778**	10,912

Operating lease income commitments are for the investment properties.

33. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

33A. Categories of financial assets and liabilities

	Group		Company	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Financial assets:				
Financial assets at amortised cost	**3,195,593**	3,324,974	**2,599,409**	2,632,365
Financial assets at fair value through profit or loss (FVTPL)	**53,307**	–	**–**	–
Financial assets that is an equity investment at fair value through other comprehensive income (FVTOCI)	**142,086**	–	**142,086**	–
	3,390,986	3,324,974	**2,741,495**	2,632,365
Financial liabilities:				
Financial liabilities at amortised cost	**1,678,929**	1,819,175	**1,400,893**	1,377,401

Further quantitative disclosures are included throughout these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

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

33B. 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:

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

(ii) 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.

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

(iv) 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.

33C. 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.

33D. 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. These arise principally from cash balances with banks, cash equivalents, receivables and other financial assets. The maximum exposure to credit risk is the total of the fair value of the financial assets 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. For expected credit losses (ECL) on financial assets, a simplified approach is permitted by the financial reporting standards on financial instruments for financial assets that do not have a significant financing component, such as trade receivables. On initial recognition, a day-1 loss is recorded equal to the 12-month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For credit risk on trade receivables an ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limits are made. Renewals and reviews of credits limits are subject to the same review process.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

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

33D. Credit risk on financial assets (Cont'd)

Cash and cash equivalents disclosed in Note 22 represent amounts less than 90 days maturity. Cash and cash equivalents are also subject to the impairment requirements of the standard on financial instruments. There was no identified impairment loss.

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 (2017: 60 days). But some customers take a longer period to settle the amounts.

(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	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within 1 year	**1,280,364**	1,219,610	**1,156,565**	1,166,036
1 – 2 years	**36,307**	28,977	**31,384**	21,926
2 – 3 years	**3,200**	857	**952**	288
	1,319,871	1,249,444	**1,188,901**	1,188,250

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within 1 year	**384**	487	**298**	487
1 – 2 years	**9,077**	7,244	**7,849**	5,481
2 – 3 years	**3,200**	857	**952**	288
Over 3 years	**131,681**	159,471	**129,388**	156,999
	145,643	168,059	**138,487**	163,255

The allowance which is disclosed in the Note 21 on trade receivables is based on individual accounts totalling RMB145 million (2017: RMB168 million) and RMB138 million (2017: RMB163 million) for the Group and the Company respectively that are determined to be impaired at the end of the reporting year. These are not secured.

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

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

33E. 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:

	Less than 1 year RMB'000	2 – 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group				
2018				
Gross borrowings commitments	**207,362**	**–**	**–**	**207,362**
Trade and other payables	**1,374,360**	**5,263**	**140**	**1,379,763**
	1,581,722	**5,263**	**140**	**1,587,125**
2017				
Gross borrowings commitments	503,844	–	–	503,844
Trade and other payables	1,269,951	3,063	947	1,273,961
	1,773,795	3,063	947	1,777,805
Company				
2018				
Gross borrowings commitments	**256,956**	**–**	**–**	**256,956**
Trade and other payables	**1,098,489**	**4,981**	**–**	**1,103,470**
	1,355,445	**4,981**	**–**	**1,360,426**
2017				
Gross borrowings commitments	266,729	–	–	266,729
Trade and other payables	1,064,389	2,980	947	1,068,316
	1,331,118	2,980	947	1,335,045

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 (2017: 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2018

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

33F. 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	
	2018	**2017**	**2018**	**2017**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets:				
Floating rate	**1,467,085**	1,634,626	**993,131**	863,858
Financial liabilities:				
Fixed rate	**252,000**	122,000	**250,000**	120,000
Floating rate	**–**	374,357	**–**	140,000
	252,000	496,357	**250,000**	260,000

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

Sensitivity analysis: The effect on pre-tax profit is not significant.

33G. 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.

33H. Equity price risk

There are investments in equity shares or similar instruments. As a result, such investments are exposed to both currency risk and market risk arising from uncertainties about future values of the investment securities. The fair values of these assets and sensitivity analysis are disclosed in Note 18.

34. ITEMS IN PROFIT OR LOSS

The following charges have been included in administrative expenses:

	Group	
	2018	**2017**
	RMB'000	**RMB'000**
Audit fees to the independent auditors of the Company	**3,286**	3,293
Other fees to the independent auditors of the Company	**1,203**	917

NOTES TO THE
FINANCIAL STATEMENTS
31 DECEMBER 2018

35. 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 RMB'000	Cost of sales RMB'000	Gross profit RMB'000
2018			
Chinese Medicine	**4,199,609**	**(2,036,387)**	**2,163,222**
Western Medicine	**1,774,235**	**(1,438,309)**	**335,926**
Others	**384,778**	**(319,346)**	**65,432**
Total	**6,358,622**	**(3,794,042)**	**2,564,580**
2017			
Chinese Medicine	3,648,838	(1,695,988)	1,952,850
Western Medicine	1,490,925	(1,352,088)	138,837
Others	549,479	(497,332)	52,147
Total	5,689,242	(3,545,408)	2,143,834

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

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

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

NOTICE OF ANNUAL GENERAL MEETING

31 DECEMBER 2018

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited will hold its annual general meeting for the financial year ended 31 December 2018 ("FY2018") at the meeting room of Super Garden Hotel, No. 2 Rongye Avenue, Heping District, Tianjin 300021, PRC on 15 May 2019 at 1:30 p.m. Concurrently, a video conferencing for holders of "S" shares will be held at Pinnacle Suite, Wangz Business Centre, 7 Temasek Blvd, #44-01, The Penthouse Suntec Tower 1, Singapore 038987.

The agenda for the meeting shall be as follows:

1. To consider and approve the Chairman's Report for FY2018. (Resolution 1)

2. To consider and approve the Board of Directors' Report for FY2018. (Resolution 2)

3. To consider and approve the Supervisory Committee's Report for FY2018. (Resolution 3)

4. To consider and approve the Financial Report and Audit Report for FY2018 audited by Ruihua Certified Public Accountants and RSM Chio Lim LLP. (Resolution 4)

5. To consider and approve the scheme of profit distribution policy of the Company for FY2018. (Resolution 5)

   The Board has recommended to declare dividends of an aggregate amount of RMB169,152,076.72 on the basis of RMB2.2 (inclusive of taxes) for every 10 shares in the capital of the Company. The proposed dividend is payable in respect of 768,873,076 issued ordinary shares in the capital of the Company as at 31 December 2018.

6. To consider and approve the remuneration of S$60,000 for independent director Mr. Timothy Chen Teck Leng for FY2018. (Resolution 6)

7. To consider and approve the remuneration of S$55,000 for independent director Mr. Vincent Toe Teow Heng for FY2018. (Resolution 7)

8. To consider and approve the remuneration of RMB60,000 for independent director Mr. Qiang Zhiyuan for FY2018. (Resolution 8)

9. To consider and approve the aggregate remuneration for directors of the Company for FY2018. (Resolution 9)

10. To consider and approve the aggregate remuneration for members of the Supervisory Committee for FY2018. (Resolution 10)

11. To consider and approve the appointment of Mr. Wong Gang as independent director of the Company. (Resolution 11)

12. To consider and approve the appointment of Mr. Zhou Hong as director of the Company. (Resolution 12)

13. To consider and approve the appointment of Mr. Zhang Bingqiang as the member of the Supervisory Committee. (Resolution 13)

14. To renew the shareholders' mandate for the interested person transactions. (Resolution 14)

   (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.

NOTICE OF ANNUAL GENERAL MEETING

31 DECEMBER 2018

15. To consider and approve the loan facilities granted to the Company to an aggregate limit of RMB7,310,000,000. (Resolution 15)

Other agenda to be resolved in the General Meeting shall, include any agenda proposed by a shareholder in accordance with Article 70 of the Articles of Association, which states: "When the Company is to hold an annual General Meeting, shareholders holding 3% 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."

By order of the Board of Directors

Jiao Yan
Company Secretary

Notes:

1. A holder of shares entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more persons (who need not also be shareholders) to act as their proxies to attend and vote on their behalf.

   If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or 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 2019.

3. Personal Data Privacy: By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting 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 Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (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 19 April 2019.

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 2019.

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/her attendance at the Annual General Meeting shall be borne by that Shareholder.

PROXY FORM

TIANJIN ZHONGXIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(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, ______________________________ (Name) with NRIC/Passport/

Company Registration Number ______________________________ of

______________________________ (Address)

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

Name	NRIC/Passport Number	Proportion of Shareholdings	
		No. of Shares	%
Address			

and/or (delete as appropriate)

Name	NRIC/Passport Number	Proportion of Shareholdings	
		No. of Shares	%
Address			

or failing *him/her, the Chairman of the Annual General Meeting ("AGM") as *my/our *proxy/proxies to attend and vote for *me/us on *my/our behalf at the AGM of the Company to be held at the meeting room of Super Garden Hotel, No. 2 Rongye Avenue, Heping District, Tianjin 300021, PRC on 15 May 2019 at 1:30 p.m. and at any adjournment thereof.

*I/We direct *my/our *proxy/proxies to vote for or against the Resolutions to be proposed at the AGM as indicated hereunder. If no specific direction as to voting is given or in the event of any other matter arising at the AGM and at any adjournment thereof, the *proxy/proxies may vote or abstain from voting at *his/her discretion.

* *Delete where inapplicable*

(Voting will be conducted by poll. If you wish to exercise all your votes "For" or "Against", please indicate your vote with a tick [√]. Alternatively, please indicate the number of votes "For" or "Against".)

PROXY **FORM**

Date: 15 May 2019

No.	Items on the Agenda	For	Against
1.	To consider and approve the Chairman's Report for FY2018.		
2.	To consider and approve the Board of Directors' Report for FY2018.		
3.	To consider and approve the Supervisory Committee's Report for FY2018.		
4.	To consider and approve the Financial Report and Audit Report for FY2018 audited by Ruihua Certified Public Accountants and RSM Chio Lim LLP.		
5.	To consider and approve the scheme of profit distribution policy of the Company for FY2018.		
6.	To consider and approve the remuneration of S$60,000 for independent director Mr. Timothy Chen Teck Leng for FY2018.		
7.	To consider and approve the remuneration of S$55,000 for independent director Mr. Vincent Toe Teow Heng for FY2018.		
8.	To consider and approve the remuneration of RMB60,000 for independent director Mr. Qiang Zhiyuan for FY2018.		
9.	To consider and approve the aggregate remuneration for directors of the Company for FY2018.		
10.	To consider and approve the aggregate remuneration for members of the Supervisory Committee for FY2018.		
11.	To consider and approve the appointment of Mr. Wong Gang as independent director of the Company.		
12.	To consider and approve the appointment of Mr. Zhou Hong as director of the Company.		
13.	To consider and approve the appointment of Mr. Zhang Bingqiang as the member of the Supervisory Committee.		
14.	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.		
15.	To consider and approve the loan facilities granted to the Company to an aggregate limit of RMB7,310,000,000.		
	Other agenda to be resolved in the General Meeting shall, include any agenda proposed by a shareholder in accordance with Article 70 of the Articles of Association, which states: "When the Company is to hold an annual General Meeting, shareholders holding 3% 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."		

PROXY FORM

Dated this _______ day of _________________ 2019.

Total Number of Shares Held in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

____

Signature(s) of Member(s) or
Common Seal of Corporate Shareholder

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 81SF of the Securities and Futures Act, Chapter 289 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 AGM is entitled to appoint one or more persons (who need not also be shareholders) to act as his/her proxies to attend and vote on his/her behalf. Where a member appoints more than one proxy, the appointment shall be deemed to be alternative unless he/she specifies the proportion of his/her 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 address of 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) not later than forty-eight (48) hours before the time appointed for the AGM.

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 that was 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 AGM as certified by CDP 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.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Company's Notice of AGM given on 29 March 2019.

INFORMATION ON SHAREHOLDING

Registered Capital: RMB768,873,076

Class of Shares: Ordinary shares of RMB1.00 each (of which 568,873,076 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 2 April 2019

Range of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 99	2	0.08	15	0.00
100 – 1,000	73	3.01	56,938	0.03
1,001 – 10,000	1,565	64.57	7,993,863	4.00
10,001 – 1,000,000	766	31.60	43,928,855	21.96
1,000,001 AND ABOVE	18	0.74	148,020,329	74.01
Total	**2,424**	**100.00**	**200,000,000**	**100.00**

Foreign Substantial Shareholders as at 2 April 2019

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 26.012%, and the Company hereby confirms that Rule 723 has been complied with.

Domestic Substantial Shareholders as at 2 April 2019

	Direct Interests		Deemed Interests	
Name	No. of Shares	%	No. of Shares	%
TPG	325,855,528	42.38	5,265,000[(1)]	0.68

Note:

(1) Pursuant to Section 4 of the Securities and Futures Act (Chapter 289) of Singapore, TPG is deemed interested in the 5,265,000 shares in the capital of the Company held by its wholly-owned subsidiary, Tianjin Pharmaceutical (Singapore) International Investment Pte. Ltd.

INFORMATION ON SHAREHOLDING

Major Foreign Shareholder's List as at 2 April 2019

	Name	No. of Shares	%
1	RAFFLES NOMINEES (PTE.) LIMITED	25,863,700	12.93
2	DBS NOMINEES (PRIVATE) LIMITED	22,148,640	11.07
3	PHILLIP SECURITIES PTE LTD	19,755,400	9.88
4	ABN AMRO CLEARING BANK N.V.	17,450,400	8.73
5	CITIBANK NOMINEES SINGAPORE PTE LTD	13,775,945	6.89
6	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	11,494,900	5.75
7	HSBC (SINGAPORE) NOMINEES PTE LTD	6,278,100	3.14
8	OCBC SECURITIES PRIVATE LIMITED	4,093,000	2.05
9	TAN TOH HEAH OR TAN SWEE TECK MICHAEL	3,700,000	1.85
10	UOB KAY HIAN PRIVATE LIMITED	3,641,400	1.82
11	BPSS NOMINEES SINGAPORE (PTE.) LTD.	3,155,000	1.58
12	BANK OF CHINA NOMINEES (PTE) LTD	3,021,000	1.51
13	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	2,977,500	1.49
14	DB NOMINEES (SINGAPORE) PTE LTD	2,645,800	1.32
15	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	2,559,100	1.28
16	LU ZU LIANG	2,459,600	1.23
17	KUEK SIAW KIA @ QUEK SHIEW POH	1,665,100	0.83
18	MAYBANK KIM ENG SECURITIES PTE. LTD.	1,335,744	0.67
19	PEH CHIN CHIONG	984,500	0.49
20	ZHANG JUN	970,000	0.49
	Total	**149,974,829**	**75.00**

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
ZHONGXIN PHARMACEUTICALS

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Incorporated in the People's Republic of China)
(Company Registration No.: 91120000103100784F)

ANNEXURE ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

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:–

"2019 AGM" : The annual general meeting of the Company to be held on 15 May 2019

"Act" or *"Companies Act"* : The Companies Act, Chapter 50 of Singapore, as amended, supplemented and/or modified from time to time

"AGM" : An annual general meeting of the Company

"Annexure" : This Annexure to Shareholders dated 30 April 2019

"Articles" or *"Articles of Association"* : The articles of association of the Company, as amended, supplemented and/or modified from time to time

"associate" :

(a) In relation to any Director, chief executive officer, Substantial Shareholder or Controlling Shareholder (being an individual) means:

  (i) his immediate family;

  (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and

  (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of thirty per cent. (30%) or more;

(b) In relation to a Substantial Shareholder or Controlling Shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of thirty per cent. (30%) or more

"Associated Company" : A company in which at least 20% but not more than 50% of its shares are held by the Company or the Group

"Audit Committee" : The audit committee of the Company for the time being

"Board" or *"Board of Directors"* : The board of directors of the Company for the time being

"CDP" : The Central Depository (Pte) Limited

"Company" : Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

"Controlling Shareholder"	:	A person who: (i) holds directly or indirectly fifteen per cent. (15%) or more of the total voting rights in the Company; or (ii) in fact exercises control over the Company
"Directors"	:	The directors of the Company as at the date of this Annexure
"Group"	:	The Company, its Subsidiaries and Associated Companies
"FY" or *"Financial Year"*	:	Financial year ended or, as the case may be, ending 31 December
"FY2018"	:	Financial year ended 31 December 2018
"Independent Directors"	:	The directors that are deemed independent for the purposes of making the recommendation in Paragraph 2.9 of Appendix A of this Annexure, namely, all the Directors
"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 2019
"Listing Manual"	:	The listing manual of the SGX-ST, as amended, modified and/or supplemented from time to time
"Market Day"	:	A day on which the SGX-ST is open for trading of securities
"Notice of AGM"	:	Notice of the 2019 AGM given on 29 March 2019
"NTA"	:	Net tangible assets
"PRC"	:	People's Republic of China
"Proposed Renewal"	:	Has the meaning ascribed to it in Section 1.2 of this Annexure
"securities accounts"	:	The securities accounts maintained with CDP, but not including the securities accounts maintained with a Depository Agent
"SFA"	:	The Securities and Futures Act, Chapter 289 of Singapore, as amended, supplemented and/or modified from time to time

"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) and "*Subsidiary*" shall be constructed accordingly
"Substantial Shareholder"	:	A person who has an interest or interests in one (1) or more voting Shares (excluding treasury shares) in the Company, and the total votes attached to that Share, or those Shares, represent not less than five per cent. (5.0%) of the total votes attached to all the voting Shares (excluding treasury shares) in 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 in its own name
"TYPS"	:	Tianjin Yiyao Printing Services Company Limited (formerly known as Tianjin Medicinal Products Packaging and Printing Company)
"%" or *"per cent."*	:	Percentage or per centum

The terms "Depositor", "Depository Register" and "Depository Agent" shall have the meanings ascribed to them respectively in Section 81SF of the SFA.

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, the SFA 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, the SFA or any modification thereof, as the case may be.

Any reference to a time of a day in this Circular is a reference to Singapore time.

Any discrepancies in this Circular between the sum of the figures stated and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Circular may not be an arithmetic aggregation of the figures which precede them.

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Incorporated in the People's Republic of China)
(Company Registration No.: 91120000103100784F)

Board of Directors

Mr. Li Liqun (Chairman)
Ms. Yu Hong (Executive Director)
Mr. Wang Mai (Executive Director)
Ms. Yan Min (Executive Director)
Mr. Timothy Chen Teck Leng (Lead Independent and Non-Executive Director)
Mr. Vincent Toe Teow Heng (Independent and Non-Executive Director)
Mr. Qiang Zhiyuan (Independent and Non-Executive Director)

Registered Office

17 Baidi Road,
Nankai District,
Tianjin, the PRC

30 April 2019

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

Dear Sir/Madam

1. INTRODUCTION

1.1 The Company has issued a notice of the 2019 AGM on 29 March 2019 (the "**Notice of AGM**").

1.2 Resolution 14 in 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 the TPG Group in compliance with Chapter 9 of the Listing Manual.

1.3 The purpose of this Annexure is to provide Shareholders with information pertaining to, and to seek Shareholders' approval for, the Proposed Renewal at the forthcoming AGM to be held on 15 May 2019.

2. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

2.1 Directors' and Substantial Shareholders' 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				
Li Liqun	–	–	–	–
Yan Min	–	–	–	–
Yu Hong	–	–	–	–
Wang Mai	–	–	–	–
Timothy Chen Teck Leng	–	–	–	–
Vincent Toe Teow Heng	–	–	–	–
Qiang Zhiyuan	–	–	–	–
Substantial Shareholders				
TPG	325,855,528	42.38	5,265,000(1)	0.68

Note:

(1) Pursuant to Section 4 of the SFA, TPG is deemed interested in the 5,265,000 shares in the capital of the Company held by its wholly-owned subsidiary, Tianjin Pharmaceutical (Singapore) International Investment Pte. Ltd.

2.2 TPG will abstain, and has undertaken to ensure that its respective associates will abstain, from voting at the 2019 AGM, in respect of the Shares held by them respectively, on Resolution 14 relating to the Proposed Renewal. TPG will also not, and has undertaken to ensure that its respective associates will also not, accept nomination as proxies or otherwise for voting at the 2019 AGM in respect of Resolution 14, unless specific instructions have been given in the proxy instrument on how the relevant Shareholders wish their votes to be cast for Resolution 14.

2.4 Save as disclosed in this Annexure, none of the Directors or Substantial Shareholders has any interest in the Proposed Renewal.

3. DIRECTORS' RESPONSIBILITY STATEMENT

3.1 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 this Annexure misleading.

3.2 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 2019 AGM:–

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

(b) the Annual Report of the Company for FY2018.

Yours faithfully
For and on behalf of the Directors

Li Liqun
Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

APPENDIX A

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

1. INTRODUCTION

TPG directly holds approximately 43.066% 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 2018, 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 resolution relating to the renewal of the Shareholders' Mandate be tabled to Shareholders for approval at the 2019 AGM, in order to authorise the Group to continue to enter into transactions with the 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 proposed 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 with an interested person of the listed company.

Interested Person Transactions that the Company were involved in are detailed on page 17 of the Company's annual report for FY2018.

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, 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 addition 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 partly-owned subsidiary or associated 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 Shareholders' Mandate, if renewed, 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 43.066% shareholdings in the Company as at the Latest Practicable Date;

(b) Wholly-owned subsidiaries of TPG comprising, amongst others:

  (i) Tianjin Pharmaceutical Group Taiping Medicine Co., Ltd.;

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

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

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

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

(d) Tianjin Lisheng Pharmaceutical Co. Ltd, which is 51.36% owned by TPG as at the Latest Practicable Date;

(e) Tianjin Central Pharmaceutical Co., Ltd., which is 51.36% owned by TPG as at the Latest Practicable Date;

(f) Tianjin Taiping Longlong Pharmaceutical Co., Ltd., which is 51% owned by TPG as at the Latest Practicable Date;

(g) Tianjin Taiping Xiangyun Pharmaceutical Co., Ltd., which is 50% owned by TPG as at the Latest Practicable Date;

(h) Tianjin Taiping Zhenhua Pharmacy Co., Ltd. (天津太平振华大药房有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(i) Tianjin Taiping Jizhou Pharmaceutical Co., Ltd. (天津市薊州太平医药有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(j) Tianjin Taiping Ninghe District Pharmaceutical Co., Ltd. (天津市宁河区太平医药有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(k) Tianjin Jincao Pharmaceutical Co., Ltd. (天津市金草药业有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(l) Tianjin Jincao Guoyao Investment Co., Ltd. (天津金草国药投资有限公司), which is 50% owned by TPG as at the Latest Practicable Date;

(m) Tianjin Meiyin Nutritional Supplement Co., Ltd. (天津美饮保健食品有限公司), which is 50% owned by TPG as at the Latest Practicable Date;

(n) Tianjin Pharmaceutical Group Jian Kang Da Medical Apparatus and Instruments Co., Ltd. (天津医药集团众健康达医疗器械有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(o) Tianjin Pharmaceutical Clean Air Testing Center Co., Ltd. (天津市医药空气洁净检测中心有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(p) Tianjin Medical Apparatus and Instruments Factory Co., Ltd. (天津市医疗器械厂有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(q) Tianjin Kang Dun Bao Medical Polyurethane Technology Co., Ltd. (天津市康盾宝医用聚氨酯技术有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(r) Tianjin Hana Good Medical Materials Co., Ltd. (天津哈娜好医材有限公司), which is 51.5% owned by TPG as at the Latest Practicable Date;

(s) Tianjin Zhong Jian Ai and Medical Technology Co., Ltd. (天津众健爱和医疗科技有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(t) Hebei De Ze Long Pharmaceutical Co., Ltd. (河北德泽龙医药有限公司), which is 54.99% owned by TPG as at the Latest Practicable Date;

(u) Tianjin Yiyao Medicine Co., Ltd. (天津市谊耀药业有限公司), which is 100 % owned by TPG as at the Latest Practicable Date;

(v) Tianjin Traditional Chinese Medicine Machinery Co., Ltd. (天津市中药机械厂有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(w) Tianjin Taiping Xinhua Medical Apparatus and Instruments Co., Ltd. (天津太平新华医疗器械有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(x) Tianjin Taiping Bai Shi Kang Medical Apparatus and Instruments Co., Ltd. (天津太平百时康医疗器械有限公司), which is 100% owned by TPG as at the Latest Practicable Date;

(y) Tianjin Pharmaceutical Research Institute Co., Ltd. (天津药物研究院有限公司), which is 35% owned by TPG as at the Latest Practicable Date;

(z) Tianjin Institute Of Pharmaceutical Research Medicine Co., Ltd. (天津药物研究院药业有限责任公司), which is 35% owned by TPG as at the Latest Practicable Date;

(aa) Tianjin Jinyao Pharmaceutical Co., Ltd. (天津金耀药业有限公司), which is 62% owned by TPG as at the Latest Practicable Date;

(bb) Tianjin Tianyao Pharmaceutical Co., Ltd. (天津天药药业股份有限公司), which is 50.79% owned by TPG as at the Latest Practicable Date;

(cc) Tianjin Tianyao Pharmaceutical Technology Co., Ltd. (天津天药医药科技有限公司), which is 62% owned by TPG as at the Latest Practicable Date;

(dd) Tianjin Jinyao Group Sales Co., Ltd. (天津金耀集团天药销售有限公司), which is 90% owned by TPG as at the Latest Practicable Date;

(ee) Tianjin Jinyao Logistics Co., Ltd. (天津金耀物流有限公司), which is 62% owned by TPG as at the Latest Practicable Date;

(ff) Tianjin Wanning Health Products Co., Ltd. (天津万宁保健品有限公司), which is 91.19% owned by TPG as at the Latest Practicable Date;

(gg) Tianjin Jinyao Amino Acid Co., Ltd. (天津金耀氨基酸有限公司), which is 62% owned by TPG as at the Latest Practicable Date;

(hh) Tianjin Tianan Pharmaceutical Co., Ltd. (天津天安药业股份有限公司), which is 62% owned by TPG as at the Latest Practicable Date; and

(ii) Tianjin Gesibao Medicine Industry Co., Ltd. (天津格斯宝药业有限公司), which is 62% owned by TPG as at the Latest Practicable Date.

2.3 Categories of Interested Person Transactions

The transactions with the TPG Group that will be covered by the Shareholders' Mandate, if renewed, 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 three (3) years up to 30 June 2022:

(a) Tianjin Pharmaceutical Group Jin Yi Tang Chain Co., Ltd. (天津医药集团津一堂连锁股份有限公司);

(b) Tianjin Jinyao Pharmaceutical Co., Ltd. (天津金耀药业有限公司); and

(c) Tianjin Gesibao Medicine Industry Co., Ltd. (天津格斯宝药业有限公司).

The terms of these contracts[1] will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant time period during which the Shareholders' Mandate is valid. The Group has no obligation under these contracts should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate at the 2019 AGM 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. Please refer to the Company's announcement dated 29 January 2019 for further details on these contracts.

2.3.2 Sale and Purchase of Medicinal Products

The "Sale and Purchase of Medicinal Products" contracts[1][2] between the Group and the following interested persons for a period of three (3) years up to 30 June 2022:

(a) Tianjin Pharmaceutical Group Taiping Medicine Co., Ltd. (天津医药集团太平医药有限公司);

(b) Tianjin Taiping Zhenhua Pharmacy Co., Ltd. (天津太平振华大药房有限公司);

(c) Tianjin Taiping Jizhou Pharmaceutical Co., Ltd. (天津市蓟州太平医药有限公司);

(d) Tianjin Taiping Ninghe District Pharmaceutical Co., Ltd. (天津市宁河区太平医药有限公司);

(e) Tianjin Taiping Longlong Pharmaceutical Co., Ltd. (天津太平龙隆医药有限公司);

(f) Tianjin Taiping Xiangyun Pharmaceutical Co., Ltd. (天津市太平祥云医药有限公司);

(g) Tianjin Jincao Pharmaceutical Co., Ltd. (天津市金草药业有限公司);

(h) Tianjin Jincao Guoyao Investment Co., Ltd. (天津金草国药投资有限公司);

(i) Tianjin Meiyin Nutritional Supplement Co., Ltd. (天津美饮保健食品有限公司);

(j) Tianjin Pharmaceutical Group Jian Kang Da Medical Apparatus and Instruments Co., Ltd. (天津医药集团众健康达医疗器械有限公司);

(k) Tianjin Haoda Medical Device Co., Ltd. (天津市浩达医疗器械有限公司);

(l) Tianjin Pharmaceutical Clean Air Testing Center Co., Ltd. (天津市医药空气洁净检测中心有限公司);

(m) Tianjin Medical Apparatus and Instruments Factory Co., Ltd. (天津市医疗器械厂有限公司);

(n) Tianjin Kang Dun Bao Medical Polyurethane Technology Co., Ltd. (天津市康盾宝医用聚氨酯技术有限公司);

(o) Tianjin Hana Good Medical Materials Co., Ltd. (天津哈娜好医材有限公司);

(p) Tianjin Zhong Jian Ai and Medical Technology Co., Ltd. (天津众健爱和医疗科技有限公司);

(q) Tianjin Pharmaceutical Group Jin Yi Tang Chain Co., Ltd. (天津医药集团津一堂连锁股份有限公司);

(r) Tianjin Pharmaceutical Group Hongze Medicine Co., Ltd. (天津医药集团泓泽医药有限公司);

(s) Hebei De Ze Long Pharmaceutical Co., Ltd. (河北德泽龙医药有限公司);

(t) Tianjin Yiyao Medicine Co., Ltd. (天津市谊耀药业有限公司);

(u) Tianjin Traditional Chinese Medicine Machinery Co., Ltd. (天津市中药机械厂有限公司);

(v) Tianjin Taiping Xinhua Medical Apparatus and Instruments Co., Ltd. (天津太平新华医疗器械有限公司);

(w) Tianjin Taiping Bai Shi Kang Medical Apparatus and Instruments Co., Ltd. (天津太平百时康医疗器械有限公司);

(x) Tianjin Lisheng Pharmaceutical Co. Ltd. (天津力生制药股份有限公司);

(y) Tianjin Central Pharmaceutical Co., Ltd. (天津市中央药业有限公司);

(z) Tianjin Pharmaceutical Research Institute Co., Ltd. (天津药物研究院有限公司);

(aa) Tianjin Institute Of Pharmaceutical Research Medicine Co., Ltd. (天津药物研究院药业有限责任公司);

(bb) Tianjin Jinyao Pharmaceutical Co., Ltd. (天津金耀药业有限公司);

(cc) Tianjin Tianyao Pharmaceutical Co., Ltd. (天津天药药业股份有限公司);

(dd) Tianjin Tianyao Pharmaceutical Technology Co., Ltd. (天津天药医药科技有限公司);

(ee) Tianjin Jinyao Group Sales Co., Ltd. (天津金耀集团天药销售有限公司);

(ff) Tianjin Jinyao Logistics Co., Ltd. (天津金耀物流有限公司);

(gg) Tianjin Wanning Health Products Co., Ltd. (天津万宁保健品有限公司);

(hh) Tianjin Jinyao Amino Acid Co., Ltd. (天津金耀氨基酸有限公司); and

(ii) Tianjin Tianan Pharmaceutical Co., Ltd. (天津天安药业股份有限公司).

The terms of these contracts will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant time period during which the Shareholders' Mandate is valid. The Group has no obligation under these contracts should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate at the 2019 AGM or any subsequent renewal.

Notes:

(1) 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 Persons).

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).

(2) The 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. Please refer to the Company's announcement dated 29 January 2019 for further details on these contracts.

2.3.3 Packaging materials and services from TYPS

The Group obtains its packaging materials and services from TYPS. The contract between the Group and TYPS is for a period of three (3) years up to 30 June 2022. The terms of this contract will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant time period during which the Shareholders' Mandate is valid. The Group has no obligation under this contract should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate at the 2019 AGM or any subsequent renewal. The packaging services are for traditional Chinese medicine. 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. Please refer to the Company's announcement dated 29 January 2019 for further details on these contracts.

2.4 Rationale for and Benefits of 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 (2) 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 services 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 (2) other successful sales of similar products to third parties or market rates (wherever possible or available) will be examined 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 Appendix A of this Annexure, 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 consideration factors (where applicable) such as, but not limited to, pricing, the contracts with the Interested Persons as stated in paragraph 2.3 of Appendix A of this Annexure, 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 given 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 the Company's 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 review such transactions as part of its regular audit. Furthermore, the Company's internal audit department will also conduct review of the transactions, and submit its findings 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 Section 2.5. All relevant non-quantitative factors will also be taken into account. Such review includes the examination of the 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 right 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 Transaction, 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 regard 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 2019 AGM, the Shareholders' Mandate will take effect from the date of the passing of the resolution to be proposed at the 2019 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 the TPG Group have not changed since the last Shareholders' approval granted on 15 May 2018; and

(b) the review procedures for the Interested Person Transactions concerning the 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 the 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 the 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 at page 161 of the Annexure 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 14 (as set out in the Notice of AGM) relating to the proposed renewal of the Shareholders' Mandate.

The Independent Directors, in rendering their recommendation, have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any Shareholder. As different Shareholders would have different investment objectives, the Independent Directors recommend that any individual Shareholder who may require advice in the context of his specific investment portfolio, should consult his stockbroker, bank manager, solicitor, accountant or other professional advisers.

2.10 Abstention from voting

TPG, which holds 43.066% of the shareholdings in the Company as at the Latest Practicable Date, will abstain, and has undertaken to ensure that its respective associates will abstain, from voting at the 2019 AGM in respect of the ordinary resolution relating to 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 will also not, and has undertaken to ensure that its respective associates will also not, accept nomination as proxies or otherwise for voting at the 2019 AGM in respect of the aforesaid ordinary resolution unless specific instructions have been given in the proxy instrument on how the relevant Shareholders wish their votes to be cast for such resolution.

SUSTAINABILITY REPORTING

Zhong Xin Pharmaceutical upholds the highest possible standards of responsible, sustainable and socially aware business practices. We are committed to instilling sustainability in our corporate culture and improving the economic, environmental and social wellbeing of our stakeholders. We prudently balance economic viability with sustainability and social progress for future generations.

As a responsible corporate citizen that takes pride in supplying pharmaceutical products of high quality and safety standards, we have always prioritised product health and safety. We regularly review our quality control policies and manufacturing practices, and strictly comply with industrial regulations to ensure that our drugs are safe for patients.

Other than producing and distributing responsibly, we also deliver and market our products ethically. Our business activities strictly comply with national and industrial standards on product marketing, labelling and advertising, and establish stringent marketing guidelines to ensure that we do not transgress important ethical and legal boundaries.

We believe that product research and development is key to the sustainability of our business. We invest significantly in our product development, facilities and equipment to supply efficacious pharmaceutical products to our customers.

The Group has assigned a Sustainability task force to oversee sustainability reporting, to monitor our sustainability performance and the implementation of our sustainability policies and measures. We endeavour to streamline our business operations to improve efficiency and conserve resources.

Below is a summary table of the key topics that are relevant to the Group and our stakeholders.

Economic	Environmental	Social
Indirect Economic Impacts	Energy Water Emissions Effluents and Waste	Customer Health and Safety Marketing and Labelling Occupational Health and Safety Diversity and Equal Opportunity

More information on the Group's efforts on sustainability management in FY2018 can be found in the Tianjin Zhong Xin Pharmaceutical Group's 2018 Sustainability Report which will be published in May 2019.

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中新药业
ZHONGXIN PHARMACEUTICALS

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