

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Full Year Financial Statement (*) And Dividend Announcement

1(a) A Statement of Comprehensive Income (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year

	The Group		Change
	2018 RMB'000	2017 RMB'000	%
Revenue	6,358,622	5,689,242	12
Cost of Sales	(3,794,042)	(3,545,408)	7
Gross Profit	2,564,580	2,143,834	20
Interest Income	11,115	6,328	76
Dividend Income	1,488	1,530	-3
Other Income and Gains	39,922	96,183	-58
Marketing and Distribution Costs	(1,699,293)	(1,426,702)	19
Research and Development Costs	(100,926)	(79,426)	27
Administrative Expenses	(291,100)	(288,540)	1
Finance Costs	(13,899)	(12,233)	14
Other Losses	(34,495)	(29,528)	17
Share of Profits From Equity-Accounted Associates	163,237	119,554	37
Profit Before Income Tax	640,629	531,000	21
Income Tax Expense	(72,841)	(57,740)	26
Profit, Net of Tax	567,788	473,260	20

	The Group		Change
	2018 RMB'000	2017 RMB'000	%
Other Comprehensive Loss Items that will not be reclassified to profit or loss:			
Fair value loss on equity investment measured at FVTOCI, net of tax	(9,653)	-	n.m
Share of other comprehensive loss from equity-accounted associates, net of tax	(16,876)	-	n.m
Other Comprehensive Income/(Loss) Items that may be reclassified subsequently to profit or loss:			
Fair Value Loss on Re-measuring of Available-For-Sale Investments, Net of Tax	-	(1,201)	n.m
Share of Other Comprehensive Loss From Equity-Accounted Associates, Net of Tax	-	(3,217)	n.m
Reclassification adjustments due to disposal of debt instruments at FVTOCI	19,379	-	n.m
Total Other Comprehensive Loss, Net of Tax	(7,150)	(4,418)	62
Total Comprehensive Income	560,638	468,842	20
Profit, Net of Tax attributable to:			
Owners of the Parent	561,680	476,079	18
Non-Controlling Interests	6,108	(2,819)	n.m
	567,788	473,260	20

Total Comprehensive Income for the year attributable to:			
Owners of the Parent	554,530	471,661	18
Non-Controlling Interests	6,108	(2,819)	n.m
	560,638	468,842	20

(*) prepared under International Financial Reporting Standards

n.m Not Meaningful

	Group	
	2018 RMB'000	2017 RMB'000
Profit, Net of Tax is arrived at after crediting / (charging):		
Dividend income	1,488	1,530
Other income including interest income	28,168	61,491
Gain (loss) on disposal / written off of property, plant and equipment, intangible assets and land use rights, net	3,476	4,047
Gain on disposals of interests in associates, net	-	35,025
Gain on disposals of interests in a subsidiary	306	-
Allowance for impairment on trade receivables	(5,481)	(4,320)
Foreign currency translation gains / (losses), net	(1,806)	1,059
Interest on borrowings	(11,382)	(9,541)
Depreciation and amortisation	(81,340)	(77,897)
Employment termination benefits	(9,713)	(1,183)
Impairment loss on inventories	(16,116)	(8,337)
Allowance for impairment on other receivables	19,087	(13,640)
Impairment loss on property, plant and equipment	-	(1,388)

1(b)(i) A Statement of Financial Position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

	The Group		The Company	
	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	1,199,669	1,075,695	877,159	810,984
Investment properties	23,582	25,186	22,602	23,587
Land use rights	163,296	168,020	135,124	139,605
Intangibles assets	11,563	11,315	8,605	8,967
Investment in subsidiaries	-	-	630,578	437,080
Investment in associates	630,925	562,458	630,925	562,458
Other financial assets, non-current	142,086	691,169	142,086	149,221
Deferred tax assets	133,290	109,497	124,806	96,714
Other assets, non-current	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	1,328,371	1,104,488	1,229,042	991,505
Trade and other receivables	1,728,508	1,541,127	1,606,278	1,619,286
Other financial assets, current	53,307	100,500	-	-
Other asset, current	202,766	222,260	191,798	208,055
Cash and cash equivalents	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				
Capital and reserves attributable to the Company's equity holders				
Share capital	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	532,579	490,251	582,794	540,449
Total equity, attributable to equity holders 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

	The Group		The Company	
	31 December 2018 RMB'000	31 December 2017 RMB'000	31 December 2018 RMB'000	31 December 2017 RMB'000
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	5,911	6,982	5,911	6,982
Trade payables, non-current	41,450	39,915	41,241	39,470
Other liabilities, non-current	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	1,385,479	1,282,903	1,109,652	1,077,156
Other financial liabilities	252,000	496,357	250,000	260,000
Other liabilities, current	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

1(b)(ii) Aggregate amount of group's borrowings and debt securities

Amount repayable in one year or less, or on demand

As at 31 December 2018		As at 31 December 2017	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
-	252,000	234,357	262,000

Details of collateral for secured borrowings:

As at 31 December 2017, RMB 234,357,000 are secured by pledges of unquoted bonds in corporations and country of the same amount.

Amount repayable after one year

As at 31 December 2018		As at 31 December 2017	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
-	-	-	-

1(c) A Statement of Cash Flow (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year

	The Group	
	<u>2018</u> RMB'000	<u>2017</u> RMB'000
<u>Cash Flows From Operating Activities</u>		
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 of Equity-Accounted Associates	(163,237)	(119,554)
Gain on Disposals of Interests in Associates, net	-	(35,025)
Gain on Disposals of Interest in a Subsidiary, net	(306)	-
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 and Inventories	2,510	27,685
Fair Value gains on financial asset at FVTPL	(3,307)	-
Fair Value Losses on Derivative Financial Instruments	-	660
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)
Cash Restricted in Use	5,045	-
Other Liabilities	181,799	1,041
Net Cash Flows From Operations	424,810	53,380
Income Tax Paid	(85,779)	(67,491)
Net Cash Flow From / (Used In) Operating Activities	339,031	(14,111)
<u>Cash Flows From Investing Activities</u>		
Purchase of Property, Plant and Equipment and Intangibles 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 Disposal of Financial Assets	39,066,926	37,411,171
Proceeds from disposals of interests in associates	-	51,208
Disposals of a subsidiary (net of cash disposal)	(11,582)	-
Interest Income Received	31,198	36,732
Cash Restricted in Use	-	200,000

	<u>The Group</u>	
	<u>2018</u> RMB'000	<u>2017</u> RMB'000
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
Net Cash Flow From Investing Activities	401,764	203,732
<u>Cash Flows From Financing Activities</u>		
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, Consolidated Statement of Cash Flows, Beginning Balance	975,114	943,039
Cash and Cash Equivalents, Consolidated Statement of Cash Flows, Ending Balance	1,455,066	975,114

	<u>The Group</u>	
	<u>2018</u> RMB'000	<u>2017</u> RMB'000
Cash and Cash Equivalents in Consolidated Statement of Cash Flows:		
Amount as Shown in Statement of Financial Position	1,467,085	992,178
Cash and Cash Equivalents Restricted in Use	(12,019)	(17,064)
Cash and Cash Equivalents for Consolidated Cash Flows Statement Purposes at End of the Year	1,455,066	975,114

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

All in RMB'000

Group	Share capital	Share premium	Other reserves	Retained earnings	Parent sub-total	Non-controlling interests	Total equity
Balance at 1 January 2018	768,873	1,198,817	490,251	2,018,817	4,476,758	148,733	4,625,491
Adjustments to beginning balance	-	-	40,860	-	40,860	-	40,860
Restated balance at 1 January 2018	768,873	1,198,817	531,111	2,018,817	4,517,618	148,733	4,666,351
Total comprehensive income / (loss) for the period	-	-	(7,150)	561,680	554,530	6,108	560,638
Dividends	-	-	-	(153,775)	(153,775)	-	(153,775)
Distribution to non-controlling interests	-	-	-	-	-	(5,519)	(5,519)
Disposal of a subsidiary	-	-	-	-	-	(13,236)	(13,236)
Acquisition of non-controlling interest without a change in control	-	-	(17)	-	(17)	(8,680)	(8,697)
Equity share of changes in other net assets of associates	-	-	8,635	-	8,635	-	8,635
Balance at 31 December 2018	768,873	1,198,817	532,579	2,426,722	4,926,991	127,406	5,054,397

Group	Share capital	Share premium	Other reserves	Retained earnings	Parent sub-total	Non-controlling interests	Total equity
Balance at 1 January 2017	768,873	1,198,817	507,043	1,707,997	4,182,730	162,659	4,345,389
Total comprehensive income / (loss) for the period	-	-	(4,418)	476,079	471,661	(2,819)	468,842
Dividends	-	-	-	(115,331)	(115,331)	-	(115,331)
Distribution to non-controlling interests	-	-	-	-	-	(5,120)	(5,120)
Appropriation of Statutory Common Reserve	-	-	49,928	(49,928)	-	-	-
Acquisition of subsidiaries under common control	-	-	(62,712)	-	(62,712)	-	(62,712)
Acquisition of non-controlling interest without a change in control	-	-	(29)	-	(29)	(5,987)	(6,016)
Equity share of changes in other net assets of associates	-	-	439	-	439	-	439
Balance at 31 December 2017	768,873	1,198,817	490,251	2,018,817	4,476,758	148,733	4,625,491

All in RMB'000

Company	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Opening balance at 1 January 2018	768,873	1,198,817	540,449	1,922,178	4,430,317
Adjustments to beginning balance	-	-	60,239	-	60,239
Restated balance at 1 January 2018	768,873	1,198,817	600,688	1,922,178	4,490,556
Total comprehensive income / (loss) for the period	-	-	(26,529)	576,444	549,915
Dividends	-	-	-	(153,775)	(153,775)
Equity share of changes in other net assets of associates	-	-	8,635	-	8,635
Closing balance at 31 December 2018	768,873	1,198,817	582,794	2,344,847	4,895,331

Company	Share capital	Share premium	Other reserves (Restated)	Retained earnings (Restated)	Total equity (Restated)
Opening balance at 1 January 2017	768,873	1,198,817	514,112	1,601,496	4,083,298
Total comprehensive income / (loss) for the period	-	-	(4,418)	485,941	481,523
Dividends	-	-	-	(115,331)	(115,331)
Appropriation of Statutory Common Reserve	-	-	49,928	(49,928)	-
Adjustment to Merger reserves	-	-	(19,612)	-	(19,612)
Equity share of changes in other net assets of associates	-	-	439	-	439
Closing balance at 31 December 2017	768,873	1,198,817	540,449	1,922,178	4,430,317

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There has been no change in the Company's share capital since 31 December 2017.

The Company does not have any shares that may be issued on conversion of any outstanding convertibles as at 31 December 2018 and 31 December 2017.

The Company did not hold any treasury shares and there were no subsidiary holdings as at 31 December 2018 and 31 December 2017.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

		As at 31 December 2018	As at 31 December 2017
Number of issued shares excluding treasury shares	:	768,873,076	768,873,076
Number of treasury shares held	:	NIL	NIL

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited, or reviewed and in accordance with which standard

These figures have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and audited in accordance with International Standards on Auditing.

3. Where the figures have been audited or reviewed, the auditors’ report (including any qualification or emphasis of matter)

Audit Opinion as extracted from the auditors’ report:

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.

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.

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.

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.

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
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28 March 2019

28 March 2019

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

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

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied

The Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective on the beginning of its current reporting year on 1 January 2018. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current and prior periods.

On 1 January 2018, the Company adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers which are effective from the reporting year beginning on or after 1 January 2018. As a result, certain balance sheet items and reserves were adjusted as at 1 January 2018.

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	Before restatement	Difference
<u>Group</u>	RMB'000	RMB'000	RMB'000
Statement of Financial Position as at <u>1 January 2018</u>			
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

<u>Company</u>					
Statement of Financial Position as at <u>1 January 2018</u>					
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:

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

5. If there are any change in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change

Refer to Paragraph 4 above.

6. Earnings per ordinary share of the group for the current period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends

	<u>The Group</u>	
	2018 RMB	2017 RMB
Earnings per ordinary share for the period based on net profits after deducting any provision for preference dividends:		
Based on weighted average number of ordinary share on issue	0.73	0.62

Diluted earnings per share is the same as basic earnings per share as the Company does not have any potential ordinary shares that have a dilutive effect on earnings per share as at the end of the period reported on.

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the (a) current period reported on and (b) immediately preceding financial year

	Group		Company	
	31 December 2018 RMB	31 December 2017 RMB	31 December 2018 RMB	31 December 2017 RMB
Net asset backing per ordinary share based on existing issued share capital as at the end of the period reported on	6.41	5.82	6.37	5.76

8. 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 RMB 6,359 million, an increase of approximately RMB 669 million, or 12%, from RMB 5,689 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 RMB 2,144 million in FY2017 to approximately RMB 2,565 million. Gross profit margin increased from 38% in FY2017 to 40% in FY2018.

(c) Other operating income:

Other gains in FY2018 were approximately RMB 40 million, a decrease of approximately RMB 56 million over the previous year, which was RMB 96 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 RMB 1,699 million, an increase of approximately RMB 273 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 RMB 21 million, to approximately RMB 101 million. This was mainly due to expenditure on generic drug evaluation.

(iii) Administrative expenses in FY2018 increased by approximately RMB 2 million, from approximately RMB 289 million in FY2017 to approximately RMB 291 million.

(iv) Finance costs in FY2018 increased by approximately RMB 2 million or 14% from approximately RMB 12 million to approximately RMB 14 million.

(v) Other losses in FY2018 increased by approximately RMB 5 million, from approximately RMB 29 million in FY2017 to approximately RMB 34 million.

(e) Shares of results of associated companies:

The Group's share of results of associated companies in FY2018 increased by RMB 44 million, or 37%, from approximately RMB 119 million in FY2017 to approximately RMB 163 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 RMB 561 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 RMB 555 million, an increase of approximately RMB 83 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 RMB 1,467 million, which is an increase of approximately RMB 475 million, or 48% over previous year. As at 31 December 2018, the Group's short-term borrowings were approximately RMB 252 million, which is a decrease of approximately RMB 244 million, or 49% over previous year.

Trade and other receivables amounted to approximately RMB 1,729 million at 31 December 2018, which is an increase of approximately RMB 187 million, or 12% over previous year. Bills receivable increased by approximately RMB 118 million. Trade receivables increased by approximately RMB 70 million. Other receivables decreased by approximately RMB 0.6 million. Inventories increased by 20% to approximately RMB 1,328 million.

Other current assets decreased by approximately 9% or RMB 19 million to approximately RMB 203 million as at 31 December 2018.

Investments in associates increased by approximately RMB 68 million to approximately RMB 631 million, which is mainly attributable to the higher profits of associates.

Property, plant and equipment increased by approximately RMB 124 million or 12% to RMB 1,120 million.

(h) Changes in cash flow position:

In FY2018, the Group recorded net cash inflow from operating activities of approximately RMB 339 million.

Cash inflow from investment activities was approximately RMB 402 million in FY2018.

Cash outflow from financing activities was approximately RMB 261 million in FY2018.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and 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 RMB 561 million, a year-on-year increase of 20%. Total comprehensive income attributable to the parent company was RMB 555 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 RMB 339 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.

11. Dividend

(a) Current Financial Period Reported On

The Directors propose to seek approval from the shareholders of the Company (the “Shareholders”) for declaring a final dividend of RMB 169,152,076.72 on the basis of RMB 2.2 for every 10 shares in the capital of the Company. Such proposed declaration of dividends will be subject to approval by Shareholders at the forthcoming annual general meeting to be held on 15 May 2019, and thus has not been included as a liability in these financial statements of the Company and/or Group. Upon obtaining the Shareholders’ approval, the proposed dividend is payable in respect of all issued ordinary shares in the capital of the Company as at the end of the FY2018.

The proposed dividend is subject to applicable tax rates as set out below:

(i) S-Shares

The dividend payable to S-Shareholders shall be subject to a tax rate of 10% under the PRC tax law.

(ii) A-Shares

The dividend payable to A-Shareholders shall be subject to the differential tax rates as set out in the PRC tax law. A-Shareholders should consult their own tax advisers concerning the tax consequences in relation to any dividends paid by the Company.

(b) Corresponding Period of the Immediately Preceding Financial Year

The Directors proposed a final dividend of RMB 153,774,615.2 on the basis of RMB 2.0 for every 10 shares in the capital of the Company for FY2017. The proposed dividend is payable in respect of all issued ordinary shares in the capital of the Company as at the end of the financial year 2017.

The proposed dividend is subject to applicable tax rates as set out below:

(iii) S-Shares

The dividend payable to S-Shareholders shall be subject to a tax rate of 10% under the PRC tax law.

(iv) A-Shares

The dividend payable to A-Shareholders shall be subject to the differential tax rates as set out in the PRC tax law. A-Shareholders should consult their own tax advisers concerning the tax consequences in relation to any dividends paid by the Company.

(c) Date payable

To be announced by the Company upon approval being granted by the Shareholders at the annual general meeting to be held on 15 May 2019, for the payment of the final dividend.

(d) Books closure date

To be announced by the Company upon approval being granted by the Shareholders at the annual general meeting to be held on 15 May 2019, for the payment of the final dividend.

(e) If no dividend has been declared/recommended, a statement to that effect

Not applicable.

12. Interested Person Transaction disclosure

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

In RMB'000

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted during the financial year under review under a shareholders' mandate pursuant to Rule 920 of SGX Listing Manual (excluding transactions less than S\$100,000)
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 RMB 566,619,790.

13. Financial Information by Operating Segments

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

2018	Revenue	Cost of sales	Gross profit
	RMB'000	RMB'000	RMB'000
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	Revenue	Cost of sales	Gross profit
	RMB'000	RMB'000	RMB'000
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

The Group operates predominantly in the PRC.

14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.

Not applicable

15. A breakdown of sales as follows:

	Group		
	2018	2017	Increase/ (Decrease)
	RMB'000	RMB'000	%
(a) Sales reported for first half year	3,112,247	2,987,439	4.18%
(b) Operating profit after tax before deducting non-controlling interests reported for first half year	317,268	273,983	15.80%
(c) Sales reported for second half year	3,246,375	2,701,803	20.16%
(d) Operating profit after tax before deducting non-controlling interests reported for second half year	250,520	199,277	25.72%

16. A breakdown of the total annual dividend (in dollar value) for the issue's latest full year and its previous full year

	FY2018 RMB'000	FY2017 RMB'000
Ordinary - Interim	-	-
- Final (Proposed)	169,152	153,775
Preference	N.A.	N.A.
Total	169,152	153,775

17. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholders of the issuer pursuant to Rule 704(13) in the format below. If there are no such persons, the issuer must make appropriate negative statement.

Pursuant to Rule 704(13) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Company confirms that, to the best of its knowledge, belief and information, as of the date hereof, none of the persons occupying managerial positions in the Company or any of its principal subsidiaries is a relative of a Director, Chief Executive Officer or Substantial Shareholder of the Company.

18. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1)

The Company confirms that it has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1) of the Listing Manual.