中新药业

ZHONGXIN PHARMACEUTICALS

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

ANNUAL REPORT 2017

CONTENTS

COMPANY INFORMATION

Name of the Company:	Tianjin Zhong Xin Pharmaceutical Group Corporation Limited
Registered address:	17 Baidi Road, Nankai District, Tianjin, PRC
Office address:	Zhong Xin Mansion, 17 Baidi Road, Nankai District, Tianjin, PRC
Post code:	300193
Telephone:	86-22-27020892
Bank of Deposit:	Chengdudao Sub-office, Tianjin Xinhua Sub-branch, the Industrial and Commercial Bank of China
Registry of S-shares and Singapore Share Transfer Office:	Boardroom Corporate & Advisory Services Pte. Ltd.
Address of "S" Shares Registrar:	50 Raffles Place, Singapore Land Tower #32-01, Singapore 048623
Registry of A-shares:	China Securities Depository & Clearing Co., Ltd Shanghai Branch
Address of "A" Shares Registrar:	36F China Insurance Mansion #166 Lujiazui East Road New Pudong District, Shanghai, P.R.China, 200120

AUDITORS:

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

BOARD OF DIRECTORS:

Chairman:	Mr. Li Li Qun
Executive Directors:	Ms. Wang Lei, Ms. Yan Min, Mr. Zhou Hong
Independent and Non-executive Directors:	Mr. Timothy Chen Teck-Leng, Mr. Vincent Toe Teow Heng, Mr. Qiang Zhi Yuan
Secretary to the Board:	Mr. Wong Gang (Singapore), Ms. Jiao Yan

SUPERVISORY COMMITTEE:

Chairman:	Mr. Li Yong
Supervisor:	Mr. Wang Mai

SENIOR EXECUTIVES:

General Manager:	Ms. Yu Hong
Deputy General Manager:	Mr. Zhang Jian
Deputy General Manager and Chief Engineer:	Mr. Zhou Hong
Chief Financial Officer:	Ms. Yan Min

AUDIT COMMITTEE:

Chairman:	Mr. Timothy Chen Teck-Leng
Members:	Mr. Vincent Toe Teow Heng, Mr. Qiang Zhi Yuan

STRATEGY COMMITTEE:

Chairman:	Mr. Li Li Qun
Member:	Mr. Qiang Zhi Yuan

NOMINATION COMMITTEE:

Chairman:	Mr. Qiang Zhi Yuan
Member:	Mr. Vincent Toe Teow Heng

REMUNERATION COMMITTEE:

Chairman:	Mr. Vincent Toe Teow Heng
Member:	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"). With a long history, the Company is recognised as a state-class high-tech enterprise featured with innovations in traditional Chinese medicine. It was listed on the Singapore Exchange in 1997 and on the Shanghai Stock Exchange in 2001.

Zhong Xin Pharmaceutical takes Chinese traditional medicine as its core business, boasting a complete industrial chain, product chain and human resource chain. It currently owns 25 branch companies, 8 wholly-owned subsidiaries, 7 controlled subsidiaries and 9 associates with minor stakes. Among the 49 units, 7 are subsidiaries with minor stakes that are distributed in chemical drug, bio-medicine and other strategic sectors and operated jointly with world famous pharmaceutical giants like SmithKline, while the rest 42 are branches and subsidiaries mainly engaged in traditional Chinese medicine manufacturing and medical retail. The two major business blocks have given play to their respective and combined competitive edges and posted steady growth, placing the Company among well-performing listed companies in recent years. Da Ren Tang, Le Ren Tang and Long Shun Rong, known as China Time-honored Brands under the flag of the Company, have individually been awarded the honorable title of "Famous Chinese Trade Mark", and the brand of Song Bo for No. 6 Chinese Medicine Plant, a modern Chinese medicine making icon, has also been awarded the honorable title. This has helped Zhong Xin Pharmaceutical to advance to a leading enterprise in protecting China Time-honored Brands.

Following the business philosophy of "pursuing harmony between mankind and nature, and benefiting all human beings" and the development strategy of innovations of traditional Chinese medicine, Zhong Xin Pharmaceutical is devoted to innovative research, development and manufacture of full-range, good quality, high efficiency and quick-acting medicines. At present, it owns 560 varieties of preparations in 17 types, 602 certificates of approval for preparations, and 9 certificates of approval for crude drugs. Among them, 4 Chinese medicines have been honored as National Treasure-like creations; Su Xiao Jiu Xin Pill (for treatment of cardio-vascular ailments), invented by famous Chinese medicine manufacture expert Professor Zhang Chengui, who is also senior adviser of Zhong Xin Pharmaceutical and honorable director of its Technology Center, has been designated a national confidential prescription; Niu Huang Jiang Ya Pill (for treatment of hypertension), Niu Huang Jiang Ya Capsule (for treatment of hypertension) and Jing Wan Hong (for treatment of scald) have been classified as state secret in their respective prescriptions and ingredients; 5 products have become state-protected Chinese medicines; 94 product varieties are exclusively produced by the Company; 85 drugs have been listed in the National Basic Medicine Catalog, and 216 products are now available in the national medical insurance service system. The Company has already built up a nationwide marketing network, and many of its high-quality products have also been exported to more than 30 countries around the world, enjoying high reputation in the medicine community.

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

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

EQUITY STRUCTURE OF THE COMPANY

Tradable state shares with limit on sale (Tianjin Pharmaceutical Group Co. Ltd) 43.065%

Tradable LP shares with limit on sale 26.674%

Overseas public shares 26.012%

Domestic public shares 4.249%

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

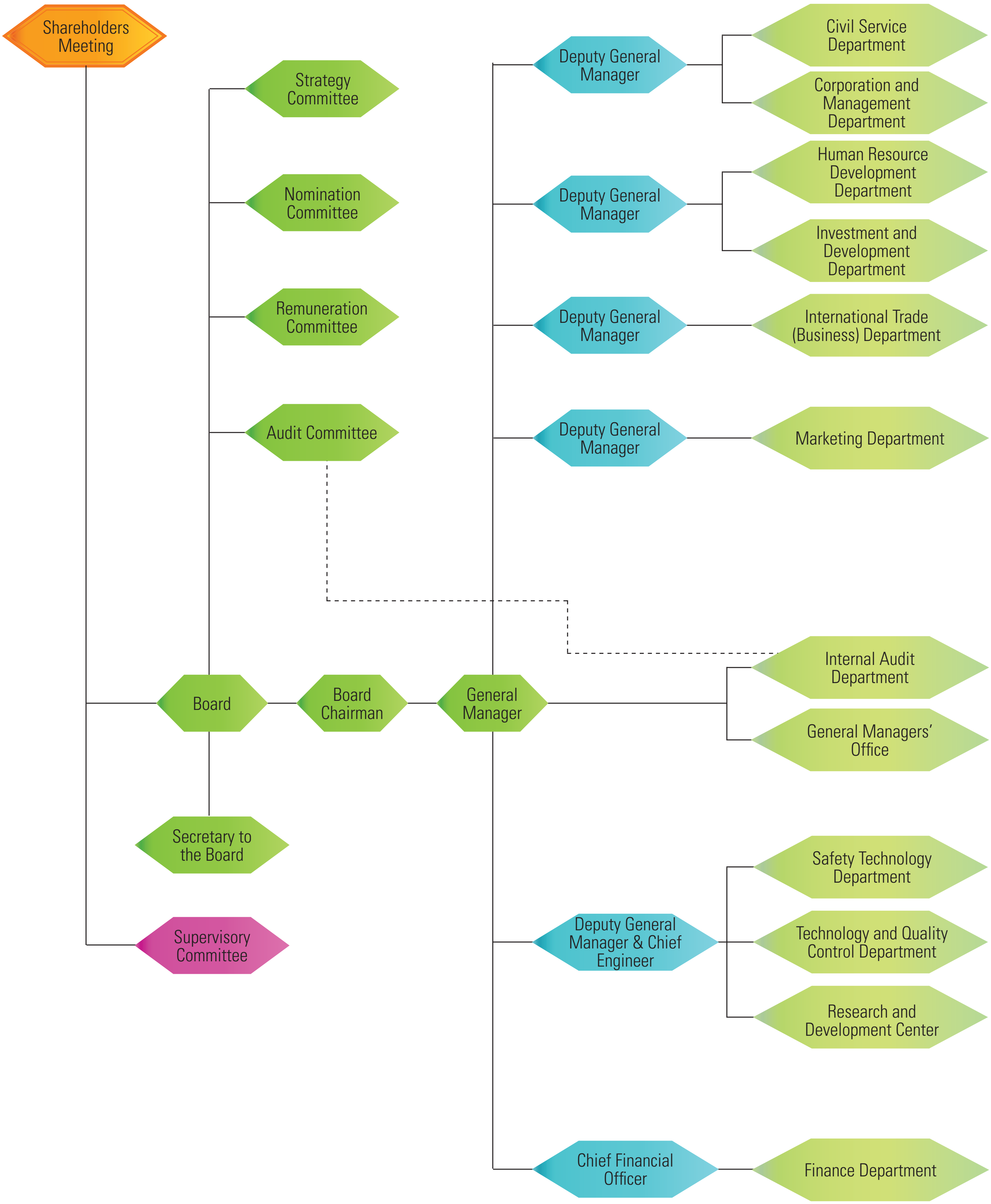
(15 wholly-owned or controlled subsidiaries)

- Tianjin Da Ren Tang Jinwanhong Pharmaceutical Co., Ltd. (52%)
- Tianjin Shin Poong Pharmaceutical Co., Ltd. (55%)
- Bin Hai Zhong Xin Pharmaceutical Co., Ltd. (53.6%)
- Beijing Zhong Xin Yaogu Medical Co., Ltd. (100%)
- Zhong Xin Bohai Rim Pharmaceutical Co., Ltd. (100%)
- Tianjin Zhong Xin Pharmaceutical Group Guowei Medical Co., Ltd. (51%)
- Tianjin Zhong Xin Pharmaceutical Group Xuzhi Medical Science and Technology Co., Ltd. (51%)
- Tianjin Da Ren Tang (Bozhou) Chinese Medicine Co., Ltd. (71%)
- Zhejiang Zhong Xin Chuang Rui Investment Co., Ltd. (100%)
- Tianjin Hebei Daren Hospital (100%)
- Tianjin Chinese Medicinal Slices Co., Ltd (100%)
- Tianjin Zhong Xin Chuyun Trading Co., Ltd. (100%)
- Tianjin Xin Long Pharmaceutical Co., Ltd. (51%)
- Tianjin Long Shun Rong Development Pharm Co., Ltd. (100%)
- Anguo Xinlong Chinese Herbal Medicine Co., Ltd. (100%)

(9 associates with minor stake)

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

Mr. Li Li Qun (57)
Chairman of Board of Directors
9-2-302 Huaxin Apartment
Huachang Ave, Hedong District,
Tianjin PRC

Mr. Li Li Qun 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.

Ms. Wang Lei (46)
Executive Director
A-805 Jinbin Yadu Apartment
Shaoxing Road, Hexi District,
Tianjin PRC

Ms. Wang Lei, Senior Engineer and PhD in Engineering. From July 1993 to March 2001, she successively held the posts of the Technician in workshop, Cadre in the Sale Department, and Chief in the After Sale Service Section of Tianjin Zhongxin Da Ren Tang Pharmaceutical Factory. For the period from March 2001 to April 2004, she was firstly appointed as Deputy Director of Planning Division and then as the Deputy Director of Industry Department in the Company. From April 2004 to January 2013, she served as the Deputy Director, Executive Deputy Director, Secretary of the Party Committee, Director cum Deputy Secretary of the Party Committee in succession and further promoted as Director cum Secretary of the Party Committee from January 2013 to date in Tianjin Zhongxin Lerentang Pharmaceutical Factory. From 15 May 2013 to 23 June 2013, she was also a Supervisor of the Board of Supervisors of the Company. From June 2014 to October 2017, she was a deputy general manager of the Company. From October 2017 to March 2018, she was the general manger of the Company.

Ms. Yan Min (48)
Executive Director and
Chief Financial Officer
8-1-402 Haida Mingyuan Apartment
Jinzhonghe Ave, Hebei District,
Tianjin PRC

Ms. Yan Min, Senior Accountant, bachelor degree, MBA. She 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.

DIRECTORS

Mr. Zhou Hong (47)
Executive Director, Deputy General Manager, and Chief Engineer
3-4-101 Yibo li, Hongqiao District, Tianjin PRC

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 No. 6. 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 date, he is the Director and Executive Deputy Secretary of Tianjin Zhong Xin Pharmaceutical Factory No. 6. From December 2012 to present, he is 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.

Mr. Timothy Chen Teck-Leng (63)
Lead Independent and Non-Executive Director
46, Meyer Road, #03-03, Singapore 437871

Mr. Timothy Chen Teck-Leng, our independent director and the chairman of the Audit Committee of the Company, 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 completed 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 Sun Life Everbright Life Insurance Company in China. He was also the General Manager of Sun Life Financial, China during the same period.

Mr. Chen is currently sitting on 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 (49)
Independent and Non-Executive Director
9 Temasek Boulevard, #38-02 Suntec Tower 2, Singapore 038989

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, which he actively involved in the Transport, Leisure and Hotel industries' M&A advisory in Asia. Previously, he was the director of certain companies which operate primarily in China, including but not limited to Yangzijiang Shipbuilding Holdings Ltd and China Sunshine Chemical Holdings Ltd. He is the Independent director of Tianjin Zhong Xin Pharmaceutical Co., Ltd since May 2013. Also, Mr Toe is currently the CEO of a fund management company in Singapore (ICH Gemini Pte Ltd).

RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

DIRECTORS

Mr. Qiang Zhi Yuan (61)
Independent and Non-Executive Director
#25 Zhujiang Road, Hexi District, Tianjin PRC

Mr. Qiang Zhi Yuan, born of Chinese nationality, had 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, 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 worked as 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 worked as 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

Mr. Li Yong (49)

Chairman of the Supervisory Committee

7-2-1001 Shengdayuan Apartment Huanghe Ave, Nankai District, Tianjin PRC

Mr. Li Yong, is a senior engineer and holds a bachelor degree in the study of traditional Chinese medicine. He had previously held the following positions in Tianjin Central Pharmaceutical Factory: cadre of the Research Institute Preparation Room, cadre of the technical transformation office and deputy workshop supervisor of the Tianjin Central Pharmaceutical Factory. Mr. Li had also held the following positions in Tianjin Central Pharmaceutical Co., Ltd. deputy workshop supervisor, vice manager of the production and technology department, director of the controlling room and general manager assistant. From July 2003 to July 2010, he was appointed as the vice manager of Tianjin Central Pharmaceutical Co., Ltd. From July 2010 to February 2016, he was appointed as the secretary of the Disciplinary Committee and chairman of the Union of Tianjin Central Pharmaceutical Co., Ltd. From February 2016 to November 2016, he was appointed as the secretary of the Disciplinary Committee of Tianjin Lisheng Pharmaceutical Co, Ltd. Since December 2016, he holds office as the secretary of the Disciplinary Committee of the Company.

Mr. Wang Mai (47)

Supervisor

2-1-302 Huimingyuan Apartment Heping District, Tianjin PRC

Mr. Wang Mai, 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 general manager assistant 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.

RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

MANAGEMENT

Ms. Yu Hong (43)
General Manager
24-5-501 Yicheng Li Youyi Road
Hexi District, Tianjin PRC

Ms. Yu Hong, born in April 1974, had graduated from Tianjin University of Finance and Economic and now holds a master degree of accounting and is also a senior accountant. From July 1997 to April 2002, she was working in the audit department of Tianjin Pharmaceutical Group Co., Ltd. From April 2002 to November 2008, she held the position of Senior Executive in the Accounting Department of Tianjin Pharmaceutical Group Co., Ltd.. From November 2008 to November 2011, she held the position of Deputy Director of the Accounting Department of Tianjin Pharmaceutical Group Co., Ltd.. From November 2011 to 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.

Mr. Zhang Jian (54)
Deputy General Manager
5-A-403 Changshou Apartment
House Rongye Ave,
Heping District, Tianjin PRC

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

WORK REPORT OF THE

CHAIRMAN OF THE BOARD OF DIRECTORS

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Shareholders,

In 2017, upholding Xi Jinping's thought on socialism with Chinese characteristics for a new era, fully implementing the spirit of the 18th CPC National Progress and the 3rd, 4th, 5th and 6th Plenary Sessions of the 18th Central Committee of CPC as well as conscientiously studying and promoting the spirit of the 19th CPC National Progress, Zhong Xin Pharmaceutical firmly established the "four kinds of awareness" in line with the policy of "strengthening principal business, increasing vitality, fostering transformation and raising standard" and vigorously carried out innovation, transformation and upgrade to seize the strategic opportunities arising from the state-owned enterprise reform and the reform of the pharmaceutical industry in China in a bold, innovative and proactive manner so as to facilitate the healthy and sustainable development of the Company.

I. Quality of business operations improved steadily and operating performance remained stable

In 2017, through the concerted efforts of our employees, the Company's overall operating standard and operational efficiency were improved and thus the established work targets were completed. The results achieved in terms of economic operations are reflected in the following aspects:

1. *Stepped up in developing major varieties and promoted fast sales growth*

In 2017, the Company focused on the "major varieties" cluster effect to ensure that the annual targets are accomplished. The sales company classified the marketing channels of Suxiao Jiuxin Wan (速效救心丸) by specification and relevant marketing policies were formulated. Long Shun Rong expanded the market coverage of products via dedicated merchant recruitment and vigorously expanded into the new areas such as primary healthcare market and prescription drug retail market. Da Ren Tang rolled out the distribution, group purchase and end customer display of Xiang Zheng Qi (藿香正气) soft capsules and kicked off the 28th anniversary themed activities of Qingfei Xiaoyan Wan (清肺消炎丸) to further enhance the product recognition among consumers. Qingfei Xiaoyan Wan became the fifth variety of the Company with sales revenue exceeding a hundred million yuan. Le Ren Tang established an all-round and multi-platform marketing network comprising healthcare, retail and end customer via innovative academic promotion. Sixth Zhong Xin Plant strengthened the assessment on the increased volume of distribution of the dripping pill variety. Throughout the year, the estimated cumulative sales revenue from the 11 key assessment varieties under the major varieties of the Company amounted to RMB1,876 million, up by 12.31% from that in the same period of last year. The major varieties strategy was further strengthened.

2. *Actively built the sharing platforms to facilitate the integration of marketing resources*

Adhering to the principles of "resource integration, reform promotion, accurate positioning and winning end customers", the Company strengthened the top-tier design with focus on integrating marketing resources to build six major sharing platforms: (i) expert platform, through which the Company fully capitalised on academician and expert resources to form a state-level and regional-level expert team so as to enhance Zhong Xin Pharmaceutical's academic position in various treatment areas nationwide; (ii) channel platform, through which the Company engaged business with more than 20 branch companies of Sinopharm Group where Sinopharm Group's related sales throughout the year grew by 36% from the same period of last year; (iii) regional platform, through which the Company promoted the sharing of sales resources to achieve sales revenue exceeding a hundred million yuan; (iv) end customer platform, through which the Company entered into strategic working relationships with nationwide or regional chain platforms such as Guoda Chain, Laobaixing Pharmacy Chain and Yunnan Hongxiang Yixintang to expand its end customer retail coverage; (v) consumer platform, through which the Company gradually established the position of "Zhong Xin Drug" as the choice of drugs among local citizens through promotion events themed "the more common the drug; the more you need Zhong Xin" and the "health and wellness" column jointly launched with "Micro Tianjin"; (vi) exhibition platform, through which the subordinate companies participated in fairs and exhibitions across the nation under a standardised corporate image to achieve sharing of resources and information among the subordinate companies, thus enhancing our corporate image. The Company integrated the sales systems of Long Shun Rong and Le Ren Tang and established a new marketing company for market expansion, team adjustment, sales growth and cost reduction with a view to achieving the overall targets of "1+1>2 sales size" and "1+1<2 selling expenses". With the integration of marketing resources, the Company further explored the potential of resources to drive sales growth.

3. *Proactively adapted to the medical reform policies to capture market opportunities in advance*

The Company's commercial segment actively coped with the "two-invoice policy" to strive for Tier-1 agency qualification. Throughout the year, the Company secured 183 new tier-1 suppliers and 918 new Tier-1 agency varieties where the key varieties under joint ventures including Novo Nordisk and Sanofi achieved a zero breakthrough in Tier-1 agency and obtained the Tier-1 agency qualification for basically all of the key Western varieties under joint ventures, which entirely eliminated the monopolistic competition. At the same time, the Company's control over the end customer market was increasing, which strengthened the market strengths of Zhong Xin's business. As to the international market, in addition to consolidating the Japan and Southeast Asia markets, the Company actively expanded into the international market and entered into the sales agreement regarding Suxiao Jiuxin Wan in Russia. As part of its active efforts to explore the export business, its Chinese plum beverage products were successfully exported to Canada. Not only did it expand the Company's product mix, it also raised the international recognition of the brand.

4. *Attempted the unique marketing model and expanded the marketing network at WeChat*

Insisting on the marketing principles of "customer first, end customer is king and market is top priority", the Company explored a scientific marketing mechanism that fits into the actual conditions of the Company. Apart from introducing the big data IT management tools to chronic disease management varieties as represented by Tongmai Yangxin Wan (通脉养心丸), the Company worked with large-scale chain stores to launch "targeted member marketing" to accurately identify and satisfy consumer needs and to regularly push healthcare knowledge and promotion activities. The results of which were promising. WeChat public accounts namely "Tianjin Zhong Xin Pharmaceutical" and "Zhong Xin Big Health" were created and became part of the communication network together with other WeChat public accounts namely "Long Shun Rong Health Express", "Dripping Pill Expert" and "Le Ren Happy Healthy" to disseminate the concept of health at multi-levels. The Company worked with WeChat public accounts including "Keeping Your Heart Healthy" to expand the audience base. The number of followers of each public account reached 60,000 in aggregate.

5. *Stepped up advertising and promotion efforts to enhance branding*

Four varieties namely Qingfei Xiaoyan Wan, Sunaoxin Diwan (舒脑欣滴丸), Wuji Baifeng Pian (乌鸡白凤片) and Jingwanhong Ruangao (京万红软膏) were selected by the Company as the first batch of varieties for advertising. The Company adopted the advertising policy of one strategy for one variety where advertisements were placed on traditional media such as television stations and radio stations as well as new media such as news bodies and Weibo. The integration of both online propaganda and offline activities was conducive to driving the growth of end customers.

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

6. *Highlighted safety and environmental inspection checks and strictly monitored rectification to ensure stability*

Adhering to a high sense of safety responsibility awareness that "potential hazards lead to accidents", the Company strictly implemented the requirements on production safety, environmental protection and fire safety. A safety technology department was set up to coordinate management and strengthen safety and protection work. The Company established and improved the safety responsibility management systems on production safety, environmental protection and fire safety, and defined the subject responsibilities to normalise the inspection checks on safety hazards. Throughout the year, the Company carried out a total of 90 special and joint inspection checks on production safety and fire safety and 36 inspection checks on environmental protection where full coverage and comprehensive inspection was carried out at all subordinate companies. The issues identified in the inspection checks were handled by designated personnel and were subject to rectification within a stipulated period. 259 items of potential hazards of production safety and fire safety were rectified and 25 potential hazards of environmental protection were rectified. The Company implemented a closed loop management system by following up issues pending upon rectification on an ongoing basis. Throughout the year, the safety conditions of the Company remained stable, providing a sound environment for the Company's production and operations. Among which, Da Ren Tang was accredited the Model Enterprise of State-level Safety Culture.

7. *Coordinated fine management to effectively reduce cost and increase efficiency*

Centering upon the main thread of "assuring quality, reducing cost and improving efficiency", the Company continued to propel cost reduction. After coordination and planning, the Company kicked off the processing point project for decoction pieces plants. By integrating the utility facilities including sewage treatment and substation in the industrial parks, the Company reduced administrative costs and minimised safety risks. The Company also continued to capitalise on the e-purchase platform of medicinal materials. As a result, the cost of raw medicinal materials purchased was RMB12.08 million below the budget. In addition, the Company pushed ahead the central purchasing of supplementary materials and packaging materials while actively engaging in price negotiation and stability tests with existing suppliers to effectively reduce the purchase costs in the current period. In addition to strengthening machinery management, the Company accelerated the application of Long Shun Rong's micro granule and tablet compression technology, automated production of Da Ren Tang's wax pills, coordination of automated production of Le Ren Tang's water pill and granule varieties and the mass production of automated fillers at Sixth Zhong Xin Plant. The level of production automation and intelligence was enhanced as a result. After strengthening the assessment to reduce energy consumption, the cumulative standard coal consumed per RMB10,000 of GDP at the plants decreased by 6.25% year-on-year, which further enhanced the level of energy saving and consumption reduction. In 2017, the Company saved approximately RMB22.57 million throughout the year via cost reduction efforts in many areas. Therefore, management efficiency was achieved.

8. *Vigorously strengthened standardised operation to enhance risk management capabilities*

The Company systematically carried out self-inspection of position related integrity risks, and focused on key areas and segments such as financial management, substantial fund utilisation, supplies procurement, production operations and marketing to carry out self-inspection of position

related integrity risks and its rectification. Rectification of the issues identified in the audit of the headquarters and 23 subordinate companies was reviewed by the Company to reduce risks associated with audit supervision. The Company stepped up the development of the big financial system, pushed ahead the integration of the sales company's financial business, strengthened cost management and avoided the cost management risks, laying a solid foundation for building the financial sharing centre. While promoting the standardisation of file management, the Company's headquarters was accredited the "AA" grade certification for file management in Tianjin, which further facilitated the establishment of a scientific and modern file management system.

II. Corporate governance structure was perfected and interests of shareholders were protected

Being a listed company with shares issued on the Singapore Exchange and the Shanghai Stock Exchange, the Company is subject to legal and regulatory governance of the two stock exchanges in China and Singapore. Corporate standardisation and governance are being carried out in strict accordance with the Articles of Association, Rules of Procedure of Shareholders' General Meetings, Rules of Procedure of Meetings of Board of Directors, Rules of Procedure of Meetings of Board of Supervisors and other legal and regulatory policies. In 2017, the Company's holding of shareholders' general meetings, meetings of the board of directors and meetings of the board of supervisors as well as its decision making were in compliance with relevant legal and regulatory provisions. The Company has safeguarded the legitimate rights and interests of all shareholders, especially minority shareholders, in all respects.

The Company is always committed to enhancing the quality of the listed company, improving the level of corporate governance and gradually perfecting standardised operation. A series of work is being carried out by the Company according to relevant requirements of the China Securities Regulatory Commission, the Shanghai Stock Exchange and the Singapore Exchange. In 2017, the Company conducted promotional campaigns on investor protection, guiding investors to recognise their own tolerance, investment preferences and investment targets via multi-mode and multi-channel publicity keeping pace with the masses and markets. As a result, a relatively positive effect was achieved in the community. On 5 May 2017, the Company held an online briefing on the 2016 results in an interactive manner at which the management exchanged views on the operating results, profit distribution of the Company with investors. On 6 December 2017, the Company organised the campaign on "Zhong Xin Pharmaceutical's Investor Tour and Exchange (Industrial Park)" at which more than 100 investors listened to the featured reports of the Company on the site, visited the cultural and exhibition hall and business enterprises, and had an interactive exchange and product experience with participating enterprises to allow investors and potential investors to understand the Company's latest business updates in a timely and comprehensive manner, thus building a sound corporate image of the Company. To further safeguard the rights and interests of shareholders and to obtain return on investment, the Company held the 2016 annual shareholders' general meeting at which the 2016 profit distribution plan was considered and approved. Based on the total share capital of 768,873,076 shares as at 31 December 2016, a cash divided of RMB1.5 (tax inclusive) was paid to all shareholders for every ten shares held, totalling RMB115,330,961.40 as part of its concrete action to give back to investors. In 2017, the Company paid attention to

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

strengthening insider management work to ensure the registration of insider files and the notification of confidentiality obligations are properly executed in accordance with the Company's Insider Management Policy. For the work on annual report in 2017, both independent directors and the audit committee carried out audit work according to relevant policies. Based on the foregoing, all rules, regulations and policies of the Company were complied with in 2017.

The Company has always ensured information disclosure work is strictly compliant with the requirements of regulatory authorities in China and Singapore based on the principle of "the more informative and the more stringent the better". In 2017, the Company carried out information disclosure work in accordance with the Information Disclosure Management Policy, ensuring that information in announcements is true, accurate, timely and complete and the disclosure of information is consistent at home and abroad. At the same time, the Company welcomed investor visits and enquiries and, through compliant and adequate information disclosure, strengthened communication with investors, promoted an understanding and recognition of the Company among investors, maintained good investor relations and established a positive image of the Company in the market.

III. Scientific innovation was strengthened continuously with increasing core competitiveness

Adhering to the positioning of "serving production and backing up sales to lead the future", the Company has implemented an innovation-driven development strategy aiming at enhancing the vitality of enterprise developments on scientific and technological innovation.

1. Integrating the scientific research resources of the Company to push ahead transformation of the scientific research model

The Company established the Research Institute of Zhong Xin Pharmaceutical and Professor Zhang Bo Li was appointed as chief consultant. The research institute comprises the Suxiao Jiuxin branch institute, Tongmai Yangxi branch institute, Long Shun Rong branch institute, Da Ren Tang branch institute, Medicinal Resources branch institute, Chinese Medicine Culture branch institute, Chemical Medicine branch institute, Capital branch institute and Market branch institute. Beginning with the market demand, the Company fully utilised the big data platform of scientific research and stepped up efforts to introduce scientific research talents and key scientific research projects so as to enhance the core competitiveness of the Company. Four product subject groups with sales exceeding a hundred million yuan were set up by the Company and leading figures of scientific research via open recruitment were engaged as deputy group leader of the subject groups. Through the work of market operations, the Company stimulated the motivation of scientific research personnel and built a market-oriented technology innovation system with the enterprise as the main body and profound integration between the industry, academy and research.

2. Focusing on tackling key technical issues to release the potential of variety resources

Throughout the year, the Company carried out 22 new product R&D projects, translating into an output value of RMB1,038 million. In-depth analyses on major varieties in terms of treatment mechanism, new dosage, adaption in population and other aspects, and secondary development work on 12 major varieties were carried out. Among which, the "Real World Research on Suxiao Jiuxin Wan Community" completed the categorisation of all cases, which further enhanced the clinical reassessment research level of Suxiao Jiuxin Wan. Through working with Nobel Laboratory of The University of Milan, Italy, being an internationally renowned institute specialising in cardiac electrophysiology, the two-year "Tongmai Yangxin Wan electrophysiology" project was completed where the results have shown that Tongmai Yangxin Wan can regulate cardiac arrhythmia bidirectionally. This has marked a milestone in the integration of the traditional theories of Chinese medicine and modern science and technology. At the same time, the Company kicked off five chemical medicine consistency evaluation projects and commenced 13 process improvement projects.

With respect to strengthening the management of intellectual property rights, the Company perfected five management systems, 19 procedural documents and 48 records in the Standard for Enterprise Intellectual Property Management. Throughout the year, the Company obtained 4 invention patent authorisations. Among which, the Xue Wan (血丸) invention patent and the Weichangan Wan (胃肠安丸) invention patent awarded the Tianjin Patent Award – Excellence Award. Our rich academic achievements provided strong support for expanding volume and efficiency of our products.

3. *Upholding strict quality control to enhance the quality and content of products*

The Company put in place a mechanism for routine supervision and self-inspection of quality control as well as a mechanism for scientific analysis and decision-making of quality issues. Centering upon three areas including quality control and risk management, process compliance and data reliability, the Company strengthened the quality supervision and management in respect of the entire process of drug production and operation, and gradually implemented the drug quality accountability system. Internal audit, unannounced inspection and drug evaluation work was strengthened. A quality control team project was carried out to raise quality and inject vitality. Throughout the year, eight projects received the first prize at the QC Team Achievement Conference for the pharmaceutical industry nationwide.

4. *Introducing a range of training and talent selection measures to promote team building*

Adhering to the talent selection system of "internal training as supplemented by external recruitment", the Company endeavoured to introduce high quality training and personnel to build an efficient elite team. To strengthen team building, the Company pushed ahead the national talent project, Tianjin's "131" innovative talent training project and postdoctoral work station development to nurture professional leaders. Our six subordinate companies offered 63 positions. Through working with third-party professional entities, young talents within the enterprise were selected via open recruitment. This provided a platform for more than 100 young employees to extend their potential and fully spiced up their work motivation. Setting high standards for new staff recruitment, we recruited 56 employees in 2017. Among which, employees graduated from double first-class universities and top tier 1 graduates accounted for 62.5% and master's degree holders accounted for 23.2%. The Company fostered the IT development of human resources to gradually achieve the integration of talent flow, salary flow and information flow of the subordinate companies.

IV. Profit distribution in 2017

The Company plans to distribute cash dividends from the profits of 2017. A cash dividend of RMB2.0 (tax inclusive) for every ten shares held, totalling RMB153,774,615.20 will be paid to all shareholders based on the total share capital of 768,873,076 shares as at 31 December 2017.

V. Significant legal disputes

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

VI. Implementation of related party transactions contracts

In 2017, 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 party companies.

All of the aforesaid related party transactions were entered into on normal terms and no related party transaction entered into was not in the interests of the Company. The related party transactions with single amount of more than S$100,000 are as follows:

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

In RMB'000

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of SGX Listing Manual)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of SGX Listing Manual (excluding transactions less than S$100,000)
Tianjin Pharmaceutical Group Finance Co., Ltd. ("TPGF")	The interest payable on the credit facilities provided by TPGF: 1,935	0
Acquisition of the entire equity interest in Tianjin Chinese Medicinal Slices Co., Ltd. from Tianjin Jincao Guoyao Investment Co., Ltd.	62,712	0
Total	64,647	0

Note: As at 31 December 2017, placement of deposit with TPGF amounted to RMB287,675,910.

VII. Major focus in 2018

The year 2018 is the starting year of implementing the spirit of the 19th CPC National Progress, which is crucial to securing a decisive victory in building a moderately prosperous society in all respects and implementing the "Thirteenth Five-Year Plans". To Zhong Xin Pharmaceutical, the year 2018 is the starting year of seizing the historical window to achieve the plan of "multiple times of growth in three years" as well as an important year of new development in the new era.

In 2018, the Company will mainly focus its work on the following areas:

1. *Focus on developing the "major varieties" to get off to a good start with "multiple times of growth in three years"*

Standing by the targets of "high position, high starting point, wide coverage and fast volume growth", the Company will focus on the "major varieties" cluster effect while closely monitoring the sales progress and operational quality of the major varieties to ensure the annual targets are accomplished. In 2018, capitalising on the opportunities arising from the inclusion of Suxiao Jiuxin Wan in the Guide on Combination of Chinese and Western Medicine Diagnosis and Treatment of Acute Myocardial Infarction, the Company endeavours to exceed a thousand million yuan of sales revenue and push ahead a number of new varieties with sales revenue exceeding a hundred million yuan including Huo Xiang Zheng Qi soft capsules, Long Qing Pian, Qingyan Diwan (清咽滴丸) and Tezi Shefu (特子社复). Among our major varieties, the Company strives to exceed twenty thousand million yuan of sales revenue for 11 key major varieties, getting off to a good start with the plan of "multiple times of growth in three years".

2. *Focus on building a market system where market thinking leads the development*

To build a big marketing department, the Company and its subordinate companies should foster marketing department development and build a system for the marketing department. Fully capitalising on the functions of market data analysis, product strategic planning, knowledge management of products and diseases and communication of medical evidences and concepts, expert customer management as well as brand planning and brand building, a "product thinking" and "disease thinking" attitude will be developed which focuses on the products and targets at consumers to truly give play to the "strategic planning" of the marketing department in leading market development.

3. Focus on taking the end customer-oriented approach with effective marketing strategies

As the medical reform progresses, the development of pharmaceutical products will gradually shift from profit orientation to clinical reasonableness and necessity. The medical value of products will gradually increase. Accordingly, we have to stress the awareness of product value to ensure that our products have good product value to satisfy the people's needs for health. Respecting the principle of "adhering to the end customer-oriented approach and promoting net sales growth", the Company will step up efforts of professional promotion at end customers and expand the sales of three end customers namely hospitals, pharmaceutical retailers and primary healthcare institutions.

4. Focus on developing unique businesses with transformation of upgrade of the commercial segment

Leveraging on Zhong Xin's strengths of the integrated industrial and commercial business segments and the marketing network in Tianjin, Zhong Xin's commercial segment recorded relatively fast growth. However, faced with the impacts of the "two-invoice policy", the commercial segment also faces new opportunities and challenges. In this regard, first, by seizing the opportunities arising from the commencement of operation of the medical logistics centre, closely following the national strategy and leveraging on the geographical strengths of Tianjin, we endeavour to build a modern pharmaceutical logistic centre positioned in Beijing, Tianjin and Hebei. Second, we strive to obtain more upstream resources. Third, we have to deepen the synergies arising from connection between the industrial and commercial segments of the Group where the commercial segment has to formulate special assessment for product varieties in Mainland China and include the same into the annual remuneration appraisal of the operators to facilitate the plan of multiple times of growth. Fourth, we have to enhance the supply chain extension service. Fully capitalising on the strengths of the extensive coverage of the Company in 18 regions, we will make use of the favourable timing of hierarchical diagnosis and family physician mandate to extend the service of the commercial segment to end customers so as to increase our control over end customers.

5. Focus on innovating the marketing model to generate online-offline synergies

First, we enter into strategic cooperation with the world's renowned pharmaceutical e-commerce platforms and build the Zhong Xin Pharmaceutical e-commerce platform to establish the brand of Zhong Xin Pharmaceutical and explore new model of online sales for all varieties. Second, three bestselling products namely Haima Bushen (海马补肾), Sunaoxin Diwan and Wuji Baifeng Pian are selected for sale on nationwide pharmaceutical e-commerce platforms including Kang'aiduo, Jingdong and Chemist Warehouse@Tmall to explore the new model for entire network operations of varieties e-commerce. Third, we step up "targeted member marketing" efforts to accurately identify end customer needs of members via big data and IT means which allow us to accumulate more consumer data, guide the scientific and reasonable use of drugs, increase member loyalty and enhance product competitiveness. Fourth, we strengthen the interaction with other public accounts of the nationwide e-commerce platforms on top of Zhong Xin Pharmaceutical's big health public account and carry out multi-dimensional promotion and marketing to increase the influence of our public account.

6. Focus on driving scientific research transformation to unleash the potential of variety resources

While actively implementing the guiding thought of "delivering comprehensive lifecycle health services for the people" proposed at the 19th CPC National Congress, the Company will further integrate the scientific research resources led by technology innovation and guided by market demand. Apart from accelerating the transformation and upgrade of the Research Institute of Zhong Xin Pharmaceutical, we work with medicine research institutes of pharmaceutical groups, faculty of medicine of Nankai University, faculty of medicine of Tianjin University and the research bases of various hospitals to drive changes of scientific research from integrating into the market to leading the market, scientific research development to full-scale development, scattered management to centralised management, and at the same time enhance the resources utilisation rate internally and externally. The Company will coordinate and master the development and layout of scientific research projects, formulate and implement the three-year plans for scientific research work, and attract a team of leading figures of scientific research via transformation and upgrade project development.

In addition to devoting efforts to the secondary development project of 17 major varieties, the Company will, by utilising new methods namely network pharmacology and real world research, carry out researches in various areas including evidence-based medicine,

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

quality standard enhancement and process improvement. At the same time, the Company will actively cope with the challenges brought by the shuffling of chemical medicine market as a result of generic drug consistency evaluation.

In our pursuit of pushing ahead the scientific research of new drugs, in 2018, 20 projects on new varieties including Bufei Keli (补肺颗粒) will be kicked off. The Company will pay attention to the relevant PRC laws and regulations in relation to simplified registration and approval standards for classical traditional Chinese medicine excellent prescriptions, and actively participate in the formulation, registration and filing of drug preparation standards for classical traditional Chinese medicine excellent prescriptions. Meanwhile, it will devote more efforts to the R&D of new chemical medicines including hypoglycemics, anti-depressants, antihypertensives and Sildenafil to nurture new market growth points.

While reinforcing the management of intellectual property rights, the Company will formulate patent protection proposals for approximately a hundred exclusive varieties. On this note, key varieties will be featured in the overseas extension of patents, thus forming a group of overseas patents. Based on the patent assessment value, patents will be managed by hierarchy and category. Through different disposal measures to optimise resource allocation, the Company will facilitate the use of patents to derive market value of these intangible assets.

7. *Focus on strengthening quality control to consolidate the foundation of quality technologies*

Bearing in mind the quality and safety concept that "quality is the life of the enterprise", the Company will strictly comply with the PRC policies and regulations. The Company will, based on the quality issues, center around three areas namely quality risk control, process compliance and data reliability to supervise and manage the entire process of drug production and operation. Leveraging on the opportunities from GMP certification, the Company will step up the quality internal audit efforts and at all times maintain the quality control standard for unannounced inspections while strengthening the rectification of deficiencies to ensure compliant production and operation, thus allowing the Company to win over consumers with its hardcore product quality.

8. *Focus on strengthening operational management and vigorously push ahead cost reduction and efficiency enhancement*

While moderately propelling the integration of business flow from the supply of Chinese medicine materials, pre-processing of Chinese medicine materials to processing of decoction pieces, the Company will set up a mechanism to link up Chinese medicine materials companies, decoction pieces plants and other industrial enterprises to accelerate marketisation of the pricing system of Chinese medicine materials. At the same time, the Company will further promote centralised purchasing of key supplementary materials and packaging materials to reduce the purchase costs.

As part of the automated extraction project, Chinese medicine extraction is now under computerised dynamic supervision which further enhances the level of intelligence and automation of the drug preparation production facilities. On the other hand, the Company will continue to push ahead the automated production of Long Shun Rong's tablets, Da Ren Tang's wax pills and Le Ren Tang's water pills. The Company will also introduce indicators such as overall equipment effectiveness ("OEE") to increase the utilisation rate of equipment.

9. *Focus on building a safety system to ensure stability of production safety*

Through effective propaganda and education, safety inspection checks, capital commitments to safety issues, tackling potential hazards and emergency management, the Company endeavours to ensure stability of production safety in 2018. First, the Company will further implement the accountability system of production safety by entering into letters of safety production duties with direct enterprises, setting safety duty targets, strictly seizing the performance of duties of each level and building a 3-tier supervision system. The performance of safety duties in the entities will be included in the annual assessment of the enterprise to ensure zero incident of production safety. Second, the Company will deepen the training on safety education. Third, the Company will continue to strengthen the work of safety checks by upholding the principle of prevention that "potential hazards lead to accidents and tackle when incidents arise", strengthening the sound rolling system of "identify the potential hazards-timely rectify the potential hazards-review and approve the rectification results", insisting on the combination of self-inspection and special inspection and engaging high calibre "masters" to enhance the standard of safety management across the enterprise. Fourth, the Company will further perfect the safety production statistics where the Company will enrich and improve the operation and usage of safety models in the existing production and operation platform, and rationalise the establishment of safety monitoring platform by Zhong Xin and subordinate companies. In addition, the Company will compile statistics of safety production risk monitoring points and refine the monitoring systems on key facilities, key monitoring areas and key monitoring positions of the subordinate companies.

In 2018, the Company is entering a crucial period faced with both opportunities and challenges. Our leaders, management and employees will, by upholding the spirit of the 19th CPC National Progress and Xi Jinping's thought on socialism with Chinese characteristics on a new era, shoulder the mission of inheriting the development of the Chinese medicine industry and ensure that all indicators of 2018 are fully accomplished while overcoming difficulties and exploring innovation in a gradual and practical manner with a view to achieving the strategic positioning of the Company.

Li Li Qun
Chairman

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 2017 ("**FY2017**") was approximately RMB5,689 million, a decrease of approximately RMB553 million, or 9%, from RMB6,242 million for the financial year ended 31 December 2016 ("**FY2016**").

(b) Gross profit margin:

The Group's gross profit in FY2017 increased by approximately 9% from approximately RMB1,970 million in FY2016 to approximately RMB2,144 million. Gross profit margin increased from 31.55% in FY2016 to 37.68% in FY2017.

(c) Other operating income:

Other gains in FY2017 were approximately RMB96 million, a decrease of approximately RMB11 million over the previous year, which was RMB107 million. This was mainly contributed by the decrease in gain on disposal of property, plant and equipment.

(d) Major expenses:

(i) Marketing and Distribution costs in FY2017 was approximately RMB1,427 million, an increase of approximately RMB151 million, or 12% 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 FY2017 increased by approximately RMB13 million, to approximately RMB79 million.

(iii) Administrative expenses in FY2017 decreased by approximately RMB15 million, from approximately RMB304 million in FY2016 to approximately RMB289 million.

(iv) Finance costs in FY2017 decreased by approximately RMB7 million or 37% from approximately RMB19 million to approximately RMB12 million. The decrease in financial costs was mainly due to the decrease in loan amounts and decrease in interest rates.

(v) Other losses in FY2017 decreased by approximately RMB40 million, from approximately RMB69 million in FY2016 to approximately RMB29 million. The decrease was mainly due to the decrease in allowance for doubtful debts.

(e) Shares of results of associated companies:

The Group's share of results of associated companies in FY2017 increased by RMB2 million, or 2%, from approximately RMB118 million in FY2016 to approximately RMB120 million.

(f) Total comprehensive income:

The Group's total comprehensive income (net of tax) in FY2017 was approximately RMB469 million, an increase of 18% over the previous year. The total comprehensive income attributable to equity holders of parent (net of tax) in FY2017 was approximately RMB472 million, an increase of approximately RMB60 million, or 15%, from FY2016.

FINANCIAL REVIEW

(g) Major changes in statement of financial positions:

As at 31 December 2017, the Group's cash and cash equivalents amounted to approximately RMB992 million, which is a decrease of approximately RMB172 million, or 15% over previous year. As at 31 December 2017, the Group's short-term borrowings were approximately RMB496 million, which is a decrease of approximately RMB79 million, or 14% over previous year.

Trade and other receivables amounted to approximately RMB1,541 million at 31 December 2017, which is an increase of approximately RMB45 million, or 3% over previous year. Bills receivable increased by approximately RMB3 million. Trade receivables increased by approximately RMB56 million. Other receivables decreased by approximately RMB14 million. Inventories increased by 19% to approximately RMB1,104 million.

Other current assets increased by approximately 35% or RMB58 million to approximately RMB222 million as at 31 December 2017.

Investments in associates increased by approximately RMB1 million to approximately RMB562 million.

Property, plant and equipment increased by approximately RMB80 million or 8% to RMB1,076 million.

(h) Changes in cash flow position:

In FY2017, the Group recorded net cash outflow from operating activities of approximately RMB14 million.

Cash inflow from investment activities was approximately RMB204 million in FY2017.

Cash outflow from financing activities was approximately RMB158 million in FY2017.

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 recent years, the reform of the pharmaceutical industry has continued to deepen. Enterprises have to adapt to the new normal in order to achieve stable and high-quality development. In the face of reality, the company carefully analyzes the market environment and will embark on the following:

(1) Actively fine tune its operating model by focusing on creating anchor brands, building a distinctive consumer oriented market system, and developing innovative marketing models to strengthen its operational capabilities.

(2) Promote scientific research, emphasize quality management, and further strengthen its core competitiveness.

(3) Enhance operational management and control, and build safety mechanisms to further improve the quality and efficiency of development.

In 2018, the company's development entered a critical phase with both opportunities and challenges. While upholding the mission of developing traditional Chinese medicine, the company will continue to innovate and overcome all challenges through effective execution of its strategy.

WORK REPORT OF THE BOARD OF SUPERVISORS

Dear Supervisors:

In FY2017, 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 2017, the board of supervisors held a total of eight meetings at which the 2016 annual report, 1Q2017 report, 2017 interim report, 3Q2017 report, 2016 *Profit Distribution Plan of the Company*, 2016 *Internal Control Assessment Report of the Company, Resolution on the Extension of Performance of Undertakings by Controlling Shareholder Tianjin Pharmaceutical Group Co., Ltd., Resolution on the Company's Write-off of Assets and Allocation of Provisions for Impairment of Assets in 2016, Resolution on the Company's Continued Use of Some Idle Proceeds for Temporary Replenishment of the Company's Liquidity, Resolution on the Company's Continued Use of Idle Proceeds for Cash Management* 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 FY2017 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 2017, 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 further reinforced the sense of return to shareholders and established a scientific, sustainable and stable profit distribution policy aiming at better safeguarding the legitimate rights and interests of investors and the 2016 half-yearly profit distribution plan and cash dividend program was also successfully implemented in December 2016, and the 2016 profit distribution plan and cash dividend program was successfully implemented in July 2017. Prices of connected transactions carried out between the Company and connected parties through regular trade were fair and reasonable and the development of contracts on connected 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 and 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 2017 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 FY2017, 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 could certainly make greater progress in 2018 and give back to shareholders on better results.

Li Yong
Chairman of 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.

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 the financial year ended 31 December 2017 ("FY2017"), 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:

- to review and approve of quarterly and annual results and earnings announcements;
- to review and approve of annual report and accounts;
- to consider the declaration of dividends;
- convening of shareholders' meetings;
- to review and approve of corporate strategies;
- to review and approve of material acquisitions and disposals exceeding 2% of the Group's net tangible assets ("NTA") value; and
- to review and approve 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") attend all Board meetings and are responsible for ensuring 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.

Directors' Meetings held in 2017

During the year, the Board had held 12 meetings, and the Directors' attendance at these meetings were as follows:

Name of director	Number of Board Meetings held	Attendance
Wang Zhi Qiang[1]	7	6
Zhang Jian Jin[2]	5	0
Ma Gui Zhong[3]	5	0
Li Li Qun[4]	3	3
Wang Lei	12	12
Yan Min	12	12
Zhou Hong	12	12
Timothy Chen Teck Leng	12	12
Vincent Toe Teow Heng	12	12
Qiang Zhi Yuan	12	12

Notes:

1. The resignation of Mr. Wang Zhi Qiang was effective from 24 August 2017.
2. Mr. Zhang Jian Jin was removed as a Director with effect from 30 June 2017.
3. Mr. Ma Gui Zhong was removed as a Director with effect from 30 June 2017.
4. Mr. Li Li Qun was appointed as Executive Director and Chairman with effect from 10 October 2017.

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.

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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 Li Qun	10 October 2017	N.A.	Chairman		C		
Wang Lei	15 May 2015	N.A.	Executive Director		M		
Yan Min	16 May 2016	N.A.	Executive Director				
Zhou Hong	18 December 2012	22 December 2015	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 Zhi Yuan	15 May 2015	N.A.	Independent and Non-Executive Director	M	M		C
Former Directors							
Wang Zhi Qiang[1]	28 December 2007	16 May 2016	Chairman		C		
Zhang Jian Jin[2]	31 January 2007	18 December 2012	Non-Executive Director		M	M	
Ma Gui Zhong[3]	18 December 2012	N.A.	Non-Executive Director		M		M

Notes:

1. The resignation of Mr. Wang Zhi Qiang was effective from 24 August 2017.
2. Mr. Zhang Jian Jin was removed as a Director with effect from 30 June 2017.
3. Mr. Ma Gui Zhong was removed as a Director with effect from 30 June 2017.

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 Director proposed for re-election or re-appointment at the forthcoming annual general meeting ("AGM") is set out in the notice of AGM dated 30 March 2018.

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 PRC securities supervision 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 Zhi Yuan. The criterion of independence is based on the definition given in the Code. The Board considers an “independent” director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director’s independent judgment of the Group’s affairs.

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.

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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 Li Qun 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 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 Board 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.

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 Li Qun and its other members are Ms. Wang Lei and Mr. Qiang Zhi Yuan. 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 during the year and attendance at those meetings were as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Wang Zhi Qiang[1]	Executive Chairman	1	1
Li Li Qun[2]	Executive Chairman	0	0
Zhang Jian Jin[3]	Non-Executive Director	0	0
Ma Gui Zhong[4]	Non-Executive Director	0	0
Wang Lei[5]	Executive Director	1	1
Qiang Zhi Yuan	Independent Director	1	1

Notes:

1. The resignation of Mr. Wang Zhi Qiang was effective from 24 August 2017.
2. Mr. Li Li Qun was appointed as Executive Director and Chairman with effect from 10 October 2017.
3. Mr. Zhang Jian Jin was removed as a Director with effect from 30 June 2017.
4. Mr. Ma Gui Zhong was removed as a Director with effect from 30 June 2017.
5. Ms. Wang Lei was appointed as the member of the Strategy Committee with effect from 10 October 2017.

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 Zhi Yuan. 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 annual and quarterly financial statements and the draft earnings announcements before their submission to the Board for approval;

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- 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 FY2017. 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 RMB3,150,000 to the external auditors for their provision of audit services, and an aggregate of approximately RMB800,000 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 2017, 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 had also had 4 meetings with the internal auditors, without the presence of management, during FY2017.

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 during the year and attendance at those meetings were as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Timothy Chen Teck Leng	Lead Independent Director	7	7
Vincent Toe Teow Heng	Independent Director	7	7
Qiang Zhi Yuan	Independent Director	7	7

Nominating Committee

The Nominating Committee was established in 2002. For FY2017, the chairman of the Nominating Committee was Mr. Qiang Zhi Yuan, and the other members were Mr. Ma Gui Zhong[1] and 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.

Note:

1. Mr. Ma Gui Zhong was removed as a Director with effect from 30 June 2017. The Company will use its best endeavours to fill the vacancy in the Nominating Committee as soon as possible.

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 should 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 FY2017, 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 FY2017, 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.

CORPORATE GOVERNANCE STATEMENT

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 during the year and attendance at those meetings were as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Qiang Zhi Yuan	Independent Director	3	3
Vincent Toe Teow Heng	Independent Director	3	3
Ma Gui Zhong[1]	Non-Executive Director	0	0

Note:

1. Mr. Ma Gui Zhong was removed as a Director with effect from 30 June 2017.

Remuneration Committee

The Remuneration Committee was established in 2002. For FY2017, The Remuneration Committee was chaired by Mr. Vincent Toe Teow Heng, and the members were Mr. Zhang Jian Jin[1] and Mr. Timothy Chen Teck Leng.

Note:

1. Mr. Zhang Jian Jin was removed as a Director with effect from 30 June 2017. The Company will use its best endeavours to fill the vacancy in the Remuneration Committee as soon as possible.

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 Remuneration 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 during the year and attendance at those meetings 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	Lead Independent Director	1	1
Zhang Jian Jin[1]	Non-Executive Director	0	0

Note:

1. Mr. Zhang Jian Jin was removed as a Director with effect from 30 June 2017.

Alternate Directors

The Company has no alternate directors on its Board.

REMUNERATION MATTERS

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

The Remuneration Committee determines the remuneration packages for the Executive Chairman and the Executive Directors based on the performance of the Group, and the Independent Directors are paid directors' fees, determined by the full Board based on the effort, time spent and responsibilities of the Independent Directors. The amount of directors' fees is subject to approval of the 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 Li Qun	100	–	–	–	100
Wang Lei	100	–	–	–	100
Yan Min	100	–	–	–	100
Zhou Hong	100	–	–	–	100
Above S$250,000 but below S$750,000					
–	–	–	–	–	–

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.

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The directors' fees paid to the Independent Directors of the Company for FY2017 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 Zhi Yuan	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.

Details of remuneration paid to the executives (who are not Directors) of the Group for FY2017 are set out below:

Name of executive	*Total Remuneration
Li Yong	RMB240,900
Wang Mai	RMB105,000
Zhang Jian	RMB581,000

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
Wang Mai	100	–	–	–	100
Zhang Jian	100	–	–	–	100

The aggregate total remuneration paid to or accrued to the 3 key executives amounted to RMB926,900.

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.

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.

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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 are 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.

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 2017 have been properly maintained and the financial statements for FY2017 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 practice 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.

Shareholders in Singapore are encouraged to attend the Company's video conference of the AGM held in the PRC. The AGM is the principal forum for dialogue with shareholders. The notice of the AGM is dispatched to shareholders at least 45 days before the meeting, in accordance with the requirements of the Shanghai Stock 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.

CORPORATE GOVERNANCE STATEMENT

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*（《上市公司監管指引第3號–上市公司現金分紅》）, *Guideline for the Issuance of Cash Dividends by Listed Companies*（《上市公司現金分紅指引》）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.

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 2017, the Company has complied with the principal corporate governance recommendations set out in the Best Practices Guide issued by the SGX-ST.

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 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 2017.

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 Li Qun (Appointed on 10 October 2017)
Wang Lei
Yan Min
Zhou Hong
Timothy Chen Teck Leng@Chen Teck Leng
Vincent Toe Teow Heng
Qiang Zhi Yuan

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 2018 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.

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 Li Qun	Yan Min
Director	Director

29 March 2018

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 2017, 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 ("IFRSs") 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 2017 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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), 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, 2C 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 future collectability.

KEY AUDIT MATTERS (CONT'D)

(1) Impairment of trade receivables (Cont'd)

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, 2C 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 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.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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 IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide 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.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

(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
Public Accountants and Chartered Accountants

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

29 March 2018

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

29 March 2018

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 2017

	Notes	2017 RMB'000	2016 RMB'000 (Restated)
Revenue	4	**5,689,242**	6,242,573
Cost of sales		**(3,545,408)**	(4,272,922)
Gross profit		**2,143,834**	1,969,651
Interest income	5	**6,328**	5,542
Dividend income		**1,530**	1,347
Other gains	6	**96,183**	106,987
Marketing and distribution costs		**(1,426,702)**	(1,275,658)
Research and development costs		**(79,426)**	(66,319)
Administrative expenses		**(288,540)**	(303,873)
Finance costs	7	**(12,233)**	(19,373)
Other losses	6	**(29,528)**	(69,378)
Share of profits from equity-accounted associates		**119,554**	117,501
Profit before income tax		**531,000**	466,427
Income tax expense	9	**(57,740)**	(57,639)
Profit, net of tax		**473,260**	408,788
Other comprehensive loss			
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)**	(1,316)
Fair value loss on remeasuring available-for-sale financial assets, net of tax	24C	**(1,201)**	(10,757)
Total other comprehensive loss, net of tax		**(4,418)**	(12,073)
Total comprehensive income		**468,842**	396,715
Profit, net of tax attributable to:			
Owners of the parent		**476,079**	423,599
Non-controlling interests		**(2,819)**	(14,811)
		473,260	408,788
Total comprehensive income for the year attributable to:			
Owners of the parent		**471,661**	411,526
Non-controlling interests		**(2,819)**	(14,811)
		468,842	396,715
Earnings per share			
Earnings per share currency unit		**RMB**	**RMB**
Basic and diluted	10	**0.62**	0.55

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	Group 31.12.2017 RMB'000	Group 31.12.2016 RMB'000 (Restated)	Group 01.01.2016 RMB'000 (Restated)	Company 31.12.2017 RMB'000	Company 31.12.2016 RMB'000
ASSETS						
Non-current assets						
Property, plant and equipment	12	**1,075,695**	995,403	934,146	**810,984**	745,242
Investment properties	13	**25,186**	26,248	27,311	**23,587**	24,572
Land use rights	14	**168,020**	172,749	181,101	**139,605**	144,091
Intangible assets	15	**11,315**	7,908	9,042	**8,967**	5,410
Investments in subsidiaries	16	**–**	–	–	**437,080**	380,413
Investments in associates	17	**562,458**	561,031	531,220	**562,458**	561,031
Other financial assets, non-current	18	**691,169**	615,796	304,501	**149,221**	149,327
Deferred tax assets	9	**109,497**	91,678	87,153	**96,714**	83,926
Other assets, non-current	19	**17,912**	19,145	16,242	**19,570**	18,071
Total non-current assets		**2,661,252**	2,489,958	2,090,716	**2,248,186**	2,112,083
Current assets						
Inventories	20	**1,104,488**	929,077	995,773	**991,505**	798,672
Trade and other receivables	21	**1,541,127**	1,495,785	1,572,847	**1,619,286**	1,445,450
Other financial assets, current	18	**100,500**	200,660	201,494	**–**	200,660
Other assets, current	19	**222,260**	164,391	176,172	**208,055**	155,032
Cash and cash equivalents	22	**992,178**	1,163,915	1,123,263	**863,858**	910,521
Total current assets		**3,960,553**	3,953,828	4,069,549	**3,682,704**	3,510,335
Total assets		**6,621,805**	6,443,786	6,160,265	**5,930,890**	5,622,418
EQUITY AND LIABILITIES						
Equity attributable to owners of the parent						
Share capital	23	**768,873**	768,873	768,873	**768,873**	768,873
Share premium		**1,198,817**	1,198,817	1,198,817	**1,198,817**	1,198,817
Retained earnings		**2,018,817**	1,707,997	1,503,973	**1,922,178**	1,601,496
Other reserves	24	**490,251**	507,043	492,012	**540,449**	514,112
Equity attributable to owners of the parent		**4,476,758**	4,182,730	3,963,675	**4,430,317**	4,083,298
Non-controlling interests		**148,733**	162,659	183,466	**–**	–
Total equity		**4,625,491**	4,345,389	4,147,141	**4,430,317**	4,083,298
Non-current liabilities						
Deferred tax liabilities	9	**6,982**	7,293	9,316	**6,982**	7,293
Trade payables, non-current	25	**39,915**	47,271	47,652	**39,470**	47,197
Other liabilities, non-current	26	**87,956**	75,314	66,412	**48,586**	38,309
Total non-current liabilities		**134,853**	129,878	123,380	**95,038**	92,799
Current liabilities						
Income tax payable		**27,072**	17,374	10,339	**25,346**	14,402
Trade and other payables	27	**1,282,903**	1,308,925	1,279,083	**1,077,156**	1,090,441
Other financial liabilities	28	**496,357**	575,490	535,650	**260,000**	290,000
Other liabilities, current	26	**55,129**	66,730	64,672	**43,033**	51,478
Total current liabilities		**1,861,461**	1,968,519	1,889,744	**1,405,535**	1,446,321
Total liabilities		**1,996,314**	2,098,397	2,013,124	**1,500,573**	1,539,120
Total equity and liabilities		**6,621,805**	6,443,786	6,160,265	**5,930,890**	5,622,418

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

STATEMENTS OF
CHANGES IN EQUITY

REPORTING YEAR ENDED 31 DECEMBER 2017

Group	Total Equity RMB'000	Attributable to Parent Sub-Total RMB'000	Share Capital RMB'000	Share Premium RMB'000	Retained Earnings RMB'000	Other Reserves RMB'000	Non-Controlling Interests RMB'000
Current year:							
Opening balance at 1 January 2017	**4,302,289**	**4,139,630**	**768,873**	**1,198,817**	**1,735,171**	**436,769**	**162,659**
Adjustments to beginning balance (Note 37)	**43,100**	**43,100**	**–**	**–**	**(27,174)**	**70,274**	**–**
Restated 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 from non-controlling interest without a change in control (Note 16)	**(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**
Previous year (restated):							
Opening balance at 1 January 2016	4,105,175	3,921,709	768,873	1,198,817	1,532,323	421,696	183,466
Adjustments to beginning balance (Note 37)	41,966	41,966	–	–	(28,350)	70,316	–
Restated balance at 1 January 2016	4,147,141	3,963,675	768,873	1,198,817	1,503,973	492,012	183,466
Total comprehensive income/(loss) for the year	395,539	410,350	–	–	422,423	(12,073)	(14,811)
Restatements from application of pooling-of-interest method	1,176	1,176	–	–	1,176	–	–
Restated total comprehensive income for the year	396,715	411,526	–	–	423,599	(12,073)	(14,811)
Dividends (Note 11)	(192,218)	(192,218)	–	–	(192,218)	–	–
Appropriation of statutory common reserve (Note 24B)	–	–	–	–	(27,357)	27,357	–
Deemed disposal of subsidiaries (Note 16C)	895	(253)	–	–	–	(253)	1,148
Distribution to non-controlling interests (Note 11B)	(7,144)	–	–	–	–	–	(7,144)
Restated closing balance at 31 December 2016	4,345,389	4,182,730	768,873	1,198,817	1,707,997	507,043	162,659

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

STATEMENTS OF
CHANGES IN EQUITY

REPORTING YEAR ENDED 31 DECEMBER 2017

Company	Total Equity RMB'000	Share Capital RMB'000	Share Premium RMB'000	Retained Earnings RMB'000	Other Reserves RMB'000
Current year:					
Opening balance at 1 January 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**
Previous year:					
Opening balance at 1 January 2016	3,890,572	768,873	1,198,817	1,424,054	498,828
Total comprehensive income/(loss) for the year	384,944	–	–	397,017	(12,073)
Dividends (Note 11)	(192,218)	–	–	(192,218)	–
Appropriation of statutory common reserve (Note 24B)	–	–	–	(27,357)	27,357
Closing balance at 31 December 2016	4,083,298	768,873	1,198,817	1,601,496	514,112

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

CONSOLIDATED STATEMENT OF
CASH FLOWS

REPORTING YEAR ENDED 31 DECEMBER 2017

	2017 RMB'000	2016 RMB'000 (Restated)
Cash flows from operating activities		
Profit before income tax	**531,000**	466,427
Adjustments for:		
Interest income	**(6,328)**	(5,542)
Interest expense	**12,233**	19,373
Dividend income	**(1,530)**	(1,347)
Gain on maturity and disposal of financial assets	**(41,219)**	(37,518)
Share of profits from equity-accounted associates	**(119,554)**	(117,501)
Gain on disposals of interests in associates, net	**(35,025)**	(3,120)
Gain on deemed disposal of interest in subsidiaries, net	**–**	(20,860)
Fair value losses/(gains) on derivative financial instruments	**660**	(660)
Depreciation of property, plant and equipment and investment property, and amortisation of land use rights, intangible assets and other assets	**77,897**	76,181
Gain on disposal of property, plant and equipment, intangible assets and other non-current assets	**(4,047)**	(13,824)
Impairment of receivables, inventories, property, plant and equipment	**27,685**	53,169
Operating cash flows before changes in working capital	**441,772**	414,778
Inventories	**(183,748)**	15,787
Trade and other receivables	**(82,368)**	(97,343)
Other assets	**(38,640)**	8,242
Trade and other payables	**(84,677)**	95,482
Other liabilities	**1,041**	10,919
Net cash flows from operations	**53,380**	447,865
Income tax paid	**(67,491)**	(59,883)
Net cash flows (used in)/from operating activities	**(14,111)**	387,982
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	**(114,420)**	(118,201)
Proceeds from disposals of property, plant and equipment, intangible assets and other assets	**588**	18,022
Acquisition of financial assets	**(37,491,934)**	(36,031,471)
Proceeds from disposals of financial assets	**37,411,171**	35,972,632
Deemed disposal of subsidiaries (net of cash disposed) (Note 16B)	**–**	(3,779)
Proceeds from disposals of interests in associates	**51,208**	3,120
Interest income received	**36,732**	45,103
Dividends income received from associates and available-for-sale financial assets	**110,387**	97,450
Compensation income from immediate parent company	**–**	9,199
Cash restricted in use	**200,000**	100,000
Net cash flows from investing activities	**203,732**	92,075

CONSOLIDATED STATEMENT OF CASH FLOWS

REPORTING YEAR ENDED 31 DECEMBER 2017

	2017 RMB'000	2016 RMB'000 (Restated)
Cash flows from financing activities		
Acquisition of subsidiaries accounted under common control	**(62,712)**	–
Acquisition from non-controlling interests without a changes in control	**(6,016)**	–
Proceeds from new borrowings	**382,000**	745,820
Repayments of borrowings	**(424,500)**	(765,200)
Proceeds from other borrowings	**10,485,906**	13,807,635
Repayment of other borrowings	**(10,403,455)**	(13,915,001)
Dividends paid to equity owners	**(114,819)**	(191,718)
Distribution to non-controlling interests	**(5,120)**	(7,144)
Interest expense paid	**(12,642)**	(13,797)
Cash restricted in use	**3,812**	24,272
Net cash flows used in financing activities	**(157,546)**	(315,133)
Net increase in cash and cash equivalents	**32,075**	164,924
Cash and cash equivalents, beginning balance	**943,039**	778,115
Cash and cash equivalents, ending balance (Note 22A)	**975,114**	943,039

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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 2017 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.

Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), being standards and Interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2017.

These financial statements comprise statements of financial position of the Group and the Company as at 31 December 2017, and consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group, and statements of changes in equity of the Group and the Company for the reporting year ended 31 December 2017, and notes to the financial statements.

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

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

1. GENERAL (CONT'D)

Basis of preparation of the financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies. The areas requiring management's most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2C below, where applicable.

Basis of consolidation

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

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

Measurement bases

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

Fair value is 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. When measuring the fair value of an asset or a liability, the Group uses market observable data to the extent possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Group (working closely with external qualified valuers) using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

1. GENERAL (CONT'D)

Measurement bases (Cont'd)

Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Group at the end of the reporting period during which the change occurred.

Application of new and amended standards

For the preparation of these consolidated financial statements, the following amendments to Standards are mandatory for the first time for the reporting year beginning 1 January 2017.

- Amendments to IAS 7 titled Disclosure Initiative (issued in January 2016) – The amendments require entities to provide information that enables users of financial statements to evaluate changes in liabilities arising from the entity's financing activities. The amendments had no material effect on the Group's consolidated financial statements and the Company's financial statements.

- Amendments to IAS 12 titled Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016) – The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base (eg deferred tax asset related to unrealised losses on debt instruments measured at fair value), as well as certain other aspects of accounting for deferred tax assets. The amendments had no material effect on the Group's consolidated financial statements and the Company's financial statements.

1. GENERAL (CONT'D)

Application of new and amended standards (Cont'd)

- Amendments to IFRS 12 (Annual Improvements to IFRS Standards 2014-2016 Cycle, issued in December 2016) – The amendments clarify that the disclosure requirements of the Standard apply to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations except for summarised financial information for those interests (ie paragraphs B10-B16 of IFRS 12). The amendments had no material effect on the Group's consolidated financial statements and the Company's financial statements.

New and amended standards in issue but not yet effective

The Group has not applied the following new or amended Standards and Interpretations that have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2017.

The Directors anticipate that the new Standards, amendments and Interpretations will be adopted in the Group's consolidated financial statements and the Company's financial statements when they become effective. The Group has assessed, where practicable, the potential effect of all these new requirements that will be effective in future periods.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) – The Interpretation, applicable to annual periods beginning on or after 1 January 2018 (earlier application permitted), provides guidance clarifying that the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency is the one at the date of initial recognition of the non-monetary prepayment asset or deferred income liability. The Interpretation is not expected to have a material effect on the Group's consolidated financial statements and the Company's financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017) – The Interpretation, applicable to annual periods beginning on or after 1 January 2019 (earlier application permitted), provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular (i) whether uncertain tax treatments should be considered separately, (ii) assumptions for taxation authorities' examinations, (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, and (iv) effect of changes in facts and circumstances. The Interpretation is not expected to have a material effect on the Group's consolidated financial statements and the Company's financial statements.

NOTES TO
THE FINANCIAL STATEMENTS

31 DECEMBER 2017

1. GENERAL (CONT'D)

New and amended standards in issue but not yet effective (Cont'd)

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

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

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

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

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

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

  The Directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements and the Company's financial statements when it becomes mandatory. The Directors have performed a preliminary assessment of the impact of IFRS 9 on the Group's consolidated financial statements and the Company's financial statements based on an analysis of the Group's and the Company's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date.

  o Apart from quoted equity investments classified currently as available-for-sale and measured at fair value through other comprehensive income under IFRS 9, unquoted equity investments classified currently as available-for-sale and measured at cost less allowance for impairment that should be measured at fair value through other comprehensive income under IFRS 9, the unquoted bonds investments currently classify as held-to-maturity investments and measured at amortised cost should be measured at fair value through other comprehensive income under IFRS 9, all the other Group's and the Company's financial assets and financial liabilities should continue to be measured on the same bases as currently under IAS 39.

1. GENERAL (CONT'D)

New and amended standards in issue but not yet effective (Cont'd)

- o Concerning impairment, the Directors expect to apply the simplified approach to recognise lifetime ECL for the Group's trade and other receivables. Although the Directors are currently assessing the extent of this impact, they anticipate that the application of the ECL model of IFRS 9 will result in earlier recognition of credit losses. However, it is not practicable to provide a reasonable estimate of that effect until the detailed review that is in progress has been completed. In particular, the implementation of the new ECL model proves to be challenging and might involve significant modifications to the Group's and the Company's credit management systems.

- o As the new hedge accounting requirements will align more closely with the Group's risk management policies, a preliminary assessment of the Group's and the Company's current hedging relationships indicate that they will qualify as continuing hedging relationships upon application of IFRS 9. The Directors do not anticipate that the application of the IFRS 9 hedge accounting requirements will have a material impact on the Group's consolidated financial statements and the Company's financial statements.

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and amended for effective date and clarifications in September 2015 and April 2016 respectively) – The Standard, effective for annual periods beginning on or after 1 January 2018 (earlier application permitted), replaces IAS 11, IAS 18 and their Interpretations. It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (eg the point at which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract, etc.). The Directors anticipate that IFRS 15 will be adopted in the Group's consolidated financial statements and the Company's financial statements when it becomes mandatory, and they intend to use the full retrospective method of transition to the new Standard.

  Based on the current accounting treatment of the Group's and the Company's major sources of revenue (Note 2A) the Directors do not anticipate that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Group and the Company, apart from providing more extensive disclosures on the Group's and the Company's revenue transactions. However, as the Directors are still in the process of assessing the full impact of the application of IFRS 15 on the Group's financial statements and the Company's financial statements, it is not practicable to provide a reasonable financial estimate of the effect until the Directors complete the detailed review.

- IFRS 16 Leases (issued in January 2016) – The new standard, effective for annual periods beginning on or after 1 January 2019, replaces IAS 17 and its Interpretations. The biggest change introduced is that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. The Directors anticipate that IFRS 16 will be adopted in the Group's consolidated financial statements and the Company's financial statements when it becomes mandatory and that the application of the new standard will have a significant effect on amounts reported in respect of the Group's and the Company's leases. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

2A. Significant accounting policies

Revenue recognition

The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the year arising from the course of the activities of the entity and it is shown net of related sales taxes, returns and rebates.

Revenue from the sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from rendering of services that are not significant transactions is recognised as the services are provided or when the significant acts have been completed.

Rental income is recognised on a time-proportion basis that takes into account the effective yield on the asset on a straight-line basis over the lease term.

Interest income is recognised using the effective interest method.

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

Government grants

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

Employee benefits

- The Group contributes to a local 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 financial years. Contributions to the scheme are charged to profit or loss as they fall due.

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

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

2A. Significant accounting policies (Cont'd)

Employee benefits (Cont'd)

- For employee leave entitlement the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur.

- A liability for bonuses is recognised where the entity is contractually obliged or where there is constructive obligation based on past practice.

Operating leases

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

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

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

Assets leased out under operating leases are included in 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.

Foreign currency transactions

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

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

2A. Significant accounting policies (Cont'd)

Income tax

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

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.

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at the end of each reporting year 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.

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

2A. Significant accounting policies (Cont'd)

Property, plant and equipment (Cont'd)

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

	Useful life	Residual value
Buildings	7 – 35 years	4 – 10%
Plant and machinery	5 – 15 years	4 – 10%
Motor vehicles and other equipment	5 – 10 years	4 – 5%
Office equipment, furniture and fittings	3 – 10 years	5 – 10%

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

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.

Land use rights

Land use rights acquired are classified as operating leases, recorded at cost and presented net of accumulated amortisation and any accumulated impairment losses. Land use rights 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.

NOTES TO
THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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

2A. Significant accounting policies (Cont'd)

Intangible assets (Cont'd)

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.

Associates

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

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

2A. Significant accounting policies (Cont'd)

Associates (Cont'd)

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

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.

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

2A. Significant accounting policies (Cont'd)

Business combinations (Cont'd)

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 capital/merger reserve in equity.

Non-controlling interests

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

Goodwill

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

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

2A. Significant accounting policies (Cont'd)

Goodwill (Cont'd)

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

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

Impairment of non-financial assets

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

Inventories

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

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THE FINANCIAL STATEMENTS

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

2A. Significant accounting policies (Cont'd)

Financial assets

Initial recognition, measurement and derecognition:

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

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

Subsequent measurement:

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

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

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

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

2A. Significant accounting policies (Cont'd)

Financial assets (Cont'd)

Subsequent measurement: (Cont'd)

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

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

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

2A. Significant accounting policies (Cont'd)

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.

Financial liabilities

Initial recognition, measurement and derecognition:

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

Subsequent measurement:

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

#1. Liabilities at fair value through profit or loss: Liabilities are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading liabilities) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the "fair value option" and it is used. All changes in fair value relating to liabilities at fair value through profit or loss are charged to profit or loss as incurred.

#2. Other financial liabilities: These liabilities are carried at amortised cost using the effective interest method.

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for as a derivative if, and only if the criteria set out in IAS 39 are met. Embedded derivatives accounted for separately are measured at fair value. Changes in the fair value of those derivatives are recognised directly in profit or loss.

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

2B. Other explanatory information

Provisions

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

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.

2C. 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 doubtful trade accounts:

An allowance is made for doubtful trade accounts for estimated losses resulting from the subsequent inability of the debtors to make required payments. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. To the extent that it is feasible, impairment and uncollectibility is determined individually for each item. In cases where that process is not feasible, a collective evaluation of impairment is performed. At the end of the reporting year, the trade receivables carrying amount approximates the fair value and carrying amounts might change materially within the next reporting year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting year. The carrying amounts of trade receivables are disclosed in the Note 21.

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

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

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.

Impairment of property, plant and equipment:

An assessment is made at the end of each reporting year whether there is any indication that the asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. The recoverable amounts of cash-generating units if applicable is determined based on fair value less cost to sell method and value-in-use calculations. The value-in-use calculations require the use of estimates. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amount of the assets of the Group at the end of the reporting year affected by the assumption was RMB200 million (2016: RMB193 million). The carrying amounts of property, plant and equipment are disclosed in Note 12.

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.

Retirement and termination benefits:

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

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

IAS 24 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.

3B. Related companies transactions

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 current related company balances are unsecured without fixed repayment terms and interest unless stated otherwise. An interest or charge is charged or imputed for any significant non-current balances and significant financial guarantees unless stated otherwise.

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

Significant related company transactions:

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

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
		(Restated)
Sale of goods to associates	**1,361**	2,330
Purchase of goods from associates	**(73,534)**	(143,697)
Rental income from an associate	**2,595**	–
Compensation income from immediate parent company	**–**	9,199
Interest income from a related party	**837**	–
Interest expense payable to a related party	**(1,935)**	–

NOTES TO THE FINANCIAL STATEMENTS

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

3B. Related companies transactions (Cont'd)

	Group 2017 RMB'000	Group 2016 RMB'000 (Restated)
Associates:		
Balance at beginning of the year	**16,146**	1,167
Amounts paid out and settlement of liabilities on behalf of associates	**29,482**	2,470
Amounts paid in and settlement on behalf of the Group	**(18,684)**	(1,359)
Transferred from former subsidiaries	**–**	13,888
Balance at end of the year	**26,944**	16,166
Presented in the statements of financial position as follows:		
Other receivables (Note 21)	**26,984**	16,186
Other payables (Note 27)	**(40)**	(20)
	26,944	16,166

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

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

	Group 2017 RMB'000	Group 2016 RMB'000 (Restated)
Sale of goods	**203,036**	222,877
Purchase of goods	**(363,695)**	(385,490)

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

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

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
		(Restated)
Related parties:		
Balance at beginning of the year	**9,794**	9,112
Amounts paid out and settlement of liabilities on behalf of related parties	**71,294**	2,523
Amounts paid in and settlement on behalf of the Group	**(71,129)**	(1,513)
Balance at end of the year	**9,959**	10,122
Presented in the statements of financial position as follows:		
Other receivables (Note 21)	**22,702**	23,101
Other payables (Note 27)	**(12,743)**	(12,979)
	9,959	10,122

3D. Key management compensation

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Salaries and other short-term employee benefits	**6,482**	6,826

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

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Remuneration of directors of the Company	**4,311**	3,245

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.

NOTES TO THE FINANCIAL STATEMENTS

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

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 are held by related parties (see Notes 12, 13 and 14). These properties and land use rights were transferred to the Group 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 there are no circumstances that affect the Group'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 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 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 there are no circumstances that affect the Group'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 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

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
		(Restated)
Sale of goods	**5,667,207**	6,227,251
Rental and service income	**19,469**	9,833
Others	**2,566**	5,489
	5,689,242	6,242,573

5. INTEREST INCOME

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
		(Restated)
Interest income	**6,328**	5,542

6. OTHER GAINS AND (OTHER LOSSES)

	Group 2017 RMB'000	Group 2016 RMB'000 (Restated)
Allowance for impairment on other receivables	**(13,640)**	(32,802)
Allowance for impairment on trade receivables	**(4,320)**	(10,942)
Compensation income	**–**	10,555
Employment termination benefits	**(1,183)**	(11,865)
Fair value (loss)/gains on derivative financial instruments	**(660)**	660
Foreign currency translation gains/(losses), net	**1,059**	(1,754)
Gain on disposals of interests in associates, net	**35,025**	3,120
Gain on deemed disposals of interests in subsidiaries (Note 16C)	**–**	20,860
Gain on disposals of financial assets	**41,219**	37,518
Government grants and subsidies	**10,308**	14,574
Impairment losses on inventories	**(8,337)**	(12,015)
Impairment losses on intangible assets, property, plant and equipment	**(1,388)**	–
Gain on disposal and written-off of property, plant and equipment, intangible assets and land use rights, net	**4,047**	13,824
Others	**4,525**	5,876
Net	**66,655**	37,609
Presented in profit or loss as:		
Other gains	**96,183**	106,987
Other losses	**(29,528)**	(69,378)
	66,655	37,609

7. FINANCE COSTS

	Group 2017 RMB'000	Group 2016 RMB'000 (Restated)
Interest expense	**9,541**	16,628
Imputed interest on accrued retirement and termination benefits	**2,692**	2,745
	12,233	19,373

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8. EMPLOYEE BENEFITS EXPENSE

	Group 2017 RMB'000	Group 2016 RMB'000 (Restated)
Salaries and bonuses	**497,272**	463,865
Contributions to defined contribution plans and other welfare	**100,668**	99,586
Post-employment benefits	**76,743**	80,135
Termination benefits	**1,183**	11,865
Total employee benefits expense	**675,866**	655,451

9. INCOME TAX

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

	Group 2017 RMB'000	Group 2016 RMB'000 (Restated)
Current tax expense		
Current tax expense	**74,950**	60,903
Under adjustments in respect of prior years	**709**	2,259
Subtotal	**75,659**	63,162
Deferred tax income		
Deferred tax income	**(17,919)**	(5,523)
Total income tax expense	**57,740**	57,639

The income tax expense varied from the amount determined by applying the PRC statutory corporate income tax rate of 25% (2016: 25%) to profit before income tax as a result of the following differences:

	Group 2017 RMB'000	Group 2016 RMB'000 (Restated)
Profit before income tax	**531,000**	466,427
Less: Share of profits from equity-accounted associates	**(119,554)**	(117,501)
	411,446	348,926
Income tax expense at the above rate	**102,862**	87,232
Effect of concessionary tax rate at 15%	**(23,100)**	(24,153)
Not deductible items	**865**	2,349
Not taxable items	**(27,448)**	(20,122)
Unrecognised deferred tax assets	**9,100**	14,256
Other tax incentives	**(5,248)**	(4,182)
Under adjustments to tax in respect of prior periods	**709**	2,259
Total income tax expense	**57,740**	57,639

9. INCOME TAX (CONT'D)

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

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% (2016: 15%) while most of its subsidiaries are subject to the statutory corporate income tax rate of 25% (2016: 25%).

Dividends payable to "S" shareholders are subject to withholding tax at 10% (2016: 10%) payable to tax authority in the People's Republic of China.

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

9B. Deferred tax income recognised in profit or loss

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
		(Restated)
Deferred income	**(567)**	429
Accruals and allowances	**(17,252)**	(4,953)
Deemed disposals of interests in subsidiaries	**–**	(875)
Fair value through profit or loss investments	**(100)**	(124)
Total deferred tax income recognised	**(17,919)**	(5,523)

9C. Tax income recognised in other comprehensive income

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Available-for-sale financial assets (Note 24C)	**(211)**	(1,899)

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

	Group			Company	
	31.12.2017	**31.12.2016**	**01.01.2016**	**31.12.2017**	**31.12.2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
		(Restated)	**(Restated)**		
Deferred tax assets:					
Deferred income	**3,563**	2,996	3,425	**3,340**	2,996
Accruals and allowances	**105,934**	88,682	83,728	**93,374**	80,930
	109,497	91,678	87,153	**96,714**	83,926
Deferred tax liabilities:					
Available-for-sale investments	**(6,982)**	(7,193)	(9,092)	**(6,982)**	(7,193)
Fair value through profit or loss investments	**–**	(100)	(224)	**–**	(100)
	(6,982)	(7,293)	(9,316)	**(6,982)**	(7,293)

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.

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9. INCOME TAX (CONT'D)

9E. Unrecognised deferred tax assets

Group	2017 Gross amount RMB'000	2017 Tax effect RMB'000	2016 Gross amount RMB'000	2016 Tax effect RMB'000
			(Restated)	(Restated)
Deferred income	**25,420**	**3,813**	23,056	3,458
Tax loss carryforwards	**85,059**	**12,759**	58,654	8,798
Accruals and allowances	**43,619**	**6,543**	25,649	3,847
	154,098	**23,115**	107,359	16,103

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:

Group	Unutilised tax losses 2017 RMB'000	Unutilised tax losses 2016 RMB'000	Unrecognised deferred tax assets 2017 RMB'000	Unrecognised deferred tax assets 2016 RMB'000
		(Restated)		(Restated)
Expiring in 31 December 2018	**715**	715	**107**	107
Expiring in 31 December 2019	**5,128**	5,821	**770**	873
Expiring in 31 December 2020	**22,591**	22,783	**3,389**	3,418
Expiring in 31 December 2021	**30,355**	29,335	**4,553**	4,400
Expiring in 31 December 2022	**26,270**	–	**3,940**	–
	85,059	58,654	**12,759**	8,798

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 RMB476,079,000 (2016: RMB423,599,000) by the weighted average number of shares in issue of 768,873,076 (2016: 768,873,076) during the reporting year.

Diluted earnings per share for the reporting years ended 31 December 2017 and 2016 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

	Group and Company			
	Rate per share			
	2017 RMB	2016 RMB	2017 RMB'000	2016 RMB'000
Dividend paid net of income tax	**0.15**	0.25	**115,331**	192,218

11. DIVIDENDS ON EQUITY SHARE (CONT'D)

11A. Dividend to owners of the Company (Cont'd)

On 29 March 2018, the directors had proposed a final dividend of an aggregate amount of RMB153,775,000 (2016: RMB92,265,000) on the basis of RMB2.0 (2016: RMB1.2) 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 RMB5,120,000 (2016: RMB7,144,000) were declared by certain subsidiaries to their non-controlling shareholders.

12. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000	Plant and Machinery RMB'000	Construction in Progress RMB'000	Total RMB'000
Cost:				
At 1 January 2016 (Restated)	1,035,655	749,436	127,032	1,912,123
Reclassifications	41,335	32,649	(73,984)	–
Additions	3,332	21,704	113,957	138,993
Disposals/written-off	(2,337)	(20,625)	–	(22,962)
Elimination on disposals of subsidiaries (Note 16C)	(19,880)	(8,029)	–	(27,909)
At 31 December 2016 (Restated)	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	–	–	(2,000)	(2,000)
At 31 December 2017	**1,064,058**	**763,139**	**279,706**	**2,106,903**
Accumulated depreciation and impairment loss:				
At 1 January 2016 (Restated)	411,195	566,782	–	977,977
Depreciation for the year	30,380	32,210	–	62,590
Disposals/written-off	(1,226)	(19,390)	–	(20,616)
Elimination on disposals of subsidiaries (Note 16C)	(8,449)	(6,660)	–	(15,109)
At 31 December 2016 (Restated)	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**
Net book value:				
At 1 January 2016 (Restated)	624,460	182,654	127,032	934,146
At 31 December 2016 (Restated)	626,205	202,193	167,005	995,403
At 31 December 2017	**599,150**	**196,839**	**279,706**	**1,075,695**

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

Company	Buildings RMB'000	Plant and Machinery RMB'000	Construction in Progress RMB'000	Total RMB'000
Cost:				
At 1 January 2016	917,464	614,022	33,690	1,565,176
Reclassifications	3,996	21,348	(25,344)	–
Additions	8,089	15,222	50,188	73,499
Disposals/written-off	(2,004)	(14,964)	–	(16,968)
At 31 December 2016	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	–	–	(2,000)	(2,000)
At 31 December 2017	**930,189**	**624,545**	**147,941**	**1,702,675**
Accumulated depreciation and impairment loss:				
At 1 January 2016	355,566	487,674	–	843,240
Depreciation for the year	25,744	22,677	–	48,421
Disposals/written-off	(932)	(14,264)	–	(15,196)
At 31 December 2016	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**
Net book value:				
At 1 January 2016	561,898	126,348	33,690	721,936
At 31 December 2016	547,167	139,541	58,534	745,242
At 31 December 2017	**523,961**	**139,082**	**147,941**	**810,984**

Allocation of the depreciation expense:

	Group 2017 RMB'000	Group 2016 RMB'000 (Restated)	Company 2017 RMB'000	Company 2016 RMB'000
Cost of sales	**35,684**	32,350	**23,691**	24,970
Distribution expenses	**1,264**	1,435	**290**	342
Administrative expenses	**30,033**	28,805	**23,070**	23,109
Total	**66,981**	62,590	**47,051**	48,421

(a) Titles to certain buildings of the Group and the Company with net book value of approximately RMB47 million and RMB46 million respectively (2016: RMB50 million and RMB49 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	
	2017	**2016**	**2017**	**2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cost:				
At beginning and end of the year	**39,518**	39,518	**36,690**	36,690
Accumulated depreciation:				
At beginning of the year	**13,270**	12,207	**12,118**	11,134
Depreciation for the year	**1,062**	1,063	**985**	984
At end of the year	**14,332**	13,270	**13,103**	12,118
Net book value:				
At beginning of the year	**26,248**	27,311	**24,572**	25,556
At end of the year	**25,186**	26,248	**23,587**	24,572
Fair value:				
Fair value at end of the year	**241,051**	247,500	**222,449**	235,803
Rental and service income	**9,531**	9,651	**7,581**	7,701
Direct operating expenses	**1,062**	1,063	**985**	984

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 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 RMB10,200 to RMB34,200 (2016: RMB7,400 to RMB32,300) per square metre.

(d) Titles to certain properties of the Group and the Company with net book value of approximately RMB8 million (2016: RMB8 million) and fair value RMB80 million (2016: 68 million) respectively 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	
	2017	**2016**	**2017**	**2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
		(Restated)		
At cost:				
At beginning of the year	**246,926**	251,568	**211,217**	211,217
Elimination on disposal of subsidiaries (Note 16C)	**–**	(4,642)	**–**	–
At end of the year	**246,926**	246,926	**211,217**	211,217
Accumulated amortisation:				
At beginning of the year	**74,177**	70,467	**67,126**	62,637
Amortisation for the year	**4,729**	4,803	**4,486**	4,489
Elimination on disposal of subsidiaries (Note 16C)	**–**	(1,093)	**–**	–
At the end of the year	**78,906**	74,177	**71,612**	67,126
Net book value:				
At beginning of the year	**172,749**	181,101	**144,091**	148,580
At end of the year	**168,020**	172,749	**139,605**	144,091

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 net book value of RMB22 million (2016: RMB23 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".

15. INTANGIBLE ASSETS

Group	Production Technology RMB'000	Patents RMB'000	Trademarks RMB'000	Software RMB'000	Development Cost RMB'000	Total RMB'000
At cost:						
At 1 January 2016 (Restated)	9,137	1,278	1,760	10,013	2,374	24,562
Additions	–	–	–	855	75	930
Disposal	–	–	–	(47)	–	(47)
Reclassification	680	500	–	–	(1,180)	–
Elimination on disposal of subsidiaries (Note 16C)	–	–	–	(887)	–	(887)
At 31 December 2016 (Restated)	9,817	1,778	1,760	9,934	1,269	24,558
Additions	–	–	–	2,938	–	2,938
Transfer from construction in progress	–	–	–	2,000	–	2,000
Disposal	–	–	–	(178)	–	(178)
At 31 December 2017	**9,817**	**1,778**	**1,760**	**14,694**	**1,269**	**29,318**
Accumulated amortisation:						
At 1 January 2016 (Restated)	6,168	558	1,760	7,034	–	15,520
Amortisation for the year	673	133	–	822	–	1,628
Disposal	–	–	–	(47)	–	(47)
Elimination on disposal of subsidiaries (Note 16C)	–	–	–	(451)	–	(451)
At 31 December 2016 (Restated)	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**
Net book value:						
At 1 January 2016 (Restated)	2,969	720	–	2,979	2,374	9,042
At 31 December 2016 (Restated)	2,976	1,087	–	2,576	1,269	7,908
At 31 December 2017	**2,599**	**913**	**–**	**6,534**	**1,269**	**11,315**

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15. INTANGIBLE ASSETS (CONT'D)

Company	Production Technology RMB'000	Patents RMB'000	Trademarks RMB'000	Software RMB'000	Development Cost RMB'000	Total RMB'000
At cost:						
At 1 January 2016	5,997	1,278	1,760	7,859	493	17,387
Additions	2,125	–	–	762	7	2,894
Reclassification	–	500	–	–	(500)	–
At 31 December 2016	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**
Accumulated amortisation:						
At 1 January 2016	5,161	559	1,760	5,996	–	13,476
Amortisation for the year	596	133	–	666	–	1,395
At 31 December 2016	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**
Net book value:						
At 1 January 2016	836	719	–	1,863	493	3,911
At 31 December 2016	2,365	1,086	–	1,959	–	5,410
At 31 December 2017	**2,056**	**912**	**–**	**5,999**	**–**	**8,967**

The amortisation expense is charged to administrative expenses.

16. INVESTMENTS IN SUBSIDIARIES

	Company 2017 RMB'000	Company 2016 RMB'000
Equity interests, at cost	**444,213**	387,546
Less: Allowance for impairment	**(7,133)**	(7,133)
Net carrying amount	**437,080**	380,413
Movements in carrying value:		
At beginning of the year	**380,413**	300,146
Additions	**56,667**	106,000
Transferred to investments in associates, at cost	**–**	(18,600)
Less: Allowance for impairment	**–**	(7,133)
At end of the year	**437,080**	380,413
Movements in allowance for impairment loss:		
At beginning of the year	**(7,133)**	(14,220)
Impairment loss charged to profit or loss	**–**	(7,133)
Impairment allowance used	**–**	14,220
At end of the year	**(7,133)**	(7,133)

16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16A. Subsidiaries held by the Group

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

Name of subsidiaries	Principal activities	Cost in books of Company		Effective equity held by Group	
		2017	2016	2017	2016
		RMB'000	RMB'000	%	%
Held by the Company					
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.	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**	9,500	**100**	100
Tianjin Chinese Medicinal Slices Co., Ltd.	Manufacture and sale of Chinese pharmaceutical products and biological products	**43,100**	–	**100**	100
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

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

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

Name of subsidiaries	Principal activities	Cost in books of Company		Effective equity held by Group	
		2017	2016	2017	2016
		RMB'000	RMB'000	%	%
Held by the Company					
Tianjin Da Ren Tang (Bo Zhou) Chinese Medicine Co., Ltd	Manufacture and sale of Chinese medicine	**21,317**	15,300	**71**	51
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.	Wholesale and retail sale of medicine	**15,300**	15,300	**51**	51
Tianjin Zhong Xin Pharmaceutical Group Guowei Medical Co., Ltd.	Wholesale and retail sale of medicine	**8,950**	8,950	**51**	51
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, a member firm of RSM International of which RSM Chio Lim LLP is a member.

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. The equity interest held by the Company increased from 51% to 71%. 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 loss included in capital reserves amounted to RMB29,000.

16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16B. Acquisitions of subsidiaries (Cont'd)

(b) The Company acquired 100% equity interest in Tianjin Chinese Medicinal Slices Co., Ltd. on 1 July 2017 for RMB62.7 million 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/merger reserve in equity. The carrying amount of the net assets of Tianjin Chinese Medicinal Slices Co., Ltd at the date of consolidation amounted to RMB43.1 million and the difference was included in capital/merger reserves amounted to RMB19.6 million.

Upon completion of the restructuring exercise 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 consolidated financial statements.

16C. Deemed disposal of subsidiaries

(a) In 2016, due to a change in composition of the board of directors in the investee companies, the Company lost its power to govern the financial and operating policies of the following subsidiaries:

- Chengdu Zhong Xin Pharmaceutical Co., Ltd.
- Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd.
- Zigong Zhong Xin Pharmaceutical Chain Co., Ltd.
- Chengdu Zhong Xin Chain Store Co., Ltd.

As the Company retains significant influence over the above companies, they have been deconsolidated and accounted for as associates. See Note 17.

(b) In 2016, due to amendments of the Articles of Association of Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd., the Company lost its power to govern the financial and operating policies of this investee company. As the Company retains significant influence over this investee company, it has been deconsolidated and accounted for as an associate. See Notes 17.

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16C. Deemed disposal of subsidiaries (Cont'd)

The following table is a summary of the carrying value of assets and liabilities of Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd. ("A"), Chengdu Zhong Xin Pharmaceutical Co., Ltd. ("B"), Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd. ("C") and Zigong Zhong Xin Pharmaceutical Chain Co., Ltd. ("D") at the date when the Company lost its power to govern the financial and operating policies of the investee companies and the cash effect in 2016:

Group	**A**	**B**	**C**	**D**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Property, plant and equipment	734	11,884	170	12	12,800
Investments in associates	–	5,467	–	–	5,467
Land use rights	–	3,549	–	–	3,549
Intangible assets	366	42	28	–	436
Other assets, non-current	143	–	426	358	927
Deferred tax assets	–	–	875	–	875
Inventories	30,285	5,035	1,924	885	38,129
Trade and other receivables	45,623	33,662	21,033	508	100,826
Other assets, current	6,046	4,892	1,254	–	12,192
Cash and cash equivalents	479	2,246	1,006	48	3,779
Other financial liabilities	(65,170)	(30,000)	–	–	(95,170)
Trade and other payables	(14,006)	(65,176)	(14,200)	(2,708)	(96,090)
Net assets/(liabilities) derecognised	4,500	(28,399)	12,516	(897)	(12,280)
Less: Non-controlling interests	(2,205)	13,855	(10,669)	167	1,148
Net assets/(liabilities) disposed of	2,295	(14,544)	1,847	(730)	(11,132)
Gain on deemed disposals of interests in subsidiaries (Note 6)	386	17,766	1,978	730	20,860
Total amount transfer to investments in associates	2,681	3,222	3,825	–	9,728
Net cash outflow on loss of control of investee	(479)	(2,246)	(1,006)	(48)	(3,779)

16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16D. Impairment of a subsidiary

A subsidiary, Tianjin Long Shun Rong Pharm Development Co., Ltd., has been suffering losses in the past few years. As a result, an impairment test was performed on the Company's cost of investment in the subsidiary as at the end of the reporting year amounting to RMB45,000,000. An impairment loss of RMB7,133,000 was recognised in 2016. There is no further impairment loss recognised in 2017.

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:

	2017	2016
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%**	12.86%
Growth rates based on industry growth forecasts and not exceeding the average long-term growth rate for the relevant markets (average rate)	**8% – 34% (13%)**	10% – 44% (13%)
Cash flow forecasts derived from the most recent financial budgets and plans approved by management	**10 years**	10 years

16E. Material subsidiaries with non-controlling interest

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 2017 RMB'000	Group 2016 RMB'000
Tianjin Da Ren Tang Jingwanhong Pharmaceutical Co., Ltd.		
Profit for the year allocated to NCI of the subsidiary	**2,468**	10,189
Accumulated NCI of the subsidiary at the end of the reporting year	**80,353**	85,397
The summarised financial information of the subsidiary (not adjusted for the percentage ownership held by the Group and amounts before inter-company eliminations):		
Dividends paid to non-controlling interests	**4,800**	–
Current assets	**178,862**	164,641
Non-current assets	**55,928**	58,638
Current liabilities	**(37,279)**	(35,401)
Non-current liabilities	**(12,341)**	(9,966)
Revenue	**317,616**	312,215
Profit for the reporting year	**17,260**	21,227
Total comprehensive income	**17,260**	21,227
Operating cash flows, increase	**41,007**	25,953
Net cash flows, (decrease)/increase	**(73,156)**	10,285

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17. INVESTMENTS IN ASSOCIATES

	Group and Company 2017 RMB'000	Group and Company 2016 RMB'000
Equity interests, at cost	**388,153**	435,879
Share of other-equity items of associates	**(19,255)**	(16,038)
Share of post-acquisition profits, net of dividends received	**193,560**	141,190
Net carrying value	**562,458**	561,031
Movements in carrying value:		
Balance at beginning of the year	**561,031**	531,220
Disposal	**(16,183)**	(3,422)
Written back of impairment	**–**	3,422
Share of the profit for the year	**119,554**	117,501
Dividends received	**(98,727)**	(96,102)
Transfer from investments in subsidiaries, at fair value (Note 16C)	**–**	9,728
Other equity movements	**(3,217)**	(1,316)
Balance at end of the year	**562,458**	561,031

The associates held by the Group are listed below:

Name of associates	Principal activities	Effective equity held by the Group 2017 %	Effective equity held by the Group 2016 %
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
Tianjin Sinobioway Biomedicine Co., Ltd.[(a)]	Manufacture and sale of western biochemical products and genes-related biological products	**–**	20
NewScen Coast Bio-Pharmaceutical Co., Ltd.[(a)]	Manufacture and sale of biological medicine	**35**	35
Tianjin Bio-Chip Co., Ltd.[(c)]	Development and sale of biological products	**26.4**	26.4

17. INVESTMENTS IN ASSOCIATES (CONT'D)

The associates held by the Group are listed below: (Cont'd)

Name of associates	Principal activities	Effective equity held by the Group 2017 %	2016 %
Held by the Company (Cont'd)			
Dujiangyan Zhong Xin Chinese Herbs Cultivation Co., Ltd.[g]	Cultivation and processing of Chinese Herbs	**30**	30
Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd.[e]	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
Zigong Zhong Xin Pharmaceutical Chain Co., Ltd.[f]	Wholesale and retail sale of medicine	**–**	50.4
Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd.[d]	Wholesale and retail sale of medicine	**–**	50.4

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

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

(b) Audited by PricewaterhouseCoopers Zhong Tian LLP.

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

(d) Audited by Sichuan Bida Certified Public Accountants LLP and see Note 16C.

(e) Audited by Zhongrui Certified Public Accountants LLP and see Note 16C.

(f) Audited by Sichuan Fangyuan Certified Public Accountants LLP and see Note 16C.

(g) 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.

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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	
	2017	**2016**
	RMB'000	**RMB'000**
THP:		
Current assets	**173,692**	135,634
Non-current assets	**259,873**	263,188
Current liabilities	**(63,587)**	(73,513)
Non-current liabilities	**(1,897)**	–
Net assets of the associate	**368,081**	325,309
Equity interest	**40%**	40%
	147,232	130,124
Goodwill	**92,336**	92,336
Fair value adjustments pertaining to purchase price allocation	**17,756**	20,627
Carrying amount of the Group's and Company's interest in the associate	**257,324**	243,087
Dividends received from the associate	**–**	20,000
Revenue	**261,399**	260,331
Profit for the reporting year	**43,433**	26,408
Total comprehensive income	**43,433**	26,408
TSKF:		
Current assets	**1,189,701**	1,357,709
Non-current assets	**537,468**	514,088
Current liabilities	**(921,910)**	(1,101,882)
Net assets of the associate	**805,259**	769,915
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	**201,315**	192,479
Dividends received from the associate	**94,545**	76,103
Revenue	**2,153,298**	2,114,805
Profit for the reporting year	**419,782**	384,438
Total comprehensive income	**419,782**	384,438

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	
	2017	2016
	RMB'000	RMB'000
Profit/(loss) for the reporting year	**6,733**	(4,682)
Other comprehensive loss	**(4,505)**	(1,316)
Total comprehensive income/(loss)	**2,228**	(5,998)
Net assets of the associates	**301,615**	415,182

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

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

(c) During the reporting year, 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 has been reclassify to other financial assets classified as available-for-sale and measure at cost less allowance for impairment (see Note 18B).

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18. OTHER FINANCIAL ASSETS

	Group		Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Investments as available-for-sale at fair value through other comprehensive income:				
Quoted equity shares (Note 18A) (Level 1)	**52,915**	54,327	**52,915**	54,327
Investments as available-for-sale at cost less allowances for impairment (Level 3):				
Unquoted investments (Note 18B)	**100,500**	200,000	**–**	200,000
Unquoted equity (Note 18B)	**96,306**	95,000	**96,306**	95,000
	196,806	295,000	**96,306**	295,000
Investments at fair value through profit or loss:				
Derivative financial instruments (Note 18C) (Level 1)	**–**	660	**–**	660
Held-to-maturity investments at amortised cost:				
Unquoted bonds in corporations and country (Note 18D) (Level 2)	**541,948**	466,469	**–**	–
	791,669	816,456	**149,221**	349,987
Presented in the statements of financial position as:				
Other financial assets, non-current	**691,169**	615,796	**149,221**	149,327
Other financial assets, current	**100,500**	200,660	**–**	200,660
	791,669	816,456	**149,221**	349,987

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

	Group and Company	
	2017	2016
	RMB'000	RMB'000
Quoted equity shares	**52,915**	54,327
Movements during the year:		
Fair value at beginning of the year	**54,327**	66,983
Fair value loss on re-measuring available-for-sale financial assets (Note 24C)	**(1,412)**	(12,656)
Fair value at end of the year	**52,915**	54,327

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

	Level	Group and Company	
		2017	2016
		RMB'000	RMB'000
Property development	1	**6,090**	6,014
Energy	1	**10,674**	14,642
Transportation and shipping	1	**17,373**	17,241
Pharmaceutical	1	**3,907**	2,613
Financial services	1	**14,871**	13,817
Total		**52,915**	54,327

18. OTHER FINANCIAL ASSETS (CONT'D)

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

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 RMB27 million (2016: RMB30 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".

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	
	2017	**2016**
	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**	5,433

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).

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

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Unquoted investments	**100,500**	200,000	**–**	200,000
Unquoted equity shares	**96,306**	95,000	**96,306**	95,000
	196,806	295,000	**96,306**	295,000

Unquoted equity shares are stated after deducting allowance for impairment loss as follows:

	Group and Company	
	2017	**2016**
	RMB'000	**RMB'000**
Balance at beginning and end of the year	**8,700**	8,700

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18. OTHER FINANCIAL ASSETS (CONT'D)

18B. 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 are rated BBB by an independent financial services company. The fair value of the unquoted investments as available-for-sale financial assets is deemed to be not reliably measurable as the probabilities of the various estimates within the range cannot be reasonably assessed as used in estimating fair values. Consequently the investment is carried at cost less allowance for impairment. Impairment losses recognised in profit or loss for equity investments are not reversed. The management are of the view that under such circumstances, it is also not possible to disclose the range of estimates within which a fair value is highly likely to lie.

Unquoted equity shares 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 is deemed to be not reliably measurable as the probabilities of the various estimates within the range cannot be reasonably assessed as used in estimating fair values. Consequently the investment is carried at cost less allowance for impairment. Impairment losses recognised in profit or loss for equity investments are not reversed. The management are of the view that under such circumstances, it is also not possible to disclose the range of estimates within which a fair value is highly likely to lie.

18C. Derivative financial instruments

	Group and Company	
	2017	2016
	RMB'000	RMB'000
Assets – derivative with net positive fair values:		
Embedded derivatives (Level 1)	–	660

The fair value (Level 1) of embedded derivatives is measured on the basis of the current value of the difference between the contractual interest rate and the market interest rate at the end of the reporting year. The valuation technique uses market observable inputs. The host contracts are the short-term investments disclosed in Note 22.

18. OTHER FINANCIAL ASSETS (CONT'D)

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

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
Unquoted bonds in corporations and country	**541,948**	466,469
Movements during the year – at amortised cost:		
Amortised cost at beginning of the year	**466,469**	217,518
Additions	**839,141**	542,194
Gain on disposal through profit or loss	**1,600**	2,037
Accretion in amortised cost, net	**5,076**	(4,987)
Disposals	**(770,338)**	(290,293)
Amortised cost at end of the year	**541,948**	466,469
Real estate and properties development industry and government bonds:		
Unquoted bonds in corporations with variable interest rates from 6.4% to 6.9% (2016: 6.4% to 6.9%) per annum and maturing in reporting year 2018 (effective interest rates from 6.9% to 7.5% (2016: 6.9% to 7.5%))	**–**	11,203
Unquoted bonds in corporations with interest rates of 7.2% (2016: 7.2% to 7.7%) per annum and maturing in reporting year 2019 (effective interest rates of 7.2% (2016: 7.2%))	**21,700**	51,490
Unquoted bonds in corporations and government bonds with variable interest rates from 3.1% to 8.0% (2016: 3.1% to 8.3%) per annum and maturing in reporting year 2020 (effective interest rates from 3.1% to 8.0% (2016: 6.6% to 6.8%))	**64,626**	87,073
Unquoted bonds in corporations with variable interest rates from 3.0% to 7.2% (2016: 7.2%) per annum and maturing in reporting year 2021 (effective interest rates from 3.0% to 7.2% (2016: 8.0% to 8.4%))	**43,624**	23,446
Unquoted bonds in corporations with variable interest rates from 3.9% to 7.0% (2016: 5.1% to 7.0%) per annum and maturing in reporting year 2022 (effective interest rates from 3.9% to 7.0% (2016: 5.1% to 7.0%))	**216,199**	138,617
Unquoted bonds in corporations with variable interest rates from 5.3% to 6.1% (2016: Nil) per annum and maturing in reporting year 2024 (effective interest rates from 5.3% to 6.1% (2016: Nil))	**51,278**	–
Unquoted government bonds with interest rates of 3.7% (2016: 3.7%) per annum and maturing in reporting year 2025 (effective interest rates of 3.7% (2016: 3.7%))	**52,803**	52,803
Unquoted government bonds with interest rates of 2.9% (2016: 2.9%) per annum and maturing in reporting year 2026 (effective interest rates of 2.9% (2016: 2.9%))	**30,758**	51,263
Unquoted bonds in corporations and government bonds with variable interest rates from 3.5% to 4.4% (2016: Nil) per annum and maturing in reporting year 2027 (effective interest rates from 3.5% to 4.4% (2016: Nil))	**30,615**	–
Unquoted government bonds with interest rates of 3.3% (2016: 3.3%) per annum and maturing in reporting year 2046 (effective interest rates of 3.3% (2016: 3.3%))	**30,345**	50,574
Total	**541,948**	466,469

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18. OTHER FINANCIAL ASSETS (CONT'D)

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

Unquoted bonds in corporations of the Group amounting to RMB234 million (2016:RMB271 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	
	2017	2016
	RMB'000	RMB'000
Within 2 to 5 years	**346,149**	173,212
After 5 years	**195,799**	293,257
	541,948	466,469

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

	Group	
	2017	2016
	RMB'000	RMB'000
Unquoted bonds in corporations with variable interest rates from 6.4% to 6.9% per annum and maturing in reporting year 2018	**–**	13,030
Unquoted bonds in corporations with interest rates of 7.2% per annum and maturing in reporting year 2019	**20,150**	52,435
Unquoted bonds in corporations and government bonds with variable interest rates from 3.1% to 8.0% per annum and maturing in reporting year 2020	**61,150**	82,104
Unquoted bonds in corporations with variable interest rates from 3.0% to 7.2% per annum and maturing in reporting year 2021	**40,699**	22,238
Unquoted bonds in corporations with variable interest rates from 3.9% to 7.0% per annum and maturing in reporting year 2022	**209,017**	138,092
Unquoted bonds in corporations with variable interest rates from 5.3% to 6.1% per annum and maturing in reporting year 2024	**50,000**	–
Unquoted bonds in corporations with interest rates of 3.7% per annum and maturing in reporting year 2025	**46,174**	48,280
Unquoted government bonds with interest rates of 2.9% per annum and maturing in reporting year 2026	**27,780**	50,000
Unquoted bonds in corporations with variable interest rates from 3.5% to 4.4% per annum and maturing in reporting year 2027	**28,797**	–
Unquoted government bonds with interest rates of 3.3% per annum and maturing in reporting year 2046	**23,712**	47,215
Total	**507,479**	453,394

18. OTHER FINANCIAL ASSETS (CONT'D)

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

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 are rated at AA to AA+ by agencies in the People's Republic of China.

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

Sensitivity analysis:

	Group	
	2017	**2016**
	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**	45,339

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

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

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

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

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

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19. OTHER ASSETS

	Group			Company	
	31.12.2017 RMB'000	31.12.2016 RMB'000	01.01.2016 RMB'000	31.12.2017 RMB'000	31.12.2016 RMB'000
		(Restated)	(Restated)		
Prepayments	**240,172**	183,536	192,414	**227,625**	173,103
Presented in the statements of financial position as:					
Other assets, non-current	**17,912**	19,145	16,242	**19,570**	18,071
Other assets, current	**222,260**	164,391	176,172	**208,055**	155,032
	240,172	183,536	192,414	**227,625**	173,103

20. INVENTORIES

	Group			Company	
	31.12.2017 RMB'000	31.12.2016 RMB'000	01.01.2016 RMB'000	31.12.2017 RMB'000	31.12.2016 RMB'000
		(Restated)	(Restated)		
Raw materials	**396,833**	361,569	396,206	**126,120**	328,910
Work-in-progress	**134,688**	106,419	105,428	**371,241**	102,365
Finished goods	**572,967**	461,089	494,139	**494,144**	367,397
	1,104,488	929,077	995,773	**991,505**	798,672

Inventories are stated after allowance as follows:

	Group 31.12.2017	Group 31.12.2016		Company 31.12.2017	Company 31.12.2016
Balance at beginning of the year	**20,135**	13,877		**18,261**	11,372
Charge to profit or loss included under other losses (Note 6)	**8,337**	12,015		**9,108**	11,263
Used	**(3,590)**	(5,757)		**(5,489)**	(4,374)
Balance at end of the year	**24,882**	20,135		**21,880**	18,261
Changes in inventories of finished goods and work-in-progress (increase)/decrease	**(147,144)**	31,294		**(150,502)**	(69,884)
Raw materials, consumables and goods for resale recognised as expenses	**3,151,178**	3,422,719		**2,709,508**	3,331,518

There are no inventories pledged as security for liabilities.

21. TRADE AND OTHER RECEIVABLES

	Group			Company	
	31.12.2017 RMB'000	31.12.2016 RMB'000	01.01.2016 RMB'000	31.12.2017 RMB'000	31.12.2016 RMB'000
		(Restated)	(Restated)		
Trade receivables:					
Bills receivable	**269,008**	265,566	233,299	**239,312**	204,612
Outside parties	**1,371,470**	1,318,078	1,436,588	**1,139,539**	1,080,942
Less: Allowance for impairment	**(154,215)**	(152,550)	(169,154)	**(149,760)**	(148,638)
Subsidiaries (Note 3)	**–**	–	–	**172,453**	172,856
Less: Allowance for impairment	**–**	–	–	**(19)**	(15)
Associate (Note 3)	**8,772**	6,543	243	**8,568**	6,385
Less: Allowance for impairment	**(5,011)**	(2,461)	–	**(5,011)**	(2,461)
Related parties (Note 3)	**37,261**	32,668	33,175	**30,947**	29,955
Less: Allowance for impairment	**(8,833)**	(8,728)	(7,521)	**(8,467)**	(8,812)
Net trade receivables – subtotal	**1,518,452**	1,459,116	1,526,630	**1,427,562**	1,334,824
Other receivables:					
Outside parties	**41,984**	52,737	85,328	**26,202**	28,012
Less: Allowance for impairment	**(23,643)**	(23,152)	(49,325)	**(15,995)**	(15,675)
Subsidiaries (Note 3)	**–**	–	–	**178,062**	96,374
Associate (Note 3)	**26,984**	16,186	1,167	**26,984**	15,557
Less: Allowance for impairment	**(23,529)**	(14,272)	–	**(23,529)**	(13,957)
Related parties (Note 3)	**22,702**	23,101	24,578	**74**	744
Less: Allowance for impairment	**(21,823)**	(17,931)	(15,531)	**(74)**	(429)
Net other receivables – subtotal	**22,675**	36,669	46,217	**191,724**	110,626
Total trade and other receivables	**1,541,127**	1,495,785	1,572,847	**1,619,286**	1,445,450
Movements in above allowance for trade receivables – outside parties:					
Balance at beginning of the year	**152,550**	169,154		**148,638**	152,443
Charge for trade receivables to profit or loss included in other losses	**1,665**	7,274		**1,122**	–
Used	**–**	(3,596)		**–**	(3,805)
Deemed disposals of interests in subsidiaries	**–**	(20,282)		**–**	–
Balance at end of the year	**154,215**	152,550		**149,760**	148,638

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21. TRADE AND OTHER RECEIVABLES (CONT'D)

	Group		Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Movements in above allowance for trade receivables – subsidiaries:				
Balance at beginning of the year	**–**	–	15	**411**
Charge for trade receivables to profit or loss included in other losses	**–**	–	4	**–**
Used	**–**	–	–	**(396)**
Balance at end of the year	**–**	–	19	**15**
Movements in above allowance for trade receivables – associates:				
Balance at beginning of the year	**2,461**	–	2,461	**–**
Charge for trade receivables to profit or loss included in other losses	**2,550**	2,461	2,550	**2,461**
Balance at end of the year	**5,011**	2,461	5,011	**2,461**
Movements in above allowance for trade receivables – related parties:				
Balance at beginning of the year	**8,728**	7,521	8,812	**7,142**
Charge for trade receivables to profit or loss included in other losses	**105**	1,207	–	**1,670**
Used	**–**	–	(345)	**–**
Balance at end of the year	**8,833**	8,728	8,467	**8,812**
Movements in above allowance for other receivables – outside parties:				
Balance at beginning of the year	**23,152**	49,325	15,675	**15,936**
Charge for other receivables to profit or loss included in other losses	**491**	14,678	320	**–**
Used	**–**	(78)	–	**(261)**
Deemed disposals of interests in subsidiaries	**–**	(43,075)	–	**–**
Balance at end of the year	**23,643**	23,152	15,995	**15,675**
Movements in above allowance for other receivables – associates:				
Balance at beginning of the year	**14,272**	–	13,957	**–**
Charge for other receivables to profit or loss included in other losses	**9,257**	14,272	9,572	**13,957**
Balance at end of the year	**23,529**	14,272	23,529	**13,957**
Movements in above allowance for other receivables – related parties:				
Balance at beginning of the year	**17,931**	15,531	429	**318**
Charge for other receivables to profit or loss included in other losses	**3,892**	3,852	–	**111**
Used	**–**	(1,452)	(355)	**–**
Balance at end of the year	**21,823**	17,931	74	**429**

21. TRADE AND OTHER RECEIVABLES (CONT'D)

Bills receivable of the Group amounting to RMB21 million (31.12.2016: RMB46 million and 01.01.2016: Nil) have been pledged with banks as securities for bills payable issued (Note 27).

As at 31 December 2016, trade receivables of the Group amounting to RMB1 million (01.01.2016: RMB8 million) have been pledged with banks as securities for bills payable issued (Note 27).

22. CASH AND CASH EQUIVALENTS

	Group			Company	
	31.12.2017 RMB'000	31.12.2016 RMB'000	01.01.2016 RMB'000	31.12.2017 RMB'000	31.12.2016 RMB'000
		(Restated)	(Restated)		
Not restricted in use:					
Cash and bank balances	**975,114**	943,039	778,115	**863,858**	710,521
Restricted in use:					
Bank deposits	**17,064**	20,876	45,148	–	–
Short-term investments	–	200,000	300,000	–	200,000
Subtotal	**17,064**	220,876	345,148	–	200,000
Total	**992,178**	1,163,915	1,123,263	**863,858**	910,521

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.

Restricted in use short-term investments represent capital guaranteed financial products of banks which have maturity dates within 3 months from the end of the reporting year (Note 18D).

The rate of interest for the cash on short-term bank deposits ranged from 0.35% – 2.75% (31.12.2016: 0.35% – 2.75% and 01.01.2016: 0.35% – 1.15%) per annum.

The bank balances of the Group and the Company include placement of deposit with a related party amounted to RMB288 million (31.12.2016: Nil and 01.01.2016: Nil) and RMB240 million (31.12.2016: Nil and 01.01.2016: Nil) respectively.

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

	Group	
	2017 RMB'000	2016 RMB'000
		(Restated)
Amount as shown above	**992,178**	1,163,915
Restricted bank deposits	**(17,064)**	(220,876)
Cash and cash equivalents in consolidated statement of cash flows	**975,114**	943,039

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

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23. SHARE CAPITAL

	Group and Company	
	Number of Share Issued	Share Capital RMB'000
Ordinary shares		
"A" shares		
Balance at 1 January 2016, 31 December 2016 and 31 December 2017	568,873,076	568,873
"S" shares		
Balance at 1 January 2016, 31 December 2016 and 31 December 2017	200,000,000	200,000
Total	768,873,076	768,873

	Group and Company	
	Number of Share Issued	Share Capital RMB'000
"A" shares		
Circulating shares	565,768,076	565,768
Restricted circulating shares	3,105,000	3,105
Subtotal	568,873,076	568,873
"S" shares		
Circulating shares	200,000,000	200,000
Total	768,873,076	768,873

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.

23. SHARE CAPITAL (CONT'D)

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 2,770,000 restricted circulating shares into circulating shares. The remaining 3,105,000 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.

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

	Group	
	2017	**2016**
	RMB'000	**RMB'000**
		(Restated)
Net debt:		
All current and non-current borrowings	**496,357**	575,490
Less: Cash and cash equivalents	**(992,178)**	(1,163,915)
Net cash	**(495,821)**	(588,425)
Capital:		
Total equity	**4,625,491**	4,345,389
Debt-to-adjusted capital ratio	**N.M**	N.M

N.M = Not meaningful

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24. OTHER RESERVES

	Group			Company	
	31.12.2017 RMB'000	**31.12.2016 RMB'000**	**01.01.2016 RMB'000**	**31.12.2017 RMB'000**	**31.12.2016 RMB'000**
		(Restated)	**(Restated)**		
Capital reserve (Note 24A)	**8,719**	11,526	13,095	**86,133**	88,911
Statutory common reserve (Note 24B)	**434,365**	384,437	357,080	**434,365**	384,437
Fair value reserve (Note 24C)	**39,563**	40,764	51,521	**39,563**	40,764
Merger reserve (Note 24D)	**7,604**	70,316	70,316	**(19,612)**	–
	490,251	507,043	492,012	**540,449**	514,112

24A. Capital reserve

	Group		Company	
	31.12.2017 RMB'000	**31.12.2016 RMB'000**	**31.12.2017 RMB'000**	**31.12.2016 RMB'000**
		(Restated)		
Balance at beginning of the year	**11,526**	13,095	**88,911**	90,227
Equity share of changes in other reserves of associates	**(3,217)**	(1,316)	**(3,217)**	(1,316)
Disposal of investments in subsidiaries	**–**	(253)	**–**	–
Acquisition from non-controlling interest without a change in control	**(29)**	–	**–**	–
Equity share of changes in other net assets of associates	**439**	–	**439**	–
Balance at end of the year	**8,719**	11,526	**86,133**	88,911

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.

24B. Statutory common reserve

	Group and Company	
	2017 RMB'000	**2016 RMB'000**
Balance at beginning of the year	**384,437**	357,080
Appropriation from retained earnings	**49,928**	27,357
Balance at end of the year	**434,365**	384,437

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.

24. OTHER RESERVE (CONT'D)

24B. Statutory common reserve (Cont'd)

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 and Company	
	2017	**2016**
	RMB'000	**RMB'000**
Balance at beginning of the year	**40,764**	51,521
Fair value loss on re-measuring available-for-sale financial assets	**(1,412)**	(12,656)
Deferred tax thereon	**211**	1,899
	(1,201)	(10,757)
Balance at end of the year	**39,563**	40,764

24D. Merger reserve

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Balance at beginning of the year	**70,316**	70,316	**–**	–
Elimination of merger reserve arising from application of pooling-of-interest method	**(62,712)**	–	**(19,612)**	–
Balance at end of the year	**7,604**	70,316	**(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 restructuring exercise 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 consolidated financial statements.

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25. TRADE PAYABLES, NON-CURRENT

	Group		Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued termination benefits	**39,915**	47,271	**39,470**	47,197

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.

26. OTHER LIABILITIES

	Group			Company	
	31.12.2017	31.12.2016	01.01.2016	31.12.2017	31.12.2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)		
Deferred income	**49,175**	43,033	44,131	**23,754**	19,977
Advance payments received	**34,832**	28,332	18,332	**24,832**	18,332
Advances from customers	**55,129**	66,730	64,671	**43,033**	51,478
Others	**3,949**	3,949	3,950	**–**	–
	143,085	142,044	131,084	**91,619**	89,787
Presented in the statements of financial position as:					
Other liabilities, non-current	**87,956**	75,314	66,412	**48,586**	38,309
Other liabilities, current	**55,129**	66,730	64,672	**43,033**	51,478
	143,085	142,044	131,084	**91,619**	89,787

Deferred income represents grants from government and other third parties.

The advance payments of the Group and the Company amounting to RMB25 million (31.12 2016: RMB18 million; 01.01.2016: RMB18 million) were received from related parties, so that immediate delivery of medical products can be made in event of any emergency needs.

27. TRADE AND OTHER PAYABLES

	Group			Company	
	31.12.2017 RMB'000	**31.12.2016 RMB'000 (Restated)**	**01.01.2016 RMB'000 (Restated)**	**31.12.2017 RMB'000**	**31.12.2016 RMB'000**
Trade payables:					
Bills payable	**117,987**	227,110	70,463	**100,988**	205,731
Outside parties	**521,383**	503,435	622,391	**365,705**	376,376
Subsidiaries (Note 3)	**–**	–	–	**21,607**	124
Associates (Note 3)	**3,753**	11,369	11,401	**2,886**	9,742
Related parties (Note 3)	**12,913**	31,156	41,902	**35,726**	27,769
Accrued retirement benefits	**1,315**	1,703	1,402	**1,315**	1,703
Accrued termination benefits	**14,209**	15,780	15,716	**13,954**	15,617
Accrued operating expenses	**389,876**	313,214	311,089	**380,655**	304,272
Trade payables – subtotal	**1,061,436**	1,103,767	1,074,364	**922,836**	941,334
Other payables:					
Outside parties	**161,769**	132,842	118,026	**94,342**	96,215
Subsidiaries (Note 3)	**–**	–	–	**9,323**	185
Associates (Note 3)	**40**	20	–	**40**	20
Related parties (Note 3)	**12,743**	12,979	15,466	**13,109**	205
Other taxes payables	**34,908**	47,823	60,727	**25,499**	40,948
Dividends payable	**12,007**	11,494	10,500	**12,007**	11,494
Other payables – subtotal	**221,467**	205,158	204,719	**154,320**	149,067
Total trade and other payables	**1,282,903**	1,308,925	1,279,083	**1,077,156**	1,090,441

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

28. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2017 RMB'000	**2016 RMB'000**	**2017 RMB'000**	**2016 RMB'000**
Bank loans A (unsecured)	**210,000**	254,500	**260,000**	240,000
Other loans A (unsecured)	**52,000**	50,000	**–**	50,000
Other loans B (secured)	**234,357**	270,990	**–**	–
	496,357	575,490	**260,000**	290,000

28. OTHER FINANCIAL LIABILITIES (CONT'D)

The bank loans bore interest rates per annum as follows:

	Group		Company	
	2017	**2016**	**2017**	**2016**
Bank loans A (unsecured)				
– fixed rate	**4%**	4% – 5%	**4%**	4%
– floating rate	**4%**	4%	**4%**	4%
Other loans A (unsecured)				
– fixed rate	**5%**	3.8%	**–**	3.8%
Other loans B (secured)				
– floating rate	**8.5% – 14.6%**	5% – 9%	**–**	–

Other loans A

Other loans were due to a related party.

Other loans B

Other loans totalled RMB234 million (2016: RMB271 million) are secured by pledges of unquoted bonds in corporations and country of the same amount (Note 18D).

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	
	2017	**2016**
	RMB'000	**RMB'000**
Contractual obligations to purchase and construct	**15,260**	71,394

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	
	2017	**2016**
	RMB'000	**RMB'000**
Not later than one year	**1,642**	1,361
Later than one year and not later than three years	**2,257**	2,413
Later than three years	**2,119**	3,892
Rental expense for the year	**16,484**	9,147

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	
	2017	**2016**
	RMB'000	**RMB'000**
Not later than one year	**8,925**	8,101
Later than one year and not later than three years	**12,868**	12,802
Later than three years	**10,912**	13,259

Operating lease income commitments are for the investment properties.

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33. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

33A. Categories of financial assets and liabilities

The following table categorises the carrying amount of financial assets and liabilities recorded at the end of the reporting year:

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
		(Restated)		
Financial assets:				
Cash and cash equivalents	**992,178**	1,163,915	**863,858**	910,521
Loans and receivables	**1,541,127**	1,495,785	**1,619,286**	1,445,450
Financial assets at fair value through profit or loss	**–**	660	**–**	660
Held-to-maturity investments	**541,948**	466,469	**–**	–
Available-for-sale financial assets	**249,721**	349,327	**149,221**	349,327
	3,324,974	3,476,156	**2,632,365**	2,705,958
Financial liabilities:				
Borrowings at amortised cost	**496,357**	575,490	**260,000**	290,000
Trade and other payables at amortised cost	**1,322,818**	1,356,196	**1,117,401**	1,137,638
	1,819,175	1,931,686	**1,377,401**	1,427,638

Further quantitative disclosures are included throughout these financial statements.

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.

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

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

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 (2016: 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	
	2017	**2016**	**2017**	**2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
		(Restated)		
Within 1 year	**1,219,610**	1,171,940	**1,166,036**	1,112,977
1 – 2 years	**28,977**	17,665	**21,926**	15,353
2 – 3 years	**857**	3,945	**288**	1,882
	1,249,444	1,193,550	**1,188,250**	1,130,212

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

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

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

	Group		Company	
	2017	**2016**	**2017**	**2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
		(Restated)		
Within 1 year	**487**	–	**487**	–
1 – 2 years	**7,244**	3,846	**5,481**	3,743
2 – 3 years	**857**	2,350	**288**	1,882
Over 3 years	**159,471**	157,543	**156,999**	154,301
	168,059	163,739	**163,255**	159,926

The allowance which is disclosed in the Note 21 on trade receivables is based on individual accounts totalling RMB168 million (2016: RMB164 million) and RMB163 million (2016: RMB160 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.

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:

Group	**Less than 1 year**	**2 – 5 years**	**Over 5 years**	**Total**
2017	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
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**
2016 (Restated)				
Gross borrowings commitments	630,445	–	–	630,445
Trade and other payables	1,307,751	41,249	31,880	1,380,880
	1,938,196	41,249	31,880	2,011,325

Company				
2017	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
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
2016				
Gross borrowings commitments	323,241	–	–	323,241
Trade and other payables	1,089,389	41,199	31,880	1,162,468
	1,412,630	41,199	31,880	1,485,709

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

33E. Liquidity risk – financial liabilities maturity analysis (Cont'd)

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

	Less than 1 year			
	Group		Company	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Bank guarantees in favour of				
– Associates	–	11,140	–	11,140

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 (2016: 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.

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	
	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		
Financial assets:				
Floating rate	**1,634,626**	1,830,375	**863,858**	910,521
Financial liabilities:				
Fixed rate	**122,000**	240,000	**120,000**	206,000
Floating rate	**374,357**	380,900	**140,000**	110,000
	496,357	620,900	**260,000**	316,000

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THE FINANCIAL STATEMENTS

31 DECEMBER 2017

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

33F. Interest rate risk (Cont'd)

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	
	2017	**2016**
	RMB'000	**RMB'000**
Audit fees to the independent auditors of the Company	**3,293**	3,418
Other fees to the independent auditors of the Company	**917**	860

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.

35. FINANCIAL INFORMATION BY OPERATING SEGMENTS (CONT'D)

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

	Revenue RMB'000	Cost of sales RMB'000	Gross profit RMB'000
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**
2016 (Restated)			
Chinese Medicine	4,066,791	(2,240,697)	1,826,094
Western Medicine	1,640,385	(1,557,228)	83,157
Others	535,397	(474,997)	60,400
Total	6,242,573	(4,272,922)	1,969,651

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.

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

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

	Group		Company
	Profit, net of tax RMB'000	Net assets/ Total equity RMB'000	Net assets/ Total equity RMB'000
2017			
As reported in the statutory financial statements prepared under People's Republic of China Accounting Regulations	**473,260**	**4,625,491**	**4,430,317**
Differences	**–**	**–**	**–**
As reported in the financial statements prepared under IFRS	**473,260**	**4,625,491**	**4,430,317**

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

36. RECONCILIATION TO PEOPLE'S REPUBLIC OF CHINA ACCOUNTING REGULATIONS (CONT'D)

	Group		Company
	Profit, net of tax RMB'000	Net assets/ Total equity RMB'000	Net assets/ Total equity RMB'000
2016			
As reported in the statutory financial statements prepared under People's Republic of China Accounting Regulations	408,787	4,345,389	4,080,344
Recognition of share of result of associates and gain on deemed disposal of investments in subsidiaries at Company level under IFRS	–	–	2,954
As reported in the financial statements prepared under IFRS	408,787	4,345,389	4,083,298

The statutory financial statements prepared by the Directors in accordance with the People's Republic of China Accounting Regulations are audited by Ruihua Certified Public Accountants LLP, whose audit report dated 29 March 2018 expressed an unmodified opinion on those financial statements.

37. RESTATEMENTS OF COMPARATIVE FIGURES

The Company acquired 100% equity interest in Tianjin Chinese Medicinal Slices Co., Ltd on 1 July 2017 for RMB62.7 million 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 consolidation. 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 pooling-of-interests method has been applied retrospectively and the effects are as follows:

Group	After restatement RMB'000	Before restatement RMB'000	Difference RMB'000
Consolidated Statement of Financial Position as at 31 December 2016			
Property, plant and equipment	995,403	982,240	13,163
Land use rights	172,749	170,760	1,989
Intangible assets	7,908	7,869	39
Deferred tax assets	91,678	86,356	5,322
Other assets, non-current	19,145	18,762	383
Inventories	929,077	908,716	20,361
Trade and other receivables	1,495,785	1,465,777	30,008
Other assets, current	164,391	163,609	782
Cash and cash equivalent	1,163,915	1,152,856	11,059
Retained earnings	1,707,997	1,735,171	(27,174)
Other reserves	507,043	436,769	70,274
Trade and other payables	1,308,925	1,269,110	39,815
Other liabilities, current	66,730	66,539	191

37. RESTATEMENTS OF COMPARATIVE FIGURES (CONT'D)

Group	After Restatement RMB'000	Before Restatement RMB'000	Difference RMB'000
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Reporting Year Ended 31 December 2016			
Revenue	6,242,573	6,178,822	63,751
Cost of sales	(4,272,922)	(4,235,160)	(37,762)
Interest income	5,542	5,512	30
Other gains	106,987	106,725	262
Marketing and distribution costs	(1,275,658)	(1,269,862)	(5,796)
Administrative expenses	(303,873)	(286,940)	(16,933)
Other losses	(69,378)	(66,730)	(2,648)
Income tax expenses	(57,639)	(57,911)	272
Consolidated Statement of Cash Flows for the Reporting Year Ended 31 December 2016			
Profit before income tax	466,427	465,523	904
Depreciation of property, plant and equipment	76,181	74,545	1,636
Gain on disposal of property, plant and equipment	(13,824)	(13,835)	11
Impairment of receivables and inventories	53,169	53,111	58
Inventories	15,787	15,295	492
Trade and other receivables	(97,343)	(102,742)	5,399
Other assets	8,242	8,904	(662)
Trade and other payables	95,482	104,991	(9,509)
Other liabilities	10,919	10,823	96
Income tax paid	(59,883)	(59,359)	(524)
Purchase of property, plant and equipment	(118,201)	(116,203)	(1,998)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2017

37. RESTATEMENTS OF COMPARATIVE FIGURES (CONT'D)

Group	After Restatement RMB'000	Before Restatement RMB'000	Difference RMB'000
Consolidated Statement of Financial Position as at 1 January 2016			
Property, plant and equipment	934,146	921,476	12,670
Land use rights	181,101	178,929	2,172
Deferred tax assets	87,153	82,410	4,743
Other assets, non-current	16,242	15,467	775
Inventories	995,773	974,155	21,618
Trade and other receivables	1,572,847	1,538,956	33,891
Other assets, current	176,172	175,808	364
Cash and cash equivalent	1,123,263	1,108,107	15,156
Retained earnings	1,503,973	1,532,323	(28,350)
Other reserves	492,012	421,696	70,316
Income tax payable	10,339	10,264	75
Trade and other payables	1,279,083	1,229,789	49,294
Other liabilities, current	64,672	64,618	54

38. EVENT AFTER THE END OF THE REPORTING YEAR

Subsequent to the end of the reporting year, the Company disposed all of its equity interests held in a subsidiary Tianjin Xin Long Pharmaceutical Co., Ltd to a third party at consideration of RMB13.8 million.

NOTICE OF ANNUAL GENERAL MEETING

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited will hold its annual general meeting for the financial year ended 31 December 2017 ("FY2017") at the meeting room of Super Garden Hotel, No. 2 Rongye Avenue, Heping District, Tianjin 300021, PRC on 15 May 2018 at 1:30 pm. 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 FY2017. (Resolution 1)
2. To consider and approve the Board of Directors' Report for FY2017. (Resolution 2)
3. To consider and approve the Supervisory Committee's Report for FY2017. (Resolution 3)
4. To consider and approve the Financial Report and Audit Report for FY2017 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 FY2017.

   The Board of Directors has recommended to declare dividends of an aggregate amount of RMB153,774,615.20 on the basis of RMB2.00 (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 2017. (Resolution 5)
6. To consider and approve the remuneration of S$60,000 for independent director Mr. Timothy Chen Teck-Leng for FY2017. (Resolution 6)
7. To consider and approve the remuneration of S$55,000 for independent director Mr. Vincent Toe Teow Heng for FY2017. (Resolution 7)
8. To consider and approve the remuneration of RMB60,000 for independent director Mr. Qiang Zhi Yuan for FY2017. (Resolution 8)
9. To consider and approve the aggregate remuneration for directors of the Company for FY2017. (Resolution 9)
10. To consider and approve the aggregate remuneration for members of the Supervisory Committee for FY2017. (Resolution 10)
11. To consider and approve the re-appointment of Mr. Qiang Zhi Yuan as independent director of the Company. (Resolution 11)
12. To consider and approve the appointment of Ms. Yu Hong as director of the Company. (Resolution 12)
13. To consider and approve the appointment of Mr. Wang You Sheng as a member of the Supervisory Committee. (Resolution 13)
14. To consider and approve the proposed amendments of the Articles of Association of the Company. (Resolution 14)
15. To renew the shareholders' mandate for the interested person transactions.

   (a) such approval given in the "Shareholders' Mandate" shall, unless revoked or varied by the Company in a General Meeting, continue in force until the next Annual General Meeting of the Company; and

   (b) the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he/she may consider expedient or necessary or in the interests of the Company to give effect to the transactions contemplated and/or authorised by the Shareholders' Mandate and/or this Resolution. (Resolution 15)

NOTICE OF
ANNUAL GENERAL MEETING

16. To consider and approve the loan facilities granted to the Company to an aggregate limit of RMB8,050,000,000. (Resolution 16)

17. To consider and approve the re-election of "Ruihua Certified Public Accountants" as PRC auditors of the Company, to hold office until the conclusion of the next annual general meeting, and re-election of "RSM Chio Lim LLP" as international auditors of the Company to hold office until the conclusion of the next annual general meeting, and to propose for the shareholders of the Company at the annual general meeting for FY2017 to authorise the Board of Directors to determine their remuneration. (Resolution 17)

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 pm on 13 May 2018.

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 2018.

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 pm on 13 May 2018.

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 2018 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 2018

No.	Items on the Agenda	For	Against
1.	To consider and approve the Chairman's Report for FY2017.		
2.	To consider and approve the Board of Directors' Report for FY2017.		
3.	To consider and approve the Supervisory Committee's Report for FY2017.		
4.	To consider and approve the Financial Report and Audit Report for FY2017 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 FY2017. The Board of Directors has recommended to declare dividends of an aggregate amount of RMB153,774,615.20 on the basis of RMB2.00 (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 2017.		
6.	To consider and approve the remuneration of S$60,000 for independent director Mr. Timothy Chen Teck-Leng for FY2017.		
7.	To consider and approve the remuneration of S$55,000 for independent director Mr. Vincent Toe Teow Heng for FY2017.		
8.	To consider and approve the remuneration of RMB60,000 for independent director Mr. Qiang Zhi Yuan for FY2017.		
9.	To consider and approve the aggregate remuneration for directors of the Company for FY2017.		
10.	To consider and approve the aggregate remuneration for members of the Supervisory Committee for FY2017.		
11.	To consider and approve the re-appointment of Mr. Qiang Zhi Yuan as independent director of the Company.		
12.	To consider and approve the appointment of Ms. Yu Hong as director of the Company.		
13.	To consider and approve the appointment of Mr. Wang You Sheng as a member of the Supervisory Committee.		
14.	To consider and approve the proposed amendments of the Articles of Association of the Company.		
15.	To renew the shareholders' mandate for the interested person transactions. (a) such approval given in the "Shareholders' Mandate" shall, unless revoked or varied by the Company in a General Meeting, continue in force until the next Annual General Meeting of the Company; and (b) the Directors and/or any of them be and are hereby authorised to complete and do all such acts and things (including executing all such documents as may be required) as they and/or he/she may consider expedient or necessary or in the interests of the Company to give effect to the transactions contemplated and/or authorised by the Shareholders' Mandate and/or this Resolution.		
16.	To consider and approve the loan facilities granted to the Company to an aggregate limit of RMB8,050,000,000.		
17.	To consider and approve the re-election of "Ruihua Certified Public Accountants" as PRC auditors of the Company, to hold office until the conclusion of the next annual general meeting, and re-election of "RSM Chio Lim LLP" as international auditors of the Company to hold office until the conclusion of the next annual general meeting, and to propose for the shareholders of the Company at the annual general meeting for FY2017 to authorise the Board of Directors to determine their remuneration.		
	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 ______________ 2018.

Total number of Shares 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 Annual General Meeting.

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

f. In the case of members whose Shares are deposited with The Central Depository (Pte) Limited ("CDP"), the Company shall be entitled to reject any instrument appointing a proxy or proxies 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 Annual General Meeting as certified by the Central Depository (Pte) Limited to the Company.

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

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

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 the AGM given on 30 March 2018.

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 2018

Range of Shareholdings	No. Of Shareholders	%	No. Of Shares	%
1 – 99	2	0.08	15	0.00
100 – 1,000	73	2.83	55,838	0.03
1,001 – 10,000	1,657	64.22	8,533,634	4.26
10,001 – 1,000,000	828	32.09	44,895,755	22.45
1,000,001 AND ABOVE	20	0.78	146,514,758	73.26
Total	**2,580**	**100.00**	**200,000,000**	**100.00**

Foreign Substantial Shareholders as at 2 April 2018

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 2018

Name	Direct Interests	%	Deemed Interests	%
Tianjin Pharmaceutical Group Co., Ltd.	331,111,998	43.065	–	–

INFORMATION ON SHAREHOLDING

Major Foreign Shareholder's List as at 2 April 2018

	Name	No. Of Shares	%
1	RAFFLES NOMINEES (PTE) LIMITED	25,821,379	12.91
2	PHILLIP SECURITIES PTE LTD	17,543,900	8.77
3	DBS NOMINEES (PRIVATE) LIMITED	14,954,860	7.48
4	CITIBANK NOMINEES SINGAPORE PTE LTD	14,748,545	7.37
5	ABN AMRO CLEARING BANK N.V.	13,092,900	6.55
6	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	11,962,800	5.98
7	HSBC (SINGAPORE) NOMINEES PTE LTD	8,793,100	4.40
8	UNITED OVERSEAS BANK NOMINEES (PRIVATE) LIMITED	7,312,900	3.66
9	BANK OF CHINA NOMINEES (PTE) LTD	6,465,000	3.23
10	TAN SWEE TECK MICHAEL OR TAN TOH HEAH	3,700,000	1.85
11	OCBC SECURITIES PRIVATE LIMITED	3,605,400	1.80
12	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	3,090,800	1.55
13	LU ZU LIANG	2,846,900	1.42
14	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	2,685,200	1.34
15	UOB KAY HIAN PRIVATE LIMITED	2,030,300	1.02
16	TAN SWEE TECK MICHAEL	1,778,000	0.89
17	BPSS NOMINEES SINGAPORE (PTE.) LTD.	1,730,700	0.87
18	MAYBANK KIM ENG SECURITIES PTE. LTD.	1,716,874	0.86
19	KUEK SIAW KIA @ QUEK SHIEW POH	1,612,700	0.81
20	DB NOMINEES (SINGAPORE) PTE LTD	1,022,500	0.51
	Total	**146,514,758**	**73.27**

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:–

"2018 AGM"	:	The annual general meeting of the Company to be held on 15 May 2018
"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 26 April 2018
"Articles" or "Articles of Association"	:	The articles of association of the Company, as amended, supplemented and/or modified from time to time
"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
"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
"FY2017"	:	Financial year ended 31 December 2017
"Independent Directors"	:	The directors that are deemed independent for the purposes of making the recommendation in Paragraph 2.10 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 19 April 2018
"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 2018 AGM given on 30 March 2018
"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)

"Unrelated Parties Discount"	:	Has the meaning ascribed to it in paragraph 2.3.2 of Appendix A of this Annexure
"%" 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	**Registered Office**
Mr. Li Li Qun (Chairman)	17 Baidi Road,
Ms. Wang Lei (Executive Director)	Nankai District,
Mr. Zhou Hong (Executive Director)	Tianjin, the PRC
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 Zhi Yuan (Independent and Non-Executive Director)	

26 April 2018

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 2018 AGM on 30 March 2018 (the "**Notice of AGM**").

1.2 Resolution 15 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 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 2018 (the "**2018 AGM**").

2. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

2.1 Directors' and Substantial Shareholders' interests in Shares

The details of the Directors' and Substantial Shareholders' interests 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 Li Qun	–	–	–	–
Yan Min	–	–	–	–
Wang Lei	–	–	–	–
Zhou Hong	–	–	–	–
Timothy Chen Teck Leng	–	–	–	–
Vincent Toe Teow Heng	–	–	–	–
Qiang Zhi Yuan	–	–	–	–
Substantial Shareholders				
TPG	331,111,998	43.065	–	–

2.2 TPG will abstain, and has undertaken to ensure that its respective associates will abstain, from voting at the 2018 AGM, in respect of the Shares held by them respectively, on Resolution 15 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 2018 AGM in respect of Resolution 15, unless specific instructions have been given in the proxy instrument on how the relevant Shareholders wish their votes to be cast for Resolution 15.

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 2018 AGM:–

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

(b) the Annual Report of the Company for FY2017.

Yours faithfully
For and on behalf of the Directors

Li Li Qun
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 43.065% 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 2017, 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 2018 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 18 of the Company's annual report for FY2017.

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 43.065% shareholdings in the Company as at the Latest Practicable Date;

(b) Wholly-owned subsidiaries of TPG as at the Latest Practicable Date, comprising: -

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

(ii) Tianjin Medicine Group Jixian Co., Ltd.;

(iii) Tianjin Medicine Group Ninghe Co., Ltd.;

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

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

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

(vii) Tianjin Pharmaceutical Company;

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

(ix) Tianjin Institute of Pharmaceutical Research;

(c) Tianjin Yiyao Printing Services Company Limited (formerly known as Tianjin Medicinal Products Packaging and Printing Company) ("**TYPS**"), which is 48.8% owned by TPG as at the Latest Practicable Date;

(d) Tianjin Lisheng Pharmaceutical Co. Ltd, which is 38.56% owned by TPG as at the Latest Practicable Date;

(e) Tianjin Central Pharmaceutical Co., Ltd., which is 38.56% 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; and

(g) Tianjin Taiping Xiangyun Pharmaceutical Co., Ltd., which is 50% 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[(1)] between the Group and the following Interested Persons for a period of 5 years beginning 1 January 2014 and ending 31 December 2018:

(a) Tianjin Institute of Pharmaceutical Research;

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

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

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 2018 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 contracts that the transactions with the respective Interested Person would be carried out on normal commercial terms and would not be detrimental to the interest of the Company and its minority Shareholders.

2.3.2 Sale and Purchase of Medicinal Products

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

(a) The TPG Sales and Marketing Branch Office;

(b) Tianjin Medicine Group Ninghe Co., Ltd.[(2)];

(c) Tianjin Medicine Jixian Co., Ltd.[(2)];

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

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

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

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

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

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

(j) Tianjin Pharmaceutical Company;

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

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

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

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

The terms of these contracts will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant 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 2018 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) These contracts state that if discounts are given to unrelated third parties by the Interested Persons for purchases (the "**Unrelated Parties Discount**"), the Interested Persons will accordingly give discounts (that are no lower than the Unrelated Parties Discount) to the Group for similar transactions.

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

2.3.3 Packaging materials and services from TYPS

The Group obtains its packaging materials and services from TYPS. The contract between the Group and TYPS is for a period of 5 years beginning 1 January 2014 and ending 31 December 2018. The terms of this contract will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant 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 2018 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.

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 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 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 creditworthiness 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 on 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 2018 AGM, the Shareholders' Mandate will take effect from the date of the passing of the resolution to be proposed at the 2018 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 2017; 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 142 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 15 (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 43.065% 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 2018 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 2018 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.

THIS APPENDIX IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

This Appendix 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 Appendix, 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 Appendix.

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)

APPENDIX ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

in relation to

THE PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY (THE "PROPOSED AMENDMENTS")

CONTENTS

DEFINITIONS

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

"2018 AGM"	:	The annual general meeting of the Company to be held on 15 May 2018
"Act" or *"Companies Act"*	:	The Companies Act (Chapter 50) of Singapore, as amended, supplemented and/or modified from time to time
"Appendix"	:	This appendix to the notice of annual general meeting dated 26 April 2018
"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 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 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
"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 15% or more of the total number of issued Shares excluding treasury shares and subsidiary holdings in the Company. The SGX-ST may determine that a person who satisfies this paragraph is not a controlling shareholder; or (ii) in fact exercises control over the Company
"Directors"	:	The directors of the Company as at the date of this Appendix

"FY2017"	:	Financial year ended 31 December 2017
"FY2017 Annual Report"	:	Annual report of the Company for FY2017
"General Meetings"	:	The general meetings of the Company
"Group"	:	The Company, its Subsidiaries and Associated Companies
"Latest Practicable Date"	:	The latest practicable date prior to the despatch of this Appendix, being 19 April 2018
"Listing Manual"	:	The listing manual of the SGX-ST, as amended, modified and/or supplemented from time to time
"Notice of AGM"	:	Notice of the 2018 AGM
"PRC"	:	People's Republic of China
"PRC Guidelines"	:	Guidelines for Article of Association of Chinese Listed Companies 2016 (上市公司章程指引(2016年修订))
"PRC State Council Opinions"	:	Opinions from the General Office of the State Council on Further Strengthening the Protection of Minority Shareholders' legitimate Rights and Interests in Capital Market issued in 2013 (国务院办公厅关于进一步加强资本市场中小投资者合法权益保护工作的意见》(国办发[2013]110号))
"PRC Legal Requirements"	:	Collectively the PRC Guidelines, the PRC State Council Opinions, and the PRC Rules
"PRC Rules"	:	Rules for the General Meetings of Shareholders of Chinese Listed Companies 2016 (上市公司股东大会规则(2016年修订))
"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 term "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
"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 construed 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)
"%" or *"per cent."*	:	Percentage or per centum

The terms "Depositor", "Depository", "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 Appendix 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 Appendix shall have the same meaning assigned to it under the Act, the Listing Manual or the SFA, as the case may be, unless the context otherwise requires.

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

Any discrepancies in this Appendix between the sum of the figures stated and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Appendix 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	**Registered Office**
Mr. Li Li Qun (Chairman)	17 Baidi Road,
Ms. Wang Lei (Executive Director)	Nankai District,
Mr. Zhou Hong (Executive Director)	Tianjin, the PRC
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 Zhi Yuan (Independent and Non-Executive Director)	

26 April 2018

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

Dear Sir/Madam

THE PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY (THE "PROPOSED AMENDMENTS")

1 INTRODUCTION

The Company will be holding its annual general meeting on 15 May 2018 at 1:30 p.m.at the meeting room of Super Garden Hotel, No. 2 Rongye Avenue, Heping District, and Tianjin 300021, PRC (the "**2018 AGM**").

The purpose of this Appendix is to provide Shareholders with information relating to, and to seek their approval for, the Proposed Amendments at the 2018 AGM.

If you are in any doubt as to the course of action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

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 Appendix.

2 THE PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

2.1 Rationale for the Proposed Amendments

Under the PRC Legal Requirements, certain amendments need to be made to the Articles of Association to better protect the minority Shareholders' interest. The details of these requirements are set out below:

(a) Pursuant to section 4 of the PRC State Council Opinions, section 31 of the PRC Rules and section 78 of the PRC Guidelines, where there are any material matters in the general meetings of the listed companies which will affect the interest of the minority shareholders, the votes of the minority shareholders shall be calculated separately. In addition, the listed companies shall not impose minimum shareholding threshold limits on their shareholders for inviting minority/public shareholders to appoint him/her as the proxy to vote in their general meetings. However, currently there are no such provisions in the existing Articles of Association.

(b) Section 2 of the PRC State Council Opinions states that listed companies shall disclose their profit distribution policies, inter alia, the cash dividends policies, and section 152 of the PRC Guidelines provides that listed companies shall specify in their articles of association that the payment of cash dividends shall take priority over other ways of profit distribution. However, currently in the existing Articles of Association, cash dividends payment is not stated as the first choice among the different ways of the profit distribution.

(c) In order to better protect the rights and interests of the minority Shareholders, and pursuant to the PRC Legal Requirements, the Company is proposing to amend Articles 86, 97 and 224 of the existing Articles of Association to comply with the PRC Legal Requirements.

A summary of the amendments are set out below, with the full amendments set out in **Schedule 1** of this Appendix.

2.2 Summary of Amendments to the Articles of Association

The amended Article 86, Article 97, and Article 224 are to comply with the PRC Legal Requirements:

(i) The Article 86 is proposed to be amended to enable the votes of minority Shareholders to be separately calculated in the General Meetings under certain circumstances.

(ii) The Article 97 is proposed to be amended to explicitly forbid the Company from imposing any shareholding threshold limits on its shareholders for inviting minority/public shareholders to appoint him/her as the proxy to vote in the General Meetings.

(iii) The proposed amendment to Article 224 is to allow the cash dividends payment to take priority over any other dividend payment methods.

3 DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

The details of the Directors' and Substantial Shareholders' interests 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 Li Qun	–	–	–	–
Wang Lei	–	–	–	–
Yan Min	–	–	–	–
Zhou Hong	–	–	–	–
Timothy Chen Teck-Leng	–	–	–	–
Vincent Toe Teow Heng	–	–	–	–
Qiang Zhi Yuan	–	–	–	–
Substantial Shareholders				
TPG	331,111,998	43.065	–	–

4 DIRECTORS' RECOMMENDATIONS

Having considered, amongst others, the rationale for and terms of the Proposed Amendments, the Directors are of the opinion that the Proposed Amendments are in the interests of the Company and Shareholders as a whole. Therefore, the Directors recommend that Shareholders vote in favour of the resolution 14, being the resolution relating to the Proposed Amendments, set out in the Notice of AGM.

5 ANNUAL GENERAL MEETING

The 2018 AGM is being convened on 15 May 2018 at 1:30 p.m.at the meeting room of Super Garden Hotel, No. 2 Rongye Avenue, Heping District, and Tianjin 300021, PRC for the purpose of considering and, if thought fit, passing, with or without any modifications, the resolutions set out in the Notice of AGM.

6 ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who wish to vote but who are unable to attend the 2018 AGM and wish to appoint a proxy to attend and vote at the 2018 AGM on their behalf must complete, sign and return the Proxy Form attached to the Company's FY2017 Annual Report in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the office of the Company's "S" Shares Registrar and Singapore Shares 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 2018. The completion and return of a Proxy Form by a Shareholder does not preclude him from attending and voting in person at the 2018 AGM should he subsequently decide to do so.

A S-Share Shareholder who intends to attend the 2018 AGM must be registered in the Register of Shareholders, or where the registered holder is CDP, must be named as a Depositor in the Depository Register, forty-eight (48) hours before the 2018 AGM.

7 DIRECTORS' RESPONSIBILITY STATEMENT

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

Where information in this Appendix 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 this Appendix in its proper form and context.

8 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 Appendix up to and including the date of the 2018 AGM:

(a) the Articles of Association; and

(b) the Company's FY2017 Annual Report.

Yours faithfully
For and on behalf of the Directors

Mr. Li Li Qun
Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

SCHEDULE 1

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

The Company is proposing to amend Articles 86, 97 and 224 of the existing Articles of Association.

1. **Proposed amendment to Article 86**

The proposed amendment to Article 86 will enable the votes of minority Shareholders to be separately calculated in the General Meetings under certain circumstances.

The amended wording is set out in bold and underline below:

"In the case of a vote on a show of hands, every shareholder (including proxies) shall have one vote. In the case of a vote on a poll, every shareholder (including proxies) shall be entitled to one vote for every share he holds or represents. For the purposes of determining the number of votes which a shareholder, being an "S" Shareholder (whether a Depositor or otherwise), or his proxy may cast at any General Meeting on a poll, the reference to shares held or represented shall, in relation to shares of that "S" Shareholder or Depositor, be the number of shares entered against his name in the register of shareholders or the Depository Register (as the case may be) as at forty-eight hours before the time of the relevant General Meeting and in the case of the Depository Register, as certified by the Depository to the Company.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Shareholders or (as the case may be) the Depository Register in respect of the share.

Where there are any material matters in the General Meetings which will affect the interest of the minority Shareholders, the votes of the minority Shareholders shall be calculated separately, and the separate voting results of minority Shareholders shall be publicly disclosed in a timely manner.*"*

2. **Proposed amendment to Article 97**

The proposed amendment to Article 97 is to explicitly forbid the Company from imposing any shareholding threshold limits on the shareholders for inviting minority/public shareholders to appoint him/her as the proxy to vote on the general meeting of the Company.

The amended wording is set out in bold and underline below:

"The controlling shareholder and actual controller of the Company owed fiduciary duties to the public shareholders. A controlling shareholder of the Company shall exercise his/her/its rights as a promoter strictly in accordance with the applicable laws and regulations, and shall not jeopardise the lawful interests of the Company and the public shareholders through interested person transactions, scheme of profit distribution, reorganisation of assets of the Group, investments, mis-use of funds, or provision of corporate guarantees by the Company to such controlling shareholder for his/her/its loans.

1. The following matters may only be implemented or applied for after they are passed by the General Meeting and by a majority of the holders of public shares participating in voting:

(1) issue of new shares (including Foreign Investment Shares listed overseas and certificates of shares of other nature) to the public by the Company, issue of convertible bonds of the Company, placement of shares to existing shareholders (except where the controlling shareholders has prior to the general meeting undertaken to subscribe for the entire share issue in cash);

(2) material asset restructuring, where the total price of the assets acquired exceeds the audited book value of the assets by 20% or more;

(3) the shareholders repaying their debts to the Company with the shares of the Company which they hold;

(4) overseas listing of the Company's subsidiary or associated company that has a material impact on the Company;

(5) matters that arise in the development of the Company that would have a material impact on the interests of public shareholders.

When convening a General Meeting for the above matters, the Company shall provide an arrangement whereby shareholders may vote via the internet.

2. The Company shall encourage greater shareholder participation at General Meetings through providing a system for shareholders to vote on internet or any other necessary methods, Provided Always that any General Meeting shall be held legally and validly in accordance with the applicable laws and regulations, and these Articles.

When implementing internet voting, the Company shall adhere to the "(Test) Guidelines for Internet Voting for General Meetings of Listed Companies" and "Detailed Implementation Rules of Shanghai Securities Exchange for Internet Voting for General meetings of Listed Companies.

3. Board of Directors, independent directors and shareholders who meet the necessary requirements shall be entitled to invite minority/public shareholders to appoint him/her as the proxy to vote on the General Meeting. No consideration will be paid for such invitation, and the relevant directors and/or shareholders shall disclose all necessary information to the minority/public shareholders. ***<u>The Company shall not impose any minimum shareholding threshold limits on the shareholders for such invitation.</u>***"

3. <u>Proposed amendment to Article 224</u>

The proposed amendment to Article 224 is to allow cash dividends payment to take priority over any other dividend payment methods:

The amended wording is set out in bold and underline below under Article 224(2):

"The Company's policies in connection with profit distribution are as follows:–

(1) General Principles for Profit Distribution: The Company shall place great emphasis on giving reasonable returns to the Shareholders while taking into consideration the sustainable development of the Group, and provide reasonable return on investments to the Shareholders. In addition, the Company's policy of

profit distribution shall be stable and continuous. The Company should take into account (i) the general operational results of the Group and the market conditions, (ii) interests of the Shareholders, and (iii) relevant requirements under the laws and regulations of the People's Republic of China ("PRC") and implement reasonable profit distribution policies.

(2) *Profit Distribution Methods: The Company can distribute profits to Shareholders in form of cash, shares, a combination of cash and shares and/or any other methods as permitted under the laws and regulations of the PRC and in compliance with SGX-ST Listing Rules. If the conditions for distributing profits through cash dividends are met, then the Company shall distribute profits through cash dividends* ***as the first choice****. Subject to the operational results of the Group, the Company is allowed to distribute interim dividends.*

(3) *Conditions for Distributing Profits through Cash Dividends:*

(a) *The Company has achieved a net profit of not less than RMB0.05 per share for the relevant financial year or half financial year;*

(b) *The Company's distributable profits for the relevant financial year (after offsetting any losses and deducting the appropriations of the statutory surplus reserve and general reserve) are positive;*

(c) *The Company's net cash flows and cash flow from operations are positive;*

(d) *For the year of profit distribution, the auditors of the Company have issued an audit report without any qualifications;*

(e) *The Company does not have any Major Investment Plan and/or expected Major Cash Outflow in the subsequent twelve (12) months.*

For the purpose of this Article,

"Major Investment Plan" and/or "Major Cash Outflow" means (i) any major investments in companies, (ii) acquisition of assets and/or major equipments, (iii) and/or any expected cash outflow, during the subsequent twelve (12) months, which in aggregate, equal to or exceed 5% of the latest audited net tangible assets of the Group.

(4) *Policies for Distributing Cash Dividends*

(a) *The Company should ensure the consistency and stability of the profit distribution policies. In principle, the annual profits distributed by the Company shall not be less than 15% of (i) the Company's net cash flow from operations in the relevant financial year, or (ii) the Group's distributable profits for the relevant financial year, whichever is lower. If the conditions for distributing profits through cash dividends are met, then the Company shall distribute profits through cash dividends. The detailed percentage shall be determined and recommended by the Board, and approved by the Shareholders in general meeting.*

(b) *If the Company intends to issue securities to the public in accordance with the "Regulations for the Administration of the Issuance of Securities by Listed Companies" (《上市公司證券發行管理辦法》), its aggregate distributed cash dividends in the last three years must not be less than 30% of the average distributable profits in the last three years.*

(c) Any undistributed distributable profits for the relevant financial year can be distributed to Shareholders in the following financial years.

(d) The aggregated distributed profits shall not be more than the aggregated distributable profits, and shall not jeopardize the sustainable development of the Group.

(5) Timing for Distributing Cash Dividends

Subject to the general principles for profit distribution and the above conditions for distribution profits through declaring cash dividends, the Company in-principle shall distribute profits to Shareholders once a year, provided always that such distribution of profits shall not jeopardize the ordinary operation and sustainable development of the Group. Subject to the operational results and funding requirements of the Group, the Company can declare interim dividend where necessary.

(6) Conditions for Distributing Profits through Share Dividend

In the event that the Board is of the view that the Company's share capital does not match its asset and operation scale, and subject to the fulfilment of the above conditions for distribution profits through declaring cash dividends, the Company is entitled to distribute profits through declaring share dividends. The detailed percentage of entitlement shall be decided and recommended by the Board, and approved by Shareholders in general meeting.

(7) Procedures for Scheme of Profit Distribution

(a) After taking into consideration (i) the operational and financial results, and the funding requirements of the Group, (ii) the policies and requirements under this Article, and (iii) scheme on return of investment to Shareholders, the Board shall discuss, approve and recommend the scheme of profit distribution of the Company on an annual basis, and submit the same for Shareholders' approval in general meeting. During the discussion of the scheme of profit distribution of the Company, the Board should consider and decide on the timing and conditions of declaring cash dividends, as well as the minimum percentage of entitlement. The Company's independent directors shall express their independent opinions in relation to any scheme of profit distribution of the Company. The Company shall strengthen its considerations on providing investment returns to the Shareholders. Every 3 years, the Company shall draft a scheme on return of investment to Shareholders, specifying the relevant arrangements and forms of the profit distribution, and the intervals between any cash distributions, to be implemented for the next 3 years. The scheme on return of investment to Shareholders shall be drafted after considering (i) the operational and financial results; (ii) the funding requirements of the Company; (iii) development targets; and (iv) provision of a reasonable return of investment to Shareholders.

The Board shall also consider the characteristics of the industry, the stage of development, business model and profitability of the Company, as well as additional factors such as whether there are any planned major expenditures, to determine if one of the following exceptions apply, such that the Company may propose cash dividends that differ from the scheme on return of investment to Shareholders:

(i) If the Company is at a mature stage of development and there are no planned major expenditures, the cash dividends distribution shall not be less than or equal to 80% of the total profit distribution.

(ii) If the Company is at a mature stage of development and there are planned major expenditures, the cash dividends distribution shall not be less than or equal to 40% of the total profit distribution.

(iii) If the Company is at an immature stage of development and there are planned major expenditures, the cash dividends distribution shall not be less than or equal to 20% of the total profit distribution.

If it is difficult to distinguish the Company's current development stage, but there are planned major expenditures, the Board may consider the profit distribution percentage set out in part (iii) above.

(b) In the event that the Company records a profit in the relevant financial year but no scheme of profit distribution was recommended by the Board, the Board shall explain the reasons for not recommending any scheme of profit distribution in the Company's annual report and the usage of such profits. The independent directors of the Company shall provide and disclose their independent opinions in relation to such arrangement.

(c) The board of supervisors shall supervise the execution of the profit distribution policies and the status in connection with return on investment to the Shareholders by the management of the Company and the Board.

(8) Amendment, Modification and Supplement of Profit Distribution Policies

(a) Any profit distribution policies and/or amendment, modification and supplement to the profit distribution policies shall comply with the relevant rules and regulations promulgated by CSRC, the Shanghai Stock Exchange and the Singapore Exchange Securities Trading Limited, and shall be discussed and approved by the Board after taking into consideration the interests of the Shareholders and the principle of fully protecting Shareholders' interests and providing stable return on investment to the Shareholders. The independent directors should provide their independent opinions in relation to such profit distribution policies and/or amendment, modification and supplement to the profit distribution policies. The Board shall take the Company's growth and dilution in net assets per share into account when approving the profit distribution policies.

(b) If the Company makes revisions to the profit distribution policies due to cash requirements arising from the Company's operations, significant investments or major expenditures, the revised profit distribution policy shall not be in violation of the relevant provisions of the CSRC and the Stock Exchanges. The Board, the Supervisory Committee and the Shareholders shall review the resolutions regarding the revisions to the profit distribution policy, which shall be passed with the consent of the majority of the Directors, the majority of the independent directors and the majority of the Supervisory Committee. Any profit distribution policy and/or amendment, modification and/or supplement to the profit distribution policies must be approved as special resolution by the Shareholders of the Company. The Company shall uphold and protect the rights of the public Shareholders in attending the general meeting for considering and approving the proposed profit distribution policy. Shareholders are entitled to communicate their queries, comments, opinions in connection with the proposed profit distribution policy with the Company prior to the general meeting, either via telephone, facsimile, Company website, public mailbox or reception office of the Company for the purpose of considering and approving the proposed profit distribution policy, and the Company shall actively communicate with, and respond to, the Shareholders (especially the minority Shareholders).

(9) Protection to the Shareholders' interests

(a) The Board and the Shareholders shall take into full consideration the opinions of the Company's independent directors and public Shareholders. Shareholders are entitled to communicate their queries, comments, opinions in connection with the proposed profit distribution policy with the Company prior to the general meeting, either via telephone, facsimile, Company website, public mailbox or reception office of the Company for the purpose of considering and approving the proposed profit distribution policy, and the Company shall actively communicate with, and respond to, the Shareholders (especially the minority Shareholders.

(b) In the event that any independent director has a different opinion in relation to any scheme of profit distribution, he should disclose the same to the public and such independent director is entitled to invite minority/public A-Share Shareholders to appoint him as the proxy to vote on the relevant scheme of profit distribution via internet. For the avoidance of doubt, only A-Share Shareholders are entitled to vote via an internet voting system established by the Shanghai Stock Exchange. The independent directors may also propose an alternate scheme of profit distribution (based on the feedback received from minority Shareholders) to the Board for approval.

(c) In the case that a Shareholder of the Company mis-uses the Company's fund unlawfully, the Company shall have the right to deduct the cash dividends payable to that Shareholder to compensate for the unlawfully mis-used funds."

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ZHONGXIN PHARMACEUTICALS

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

17 Baidi Road, Nankai District,
Tianjin, PRC