中新药业

ZHONG XIN PHARMACEUTICAL

ANNUAL REPORT 2015

CONTENTS

COMPANY INFORMATION

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

REGISTRY OF S-SHARES AND 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, Shang Hai, China, 200120

AUDITORS:

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

BOARD OF DIRECTORS:

Chairman:	Mr. Wang Zhi Qiang
Executive Directors:	Mr. Xu Dao Qing, Ms. Wang Lei, 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
Secretaries to the Board:	Mr. Wong Gang (Singapore), Ms. Jiao Yan (PRC)

SUPERVISORY COMMITTEE:

Chairman:	Mr. Li Li Qun
Supervisors:	Ms. Yu Hong, Mr. Xie Qing Feng

SENIOR EXECUTIVES:

General Manager:	Mr. Wang Zhi Qiang
Deputy General Managers:	Mr. Zhang Jian, Ms. Wang Lei

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. Xu Dao Qing, 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 recognized as a state-class high-tech enterprise featured with innovations in traditional Chinese medicine. It was listed on the Singapore Exchange in 1997 and on the Shanghai Stock Exchange in 2001.

Zhong Xin Pharmaceutical takes Chinese traditional medicine as its core business, boasting a complete industrial chain, product chain and human resource chain. It currently owns 25 branch companies, 6 fully owned subsidiaries, 12 controlled subsidiaries and 9 associates with minor stakes. Among the 52 units, 7 are associates with minor stakes that are engaged in chemical drug, bio-medicine and other strategic sectors and operated jointly with world famous pharmaceutical giants like GlaxoSmithKline. The rest of the 45 are branches and subsidiaries which are mainly engaged in traditional Chinese medicine manufacturing and medical commerce. The two major business blocks have given play to their respective and combined competitive edges and posted steady growth, helping the Company to rank among well-performing listed companies in recent years. Da Ren Tang (达仁堂), Le Ren Tang (乐仁堂) and Long Shun Rong (隆顺榕), known as China Time-honored Brands under the flag of the Company, have all won the honorable title of "Famous Chinese Trade Mark", and the brand of Song Bo for No. 6 Chinese Medicine Plant, a modern Chinese medicine making icon, has also been awarded the honorable title. These have 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, 587 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 the senior adviser of Zhong Xin Pharmaceutical and honorable director of its Technology Center, has been designated as a national confidential prescription; Niu Huang Jiang Ya Pill (for treatment of hypertension), Niu Huang Jiang Ya Capsule (for treatment of hypertension) and Jing Wan Hong (for treatment of scald) have been classified as state secret of their respective prescriptions and ingredients; 10 products have become state-protected Chinese medicines; 101 product varieties are exclusively produced by the Company; 67 drugs have been listed in the National Basic Medicine Catalog, and 267 products are now available in the national medical insurance service system. The Company has 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, thus 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, cherished 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 forward wholeheartedly to its strategic targets of "being a listed company with top-grade performance, a well-known quality brand at home and abroad, and a leader in modernization of Chinese medicine". Under the backdrop of market economy, the Company will unswervingly foster and deepen its social responsibility awareness and philosophy of sustainable development, balance interested parties' expectation and requirement for sustainable development, persist in win-win cooperation with interested parties, stick to environmental protection, abide by social morality and business ethics, and earnestly integrate social responsibility and philosophy of sustainable development in its routine operations. It will always be the Company's conscientious pursuit in its course of development to uphold Chinese people's good traditions, observe the objective law of business development, and promote harmony between business development and social progress.

EQUITY STRUCTURE OF THE COMPANY

- Tradable state shares with limit on sale (Tianjin Pharmaceutical Group Co. Ltd) (43.065%)
- Tradable LP shares with limit on sale (26.674%)
- Overseas public shares (26.012%)
- Domestic public shares (4.249%)

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

25 branch companies

- Long Shun Rong
- La 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

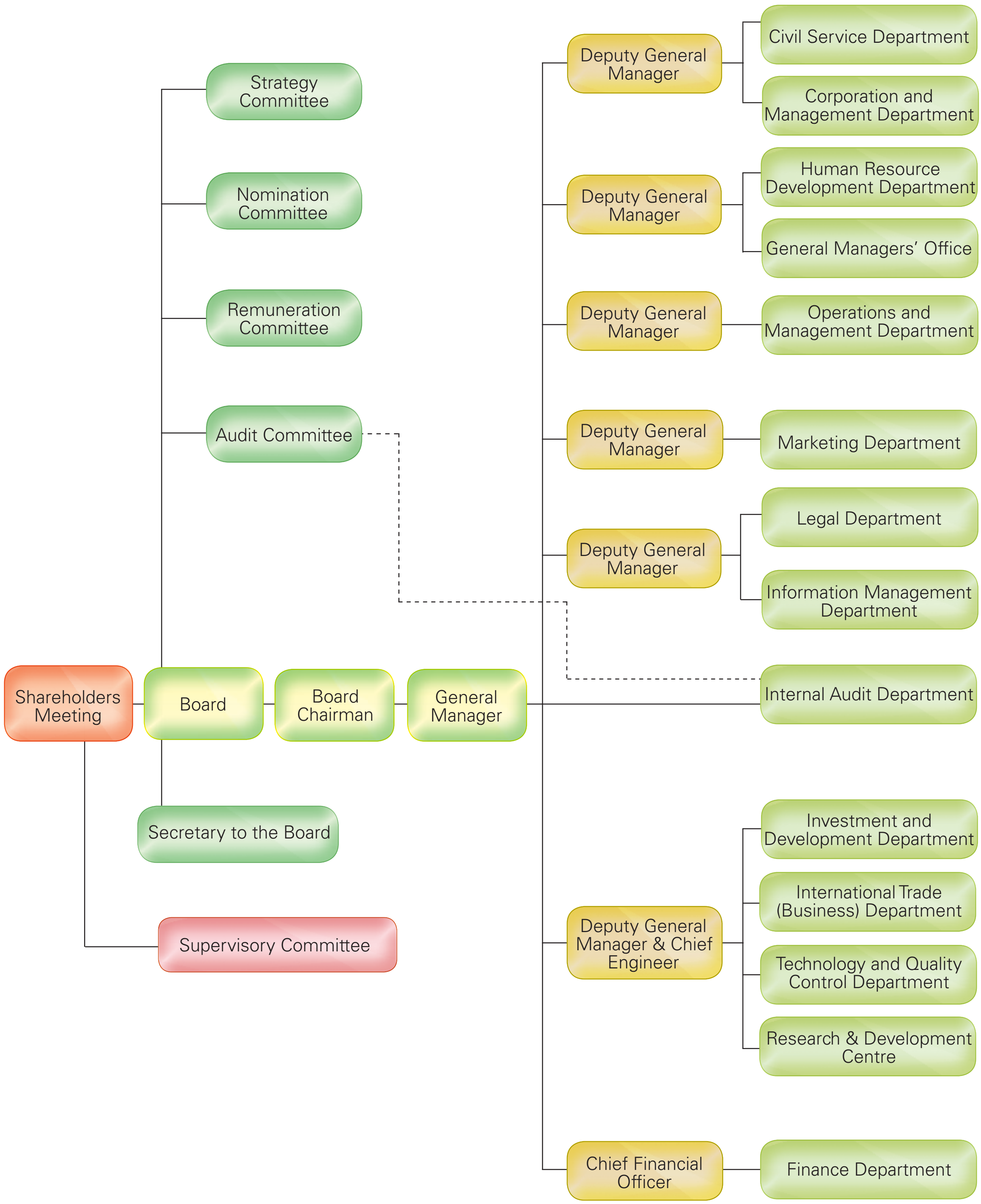
18 wholly-owned or controlled subsidiaries

- Tianjin Da Ren Tang Jinwanhong Pharm Co. Ltd. (52%)
- Tianjin Shin Poong Pharmaceutical Co. Ltd. (55%)
- Chengdu Zhong Xin Pharmaceutical Co. Ltd. (51%)
- Chengdu Zhong Xin Chain Store Co., Ltd. (51%)
- Chengdu Zhong Xin Pharm Zigong Co. Ltd. (50.4%)
- Zigong Zhong Xin Pharm Chain Co. Ltd. (50.4%)
- Tianjin Xin Long Pharm Co. Ltd. (51%)
- Zhong Xin Pharm Tangshan Xinhua Co. Ltd. (51%)
- Binhai Zhong Xin Pharm Co. Ltd. (53.6%)
- Beijing Zhong Xin Yaogu Medical Co. Ltd. (100%)
- Zhong Xin Bohai Rim Pharm Co. Ltd. (100%)
- Tianjin Long Shun Rong Dev. Pharm Co. Ltd. (100%)
- Tianjin Chuyun Co. Ltd. (100%)
- Tianjin Zhong Xin Pharm Guowei Medical Co. Ltd. (51%)
- Zhong Xin Pharmaceutical Xuzhi Technology Co., Ltd. (51%)
- Tianjin Da Ren Tang (Bozhou) Pharmaceutical Co., Ltd. (60%)
- Zhejiang Zhong Xin Chuang Rui Investment Co., Ltd. (100%)
- Darentang Hospital Co., Ltd. (100%)

9 associates

- Sino-American Tianjin Smithkline & French Lab., Ltd. (25%)
- Tianjin Weiming Biological Pharmaceutical Co., Ltd. (20%)
- Tianjin Yiyao Printing Co. Ltd. (35%)
- Tianjin Bio-Chip Co. Ltd. (26.4%)
- NewScen Coast Bio-Pharmaceutical Co., Ltd. (35%)
- Tianjin Pharm Group Tech Dev. Co. Ltd. (33%)
- Tianjin Hong Ren Tang Pharmaceutical Co., Ltd. (40%)
- Chengdu Zhong Xin Consulting Co. Ltd. (38%)
- Dujiangyan Zhong Xin Chinese Herbs Cultivation Co. Ltd. (30%)

STRUCTURE OF THE COMPANY



RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

DIRECTORS

Mr. Wang Zhi Qiang (56)
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 a general manager, with responsibility for the 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 (59)
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 (60)
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. Currently, he is holding the position of the Member of the Party Committee, Deputy General Manager, Chief Accountant and General Legal Counsel of Tianjin Pharmaceutical Group Co. Ltd. He is a Supervisor of the Board of Supervisors of the Company since May 1999. Mr. Ma Gui Zhong is also Supervisor of the Supervisory Committee since May 1999.

Mr. Xu Dao Qing (53)

Executive Director

2-1-502 Shuxiang Yuan Wandezhuang Road Nankai District, Tianjin, PRC

Mr. Xu Dao Qing, bachelor degree, major in chemical pharmaceuticals, Senior Engineer. He graduated from Tianjin University of Finance and Economics with a master degree of business management in 2000. From July 1983 to May 2001,he worked with the Tianjin Central Pharmaceutical Co., Ltd, holding the positions of Research Team Leader, Office Manager and Deputy Director of the Research Institute, Deputy Director and Director of the Sales Department, and Deputy General Manager of the company. From May 2001 to December. 2006, he was the Chairman of Xinxin Pharmaceutical Plant of Tianjin Zhong Xin Pharmaceutical Group. From Febuary 2004 to January 2007, he was concurrently the Deputy General Manager of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited. From December 2006 – May 2007, he was the Secretary of the Party Committee and Deputy Director of Long Shun Rong Pharmaceutical Factory. From May 2007 to August 2010, he was the General Manager of Tianjin Xinfeng Pharmaceutical Co., Ltd. From August 2010 to November 2015, he was the Deputy General Manager of the Company.

Ms. Wang Lei (44)

Executive Director and Vice 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.

Mr. Zhou Hong (45)

Executive Director

3-4-101 Yibo li, Hongqiao District Tianjin, PRC

Mr. Zhou Hong, a senior engineer and master degree of science. For the period from July 1992 to December 2007, he held the position as Sales Executive, Deputy Director of Factory Workshop, Director of Factory Workshop, Leader of the technical process and Head of the Technology Department. From December 2007 to January 2010, he held the position

RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

of Deputy Director of Tianjin Zhong Xin Pharmaceutical No. 6 Factory. From January 2010 to July 2011, he was promoted to the Executive Deputy Director of Tianjin Zhong Xin Pharmaceutical No. 6 Factory. From July 2011 to date, he is the Director and Executive Deputy Secretary of Tianjin Zhong Xin Pharmaceutical No. 6 Factory.

Mr. Timothy Chen Teck Leng (61)
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, has obtained his B.Sc. from the University of Tennessee in 1979 and his MBA from the Ohio State University in 1981, majoring in finance and asset/liability management for financial institutions. He further attended Executive Management Development Program of Harvard Business School in 2002 and was awarded Certified Corporate Director (I CD.D) qualification by the Canadian Institute of Corporate Director in 2006.

Mr. Chen has over 30 years of senior management experience in international finance, insurance, banking and company advisory fields. Mr. Chen started his professional career with the Bank of America, Singapore between 1981 and 1982 as loans officer. From 1982 to 1983, he was the Assistant Vice President of Wells Fargo Bank, Singapore. From 1983 to 1985, he was the Account Manager at the International Banking Centre of the Bank of Nova Scotia. Mr. Chen was appointed as the Senior Representative of Sun Life Assurance Company of Canada from 1986 to 1999. From 2000 to 2005, he was the President & CEO of 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 several Singapore listed companies. He is the independent director for Yangzijiang Shipbuilding Holdings Ltd, TMC Education Corporation Ltd., Sysma Holdings Ltd and Logistics Holdings Ltd.

Mr. Vincent Toe Teow Heng (47)
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 Sunshine Chemical Holdings Ltd etc. 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 (59)
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 (55)
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 Pharmaceuticals Group Co., Ltd, deputy chairman of the board of Lier Chemical Co., Ltd. From December 2013 to November 2015, he was appointed as chairman of the board of Tianjin Tianyao Pharmaceutical Co., Ltd. From 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.

RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

Ms. Yu Hong (41)
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.

Mr. Xie Qing Feng (46)
Supervisor
8-2-202 Fenghexin Yuan Xishi Road
Nankai District, Tianjin, PRC

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

MANAGERS

Mr. Wang Zhi-qiang (55)
General Manager
3-6-511 Huayu Li Nanfeng Road
Nankai District, Tianjin PRC

Ms. Wang Lei (43)
Deputy General Manager
A-805 Jinbin Yadu Apartment
Shaoxing Road, Hexi District
Tianjin, PRC

Mr. Zhang Jian (51)
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.

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Shareholders,

On behalf of the board of directors, I would like to submit the 2015 work report to the shareholders' general meeting and express our cordial greetings to all of you.

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

In 2015, through the concerted efforts of the entire company, the Company's overall operating level and operational efficiency were effectively improved and thus the established work targets were more properly completed. The results achieved by the Company in terms of economic operations in 2015 are mainly reflected in the following aspects:

1. Persistent in advancing the major-varieties strategy and focusing on market restructuring

In 2015, the Company paid attention to the analysis of product attributes and defined product positioning, expanding regional and hospital coverage for clinical varieties and refining and optimizing market terminals adhering to the focus on academic and specialized promotion, hence improving the quality of major varieties. With market restructuring as the main objective, subordinate sales companies formed inventory management, terminal marketing, accounting separation and other management systems centering on the establishment of a pricing system. Long Shun Rong and Le Ren Tang drove terminal sales to increase with academic promotion as the gripper; Da Ren Tang geared to the requirements of controlling sales, maintaining prices, grasping focuses and expanding coverage in achieving an increase in product sales.

2. Innovating the marketing model and developing the "Internet+" marketing concept

In accordance with the Company's concept and strategy on the establishment of an Internet marketing platform, subordinate enterprises strived to explore an e-commerce operating model with the features of Zhong Xin taking into account their own actual circumstances. The Company created a WeChat official ID to achieve fully-functional operation; playing the role of an electronic procurement and distribution platform, Medicinal Material Branch Company achieved electronic procurement of all varieties of medicinal materials and informatization of industrial supply within the system; Jianmin Dispensary commenced group purchasing and merchandise delivery operations and joined hands with Ali Health to build the e-commerce business aiming at increasing sales through business units and e-commerce platforms. Enterprises including Da Ren Tang and Le Ren Tang innovated the three-dimensional marketing model and created the WeChat official ID leveraging new media such as WeChat Mall, WeChat Marketing and v-tianjin to achieve online publicity-sales integration.

3. Strengthening intensive management and ensuring continuous growth of commercial benefits

Firmly following the "unified management, centralized purchasing, channel distribution and regional operation" business policy, subordinate pharmaceutical companies continued to demonstrate the scale advantages of major varieties clusters, establishing 30 varieties of major varieties clusters and proceeding work on market cultivation and expansion for second-tier varieties on the basis of maintaining first-tier varieties in good demand; actively adjusted the product mix and completed the signing of secondary agreements with all branded joint ventures, hence breaking the exclusive monopoly of Sinopharm on western drugs; adopted the approach of leasing medical equipment to drive the sale and use of medical supplies, thereby expanding the scope and mode of operation; strengthened management and control of the quality of processed Chinese medicines and increased the varieties of finely-packaged processed Chinese medicines to form a diversified pattern.

4. Pushing forward the development of registration and increasing international market development efforts

In active response to changes in the international market, the Company focused on international product registration work and strengthened contacts with new customers, taking various measures to quicken the pace of developing the international market. Through the year, 23 new products and specifications with certificates of registration were added and 44 varieties were submitted for registration, thus sustainable development of proprietary Chinese medicine export sales is practically ensured. New customers in regions including Hong Kong, Singapore, Indonesia and Malaysia were developed to form new sources for sales growth. Service work was forwarded to strengthen two-way communication with customers and plants to consolidate the advantages of traditional markets. The Company expanded campaigns to attract foreign business and made comprehensive and vigorous efforts to implement the Company's overall overseas market development plan. In 2015, the Company was named as China's "Top Five Proprietary Chinese Medicine Exporting Enterprises" for the 7th consecutive year.

5. Achieving tangible results in extending the industry chain and successfully completing the refinancing project

In 2015, based on the principles of promoting traditional Chinese medicine characteristics and leading health treatment concepts, the subordinate Darentang Hospital achieved a year-on-year growth of 360.84% and 483.55% in the number of outpatient visits and the amount of outpatient revenue respectively capitalizing on the sophisticated Chinese art of healing, ancient pharmacological methods, excellent processed drug quality and customized services, particularly activities including the 112 "little prescriptions" collection and application campaign and the "Medicinal Paste Festival". Focusing on ginseng supplements and health and functional food, Long Shun Rong Development Company, achieved a year-on-year growth in annual health food sales revenue on the basis of stabilizing the sales of expensive processed ginseng medicine, continuously developing featured health and functional food products. It also successfully completed the opening of a Long Shun Rong store in Tianjin Kerry Centre. In July 2015, the Company successfully completed a private placement of A shares raising

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

proceeds of RMB836 million, providing financial support for the Company's subsequent developments.

6. *Paying attention to the prevention and control of operational risk and refining the management of industrial production*

In 2015, the Company demanded more stringent budgeting, accounting and financial management and reinforced the supervision of audit and the establishment of informatization, implementing group management and control in a scientific, thorough and normalized way; strengthened audit supervision and completed special audit of receivables and inventories for 11 enterprises including No. 6 Chinese Traditional Medicine Pharmaceutical Factory, Medicinal Material Branch Company, Long Shun Rong and Da Ren Tang, consolidating the Company's development base and boosting development potential; focused on the main line of "ensuring quality, reducing cost and increasing efficiency" adhering to the principle of producing according to sales prospects to achieve a seamless convergence of supply, production and distribution; integrated medicinal resources for promoting intensive procurement, in particular for Medicinal Material Branch Company which innovated the raw materials procurement model, building a e-procurement platform for all varieties of medicinal herbs and establishing synergic mechanisms with industrial enterprises which has led to a steady reduction in industrial production costs.

7. *Strengthening awareness of the red line and keeping safety and quality manage*ment in control

In 2015, the Company implemented the responsibility system for safety in production, strengthened site safety management, promoted work on standardization and certification of production safety and carried out multiple safety checks through the year, hence ensuring safety and zero accident in production. The Company pursued to construct a quality management system and increased inspection efforts which have timely eliminated hidden quality issues and thus product quality is ensured. The Company successfully passed the recertification of the Australian TGA whereas Long Shun Rong Development Company and Hexi Da Ren Tang Drugstore obtained the new GMP certificate and passed the GSP certification, respectively. Long Shun Rong Pharmaceutical Plant was named as an enterprise for the demonstration of building safety culture in development zone in 2015. Da Ren Tang, Le Ren Tang, Long Shun Rong Pharmaceutical Factory, No. 6 Chinese Traditional Medicine Pharmaceutical Factory, Zhong Xin Pharmaceutical Factory and Xinxin Pharmaceutical Manufactory won the "Rest Assured Pharmaceutical Factory" title from Tianjin Market And Quality Supervision Administration. Zhongxin Pharmaceutical, Le Ren Tang and No. 6 Chinese Traditional Medicine

Pharmaceutical Factory earned the honour as "Excellent Enterprise for Quality Management Group Activity in the National Pharmaceutical Industry".

In summary, the Company's business conditions showed a continued good development momentum in 2015 overall. As at 31 December 2015, the Group's total and net assets were RMB6.07 billion and RMB3.92 billion, representing a year-on-year increase of 11.62% and 41.90% respectively. In 2015, the Group achieved operating revenue of RMB7.08 billion, the Group's net profit attributable to the parent was RMB449.5 million, up by 25.63% from last year.

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

Being a listed company with shares issued on the Singapore Exchange and the Shanghai Stock Exchange, the Company is subject to the 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 2015, 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 practically 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 2015, the Company continued to conduct 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 2015, the Company held an online briefing on the 2014 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. On 15 May 2015, the Company held the 2014 annual shareholders' general meeting at which the 2014 profit distribution program was considered and approved which has further safeguarded the rights and interests of shareholders to obtain return on investment. On 1 June 2015, the Company took concrete action to effectively give back to investors by implementing the 2014 profit distribution program according to plan through which a cash dividend of RMB1.5 (including taxes) will be distributed to all shareholders for every ten shares held based on the total share capital of 739,308,720 shares as at 31 December 2014. In 2015, 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 strict accordance with the Company's *Insider Management Policy*. For the work on annual reports in 2015, both independent directors and the audit committee carried out audit work strictly according to relevant policies. To sum up, all rules, regulations and policies of the Company were effectively performed in 2015.

The Company has always ensured information disclosure work is strictly compliant with the requirements of regulatory authorities in China and Singapore based on the principle of "the more informative and the more stringent the better". In 2015, the Company carried out information disclosure work in strict 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.

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

III. Independent innovation was further reinforced and potential scientific and technological competitiveness was stimulated

Integrating the favourable opportunities arising from State support in the traditional Chinese medicine manufacturing industry and relying on its own advanced technology and equipment and rich traditional Chinese medicine resources, Zhong Xin Pharmaceutical strives to enhance the capability of independent innovation and improve the level of scientific and technological research to promote industrial upgrade.

1. Conducting R&D of new products to improve contribution from scientific and technological innovation

In 2015, the Company implemented the Group's "358" scientific research planning to transform scientific and technological achievements into benefits and again received the High and New Technology Enterprise Certificate. Through the year, the Company conducted research on 23 new product items, obtained the certificate of approval of natural VE soft capsules and carried out clinical research on lungs-tonifying granules, pre-clinical research on 5 projects and research on 13 health food projects. Attaching importance to the protection of intellectual property rights, the Company was awarded with the honour of "Tianjin's Patent Pilot Enterprise in 2014". The Company completed application of 38 invention patents, 9 utility model patents and 9 exterior design patents during the year and 11 invention patents were approved in the year. The Company cumulatively made 589 invention patent applications and 215 of them were approved. The Company increases efforts on trademark management and has registered altogether 351 domestic trademarks, including 125 new approvals, and 28 international trademarks, including 7 new approvals.

2. Stepping up efforts on tackling key technical issues to release the potential of product resources

In 2015, the Company conducted intensive analysis and systems research on a number of aspects such as quality standards, new formulations, new indications and evidence-based medicine in carrying out secondary development of major Zhong Xin drugs, especially nine drugs including Suxiao Jiuxin Wan (速效救心丸), Tongmai Yangxin Wan (通脉养心丸), Qingfei Xiaoyan Wan (清肺消炎丸) and Zi Long Jin Pian (紫龙金片). The Company carried out process improvement projects on enhancing product quality, reducing production cost and promoting transformation of new technologies with focus on eight projects including adding specifications of bottled Fufang Danshen Pian (复方丹参片), research on enhancing the sprayed dry powder inhalation rate of Longqing Pian (癃清片), pre-treatment study of Huashan ginseng, application of fluid-bed drying in the tablet granulation process and one-step granulation for Niuhuang Shangqing Pian (牛黄上清片).

3. Focusing on the filing of projects to boost the progress of scientific and technological R&D

The Company implements the innovation-driven development strategy, carrying out work on the initiation and filing of scientific research projects at all levels and for all types in an orderly manner to boost the progress of scientific and technological R&D. In 2015, the Company completed the registration of scientific and technological achievements of Long Shun Rong No.2 Tianjin Science and Technology Support Project and No. 6 Chinese Traditional Medicine Pharmaceutical Factory's Xuangui Diwan (玄归滴丸) at the municipal level as well as the work on including Da Ren Tang's lung-tonifying granules and Long Shun Rong Development Company's "application of enzyme extraction and membrane separation technology in beverages" in the Tianjin Enterprise Technology Innovation Project in 2015. The Company achieved to include the research center in the "2014 Merit-based Funding of Tianjin Enterprise Postdoctoral Innovation Project" and received second-class funding, and applied for the 2014 Xiqing industry-research-academy cooperation project in respect of the study of pharmacodynamic material basis and functional mechanism in Le Ren Tang's Tongmai Yangxin Wan and received a subsidy of RMB500,000. Facilitated by the Company, Da Ren Tang's "Qingfei Xiaoyan Transformation Research" project successfully passed the concluding acceptance check of Tianjin Science & Technology Commission and "Phase II Clinical Research of Lungs-tonifying Granules" received RMB6 million funding from the special scientific and technological innovation funds of Tianjin Pharmaceuticals and is expected to receive a further RMB1 million funding from the "2015 Tianjin Significant New Drugs Development" project.

IV. Creation of a harmonious environment for development with foothold in humanism

The Company is always concerned about the livelihood of its employees, safeguarding their legitimate rights and interests according to law and actively building a harmonious enterprise to fulfil corporate responsibility. In 2015, with the goal of fostering the pursuit of quality among Zhong Xin people, the Company, through internal office webs, corporate bulletins and publications, WeChat and other carriers, intensively carried out the core values of socialism as well as situation and task education, vigorously selected and publicized advanced typical examples, strengthened positive guidance and promoted positive energy to push ahead the implementation of the "Quality Zhongxin" philosophy. 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 actively promoted the idea of making corporate affairs known to the public, unblocking workers congress and other democratic management channels and extensively developing labour contests aiming at uniting the mind and stimulating vitality among employees so as to lead them in making more contributions at their posts. The Company insisted on sharing the development achievements with its employees, establishing poverty alleviation funds to implement the helping mechanism. In 2015, the Company raised RMB64,400 and distributed the money as student aid to 57 children of its employees. The *Supplementary Measures on Further Increasing Poverty Alleviation Efforts for Needy Employees Suffering from Serious Diseases* was formulated to intensify efforts to help employees in difficulty, actively creating a harmonious and stable atmosphere for the development of the enterprise.

V. Profit distribution in 2015

The Company plans to distribute cash dividends from the profits of 2015 and the details of the program are: a cash dividend of RMB1.5 (including taxes) for every ten shares held amounting to RMB115,330,961.4 will be distributed to all shareholders based on the total share capital of 768,873,076 shares as at 31 December 2015.

VI. Significant legal disputes

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

VII. Implementation of related transactions contracts

In 2015, 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 Tongrentang Pharmaceuticals Distribution Co., Ltd., Tianjin Hong Gren Tang Pharmaceuticals Distribution Co., Ltd., Tianjin Haoda Medical Devices Co., Ltd., Tianjin Pharmaceutical Company, Tianjin Pharmaceutical Holdings Pacific

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

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 Cinorch Pharmaceutical Co., Ltd., Tianjin Tongrentang Group 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:–

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 2016

In 2016, centering on the "Quality Zhong Xin" strategic vision in further adapting to the new normal economic developments, the Company will put into effect the goals of stabilizing growth, adjusting structure, benefiting people's livelihood and preventing risk, strengthening structural reforms, enhancing momentum for sustainable development, improving development quality and efficiency and ensuring the full implementation of all tasks with confidence and a pragmatic, innovative and pioneering spirit, striving to achieve a good start of the Company's "13th Five-year". In 2016, the Company will mainly focus efforts on the following work:

1. *Pay attention to top-level design to enhance marketing quality*

Fitting into the main market development themes of adjusting structure and improving operational quality, the Company will explore marketing models under the new normal, adjusting and arranging marketing strategies; continue to steadfastly implement the major-varieties strategy, reinforcing the marketing of generic drugs, scientifically screening and selecting potential varieties and quickening the development of back-up varieties to strengthen the advantages of product groups; refine the management of agents and keep commercial and social inventories in strict control to enhance control over channels; tapped potential markets taking into account the actual circumstances of the enterprise; expand the regional and hospital coverage of products and intensify the building of professional publicity teams and expert networks to improve the quality of academic publicity at the end-user markets; in active response to new healthcare policies, further strengthen compliance management, build a product strategic framework more responsive to market changes, carry out a comprehensive tendering management, implement hospital bargaining for low-cost drugs, delivery for provincial trademark agent industries and other projects and timely allocate resources relevant to products to ensure the normal operation of products with new trademark period.

2. *Step up efforts on exploring cooperation to innovate business operating models*

The Company will fully explore practical ways of cooperation, striving to develop new business models with the characteristics of the enterprise; continue to promote hospital-drugstore cooperation and timely explore smart-pharmacy concept to expand room for the commercial segment to develop in the healthcare market; deepen cooperation with manufacturers to expand the cluster of major varieties; demonstrate the role of Medicinal Material Branch Company as a purchasing and distribution platform in further constructing a secondary supplier platform for a better quality of all-variety medicinal materials e-procurement and industrial supply information management within the system; focus on the use of print, website, APP, WeChat ID and other new media marketing channels to bring the edge of synergy and interaction among the Company's brand, enterprise brands and product brands into play to intensify promotional efforts targeting the retail markets.

3. *Follow closely export trade to explore the international market*

Paying close attention to international market trends, the Company will strengthen brand image promotion and focus on developing emerging markets to seek new sources of growth, hence effectively meeting customer needs and steadily improving market share; continue to maintain the Company's existing customers with comprehensive and satisfactory services to enhance the quality of import and export businesses; further increased branding efforts, solidifying customer communications, optimizing routes and resources and promoting the "Great Wall" and "Da Ren Tang" branded Chinese proprietary medicines to establish a stable customer base and marketing network; continue to follow up and push ahead the progress of international product registration towards the completion of registration of several new products within the year and expand the export business in five countries and regions to achieve new sources of sales growth; recommend the Company's major varieties to new and existing customers taking into account the trends of international market demand for Chinese proprietary medicine and health food, creating opportunities and paving the way for future sales.

4. *Promote industrial expansion to explore future development momentum*

The Company will continue to improve the quality of medical services of Da Ren Tang Hospital, expanding treatment items, building expert teams, conducting research on the model of undertaking body checks and preferential treatment and completing ultrasound and midnight-noon ebb-flow studios and other business development work, striving to attract as many as 2 million patients through the year, representing a year-on-year increase of 33%. Under the new circumstances, Long Shun Rong Development Company will adjust the mode of operation, strengthening the marketing of health food, particularly broken fungus spores, on the basis of stabilizing the sales of expensive processed ginseng medicine, implementing more flexible beverage distribution models, and actively looking for new functional foods as a support for the future development of the enterprise.

5. *Speed up scientific and technological innovation to build core strengths*

The Company will adhere to the enterprise's scope of disease and the "358" scientific research strategy, integrating the Company's R&D resources, exploring project introduction, product cooperation and commissioned R&D and other approaches, strengthening cooperation and exchange with research institutes and enterprises to promote the generation of high-level scientific research projects; demand a stringent initiation, review and approval of new research projects, promoting the building of scientific research management capacity among research centers, accelerating the pace of selecting topics and initiating and implementing projects for new products

WORK REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

so as to complete technical collaborations and commissioned services at a high standard; actively carry out research work and develop new technologies and ideas making full use of the successful experience and technology in the preliminary secondary development of major varieties centering on process optimization, quality enhancement, cost reduction, efficiency improvement and other goals to provide technical support for production and marketing, facilitating the long-term development of the enterprise; implement the Corporate Intellectual Property Management Practices to establish a sound intellectual property management system, hence achieving an improvement in the overall level of intellectual property management.

6. *Enhance operational quality to put risk prevention, control and management into effect*

The Company will further intensify the overall monitoring and scheduling of sales, account receivables and industrial value indicators taking into account business analysis conclusion to provide a scientific guidance for the enterprise's production and operation; steadily push ahead comprehensive budget management work, giving full play to the monitoring function of the budgeting management information system with focus on daily budget control and analysis work to maintain an optimum level of cash holdings according to changes in the economic situation; reinforce accounting management to improve the timely standardization of reports and statements to be submitted and disclosed; continue to solidify the centralized management and control of funds at the financial settlement center and actively explore various financing channels aiming at maintaining downward financing rates for Zhong Xin under the pressure of declining lending rates and narrowing spreads among banks; further improve the use and management of proceeds to ensure the safety of funds and to enhance capital efficiency and effectiveness; further strengthen the audit and oversight functions, continuously promoting special audit of receivables and inventories among subordinate enterprises as well as project investment audit work.

7. *Perfect the training platform to ensure adequate and competent personnel*

The Company will base itself on the knowledge management platform of the corporate training center in bringing the advantages of internal and external resources into full play taking into account corporate development directions and personnel training objectives to enhance staff professionalism; continue to develop public programs meeting the employees' knowledge building needs so that the staff knowledge structure is improved and the skills are upgraded; continuously create quality internal training programs within the enterprise to achieve sharing of knowledge with counterparts; continue to perfect the internal trainer management mechanism, organizing and launching training and assessment of internal trainer teams within the system of Zhong Xin to demonstrate the professional expertise of internal trainers, breaking the boundaries of corporate training and thus actively building the corporate training brand of Zhong Xin; promote the fieldwork, training, job rotation and other orientation work for high-end management personnel, providing talents with a platform to unleash expertise and management potential; conduct an intensive study of relevant policies of the State, Tianjin and pharmaceutical groups to strengthen personnel management work relating to 131 personnel, featured Chinese medicine inheritors, Chinese medicine dispensing masters, studio construction, etc.

Looking back into 2015, Zhong Xin Pharmaceutical realized a steady development and achieved a good momentum of progress in all respects. In 2016, the Company will further establish awareness of the general situation, innovation and development, with continuing innovation and stimulating vitality as the focus, with scientific marketing, intensive R&D, lean management and control, optimized personnel structure and creation of quality Zhong Xin as the gathering points, with improving the quality of economic operations and the capacity for sustainable development as the foothold, adapting to the new normal, establishing new concepts and fostering new momentum to a new level to ensure the successful completion of annual targets, striving to give back to shareholders on better performance.

Mr. Wang Zhi Qiang
Executive 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 2015 ("FY2015") was approximately RMB7,081 million, a decrease of approximately RMB6 million, or 0.09%, from RMB7,087 million for the financial year ended 31 December 2014 ("FY2014"). The decrease was mainly due to the decrease in sales of western medicine.

(b) Gross profit margin:

The Group's gross profit in FY2015 decreased by approximately 3% from approximately RMB2,102 million in FY2014 to approximately RMB2,044 million. Gross profit margin decreased from 30% in FY2014 to 29% in FY2015. The decrease in gross profit margin was mainly due to the decrease in sales of western medicine.

(c) Other operating income:

Other gains in FY2015 were approximately RMB137 million, an increase of approximately RMB101 million over the previous year, which was RMB36 million. The increase in other gains was mainly due to gain on disposal of equity interest of Tianjin Hualida Biotech Co., Ltd. and Baxter Healthcare (Tianjin) Co. Ltd. and the incomes from compensation for relocation.

(d) Major expenses:

(i) Marketing and Distribution costs in FY2015 was approximately RMB1,266 million, a decrease of approximately RMB100 million, or 7% over the previous year.

(ii) Research and Development costs in FY2015 increased by approximately RMB2 million, to approximately RMB73 million.

(iii) Administrative expenses in FY2015 decreased by approximately RMB6 million, from approximately RMB276 million in FY2014 to approximately RMB269 million.

(iv) Finance costs in FY2015 decreased by approximately RMB15 million or 30% from approximately RMB51 million to approximately RMB36 million. The decrease in financial costs was mainly due to the decrease in loan amounts and interest rates.

(v) Other losses in FY2015 increased by approximately RMB28 million, from approximately RMB16 million in FY2014 to approximately RMB44 million. The increase in other losses was mainly due to the increase in allowance for doubtful debts.

(e) Shares of results of associated companies:

The Group's share of results of associated companies in FY2015 decreased by RMB33 million, or 49%, from approximately RMB67 million in FY2014 to approximately RMB34 million. This was mainly because Sino-American Tianjin Smithkline & French Lab., Ltd.'s profit in FY2015 decreased compared to FY2014.

(f) Total comprehensive income:

The Group's total comprehensive income (net of tax) in FY2015 was approximately RMB461 million, an increase of 14% over the previous year. The total comprehensive income attributable to equity holders of parent (net of tax) in FY2015 was approximately RMB454 million, an increase of approximately RMB71 million, or 19%, from FY2014.

(g) Major changes in statement of financial positions:

As at 31 December 2015, the Group's cash and cash equivalents amounted to approximately RMB1,108 million, which is an increase of approximately RMB477 million, or 76% over last year. As at 31 December 2015, the Group's short-term borrowings were approximately RMB536 million, which is a decrease of approximately RMB386 million, or 42% over last year. This is contributed by the partial repayment of short-term borrowings.

Trade and other receivables was approximately RMB1,539 million at 31 December 2015, which is a decrease of approximately RMB155 million, or 9% over last year. Notes receivable decreased by approximately RMB78 million. Trade receivables decreased by approximately RMB41 million. Inventories increased by 13% to approximately RMB974 million to meet the anticipated higher sales in the coming months.

Other current assets decreased by approximately 11% or RMB22 million to approximately RMB176 million as at 31 December 2015. This was mainly attributed to the decrease in procurement of which advance payments are required.

Investments in associates decreased by 2% to approximately RMB531 million, which is mainly attributable to the decrease in the Group's share of the associates' profits and the disposal of the equity interests of Tianjin Hualida Biotech Co., Ltd. and Baxter Healthcare (Tianjin) Co. Ltd.

FINANCIAL REVIEW

Property, plant and equipment increased by approximately RMB51 million or 6% to RMB921 million.

(h) Changes in cash flow position:

In FY2015, the Group recorded net cash inflow from operating activities of approximately RMB324 million.

Cash outflow used in investment activities was approximately RMB420 million in FY2015.

Cash inflow from financing activities was approximately RMB302 million in FY2015.

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.

With the current challenging economic conditions and downward pressure for the pricing of the pharmaceutical products in recent years, the Group expects to face challenges from (i) the increase in costs of raw materials, energy and human resources; and (ii) the uncertainty in government procurement policy for pharmaceuticals.

Taking into account the competitive environment, the Group is continuing to carry out established policies in order to improve its capabilities in the following areas:–

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

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

(3) strengthening the internal controls and management of the Group to enhance its development.

The Board believes that with the above measures, and barring unforeseen circumstances, the Group is optimistic that it would achieve a favorable performance for 2016.

WORK REPORT OF THE BOARD OF SUPERVISORS

Dear Supervisors:

In FY2015, 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 Zhong Xin 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 2015, the board of supervisors held a total of seven meetings at which the 2014 annual report, 1Q2015 report, 2015 interim report, 3Q2015 report, *2014 Profit Distribution Plan of the Company, 2014 Internal Control Assessment Report of the Company, Motion on the Company's Execution of Relevant Accounting Standards Promulgated or Amended by the Ministry of Finance in 2014, Motion on the Company's Write-off of Assets and Allocation of Provisions for Impairment of Assets in 2014, Motion on the Connected Transaction between the Company and the Connected Party in Respect of the Joint Contribution to the Establishment of Tianjin Pharmaceutical group Finance Co., Ltd., Motion on the Situation of the Company's Advanced Investment of Self-raised Funds in Projects Financed by Proceeds, Motion on the Company's Use of Some Idle Proceeds for Temporary Replenishment of the Company's Liquidity, Motion on the Company's 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 this year 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 control has 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 2014, 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 2014 profit distribution plan and cash dividend program was successfully implemented in June 2015. 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 2015 financial report has truly and accurately reflected the Company's financial conditions and operating results. The audit opinions issued by Ruihua Certified Public Accountants LLP and RSM Chio Lim LLP for the Company in accordance with the China Auditing Standards and the International Standards On Auditing respectively as well as the evaluation of the matters involved were objective and fair.

The board of supervisors is of the view that, in FY2015, 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 2016 and give back to shareholders on better results.

Li Li Qun
Chairman of the Board of Supervisors

FINANCIAL CONTENTS

CORPORATE GOVERNANCE STATEMENT

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

BOARD MATTERS

Role of the Board of Directors

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

Board Processes

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

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

Matters Requiring Board Approval

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

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

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

CORPORATE GOVERNANCE STATEMENT

Access to Information

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

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

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

Directors' Meetings held in 2015

During the year, the Board had 10 meetings, and attendance is as follows:

Name of director	Number of Board Meetings held	Attendance
Wang Zhi Qiang	10	10
Zhang Jian Jin	10	6
Ma Gui Zhong	10	7
Xu Dao Qing	10	10
Wang Lei (appointed on 15 May 2015)	5	5
Zhou Hong	10	10
Timothy Chen Teck Leng	10	10
Vincent Toe Teow Heng	10	10
Qiang Zhi Yuan (appointed on 15 May 2015)	5	5
Gao Xue Min (whose term of office expired on 15 May 2015)	5	5

Training of Directors

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

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

Board Composition and Balance

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

Name of Director	Appointed on	Date of last re-election	Board	Audit Committee	Strategy Committee	Remuneration Committee	Nominating Committee
Wang Zhi Qiang	28 December 2007	15 May 2013	Chairman		C		
Zhang Jian Jin	31 January 2007	18 December 2012	Non-Executive Director		M	M	
Ma Gui Zhong	18 December 2012	N.A.	Non-Executive Director		M		M
Xu Dao Qing	18 December 2012	N.A.	Executive Director		M		
Wang Lei	15 May 2015	N.A.	Executive Director				
Zhou Hong	18 December 2012	22 December 2015	Executive Director				
Timothy Chen Teck Leng	15 May 2014	N.A.	Independent Director	C		M	
Vincent Toe Teow Heng	15 May 2013	N.A.	Independent Director	M		C	M
Qiang Zhi Yuan	15 May 2015	N.A.	Independent Director	M	M		C

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

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

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

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

Independent Members of the Board of Directors

The Board of Directors has three independent members: Mr. Timothy Chen Teck Leng, Mr. Vincent Toe Teow Heng, 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.

CORPORATE GOVERNANCE STATEMENT

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

Chairman and Chief Executive Officer

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

The Executive Chairman is assisted by the General Manager's Executive Meeting. Members attending the General Manager's Executive Meeting include: General Manager Mr. Wang Zhi Qiang, Deputy General Manager 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 that each of them is chaired by an independent director, would provide for a balance of power and authority within the Board.

Board Committees

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

Strategy Committee

The Strategy Committee was established in 2002. It was chaired by Mr. Wang Zhi Qiang and its other members are Mr. Zhang Jian Jin, Mr. Ma Gui Zhong, Mr. Xu Dao Qing and Mr. Qiang Zhi Yuan in FY2015. The Strategy Committee was entrusted with the conduct of the Group's business and affairs, in line with the overall strategy set by the Board. The Committee meets periodically and on such other times where necessary.

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

Name of director/executive	Appointment	Number of meetings held	Attendance
Wang Zhi Qiang	Executive Chairman	1	1
Zhang Jian Jin	Non-executive Director	1	1
Ma Gui Zhong	Non-executive Director	1	1
Xu Dao Qing	Executive Director	1	1
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 directors of the Company.

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

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

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

The Audit Committee has conducted a review and the Company confirms that it is in compliance with Rules 712 and 716 of the SGX-ST Listing Manual for the financial year ended 31 December 2015. The Audit Committee and the Board have satisfied themselves that the appointment of different auditing firms of certain of associates would not compromise the standard and effectiveness of the audit of the Group. The Audit Committee also conducts a review to ensure the independence of the external auditors annually. During the year under review, the Company has agreed an aggregate of approximately RMB3,150,000 to the external auditors for their audit services, and an aggregate of approximately RMB800,000 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 held two 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 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 (appointed on 15 May 2015)	Independent Director	2	2

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.

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

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

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

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

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

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

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	1	1
Vincent Toe Teow Heng	Independent Director	1	1
Ma Gui Zhong	Non-executive Director	1	1

Remuneration Committee

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

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

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

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

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

Remuneration Matters

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

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

CORPORATE GOVERNANCE STATEMENT

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

	Salary %	Bonus %	Termination, Retirement and Post-employment benefits %	Other Benefits %	Total %
Below S$250,000					
Wang Zhi Qiang	100	–	–	–	100
Zhang Jian Jin	100	–	–	–	100
Ma Gui Zhong	100	–	–	–	100
Xu Dao Qing	100	–	–	–	100
Wang Lei	100	–	–	–	100
Zhou Hong	100	–	–	–	100
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 director fees paid to the independent directors of the Company for the year ended 31 December 2015 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 (appointed on 15 May 2015)	0	0	RMB40,000	RMB40,000
Gao Xue Min (whose term of office expired on 15 May 2015)	0	0	RMB25,000	RMB25,000

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

Details of remuneration paid to the executives (who are not directors of the Company) of the Group for the year ended 31 December 2015 are set out below:

Unit: RMB

Name of executive	*Total Remuneration
Li Li Qun (appointed on 11 December 2015)	RMB100,000
Xie Qing Feng	RMB300,000
Zhang Jian	RMB300,000

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

Li Li Qun, Xie Qing Feng and Zhang Jian are the only top key management personnel (who are also not directors) for the year ended 31 December 2015. The aggregate total remuneration paid to or accrued to the 3 key executives amounted to RMB700,000.

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

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

Accountability and Audit

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

Internal Controls

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

The Board had received assurance from the General Manager and Chief Financial Officer that the financial records as at 31 December 2015 have been properly maintained and the financial statements for the financial year ended 31 December 2015 give a true and fair view of the Company's operations and finances and regarding the effectiveness of the Company's risk management and internal control systems.

CORPORATE GOVERNANCE **STATEMENT**

After taking into account the above factors, various management controls put in place, as well as the assistance/services rendered to the Company by both of its internal and external auditors, the Board is of the view that the present internal controls of the Group, including financial, operational, compliance and information technology controls, and risk management systems, are adequate 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.

Internal Audit

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

Communication with Shareholders

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

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

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

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

Dealing in Securities

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

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

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

Compliance with Existing Best Practices Guide of the Singapore Exchange

The Board of Directors confirms that for the financial year ended 31 December 2015, the Company has complied with the principal corporate governance recommendations set out in the Best Practices Guide issued by the SGX-ST.

STATEMENT BY DIRECTORS

The directors of the Company are pleased to present their statement to the members together with the audited consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company for the reporting year ended 31 December 2015.

1. Opinion of the directors

In the opinion of the directors,

(a) the accompanying consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the reporting year ended on that date; and

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

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

2. Directors in office at date of statement

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

Wang Zhi Qiang	
Zhang Jian Jin	
Ma Gui Zhong	
Xu Dao Qing	
Zhou Hong	
Timothy Chen Teck Leng@Chen Teck Leng	
Vincent Toe Teow Heng	
Wang Lei	(Appointed on 15 May 2015)
Qiang Zhi Yuan	(Appointed on 15 May 2015)

3. Directors' interests in shares and debentures

The directors of the Company holding office at the end of the reporting year had no interests in the share capital of the Company and related corporations except for Mr Wang Zhi Qiang who holds 1,280 ordinary A shares in the share capital of the Company at the beginning and at the end of the reporting year. The director's interests as at 21 January 2016 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 any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

STATEMENT BY DIRECTORS

5. Shares 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 of the Company or any other body corporate in the group issued by virtue of the exercise of an option to take up unissued shares.

At the end of the reporting year, there were no unissued shares of the Company or any other body corporate in the group 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

--------------------------------------- ---------------------------------------

Wang Zhi Qiang
Director

Wang Lei
Director

28 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED (REGISTRATION NO.91120000103100784F)

Report on the financial statements

We have audited the accompanying financial statements of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the "Company") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group, and statement of changes in equity of the Company for the reporting year then ended, and significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of true and fair financial statements and to maintain accountability of assets, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED (REGISTRATION NO.91120000103100784F)

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015 and of the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the reporting year ended on that date.

RSM Chio Lim LLP
Public Accountants and Chartered Accountants

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

28 March 2016

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

Ruihua Certified Public Accountants LLP
Certified Public Accountants

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

28 March 2016

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 2015

	Notes	2015 RMB'000	2014 RMB'000
Revenue	4	**7,080,552**	7,086,879
Cost of sales		**(5,036,856)**	(4,985,259)
Gross profit		**2,043,696**	2,101,620
Interest income	5	**7,874**	5,832
Dividend income		**1,134**	1,080
Other gains	6	**136,532**	35,661
Marketing and distribution costs		**(1,265,974)**	(1,366,133)
Research and development costs		**(72,790)**	(71,003)
Administrative expenses		**(269,415)**	(275,775)
Finance costs	7	**(35,555)**	(50,995)
Other losses	6	**(44,478)**	(16,042)
Share of profits from equity-accounted associates		**33,937**	66,634
Profit before income tax		**534,961**	430,879
Income tax expense	9	**(79,303)**	(51,442)
Profit, net of tax		**455,658**	379,437
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Share of other comprehensive income from equity-accounted associates, net of tax	24A	**1,667**	1,913
Available-for-sale financial assets, net of tax	24C	**3,331**	23,648
Other comprehensive income for the year, net of tax		**4,998**	25,561
Total comprehensive income for the year		**460,656**	404,998
Profit, net of tax attributable to:			
Owners of the parent		**449,490**	357,801
Non-controlling interests		**6,168**	21,636
		455,658	379,437
Total comprehensive income for the year attributable to:			
Owners of the parent		**454,488**	383,362
Non-controlling interests		**6,168**	21,636
		460,656	404,998
Earnings per share			
Earnings per share currency unit		**RMB**	RMB
Basic and diluted	10	**0.60**	0.48

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Notes	Group 2015 RMB'000	Group 2014 RMB'000	Company 2015 RMB'000	Company 2014 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	**921,476**	870,231	**721,936**	732,802
Investment properties	13	**27,311**	26,710	**25,556**	24,878
Land use rights	14	**178,929**	183,596	**148,580**	153,064
Intangible assets	15	**9,042**	9,488	**3,911**	4,882
Investments in subsidiaries	16	**–**	–	**300,146**	314,366
Investments in associates	17	**531,220**	542,053	**428,279**	510,431
Other financial assets, non-current	18	**304,501**	319,499	**86,983**	83,065
Deferred tax assets	9D	**82,410**	88,122	**78,606**	83,920
Other assets, non-current	19	**15,467**	15,539	**13,766**	15,946
Total non-current assets		**2,070,356**	2,055,238	**1,807,763**	1,923,354
Current assets					
Inventories	20	**974,155**	859,891	**742,780**	645,638
Trade and other receivables	21	**1,538,956**	1,693,613	**1,415,055**	1,515,793
Other financial assets, current	18	**201,494**	–	**201,494**	–
Other assets, current	19	**175,808**	197,530	**164,940**	154,449
Cash and cash equivalents	22	**1,108,107**	630,935	**884,523**	408,586
Total current assets		**3,998,520**	3,381,969	**3,408,792**	2,724,466
Total assets		**6,068,876**	5,437,207	**5,216,555**	4,647,820
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	23	**768,873**	739,308	**768,873**	739,308
Share premium		**1,198,817**	414,042	**1,198,817**	414,042
Retained earnings		**1,532,323**	1,239,347	**1,323,934**	1,095,568
Other reserves	24	**421,696**	371,080	**496,007**	447,058
Equity attributable to owners of the parent		**3,921,709**	2,763,777	**3,787,631**	2,695,976
Non-controlling interests		**183,466**	182,860	**–**	–
Total equity		**4,105,175**	2,946,637	**3,787,631**	2,695,976
Non-current liabilities					
Deferred tax liabilities	9D	**9,316**	8,504	**9,316**	8,504
Trade payables, non-current	25	**47,652**	53,947	**47,408**	53,507
Other liabilities, non-current	26	**66,412**	66,173	**41,165**	39,680
Total non-current liabilities		**123,380**	128,624	**97,889**	101,691
Current liabilities					
Income tax payable		**10,264**	8,735	**5,731**	4,886
Trade and other payables	27	**1,229,789**	1,380,160	**960,561**	1,095,889
Other financial liabilities	28	**535,650**	921,700	**320,000**	720,000
Other liabilities, current	26	**64,618**	51,351	**44,743**	29,378
Total current liabilities		**1,840,321**	2,361,946	**1,331,035**	1,850,153
Total liabilities		**1,963,701**	2,490,570	**1,428,924**	1,951,844
Total equity and liabilities		**6,068,876**	5,437,207	**5,216,555**	4,647,820

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

STATEMENTS OF
CHANGES IN EQUITY
REPORTING YEAR ENDED 31 DECEMBER 2015

Group	Total Equity RMB'000	Attributable to Parent Sub-Total RMB'000	Share Capital RMB'000	Share Premium RMB'000	Retained Earnings RMB'000	Other Reserves RMB'000	Non-Controlling Interest RMB'000
Current year:							
Opening balance at 1 January 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**
Previous year:							
Opening balance at 1 January 2014	2,574,964	2,417,380	739,308	414,042	954,190	309,840	157,584
Total comprehensive income for the year	404,998	383,362	–	–	357,801	25,561	21,636
Dividends paid (Note 11)	(36,965)	(36,965)	–	–	(36,965)	–	–
Appropriation of statutory common reserve (Note 24B)	–	–	–	–	(35,679)	35,679	–
Increase in capital contributed by non-controlling interests	8,515	–	–	–	–	–	8,515
Distribution to non-controlling interests	(4,875)	–	–	–	–	–	(4,875)
Closing balance at 31 December 2014	2,946,637	2,763,777	739,308	414,042	1,239,347	371,080	182,860

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

STATEMENTS OF
CHANGES IN EQUITY

REPORTING YEAR ENDED 31 DECEMBER 2015

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 2015	**2,695,976**	**739,308**	**414,042**	**1,095,568**	**447,058**
Issue of shares (Note 23)	**814,340**	**29,565**	**784,775**	**–**	**–**
Total comprehensive income for the year	**388,211**	**–**	**–**	**384,880**	**3,331**
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	**3,787,631**	**768,873**	**1,198,817**	**1,323,934**	**496,007**
Previous year:					
Opening balance at 1 January 2014	2,366,974	739,308	414,042	825,893	387,731
Total comprehensive income for the year	365,967	–	–	342,319	23,648
Dividends paid (Note 11)	(36,965)	–	–	(36,965)	–
Appropriation of statutory common reserve (Note 24B)	–	–	–	(35,679)	35,679
Closing balance at 31 December 2014	2,695,976	739,308	414,042	1,095,568	447,058

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

CONSOLIDATED STATEMENT OF CASH FLOWS

REPORTING YEAR ENDED 31 DECEMBER 2015

	2015 RMB'000	2014 RMB'000
Cash flows from operating activities		
Profit before income tax	**534,961**	430,879
Interest income	**(7,874)**	(5,832)
Interest expense	**35,555**	50,995
Dividend income	**(1,134)**	(1,080)
Gain on maturity and disposal of financial assets	**(21,084)**	(15,892)
Share of profits of equity-accounted associates	**(33,937)**	(66,634)
Net gain on disposals of interests in associates	**(74,077)**	–
Fair value gains on derivative financial instruments	**(1,494)**	–
Depreciation of property, plant and equipment and investment property, and amortisation of land use rights, intangible assets and other assets	**77,031**	88,841
Losses on disposal of property, plant and equipment, intangible assets and other non-current assets	**1,106**	640
Impairment of receivables and inventories	**32,847**	6,282
Operating cash flows before changes in working capital	**541,900**	488,199
Inventories	**(114,138)**	(46,441)
Trade and other receivables	**119,817**	(247,475)
Other assets	**16,290**	(71,778)
Trade and other payables	**(179,185)**	233,111
Other liabilities	**13,506**	(27,417)
Net cash flows from operations	**398,190**	328,199
Income tax paid	**(74,206)**	(58,815)
Net cash flows from operating activities	**323,984**	269,384
Cash flows from investing activities		
Purchase of property, plant and equipment, investment property, land use rights and intangible assets	**(92,641)**	(70,151)
Proceeds from disposals of property, plant and equipment, intangible assets and other assets	**112**	311
Acquisition of available-for-sale financial assets	**(23,969,255)**	(21,123,407)
Proceeds from disposals of available-for-sale financial assets	**23,784,639**	21,220,865
Proceeds from disposals of interests in associates	**120,000**	–
Proceeds from deemed disposal of interest in a subsidiary	**–**	1,665
Acquisition of investment in an associate	**–**	(900)
Interest income received	**35,107**	26,197
Dividends income received from associates and available-for-sale financial assets	**1,648**	53,240
Cash restricted in use	**(300,000)**	–
Net cash flows (use in)/from investing activities	**(420,390)**	107,820

CONSOLIDATED STATEMENT OF CASH FLOWS

REPORTING YEAR ENDED 31 DECEMBER 2015

	2015 RMB'000	2014 RMB'000
Cash flows from financing activities		
Increase in capital contributed by non-controlling interests	**1,725**	6,850
Issue of shares	**814,340**	–
Proceeds from new borrowings	**807,050**	1,038,000
Repayments of borrowings	**(1,174,000)**	(1,311,000)
Proceeds from other borrowings	**36,810,400**	38,776,320
Repayment of other borrowings	**(36,834,764)**	(38,878,324)
Dividends paid to equity owners	**(110,395)**	(69,413)
Distribution to non-controlling interests	**(7,287)**	(4,430)
Interest expense paid	**(33,491)**	(49,003)
Cash restricted in use	**28,725**	11,638
Net cash flows from/(used in) financing activities	**302,303**	(479,362)
Net increase/(decrease) in cash and cash equivalents	**205,897**	(102,158)
Effect of exchange rate changes on cash and cash equivalents held	**–**	1
Cash and cash equivalents, consolidated statement of cash flows, beginning balance	**557,062**	659,219
Cash and cash equivalents, consolidated statement of cash flows, ending balance (Note 22A)	**762,959**	557,062

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

1. GENERAL

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

The financial statements for the reporting year ended 31 December 2015 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 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 on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS"), being standards and interpretations issued by the International Accounting Standards Board ("IASB"), in force at 31 December 2015.

These financial statements comprise statements of financial position of the Group and the Company as at 31 December 2015, 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 2015, 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 at the end of this note to the financial statements, where applicable.

Basis of consolidation

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

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

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 2015

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 IASB that are mandatory for the first time for the reporting year beginning 1 January 2015 and applicable to the Group. These application of new or amended standards did not require any material modification of the measurement method or the presentation of the financial statements.

1. GENERAL (CONT'D)

New and amended standards in issue but not yet effective

The Group has not applied any new or amended standards that have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2015. Those applicable to the Group for future reporting years are listed below.

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

- 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 are not expected to have a material effect on the financial statements.

- Amendments to IAS 27 titled Equity Method in Separate Financial Statements (issued in August 2014) – The amendments, applicable to annual periods beginning on or after 1 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. This is expected only to have an effect on the separate financial statements of the Company.

- 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.

  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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

1. GENERAL (CONT'D)

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

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.

Segment reporting

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

Revenue recognition

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

2A. Significant accounting policies

Employee benefits

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

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

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

Operating leases

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

2. SUMMARY OF 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, branches and associates except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

Foreign currency transactions

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

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

2A. Significant accounting policies (Cont'd)

Property, plant and equipment

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

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

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

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

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

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

Investment property

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

2. SUMMARY OF 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 impairment allowance. The prepaid lease payments are amortised on a straight-line basis over the lease periods ranging from 40 to 50 years.

Intangible assets

An identifiable non-monetary asset without physical substance is recognised as an intangible asset at acquisition cost if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. After initial recognition, an intangible asset with finite useful life is carried at cost less any accumulated amortisation and any accumulated impairment losses. An intangible asset with an indefinite useful life is not amortised. An intangible asset is regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

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

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

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

Subsidiaries

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

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

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

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

Business combinations

A business combination is transaction or other event which requires that the assets acquired and liabilities assumed constitute a business. 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

2. SUMMARY OF 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. SUMMARY OF 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.

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2015

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

2A. Significant accounting policies (Cont'd)

Financial assets

Initial recognition, measurement and derecognition:

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

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

Subsequent measurement:

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

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

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

2. SUMMARY OF 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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

2A. Significant accounting policies (Cont'd)

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.

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. Financial liabilities including bank and other borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting year.

Subsequent measurement:

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

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

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

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

2A. Significant accounting policies (Cont'd)

Provisions

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

Government grants

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

2B. Other explanatory information

Classification of equity and liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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

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

Net realisable value of inventories:
A review is made on inventory for excess inventory, and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. These reviews require management to consider future demand for the products. In any case the realisable value represents the best estimate of the recoverable amount and is based on the acceptable evidence available at the end of the reporting year and inherently involves estimates regarding the future expected realisable value. The usual considerations for determining the amount of allowance or write-down include ageing analysis, technical assessment and subsequent events. In general, such an evaluation process requires significant judgement and materially affects the carrying amount of inventories at the end of the reporting year. Possible changes in these estimates could result in revisions to the valuation of inventory. The carrying amounts of inventories are disclosed in 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 amounts of the assets of the Group at the end of the reporting year affected by the assumption were RMB182 million (2014: RMB182 million) as disclosed in Note 12.

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

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

Useful lives of property, plant and equipment:
The estimates for the useful lives and related depreciation charges for property, plant and equipment is based on commercial and production factors which could change significantly as a result of innovations and in response to market conditions. The depreciation charge is increased where useful lives are less than previously estimated lives, or the carrying amounts written off or written down for technically obsolete items or assets that have been abandoned. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amounts of the assets of the Group and the Company at the end of the reporting year affected by the assumption were RMB794 million (2014: RMB807 million) and RMB688 million (2014: RMB704 million) respectively.

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

Estimated impairment of associate:
Where an associate is in net equity deficit and or has suffered losses, a test is made whether the investment in the investee has suffered any impairment. This determination requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. The carrying amounts of the specific assets of the Group and the Company at the end of the reporting year affected by the assumption were RMB55 million (2014: RMB57 million) and RMB115 million (2014: RMB88 million) respectively.

Estimated impairment of unquoted equity investments:
Where an investee is in net equity deficit and or has suffered losses, a test is made whether the investment in the investee has suffered any impairment, in accordance with the stated accounting policy. This determination requires significant judgement. An estimate is made of the future profitability of the investee, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, and operational and financing cash flow. The carrying amount of the relevant investment of the Group and the Company at the end of the reporting year was RMB20 million (2014: RMB20 million) (Note 18B).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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

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

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 liability of the Group at the end of the reporting year affected by the assumption is disclosed in Notes 25 and 27.

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

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 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	
	2015	**2014**
	RMB'000	**RMB'000**
Sale of goods to associates	**408**	1,088
Purchase of goods from associates	**(87,083)**	(90,146)

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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

3B. Related companies transactions (Cont'd)

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Other receivables from associates:		
Balance at beginning of the year	**999**	3,897
Amounts paid out and settlement of liabilities on behalf of another party	**960**	10,056
Amounts paid in and settlement on behalf of the Company	**(792)**	(12,954)
Balance at end of the year (Note 21)	**1,167**	999

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	
	2015	**2014**
	RMB'000	**RMB'000**
Sale of goods	**291,455**	709,434
Purchase of goods	**(374,023)**	(862,838)

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

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

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Other receivables from/(other payables to) related parties:		
Balance at beginning of the year	**(1,535)**	(1,508)
Amounts paid out and settlement of liabilities on behalf of another party	**3,094**	9,927
Amounts paid in and settlement on behalf of the Company	**(896)**	(9,954)
Balance at end of the year	**663**	(1,535)
Presented in the statements of financial position as follows:		
Other receivables (Note 21)	**1,684**	556
Other payables (Note 27)	**(1,021)**	(2,091)
	663	(1,535)

3D. Key management compensation

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Salaries and other short-term employee benefits	**8,698**	10,996

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Remuneration of directors of the Company	**5,093**	5,883

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

4. REVENUE

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Sale of goods	**7,058,450**	7,066,939
Rental and service income	**18,138**	11,060
Others	**3,964**	8,880
	7,080,552	7,086,879

5. INTEREST INCOME

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Interest income	**7,874**	5,832

6. OTHER GAINS AND (OTHER LOSSES)

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Allowance for impairment on other receivables	**(19,648)**	(623)
Allowance for impairment on trade receivables	**(13,325)**	(2,221)
Compensation for relocation from government	**21,729**	–
Compensation income	**36**	315
Employment termination benefits	**(9,755)**	(8,303)
Fair value changes in derivative financial instruments	**1,494**	–
Foreign currency translation losses, net	**(644)**	(877)
Gain on disposals of interests in associates, net	**74,077**	–
Gain on maturity or disposal of financial assets	**21,084**	15,892
Government grants and subsidies	**14,790**	18,566
Impairment losses on inventories	**–**	(3,438)
Inventory written down – reversal	**126**	–
Losses on disposal/written-off of property, plant and equipment, intangible assets and land use rights, net	**(1,106)**	(580)
Others	**3,196**	888
Net	**92,054**	19,619
Presented in profit or loss as:		
Other gains	**136,532**	35,661
Other losses	**(44,478)**	(16,042)
	92,054	19,619

6. OTHER GAINS AND (OTHER LOSSES) (CONT'D)

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Audit fees to the independent auditors of the Company	**3,410**	3,418
Other fees to the independent auditors of the Company	**860**	860

7. FINANCE COSTS

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Interest expense	**32,675**	47,850
Imputed interest on accrued retirement and termination benefits	**2,880**	3,145
	35,555	50,995

8. EMPLOYEE BENEFITS EXPENSE

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Salaries and bonuses	**423,401**	394,831
Contributions to defined contribution plans and other welfare	**97,161**	86,065
Post-employment benefits	**76,017**	66,694
Termination benefits	**9,755**	8,303
Total employee benefits expense	**606,334**	555,893

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

9. INCOME TAX

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Current tax expense/(income):		
Current tax expense	**71,477**	58,537
Under/(over) adjustments in respect of prior years	**1,889**	(3,792)
Subtotal	**73,366**	54,745
Deferred tax expense/(income)		
Deferred tax expense/(income)	**4,928**	(3,303)
Under adjustments in respect of prior years	**1,009**	–
Subtotal	**5,937**	(3,303)
Total income tax expense	**79,303**	51,442

The income tax expense varied from the amount determined by applying the statutory corporate income tax rate of 25% (2014: 25%) to profit before income tax as a result of the following differences:

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Profit before income tax	**534,961**	430,879
Less: Share of profits from equity-accounted associates	**(33,937)**	(66,634)
	501,024	364,245
Income tax expense at the above rate	**125,256**	91,061
Effect of concessionary tax rate at 15%	**(51,443)**	(32,394)
Not deductible items	**2,607**	2,166
Not taxable items	**(6,962)**	–
Unrecognised deferred tax assets	**11,570**	403
Other tax incentives	**(4,622)**	(5,325)
Under/(over) adjustments to current tax in respect of prior years	**2,897**	(3,792)
Other minor items less than 3% each	**–**	(677)
Total income tax expense	**79,303**	51,442

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% (2014: 15%) while most of its subsidiaries are subject to the statutory corporate income tax rate of 25% (2014: 25%).

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

9. INCOME TAX (CONT'D)

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

	Group	
	2015	2014
	RMB'000	RMB'000
Deferred tax (income)/expense	**(223)**	1,614
Tax loss carryforwards	**–**	213
Accruals and allowances	**5,935**	(5,130)
Others	**225**	–
Total deferred tax expense/(income) recognised	**5,937**	(3,303)

9C. Tax income recognised in other comprehensive income:

	Group	
	2015	2014
	RMB'000	RMB'000
Available-for-sale financial assets	**587**	4,511

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

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:				
Deferred income	**3,425**	3,202	**3,425**	3,202
Accruals and allowances	**78,985**	84,920	**75,181**	80,718
	82,410	88,122	**78,606**	83,920
Deferred tax liabilities:				
Available-for-sale investments	**(9,316)**	(8,504)	**(9,316)**	(8,504)

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

9E. Unrecognised deferred tax assets

	2015		2014	
	Gross	Tax	Gross	Tax
Group	Amount	Effect	Amount	Effect
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income	**21,298**	3,195	**22,545**	3,381
Tax loss carryforwards	**40,800**	6,120	**10,420**	1,563
Accruals and allowances	**48,124**	7,219	**22,037**	3,306
	110,222	16,534	**55,002**	8,250

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

9. INCOME TAX (CONT'D)

9E. Unrecognised deferred tax assets (Cont'd)

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

The unutilised tax losses are expiring in the following years:

Group	Unutilised tax losses		Unrecognised deferred tax assets	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Expiring in 31 December 2015	–	89	–	13
Expiring in 31 December 2016	741	826	111	124
Expiring in 31 December 2017	2,097	2,537	315	381
Expiring in 31 December 2018	1,854	1,918	278	288
Expiring in 31 December 2019	8,855	5,050	1,328	757
Expiring in 31 December 2020	27,253	–	4,088	–
	40,800	10,420	6,120	1,563

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 RMB449,490,000 (2014: RMB357,801,000) by the weighted average number of shares in issue of 754,090,898 (2014: 739,308,720) during the reporting year.

Diluted earnings per share for the reporting years ended 31 December 2015 and 2014 are same as basic earnings per share because there were no potential dilutive shares existing during the respective reporting years.

11. DIVIDENDS ON EQUITY SHARE

	Group and Company			
	Rate per share			
	2015	2014	2015	2014
	RMB	RMB	RMB'000	RMB'000
Dividend paid net of income tax	0.15	0.05	110,896	36,965

On 28 March 2016, the directors had proposed to declare a final dividend of an aggregate amount of RMB115,330,961 (2014: RMB110,896,000) on the basis of RMB1.5 (2014: 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 the 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 2014	1,007,052	696,017	44,029	1,747,098
Reclassifications	2,674	16,081	(18,755)	–
Additions	2,590	21,495	37,655	61,740
Disposals/written-off	(2)	(11,138)	–	(11,140)
Transfer from investment properties (Note 13)	293	–	–	293
Transfer to investment properties (Note 13)	(457)	–	–	(457)
At 31 December 2014	1,012,150	722,455	62,929	1,797,534
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**
Accumulated depreciation and impairment loss:				
At 1 January 2014	353,761	507,122	–	860,883
Depreciation for the year	29,482	47,266	–	76,748
Disposals/written-off	(2)	(10,206)	–	(10,208)
Transfer from investment properties (Note 13)	126	–	–	126
Transfer to investment properties (Note 13)	(246)	–	–	(246)
At 31 December 2014	383,121	544,182	–	927,303
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**
Net book value:				
At 1 January 2014	653,291	188,895	44,029	886,215
At 31 December 2014	629,029	178,273	62,929	870,231
At 31 December 2015	**616,650**	**177,794**	**127,032**	**921,476**

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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 2014	909,922	596,147	23,186	1,529,255
Reclassifications	–	346	(346)	–
Additions	1,751	14,513	5,901	22,165
Disposals/written-off	(2)	(8,668)	–	(8,670)
Transfer from investment properties (Note 13)	293	–	–	293
Transfer to investment properties (Note 13)	(457)	–	–	(457)
At 31 December 2014	911,507	602,338	28,741	1,542,586
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**
Accumulated depreciation and impairment loss:				
At 1 January 2014	309,597	444,062	–	753,659
Depreciation for the year	24,490	39,785	–	64,275
Disposals/written-off	(2)	(8,028)	–	(8,030)
Transfer from investment properties (Note 13)	126	–	–	126
Transfer to investment properties (Note 13)	(246)	–	–	(246)
At 31 December 2014	333,965	475,819	–	809,784
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**
Net book value:				
At 1 January 2014	600,325	152,085	23,186	775,596
At 31 December 2014	577,542	126,519	28,741	732,802
At 31 December 2015	**561,898**	**126,348**	**33,690**	**721,936**

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

Allocation of the depreciation expense:

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cost of sales	**33,269**	45,382	**26,304**	40,366
Distribution expenses	**1,623**	1,611	**628**	645
Administrative expenses	**29,193**	29,755	**23,091**	23,264
Total	**64,085**	76,748	**50,023**	64,275

(a) The Group has not obtained titles to certain buildings with net book value of approximately RMB53 million (2014: RMB60 million) as at the end of the reporting year. See Note 2C "Critical Judgements, Assumptions and Estimation Uncertainties".

(b) Property, plant and equipment are allocated to the Group's cash generating unit ("CGU") identified according to product lines.

As of the end of the reporting year, property, plant and equipment of a CGU with carrying amount of RMB182 million (2014: RMB182 million) was stated after recognising to an impairment allowance of RMB66 million (2014: RMB67 million). The recoverable amount of a CGU is determined based on value-in-use calculations.

The value-in-use calculations use cash flow projections based on financial forecasts prepared by management covering a 2 to 10 years operation period and product cycle, with key assumptions on revenue growth and gross margin. Management determined these key assumptions based on past performance and expectations on market development. Management expect that there will be net cash flows to be received for the disposal of property and plant at the end of the assets' useful lives. The present value (Level 3) of cash flow projections is calculated by using a pre-tax discount rate of approximately 12-14%, which is the estimated return on assets of the Company perceived by the market.

(c) Certain property, plant and equipment of the Group with total net book value of RMB12 million (2014: RMB12 million) at the end of the reporting year are pledged as securities for bank facilities (Note 28).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

13. INVESTMENT PROPERTIES

	Group		Company	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Cost:				
At beginning of the year	**36,868**	36,704	**34,040**	33,876
Transfer from property, plant and equipment (Note 12)	**2,650**	457	**2,650**	457
Transfer to property, plant and equipment (Note 12)	**–**	(293)	**–**	(293)
At end of the year	**39,518**	36,868	**36,690**	34,040
Accumulated depreciation:				
At beginning of the year	**10,158**	9,046	**9,162**	8,129
Depreciation for the year	**1,032**	992	**955**	913
Transfer from property, plant and equipment (Note 12)	**1,017**	246	**1,017**	246
Transfer to property, plant and equipment (Note 12)	**–**	(126)	**–**	(126)
At end of the year	**12,207**	10,158	**11,134**	9,162
Net book value:				
At beginning of the year	**26,710**	27,658	**24,878**	25,747
At end of the year	**27,311**	26,710	**25,556**	24,878
Fair value:				
Fair value at end of the year	**207,593**	180,241	**196,976**	168,540
Rental and service income	**12,632**	10,229	**7,898**	7,979
Direct operating expenses	**1,032**	992	**955**	913

The depreciation expense is charged to cost of sales.

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

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

(c) The fair value is estimated by the management based on the use of inputs other than quoted prices included within the observable for the assets or liability, either directly or indirectly. The valuation technique used is the comparison of market evidence of recent transaction prices for similar properties. The management had obtained the market information from the 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 RMB7,100 to RMB26,300 (2014: RMB6,100 to RMB26,300) per square metre.

(d) The Group has not obtained titles to certain properties with net book value of approximately RMB8.1 million (2014: RMB8.4 million) as at the end of the reporting year. See Note 2C "Critical judgements, assumptions and estimation uncertainties".

14. LAND USE RIGHTS

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At cost:				
At beginning and end of the year	**248,799**	248,799	**211,217**	211,217
Accumulated amortisation:				
At beginning of the year	**65,203**	60,197	**58,153**	53,668
Amortisation for the year	**4,667**	5,006	**4,484**	4,485
At the end of the year	**69,870**	65,203	**62,637**	58,153
Net book value:				
At beginning of the year	**183,596**	188,602	**153,064**	157,549
At end of the year	**178,929**	183,596	**148,580**	153,064

The amortisation expense is charged to administrative expenses.

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

The Group has not obtained titles to certain land use rights with net book value of RMB24 million (2014: RMB24 million) as at the end of the reporting year. See Note 2C "Critical judgements, assumptions and estimation uncertainties".

Certain land use rights of the Group with total net book value of RMB3.6 million (2014: RMB3.7 million) at the end of the reporting year are pledged as securities for bank facilities (Note 28).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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 2014	9,137	1,278	1,760	8,386	1,524	22,085
Additions	–	–	–	675	545	1,220
Disposal	–	–	–	(27)	–	(27)
At 31 December 2014	9,137	1,278	1,760	9,034	2,069	23,278
Additions	–	–	–	991	305	1,296
Disposal	–	–	–	(12)	–	(12)
At 31 December 2015	**9,137**	**1,278**	**1,760**	**10,013**	**2,374**	**24,562**
Accumulated amortisation:						
At 1 January 2014	4,824	309	1,760	5,208	–	12,101
Amortisation for the year	690	129	–	897	–	1,716
Disposal	–	–	–	(27)	–	(27)
At 31 December 2014	5,514	438	1,760	6,078	–	13,790
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**
Net book value:						
At 1 January 2014	4,313	969	–	3,178	1,524	9,984
At 31 December 2014	3,623	840	–	2,956	2,069	9,488
At 31 December 2015	**2,969**	**720**	**–**	**2,979**	**2,374**	**9,042**

The amortisation expense is charged to administrative expenses.

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 2014	5,997	1,278	1,760	7,027	493	16,555
Additions	–	–	–	314	–	314
At 31 December 2014	5,997	1,278	1,760	7,341	493	16,869
Additions	–	–	–	518	–	518
At 31 December 2015	**5,997**	**1,278**	**1,760**	**7,859**	**493**	**17,387**
Accumulated amortisation:						
At 1 January 2014	4,017	309	1,760	4,398	–	10,484
Amortisation for the year	590	130	–	783	–	1,503
At 31 December 2014	4,607	439	1,760	5,181	–	11,987
Amortisation for the year	554	120	–	815	–	1,489
At 31 December 2015	**5,161**	**559**	**1,760**	**5,996**	**–**	**13,476**
Net book value:						
At 1 January 2014	1,980	969	–	2,629	493	6,071
At 31 December 2014	1,390	839	–	2,160	493	4,882
At 31 December 2015	**836**	**719**	**–**	**1,863**	**493**	**3,911**

The amortisation expense is charged to administrative expenses.

16. INVESTMENTS IN SUBSIDIARIES

	Company 2015 RMB'000	Company 2014 RMB'000
Unquoted equity interest at cost:		
At beginning of the year	**314,366**	305,606
Additions	**–**	10,425
Disposal	**–**	(1,665)
Less: Allowance for impairment	**(14,220)**	–
At end of the year	**300,146**	314,366

Movements in allowance for impairment loss is as follows:

	2015	2014
At beginning of the year	**–**	–
Impairment loss charged to profit or loss	**(14,220)**	–
At end of the year	**(14,220)**	–

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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 2015 RMB'000	Cost in books of Company 2014 RMB'000	Effective equity held by Group 2015 %	Effective equity held by Group 2014 %
Held by the Company					
Beijing Zhong Xin Yaogu Medical Co., Ltd.	Wholesale and retail sale of medicine	**11,000**	11,000	**100**	100
Tianjin Chuyun Co., Ltd.	Logistics, stocks, services, equipment installation, simple processing of medicine	**6,999**	6,999	**100**	100
Tianjin Long Shun Rong Development Co., Ltd.	Manufacture and sale of Chinese pharmaceutical products and biological products	**45,000**	45,000	**100**	100
Zhong Xin Bohai Rim Pharmaceutical Co., Ltd.	Wholesale and retail sale of medicine, biochemical pharmaceutical products and daily use products	**5,000**	5,000	**100**	100
Zhejiang Zhong Xin Chuang Rui Investment Co., Ltd.	Investment holding	**100,000**	100,000	**100**	100
Tianjin Hebei Daren Hospital	Hospital	**3,500**	3,500	**100**	100
Held by the subsidiary					
Tianjin Long Shun Rong Health Products Co., Ltd.	Sale of pharmaceutical and biological products			**100**	100

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 2015 RMB'000	Cost in books of Company 2014 RMB'000	Effective equity held by Group 2015 %	Effective equity held by Group 2014 %
Held by the Company					
Tianjin Darentang (Bo Zhou) Pharmaceutical 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

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2015

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	Cost in books of Company		Effective equity held by Group	
		2015	2014	2015	2014
		RMB'000	RMB'000	%	%
Chengdu Zhong Xin Pharmaceutical Co., Ltd.	Sale of Chinese pharmaceutical products and biological products	**14,220**	14,220	**51**	51
Zhong Xin Pharmaceutical Xuzhi Technology Co., Ltd.	Sale of Chinese pharmaceutical products and biological products	**5,610**	5,610	**51**	51
Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd.	Wholesale and retail sale of medicine and biochemical pharmaceutical products	**15,300**	15,300	**51**	51
Tianjin Xin Long Pharmaceutical Co., Ltd.	Wholesale and retail sale of medicine	**15,300**	15,300	**51**	51
Tianjin Zhong Xin Pharmaceutical Group Guowei Medical Co., Ltd.	Wholesale and retail sale of medicine	**8,950**	8,950	**51**	51
Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd.(a)	Wholesale and retail sale of medicine	**3,000**	3,000	**30**	30
Zigong Zhong Xin Pharmaceutical Chain Co., Ltd.(a)	Wholesale and retail sale of medicine	**300**	300	**30**	30
		314,366	314,366		

Name of subsidiaries	Principal activities	Effective equity held by Group	
		2015	2014
		%	%
Held by the subsidiary			
Chengdu Zhong Xin Chain Store Co., Ltd.	Wholesale and retail sale of medicine and biochemical pharmaceutical products	**90**	90
Chengdu Zhong Xin Pharmaceutical Zigong Co., Ltd.(a)	Wholesale and retail sale of medicine	**50.4**	50.4
Zigong Zhong Xin Pharmaceutical Chain Co., Ltd.(a)	Wholesale and retail sale of medicine	**50.4**	50.4

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

16. INVESTMENTS IN SUBSIDIARIES (CONT'D)

16A. Material subsidiaries

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Tianjin Da Ren Tang Jingwanhong Pharmaceutical Co., Ltd.		
Profit allocated to NCI of the subsidiary during the reporting year	**16,712**	20,747
Accumulated NCI of the subsidiary at the end of the reporting year	**80,008**	63,582
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	**2,880**	3,840
Current assets	**150,571**	122,670
Non-current assets	**61,997**	55,119
Current liabilities	**(36,851)**	(29,491)
Non-current liabilities	**(9,034)**	(10,432)
Revenues	**316,445**	286,837
Profit for the reporting year	**34,818**	26,291
Total comprehensive income	**34,818**	27,483
Operating cash flows, increase	**33,130**	26,388
Net cash flows, increase	**14,031**	4,731
Tianjin Shin Poong Pharmaceutical Co., Ltd.		
(Loss)/profit allocated to NCI of the subsidiary during the reporting year	**(2,291)**	1,377
Accumulated NCI of the subsidiary at the end of the reporting year	**37,903**	44,523
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	**54,088**	68,412
Non-current assets	**61,666**	41,838
Current liabilities	**(31,526)**	(11,254)
Revenues	**71,913**	110,191
(Loss)/profit for the reporting year	**(5,092)**	3,049
Total comprehensive (loss)/income	**(5,092)**	3,061
Operating cash flows, increase	**25,201**	16,897
Net cash flows, decrease	**(1,034)**	(15,855)

17. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Equity interests, at cost	**431,701**	513,853	**431,101**	513,253
Less: Allowance for impairment	**(3,422)**	(3,422)	**(2,822)**	(2,822)
Share of other-equity items of associates	**(16,851)**	(18,518)	**–**	–
Share of post-acquisition profits, net of dividends received	**119,792**	50,140	**–**	–
	531,220	542,053	**428,279**	510,431

The associates held by the Group are listed below:

Name of associates	Principal activities	Equity held by the Group 2015 %	Equity held by the Group 2014 %
Tianjin Hongrentang Pharmaceutical Co., Ltd. ("THP") (a)	Manufacture and sale of pharmaceutical products	**40**	40
Sino-American Tianjin SmithKline & French Lab., Ltd. ("TSKF") (b)	Manufacture and sale of western medicine and biochemical products	**25**	25
Baxter Healthcare (Tianjin) Co., Ltd. (a) (Note 17D)	Manufacture and sale of western chemical products	**–**	30
Tianjin Yiyao Printing Co., Ltd. (a)	Packing of medical and other products and printing of paper for packaging purposes	**35**	35
Tianjin Hualida Biological Engineering Co., Ltd. (a) (Note 17D)	Manufacture and sale of western biochemical products and genes-related biological products	**20**	40
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. (e)	Development and sale of biological products	**26.4**	26.4
Tianjin Pharmaceutical Group Technology Development Co., Ltd. (a) (d) (Note 17D)	Research and development of new chinese and western medical products and technology	**33**	33
Chengdu Zhong Xin Consulting Co., Ltd. (c)	Medical and health, and management consulting	**38**	38
Dujiangyan Zhong Xin Chinese Herbs Cultivation Co., Ltd (f)	Cultivation and processing of Chinese herbs	**30**	30

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

17. INVESTMENTS IN ASSOCIATES (CONT'D)

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

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

(b) Audited by PricewaterhouseCoopers Zhong Tian LLP.

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

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

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

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

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

17A. Material associates

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
THP:		
Current assets	**171,699**	168,419
Non-current assets	**267,740**	254,589
Current liabilities	**(58,595)**	(87,310)
Non-current liabilities	**(45,090)**	(52,288)
Net assets of the associate	**335,754**	283,410
Proportion of the Group's interest in the associate	**40%**	40%
	134,302	113,364
Goodwill	**92,336**	92,336
Fair value adjustments pertaining to purchase price allocation	**25,886**	31,233
Carrying amount of the Group's interest in the associate	**252,524**	236,933
Revenue	**266,468**	287,373
Profit for the reporting year	**38,977**	31,684
Other comprehensive income	**–**	2,685
Total comprehensive income	**38,977**	34,369

17. INVESTMENTS IN ASSOCIATES (CONT'D)

17A. Material associates (Cont'd)

	Group 2015 RMB'000	Group 2014 RMB'000
TSKF:		
Current assets	**1,072,569**	821,782
Non-current assets	**522,829**	458,700
Current liabilities	**(907,289)**	(664,368)
Net assets of the associate	**688,109**	616,114
Proportion of the Group's interest in the associate	**25%**	25%
Carrying amount of the Group's interest in the associate	**172,027**	154,029
Dividends received from the associate	**–**	51,719
Revenue	**1,769,110**	1,378,469
Profit for the reporting year	**71,994**	233,343
Other comprehensive loss	**–**	(2,705)
Total comprehensive income	**71,994**	230,638

In 2013, TSKF was visited by tax authorities of the People's Republic of China in relation to investigation into alleged irregularities and violation of Value Added Tax ("VAT") laws by TSKF. In May 2015, the investigation was concluded and TSKF had to pay approximately RMB209 million of tax fines and additional taxes.

In September 2015, TSKF was again visited by tax authorities of the People's Republic of China in relation to investigation into alleged irregularities and violation of tax laws in relation to transfer pricing matters by TSKF. It is not possible at this time to make a reliable estimate of the financial effect, if any, that could result from these matters.

17B. Aggregate for all non-material associates

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

	Group 2015 RMB'000	Group 2014 RMB'000
Loss for the reporting year	**(15,819)**	(9,092)
Other comprehensive income	**1,667**	5,591
Total comprehensive loss	**(14,152)**	(3,501)
Net assets of the associates	**391,419**	455,199

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

17. INVESTMENTS IN ASSOCIATES (CONT'D)

17C. Impairment test on goodwill

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

The value in use was determined by 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:

	2015	**2014**
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 (average rate)	**12.2% – 14.2% (13.2%)**	10.2% – 14.2% (12.2%)
Growth rates based on industry growth forecasts and not exceeding the average long-term growth rate for the relevant markets (average rate)	**2.7% – 7.9% (5.3%)**	6.5% – 9.8% (8.2%)
Cash flow forecasts derived from the most recent financial budgets and plans approved by management	**5 years**	5 years

17D. Disposal of associates

(a) During the reporting year, the Company disposed 30% shareholding in Baxter Healthcare (Tianjin) Co., Ltd. ("Tianjin Baxter") to Baxter (China) Investment Co., Ltd. for a consideration of RMB80,000,000.

(b) During the reporting year, the Company disposed 20% shareholding in Tianjin Hualida to a third party at a consideration of RMB40,000,000.

(c) On 7 November 2014, the immediate parent company approved the sale of the Company's 33% shareholding in Tianjin Pharmaceutical Group Technology Development Co., Ltd. to a related company. The sale was not completed at end of the reporting year, as certain conditions have yet to be finalised and agreed with the immediate parent company.

18. OTHER FINANCIAL ASSETS

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Investments as available-for-sale at fair value through other comprehensive income:				
Quoted equity shares in corporations as available-for-sale at fair value through other comprehensive income (Note 18A) (Level 1)	**66,983**	63,065	**66,983**	63,065
Investments as available-for-sale at cost less allowances for impairment:				
Unquoted investments at cost less allowance for impairment (Note 18B)	**200,000**	–	**200,000**	–
Unquoted equity shares in corporations at cost less allowance for impairment (Note 18B)	**20,000**	20,000	**20,000**	20,000
	220,000	20,000	**220,000**	20,000
Investments at fair value through profit or loss:				
Derivative financial instruments (Note 18C) (Level 1)	**1,494**	–	**1,494**	–
Held-to-maturity investments at amortised cost:				
Unquoted bonds of corporations (Note 18D) (Level 2)	**217,518**	236,434	**–**	–
	505,995	319,499	**288,477**	83,065
Presented in the statements of financial position as:				
Other financial assets, non-current	**304,501**	319,499	**86,983**	83,065
Other financial assets, current	**201,494**	–	**201,494**	–
	505,995	319,499	**288,477**	83,065

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

	Group and Company	
	2015	2014
	RMB'000	RMB'000
Quoted equity shares in corporations	**66,983**	63,065
Movement during the year:		
Fair value at beginning of the year	**63,065**	35,243
Gains on re-measuring available-for-sale financial assets (Note 24C)	**3,918**	27,822
Fair value at end of the year	**66,983**	63,065

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

18. OTHER FINANCIAL ASSETS (CONT'D)

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

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

	Level	Group and Company 2015 RMB'000	Group and Company 2014 RMB'000
Quoted equity shares in corporations:			
Property development industry	1	**5,092**	4,465
Energy industry	1	**24,161**	11,611
Transportation and shipping	1	**19,336**	28,797
Pharmaceutical	1	**2,972**	1,908
Financial service industry	1	**15,422**	16,284
Total		**66,983**	63,065

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 RMB41.7 million (2014: RMB30.5 million) as at the end of the reporting year. See Note 2C "Critical judgements, assumptions and estimation uncertainties".

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

Sensitivity analysis:

	Group and Company 2015 RMB'000	Group and Company 2014 RMB'000
A hypothetical 10% increase in the market index of quoted equity shares would have an effect on pre-tax profit of	**6,698**	6,307

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).

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

	Group and Company 2015 RMB'000	Group and Company 2014 RMB'000
Unquoted investments	**200,000**	–
Unquoted equity shares	**20,000**	20,000
	220,000	20,000

18. OTHER FINANCIAL ASSETS (CONT'D)

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

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

	Group and Company	
	2015	**2014**
	RMB'000	**RMB'000**
Balance at beginning and end of the year	**8,700**	8,700

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

18C. Derivative financial instruments

	Group and Company	
	2015	**2014**
	RMB'000	**RMB'000**
<u>Assets – derivative with net positive fair values:</u>		
Embedded derivatives (Level 1)	**1,494**	–
Movements during the year:		
Fair value at beginning of the year	**–**	–
Additions	**1,494**	–
Fair value at end of the year	**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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

18. OTHER FINANCIAL ASSETS (CONT'D)

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Unquoted bonds in corporations	**217,518**	236,434
Movements during the year – at amortised cost:		
Amortised cost at beginning of the year	**236,434**	279,586
Additions	**7,407**	248,839
Gain on disposal through profit or loss	**902**	1,474
Accretion in amortised cost, net	**(937)**	951
Disposals	**(26,288)**	(294,416)
Amortised cost at end of the year	**217,518**	236,434
Real estate and properties development industry:		
Unquoted bonds in corporations with variable interest rates from 6.9% to 7.5% and maturing in reporting year 2018 (effective interest rates from 6.3% to 6.7%)	**15,604**	19,739
Unquoted bonds in corporations with variable interest rates from 6.4% to 7.7% and maturing in reporting year 2019 (effective interest rates from 6.4% to 7.2%)	**126,069**	140,592
Unquoted bonds in corporations with variable interest rates from 6.6% to 6.8% and maturing in reporting year 2020 (effective interest rates from 6.5% to 6.9%)	**16,040**	15,963
Unquoted bonds in corporations with variable interest rates from 8.0% to 8.4% and maturing in reporting year 2021 (effective interest rates from 6.5% to 6.7%)	**59,805**	60,140
Total	**217,518**	236,434

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

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

Sensitivity analysis:

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
A hypothetical 10% increase in the transacted prices of unquoted bonds would have an effect on pre-tax profit of	**21,005**	23,439

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.

18. OTHER FINANCIAL ASSETS (CONT'D)

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

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

Unquoted bonds in corporations of the Group amounting to RMB217 million (2014: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	
	2015 RMB'000	2014 RMB'000
Within 2 to 5 years	**157,713**	160,331
After 5 years	**59,805**	76,103
Total	**217,518**	236,434

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

	Group	
	2015 RMB'000	2014 RMB'000
Unquoted bonds in corporations with variable interest rates from 6.9% to 7.5% and maturing in reporting year 2018 (effective interest rates from 6.3% to 6.7%)	**15,742**	19,590
Unquoted bonds in corporations with variable interest rates from 6.4% to 7.7% and maturing in reporting year 2019 (effective interest rates from 6.4% to 7.2%)	**120,572**	142,031
Unquoted bonds in corporations with variable interest rates from 6.6% to 6.8% and maturing in reporting year 2020 (effective interest rates from 6.5% to 6.9%)	**12,795**	15,149
Unquoted bonds in corporations with variable interest rates from 8.0% to 8.4% and maturing in reporting year 2021 (effective interest rates from 6.5% to 6.7%)	**60,896**	57,622
Total	**210,005**	234,392

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.

NOTES TO
THE FINANCIAL STATEMENTS

31 DECEMBER 2015

19. OTHER ASSETS

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	**191,275**	213,069	**178,706**	170,395
Presented in the statements of financial position as:				
Other assets, non-current	**15,467**	15,539	**13,766**	15,946
Other assets, current	**175,808**	197,530	**164,940**	154,449
	191,275	213,069	**178,706**	170,395

20. INVENTORIES

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	**390,319**	293,381	**342,902**	262,248
Work-in-progress	**104,358**	89,528	**92,681**	82,698
Finished goods	**479,478**	476,982	**307,197**	300,692
	974,155	859,891	**742,780**	645,638

Inventories are stated after allowance as follows:

Balance at beginning of the year	**16,841**	19,525	**12,703**	18,236
Charge to profit or loss included under other losses (Note 6)	**1,806**	3,438	**1,353**	414
Used	**(4,770)**	(6,122)	**(2,684)**	(5,947)
Balance at end of the year	**13,877**	16,841	**11,372**	12,703
Changes in inventories of finished goods and work-in-progress (increase)	**(17,326)**	(40,864)	**(16,488)**	(6,653)
Raw materials, consumables and goods for resale recognised as expenses	**4,620,305**	4,544,565	**3,843,490**	3,689,827

There are no inventories pledged as security for liabilities.

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables:				
Bills receivable	**224,412**	302,699	**201,284**	289,796
Outside parties	**1,418,370**	1,427,760	**1,162,010**	1,158,051
Less: Allowance for impairment	**(167,105)**	(153,784)	**(152,443)**	(148,286)
Subsidiaries (Note 3)	**–**	–	**119,845**	123,703
Less: Allowance for impairment	**–**	–	**(411)**	(411)
Associate (Note 3)	**243**	223	**243**	221
Related parties (Note 3)	**35,048**	53,618	**26,720**	34,958
Less: Allowance for impairment	**(7,521)**	(7,517)	**(7,142)**	(7,142)
Subtotal	**1,503,447**	1,622,999	**1,350,106**	1,450,890
Other receivables:				
Outside parties	**81,966**	98,719	**25,650**	35,467
Less: Allowance for impairment	**(49,003)**	(29,547)	**(15,936)**	(16,258)
Subsidiaries (Note 3)	**–**	–	**53,851**	44,664
Associate (Note 3)	**1,167**	999	**1,167**	999
Related parties (Note 3)	**1,684**	556	**535**	157
Less: Allowance for impairment	**(305)**	(113)	**(318)**	(126)
Subtotal	**35,509**	70,614	**64,949**	64,903
Total trade and other receivables	**1,538,956**	1,693,613	**1,415,055**	1,515,793
Movements in above allowance for trade receivables – outside parties:				
Balance at beginning of the year	**153,784**	151,176	**148,286**	146,790
Charge for trade receivables to profit or loss included in other losses	**13,321**	2,608	**4,157**	1,496
Balance at end of the year	**167,105**	153,784	**152,443**	148,286
Movements in above allowance for trade receivables – subsidiaries:				
Balance at beginning and end of the year	**–**	–	**411**	411
Movements in above allowance for trade receivables – related parties:				
Balance at beginning of the year	**7,517**	7,903	**7,142**	7,542
Charge for trade receivables to profit or loss included in other losses	**4**	–	**–**	–
Reversed for trade receivables to profit or loss included in other gains	**–**	(386)	**–**	(400)
Balance at end of the year	**7,521**	7,517	**7,142**	7,142

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

21. TRADE AND OTHER RECEIVABLES (CONT'D)

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Movements in above allowance for other receivables – outside parties:				
Balance at beginning of the year	**29,547**	28,924	**16,258**	16,662
Charge for other receivables to profit or loss included in other losses	**19,456**	623	**–**	–
Used	**–**	–	**(322)**	(404)
Balance at end of the year	**49,003**	29,547	**15,936**	16,258
Movements in above allowance for other receivables – related parties:				
Balance at beginning of the year	**113**	113	**126**	126
Charge for other receivables to profit or loss included in other losses	**192**	–	**192**	–
Balance at end of the year	**305**	113	**318**	126

Bills receivable of the Group amounting to RMB4.6 million (2014: Nil) have been pledged with banks as security deposits for bills payable issued (Note 27).

Trade receivables of the Group amounting to RMB9.7 million (2014: RMB7.6 million) have been pledged with bank as security deposits for bills payable issued (Note 27).

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Not restricted in use:				
Cash and bank balances	**762,959**	557,062	**584,523**	408,586
Restricted in use:				
Bank deposits	**45,148**	73,873	**–**	–
Short-term investments	**300,000**	–	**300,000**	–
Subtotal	**345,148**	73,873	**300,000**	–
Total	**1,108,107**	630,935	**884,523**	408,586

22. CASH AND CASH EQUIVALENTS (CONT'D)

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 18C).

The rate of interest for the cash on short-term bank deposits ranged from 0.35% – 1.15% (2014: 0.35% – 2.75%) per annum.

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Amount as shown above	**1,108,107**	630,935
Restricted bank deposits	**(345,148)**	(73,873)
Cash and cash equivalents for consolidated statement of cash flows purposes at end of the year	**762,959**	557,062

23. SHARE CAPITAL

	Group and Company	
	Number of Share Issued	**Share Capital**
		RMB'000
Ordinary shares of no par value:		
"A" shares		
Balance at 1 January 2014 and 31 December 2014	**539,308,720**	539,309
Issue of shares	**29,564,356**	29,564
Balance at 31 December 2015	**568,873,076**	568,873
"S" shares		
Balance at 1 January 2014, 31 December 2014 and 31 December 2015	**200,000,000**	200,000
Total	**768,873,076**	768,873

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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 Stock 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, 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.

23. SHARE CAPITAL (CONT'D)

Capital management:

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

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Net debt:		
All current and non-current borrowings	**535,650**	921,700
Less: Cash and cash equivalents	**(1,108,107)**	(630,935)
Net debt	**(572,457)**	290,765
Capital:		
Total equity	**3,921,709**	2,763,777
Debt-to-adjusted capital ratio	**N.M**	11%

* N.M = Not meaningful

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

24. OTHER RESERVES

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Capital reserve (Note 24A)	**13,095**	11,428	**87,406**	87,406
Statutory common reserve (Note 24B)	**357,080**	311,462	**357,080**	311,462
Fair value reserve (Note 24C)	**51,521**	48,190	**51,521**	48,190
	421,696	371,080	**496,007**	447,058

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

24. OTHER RESERVES (CONT'D)

24A. Capital reserve

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at beginning of the year	**11,428**	9,515	**87,406**	87,406
Equity share of changes in other reserves of associates	**1,667**	1,913	**–**	–
Balance at end of the year	**13,095**	11,428	**87,406**	87,406

24B. Statutory common reserve

	Group and Company	
	2015	2014
	RMB'000	RMB'000
Balance at beginning of the year	**311,462**	275,783
Appropriation from retained earnings	**45,618**	35,679
Balance at end of the year	**357,080**	311,462

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.

24. OTHER RESERVES (CONT'D)

24C. Fair value reserve

	Group and Company	
	2015	**2014**
	RMB'000	**RMB'000**
Balance at beginning of the year	**48,190**	24,542
Fair value gains on re-measuring available-for-sale financial assets	**3,918**	27,822
Deferred tax thereon	**(587)**	(4,174)
	3,331	23,648
Balance at end of the year	**51,521**	48,190

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

25. TRADE PAYABLES, NON-CURRENT

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Accrued termination benefits	**47,652**	53,947	**47,408**	53,507

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.

26. OTHER LIABILITIES

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Deferred income	**44,131**	43,892	**22,833**	21,348
Advance payments received	**18,332**	18,332	**18,332**	18,332
Advances from customers	**64,618**	51,351	**44,743**	29,378
Others	**3,949**	3,949	**–**	–
	131,030	117,524	**85,908**	69,058
Presented in the statements of financial position as:				
Other liabilities, non-current	**66,412**	66,173	**41,165**	39,680
Other liabilities, current	**64,618**	51,351	**44,743**	29,378
	131,030	117,524	**85,908**	69,058

Deferred income represents grants from government and other third parties.

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

27. TRADE AND OTHER PAYABLES

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables:				
Bills payable	**70,463**	120,674	**4,500**	4,135
Outside parties	**589,690**	606,315	**405,612**	501,668
Associate (Note 3)	**11,401**	16,341	**10,520**	14,545
Related parties (Note 3)	**43,995**	36,419	**82,738**	24,620
Accrued retirement benefits	**1,402**	1,166	**703**	1,166
Accrued termination benefits	**15,716**	12,232	**15,630**	12,048
Accrued operating expenses	**310,706**	384,617	**283,945**	368,755
Subtotal	**1,043,373**	1,177,764	**803,648**	926,937
Other payables:				
Outside parties	**114,297**	148,859	**87,690**	121,676
Related parties (Note 3)	**1,021**	2,091	**7,928**	2,134
Other taxes payables	**60,598**	41,447	**50,795**	35,143
Dividends payable	**10,500**	9,999	**10,500**	9,999
Subtotal	**186,416**	202,396	**156,913**	168,952
Total trade and other payables	**1,229,789**	1,380,160	**960,561**	1,095,889

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

28. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans A (unsecured)	**397,050**	766,000	**320,000**	720,000
Bank loans B (secured)	**22,000**	20,000	**–**	–
Other loans (secured)	**116,600**	135,700	**–**	–
	535,650	921,700	**320,000**	720,000

The bank loans bore interest rates as follows:

	Group		Company	
	2015	2014	2015	2014
Bank loans A (unsecured)				
– fixed rate	**4% – 6%**	4% – 5%	**4%**	4% – 5%
– floating rate	**4% – 5%**	5% – 6%	**4% – 5%**	5% – 6%
Bank loans B (secured)				
– fixed rate	**5% – 6%**	7% – 8%	**–**	–
Other loans (secured)				
– floating rate	**2% – 3%**	6%	**–**	–

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2015

28. OTHER FINANCIAL LIABILITIES (CONT'D)

Bank loans A

Bank loans totalled RMB40 million (2014: RMB23 million) are guaranteed by the non-controlling shareholder in a subsidiary. No fee is charged.

Bank loans B

Bank loans totalled RMB22 million (2014: RMB20 million) are secured on legal mortgages over the subsidiaries' property, plant and equipment (Note 12) and land use rights (Note 14).

Other loans

Other loans totalled RMB117 million (2014: RMB136 million) are secured by pledges of unquoted bonds of corporations of the Group of the same amount (Note 18D).

29. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

29A. Classification of financial assets and liabilities

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

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets:				
Cash and cash equivalents	**1,108,107**	630,935	**884,523**	408,586
Loans and receivables	**1,538,956**	1,693,613	**1,415,055**	1,515,793
Financial assets at fair value through profit or loss	**1,494**	–	**1,494**	–
Held-to-maturity investments	**217,518**	236,434	**–**	–
Available-for-sale financial assets	**286,983**	83,065	**286,983**	83,065
	3,153,058	2,644,047	**2,588,055**	2,007,444
Financial liabilities:				
Borrowings at amortised cost	**535,650**	921,700	**320,000**	720,000
Trade and other payables at amortised cost	**1,277,441**	1,434,107	**1,007,969**	1,149,396
	1,813,091	2,355,807	**1,327,969**	1,869,396

Further quantitative disclosures are included throughout these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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

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.

29C. Fair value of financial instruments

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

29D. Credit risk on financial assets

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

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

29D. Credit risk on financial assets (Cont'd)

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 (2014: 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	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	**1,228,960**	–	**1,128,786**	–
1 – 2 years	**45,402**	13,607	**15,446**	6,469
2 – 3 years	**4,673**	2,261	**929**	1,126
Over 3 years	**–**	198	**3,660**	3,654
	1,279,035	16,066	**1,148,821**	11,249

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

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
1 – 2 years	**11,782**	4,273	**4,308**	2,508
2 – 3 years	**4,847**	2,273	**1,455**	1,201
Over 3 years	**157,997**	154,756	**154,234**	152,130
	174,626	161,302	**159,997**	155,839

The allowance which is disclosed in the Note 21 on Trade receivables is based on individual accounts totaling RMB175 million (2014: RMB161 million) and RMB160 million (2014:RMB156 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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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

29E. Liquidity risk – financial liabilities maturity analysis

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

Group	Less than 1 year RMB'000	2 – 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
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**
2014				
Gross borrowings commitments	950,162	–	–	950,162
Trade and other payables	1,367,945	40,890	20,063	1,428,898
	2,318,107	40,890	20,063	2,379,060

Company	Less than 1 year RMB'000	2 – 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2015				
Gross borrowings commitments	**325,208**	**–**	**–**	**325,208**
Trade and other payables	**961,288**	**50,651**	**23,684**	**1,035,623**
	1,286,496	**50,651**	**23,684**	**1,360,831**
2014				
Gross borrowings commitments	740,390	–	–	740,390
Trade and other payables	1,103,667	40,415	20,053	1,164,135
	1,844,057	40,415	20,053	1,904,525

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	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Bank guarantees in favour of subsidiaries	**13,000**	13,000	**13,000**	13,000

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

29E. Liquidity risk – financial liabilities maturity analysis (Cont'd)

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

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be settled at their contractual maturity. The average credit period taken to settle trade payables is about 45 days (2014: 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	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Financial assets:				
Floating rate	**1,108,107**	630,935	**884,523**	408,586
Financial liabilities:				
Fixed rate	**279,050**	486,000	**180,000**	420,000
Floating rate	**256,600**	435,700	**140,000**	300,000
	535,650	921,700	**320,000**	720,000

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

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

29G. Foreign currency risk

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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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

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

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. Management had recognised liquidated damages receivable of RMB3.47 million and impairment for the same amount in prior years. As at the end of the reporting year, management was not able to ascertain the fair value of the commercial property and the rent. The legal title of the commercial property has not yet been transferred to the Company. The property will be put up for auction by the court.

31. OPERATING LEASE PAYMENT COMMITMENTS – AS LESSEE

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Not later than one year	**4,609**	4,685
Later than one year and not later than three years	**3,909**	7,529
Later than three years	**4,952**	8,782
Rental expense for the year	**21,940**	32,247

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

32. OPERATING LEASE INCOME COMMITMENTS – AS LESSOR

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

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Not later than one year	**10,364**	11,121
Later than one year and not later than three years	**17,086**	19,989
Later than three years	**19,395**	23,902

Operating lease income commitments are for the investment properties.

33. FINANCIAL INFORMATION BY OPERATING SEGMENTS

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

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

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

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

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

	Revenue	**Cost of sales**	**Gross profit**
	RMB'000	**RMB'000**	**RMB'000**
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**
2014			
Chinese Medicine	4,167,850	(2,265,602)	1,902,248
Western Medicine	2,413,943	(2,262,833)	151,110
Others	505,086	(456,824)	48,262
Total	7,086,879	(4,985,259)	2,101,620

NOTES TO
THE FINANCIAL STATEMENTS
31 DECEMBER 2015

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

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

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

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

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

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

	The Group		The Company
	Comprehensive Income RMB'000	Net Assets/ Total Equity RMB'000	Net Assets/ Total Equity RMB'000
2015			
As reported in the statutory financial statements prepared under People's Republic of China Accounting Regulations	**457,868**	**4,105,175**	**3,891,383**
Reversal of share of result of associates at Company level under IFRS	–	–	**(104,266)**
Recognition of dividends declared by associates at Company level under IFRS	–	–	**514**
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**	**3,787,631**
2014			
As reported in the statutory financial statements prepared under People's Republic of China Accounting Regulations	404,998	2,946,636	2,727,599
Reversal of share of result of associates at Company level under IFRS	–	–	(83,783)
Recognition of dividends declared by associates at Company level under IFRS	–	–	52,160
As reported in the financial statements prepared under IFRS	404,998	2,946,636	2,695,976

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 28 March 2016 expressed an unmodified opinion on those financial statements.

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 2015 ("**FY2015**") at the meeting room of Banyan Tree Tianjin Riverside, No. 34 Haihe Eastern Road, Hebei District, Tianjin 300010, PRC on 16 May 2016 at 2:30 p.m.. Concurrently, a video conferencing for holders of "S" shares was proposed to be held at Cliftons Singapore, Level 11, Finexis Building, 108 Robinson Road, Singapore 068900.

The agenda for the meeting shall be as follows:

1. To consider and approve the Chairman's Report for FY2015. (Resolution 1)
2. To consider and approve the Board of Directors' Report for FY2015. (Resolution 2)
3. To consider and approve the Supervisory Committee's Report for FY2015. (Resolution 3)
4. To consider and approve the Financial Report and Audit Report for FY2015 audited by RSM China 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 FY2015. (Resolution 5)
6. To approve the remuneration of S$60,000 for independent director Mr. Timothy Chen Teck Leng for FY2015. (Resolution 6)
7. To approve remuneration of S$55,000 for independent director Mr. Toe Teow Heng for FY2015. (Resolution 7)
8. To approve the remuneration of RMB40,000 for director Mr. Qiang Zhi Yuan for FY2015 (commencing from May 2015 and ending in December 2015). (Resolution 8)
9. To approve the remuneration of RMB25,000 for director Mr. Gao Xue Min for FY2015 (commencing from January 2015 and ending in May 2015). (Resolution 9)
10. To approve the aggregate remuneration for directors of Company for FY2015. (Resolution 10)
11. To approve the aggregate remuneration for members of supervisory committee for FY2015. (Resolution 11)
12. To re- appoint Mr. Wang Zhi Qiang as director of the Company. (Resolution 12)
13. To re- appoint Mr. Toe Teow Heng as independent director of the Company. (Resolution 13)
14. To appoint Ms. Yan Min as a director of the Company. (Resolution 14)
15. To re-appoint Ms. Yu Hong as a supervisor of the Company. (Resolution 15)
16. To appoint Mr. Xie Qing Feng as a supervisor of the Company. (Resolution 16)
17. To consider and approve the proposed amendments to the Articles of Association of the Company. (Resolution 17)
18. To renew the shareholders' mandate for the interested person transactions. (Resolution 18)
    (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.
19. To consider and approve the loan facilities granted to the Company aggregating to a limit of RMB6,840,000,000. (Resolution 19)

NOTICE OF
ANNUAL GENERAL MEETING

20. To consider an approve the provision of corporate guarantee in relation to the credit facility for an aggregate amount of RMB13,000,000 to one of the Company's subsidiaries, Chengdu Zhong Xin Pharmaceuticals Co., Ltd. (Resolution 20)
21. To consider and approve the extension of time to perform the non-compete undertaking (the details of which are set out in the announcement of the Company dated 11 January 2016) by the controlling shareholder of the Company, Tianjin Pharmaceutical Group Co., Ltd. (Resolution 21)

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

Notes:

1. A holder of shares entitled to attend and vote at the Annual General Meeting is entitled to appoint 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 of attorney.

2. To be effective, the instrument appointing a proxy or proxies must be lodged at the Company's "S" Shares Registrar and Singapore Transfer Office, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles' Place, #32-01 Singapore Land Tower, Singapore 048623 (in the case of a holder of "S" shares) no later than 2:30 p.m. on 14 May 2016.

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

4. Pursuant to the Company's Article 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 20 April 2016.

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 2:30 p.m. on 14 May 2016.

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

By order of the Board of Directors

Jiao Yan
Company Secretary

PROXY
FORM

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LTD

(Incorporated in the People's Republic of China)

ANNUAL GENERAL MEETING PROXY FORM

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

I/We, ______________________________

of ______________________________

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

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

and/or (delete as appropriate)

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

as my/our proxy to vote for me/us and on my/our behalf and, if necessary to demand a poll, at an Annual General Meeting of the Company to be held at the meeting room of Banyan Tree Tianjin Riverside, No. 34 Haihe Eastern Road, Hebei District, Tianjin 300010, PRC on 16 May 2016 at 2:30 p.m. and at any adjournment thereof.

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

PROXY FORM

Date: 16 May 2016

No.	Items on the Agenda	For	Against
1.	To consider and approve the Chairman's Report for FY2015.		
2.	To consider and approve the Board of Directors' Report for FY2015.		
3.	To consider and approve the Supervisory Committee's Report for FY2015.		
4.	To consider and approve the Financial Report and Audit Report for FY2015 audited by RSM China Certified Public Accountants LLP and RSM Chio Lim LLP.		
5.	To consider and approve the scheme of profit distribution policy of the Company for FY2015.		
6.	To approve the remuneration of S$60,000 for independent director Mr. Timothy Chen Teck Leng for FY2015.		
7.	To approve remuneration of S$55,000 for independent director Mr. Toe Teow Heng for FY2015.		
8.	To approve the remuneration of RMB40,000 for director Mr. Qiang Zhi Yuan for FY2015 (commencing from May 2015 and ending in December 2015).		
9.	To approve the remuneration of RMB25,000 for director Mr. Gao Xue Min for FY2015 (commencing from January 2015 and ending in May 2015).		
10.	To approve the aggregate remuneration for directors of Company for FY2015.		
11.	To approve the aggregate remuneration for members of supervisory committee for FY2015.		
12.	To re-appoint Mr. Wang Zhi Qiang as director of the Company.		
13.	To re-appoint Mr. Toe Teow Heng as independent director of the Company.		
14.	To appoint Ms. Yan Min as a director of the Company.		
15.	To re-appoint Ms. Yu Hong as a supervisor of the Company.		
16.	To appoint Mr. Xie Qing Feng as a supervisor of the Company.		
17.	To consider and approve the proposed amendments to the Articles of Association of the Company.		
18.	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.		
19.	To consider and approve the loan facilities granted to the Company aggregating to a limit of RMB6,840,000,000.		
20.	To consider an approve the provision of corporate guarantee in relation to the credit facility for an aggregate amount of RMB13,000,000 to one of the Company's subsidiaries, Chengdu Zhong Xin Pharmaceuticals Co., Ltd.		

PROXY **FORM**

21.	To consider and approve the extension of time to perform the non-compete undertaking (the details of which are set out in the announcement of the Company dated 11 January 2016) by the controlling shareholder of the Company, Tianjin Pharmaceutical Group Co., Ltd.		
	Other agenda to be resolved in the General Meeting shall, include any agenda proposed by a shareholder in accordance with Article 61 of the Articles of Association, which states: "When the Company is to hold an annual General Meeting, shareholders holding 5% or more of the voting shares of the Company shall be entitled to propose new motions in writing to the Company. The Company shall include in the agenda of the General Meeting those motions, the subject matter of which, are required to be decided by shareholders in General Meeting."		

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

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

NOTES

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

b. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more persons (who need not also be shareholders) to act as their proxies to attend and vote on their behalf. Where a member appoints more than one proxy, 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 Company's "S" Shares Registrar and Singapore Shares Transfer Office, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles' Place, #32-01 Singapore Land Tower, Singapore 048623 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.

APPENDIX DATED 26 APRIL 2016

THIS APPENDIX IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

If you have sold or transferred all your shares in the capital of the Company, please forward this Appendix and the enclosed Notice of Extraordinary General Meeting and Proxy Form immediately to the purchaser or transferee or to the bank, stockbroker or agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

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

中新药业
ZHONG XIN PHARMACEUTICAL

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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

APPENDIX TO THE NOTICE OF ANNUAL GENERAL MEETING

in relation to

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

CONTENTS

DEFINITIONS

For the purpose of this Appendix, the following definitions have, where appropriate, been used:–

"2016 AGM"	:	The annual general meeting of the Company to be held on 16 May 2016
"Appendix"	:	This appendix to the notice of annual general meeting dated 16 May 2016
"Articles of Association"	:	The Articles of Association of the Company, as amended, supplemented or modified, from time to time
"A-Shares"	:	Ordinary shares issued by the Company under the PRC companies law, comprising shares issued to natural and legal persons in the PRC and which are denominated in RMB
"Board" or "Board of Directors"	:	The board of directors of the Company
"CDP"	:	The Central Depository (Pte) Limited
"Companies Act"	:	The Companies Act (Chapter 50) of Singapore, as amended or modified from time to time
"Companies (Amendment) Act"	:	The Companies (Amendment) Act 2014 of Singapore
"Company"	:	Tianjin Zhongxin Pharmaceutical Group Corporation Limited
"Depositors"	:	The term "Depositors" shall have the meaning ascribed to it by section 81SF of the SFA
"Depository Register"	:	The term "Depository Register" shall have the meaning ascribed to it by section 81SF of the SFA
"Director"	:	A director for the time being of the Company
"Group"	:	The Company and its subsidiaries
"Listing Manual"	:	The listing manual of the SGX
"Placement"	:	Allotment and issue of 65,166,000 A-Shares in the capital of the Company, which has been approved by the Shareholders in the Extraordinary General Meeting of the Company on 18 August 2014
"PRC"	:	The People's Republic of China

"SGX"	:	Singapore Exchange Limited
"Shareholders"	:	Registered holders of Shares except that where the registered holder is CDP, the term "Shareholders" in relation to Shares held by CDP shall mean the persons named as Depositors in the Depository Register maintained by CDP and to whose securities accounts such Shares are credited
"Shares"	:	Ordinary shares in the capital of the Company
"%"	:	Percentage and per centum

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

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders.

Any reference in this Appendix to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Act or any statutory modification thereof and used in this Appendix shall have the meaning assigned to it under the said Act.

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

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED
(Incorporated in the People's Republic of China)
(Company Registration No.: 91120000103100784F)

Directors:

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

Registered Office:

17 Baidi Road
Nankai District
Tianjin, the PRC

Date: 26 April 2016

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

Dear Sir/Madam

1. INTRODUCTION

The Company will be holding its annual general meeting on 16 May 2016 at 2:30 p.m. at the meeting room of Banyan Tree Tianjin Riverside, No. 34 Haihe Eastern Road, Hebei District Tianjin 300010, PRC (the "**2016 AGM**"). Notice of the 2016 AGM (the "**Notice of AGM**") and the Proxy Form have been circulated with the Company's 2015 Annual Report on 26 April 2016.

The purpose of this Appendix is to provide Shareholders with information relating to, and to seek their approval for the Proposed AOA Amendments at the 2016 AGM.

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

The SGX assumes no responsibility for the accuracy of any statements made, opinions expressed or reports contained in this Appendix.

2. THE PROPOSED AOA AMENDMENTS

2.1 Rationale for the Proposed AOA Amendments

The Company is proposing to amend certain articles in its Articles of Association for the following reasons:

(a) The administrative permission authority of the PRC has made a nationwide adjustment of the enterprise business licenses numbers, and has amended the Company's licence number from 120000000004711 to 91120000103100784F.

(b) The Company's expanded operations has been reflected in the Company's business licence, which includes removing "production and sales of self-developed equipment and products (non-medicinal)", and including "research, development and sales of biological engineering and biological products, chemical products (except for dangerous goods); wholesale of health food (tablets, hard gelatine capsules, teabag, oral use); wholesale and retail of edible agricultural products (as licensed); scientific research and technical services".

(c) The allotment and issue of 65,166,000 A-Shares in the capital of the Company, which had been approved by the Shareholders in the Extraordinary General Meeting of the Company on 18 August 2014 (the "**Placement**").

In addition to the above, Rule 730(2) of the Listing Manual provides that if an issuer amends its articles or other constituent documents, they must be made consistent with all the listing rules prevailing at the time of amendment; therefore, the proposed amendments also contains updated provisions which are consistent with the listing rules of the SGX-ST prevailing as at the Latest Practicable Date, in compliance with Rule 730(2) of the Listing Manual.

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

2.2 Summary of Amendments to the Articles of Association

2.2.1 Article 1

Pursuant to the change in the Company's business licence number by Tianjin Municipal Administration for Industry & Commerce, it is proposed that the business licence number in Article 1 be updated to the new number.

2.2.2 Article 11

Pursuant to the expansion of the Company's operations, it is proposed that Article 11, containing the business scope of the Company, be updated to reflect the Company's expanded operations.

2.2.3 Article 12

The proposed amendment to Article 12 is to state that any rights attached to shares of a class other than ordinary shares shall be expressed in the Articles, and that these rights must be in compliance with the applicable laws, administrative regulations or listing rules of the securities exchanges on which the shares of the Company are listed. This amendment is in line with paragraph 1 of Appendix 2.2 of the Listing Manual.

2.2.4 Article 18

Pursuant to the Placement, it is proposed that Article 18 be inserted to reflect the change in the capital structure of the Company.

2.2.5 Article 21

Pursuant to the Placement, it is proposed that Article 21 be amended to reflect the change in the registered capital of the Company.

2.2.6 Article 117

Article 117, which relates to the notice for shareholders' meeting, is proposed to be amended to state that at least fourteen days notice of every shareholders' meeting shall be given by advertisement in one or more newspapers in Singapore, and in writing to each stock exchange on which the Company is listed. This amendment is in line with paragraph 7 of Appendix 2.2 of the Listing Manual.

2.2.7 Article 130

Article 130, which relates to the vacation of office of a Director in certain events, now additionally provides that a Director shall cease to hold office if he is disqualified from acting as a director in any jurisdiction for reasons other than on technical grounds. This amendment is in line with paragraph 9(n) of Appendix 2.2 of the Listing Manual.

2.2.8 Article 141

Article 141, which relates to the quorum for the meeting of the Board of Directors, is proposed to be amended to state that where two directors form a quorum, the chairman of a meeting at which only such a quorum is present, or at which only two directors are competent to vote on the matter at issue, shall not have a second vote. This amendment is in line with paragraph 11 of Appendix 2.2 of the Listing Manual.

.

3. DIRECTORS' RECOMMENDATION

The Directors are of the opinion that the Proposed AOA Amendments is in the best interests of the Company. They accordingly recommend that Shareholders vote in favour of Special Resolution No 17, being the Special Resolution relating to the Proposed AOA Amendments to be proposed at the 2016 AGM.

4. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders who wish to vote but who are unable to attend the 2016 AGM and wish to appoint a proxy to attend and vote at the 2016 AGM on their behalf must complete, sign and return the Proxy Form attached to the Annual Report of the Company for the financial year ended 31 December 2015 in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the office of the Company's S Share Registrar and Singapore Shares Transfer Office, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 (in the case of S-Shares), no later than 2:30 p.m. on 14 May 2016. The completion and return of a Proxy Form by a Shareholder does not preclude him from attending and voting in person at the 2016 AGM should he subsequently decide to do so.

A S-Share Shareholder who intends to attend the 2016 AGM must be registered in the shareholders name list or where the registered holder is CDP, must be named as a Depositor in the Depository Register forty-eight (48) hours before the 2016 AGM.

5. EXTRAORDINARY GENERAL MEETING

The 2016 AGM is being convened on 16 May 2016 at 2:30 p.m. at the meeting room of Banyan Tree Tianjin Riverside, No. 34 Haihe Eastern Road, Hebei District, Tianjin 300010, PRC for the purpose of considering and, if thought fit, passing, with or without any modifications, the resolutions set out in the Notice of AGM. The notice of the 2016 AGM and the Proxy Form have been circulated with the Company's Annual Report on 26 April 2016.

6. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Appendix and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, the information contained in this Appendix constitutes true and full disclosure of the material facts and that there are no material facts the omission of which would make any statement in this Appendix misleading.

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

7. 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 PRC, during normal business hours from the date of this Appendix up to the date of the 2016 AGM:–

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

(b) the Annual Report of the Company for the financial year ended 31 December 2015.

Yours faithfully
For and on behalf of the Directors

Wang Zhi Qiang
Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

ANNEX

Amendments to the Articles of Association of the Company

Pursuant to the national wide adjustment of the enterprises business licenses by administrative permission authority of the PRC, the Appendix 2.2 of the Listing Manual, and the change of the business scope in the business license of the Company as well as the Placement, the Company is proposing to amend Article 1, Article 11, Article 12, Article 15, Article 18, Article 21, Article 25, Article 30, Article 130 Article 133, and Article 141 of the Articles of Association.

1. Article 1

The proposed amendment to the Article 1 (concerning the legal basis of the Articles of Association) is set out in bold below:

"*In order to maintain the legitimate rights and interests of the Company, its shareholders and creditors, and to standardised the organisation and conducts of the Company, the Company hereby stipulate the Articles of Association of the Company in compliance with the Company Law of the People's Republic of China (hereinafter referred to as the "Company Law"), the Securities Law of the People's Republic of China (hereinafter referred to as the "Securities Law"), as well as the "Prerequisite Clause to the Articles of Association of Listed Companies listing in a foreign recognised stock exchange" (hereinafter referred to as the "Prerequisite Clauses") and other related regulations (collectively the "Relevant Regulations").*

The Company is a company limited by shares, and established in accordance with the Company Law, the "Special Regulations concerning the Public Offering and Listing in Foreign Countries constituted by the Central People's Government of the People's Republic of China" (hereinafter referred as the "Special Regulations"), and other related laws and regulations.

The Certificate of Approval [Approval No: Tianjin Municipal Committee for Economic Restructuring Jin Ti Gai Wei Zi (1992) NO. 27] of establishment of the Company was issued by the Tianjin Municipal Committee for Economic Restructuring. The Company was established by raising funds from target sources, and was registered at the Tianjin Municipal Administration for Industry & Commerce on 20 December 1992. The Company's ***social credit code is 91120000103100784F.***"

2. Article 11

The proposed amendment to the Article 11 (concerning the business scope of the Company) is set out in bold below:

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

Business operation mode: processing and manufacturing, imports and exports, wholesale and retail services."

3. Article 12

The proposed amendment to the Article 12 (concerning the other classes of shares of the Company) is set out in bold below:

"***(i)*** *The equity of the Company shall comprise ordinary shares only. Subject to the approval of the relevant examination and approval department authorised by the State Council, the Company may, upon the approval of the shareholders in a General Meeting passing a Special Resolution, create other classes of shares in accordance with the Company's requirements.*

(ii) The rights attached to shares issued upon special conditions shall be clearly defined in this Articles of Association and the rights attaching to shares of a class other than ordinary shares shall be expressed.

(iii) The rights attaching to shares of a class other than ordinary shares shall be in compliance with the applicable laws, administrative regulations or listing rules of the securities exchange(s) on which the shares of the Company are listed."

4. Article 18

The proposed amendment to the Article 18 (concerning the capital structure of the Company) is set out in bold below:

"*Shareholders of the Company approved a proposed bonus issue (the "Bonus Issue") of an aggregate 369,654,360 new ordinary shares in the capital of the Company by way of capitalisation of the Company's share premium, on 14 May 2010. Details of the Bonus Issue are as follows: 'Based on the audited financial report of the company for the financial year ended 31 December 2009 (prepared in accordance with the PRC accounting standards) audited by RSM China Certified Public Accountants, the Company's share premium is RMB783,780,650. On the basis of an aggregate 369,654,360 shares in the capital of the Company as at 20 April 2010, the Company decides to offer 10-for-10 Bonus Issue, through which RMB369,654,360 of the Company's share premium will be capitalised into the Company's registered capital, and RMB576,081,016 will be remained in the share premium account of the Company'. Upon completion of the Bonus Issue, the Company has an issued share capital in aggregate of 739,308,720 shares, comprising 269,654,360 ordinary shares issued by the Company under the companies law promulgated by the PRC to natural and legal persons in the PRC, and which are denominated in renminbi, which represent 72.95% of the total registered and paid-up capital of the Company, and 100,000,000 ordinary shares issued by the Company to natural and legal persons in countries other than PRC, which represents 27.05% of the total registered and paid-up capital of the Company.*

The proposed placement of A-Shares was approved in the Extraordinary General Meeting of the Company on 18 August 2014. The placement of 29,564,356 A-shares has been registered with China Securities Depository and Clearing (Shanghai) Corporation Limited on 10 July 2015. After the completion of the placement as mentioned above, the temporary capital structure of the Company is that there are 768,873,076 ordinary shares, 568,873,076 ordinary shares of which are held by the A-shares holders, accounting for 73.99% of the total number of ordinary shares issued by the Company, and there are 200,000,000 ordinary shares which are held by S-shares holders, accounting for 26.01% of the total number of ordinary shares issued by the Company."

5. Article 21

The proposed amendment to the Article 21 (concerning the registered capital of the Company) is set out in bold below:

"*The registered capital of the Company is* ***RMB768,873,076.***"

6. Article 117

The proposed amendment to the Article 117 (concerning the notice for shareholders' meeting) is set out in bold below:

"*The Company shall give notice to all the registered holders of the shares of a particular class not less than 45 days written notice prior to any meeting of the holders of shares of that class. The notice shall specify the date, venue and agenda of the meeting. Holders of the shares of that class (other than the "S" Shareholders) intending to attend the meeting shall notify the Company in writing not less than 20 days prior to the meeting. In relation to "S" Shareholders, an "S" Shareholder shall be entitled to attend any shareholders' meeting if his name appears on the register of shareholders or the Depository Register forty-eight (48) hours before the class meeting and to speak and vote thereat.*

All notices of such meeting shall be sent to the holders of the Foreign Investment Shares (regardless of whether such a shareholder shall have a right to vote at such meeting) to their addresses in accordance with Article 249. Domestic Shareholders may be notified by public announcement as well.

Public announcement as aforesaid of such meeting shall be made in one or more newspapers ***in the PRC*** *designated by the securities department-in-charge of the State Council not less than 45 days prior to such meeting. All Domestic Shareholders shall deemed to have notice of such meeting upon publication of the public announcement in the designated newspaper(s).*

At least fourteen days' notice of every such meeting shall be given by advertisement in one or more newspapers in Singapore, and in writing to each stock exchange on which the Company is listed.

A meeting of holders of shares in a class can only be held provided that more than one-half of the holders of shares in that class having the right to vote intend to attend the meeting (in the case of all shareholders other than "S" Shareholders) or are present at that meeting (in the case of the "S" Shareholders). Otherwise the Company shall, within 5 days from the relevant date therefrom, re-issue the notice by making a public announcement of the agenda, date and venue of the next meeting. Once the notice has been issued by way of public announcement, the Company shall convene the meeting of the shareholders of that class."

7. Article 130

The proposed amendment to the Article 130 (concerning the filling of the office vacated by a retiring Director in certain default events) is set out in bold below:

"*Without prejudice to Article 189, the office of a Director shall be vacated in any of the following events, namely:*

(a) if he shall become prohibited by law from acting as a Director; or

(b) if (not being a Director holding any executive office for a fixed term) he shall resign by writing under his hand left at the registered address of the Company or if he shall in writing offer to resign and the Directors shall resolve to accept such offer; or

(c) if he becomes a bankrupt or shall compound with his creditors generally; or

(d) if he becomes of unsound mind or if in the PRC, Singapore or elsewhere, an order shall be made by any court claiming jurisdiction in that behalf on the ground (however formulated) of mental disorder for his detention or for the appointment of a guardian or for the appointment of a receiver or other person (by whatever name called) to exercise powers with respect to his property or affairs;

*(e) if he is removed by the Company in a General Meeting pursuant to these Articles***; or**

(f) if he is disqualified from acting as a director in any jurisdiction for reasons other than on technical grounds."

8. Article 141

The proposed amendment to the Article 141 (concerning the quorum for the meeting of the Board of Directors) is set out in bold below:

"*(1) The quorum necessary for the transaction of the business of the Directors shall comprise more than one-half of all the Directors (including representatives).*

(2) Each Director shall have one vote. A board resolution shall be passed by a majority of all the Directors of the Company except otherwise required by these Articles.

(3) In the case of an equality of votes, the Chairman of the meeting shall have a second vote.

(4) Where two Directors form a quorum, the Chairman of a meeting at which only such a quorum is present, or at which only two Directors are competent to vote on the matter at issue, shall not have a second vote."

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 31 March 2016

Range of Shareholdings	**No. Of Shareholders**	**%**	**No. Of Shares**	**%**
1 – 99	2	0.09	47	0.00
100 – 1,000	59	2.83	46,800	0.03
1,001 – 10,000	1,426	68.43	6,984,667	3.49
10,001 – 1,000,000	581	27.88	31,866,207	15.93
1,000,001 AND ABOVE	16	0.77	161,102,279	80.55
Total	**2,084**	**100.00**	**200,000,000**	**100.00**

Foreign Substantial Shareholders as at 31 March 2016

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 31 March 2016

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 31 March 2016

	Name	No. Of Shares	%
1	CITIBANK NOMINEES SINGAPORE PTE LTD	33,541,787	16.77
2	PHILLIP SECURITIES PTE LTD	28,911,992	14.46
3	RAFFLES NOMINEES (PTE) LIMITED	28,193,400	14.10
4	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	17,070,400	8.54
5	DBS NOMINEES (PRIVATE) LIMITED	15,632,900	7.82
6	OCBC SECURITIES PRIVATE LIMITED	10,635,000	5.32
7	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	7,167,500	3.58
8	BANK OF CHINA NOMINEES (PTE) LTD	5,961,000	2.98
9	TAN SWEE TECK MICHAEL OR TAN TOH HEAH	3,967,200	1.98
10	DB NOMINEES (SINGAPORE) PTE LTD	2,661,100	1.33
11	TAN SWEE TECK MICHAEL	1,664,000	0.83
12	HSBC (SINGAPORE) NOMINEES PTE LTD	1,302,700	0.65
13	UOB KAY HIAN PRIVATE LIMITED	1,187,000	0.59
14	ABN AMRO CLEARING BANK N.V.	1,155,400	0.58
15	KUEK SIAW KIA @ QUEK SHIEW POH	1,048,600	0.52
16	LU ZU LIANG	1,002,300	0.50
17	PEH CHIN CHIONG	984,500	0.49
18	HIN CHAI @ ONG HIN CHAI	906,900	0.45
19	BANK OF SINGAPORE NOMINEES PTE. LTD.	589,400	0.29
20	EST OF TAN ENG KHIAM, DEC'D	540,000	0.27
	Total	**164,123,079**	**82.05**

THIS ANNEXURE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

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

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

中新药业

ZHONG XIN PHARMACEUTICAL

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Incorporated in the People's Republic of China)

(Company Registration No.: 91120000103100784F)

ANNEXURE ACCOMPANYING THE NOTICE OF ANNUAL GENERAL MEETING

DATED 16 MAY 2016

in relation to

PROPOSED RENEWAL OF MANDATE FOR INTERESTED PERSON TRANSACTIONS

CONTENTS

DEFINITIONS

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

"AGM"	:	The annual general meeting of the Company
"Annexure"	:	This Annexure to Shareholders dated 26 April 2016
"Articles" or "Articles of Association"	:	The articles of association of the Company, as amended, supplemented or modified from time to time
"Associated Company"	:	Companies or corporations in which the first-mentioned corporation has not less than 20% and not more than 50% equity interest
"Audit Committee"	:	The audit committee of the Company for the time being
"Board" or "Board of Directors"	:	The board of directors of the Company
"CDP"	:	The Central Depository (Pte) Limited
"Company"	:	Tianjin Zhong Xin Pharmaceutical Group Corporation Limited
"Directors"	:	The directors of the Company as at the date of this Annexure
"Group"	:	The Group refers to the Company and its Subsidiaries and Associated Companies
"FY" or "Financial Year"	:	Financial year ended or, as the case may be, ending 31 December
"Independent Directors"	:	The directors that are deemed independent for the purposes of making the recommendation in Paragraph 2.10 of the Appendix A of the Annexure, namely, Wang Zhi Qiang, Xu Dao Qing, Zhou Hong, Toe Teow Heng, Timothy Chen Teck Leng and Qiang Zhi Yuan
"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 printing of this Annexure, being 12 April 2016
"Listing Manual"	:	The listing manual of the SGX-ST, as amended, modified or supplemented from time to time
"Market Day"	:	A day on which the SGX-ST is open for trading of securities

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

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

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

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

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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

Board of Directors

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

Registered Office

17 Baidi Road,
Nankai District,
Tianjin, the PRC

26 April 2016

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

Dear Sir/Madam

1 INTRODUCTION

The Company has issued a notice of 2016 AGM (as defined below) on 29 March 2016 (the "**Notice of AGM**").

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

The purpose of this Annexure is to provide the Shareholders of the Company with information pertaining to, and to seek Shareholders' approval for the Proposed Renewal at the forthcoming AGM to be held on 16 May 2016 (the "**2016 AGM**").

2 DIRECTORS' AND SUBSTANTIAL SHAREHOLDER'S INTERESTS

2.1 Directors' and Substantial Shareholder's interests in Shares

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

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

	Direct Interest		Deemed Interest	
	No of Shares	**%**	**No of Shares**	**%**
Zhou Hong	–	–	–	–
Timothy Chen Teck Leng	–	–	–	–
Toe Teow Heng	–	–	–	–
Qiang Zhi Yuan	–	–	–	–
Substantial Shareholders				
TPG	331,111,998	43.065	–	–

2.2 TPG will abstain, and have undertaken to ensure that their respective associates will abstain, from voting at the 2016 AGM in respect of the Shares held by them respectively on Resolution 19 relating to the Proposed Renewal.

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

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

3 DIRECTORS' RESPONSIBILITY STATEMENT

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

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

4 DOCUMENTS FOR INSPECTION

Copies of the following documents may be inspected at the registered office of the Company at 17 Baidi Road, Nankai District, Tianjin, the PRC, during normal business hours from the date of this Annexure up to and including the date of the 2016 AGM:–

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

(b) the Annual Report of the Company for the financial year ended 31 December 2015;

APPENDIX A

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

1. INTRODUCTION

TPG, directly holds approximately 43.065% equity interest in the issued and paid up capital of the Company as at the Latest Practicable Date. As such, the TPG Group is deemed to be interested persons (as defined under Chapter 9 of the Listing Manual) in any interested person transaction between the Group and the TPG Group.

The Company had, at its annual general meeting held on 15 May 2015, sought and obtained approval from its Shareholders for a general mandate to enable the Company, its Subsidiaries and its Associated Companies, or any of them, to enter into certain types of recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations with the TPG Group.

Accordingly, it is proposed that the Shareholders' Mandate to be tabled to Shareholders for approval at the 2016 AGM for the renewal of the Shareholders' Mandate in order to authorise the Group to continue to enter into transactions with TPG Group in compliance with Chapter 9 of the Listing Manual. The purpose of this Annexure is to provide Shareholders with the relevant information pertaining to the renewal of the Shareholders' Mandate.

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

Transactions that the Company is involved in are detailed on pages 137 to 140 of the Company's annual report for FY2015 (the "**FY2015 Annual Report**").

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

2.1 Requirements of Chapter 9 of Listing Manual

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

Pursuant to Listing Rule 906, Shareholders' approval (in 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 party-owned subsidiary or associate company, the value of the transaction is the issuer's effective interest in that transaction;

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

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

2.2 Classes of Interested Persons under the Shareholders' Mandate

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

(a) TPG (including the TPG Sales and Marketing Branch Office), which is a major Shareholder with 43.065% shareholdings in the Company;

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

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

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

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

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

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

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

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

(viii) Tianjin Pharmaceutical Company;

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

(x) Tianjin Institute of Pharmaceutical Research.

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

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

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

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

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

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

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

2.3 Categories of Interested Person Transactions

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

2.3.1 Supply of Raw Materials

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

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

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

(c) Tianjin Institute of Pharmaceutical Research;

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

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

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

Note:

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

2.3.2 Sale and Purchase of Medicinal Products

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

(a) The TPG Sales and Marketing Branch Office;

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

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

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

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

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

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

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

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

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

(k) Tianjin Pharmaceutical Company;

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

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

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

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

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

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

Notes:

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

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

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

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

2.3.3 Packaging materials and services from TYPS

The Group obtains its packaging materials and services from TYPS. The contract between the Group and TYPS is for a period of 5 years beginning 1 January 2014 and ending 31 December 2018. The terms of this contract will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant one-year period. The Group has no obligation under this contract should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate or any subsequent renewal. The 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 and Benefits for the Shareholders' Mandate

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

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

2.5 Guidelines and Review Procedures for Interested Person Transactions

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

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

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

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

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

(ii) the pricing and terms of the Interested Person Transactions are not, in transactions where the Group purchases goods and/or obtains services from Interested Persons, less favourable to the Group than those available in other substantially similar types of transactions between the Group and unrelated third parties. The Company takes into consideration, primarily, pricing, terms of the contracts with the Interested Persons as stated in paragraph 2.3 of the 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 factors (where applicable) such as, but not limited to, pricing, the contracts with the Interested Persons as stated in paragraph 2.3 of the 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 give due and proper consideration.

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

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

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

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

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

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

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

2.6 Validity Period of the Shareholders' Mandate

If approved at the 2016 AGM, the Shareholders' Mandate will take effect from the date of the passing of the resolution to be proposed at the 2016 AGM and will (unless revoked or varied by the Company in a general meeting) continue to be in force until the subsequent AGM. The renewal of the Shareholders' Mandate has to be made in accordance with, and in the manner prescribed by the rules in the Listing Manual, and such other laws and regulations as may for the time being be applicable. It shall also be subject to satisfactory review by the Audit Committee and advisers of the continued requirements of the Shareholders' Mandate and the procedures for the transactions.

2.7 Disclosure to Shareholders

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

2.8 Audit Committee's Statement

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

(a) the review procedures for the Interested Person Transactions concerning TPG Group have not changed since the last Shareholder approval on 15 May 2015;

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

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

2.9 Directors' Recommendation

Having considered, *inter alia*, the terms, rationale and benefits set out at page 140 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 No. 19 relating to the proposed renewal of the Shareholders' Mandate as set out in the Notice of the AGM.

2.10 Abstention from voting

TPG which holds 43.065% of the shareholdings in the Company, will abstain, and has undertaken to ensure that its respective associates will abstain, from voting at the 2016 AGM in respect of the ordinary resolutions approving the proposed renewal of the Shareholders' Mandate as it is, in relation to the said one transaction or many transactions, an Interested Person as defined under the Listing Manual. It should also not accept nomination as proxies or otherwise for voting at the 2016 AGM in respect of the aforesaid ordinary resolutions unless specific instructions have been given in the proxy instrument on how the shareholders wish their votes to be cast for each of the ordinary resolutions.

This page has been intentionally left blank

中新药业

ZHONG XIN PHARMACEUTICAL

Tianjin Zhong Xin Pharmarceutical Group Corporation Limited
17 Baidi Road, Nankai District, Tianjin, PRC