中新药业

ZHONGXIN PHARMACEUTICALS

ANNUAL REPORT **2016**

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COMPANY INFORMATION

Name of the Company:	**Tianjin Zhong Xin Pharmaceutical Group Corporation Limited**
Registered address:	**17 Baidi Road, Nankai District, Tianjin, PRC**
Office address:	**Zhong Xin Mansion, 17 Baidi Road, Nankai District, Tianjin, PRC**
Post code:	**300193**
Telephone:	**86-22-27020892**
Bank of Deposit:	**Chengdudao Sub-office, Tianjin Xinhua Sub-branch, the Industrial and Commercial Bank of China**

REGISTRY OF S-SHARES AND A-SHARES

Transfer Office:	Boardroom Corporate & Advisory Services Pte. Ltd.
Address of "S" Shares Registrar:	50 Raffles Place, Singapore Land Tower #32-01, Singapore 048623
Registry of A-shares:	China Securities Depository & Clearing Co., Ltd Shanghai Branch
Address of "A" Shares Registrar:	36F China Insurance Mansion #166 Lujiazui East Road Pudong New District, Shanghai, China, 200120

AUDITORS

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

BOARD OF DIRECTORS

Chairman:	Mr. Wang Zhi Qiang
Executive Directors:	Ms. Wang Lei, Ms. Yan Min, Mr. Zhou Hong
Non-executive Directors:	Mr. Zhang Jian Jin, Mr. Ma Gui Zhong
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 Li Qun
Supervisor:	Ms. Yu Hong

SENIOR EXECUTIVES

General Manager:	Mr. Wang Zhi Qiang
Deputy General Managers:	Mr. Zhang Jian, Ms. Wang Lei
Chief Financial Officer:	Ms. Yan Min
Chief Engineer:	Mr. Pan Qin

AUDIT COMMITTEE

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

STRATEGY COMMITTEE

Chairman:	Mr. Wang Zhi Qiang
Members:	Mr. Zhang Jian Jin, Mr. Ma Gui Zhong, Mr. Qiang Zhi Yuan

NOMINATION COMMITTEE

Chairman:	Mr. Qiang Zhi Yuan
Members:	Mr. Vincent Toe Teow Heng, Mr. Ma Gui Zhong

REMUNERATION COMMITTEE

Chairman:	Mr. Vincent Toe Teow Heng
Members:	Mr. Timothy Chen Teck Leng, Mr. Zhang Jian Jin

BRIEF INTRODUCTION OF THE COMPANY

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited ("Zhong Xin Pharmaceutical" or "The Company") is the core pharmaceutical manufacturing arm of Tianjin Pharmaceutical Group Corporation Limited ("Pharmaceutical Group"). With a long history, the Company is 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, 6 fully owned subsidiaries, 7 controlled subsidiaries and 12 associates with minor stakes. Among the 50 units, 12 are associates 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 and Baxter, while the

rest 38 are branches and subsidiaries mainly engaged in traditional Chinese medicine manufacturing and medical commerce. The two major business blocks have optimised their competitive edges and posted steady growth, helping the Company to rank among well-performing listed companies in recent years. Da Ren Tang, Le Ren Tang and Long Shun Rong, known as China Time-honored Brands under the flag of the Company, have all won the honorable title of "Famous Chinese Trade Mark", and the brand of Song Bo for No. 6 Chinese Medicine Plant, a modern Chinese medicine making icon, have also been awarded the honorable title. These helped Zhong Xin Pharmaceutical to advance to a leading enterprise in protecting China Time-honored Brands.

Following the business philosophy of "pursuing harmony between the mankind and nature, and benefiting all human beings" and the development strategy of having innovations of traditional Chinese medicine direct operations, Zhong Xin Pharmaceutical is devoted to innovative research, development and manufacture of full-range, good quality, high efficiency and quick-acting 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 as a national confidential prescription; Niu Huang Jiang Ya Pill (for treatment of hypertension), Niu Huang Jiang Ya Capsule (for treatment of hypertension) and Jing

Wan Hong (for treatment of scald) have been classified as state secret of their respective prescriptions and ingredients; 6 products have become state-protected Chinese medicines; 111 product varieties are exclusively produced by the Company; 85 drugs have been listed in the National Basic Medicine Catalog, and 271 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 and regions 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 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 GAP, GLP, GCP, GMP and GSP series of standards on a full scale and carries out full-course quality control to ensure product safety and quality.

Zhong Xin Pharmaceutical has all along dedicated its career to the people's health care, harmony, honesty and responsibility, and adhered to the business philosophy of "pursuing harmony between the mankind and nature and benefiting all human beings". It is marching towards 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 modernisation of Chinese medicine". Under the backdrop of market economy, the Company will foster

and deepen its social responsibility awareness and philosophy of sustainable development, balance interested parties' expectation and requirement for sustainable development, persist in win-win cooperation with interested parties, stick to environmental protection, abide by social morality and business ethics, and earnestly integrate social responsibility and philosophy of sustainable development in its routine operations. It will always be the Company's pursuit in its 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

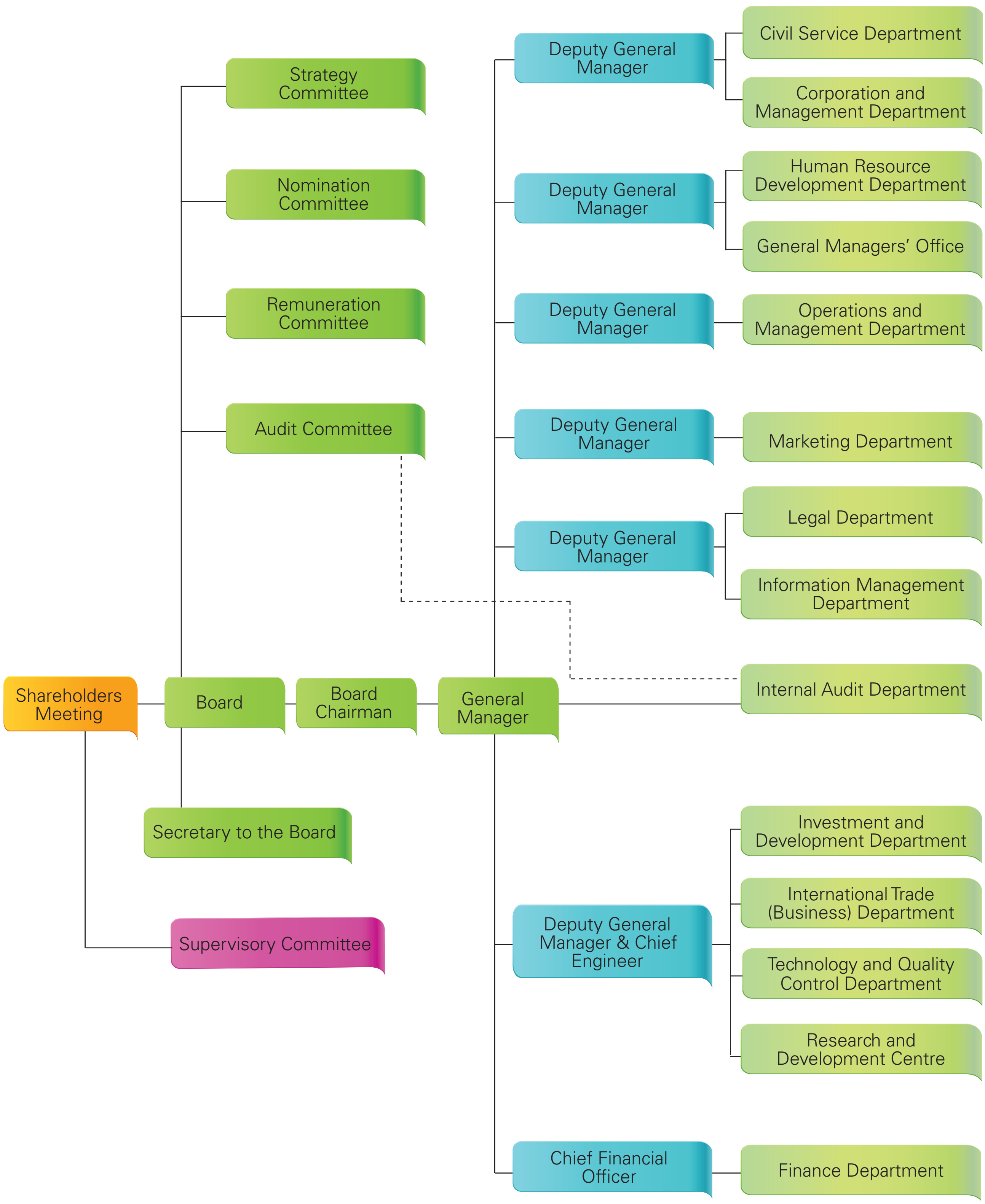
13 wholly-owned or controlled subsidiaries

- Tianjin Da Ren Tang Jinwanhong Pharmaceutical Co, Ltd (52%)
- Tianjin Shin Poong Pharmaceutical Co., Ltd (55%)
- Tianjin Xin Long Pharmaceutical Co., Ltd. (51%)
- 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 Long Shun Rong Development Pharm Co., Ltd (100%)
- Tianjin Zhong Xin Chuyun Trading 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. (51%)
- Zhejiang Zhong Xin Chuang Rui Investment Co., Ltd. (100%)
- Tianjin Hebei Daren Hospital (100%)

12 associates with minor stake

- Sino-American Tianjin Smithkline & French Lab., Ltd. (25%)
- Tianjin Sinobioway Biomedicine Co., Ltd. (20%)
- 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 Zhong Xin Pharmaceutical Co., Ltd. (51%)
- Chengdu Zhong Xin Chain Store Co., Ltd. (51%)
- Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd. (50.4%)
- Zigong Zhong Xin Pharmaceutical Chain Co., Ltd. (50.4%)
- Zhongxin Pharmaceutical Tangshan Xinhua Co., Ltd. (51%)

STRUCTURE OF THE COMPANY



RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

DIRECTORS

Mr. Wang Zhi Qiang (57)
Chairman of Board of Directors
3-6-511 Huayu Li Nanfeng Road
Nankai District, Tianjin, PRC

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

Mr. Zhang Jian Jin (60)
Non-Executive Director
86-401 Yu Xian li, Binshui Road,
Hexi District, Tianjin, PRC

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

Mr. Ma Gui Zhong (61)
Non-Executive Director
#3 YangFuNan Road HePing
District Tianjin, PRC

Mr. Ma Gui Zhong, master degree of finance and economy, Senior Accountant. He graduated from Tianjin University of Finance and Economics in September 1983 with a bachelor degree of accounting. He has been a section member, supervisory section member, Deputy Director and Director of the Finance Department of Tianjin Pharmaceutical Bureau. Current, he is holding the position of the Member of the Party Committee, Deputy General Manager, Chief Accountant and General Legal Counsel of Tianjin Pharmaceutical Group Co. Ltd. He is a Supervisor of the Board of Supervisors of the Company since May 1999. Ltd.. Mr. Ma Gui Zhong is also a Director of the Committee since December 2012.

Ms. Wang Lei (45)
Executive Director and
Deputy General Manager
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 Zhong Xin 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 Zhong Xin Le Ren Tang Pharmaceutical Factory. From 15 May 2013 to 23 June 2013, she was also a Supervisor of the Board of Supervisors of the Company. From June 2014 to present, she is working as the Deputy General Manager of the Company.

Ms. Yan Min (47)
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.

Mr. Zhou Hong (46)
Executive Director
3-4-101 Yibo Li, Hongqiao District,
Tianjin, PRC

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

RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

Mr. Timothy Chen Teck Leng (62)
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 attended Executive Management Development Program of Harvard Business School in 2002 and was awarded Certified Corporate Director (I CD.D) qualification by the Canadian Institute of Corporate Director in 2006.

Mr. Chen has over 30 years of senior management experience in international finance, insurance, banking and company advisory fields. Mr. Chen started his professional career with the Bank of America, Singapore between 1981 and 1982 as loans officer. From 1982 to 1983, he was the Assistant Vice President of Wells Fargo Bank, Singapore. From 1983 to 1985, he was the Account Manager at the International Banking Centre of the Bank of Nova Scotia. Mr. Chen was appointed as the Senior Representative of Sun Life Assurance Company of Canada from 1986 to 1999. From 2000 to 2005, he was the President & CEO of Sunlife 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 (48)
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 was actively involved in the Transport, Leisure and Hotel industries' M&A advisory in Asia. Previously, he was the director of certain companies which operates primarily in China, including but not limited to Yangzijiang Shipbuilding (Holdings) Ltd. and China Sunsine Chemical Holdings Ltd. He is the Independent director of Tianjin Zhong Xin Pharmaceutical Co., Ltd since May 2013. Mr Toe is currently the CEO of a fund management company in Singapore (ICH Gemini Pte Ltd).

Mr. Qiang Zhi Yuan (60)
Independent and Non-Executive Director
#25 Zhujiang Road, Hexi District, Tianjin, PRC

Mr. Qiang Zhi Yuan, born in April 1956, Chinese, having a PhD in management (accounting), 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 directors in Tianjin Lisheng Pharmaceutical Co., Ltd. From June 2014 to present, he is working as the professor in Graduate School of Modern Economics Management of Tianjin University of Finance and Economics.

SUPERVISORS

Mr. Li Li Qun (56)
Chairman of the Supervisory Committee
#17 Baidi Road, Nankai District, Tianjin, PRC

Mr. Li Li Qun, senior politician, he has previously held positions as: deputy secretary of the Party Committee and 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 Disciplinary Committee and chairman of the Union of Tianjin Kingyork Group Co., Ltd, secretary of the Party Committee, secretary of Disciplinary Committee and chairman of the Union of Tianjin Pharmaceutical 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 September 2015 to present, he was appointed as secretary of the Party Committee of the Company. From December 2015 to present, he was appointed as employee supervisor of the Company.

Ms. Yu Hong (42)
Supervisor
24-5-501 Yicheng Li Youyi Road Hexi District, Tianjin, PRC

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

RESUMES OF
DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

MANAGEMENT

Mr. Wang Zhi Qiang (57)
General Manager
3-6-511 Huayu Li Nanfeng Road, Nankai District, Tianjin PRC

Ms. Wang Lei (45)
Deputy General Manager
A-805 Jinbin Yadu Apartment Shaoxing Road, Hexi District, Tianjin PRC

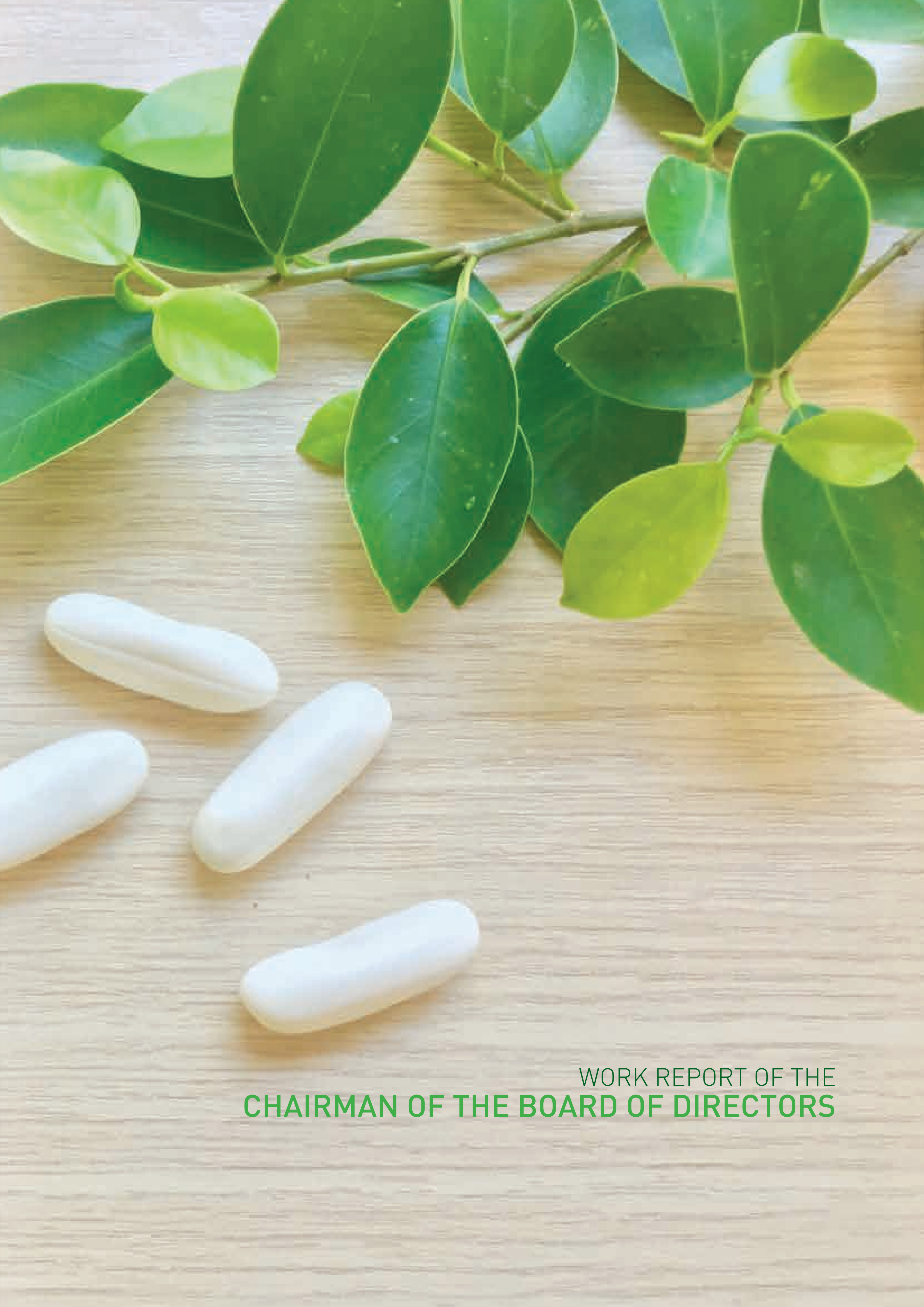
Mr. Zhang Jian (53)
Deputy General Manager
5-A-403 Changshou Apartment House Rongye Ave, Heping District, Tianjin PRC

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

Mr. Pan Qin (46)
Chief Engineer
1-4-602 Kaili Garden Apartment, Nankai District, Tianjin PRC

Mr. Pan Qin, senior engineer, licensed pharmacist, graduated from Huaxi Medical University and China Pharmaceutical University with a bachelor degree of pharmacy, master degree of medicinal chemistry and PHD in medicinal chemistry (specialising in traditional Chinese medicinal chemistry). From July 1995 to June 2003, he worked with Tianjin Institute of Pharmaceutical Research holding positions of the research assistant of the pharmacology office, the research assistant of the planting office, the deputy director/deputy researcher of the information office, and the director of the modern Chinese medicine research office. From March 2008 to September 2008, he was the visiting scholar of Hong Kong University of Science and Technology. He was appointed as the head of technology center of the Company since July 2003, deputy chief engineer of the Company since October 2008 and the assistant general manager of the Company since May 2013.

Ms. Yan Min (47)
Chief Financial Officer
8-1-402 Haida Mingyuan Apartment Jinzhonghe Ave, Hebei District, Tianjin PRC



WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Shareholders,

In 2016, Zhong Xin Pharmaceutical adapted to the new normal of economic development in line with the policy of "strengthening principal business, stabilising growth, overcoming hardship and promoting development" with focus on building the "Quality Zhong Xin" strategic vision, and fully developed the corporate spirit for "pragmatism, innovation, integrity and conscientiousness", adhering to a reform-led and innovation-driven direction, forward thinking, advancing reform and injecting vitality in intensifying structural adjustments and tackling critical issues to promote the healthy and sustainable development of the Company with enhancing quality and increasing efficiency as the core, hence achieving a positive start to the "Thirteenth Five-Year" period.

On behalf of the board of directors, I would like to submit the 2016 work report to the shareholders and express our cordial greetings to all of you.

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

In 2016, through the concerted efforts of all our staff, the Company's overall operating level and operational efficiency were improved and thus the established work targets were completed. The results achieved in terms of economic operations in 2016 are reflected in the following aspects:

1. *Persistent in advancing the major varieties strategy to strengthen the building of end customer networks*

In 2016, the Company persistently advanced the major varieties strategy which further strengthened the building of networks and end customer marketing teams, promoting sales growth leveraging a strong end customer network. The Company brought production at Sixth Zhong Xin Plant in alignment with the marketing of subordinate sales company and increased efforts on the development and extensive coverage of non-targeted retailers, driving the growth of Suxiao Jiuxin Wan (速效救心丸) at hospitals. By creating a comprehensive and multi-platform marketing network integrating healthcare, retail and the end customer, Le Ren Tang expanded primary health care institutions in the central city areas as well as the coverage of new rural cooperatives. Following Tongmai Yangxin Wan (通脉养心丸), Weichang An Wan (胃肠安丸) achieved sales revenue of over a hundred million yuan. Long Shun Rong stepped up efforts on developing the healthcare market and the retail chain at all levels, boosting sales revenue of Zi Long Jin Pian (紫龙金片) to exceed a hundred million yuan. At Da Ren Tang, through a model focusing on chain distribution to key customers supplemented by dealership, attention was paid to product promotions which led to the significant increase in sales revenue of Qingfei Xiaoyan Wan

(清肺消炎丸). The Company as a whole achieved a steady yet progressive sales performance for major varieties with two varieties, Weichang An Wan and Zi Long Jin Pian, achieving sales revenue of over a hundred million yuan for the first time, in addition to ten varieties recording sales revenue of over fifty million yuan.

2. *Relied on the Internet platform to broaden the promotion model*

In accordance with the Company's arrangement for the construction of the internet marketing platform, enterprises strived to explore e-commerce operation models in line with their own features. The Company's marketing department opened a number of platforms at WeChat for real-time interaction with consumer groups to promote healthy lifestyles. Da Ren Tang built a mobile e-commerce operation center to realise inter-provincial cooperation, achieving the e-commerce sales target ahead of schedule. Le Ren Tang established relations of cooperation with online pharmacies and O2O platforms and conducted remote staff training by way of online platforms for the purpose of offline marketing. Long Shun Rong, together with subordinate sales companies and many other enterprises, also applied the "Internet+" marketing concept to achieve the integration of sales promotions.

3. *Innovated business management philosophy to tap the potential of commercial sales*

Adhering to the development concept of "maintaining advantages, expanding coverage, adjusting structure and controlling risk" and in close cooperation with partner manufacturers, the

Company spared no efforts to enter the community after bidding and increasing the number of varieties. As a result, a number of new products have been included in Tianjin's directory for community-based drugs. The sales potential of high-margin varieties were tapped to open up new markets. Terminal channels of small private hospitals were consolidated to promote the rapid growth of sales. The Company made use of its edge in community resources to enhance the sales of Western varieties under joint ventures for an increase in sales revenue and volume. This laid a solid foundation for obtaining the Tier-1 agency qualification for joint venture plants after the roll-out of the "two-invoice policy". Daren Hospital added long-term outpatient treatment for diabetes and hemiplegic paralysis and achieved a rapid growth in the number of visits and outpatient income through the year. Driven by innovative business ideas and marketing models, the business segment achieved a steady progress in operating results in 2016.

4. *Promoted product registration to increase the intensity of international market development*

The Company continued to strengthen overseas market development efforts and actively responded to the overall situation of an insufficient demand in the international market. As a result, the set targets for sales revenue were achieved. During the year, the Company obtained a certificate of registration for a total of 14 new products in Australia, Malaysia and Indonesia respectively. The Company received a total of 43 visits from 10 countries and regions, developing new operations in Australia, Hong Kong and Indonesia which has further opened up the international market, hence enhancing the international reputation of the Zhong Xin brand.

5. *Strengthened scientific marketing to deepen academic promotion*

The Company continued to focus on academic and professional promotion and paid attention to the analysis of product attributes to improve the level

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

of scientific marketing. Subordinate sales companies vigorously enhanced the quality of academic promotion at end customer and organised more than 3,000 academic lectures at regional offices, which has laid a solid foundation for the growth in medical end customer sales. Through the establishment of an academic promotion system under the agency model, Da Ren Tang ensured the extension of academic promotion work to enterprises to achieve the market strategy of "driving sales by academics". Leveraging the academic seminar of Professor Ruan Shiyi, the national master of medicine, the 28th Symposium on Spleen and Stomach Diseases of China Association of Chinese Medicine Society and other opportunities, Le Ren Tang further consolidated the academic status of Tongmai Yangxin Wan and Weichang An Wan, effectively enhancing the quality of marketing for key varieties.

6. *Put fine management into practice to effectively reduce cost and increase efficiency*

Centering upon the main thread of "assuring quality, ensuring security, reducing cost and improving efficiency", the Company vigorously promoted industrial enterprises to reduce production costs. The Company fully leveraged the centralised procurement platform for excipients and packaging materials and the electronic procurement platform of Medicinal Material Branch Company to reduce procurement costs. The Company adopted measures including putting forward new techniques and equipment, establishing a system of assessing working hours and strengthening the assessment of material consumption and yield to reduce manufacturing costs. The Company strengthened the management of equipment, established a sound equipment maintenance system and implemented preventive maintenance for equipment in a reasonable manner to improve the skills of maintenance and operational staff and to enhance the efficiency of equipment. Multiple measures were used to ensure that savings are realised and that the management is held accountable for achieving benefits.

7. *Implemented strict audit and financial management to strengthen internal controls over risk*

In 2016, in accordance with the requirements of State-owned Assets Supervision and Administration Commission (SASAC) and pharmaceutical groups on state-owned enterprises and the requirements of

China Securities Regulatory Commission (CSRC) on listed companies for more intensified self-evaluation of internal controls, the Company carried out a self-assessment and onsite testing of internal controls and conducted a special audit of the effectiveness of internal controls of two subsidiaries, Guowei and Zhong Xin Yaogu. The financial position and the scientific research expenditures of the Dujiangyan planting base and other key companies and issues and that rectification was implemented. The Company stepped up efforts on the analysis of asset operation quality to guide enterprises to enhance accounts management. It also further improved the internal controls of ZhongXin Pharmaceutical and perfected the supervisory system, accomplishing the rotation of chief financial officer, as a result of which the Group's risk management and control standards have been further enhanced.

8. *Highlighted safety inspections to maintain control over quality management*

The Company implemented the safety requirements of the municipal government, the two committees of SASAC at the municipal level and pharmaceutical groups in implementing the responsibility of main entities to enhance the awareness toward the "red line" and signed letters of undertaking on safety objectives at all layers to put division of work into actual practice. The Company increased efforts on daily job safety management and training and instituted daily checks and company-wide inspections. The Company promoted advance safety production and management experiences among enterprises to foster a higher level of safety management in the Company as a whole so that safe operation is ensured. The Company improved drug inspection and drug evaluation work and, with an internal audit of new GMP/GSP versions as the starting point, gradually implemented a system of drug quality accountability through the establishment of drug quality and safety firewalls.

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 exchanges in China and Singapore. Corporate standardization 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 2016, 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 compliant 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 standardized 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 2016, the Company conducted promotional campaigns on investor protection, guiding investors to recognize their own tolerance, investment preferences and investment targets through 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 2016, the Company held an online briefing on the 2015 annual report at which the chairman, chief accountant and secretary of the board of directors actively participated in the online exchange, expanding the communications interface between the Company and investors by way of networks. To further safeguard the rights and interests of shareholders and to obtain return on investment, the Company held the 2015 annual shareholders' general meeting at which the 2015 profit distribution program was considered and approved and the 2016 first extraordinary shareholders' general meeting at which the 2016 interim profit distribution program was considered and approved. The Company took concrete action to give back to investors by implementing the 2016 interim profit distribution program through which a cash dividend of RMB2.5 (including taxes) was distributed to all shareholders for every ten shares amounting to RMB192,218,269. In 2016, the Company paid attention to strengthening insider management work to ensure the registration of insider files and the notification of confidentiality obligations are properly done in accordance with the Company's Insider Management Policy. For the work on annual reports in 2016, both independent directors and the audit committee carried out audit work according to relevant policies. To sum up, all rules, regulations and policies of the Company were complied with in 2016.

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

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

stringent the better". In 2016, 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 welcomes investor visits and enquiries and, through compliant and adequate information disclosure, strengthens communication with investors, promotes an understanding and recognition of the Company among investors, maintains good investor relations and establishes a positive image of the Company in the market.

III. Independent innovation was further reinforced and advantages of varieties were tapped and released

Adhering to the work momentum for "development on innovation and prosperity through diligence", the Company has implemented an innovation-driven development strategy aiming at enhancing the vitality of enterprise developments on scientific and technological innovation.

1. Stepping up efforts on tackling key technical issues to push R&D of new products

The Company spared no efforts in pushing R&D of new products and, through the year, conducted research on 21 new product items, including three pre-clinical studies such as studies on senna glycosides, clinical research on lungs-tonifying granules as well as 17 studies on health food such as liquid calcium soft capsules, spirulina tablets and fish oil soft capsules. The Company conducted in-depth analysis of major varieties in terms of treatment mechanism, new dosage, adaption in population and other aspects and carried out secondary development work on 12 varieties including Suxiao Jiuxin Wan, Zi Long Jin Pian and Tongmai Yangxin Wan. The Company improved production processes with focus on the pre-treatment of herbs, reduction of production costs and improvement in drug quality and implemented 12 process enhancement projects including studies on new process for Sunao Xindi Wan (舒脑欣滴丸) and research on Long Qing Pian (癃清片) in enhancing spray powder yields, which have provided technical support for further release of advantages of varieties.

2. Paying attention to the protection of property rights to strengthen trademark management

In intensifying the protection of intellectual property, the Company applied for 72 patents and obtained authorization for 17 patents. This has made it the 2016 Tianjin Patent Pilot Enterprise and the 2016 Patent Insurance Pilot Enterprise. In the selection of Tianjin's benchmarking enterprises for the application of intellectual property of industrial enterprises and the publicity demonstration activities organized by Tianjin Municipal Commission of Industry and Information Technology, the Company was named as the "Benchmarking Enterprise in Intellectual Property". The Company completed re-evaluation work in respect of national enterprises superior in intellectual property management and secured the title of "National Enterprise Superior in Intellectual Property Management". Da Ren Tang won the Tianjin Patent Excellence Award for "a kind of Huo Xiang Zheng Qi (藿香正气) soft capsule and its preparation method". Le Ren Tang won the Tianjin Patent Excellence Award for its invention patent on the "drug preparation methods of Wuji Baifeng Pian (乌鸡白凤片) in treating qi and blood

deficiency, irregular menstruation and uterine bleeding". In strengthening the management of trademarks, in 2016, the Company applied for 38 trademarks and obtained authorization for 15 patents.

IV. A harmonious environment with foothold in humanism was created

The Company is always concerned with the livelihood of its employees, safeguarding their legitimate rights and interests according to law and actively building a harmonious enterprise to fulfill corporate responsibility. In 2016, the Company created a macro training pattern for different positions and levels and carried out a series of professional skills training as well as humanistic care training such as employee health management around topics including preventing legal risk, reducing cost and increasing efficiency and operating WPS office software, effectively enhancing the overall staff quality and cultivating compound talents for the building of professional management teams. Taking into account jobs needs, the Company focused on the selection of fresh graduates from Project 211, Project 985 and other key colleges, and designed paths for the rise in salary and promotion targeted at students under management training to provide institutional security for enterprises to attract talents. The Company adhered to safeguarding the legitimate rights and interests of its employees and ensured 100% implementation of the system of collective labour contracts and collective bargaining in order to protect the legitimate rights and interests of its employees in terms of remuneration, labour protection and other aspects. The Company carried out the "new vitality, new interest" series of cultural and sports activities for employees, enriching the leisure time of employees through badminton competitions, literary and art exhibitions, table tennis contests and other events, thereby demonstrating the positive and daring spirit of Zhong Xin people. The Company established a one-million-yuan needy staff assistance fund, re-approved 79 needy employees from four subordinate enterprises for the receipt of financial aid on a regular basis and allocated funds to help five employees and retired model workers with special needs. The Company carried out the "Autumn Student Aid" event at which financial aid was offered to 65 children of 62 needy workers receiving schooling. A warm and harmonious environment was created.

V. Profit distribution in 2016

The Company plans to distribute cash dividends from the profits of 2016. A cash dividend of RMB1.2 (including taxes) for every ten shares held amounting to RMB92,264,769.12 will be distributed to all shareholders based on the total share capital of 768,873,076 shares as at 31 December 2016.

VI. Significant legal disputes

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

VII. Implementation of related party transactions contracts

In 2016, the Company had related transactions on the purchase of goods and services with Tianjin Pharmaceutical Group Corporation, Tianjin Lisheng Pharmaceutical Co., Ltd., Tianjin Central Pharmaceutical Co., Ltd., Tianjin Hong Ren Tang Pharmaceuticals Distribution Co., Ltd., Tianjin Haoda Medical Devices Co., Ltd., Tianjin Pharmaceutical Company, Tianjin Pharmaceutical Holdings Pacific Co., Ltd., Tianjin Traditional Chinese Medicine Group Corporation Jixian Company, Tianjin Traditional Chinese Medicine Group Corporation Ninghe Company Tianjin Taiping Longlong Pharmaceutical Co., Ltd., Tianjin Taiping Xiangyun Pharmaceutical Co., Ltd., Tianjin Processed Chinese Medicine Factory Co., Ltd., Tianjin Jinyao Pharmaceutical Development Co., Ltd., Tianjin Pharmaceuticals Group Jingyitang Chain Co., Ltd., Tianjin Pharmaceuticals Group Hongze Pharmaceutical Co., Ltd., Tianjin Yiyao Printing Co., Ltd., Tianjin Hongrentang Pharmaceutical Co., Ltd., Tianjin Institute of Pharmaceutical Research and other related companies.

The Company is not engaged in any interested person transactions in the amount of more than S$100,000. All of the aforesaid related transactions have proceeded normally and there is no related transaction which is detrimental to the interests of the Company.

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

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

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

VIII. Major focus in 2017

In 2017, the Company will study and understand in depth the spirit of the Sixth Plenary Session of the 18th Communist Party of China Central Committee, the spirit of the series of important speeches of the General Secretary Xi Jinping and the spirit of the plenary session of the municipal committee in putting forward the "four kinds of awareness" and fully deepening the strict administration of the Party abided by a policy of "strengthening principal business, increasing vitality, fostering transformation and raising standard" with a "stringent, practical, up-to-date and sophisticated" working style to further promote enterprises in delivering work in the areas of party building, reform and adjustment, marketing, scientific and technological innovation, scientific management and control, talent cultivation and other priorities and in completing the annual tasks with a high conception, a high starting point and a high standard so as to create a "Quality Zhong Xin" with outstanding achievements in welcoming the successful convening of the 19th National Congress. In 2017, the Company will mainly focus its work on the following aspects:

1. *Extend management to the end customer to cultivate sales regions in ladder shape*

The Company will strengthen market-oriented thinking and design a refined end customer-focused marketing model with the allocation of personnel and the mode of assessment inclining toward the end customer with the aim of training a group of competent marketing staff with both ability and integrity to deep plow regions with potential. Capitalizing on end customer data, the Company will make attempts on a profit-based appraisal mechanism with the "effectiveness first" principle. The Company will integrate marketing resources to straighten out regional distribution models and policy environments and, by designing a sophisticated product development model featured by "payment first, promotion later" with sales channels integration, end customer promotional programs, expense settlement schemes and others as the starting point, establish a systematic marketing network penetrating deeply into the end customer. The Company will develop planning of regional sales targets by level, striving to cultivate sales regions and varieties.

2. *Deepen the "major varieties" strategy to drive the product cluster effect*

Paying close attention to the progress in sales and the quality of operations for Suxiao Jiuxin Wan, Tongmai Yangxin Wan, Zi Long Jin Pian, Qingfei Xiaoyan Wan and other major varieties, the Company will intensively explore the advantages of variety clusters to boost their collective power with major varieties as the core, carefully sort out and analyze the market structure and potential and medication habits, make efforts to cultivate a three-tiered variety ladder, implement a comprehensive follow-up of the development and implementation of marketing programs, explore and refine the design of sales models, including independent operation, regional agency and marketing team integration, to fully stimulate the growth of varieties with potential.

3. *Make a serious study at the "market-oriented university" to promote the reform and upgrading of marketing models*

In putting into practice the Group's requirements of integrating resources, deepening alignment with the terminal and giving play to the cluster and integration effect, the Company will allocate marketing resources around core dealers of considerable scale configuration to pool efforts together and to enhance market profitability. The Company will strengthen the building of an academic promotion system and make use of expert network resources to construct an academic platform, hence standardizing and improving academic promotional activities through salons, community doctor education, small city councils and other means. The Company will reinforce brand cultivation and develop new media communication channels to generate interactive synergies among the traditional media, the new media and the "ground forces" so as to help key varieties to achieve breakthroughs in sales. The Company will continue to explore the "Internet +" marketing model and carry out in-depth cooperation with distinguished e-commerce operators to achieve service-trade integration and online-offline interconnectivity. The Company will set up an international trading company with independent legal person qualifications guided by international market business philosophy in the real sense to foster the stable growth in exports and to expand the international presence of the Company's products and brand.

4. *Strengthen investment management for better rules to enhance the level of project construction*

In accordance with relevant systems of pharmaceutical groups, the Company will straighten out the management of project investment review and approval process for an improvement in the *Measures on the Management of Fixed Assets, Foreign Investment Management Policy* and other systems and rules. Based on thinking, design and project construction that are positioned at a high starting point, the Company will perfect pre-investment management, classifying and sub-dividing management systems with investment quota as the standard as well as designing a professional technical argumentation policy for large-sum investment projects. Combined with the post-project evaluation measures of the SASAC and pharmaceutical groups, the Company will refine post-investment

management and establish mechanisms of collaboration among departments. With more stringent and sophisticated management, the Company will safeguard the progress and quality of Bozhou Industrial Park Project, Modern Business Logistics Center Project and GAP Base Construction Project so that they can be operational as soon as possible to achieve target output and effect.

5. *Reinforce market-oriented thinking to integrate the Company's scientific research resources*

Having a market orientation, the Company will integrate its scientific research resources, strengthen interaction with the market, establish a policy of non-regular communication under the Company's scientific research system, sort out product resources and, on the basis of integrating market feedback, clinical product positioning and expert diagnosis, carry out scientific research work with a focal-point and

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

hierarchical approach on topics and projects surrounding market demand to promote scientific research results in improving the quality and efficiency of the Company. The Company will strengthen secondary development and clinical research of key varieties and increase efforts on the cooperation with first-class front-line research institutes and clinical institutions to dig deeply into product features and establish firm academic support, hence expanding the quantity and increasing the efficiency of major varieties on high-end and authoritative academic achievements. The Company will quicken the pace of integration of scientific research resources to establish scientific mechanisms for the assessment of scientific research projects, and explore the system of project cooperation to integrate existing research centres into one's own technical strength, which will effectively resolve scientific and technological problems and give play to the function of scientific research in serving production and operation and, through the improvement of production processes, optimization of production flows and enhancement of technical indicators, saving costs and reducing consumption from the sources.

6. *Ensure strict quality and intellectual property management to enhance the quality and content of products*

With focus on three aspects, quality risk management and control, process compliance and data reliability, the Company will strengthen quality supervision and management in respect of the entire process of drug production and operation and institutionalize quality risk control measures to effectively prevent quality issues that may occur, thereby winning consumers on excellent product quality. In accordance with the requirements of the *Standard for Enterprise Intellectual Property Management* and the Company's documents on intellectual property management, the Company will strictly ensure the operational quality of its intellectual property management system, carrying out improvements and upgrades in terms of product patent, trademark application, maintenance, licensing, monitoring and training to explore the operation and management of intellectual property, hence achieving the market value of intangible assets.

7. *Consolidate fine management to enhance the level of scientific management and control*

The Company will intensify the building of a macro financial system and, learning from advance management approaches of benchmarking enterprises, further reinforce the management of budgets and refine accounting so as to promote the integration of financial operations among sales companies, thus improving the level of management and control on the business process. The Company will explore new revenue-generating models aiming at transforming the Company's traditional financial advantages into greater financial income on the basis of controllable risk. The Company will penetrate into the front line of enterprises and actively respond to issues including the pharmaceutical system reform and the "two-invoice" policy, serving for the business decision-making of enterprises from the perspective of financial management. The Company will strengthen the building of financial teams paying attention to hierarchical management to cultivate financial talents. The Company will grow acuteness in audit with a risk-oriented approach and increase audit efforts in respect of major areas and key risk points for a continuous reduction in the Company's business risk.

In 2017, the Company will look at the economic downside pressure and consolidate the relationship between the Company and the economy in facing the difficulties and adapting to the times, establishing a philosophy in terms of strategy, plant and market as well as advocating for and practicing the artisan spirit of pursuing excellence with a sense of urgency and responsibility to race against time, deepening reforms, optimizing structures and converting energies, kicking into full gear to achieve the annual goals and striving to achieve better performance and returns for shareholders.

Wang Zhi Qiang
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 2016 ("**FY2016**") was approximately RMB6,179 million, a decrease of approximately RMB902 million, or 13%, from RMB7,081 million for the financial year ended 31 December 2015 ("**FY2015**").

(b) Gross profit margin:

The Group's gross profit in FY2016 decreased by approximately 5% from approximately RMB2,044 million in FY2015 to approximately RMB1,944 million. Gross profit margin increased from 29% in FY2015 to 31% in FY2016.

(c) Other operating income:

Other gains in FY2016 were approximately RMB107 million, a decrease of approximately RMB30 million over the previous year, which was RMB137 million. The higher in other gains of FY2015 was mainly due to gain on transfer of equity interest of Tianjin Hualida Biotech Co., Ltd and Baxter Healthcare (Tianjin) Co., Ltd. and compensation for relocation in FY2015.

(d) Major expenses:

(i) Marketing and Distribution costs in FY2016 was approximately RMB1,270 million, an increase of approximately RMB4 million, or 0.3% over the previous year.

(ii) Research and Development costs in FY2016 decreased by approximately RMB6 million, to approximately RMB66 million. The decrease in research and development costs was mainly due to decrease in expenses for medical research.

(iii) Administrative expenses in FY2016 increased by approximately RMB18 million, from approximately RMB269 million in FY2015 to approximately RMB287 million. The increase in administrative expenses was contributed by higher staff salary and benefits and repair and maintenance costs.

(iv) Finance costs in FY2016 decreased by approximately RMB16 million or 46% from approximately RMB36 million to approximately RMB19 million. The decrease in financial costs was mainly due to the decrease in loan amounts and interest rate.

(v) Other losses in FY2016 increased by approximately RMB22 million, from approximately RMB44 million in FY2015 to approximately RMB67 million. The increase in other losses was mainly due to the increase in allowances for impairment for receivables and inventories.

(e) Shares of results of associated companies:

The Group's share of results of associated companies in FY2016 increased by RMB84 million, or 246%, from approximately RMB34 million in FY2015 to approximately RMB118 million. This was mainly because of the increase in profits of Sino-American Tianjin Smithkline & French Lab., Ltd. in FY2016 compared to FY2015.

FINANCIAL REVIEW

(f) Total comprehensive income:

The Group's total comprehensive income (net of tax) in FY2016 was approximately RMB396 million, a decrease of 14% over the previous year. The total comprehensive income attributable to equity holders of parent (net of tax) in FY2016 was approximately RMB410 million, a decrease of approximately RMB44 million, or 10%, from FY2015.

(g) Major changes in statement of financial positions:

As at 31 December 2016, the Group's cash and cash equivalents amounted to approximately RMB1,153 million, which is an increase of approximately RMB45 million, or 4% over previous year. As at 31 December 2016, the Group's short-term borrowings were approximately RMB575 million, which is an increase of approximately RMB40 million, or 7% over previous year.

Trade and other receivables amounted to approximately RMB1,466 million at 31 December 2016, which is a decrease of approximately RMB73 million, or 5% over previous year. Bills receivable increased by approximately RMB36 million. Trade receivables decreased by approximately RMB105 million. Inventories decreased by 7% to approximately RMB909 million.

Other assets, current decreased by approximately 7% or RMB12 million to approximately RMB164 million as at 31 December 2016. This was mainly attributed to the decrease in the balance of "input taxes to be credited".

Investments in associates increased by 6% to approximately RMB561 million, which is mainly attributable to the increase in net impact of share of profits and dividends received.

Property, plant and equipment increased by approximately RMB61 million or 7% to RMB982 million.

(h) Changes in cash flow position:

In FY2016, the Group recorded net cash inflow from operating activities of approximately RMB390 million.

Cash inflow from investment activities was approximately RMB94 million in FY2016.

Cash outflow from financing activities was approximately RMB315 million in FY2016.

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 light of the challenging economic conditions in recent years and taking into account the competitive environment, the Group is striving to further strengthen its operations through the following measures:

(1) placing greater emphasis on innovation and the importance of scientific development;

(2) strengthening its marketing plans to enhance the Group's core competitiveness;

(3) focusing on research and development activities to enhance the Group's competitive edge on technology innovation;

(4) optimising resource allocation and promoting industrial structure upgrading; and

(5) strengthening the internal controls and management of the Group to reduce operational costs and enhance risk management.

The Board believes that with the above measures, the Company is using its best efforts to improve its operations.

WORK REPORT OF THE BOARD OF SUPERVISORS

Dear Supervisors:

In FY2016, 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 2016, the board of supervisors held a total of six meetings at which the 2015 annual report, 1Q2016 report, 2016 interim report, 3Q2016 report, *2015 Profit Distribution Plan of the Company, 2016 Half-Yearly Profit Distribution Plan, 2015 Internal Control Assessment Report of the Company, Motion on the Extension of Performance of Undertakings by Controlling Shareholder Tianjin Pharmaceuticals Group Co., Ltd., Motion on the Company's Write-off of Assets and Allocation of Provisions for Impairment of Assets in 2015, Motion on the Company's Continued Use of Some Idle Proceeds for Temporary Replenishment of the Company's Liquidity, Motion 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 FY2016 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 2016, 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 2015 profit distribution plan and cash dividend program was successfully implemented in July 2016, and the 2016 half-yearly profit distribution plan and cash dividend program was also successfully implemented in December 2016. 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 compliant 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 2016 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 FY2016, 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 2017 and give back to shareholders on better results.

Li Li Qun
Chairman of the Board of Supervisors

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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 2016 ("FY2016"), 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 governs the matters that require Board's approval. Amongst others, the Board meets to consider the following matters:

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

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

Access to Information

Directors are furnished with adequate and updated information concerning the Group by the management in a timely and orderly fashion, in order to keep them informed of the operations and performance of the Group and the decisions and actions of the executive management. In respect of budgets, sufficient disclosure and explanation will be provided to the Board if there are any material variance between the projection and the actual results. All Directors have unrestricted access to the Company's management and records. Board papers containing information on matters to be discussed are prepared for each meeting of the Board and are normally circulated a week in advance of each meeting. All the Independent Directors have access to all levels of senior executives in the Group, and are at liberty to speak to other employees to seek additional information if they so require.

The secretaries to the Board ("**Board Secretaries**") attends all Board meetings and are responsible to ensure that established procedures and all relevant statues and regulations which are applicable to the Company are complied with. All Directors have separate and independent access to the Board Secretaries, whose appointment and removal are subject to the Board's approval as a whole.

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

CORPORATE GOVERNANCE STATEMENT

Directors' Meetings held in 2016

During the year, the Board had held 11 meetings, and the Directors' attendance at these meetings are as follows:

Name of director	Number of Board Meetings held	Attendance
Wang Zhi Qiang	11	11
Zhang Jian Jin	11	0
Ma Gui Zhong	11	0
Wang Lei	11	11
Yan Min	7	7
Zhou Hong	11	11
Timothy Chen Teck Leng	11	11
Vincent Toe Teow Heng	11	11
Qiang Zhi Yuan	11	11

Training of Directors

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

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

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

CORPORATE GOVERNANCE STATEMENT

Board Composition and Balance

Presently, the Board comprises four Executive Directors, two Non-Executive Directors and three 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
Wang Zhi Qiang	28 December 2007	16 May 2016	Chairman		C		
Zhang Jian Jin	31 January 2007	18 December 2012	Non-Executive Director		M	M	
Ma Gui Zhong	18 December 2012	N.A.	Non-Executive Director		M		M
Wang Lei	15 May 2015	N.A.	Executive Director				
Yan Min	16 May 2016	N.A.	Executive Director				
Zhou Hong	18 December 2012	22 December 2015	Executive Director		M		
Timothy Chen Teck Leng	15 May 2014	N.A.	Lead Independent Director	C		M	
Vincent Toe Teow Heng	15 May 2013	16 May 2016	Independent Director	M		C	M
Qiang Zhi Yuan	15 May 2015	N.A.	Independent Director	M	M		C

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 AGM is set out in the notice of annual general meeting ("**AGM**") dated 30 March 2017.

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;
- 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.

CORPORATE GOVERNANCE STATEMENT

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.

At this juncture, the Board is of the view that it is neither cost-effective nor imperative for at least half of the Board members to be independent directors given that the Non-Executive Directors also serve as an effective check and there are no Directors or group of Directors that influence or dominate decision-making at the Board level.

Independent Members of the Board of Directors

The Board of Directors has three 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 six 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 nine 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 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 Non-Executive Directors to constructively challenge and help develop proposals on strategy.

In addition, the 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 Non-Executive Directors will also meet privately without the presence of management.

Chairman and Chief Executive Officer

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

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.

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.

CORPORATE GOVERNANCE STATEMENT

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 Mr. Wang Zhi Qiang, Deputy General Manager Mr. Zhang Jian, and Deputy General Manager Ms. Wang Lei. The General Manager's Executive Meeting is responsible for the day-to-day running of the Group as well as the exercise of control over the quality, quantity and timeliness of information flow between the Board and management.

5 out of 9 Directors are either Independent Directors or Non-Executive Directors. All major decisions made by the Executive Chairman are reported to and subject to review by the Board. His performance and appointment to the Board is reviewed by the Nominating Committee and his remuneration package is reviewed by the Remuneration Committee. The Board believes that the existing governance structure involving the delegation of certain functions and authority to several Board Committees, and the fact that these Committees comprised a majority of independent directors and 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 Group's Executive Chairman and Chief Executive Officer is the same person, 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 chaired by Mr. Wang Zhi Qiang and its other members are Mr. Zhang Jian Jin, Mr. Ma Gui Zhong 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 and attendance during the year were as follows:

Name of director/executive	Appointment	Number of meetings held	Attendance
Wang Zhi Qiang	Executive Chairman	1	1
Zhang Jian Jin	Non-Executive Director	1	1
Ma Gui Zhong	Non-Executive Director	1	1
Qiang Zhi Yuan	Independent Director	1	1

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 LLP 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;
- 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 FY2016. 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 audit services, and an aggregate of approximately RMB860,000 to the external auditors for their other non-audit services. The Audit Committee, having reviewed the range and value of non-audit services performed by the external auditors, RSM Chio Lim LLP and Ruihua Certified Public Accountants LLP, was satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors.

The Audit Committee had had three 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 four meetings with the internal auditors, without the presence of management, during FY2016.

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

CORPORATE GOVERNANCE STATEMENT

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

Name of director/executive	Appointment	Number of meetings held	Attendance
Timothy Chen Teck Leng	Independent Director	6	6
Vincent Toe Teow Heng	Independent Director	6	6
Qiang Zhi Yuan	Independent Director	6	6

Nominating Committee

This committee was established in 2002 and comprises two Independent Directors and one Non-Executive Director. The chairman of the Nominating Committee is Mr. Qiang Zhi Yuan, and the other members are Mr. Ma Gui Zhong 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.

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 151 of the Articles of Association of the Company, the tenure of an Independent Director shall be three (3) years which may be extended upon re-election, with a maximum term of no more than six (6) years. The Board, the Supervisory Board, or shareholders who, singly or jointly, hold more than 1% issued share of the listed company, may nominate candidates for appointment as independent directors, 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 FY2016, 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.

CORPORATE GOVERNANCE STATEMENT

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 FY2016, 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.

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

- determine on an annual basis whether a director is independent; and
- identify gaps in the mix of skills, experience and other qualities required for an effective Board, and where appropriate, nominate or recommend suitable candidates to fill the gaps. When this occurs, the members of the Nominating Committee, together with the Executive Chairman, would conduct interviews on prospective candidates. Subsequently, those that are shortlisted are formally considered by the Nominating Committee for appointment to the Board.

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

Name of director/executive	Appointment	Number of meetings held	Attendance
Qiang Zhi Yuan	Independent Director	2	2
Vincent Toe Teow Heng	Independent Director	2	2
Ma Gui Zhong	Non-Executive Director	0	0

Remuneration Committee

This committee was established in 2002 and comprises two Independent Directors and one Non-Executive Director. The Remuneration Committee is chaired by Mr. Vincent Toe Teow Heng, and the members are Mr. Zhang Jian Jin and Mr. Timothy Chen Teck Leng.

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

CORPORATE GOVERNANCE STATEMENT

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

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

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

Name of director/executive	Appointment	Number of meetings held	Attendance
Vincent Toe Teow Heng	Independent Director	1	1
Timothy Chen Teck Leng	Independent Director	1	1
Zhang Jian Jin	Non-Executive Director	0	0

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

	Salary %	Bonus %	Termination, Retirement and Post-employment benefits %	Other Benefits %	Total %
Below S$250,000					
Wang Zhi Qiang	100	–	–	–	100
Zhang Jian Jin	100	–	–	–	100
Ma Gui Zhong	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 and Non-Executive Director is not disclosed as the Company believes that disclosure may be prejudicial to its business interests given the highly competitive environment it is operating in.

The directors' fees paid to the Independent Directors of the Company for FY2016 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 FY2016 are set out below:

	Unit: RMB
Name of executive	***Total Remuneration**
Li Li Qun	RMB750,000
Xie Qing Feng	RMB820,000
Zhang Jian	RMB630,000

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 Li Qun	100	–	–	–	100
Xie Qing Feng	100	–	–	–	100
Zhang Jian	100	–	–	–	100

The aggregate total remuneration paid to or accrued to the 3 key executives amounted to RMB2,200,000.

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.

CORPORATE GOVERNANCE STATEMENT

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.

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 2016 have been properly maintained and the financial statements for FY2016 give a true and fair view of the Company's operations and finances and regarding the effectiveness of the Company's risk management and internal control systems.

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

The Company has put in place a whistle-blowing policy whereby the staff can have direct access to the Discipline Inspection Committee to raise concerns about possible improprieties, suspected corruption, bribery, embezzlement, or other matters within the Group. The Audit Committee reviews the whistle-blowing policy and ensures that suitable arrangements are in place for concerns raised to be independently investigated, and for the appropriate follow-up action to be taken.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Communication with Shareholders

The Company does not practise selective disclosure. In line with the continuous disclosure obligations prescribed in the SGX-ST Listing Rules, the Board's policy is that all shareholders should have equal and timely access to all major developments that can reasonably be expected to have a material impact on the Group. Further, in disclosing any information to shareholders, the Company makes reasonable endeavours to be as forthcoming as possible, and avoid boilerplate disclosures, where appropriate.

CORPORATE GOVERNANCE STATEMENT

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

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

Shareholders in Singapore are encouraged to attend the Company's video conference of the Annual General Meeting ("AGM") held in the PRC. The AGM is the principal forum for dialogue with shareholders. The notice of the AGM is dispatched to shareholders at least 45 days before the meeting, in accordance with the requirements of the Shanghai Securities Exchange. Additional information will be provided in explanatory notes or in a circular on items of special business. The Board welcomes questions from shareholders on performance and operations of the Group. 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 Committee. External auditors and/or advisers of the Company are also present at such meeting to assist the Directors to address shareholders' queries, if necessary.

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

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

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

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

Dividend Policy

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

CORPORATE GOVERNANCE STATEMENT

Pursuant to the issuance or amendment of *Guideline No. 3 – Issuance of Cash Dividends by Listed Companies promulgated by CSRC* (《上市公司监管指引第3号–上市公司现金分红》), *Guideline for the Issuance of Cash Dividends by Listed Companies* (《上市公司现金分红指引》) promulgated by the Shanghai Stock Exchange, and other relevant laws and regulations, Article 219 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

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

COMPLIANCE WITH EXISTING BEST PRACTICES GUIDE OF THE SINGAPORE EXCHANGE

The Board of Directors confirms that for the financial year ended 31 December 2016, 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 Singapore Exchange Securities Trading Limited ("**SGX-ST**"), Tianjin SASAC is not considered to be able to exercise "control" over the Company and is therefore, not a controlling shareholder of the Company. In this relation, Tianjin SASAC and its associates are also not considered interested persons of the Company and hence, the interested person transaction requirements under the SGX-ST Listing Rules do not apply to them.

STATEMENT BY DIRECTORS

The directors of the Company are pleased to present the accompanying financial statements of the Company and of the Group for the reporting year ended 31 December 2016.

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:

Wang Zhi Qiang
Zhang Jian Jin
Ma Gui Zhong
Yan Min (Appointed on 16 May 2016)
Wang Lei
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 except for Mr Wang Zhi Qiang who holds 1,280 ordinary A shares in the share capital of the Company at the beginning and at the end of the reporting year. The directors' interests as at 21 January 2017 were the same as those at the end of the reporting year.

4. Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of the reporting year nor at any time during the reporting year did there subsist arrangements to which the Company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

STATEMENT BY DIRECTORS

5. Options

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

At the end of the reporting year, there were no unissued shares under option.

6. Independent auditors

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

On behalf of the directors

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Wang Zhi Qiang	Wang Lei
Director	Director

29 March 2017

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 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 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated 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 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 financial positions of the Group and of the Company as at 31 December 2016 and of the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the reporting year ended on that date.

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 Group 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 period. 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) 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 and balances.

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.

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.

2) 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.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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:

- 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.

- 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.

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

- 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.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

- 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.

- 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 2017

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

Ruihua Certified Public Accountants LLP
Certified Public Accountants

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

29 March 2017

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 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	4	**6,178,822**	7,080,552
Cost of sales		**(4,235,160)**	(5,036,856)
Gross profit		**1,943,662**	2,043,696
Interest income	5	**5,512**	7,874
Dividend income		**1,347**	1,134
Other gains	6	**106,725**	136,532
Marketing and distribution costs		**(1,269,862)**	(1,265,974)
Research and development costs		**(66,319)**	(72,790)
Administrative expenses		**(286,940)**	(269,415)
Finance costs	7	**(19,373)**	(35,555)
Other losses	6	**(66,730)**	(44,478)
Share of profits from equity-accounted associates		**117,501**	33,937
Profit before income tax		**465,523**	534,961
Income tax expense	9	**(57,911)**	(79,303)
Profit, net of tax		**407,612**	455,658
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive (loss) income from equity-accounted associates, net of tax	24A	**(1,316)**	1,667
Fair value (loss) gain on remeasuring available-for-sale financial assets, net of tax	24C	**(10,757)**	3,331
Total other comprehensive income, net of tax		**(12,073)**	4,998
Total comprehensive income		**395,539**	460,656
Profit, net of tax attributable to:			
Owners of the parent		**422,423**	449,490
Non-controlling interests		**(14,811)**	6,168
		407,612	455,658
Total comprehensive income for the year attributable to:			
Owners of the parent		**410,350**	454,488
Non-controlling interests		**(14,811)**	6,168
		395,539	460,656
Earnings per share			
Earnings per share currency unit		**RMB**	RMB
Basic and diluted	10	**0.55**	0.60

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Notes	Group 31.12.2016 RMB'000	Group 31.12.2015 RMB'000	Company 31.12.2016 RMB'000	Company 31.12.2015 RMB'000 (Restated)	Company 01.01.2015 RMB'000 (Restated)
ASSETS						
Non-current assets						
Property, plant and equipment	12	**982,240**	921,476	**745,242**	721,936	732,802
Investment properties	13	**26,248**	27,311	**24,572**	25,556	24,878
Land use rights	14	**170,760**	178,929	**144,091**	148,580	153,064
Intangible assets	15	**7,869**	9,042	**5,410**	3,911	4,882
Investments in subsidiaries	16	**–**	–	**380,413**	300,146	314,366
Investments in associates	17	**561,031**	531,220	**561,031**	531,220	542,053
Other financial assets, non-current	18	**615,796**	304,501	**149,327**	86,983	83,065
Deferred tax assets	9D	**86,356**	82,410	**83,926**	78,606	83,920
Other assets, non-current	19	**18,762**	15,467	**18,071**	13,766	15,946
Total non-current assets		**2,469,062**	2,070,356	**2,112,083**	1,910,704	1,954,976
Current assets						
Inventories	20	**908,716**	974,155	**798,672**	742,780	645,638
Trade and other receivables	21	**1,465,777**	1,538,956	**1,445,450**	1,415,055	1,515,793
Other financial assets, current	18	**200,660**	201,494	**200,660**	201,494	–
Other assets, current	19	**163,609**	175,808	**155,032**	164,940	154,449
Cash and cash equivalents	22	**1,152,856**	1,108,107	**910,521**	884,523	408,586
Total current assets		**3,891,618**	3,998,520	**3,510,335**	3,408,792	2,724,466
Total assets		**6,360,680**	6,068,876	**5,622,418**	5,319,496	4,679,442
EQUITY AND LIABILITIES						
Equity attributable to owners of the parent						
Share capital	23	**768,873**	768,873	**768,873**	768,873	739,308
Share premium		**1,198,817**	1,198,817	**1,198,817**	1,198,817	414,042
Retained earnings		**1,735,171**	1,532,323	**1,601,496**	1,424,054	1,124,398
Other reserves	24	**436,769**	421,696	**514,112**	498,828	449,853
Equity attributable to owners of the parent		**4,139,630**	3,921,709	**4,083,298**	3,890,572	2,727,601
Non-controlling interests		**162,659**	183,466	**–**	–	–
Total equity		**4,302,289**	4,105,175	**4,083,298**	3,890,572	2,727,601
Non-current liabilities						
Deferred tax liabilities	9D	**7,293**	9,316	**7,293**	9,316	8,504
Trade payables, non-current	25	**47,271**	47,652	**47,197**	47,408	53,507
Other liabilities, non-current	26	**75,314**	66,412	**38,309**	41,165	39,680
Total non-current liabilities		**129,878**	123,380	**92,799**	97,889	101,691
Current liabilities						
Income tax payable		**17,374**	10,264	**14,402**	5,731	4,886
Trade and other payables	27	**1,269,110**	1,229,789	**1,090,441**	960,561	1,095,886
Other financial liabilities	28	**575,490**	535,650	**290,000**	320,000	720,000
Other liabilities, current	26	**66,539**	64,618	**51,478**	44,743	29,378
Total current liabilities		**1,928,513**	1,840,321	**1,446,321**	1,331,035	1,850,150
Total liabilities		**2,058,391**	1,963,701	**1,539,120**	1,428,924	1,951,841
Total equity and liabilities		**6,360,680**	6,068,876	**5,622,418**	5,319,496	4,679,442

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

STATEMENTS OF
CHANGES IN EQUITY
REPORTING YEAR ENDED 31 DECEMBER 2016

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 2016	**4,105,175**	**3,921,709**	**768,873**	**1,198,817**	**1,532,323**	**421,696**	**183,466**
Total comprehensive income for the year	**395,539**	**410,350**	–	–	**422,423**	**(12,073)**	**(14,811)**
Dividends paid (Note 11)	**(192,218)**	**(192,218)**	–	–	**(192,218)**	–	–
Appropriation of statutory common reserve (Note 24B)	–	–	–	–	**(27,357)**	**27,357**	–
Deemed disposal of subsidiaries (Note 16B)	**937**	**(211)**	–	–	–	**(211)**	**1,148**
Distribution to non-controlling interests	**(7,144)**	–	–	–	–	–	**(7,144)**
Closing balance at 31 December 2016	**4,302,289**	**4,139,630**	**768,873**	**1,198,817**	**1,735,171**	**436,769**	**162,659**
Previous year:							
Opening balance at 1 January 2015	2,946,637	2,763,777	739,308	414,042	1,239,347	371,080	182,860
Issue of shares (Note 23)	814,340	814,340	29,565	784,775	–	–	–
Total comprehensive income for the year	460,656	454,488	–	–	449,490	4,998	6,168
Dividends paid (Note 11)	(110,896)	(110,896)	–	–	(110,896)	–	–
Appropriation of statutory common reserve (Note 24B)	–	–	–	–	(45,618)	45,618	–
Increase in capital contributed by non-controlling interests	1,725	–	–	–	–	–	1,725
Distribution to non-controlling interests	(7,287)	–	–	–	–	–	(7,287)
Closing balance at 31 December 2015	4,105,175	3,921,709	768,873	1,198,817	1,532,323	421,696	183,466

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

STATEMENTS OF CHANGES IN EQUITY

REPORTING YEAR ENDED 31 DECEMBER 2016

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 2016	**3,787,631**	**768,873**	**1,198,817**	**1,323,934**	**496,007**
Adjustments to beginning balance (Note 37)	**102,941**	**–**	**–**	**100,120**	**2,821**
Restated balance at 1 January 2016	**3,890,572**	**768,873**	**1,198,817**	**1,424,054**	**498,828**
Total comprehensive income for the year	**384,944**	**–**	**–**	**397,017**	**(12,073)**
Dividends paid (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**
	Restated			**Restated**	**Restated**
Previous year:					
Opening balance at 1 January 2015	2,695,976	739,308	414,042	1,095,568	447,058
Adjustments to beginning balance (Note 37)	31,625	–	–	28,830	2,795
Restated balance at 1 January 2015	2,727,601	739,308	414,042	1,124,398	449,853
Issue of shares (Note 23)	814,340	29,565	784,775	–	–
Total comprehensive income for the year (Restated)	459,527	–	–	456,170	3,357
Dividends paid (Note 11)	(110,896)	–	–	(110,896)	–
Appropriation of statutory common reserve (Note 24B)	–	–	–	(45,618)	45,618
Closing balance at 31 December 2015	3,890,572	768,873	1,198,817	1,424,054	498,828

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

CONSOLIDATED STATEMENT OF CASH FLOWS

REPORTING YEAR ENDED 31 DECEMBER 2016

	2016 RMB'000	2015 RMB'000
Cash flows from operating activities		
Profit before income tax	**465,523**	534,961
Adjustments for:		
Interest income	**(5,512)**	(7,874)
Interest expense	**19,373**	35,555
Dividend income	**(1,347)**	(1,134)
Gain on maturity and disposal of financial assets	**(37,518)**	(21,084)
Share of profits from equity-accounted associates	**(117,501)**	(33,937)
Gain on disposals of interests in associates, net	**(3,120)**	(74,077)
Gain on deemed disposal of interest in subsidiaries, net	**(20,860)**	–
Fair value gains on derivative financial instruments	**(660)**	(1,494)
Depreciation of property, plant and equipment and investment property, and amortisation of land use rights, intangible assets and other assets	**74,545**	77,031
(Gain) losses on disposal of property, plant and equipment, intangible assets and other non-current assets	**(13,835)**	1,106
Impairment of receivables and inventories	**53,111**	32,847
Operating cash flows before changes in working capital	**412,199**	541,900
Inventories	**15,295**	(114,138)
Trade and other receivables	**(102,742)**	119,817
Other assets	**8,904**	16,290
Trade and other payables	**104,991**	(179,185)
Other liabilities	**10,823**	13,506
Net cash flows from operations	**449,470**	398,190
Income tax paid	**(59,359)**	(74,206)
Net cash flows from operating activities	**390,111**	323,984
Cash flows from investing activities		
Purchase of property, plant and equipment, investment property, land use rights and intangible assets	**(116,203)**	(92,641)
Proceeds from disposals of property, plant and equipment, intangible assets and other assets	**18,022**	112
Acquisition of financial assets	**(36,031,471)**	(23,969,255)
Proceeds from disposals of financial assets	**35,972,632**	23,784,639
Deemed disposal of subsidiaries (net of cash disposed) (Note 16B)	**(3,779)**	–
Proceeds from disposals of interests in associates	**3,120**	120,000
Interest income received	**45,073**	35,107
Dividends income received from associates and available-for-sale financial assets	**97,450**	1,648
Compensation income from immediate parent company	**9,199**	–
Cash restricted in use	**100,000**	(300,000)
Net cash flows from/(used in) investing activities	**94,043**	(420,390)

CONSOLIDATED STATEMENT OF CASH FLOWS

REPORTING YEAR ENDED 31 DECEMBER 2016

	2016 RMB'000	2015 RMB'000
Cash flows from financing activities		
Increase in capital contributed by non-controlling interests	–	1,725
Issue of new shares	–	814,340
Proceeds from new borrowings	**745,820**	807,050
Repayments of borrowings	**(765,200)**	(1,174,000)
Proceeds from other borrowings	**13,807,635**	36,810,400
Repayment of other borrowings	**(13,915,001)**	(36,834,764)
Dividends paid to equity owners	**(191,718)**	(110,395)
Distribution to non-controlling interests	**(7,144)**	(7,287)
Interest expense paid	**(13,797)**	(33,491)
Cash restricted in use	**24,272**	28,725
Net cash flows (used in)/from financing activities	**(315,133)**	302,303
Net increase in cash and cash equivalents	**169,021**	205,897
Cash and cash equivalents, beginning balance	**762,959**	557,062
Cash and cash equivalents, ending balance (Note 22A)	**931,980**	762,959

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

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 2016 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 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 investment holding, production and sale of traditional chinese medicine, western medicine and healthcare products.

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

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

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 2016.

These financial statements comprise statements of financial position of the Group and the Company as at 31 December 2016, 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 2016, and notes.

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

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

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

Fair value is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, an exit price). It is a market-based measurement, not an entity-specific measurement. When measuring fair value, management uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

1. GENERAL (CONT'D)

Measurement bases (Cont'd)

The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value. In making the fair value measurement, management determines the following: (a) the particular asset or liability being measured (these are identified and disclosed in the relevant notes below); (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation techniques to use when measuring fair value. The valuation techniques used maximise the use of relevant observable inputs and minimise unobservable inputs. These inputs are consistent with the inputs a market participant may use when pricing the asset or liability.

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

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

Application of new and amended standards

For the preparation of these financial statements, the Group has adopted all new or amended standards issued by the IASB that are mandatory for the first time for the reporting year beginning 1 January 2016 and applicable to the Group. These new or amended standards are as follows:

- Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. 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 IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments had no effect on the Group's consolidated financial statements. Refer to Note 37 for the effect on the Company's financial statements.

- Amendments to IFRS 11 titled Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014) – The amendments, applicable prospectively to annual periods beginning on or after 1 January 2016, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured). This amendment had no effect on the Group's consolidated financial statements.

New and amended standards in issue but not yet effective

The Group has not applied the following new or amended standards that have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2016. Those applicable to the Group for future reporting years are listed below.

- Amendments to IAS 7 titled Disclosure Initiative (issued in January 2016) – The amendments, applicable to annual periods beginning on or after 1 January 2017, require entities to provide information that enable users of financial statements to evaluate changes in liabilities arising from their financing activities. This is not expected to have a material effect on the Group's consolidated financial statements.

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

  - 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

1. GENERAL (CONT'D)

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

- 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 before a credit loss is recognised.

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

The Directors anticipate that IFRS 9 will be adopted in the financial statements of the Group and the Company when it becomes mandatory and that the application of the new standard might have a significant effect on amounts reported in respect of the financial assets and financial liabilities of the Group and the Company. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014) – The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. 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 financial statements of the Group and the Company when it becomes mandatory and that the application of the new standard might have a significant effect on amounts reported in respect of the revenue of the Group and the Company. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- 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 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 leases. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The Directors anticipate that the new standards and amendments 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 standards and amendments that will be effective in future periods.

1. GENERAL (CONT'D)

Segment reporting

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

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

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

2A. Significant accounting policies (Cont'd)

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.

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

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

Operating leases

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

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

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

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

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

2A. Significant accounting policies (Cont'd)

Borrowing costs

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

Income tax

The income 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.

Foreign currency transactions

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

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

2A. Significant accounting policies (Cont'd)

Property, plant and equipment

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. 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.

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.

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

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

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

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.

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

2A. Significant accounting policies (Cont'd)

Land use rights

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

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

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

2A. Significant accounting policies (Cont'd)

Associates

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

In the 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

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.

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

2A. Significant accounting policies (Cont'd)

Business combinations (Cont'd)

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

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

Non-controlling interests

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

Goodwill

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

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

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

2A. Significant accounting policies (Cont'd)

Goodwill (Cont'd)

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

Impairment of non-financial assets

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

Inventories

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

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. When the settlement date accounting is applied, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is recognised in net profit or loss for assets classified as trading.

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.

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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 IAS 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: All liabilities, which have not been classified as in the previous category fall into this residual category. These liabilities are carried at amortised cost using the effective interest method.

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.

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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)

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.

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.

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 RMB193 million (2015: RMB182 million) as 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 obligations. The carrying amount of the liabilities of the Group affected by the assumption is disclosed in Notes 25 and 27.

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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 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.

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

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

Significant related company transactions:

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

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Sale of goods to associates	**2,480**	408
Purchase of goods from associates	**(140,304)**	(87,083)
Compensation income from immediate parent company	**9,199**	–

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

3B. Related companies transactions (Cont'd)

	Group 2016 RMB'000	Group 2015 RMB'000
Associates:		
Balance at beginning of the year	**1,167**	999
Amounts paid out and settlement of liabilities on behalf of another party	**2,460**	960
Amounts paid in and settlement on behalf of the Group	**(1,379)**	(792)
Transferred from former subsidiaries	**13,888**	–
Balance at end of the year	**16,136**	1,167
Presented in the statement of financial position as follows:		
Other receivables (Note 21)	**16,186**	1,167
Other payables (Note 27)	**(50)**	–
	16,136	1,167

3C. Related parties other than related companies

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

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

Significant related party transactions:

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

	Group 2016 RMB'000	Group 2015 RMB'000
Sale of goods	**218,663**	291,455
Purchase of goods	**(394,675)**	(374,023)

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

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

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Related parties:		
Balance at beginning of the year	**663**	(1,535)
Amounts paid out and settlement of liabilities on behalf of another party	**420**	3,094
Amounts paid in and settlement on behalf of the Group	**(1,270)**	(896)
Balance at end of the year	**(187)**	663
Presented in the statements of financial position as follows:		
Other receivables (Note 21)	**125**	1,684
Other payables (Note 27)	**(312)**	(1,021)
	(187)	663

3D. Key management compensation

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Salaries and other short-term employee benefits	**6,826**	8,698

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

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Remuneration of directors of the Company	**3,245**	5,093

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

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.

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

3E. Assets held in trust by related parties

Title to properties:
As at the end of the reporting year, the legal titles of certain properties of the Group are held by related parties (see Notes 12, 13 and 14). These properties 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 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	
	2016	**2015**
	RMB'000	**RMB'000**
Sale of goods	**6,163,690**	7,058,450
Rental and service income	**9,833**	18,138
Others	**5,299**	3,964
	6,178,822	7,080,552

5. INTEREST INCOME

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Interest income	**5,512**	7,874

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6. OTHER GAINS AND (OTHER LOSSES)

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Allowance for impairment on other receivables	**(30,212)**	(19,648)
Allowance for impairment on trade receivables	**(10,884)**	(13,325)
Compensation from government for relocation	**–**	21,729
Compensation income	**10,555**	36
Employment termination benefits	**(11,865)**	(9,755)
Fair value gains on derivative financial instruments	**660**	1,494
Foreign currency translation losses, net	**(1,754)**	(644)
Gain on disposals of interests in associates, net	**3,120**	74,077
Gain on deemed disposals of interests in subsidiaries (Note 16B)	**20,860**	–
Gain on maturity and disposals of financial assets	**37,518**	21,084
Government grants and subsidies	**14,574**	14,790
Impairment losses on inventories	**(12,015)**	–
Inventories written down – reversal	**–**	126
Gain (loss) on disposal/written-off of property, plant and equipment, intangible assets and land use rights, net	**13,835**	(1,106)
Others	**5,603**	3,196
Net	**39,995**	92,054
Presented in profit or loss as:		
Other gains	**106,725**	136,532
Other losses	**(66,730)**	(44,478)
	39,995	92,054

7. FINANCE COSTS

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Interest expense	**16,628**	32,675
Imputed interest on accrued retirement and termination benefits	**2,745**	2,880
	19,373	35,555

8. EMPLOYEE BENEFITS EXPENSE

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Salaries and bonuses	**451,803**	423,401
Contributions to defined contribution plans and other welfare	**97,487**	97,161
Post-employment benefits	**74,201**	76,017
Termination benefits	**11,865**	9,755
Total employee benefits expense	**635,356**	606,334

9. INCOME TAX

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

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Current tax expense		
Current tax expense	**60,597**	71,477
Under adjustments in respect of prior years	**2,259**	1,889
Subtotal	**62,856**	73,366
Deferred tax (income)/expense		
Deferred tax (income)/expense	**(4,945)**	4,928
Under adjustments in respect of prior years	**–**	1,009
Subtotal	**(4,945)**	5,937
Total income tax expense	**57,911**	79,303

The income tax expense varied from the amount determined by applying the PRC statutory corporate income tax rate of 25% (2015: 25%) to profit before income tax as a result of the following differences:

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Profit before income tax	**465,523**	534,961
Less: Share of profits from equity-accounted associates	**(117,501)**	(33,937)
	348,022	501,024
Income tax expense at the above rate	**87,006**	125,256
Effect of concessionary tax rate at 15%	**(24,153)**	(51,443)
Not deductible items	**2,277**	2,607
Not taxable items	**(19,428)**	(6,962)
Unrecognised deferred tax assets	**14,133**	11,570
Other tax incentives	**(4,183)**	(4,622)
Under adjustments to tax in respect of prior periods	**2,259**	2,897
Total income tax expense	**57,911**	79,303

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% (2015: 15%) while most of its subsidiaries are subject to the statutory corporate income tax rate of 25% (2015: 25%).

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

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9. INCOME TAX (CONT'D)

9B. Deferred tax (income) expenses recognised in profit or loss

	Group	
	2016	2015
	RMB'000	RMB'000
Deferred income	**429**	(223)
Accruals and allowances	**(4,375)**	5,935
Deemed disposals of interests in subsidiaries	**(875)**	–
Fair value through profit or loss investments	**(124)**	225
Total deferred tax (income) expense recognised	**(4,945)**	5,937

9C. Tax income (expense) recognised in other comprehensive income

	Group	
	2016	2015
	RMB'000	RMB'000
Available-for-sale financial assets (Note 24C)	**1,899**	(587)

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

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
Deferred income	**2,996**	3,425	**2,996**	3,425
Accruals and allowances	**83,360**	78,985	**80,930**	75,181
	86,356	82,410	**83,926**	78,606
Deferred tax liabilities:				
Available-for-sale investments	**(7,193)**	(9,092)	**(7,193)**	(9,092)
Fair value through profit or loss investments	**(100)**	(224)	**(100)**	(224)
	(7,293)	(9,316)	**(7,293)**	(9,316)

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.

9. INCOME TAX (CONT'D)

9E. Unrecognised deferred tax assets

Group	2016 Gross Amount RMB'000	2016 Tax Effect RMB'000	2015 Gross Amount RMB'000	2015 Tax Effect RMB'000
Deferred income	**23,056**	**3,458**	21,298	3,195
Tax loss carryforwards	**58,168**	**8,725**	40,800	6,120
Accruals and allowances	**25,650**	**3,848**	48,124	7,219
	106,874	**16,031**	110,222	16,534

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

The unutilised tax losses are expiring in the following years:

	Unutilised tax losses 2016 RMB'000	Unutilised tax losses 2015 RMB'000	Unrecognised deferred tax assets 2016 RMB'000	Unrecognised deferred tax assets 2015 RMB'000
Expiring in 31 December 2016	–	741	–	111
Expiring in 31 December 2017	–	2,097	–	315
Expiring in 31 December 2018	**715**	1,854	**107**	278
Expiring in 31 December 2019	**5,336**	8,855	**800**	1,328
Expiring in 31 December 2020	**22,783**	27,253	**3,418**	4,088
Expiring in 31 December 2021	**29,334**	–	**4,400**	–
	58,168	40,800	**8,725**	6,120

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 RMB422,423,000 (2015: RMB449,490,000) by the weighted average number of shares in issue of 768,873,076 (2015: 754,090,898) during the reporting year.

Diluted earnings per share for the reporting years ended 31 December 2016 and 2015 are same as basic earnings per share because there were no potential dilutive shares existing during the respective reporting years.

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11. DIVIDENDS ON EQUITY SHARE

	Group and Company			
	Rate per share			
	2016	2015	2016	2015
	RMB	RMB	RMB'000	RMB'000
Dividend paid net of income tax	**0.25**	0.15	**192,218**	110,896

On 24 March 2017, the directors had proposed a final dividend of an aggregate amount of RMB92,265,000 (2015: RMB115,331,000) on the basis of RMB1.2 (2015: RMB1.5) 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.

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 2015	1,012,150	722,455	62,929	1,797,534
Reclassifications	18,320	9,776	(28,096)	–
Additions	1,179	23,994	92,199	117,372
Disposals/written-off	(2,314)	(16,054)	–	(18,368)
Transfer to investment properties (Note 13)	(2,650)	–	–	(2,650)
At 31 December 2015	1,026,685	740,171	127,032	1,893,888
Reclassifications	41,335	32,649	(73,984)	–
Additions	3,332	19,753	113,957	137,042
Disposals/written-off	(2,003)	(20,600)	–	(22,603)
Elimination on disposals of subsidiaries (Note 16B)	(19,880)	(8,029)	–	(27,909)
At 31 December 2016	**1,049,469**	**763,944**	**167,005**	**1,980,418**
Accumulated depreciation and impairment loss:				
At 1 January 2015	383,121	544,182	–	927,303
Depreciation for the year	29,980	34,105	–	64,085
Disposals/written-off	(2,049)	(15,910)	–	(17,959)
Transfer to investment properties (Note 13)	(1,017)	–	–	(1,017)
At 31 December 2015	410,035	562,377	–	972,412
Depreciation for the year	30,058	31,128	–	61,186
Disposals/written-off	(934)	(19,377)	–	(20,311)
Elimination on disposals of subsidiaries (Note 16B)	(8,449)	(6,660)	–	(15,109)
At 31 December 2016	**430,710**	**567,468**	**–**	**998,178**
Net book value:				
At 1 January 2015	629,029	178,273	62,929	870,231
At 31 December 2015	616,650	177,794	127,032	921,476
At 31 December 2016	**618,759**	**196,476**	**167,005**	**982,240**

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 2015	911,507	602,338	28,741	1,542,586
Reclassifications	9,500	9,643	(19,143)	–
Additions	1,130	15,379	24,092	40,601
Disposals/written-off	(2,023)	(13,338)	–	(15,361)
Transfer to investment properties (Note 13)	(2,650)	–	–	(2,650)
At 31 December 2015	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**
Accumulated depreciation and impairment loss:				
At 1 January 2015	333,965	475,819	–	809,784
Depreciation for the year	24,560	25,463	–	50,023
Disposals/written-off	(1,942)	(13,608)	–	(15,550)
Transfer to investment properties (Note 13)	(1,017)	–	–	(1,017)
At 31 December 2015	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**
Net book value:				
At 1 January 2015	577,542	126,519	28,741	732,802
At 31 December 2015	561,898	126,348	33,690	721,936
At 31 December 2016	**547,167**	**139,541**	**58,534**	**745,242**

Allocation of the depreciation expense:

	Group 2016 RMB'000	Group 2015 RMB'000	Company 2016 RMB'000	Company 2015 RMB'000
Cost of sales	**32,011**	33,269	**24,970**	26,304
Distribution expenses	**1,234**	1,623	**342**	628
Administrative expenses	**27,941**	29,193	**23,109**	23,091
Total	**61,186**	64,085	**48,421**	50,023

(a) Titles to certain buildings of the Group with net book value of approximately RMB50 million (2015: RMB53 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".

(b) In 2015, certain property, plant and equipment of the Group with total net book value of RMB12 million were pledged as securities for bank facilities (Note 28).

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13. INVESTMENT PROPERTIES

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cost:				
At beginning of the year	**39,518**	36,868	**36,690**	34,040
Transfer from property, plant and equipment (Note 12)	**–**	2,650	**–**	2,650
At end of the year	**39,518**	39,518	**36,690**	36,690
Accumulated depreciation:				
At beginning of the year	**12,207**	10,158	**11,134**	9,162
Depreciation for the year	**1,063**	1,032	**984**	955
Transfer from property, plant and equipment (Note 12)	**–**	1,017	**–**	1,017
At end of the year	**13,270**	12,207	**12,118**	11,134
Net book value:				
At beginning of the year	**27,311**	26,710	**25,556**	24,878
At end of the year	**26,248**	27,311	**24,572**	25,556
Fair value:				
Fair value at end of the year	**247,500**	207,593	**235,803**	196,976
Rental and service income	**9,651**	12,632	**7,701**	7,898
Direct operating expenses	**1,063**	1,032	**984**	954

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 33 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 same publicly available website but different type of properties as they believe that such information is more reflective of the market prices of properties held by the Group and the Company. The fair value is regarded as Level 2 for fair value measurement as the valuation includes inputs for the asset that are based on comparison with market evidence of recent transaction prices for similar properties. The observable inputs and range (weighted average) is RMB7,400 to RMB32,300 (2015: RMB7,100 to RMB26,300) per square metre.

(d) Titles to certain properties of the Group with net book value of approximately RMB8 million (2015: RMB8 million) as at the end of the reporting year were held in the name of certain related parties. See Note 3E "Assets held in trust by related parties".

14. LAND USE RIGHTS

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At cost:				
At beginning of the year	**248,799**	248,799	**211,217**	211,217
Elimination on disposal of subsidiaries (Note 16B)	**(4,642)**	–	**–**	–
At end of the year	**244,157**	248,799	**211,217**	211,217
Accumulated amortisation:				
At beginning of the year	**69,870**	65,203	**62,637**	58,153
Amortisation for the year	**4,620**	4,667	**4,489**	4,484
Elimination on disposal of subsidiaries (Note 16B)	**(1,093)**	–	**–**	–
At the end of the year	**73,397**	69,870	**67,126**	62,637
Net book value:				
At beginning of the year	**178,929**	183,596	**148,580**	153,064
At end of the year	**170,760**	178,929	**144,091**	148,580

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 with net book value of RMB23 million (2015: RMB24 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".

(c) In 2015, certain land use rights of the Group with total net book value of RMB4 million were pledged as securities for bank facilities (Note 28).

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15. INTANGIBLE ASSETS

Group	Production Technology RMB'000	Patents RMB'000	Trademarks RMB'000	Software RMB'000	Development Cost RMB'000	Total RMB'000
At cost:						
At 1 January 2015	9,137	1,278	1,760	9,034	2,069	23,278
Additions	–	–	–	991	305	1,296
Disposal	–	–	–	(12)	–	(12)
At 31 December 2015	9,137	1,278	1,760	10,013	2,374	24,562
Additions	–	–	–	807	75	882
Disposal	–	–	–	(47)	–	(47)
Reclassification	680	500	–	–	(1,180)	–
Elimination on disposal of subsidiaries (Note 16B)	–	–	–	(887)	–	(887)
At 31 December 2016	**9,817**	**1,778**	**1,760**	**9,886**	**1,269**	**24,510**
Accumulated amortisation:						
At 1 January 2015	5,514	438	1,760	6,078	–	13,790
Amortisation for the year	654	120	–	968	–	1,742
Disposal	–	–	–	(12)	–	(12)
At 31 December 2015	6,168	558	1,760	7,034	–	15,520
Amortisation for the year	673	133	–	813	–	1,619
Disposal	–	–	–	(47)	–	(47)
Elimination on disposal of subsidiaries (Note 16B)	–	–	–	(451)	–	(451)
At 31 December 2016	**6,841**	**691**	**1,760**	**7,349**	**–**	**16,641**
Net book value:						
At 1 January 2015	3,623	840	–	2,956	2,069	9,488
At 31 December 2015	2,969	720	–	2,979	2,374	9,042
At 31 December 2016	**2,976**	**1,087**	**–**	**2,537**	**1,269**	**7,869**

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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 2015	5,997	1,278	1,760	7,341	493	16,869
Additions	–	–	–	518	–	518
At 31 December 2015	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**
Accumulated amortisation:						
At 1 January 2015	4,607	439	1,760	5,181	–	11,987
Amortisation for the year	554	120	–	815	–	1,489
At 31 December 2015	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**
Net book value:						
At 1 January 2015	1,390	839	–	2,160	493	4,882
At 31 December 2015	836	719	–	1,863	493	3,911
At 31 December 2016	**2,365**	**1,086**	**–**	**1,959**	**–**	**5,410**

The amortisation expense is charged to administrative expenses.

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16. INVESTMENTS IN SUBSIDIARIES

	Company	
	2016	**2015**
	RMB'000	**RMB'000**
Equity interest, at cost	**387,546**	314,366
Less: Allowance for impairment	**(7,133)**	(14,220)
Net carrying amount	**380,413**	300,146
Movements during the year:		
At beginning of the year	**300,146**	314,366
Additions	**106,000**	–
Transfer to investments in associates, at cost	**(18,600)**	–
Less: Allowance for impairment	**(7,133)**	(14,220)
At end of the year	**380,413**	300,146

Movements in allowance for impairment loss is as follows:

At beginning of the year	**(14,220)**	–
Impairment loss charged to profit or loss	**(7,133)**	(14,220)
Impairment allowance used	**14,220**	–
At end of the year	**(7,133)**	(14,220)

The subsidiary, Tianjin Long Shun Rong Development Pharm 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. An impairment loss of RMB7,133,000 was recognised for the year.

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:

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

16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

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	
		2016	2015	2016	2015
		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**	100,000	**100**	100
Tianjin Hebei Daren Hospital	Hospital	**9,500**	3,500	**100**	100
Held by the subsidiaries					
Tianjin Long Shun Rong Health Products Co., Ltd.	Sale of pharmaceutical and biological products	**–**	–	**100**	100

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

Name of subsidiaries	Principal activities	Cost in books of Company 2016 RMB'000	Cost in books of Company 2015 RMB'000	Effective equity held by Group 2016 %	Effective equity held by Group 2015 %
Held by the Company					
Tianjin Da Ren Tang (Bo Zhou) Chinese Medicine Co., Ltd	Manufacture and sale of Chinese medicine	**15,300**	15,300	**51**	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
Chengdu Zhong Xin Pharmaceutical Co., Ltd.[a]	Sale of Chinese pharmaceutical products and biological products	–	14,220	–	51
Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd.[b]	Wholesale and retail sale of medicine and biochemical pharmaceutical products	–	15,300	–	51
Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd.[a] [c]	Wholesale and retail sale of medicine	–	3,000	–	30
Zigong Zhong Xin Pharmaceutical Chain Co., Ltd.[a] [c]	Wholesale and retail sale of medicine	–	300	–	30
		387,546	314,366		

16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

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

Name of subsidiaries	Principal activities	Effective equity held by Group	
		2016	2015
		%	%
Held by the subsidiary			
Chengdu Zhong Xin Chain Store Co., Ltd.[(a)]	Wholesale and retail sale of medicine and biochemical pharmaceutical products	–	90
Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd.[(a)]	Wholesale and retail sale of medicine	–	50.4
Zigong Zhong Xin Pharmaceutical Chain Co., Ltd.[(a)]	Wholesale and retail sale of medicine	–	50.4

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

(a) Due to a change in composition of the board of directors in the investee companies during the current reporting year, 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 accounted for as associates in the current reporting year. See Notes 16B and 17.

(b) Due to amendments of the Articles of Association of Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd during the current reporting year the Company lost its power to govern the financial and operating policies of this investee company. As the Company retains significant influence this investee company, it has been accounted for as an associate in the current reporting year. See Notes 16B and 17.

(c) Direct interest held by the Company was 30% while indirect interest held through Chengdu Zhong Xin Pharmaceutical Co., Ltd was 20.2%.

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16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16A. Material subsidiaries

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	
	2016	**2015**
	RMB'000	**RMB'000**
Tianjin Da Ren Tang Jingwanhong Pharmaceutical Co., Ltd.		
Profit for the year allocated to NCI of the subsidiary	**10,189**	16,712
Accumulated NCI of the subsidiary at the end of the reporting year	**85,397**	80,008
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**	2,880
Current assets	**164,641**	150,571
Non-current assets	**58,638**	61,997
Current liabilities	**(35,401)**	(36,851)
Non-current liabilities	**(9,966)**	(9,034)
Revenue	**312,215**	316,445
Profit for the reporting year	**21,227**	34,818
Total comprehensive income	**21,227**	34,818
Operating cash flows, increase	**25,953**	33,130
Net cash flows, increase	**10,285**	14,031
Tianjin Shin Poong Pharmaceutical Co., Ltd.		
Loss for the year allocated to NCI of the subsidiary	**(8,712)**	(2,291)
Accumulated NCI of the subsidiary at the end of the reporting year	**29,191**	37,903
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	**–**	4,098
Current assets	**30,003**	54,088
Non-current assets	**66,137**	61,666
Current liabilities	**(31,058)**	(31,526)
Revenue	**38,157**	71,913
Loss for the reporting year	**(19,147)**	(5,092)
Total comprehensive loss	**(19,147)**	(5,092)
Operating cash flows, increase	**7,198**	25,201
Net cash flows, increase (decrease)	**2,300**	(1,034)

16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16B. Loss of control over subsidiaries

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:

	A RMB'000	B RMB'000	C RMB'000	D RMB'000	Total RMB'000
Group					
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 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 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)

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17. INVESTMENTS IN ASSOCIATES

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Equity interests, at cost	**435,879**	431,701
Less: Allowance for impairment	**–**	(3,422)
Share of other-equity items of associates	**(16,038)**	(16,851)
Share of post-acquisition profits, net of dividends received	**141,190**	119,792
Net carrying value	**561,031**	531,220

Movements in allowance for impairment loss is as follows:

At beginning of the year	**3,422**	3,422
Disposals	**(3,422)**	–
At end of the year	**–**	3,422

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Movements in carrying value:		
Balance at beginning of the year	**531,220**	542,053
Disposal	**(3,422)**	(45,923)
Written back of impairment	**3,422**	–
Share of the profit for the year	**117,501**	33,937
Dividends	**(96,103)**	(514)
Transfer from investments in subsidiaries, at fair value (Note 16B)	**9,728**	–
Other equity movements	**(1,315)**	1,667
Balance at end of the year	**561,031**	531,220

		Company	
	31.12.2016	**31.12.2015**	**01.01.2015**
	RMB'000	**RMB'000**	**RMB'000**
		(Restated)	**(Restated)**
Equity interests, at cost	**435,879**	431,101	513,253
Less: Allowance for impairment	**–**	(2,822)	(2,822)
Share of other-equity items of associates	**(16,038)**	(16,851)	(18,518)
Share of post-acquisition profits, net of dividends received	**141,190**	119,792	50,140
Net carrying value	**561,031**	531,220	542,053

Movements in allowance for impairment loss is as follows:

At beginning of the year	**2,822**	2,822	2,822
Disposals	**(2,822)**	–	–
At end of the year	**–**	2,822	2,822

17. INVESTMENTS IN ASSOCIATES (CONT'D)

	Company		
	31.12.2016 RMB'000	**31.12.2015 RMB'000 (Restated)**	**01.01.2015 RMB'000 (Restated)**
Movements in carrying value:			
Balance at beginning of the year	**531,220**	542,053	524,766
Additions	**–**	–	900
Disposal	**(2,822)**	(45,923)	–
Written back of impairment	**2,822**	–	–
Share of the profit for the year	**117,501**	33,937	66,634
Dividends	**(96,103)**	(514)	(52,160)
Transfer from investment in subsidiaries, at fair value (Note 16B)	**9,728**	–	–
Other equity movements	**(1,315)**	1,667	1,913
Balance at end of the year	**561,031**	531,220	542,053

On 1 January 2016, the Company adopted Amendments to IAS 27 titled Equity Method in Separate Financial Statements which is effective from the reporting year beginning on or after 1 January 2016. See Note 37.

The associates held by the Group are listed below:

Name of associates	**Principal activities**	**Effective equity held by the Group 2016 %**	**2015 %**
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 (Formerly known as Tianjin Hualida Biological Engineering Co., Ltd.)[a]	Manufacture and sale of western biochemical products and genes-related biological products	**20**	20
NewScen Coast Bio-Pharmaceutical Co, Ltd. (Formerly known as Tianjin Zhong Xin Keju Biological Pharmaceutical Co., Ltd.)[a]	Manufacture and sale of biological medicine	**35**	35
Tianjin Bio-Chip Co., Ltd.[d]	Development and sale of biological products	**26.4**	26.4

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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 2016 %	2015 %
Held by the Company			
Tianjin Pharmaceutical Group Technology Development Co., Ltd.[c]	Research and development of new chinese and western medical products and technology	**–**	33
Dujiangyan Zhong Xin Chinese Herbs Cultivation Co., Ltd[h]	Cultivation and processing of Chinese Herbs	**30**	30
Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd.[f]	Wholesale and retail sale of medicine and biochemical pharmaceutical products	**51**	–
Chengdu Zhong Xin Pharmaceutical Co., Ltd.[e]	Sale of Chinese pharmaceutical products and biological products	**51**	–
Held by the associates			
Zigong Zhong Xin Pharmaceutical Chain Co., Ltd.[e]	Wholesale and retail sale of medicine	**51**	–
Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd.[f]	Wholesale and retail sale of medicine	**50.4**	–
Zigong Zhong Xin Pharmaceutical Chain Co., Ltd.[g]	Wholesale and retail sale of medicine	**50.4**	–
Chengdu Zhong Xin Consulting Co., Ltd.[e]	Medical and health, and management consulting	**–**	38

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

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

(b) Audited by PricewaterhouseCoopers Zhong Tian LLP.

(c) The associate has been disposed to immediate parent company at a consideration of RMB3,120,000 during the reporting year.

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

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

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

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

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

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

17. INVESTMENTS IN ASSOCIATES (CONT'D)

17A. Material associates

There are associates that are considered material to the Group. The summarised financial information of each of the material associate and the amounts (and not the Group'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	
	2016	**2015**
	RMB'000	**RMB'000**
THP:		
Current assets	**135,634**	171,699
Non-current assets	**263,188**	267,740
Current liabilities	**(73,513)**	(58,595)
Non-current liabilities	**–**	(45,090)
Net assets of the associate	**325,309**	335,754
Proportion of the Group's interest in the associate	**40%**	40%
	130,124	134,302
Goodwill	**92,336**	92,336
Fair value adjustments pertaining to purchase price allocation	**20,627**	25,886
Carrying amount of the Group's interest in the associate	**243,087**	252,524
Dividends received from the associate	**20,000**	–
Revenue	**260,331**	266,468
Profit for the reporting year	**26,408**	38,977
Total comprehensive income	**26,408**	38,977
TSKF:		
Current assets	**1,357,709**	1,072,569
Non-current assets	**514,088**	522,829
Current liabilities	**(1,101,882)**	(907,289)
Net assets of the associate	**769,915**	688,109
Proportion of the Group's interest in the associate	**25%**	25%
Carrying amount of the Group's interest in the associate	**192,479**	172,027
Dividends received from the associate	**76,103**	–
Revenue	**2,114,805**	1,769,110
Profit for the reporting year	**384,438**	71,994
Total comprehensive income	**384,438**	71,994

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17. INVESTMENTS IN ASSOCIATES (CONT'D)

17B. Aggregate for all non-material associates

There are associates that are considered not material to the Group. The summarised financial information of all the non-material associates and the aggregate amounts (and not the Group'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	
	2016	**2015**
	RMB'000	**RMB'000**
Loss for the reporting year	**(4,682)**	(15,819)
Other comprehensive (loss) income	**(1,316)**	1,667
Total comprehensive loss	**(5,998)**	(14,152)
Net assets of the associates	**415,182**	391,419

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

18. OTHER FINANCIAL ASSETS

	Group		Company	
	2016	**2015**	**2016**	**2015**
	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)	**54,327**	66,983	**54,327**	66,983
Investments as available-for-sale at cost less allowances for impairment:				
Unquoted investments (Note 18B)	**200,000**	200,000	**200,000**	200,000
Unquoted equity (Note 18B)	**95,000**	20,000	**95,000**	20,000
	295,000	220,000	**295,000**	220,000
Investments at fair value through profit or loss:				
Derivative financial instruments (Note 18C) (Level 1)	**660**	1,494	**660**	1,494
Held-to-maturity investments at amortised cost:				
Unquoted bonds in corporations and country (Note 18D) (Level 2)	**466,469**	217,518	**–**	–
	816,456	505,995	**349,987**	288,477
Presented in the statements of financial position as:				
Other financial assets, non-current	**615,796**	304,501	**149,327**	86,983
Other financial assets, current	**200,660**	201,494	**200,660**	201,494
	816,456	505,995	**349,987**	288,477

18. OTHER FINANCIAL ASSETS (CONT'D)

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

	Group and Company	
	2016	2015
	RMB'000	RMB'000
Quoted equity shares	**54,327**	66,983
Movements during the year:		
Fair value at beginning of the year	**66,983**	63,065
Fair value (loss) gain on re-measuring available-for-sale financial assets (Note 24C)	**(12,656)**	3,918
Fair value at end of the year	**54,327**	66,983

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

		Group and Company	
	Level	2016	2015
		RMB'000	RMB'000
Property development industry	1	**6,014**	5,092
Energy industry	1	**14,642**	24,161
Transportation and shipping	1	**17,241**	19,336
Pharmaceutical	1	**2,613**	2,972
Financial service industry	1	**13,817**	15,422
Total		**54,327**	66,983

Fair value 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 investment with fair value of approximately RMB30 million (2015: RMB42 million) as at the end of the reporting year. 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	
	2016	2015
	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	**5,433**	6,698

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

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

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

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18. OTHER FINANCIAL ASSETS (CONT'D)

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

	Group and Company	
	2016	2015
	RMB'000	RMB'000
Unquoted investments	**200,000**	200,000
Unquoted equity shares	**95,000**	20,000
	295,000	220,000

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

	Group and Company	
	2016	2015
	RMB'000	RMB'000
Balance at beginning and end of the year	**8,700**	8,700

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

During the year, the company invested RMB75 million for a 15% equity interest in Tianjin Pharmaceutical Group Finance Co., Ltd. which is a subsidiary of Tianjin Pharmaceutical Group Co., Ltd, the Company's immediate parent company.

18C. Derivative financial instruments

	Group and Company	
	2016	2015
	RMB'000	RMB'000
Assets – derivative with net positive fair values:		
Embedded derivatives (Level 1)	**660**	1,494

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	
	2016	**2015**
	RMB'000	**RMB'000**
Unquoted bonds in corporations and country	**466,469**	217,518
Movements during the year – at amortised cost:		
Amortised cost at beginning of the year	**217,518**	236,434
Additions	**542,194**	7,407
Gain on disposal through profit or loss	**2,037**	902
Accretion in amortised cost, net	**(4,987)**	(937)
Disposals	**(290,293)**	(26,288)
Amortised cost at end of the year	**466,469**	217,518
Real estate and properties development industry and government bonds:		
Unquoted bonds in corporations with variable interest rates from 6.4% to 6.9% and maturing in reporting year 2018 (effective interest rates from 6.9% to 7.5%)	**11,203**	15,604
Unquoted bonds in corporations with variable interest rates from 7.2% to 7.7% and maturing in reporting year 2019 (effective interest rates from 6.4% to 7.7%)	**51,490**	126,069
Unquoted bonds in corporations and government bonds with variable interest rates from 3.1% to 8.3% and maturing in reporting year 2020 (effective interest rates from 6.6% to 6.8%)	**87,073**	16,040
Unquoted bonds in corporations with variable interest rates from 7.2% and maturing in reporting year 2021 (effective interest rates from 8.0% to 8.4%)	**23,446**	59,805
Unquoted bonds in corporations with interest rates from 5.1% to 7.0% and maturing in reporting year 2022	**138,617**	–
Unquoted bonds in corporations with interest rates of 3.7% and maturing in reporting year 2025	**52,803**	–
Unquoted government bonds with interest rates of 2.9% and maturing in reporting year 2026	**51,263**	–
Unquoted government bonds with interest rates of 3.3% and maturing in reporting year 2046	**50,574**	–
Total	**466,469**	217,518

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.

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18. OTHER FINANCIAL ASSETS (CONT'D)

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

Sensitivity analysis:

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
A hypothetical 10% increase in the transacted prices of unquoted bonds would have an effect on pre-tax profit of	**45,339**	21,005

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

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

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

Unquoted bonds in corporations of the Group amounting to RMB217 million (2015:RMB236 million) have been pledged as security for other loans (Note 28).

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

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Within 2 to 5 years	**173,212**	157,713
After 5 years	**293,257**	59,805
	466,469	217,518

18. OTHER FINANCIAL ASSETS (CONT'D)

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

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

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Unquoted bonds in corporations with variable interest rates from 6.4% to 6.9% and maturing in reporting year 2018 (effective interest rates from 6.9% to 7.5%)	**13,030**	15,742
Unquoted bonds in corporations with variable interest rates from 7.2% to 7.7% and maturing in reporting year 2019 (effective interest rates from 6.4% to 7.7%)	**52,435**	120,572
Unquoted bonds in corporations and government bonds with variable interest rates from 3.1% to 8.3% and maturing in reporting year 2020 (effective interest rates from 6.6% to 6.8%)	**82,104**	12,795
Unquoted bonds in corporations with variable interest rates from 7.2% and maturing in reporting year 2021 (effective interest rates from 8.0% to 8.4%)	**22,238**	60,896
Unquoted bonds in corporations with variable interest rates from 5.1% to 7.0% and maturing in reporting year 2022	**138,092**	–
Unquoted bonds in corporations with variable interest rates of 3.7% and maturing in reporting year 2025	**48,280**	–
Unquoted bonds in corporations with variable interest rates of 2.9% and maturing in reporting year 2026	**50,000**	–
Unquoted bonds in corporations with variable interest rates of 3.3% and maturing in reporting year 2046	**47,215**	–
Total	**453,394**	210,005

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

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

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

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19. OTHER ASSETS

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	**182,371**	191,275	**173,103**	178,706
Presented in the statements of financial position as:				
Other assets, non-current	**18,762**	15,467	**18,071**	13,766
Other assets, current	**163,609**	175,808	**155,032**	164,940
	182,371	191,275	**173,103**	178,706

20. INVENTORIES

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	**357,752**	390,319	**328,910**	342,902
Work-in-progress	**104,630**	104,358	**102,365**	92,681
Finished goods	**446,334**	479,478	**367,397**	307,197
	908,716	974,155	**798,672**	742,780
Inventories are stated after allowance as follows:				
Balance at beginning of the year	**13,877**	16,841	**11,372**	12,703
Charge to profit or loss included under other losses (Note 6)	**12,015**	1,806	**11,263**	1,353
Used	**(5,757)**	(4,770)	**(4,374)**	(2,684)
Balance at end of the year	**20,135**	13,877	**18,261**	11,372
Changes in inventories of finished goods and work-in-progress (increase)	**32,872**	(17,326)	**(69,884)**	(16,488)
Raw materials, consumables and goods for resale recognised as expenses	**3,404,141**	4,620,305	**3,331,518**	3,843,490

There are no inventories pledged as security for liabilities.

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables:				
Bills receivable	**260,879**	224,412	**204,612**	201,284
Outside parties	**1,295,864**	1,418,370	**1,080,942**	1,162,010
Less: Allowance for impairment	**(150,430)**	(167,105)	**(148,638)**	(152,443)
Subsidiaries (Note 3)	**–**	–	**172,856**	119,845
Less: Allowance for impairment	**–**	–	**(15)**	(411)
Associate (Note 3)	**6,543**	243	**6,385**	243
Less: Allowance for impairment	**(2,461)**	–	**(2,461)**	–
Related parties (Note 3)	**32,827**	35,048	**29,955**	26,720
Less: Allowance for impairment	**(8,728)**	(7,521)	**(8,812)**	(7,142)
Subtotal	**1,434,494**	1,503,447	**1,334,824**	1,350,106
Other receivables:				
Outside parties	**51,116**	81,966	**28,012**	25,650
Less: Allowance for impairment	**(21,757)**	(49,003)	**(15,675)**	(15,936)
Subsidiaries (Note 3)	**–**	–	**96,374**	53,851
Associate (Note 3)	**16,186**	1,167	**15,557**	1,167
Less: Allowance for impairment	**(14,272)**	–	**(13,957)**	–
Related parties (Note 3)	**125**	1,684	**744**	535
Less: Allowance for impairment	**(115)**	(305)	**(429)**	(318)
Subtotal	**31,283**	35,509	**110,626**	64,949
Total trade and other receivables	**1,465,777**	1,538,956	**1,445,450**	1,415,055
Movements in above allowance for trade receivables – outside parties:				
Balance at beginning of the year	**167,105**	153,784	**152,443**	148,286
Charge for trade receivables to profit or loss included in other losses	**7,216**	13,321	**–**	4,157
Used	**(3,609)**	–	**(3,805)**	–
Deemed disposals of interests in subsidiaries	**(20,282)**	–	**–**	–
Balance at end of the year	**150,430**	167,105	**148,638**	152,443
Movements in above allowance for trade receivables – subsidiaries:				
Balance at beginning of the year			**411**	411
Used			**(396)**	–
Balance at end of the year			**15**	411

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21. TRADE AND OTHER RECEIVABLES (CONT'D)

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Movements in above allowance for trade receivables – associates:				
Balance at beginning of the year	**–**	–	**–**	–
Charge for trade receivables to profit or loss included in other losses	**2,461**	–	**2,461**	–
Balance at end of the year	**2,461**	–	**2,461**	–
Movements in above allowance for trade receivables – related parties:				
Balance at beginning of the year	**7,521**	7,517	**7,142**	7,142
Charge for trade receivables to profit or loss included in other losses	**1,207**	4	**1,670**	–
Balance at end of the year	**8,728**	7,521	**8,812**	7,142
Movements in above allowance for other receivables – outside parties:				
Balance at beginning of the year	**49,003**	29,547	**15,936**	16,258
Charge for other receivables to profit or loss included in other losses	**15,829**	19,456	**–**	–
Used	**–**	–	**(261)**	(322)
Deemed disposal of interests in subsidiaries	**(43,075)**	–	**–**	–
Balance at end of the year	**21,757**	49,003	**15,675**	15,936
Movements in above allowance for other receivables – associates:				
Balance at beginning of the year	**–**	–	**–**	–
Charge for other receivables to profit or loss included in other losses	**14,272**	–	**13,957**	–
Balance at end of the year	**14,272**	–	**13,957**	–
Movements in above allowance for other receivables – related parties:				
Balance at beginning of the year	**305**	113	**318**	126
Charge for other receivables to profit or loss included in other losses	**111**	192	**111**	192
Used	**(301)**	–	**–**	–
Balance at end of the year	**115**	305	**429**	318

Bills receivable of the Group amounting to RMB46 million (2015: Nil) have been pledged with banks as securities for bills payable issued (Note 27).

Trade receivables of the Group amounting to RMB1 million (2015: RMB8 million) have been pledged with banks as securities for bills payable issued (Note 27).

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not restricted in use:				
Cash and bank balances	**931,980**	762,959	**710,521**	584,523
Restricted in use:				
Bank deposits	**20,876**	45,148	**–**	–
Short-term investments	**200,000**	300,000	**200,000**	300,000
Subtotal	**220,876**	345,148	**200,000**	300,000
Total	**1,152,856**	1,108,107	**910,521**	884,523

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% (2015: 0.35% – 1.15%) per annum.

22A. CASH AND CASH EQUIVALENTS IN CONSOLIDATED STATEMENT OF CASH FLOWS

	Group	
	2016	2015
	RMB'000	RMB'000
Amount as shown above	**1,152,856**	1,108,107
Restricted bank deposits	**(220,876)**	(345,148)
Cash and cash equivalents for consolidated statement of cash flows purposes at end of the year	**931,980**	762,959

23. SHARE CAPITAL

	Group and Company	
	Number of Share Issued	Share Capital RMB'000
Ordinary shares		
"A" shares		
Balance at 1 January 2015	539,308,720	539,309
Issue of shares	29,564,356	29,564
Balance at 31 December 2015 and 31 December 2016	568,873,076	568,873
"S" shares		
Balance at 1 January 2015, 31 December 2015 and 31 December 2016	200,000,000	200,000
Total	768,873,076	768,873

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23. SHARE CAPITAL (CONT'D)

	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 RMB1.00. 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 RMB1.00 for cash at RMB28.28 each on the Shanghai Stock Exchange.

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

The non-circulating shares cannot be sold in the market for a restricted period. During the reporting year, the Shanghai Stock Exchange approved the Company's application to convert 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.

23. SHARE CAPITAL (CONT'D)

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	
	2016	**2015**
	RMB'000	**RMB'000**
Net debt:		
All current and non-current borrowings	**575,490**	535,650
Less: Cash and cash equivalents	**(1,152,856)**	(1,108,107)
Net debt	**(577,366)**	(572,457)
Capital:		
Total equity	**4,139,630**	3,921,709
Debt-to-adjusted capital ratio	**N.M**	N.M

* N.M = Not meaningful

24. OTHER RESERVES

	Group		Company		
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**	**01.01.2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(Restated)	**(Restated)**
Capital reserve (Note 24A)	**11,568**	13,095	**88,911**	90,227	90,201
Statutory common reserve (Note 24B)	**384,437**	357,080	**384,437**	357,080	311,462
Fair value reserve (Note 24C)	**40,764**	51,521	**40,764**	51,521	48,190
	436,769	421,696	**514,112**	498,828	449,853

24A. CAPITAL RESERVE

	Group		Company		
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**	**01.01.2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
				(Restated)	**(Restated)**
Balance at beginning of the year	**13,095**	11,428	**90,227**	87,406	87,406
Equity share of changes in other reserves of associates	**(1,316)**	1,667	**(1,316)**	2,821	2,795
Disposal of investments in subsidiaries	**(211)**	–	**–**	–	–
Balance at end of the year	**11,568**	13,095	**88,911**	90,227	90,201

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24. OTHER RESERVES (CONT'D)

24B. Statutory common reserve

	Group and Company	
	2016	**2015**
	RMB'000	**RMB'000**
Balance at beginning of the year	**357,080**	311,462
Appropriation from retained earnings	**27,357**	45,618
Balance at end of the year	**384,437**	357,080

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

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

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

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

24C. Fair value reserve

	Group and Company	
	2016	**2015**
	RMB'000	**RMB'000**
Balance at beginning of the year	**51,521**	48,190
Fair value (loss) gain on re-measuring available-for-sale financial assets	**(12,656)**	3,918
Deferred tax thereon	**1,899**	(587)
	(10,757)	3,331
Balance at end of the year	**40,764**	51,521

25. TRADE PAYABLES, NON-CURRENT

	Group		Company	
	2016	**2015**	**2016**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Accrued termination benefits	**47,271**	47,652	**47,197**	47,408

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

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26. OTHER LIABILITIES

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income	**43,033**	44,131	**19,977**	22,833
Advance payments received	**28,332**	18,332	**18,332**	18,332
Advances from customers	**66,539**	64,618	**51,478**	44,743
Others	**3,949**	3,949	**–**	–
	141,853	131,030	**89,787**	85,908
Presented in the statements of financial position as:				
Other liabilities, non-current	**75,314**	66,412	**38,309**	41,165
Other liabilities, current	**66,539**	64,618	**51,478**	44,743
	141,853	131,030	**89,787**	85,908

Deferred income represents grants from government and other third parties.

The advance payments of the Group and the Company amounting to RMB18 million (2015: 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	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables:				
Bills payable	**227,110**	70,463	**205,731**	4,500
Outside parties	**474,181**	589,690	**376,500**	405,612
Associates (Note 3)	**6**	11,401	**9,742**	10,520
Related parties (Note 3)	**47,213**	43,995	**27,769**	82,738
Accrued retirement benefits	**1,703**	1,402	**1,703**	703
Accrued termination benefits	**15,780**	15,716	**15,617**	15,630
Accrued operating expenses	**312,723**	310,706	**304,272**	283,945
Subtotal	**1,078,716**	1,043,373	**941,334**	803,648
Other payables:				
Outside parties	**130,715**	114,297	**96,420**	87,690
Associates (Note 3)	**50**	–	**40**	–
Related parties (Note 3)	**312**	1,021	**205**	7,928
Other taxes payables	**47,823**	60,598	**40,948**	50,795
Dividends payable	**11,494**	10,500	**11,494**	10,500
Subtotal	**190,394**	186,416	**149,107**	156,913
Total trade and other payables	**1,269,110**	1,229,789	**1,090,441**	960,561

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

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28. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Bank loans A (unsecured)	**254,500**	397,050	**240,000**	320,000
Bank loans B (secured)	**–**	22,000	**–**	–
Other loans A (unsecured)	**50,000**	–	**50,000**	–
Other loans B (secured)	**270,990**	116,600	**–**	–
	575,490	535,650	**290,000**	320,000

The bank loans bore interest rates as follows:

	Group		Company	
	2016	2015	2016	2015
Bank loans A (unsecured)				
– fixed rate	**4% – 5%**	4% – 6%	**4%**	4%
– floating rate	**4%**	4% – 5%	**4%**	4% – 5%
Bank loans B (secured)				
– fixed rate	**–**	5% – 6%	**–**	–
Other loans A (unsecured)				
– fixed rate	**3.8%**	–	**3.8%**	–
Other loans B (secured)				
– floating rate	**5% – 9%**	2% – 3%	**–**	–

Bank loans A

In 2015, bank loans totalled RMB40 million were guaranteed by the non-controlling shareholder in a subsidiary. No fee is charged.

Bank loans B

In 2015, bank loans totalled RMB22 million were secured on legal mortgages over the subsidiaries' property, plant and equipment (Note 12) and land use rights (Note 14).

Other loans A

Other loans were due to a related party.

Other loans B

Other loans totalled RMB271 million (2015: RMB117 million) are secured by pledges of unquoted bonds in corporations and country of the Group of the same amount (Note 18D).

29. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

29A. Classification of financial assets and liabilities

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

	Group		Company	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Financial assets:				
Cash and cash equivalents	**1,152,856**	1,108,107	**910,521**	884,523
Loans and receivables	**1,465,777**	1,538,956	**1,445,450**	1,415,055
Financial assets at fair value through profit or loss	**660**	1,494	**660**	1,494
Held-to-maturity investments	**466,469**	217,518	**–**	–
Available-for-sale financial assets	**349,327**	286,983	**349,327**	286,983
	3,435,089	3,153,058	**2,705,958**	2,588,055
Financial liabilities:				
Borrowings at amortised cost	**575,490**	535,650	**290,000**	320,000
Trade and other payables at amortised cost	**1,316,381**	1,277,441	**1,137,638**	1,007,969
	1,891,871	1,813,091	**1,427,638**	1,327,969

Further quantitative disclosures are included throughout these financial statements.

29B. Financial risk management

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

(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.

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

29C. Fair value of financial instruments

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

29D. Credit risk on financial assets

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

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 (2015: 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	
	2016	**2015**	**2016**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within 1 year	**1,152,778**	1,228,960	**1,112,977**	1,128,786
1 – 2 years	**16,918**	45,402	**15,353**	15,446
2 – 3 years	**3,920**	4,673	**1,882**	929
Over 3 years	**–**	–	**–**	3,660
	1,173,616	1,279,035	**1,130,212**	1,148,821

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

29D. 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	
	2016	**2015**	**2016**	**2015**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
1 – 2 years	**3,846**	11,782	**3,743**	4,308
2 – 3 years	**2,350**	4,847	**1,882**	1,455
Over 3 years	**155,096**	157,997	**154,301**	154,234
	161,292	174,626	**159,926**	159,997

The allowance which is disclosed in the Note 21 on trade receivables is based on individual accounts totalling RMB162 million (2015: RMB175 million) and RMB160 million (2015: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.

29E. Liquidity risk – financial liabilities maturity analysis

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

Group	**Less than 1 year RMB'000**	**2 – 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
2016				
Gross borrowings commitments	**630,445**	**–**	**–**	**630,445**
Trade and other payables	**1,267,937**	**41,249**	**31,880**	**1,341,066**
	1,898,382	**41,249**	**31,880**	**1,971,511**
2015				
Gross borrowings commitments	544,650	–	–	544,650
Trade and other payables	1,230,465	50,803	23,686	1,304,954
	1,775,115	50,803	23,686	1,849,604

Company	**Less than 1 year RMB'000**	**2 – 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
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**
2015				
Gross borrowings commitments	441,899	–	–	441,899
Trade and other payables	961,288	50,651	23,684	1,035,623
	1,403,187	50,651	23,684	1,477,522

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

29E. 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	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Bank guarantees in favour of				
– Subsidiaries	–	13,000	–	13,000
– 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 (2015: 45 days). The other payables are with short-term durations. The classification of the financial assets is shown in the statement of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary. In order to meet such cash commitments, the operating activities are expected to generate sufficient cash inflows. In addition, the financial assets are held for which there is a liquid market and that are readily available to meet liquidity needs.

29F. Interest rate risk

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

	Group		Company	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:				
Floating rate	1,152,856	1,108,107	910,521	884,523
Financial liabilities:				
Fixed rate	240,000	279,050	206,000	180,000
Floating rate	380,900	256,600	110,000	140,000
	620,900	535,650	316,000	320,000

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

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

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

29G. Foreign currency risk

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

29H. 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.

30. 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. As at the end of the reporting year, there were no development.

31. 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	
	2016	**2015**
	RMB'000	**RMB'000**
Contractual obligations to purchase and construct	**71,394**	–

32. 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	
	2016	**2015**
	RMB'000	**RMB'000**
Not later than one year	**1,361**	4,609
Later than one year and not later than three years	**2,413**	3,909
Later than three years	**3,892**	4,952
Rental expense for the year	**9,147**	21,940

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

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33. 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	
	2016	**2015**
	RMB'000	**RMB'000**
Not later than one year	**8,101**	10,364
Later than one year and not later than three years	**12,802**	17,086
Later than three years	**13,259**	19,395

Operating lease income commitments are for the investment properties.

34. ITEMS IN PROFIT OR LOSS

The following charges have been included in administrative expenses:

	Group	
	2016	**2015**
	RMB'000	**RMB'000**
Audit fees to the independent auditors of the Company	**3,418**	3,410
Other fees to the independent auditors of the Company	**860**	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
2016			
Chinese Medicine	**4,066,791**	**(2,240,697)**	**1,826,094**
Western Medicine	**1,640,385**	**(1,557,228)**	**83,157**
Others	**471,646**	**(437,235)**	**34,411**
Total	**6,178,822**	**(4,235,160)**	**1,943,662**
2015			
Chinese Medicine	4,361,732	(2,525,068)	1,836,664
Western Medicine	2,162,446	(2,026,420)	136,026
Others	556,374	(485,368)	71,006
Total	7,080,552	(5,036,856)	2,043,696

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
	Comprehensive Income 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	**407,612**	**4,302,289**	**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	**407,612**	**4,302,289**	**4,083,298**

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

	Group		Company
	Comprehensive Income RMB'000	Net Assets/ Total Equity RMB'000	Net Assets/ Total Equity RMB'000 (Restated)
2015			
As reported in the statutory financial statements prepared under People's Republic of China Accounting Regulations	457,868	4,105,175	3,890,572
Recognition of staff benefits utilised through other reserves into profit or loss	(570)	–	–
Reversal of partial gain on disposal of associate related to income recognised under IFRS previously	(1,640)	–	–
As reported in the financial statements prepared under IFRS	455,658	4,105,175	3,890,572

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 2017 expressed an unmodified opinion on those financial statements.

37. CHANGES IN ACCOUNTING POLICY AND RESTATEMENTS OF COMPARATIVE FIGURES

On 1 January 2016, the Company adopted Amendments to IAS 27 titled Equity Method in Separate Financial Statements which is effective from the reporting year beginning on or after 1 January 2016. The Amendment to IAS 27 allows the Company to use equity method to account for investments in associates in its separate financial statements. In the past, the Company accounted for investment in associates at cost in its separate financial statements.

The change in accounting policy has been applied retrospectively. The effects of adoption of the Amendments to IAS 27 are as follows:

	After reclassification RMB'000	Before reclassification RMB'000	Difference RMB'000
Company			
Statement of financial position as at 31 December 2015			
Investments in associates	531,220	428,279	102,941
Retained earnings	1,424,054	1,323,934	100,120
Other reserves	498,828	496,007	2,821
Statement of financial position as at 1 January 2015			
Investments in associates	542,053	510,428	31,625
Retained earnings	1,124,398	1,095,568	28,830
Other reserves	449,853	447,058	2,795

38. EVENTS AFTER THE END OF THE REPORTING YEAR

Subsequent to the end of the reporting year, the Company acquired the entire equity interest in Tianjin Chinese Medicinal Slices Co., Ltd, a company registered in the People's Republic of China, at a consideration of RMB62.7 million. The effects of the acquisition do not have a significant impact on the financial statements of 2016.

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 2016 ("**FY2016**") at the meeting room of Super Garden Hotel, No. 2 Rongye Avenue, Heping District, Tianjin 300021, PRC on 15 May 2017 at 1:30 p.m.. Concurrently, a video conferencing for holders of "S" shares will be held at Pinnacle Suite, Wangz Business Centre, 7 Temasek Blvd, #44-01, The Penthouse Suntec Tower 1, Singapore 038987.

The agenda for the meeting shall be as follows:

1. To consider and approve the Chairman's Report for FY2016. (Resolution 1)
2. To consider and approve the Board of Directors' Report for FY2016. (Resolution 2)
3. To consider and approve the Supervisory Committee's Report for FY2016. (Resolution 3)
4. To consider and approve the Financial Report and Audit Report for FY2016 audited by Ruihua Certified Public Accountants LLP and RSM Chio Lim LLP. (Resolution 4)
5. To consider and approve the scheme of profit distribution policy of the Company for FY2016. (Resolution 5)
6. To approve the remuneration of S$60,000 for independent director Mr. Timothy Chen Teck Leng for FY2016. (Resolution 6)
7. To approve the remuneration of S$55,000 for independent director Mr. Toe Teow Heng for FY2016. (Resolution 7)
8. To approve the remuneration of RMB60,000 for independent director Mr. Qiang Zhi Yuan for FY2016. (Resolution 8)
9. To approve the aggregate remuneration for directors of the Company for FY2016. (Resolution 9)
10. To approve the aggregate remuneration for members of the Supervisory Committee for FY2016. (Resolution 10)
11. To re-appoint Mr. Timothy Chen Teck Leng as independent director of the Company. (Resolution 11)
12. To renew the shareholders' mandate for the interested person transactions. (Resolution 12)
    (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.
13. To consider and approve the loan facilities granted to the Company aggregating to a limit of RMB7,118,000,000. (Resolution 13)

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

NOTICE OF
ANNUAL GENERAL MEETING

Notes:

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

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

2. To be effective, the instrument appointing a proxy or proxies must be lodged at the Company's "S" Shares Registrar and Singapore Transfer Office, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 (in the case of a holder of "S" shares) no later than 1.30 p.m. on 13 May 2017.

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 2017.

6. A holder of "S" Shares must be registered in the shareholder name list or in the Depository Register pursuant to his/her identity card and share certificates no later than 1.30 p.m. on 13 May 2017.

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.

By order of the Board of Directors

Jiao Yan
Company Secretary

PROXY
FORM

TIANJIN ZHONGXIN PHARMACEUTICAL GROUP CORPORATION LTD

(Incorporated in the People's Republic of China)

ANNUAL GENERAL MEETING
PROXY FORM

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

I/We, ______________________________

of ______________________________

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

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

and/or (delete as appropriate)

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

as my/our proxy to vote for me/us and on my/our behalf and, if necessary to demand a poll, at an Annual General Meeting of the Company to be held at the meeting room of Super Garden Hotel, No. 2 Rongye Avenue, Heping District, Tianjin 300021, PRC on 15 May 2017 at 1:30 p.m. and at any adjournment thereof.

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

PROXY FORM

Date: 15 May 2017

No.	Items on the Agenda	For	Against
1.	To consider and approve the Chairman's Report for FY2016.		
2.	To consider and approve the Board of Directors' Report for FY2016.		
3.	To consider and approve the Supervisory Committee's Report for FY2016.		
4.	To consider and approve the Financial Report and Audit Report for FY2016 audited by Ruihua Certified Public Accountants LLP and RSM Chio Lim LLP.		
5.	To consider and approve the scheme of profit distribution policy of the Company for FY2016.		
6.	To approve the remuneration of S$60,000 for independent director Mr. Timothy Chen Teck Leng for FY2016.		
7.	To approve the remuneration of S$55,000 for independent director Mr. Toe Teow Heng for FY2016.		
8.	To approve the remuneration of RMB60,000 for independent director Mr. Qiang Zhi Yuan for FY2016.		
9.	To approve the aggregate remuneration for directors of the Company for FY2016.		
10.	To approve the aggregate remuneration for members of the Supervisory Committee for FY2016.		
11.	To re-appoint Mr. Timothy Chen Teck Leng as independent director of the Company.		
12.	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.		
13.	To consider and approve the loan facilities granted to the Company aggregating to a limit of RMB7,118,000,000.		
	Other agenda to be resolved in the General Meeting shall, include any agenda proposed by a shareholder in accordance with Article 61 of the Articles of Association, which states: "When the Company is to hold an annual General Meeting, shareholders holding 5% or more of the voting shares of the Company shall be entitled to propose new motions in writing to the Company. The Company shall include in the agenda of the General Meeting those motions, the subject matter of which, are required to be decided by shareholders in General Meeting."		

PROXY FORM

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

____

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

NOTES

a. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 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 Annual General Meeting is entitled to appoint no more than two proxies to attend and vote on his behalf and such proxy need not be a member of the Company. Where a member appoints two proxies, the appointment shall be deemed to be alternative unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.

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

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

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

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

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

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

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 29 March 2017

Range of Shareholdings	No. Of Shareholders	%	No. Of Shares	%
1 – 99	2	0.10	60	0.00
100 – 1,000	57	2.74	45,000	0.02
1,001 – 10,000	1,404	67.47	6,889,934	3.45
10,001 – 1,000,000	601	28.88	33,119,307	16.56
1,000,001 AND ABOVE	17	0.81	159,945,699	79.97
Total	**2,081**	**100.00**	**200,000,000**	**100.00**

Foreign Substantial Shareholders as at 29 March 2017

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 29 March 2017

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 29 March 2017

	Name	No. Of Shares	%
1	PHILLIP SECURITIES PTE LTD	28,689,292	14.34
2	RAFFLES NOMINEES (PTE) LIMITED	24,838,379	12.42
3	ABN AMRO CLEARING BANK N.V.	21,672,100	10.84
4	CITIBANK NOMINEES SINGAPORE PTE LTD	18,680,910	9.34
5	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	18,152,200	9.08
6	OCBC SECURITIES PRIVATE LIMITED	11,616,700	5.81
7	DBS NOMINEES (PRIVATE) LIMITED	11,433,962	5.72
8	BANK OF CHINA NOMINEES (PTE) LTD	6,099,700	3.05
9	TAN SWEE TECK MICHAEL OR TAN TOH HEAH	3,760,000	1.88
10	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	2,388,956	1.19
11	HSBC (SINGAPORE) NOMINEES PTE LTD	2,259,500	1.13
12	LU ZU LIANG	2,224,600	1.11
13	XU YALAN	2,000,000	1.00
14	TAN SWEE TECK MICHAEL	1,732,000	0.87
15	RHB SECURITIES SINGAPORE PTE. LTD.	1,619,200	0.81
16	UOB KAY HIAN PRIVATE LIMITED	1,429,200	0.71
17	KUEK SIAW KIA @ QUEK SHIEW POH	1,349,000	0.67
18	PEH CHIN CHIONG	984,500	0.49
19	HIN CHAI @ ONG HIN CHAI	925,000	0.46
20	MAYBANK KIM ENG SECURITIES PTE. LTD.	899,500	0.45
	Total	**162,754,699**	**81.37**

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

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DEFINITIONS

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

"2017 AGM"	:	The annual general meeting of the Company to be held on 15 May 2017
"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 28 April 2017
"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
"FY2016"	:	Financial year ended 31 December 2016
"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 except Mr. Zhang Jian Jin and Mr. Ma Gui Zhong
"Interested Persons"	:	A director, chief executive officer or controlling shareholder of the Company or an associate of such director, chief executive officer or controlling shareholder
"Interested Person Transaction" or "IPT"	:	A transaction proposed to be entered into between the Group or any of its Subsidiaries or target Associated Companies with interested persons as defined under Chapter 9 of the Listing Manual
"Latest Practicable Date"	:	The latest practicable date prior to the despatch of this Annexure, being 17 April 2017

"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 2017 AGM given on 30 March 2017
"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 in five per cent. (5%) or more of the total issued share capital of the Company
"TPG"	:	Tianjin Pharmaceutical Group Co., Ltd. (天津市医药集团有限公司)
"TPG Group"	:	Tianjin Pharmaceutical Group Co. Ltd., its subsidiaries and associated companies
"TPG Sales and Marketing Branch Office"	:	The Sales and Marketing Branch Office of TPG (天津市医药集团有限公司营销分公司) which is not an independent legal entity and does not have the ability to sue or be sued 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. Wang Zhi Qiang (Chairman)	17 Baidi Road,
Mr. Zhang Jian Jin (Non-Executive Director)	Nankai District,
Mr. Ma Gui Zhong (Non-Executive Director)	Tianjin, the PRC
Ms. Wang Lei (Executive Director)	
Mr. Zhou Hong (Executive Director)	
Ms.Yan Min (Executive Director)	
Mr. Timothy Chen Teck Leng (Independent Director)	
Mr. Vincent Toe Teow Heng (Independent Director)	
Mr. Qiang Zhi Yuan (Independent Director)	

28 April 2017

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 2017 AGM on 30 March 2017 (the "**Notice of AGM**").

1.2 Resolution 12 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 2017 (the "**2017 AGM**").

2. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

2.1 Directors' and Substantial Shareholders' interests in Shares

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

	Direct Interest		Deemed Interest	
	No of Shares	**%**	**No of Shares**	**%**
Directors				
Wang Zhi Qiang	1,280	0.00017	–	–
Zhang Jian Jin	–	–	–	–
Ma Gui Zhong	–	–	–	–
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 2017 AGM, in respect of the Shares held by them respectively, on Resolution 12 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 2017 AGM in respect of Resolution 12, unless specific instructions have been given in the proxy instrument on how the relevant Shareholders wish their votes to be cast for Resolution 12.

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

2.4 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 2017 AGM:–

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

(b) the Annual Report of the Company for FY2016.

Yours faithfully
For and on behalf of the Directors

Wang Zhi Qiang
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 extraordinary general meeting held on 24 October 2016, 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 2017 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.

Transactions that the Company were involved in are detailed on pages 133 to 136 of the Company's annual report for FY2016.

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 comprising:–

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

(c) Tianjin Yiyao Printing Services Company Limited (formerly known as Tianjin Medicinal Products Packaging and Printing Company) ("**TYPS**"), which is 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 between the Group and the following Interested Persons for a period of 5 years beginning 1 January 2014 and ending 31 December 2018:

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

(b) Tianjin Institute of Pharmaceutical Research;

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

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

The terms of these contracts[(1)] will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant time period during which the Shareholders' Mandate is valid. The Group has no obligation under these contracts should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate at the 2017 AGM or any subsequent renewal.

Note:

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

2.3.2 Sale and Purchase of Medicinal Products

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

(a) The TPG Sales and Marketing Branch Office;

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

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

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

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

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

(o) 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 2017 AGM or any subsequent renewal.

Notes:

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

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

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

2.3.3 Packaging materials and services from TYPS

The Group obtains its packaging materials and services 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 2017 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 credit worthiness of the customers, to ensure that the interests of minority Shareholders are not disadvantaged.

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

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

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

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

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

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

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

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

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

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

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

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

2.6 Validity Period of the Shareholders' Mandate

If approved at the 2017 AGM, the Shareholders' Mandate will take effect from the date of the passing of the resolution to be proposed at the 2017 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 24 October 2016; 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 that 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 136 of the Annexure for the proposed renewal of the Shareholders' Mandate, the Independent Directors believe that the renewal of the Shareholders' Mandate is in the interest of the Company and recommend that Shareholders vote in favour of the Resolution 12 (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 2017 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 2017 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.

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中新药业

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