

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Full Year Financial Statement (*) And Dividend Announcement

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

	<u>The Group</u>		Change
	2017	2016	%
	RMB'000	RMB'000	
		(Restated)	
Revenue	5,689,242	6,242,573	-9
Cost of Sales	(3,545,408)	(4,272,922)	-17
Gross Profit	2,143,834	1,969,651	9
Interest Income	6,328	5,542	14
Dividend Income	1,530	1,347	14
Other Gains	96,183	106,987	-10
Marketing and Distribution Costs	(1,426,702)	(1,275,658)	12
Research and Development Costs	(79,426)	(66,319)	20
Administrative Expenses	(288,540)	(303,873)	-5
Finance Costs	(12,233)	(19,373)	-37
Other Losses	(29,528)	(69,378)	-57
Share of Profits From Equity-Accounted Associates	119,554	117,501	2
Profit Before Income Tax	531,000	466,427	14
Income Tax Expense	(57,740)	(57,639)	-
Profit, Net of Tax	473,260	408,788	16
Other Comprehensive Loss Items that may be reclassified subsequently to profit or loss:			
Fair Value Loss on Re-measuring of Available-For-Sale Investments, Net of Tax	(1,201)	(10,757)	-89
Share of Other Comprehensive Loss From Equity-Accounted Associates, Net of Tax	(3,217)	(1,316)	n.m
Total Other Comprehensive Loss, Net of Tax	(4,418)	(12,073)	-63
Total Comprehensive Income	468,842	396,715	18

	The Group		Change
	2017 RMB'000	2016 RMB'000 (Restated)	%
Profit, Net of Tax attributable to:			
Owners of the Parent	476,079	423,599	12
Non-Controlling Interests	(2,819)	(14,811)	-81
	473,260	408,788	16

Total Comprehensive Income for the year attributable to:			
Owners of the Parent	471,661	411,526	15
Non-Controlling Interests	(2,819)	(14,811)	-81
	468,842	396,715	18

(*) prepared under International Financial Reporting Standards
n.m Not Meaningful

	Group	
	2017 RMB'000	2016 RMB'000 (Restated)
Profit, Net of Tax is arrived at after crediting / (charging):		
Dividend income	1,530	1,347
Other income including interest income	61,491	75,238
Gain (loss) on disposal / written off of property, plant and equipment, intangible assets and land use rights, net	4,047	13,834
Gain on disposals of interests in associates, net	35,025	3,120
Gain on deemed disposals of interests in subsidiaries	-	20,860
Allowance for impairment on trade receivables	(4,320)	(10,942)
Foreign currency translation gains / (losses), net	1,059	(1,754)
Interest on borrowings	(9,541)	(16,628)
Depreciation and amortisation	(77,897)	(76,181)
Employment termination benefits	(1,183)	(11,865)
Impairment loss on inventories	(8,337)	(12,015)
Allowance for impairment on other receivables	(13,640)	(30,212)
Impairment loss on property, plant and equipment	(1,388)	-

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

	The Group			The Company	
	31 December 2017 RMB'000	31 December 2016 RMB'000	1 January 2016 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000
ASSETS		(Restated)	(Restated)		
Non-current assets					
Property, plant and equipment	1,075,695	995,403	934,146	810,984	745,242
Investment properties	25,186	26,248	27,311	23,587	24,572
Land use rights	168,020	172,749	181,101	139,605	144,091
Intangibles assets	11,315	7,908	9,042	8,967	5,410
Investments in subsidiaries	-	-	-	437,080	380,413
Investments in associates	562,458	561,031	531,220	562,458	561,031
Other financial assets, non-current	691,169	615,796	304,501	149,221	149,327
Deferred tax assets	109,497	91,678	87,153	96,714	83,926
Other assets, non-current	17,912	19,145	16,242	19,570	18,071
Total non-current assets	2,661,252	2,489,958	2,090,716	2,248,186	2,112,083
Current assets					
Inventories	1,104,488	929,077	995,773	991,505	798,672
Trade and other receivables	1,541,127	1,495,785	1,572,847	1,619,286	1,445,450
Other financial assets, current	100,500	200,660	201,494	-	200,660
Other assets, current	222,260	164,391	176,172	208,055	155,032
Cash and cash equivalents	992,178	1,163,915	1,123,263	863,858	910,521
Total current assets	3,960,553	3,953,828	4,069,549	3,682,704	3,510,335
Total assets	6,621,805	6,443,786	6,160,265	5,930,890	5,622,418
EQUITY					
Equity attributable to the owners of the parent					
Share capital	768,873	768,873	768,873	768,873	768,873
Share premium	1,198,817	1,198,817	1,198,817	1,198,817	1,198,817
Retained earnings	2,018,817	1,707,997	1,503,973	1,922,178	1,601,496
Other reserves	490,251	507,043	492,012	540,449	514,112
Equity attributable to owners of the parent	4,476,758	4,182,730	3,963,675	4,430,317	4,083,298
Non-controlling interests	148,733	162,659	183,466	-	-
Total equity	4,625,491	4,345,389	4,147,141	4,430,317	4,083,298

	The Group			The Company	
	31 December 2017 RMB'000	31 December 2016 RMB'000	1 January 2016 RMB'000	31 December 2017 RMB'000	31 December 2016 RMB'000
LIABILITIES					
Non-current liabilities		(Restated)	(Restated)		
Deferred tax liabilities	6,982	7,293	9,316	6,982	7,293
Trade payables, non-current	39,915	47,271	47,652	39,470	47,197
Other liabilities, non-current	87,956	75,314	66,412	48,586	38,309
Total non-current liabilities	134,853	129,878	123,380	95,038	92,799
Current liabilities					
Income tax payable	27,072	17,374	10,339	25,346	14,402
Trade and other payables	1,282,903	1,308,925	1,279,083	1,077,156	1,090,441
Other financial liabilities	496,357	575,490	535,650	260,000	290,000
Other liabilities, current	55,129	66,730	64,672	43,033	51,478
Total current liabilities	1,861,461	1,968,519	1,889,744	1,405,535	1,446,321
Total liabilities	1,996,314	2,098,397	2,013,124	1,500,573	1,539,120
Total equity and liabilities	6,621,805	6,443,786	6,160,265	5,930,890	5,622,418

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

Amount repayable in one year or less, or on demand

As at 31 December 2017		As at 31 December 2016	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
234,357	262,000	270,990	304,500

Details of collateral for secured borrowings:

As at 31 December 2017, loans of RMB 234,357,000 (31 December 2016: RMB 270,990,000) are secured by pledges of unquoted bonds in corporations and country of the same amount.

Amount repayable after one year

As at 31 December 2017		As at 31 December 2016	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
-	-	-	-

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

	The Group	
	<u>2017</u> RMB'000	<u>2016</u> RMB'000
<u>Cash Flows From Operating Activities</u>		(Restated)
Profit Before Income Tax	531,000	466,427
Adjustments for:		
Interest Income	(6,328)	(5,542)
Interest Expense	12,233	19,373
Dividend Income	(1,530)	(1,347)
Gain on Maturity and Disposal of Financial Assets	(41,219)	(37,518)
Share of Profits of Equity-Accounted Associates	(119,554)	(117,501)
Gain on Disposals of Interests in Associates, net	(35,025)	(3,120)
Gain on Deemed Disposals of Interest in Subsidiaries, net	-	(20,860)
Depreciation of Property, Plant and Equipment, and Investment Property, and Amortisation of Land Use Rights, Intangible Assets and Other Assets	77,897	76,181
Losses on Disposal of Property, Plant and Equipment, Intangible Assets and Other Non-Current Assets	(4,047)	(13,824)
Impairment of Receivables and Inventories	27,685	53,169
Fair Value Losses / (Gains) on Derivative Financial Instruments	660	(660)
Operating Cash Flows Before Changes in Working Capital	441,772	414,778
Inventories	(183,748)	15,787
Trade and Other Receivables	(82,368)	(97,343)
Other Assets	(38,640)	8,242
Trade and Other Payables	(84,677)	95,482
Other Liabilities	1,041	10,919
Net Cash Flows From Operations	53,380	447,865
Income Tax Paid	(67,491)	(59,883)
Net Cash Flow (Used In) / From Operating Activities	(14,111)	387,982
<u>Cash Flows From Investing Activities</u>		
Purchase of Property, Plant and Equipment and Intangibles Assets	(114,420)	(118,201)
Proceeds From Disposals of Property, Plant and Equipment, Intangible Assets and Other Assets	588	18,022
Acquisition of Financial Assets	(37,491,934)	(36,031,471)
Proceeds From Disposal of Financial Assets	37,466,561	35,972,632
Proceeds From Disposal of Interests in Associates	-	3,120
Deemed Disposals of Subsidiaries (net of cash disposed)	-	(3,779)
Interest Income Received	36,732	45,103
Cash Restricted in Use	200,000	100,000

	<u>The Group</u>	
	<u>2017</u> RMB'000	<u>2016</u> RMB'000
		(Restated)
Dividends Income Received From Associates and Available-For-Sale Financial Assets	106,205	97,450
Compensation Income From Immediate Parent Company	-	9,199
Net Cash Flow From Investing Activities	203,732	92,075
<u>Cash Flows From Financing Activities</u>		
Acquisition of Subsidiaries Accounted Under Common Control	(62,712)	-
Acquisition from Non-Controlling Interests Without a Changes in Control	(6,016)	-
Proceeds From New Borrowings	382,000	745,820
Repayments of Borrowings	(424,500)	(765,200)
Proceeds From Other Borrowings	10,485,906	13,807,635
Repayment of Other Borrowings	(10,403,455)	(13,915,001)
Dividends Paid to Equity Owners	(114,819)	(191,718)
Distribution to Non-Controlling Interests	(5,120)	(7,144)
Interest Expense Paid	(12,642)	(13,797)
Cash Restricted in Use	3,812	24,272
Net Cash Flows Used in Financing Activities	(157,546)	(315,133)
Net Increase in Cash and Cash Equivalents	32,075	164,924
Cash and Cash Equivalents, Consolidated Statement of Cash Flows, Beginning Balance	943,039	778,115
Cash and Cash Equivalents, Consolidated Statement of Cash Flows, Ending Balance	975,114	943,039

	<u>The Group</u>	
	<u>2017</u> RMB'000	<u>2016</u> RMB'000
		(Restated)
Cash and Cash Equivalents in Consolidated Statement of Cash Flows:		
Amount as Shown in Statement of Financial Position	992,178	1,163,915
Cash and Cash Equivalents Restricted in Use	(17,064)	(220,876)
Cash and Cash Equivalents for Consolidated Cash Flows Statement Purposes at End of the Year	975,114	943,039

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

All in RMB'000

Group	Share capital	Share premium	Other reserves	Retained earnings	Parent sub-total	Non-controlling interests	Total equity
Balance at 1 January 2017	768,873	1,198,817	436,769	1,735,171	4,139,630	162,659	4,302,289
Adjustments to beginning balance	-	-	70,274	(27,174)	43,100	-	43,100
Restated balance at 1 January 2017	768,873	1,198,817	507,043	1,707,997	4,182,730	162,659	4,345,389
Total comprehensive income / (loss) for the period	-	-	(4,418)	476,079	471,661	(2,819)	468,842
Dividends	-	-	-	(115,331)	(115,331)	-	(115,331)
Distribution to non-controlling interests	-	-	-	-	-	(5,120)	(5,120)
Appropriation of Statutory Common Reserve	-	-	49,928	(49,928)	-	-	-
Acquisition of subsidiaries under common control	-	-	(62,712)	-	(62,712)	-	(62,712)
Acquisition from non-controlling interest without a change in control	-	-	(29)	-	(29)	(5,987)	(6,016)
Others	-	-	439	-	439	-	439
Balance at 31 December 2017	768,873	1,198,817	490,251	2,018,817	4,476,758	148,733	4,625,491

Group	Share capital	Share premium	Other reserves	Retained earnings	Parent sub-total	Non-controlling interests	Total equity
Opening balance at 1 January 2016	768,873	1,198,817	421,696	1,532,323	3,921,709	183,466	4,105,175
Adjustments to beginning balance	-	-	70,316	(28,350)	41,966	-	41,966
Restated balance at 1 January 2016	768,873	1,198,817	492,012	1,503,973	3,963,675	183,466	4,147,141
Total comprehensive income / (loss) for the period	-	-	(12,073)	422,423	410,350	(14,811)	395,539

Restatements from application of pooling of interest method	-	-	-	1,176	1,176	-	1,176
Appropriation of Statutory Common Reserve	-	-	27,357	(27,357)	-	-	-
Dividends	-	-	-	(192,218)	(192,218)	-	(192,218)
Distribution to non-controlling interests	-	-	-	-	-	(7,144)	(7,144)
Deemed disposal of subsidiaries	-	-	(253)	-	(253)	1,148	895
Restated closing balance at 31 December 2016	768,873	1,198,817	507,043	1,707,997	4,182,730	162,659	4,345,389

All in RMB'000

Company	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Opening balance at 1 January 2017	768,873	1,198,817	514,112	1,601,496	4,083,298
Total comprehensive income / (loss) for the period	-	-	(4,418)	485,941	481,523
Dividends	-	-	-	(115,331)	(115,331)
Appropriation of Statutory Common Reserve	-	-	49,928	(49,928)	-
Adjustment to Merger reserves	-	-	(19,173)	-	(19,173)
Closing balance at 31 December 2017	768,873	1,198,817	540,449	1,922,178	4,430,317

Company	Share capital	Share premium	Other reserves (Restated)	Retained earnings (Restated)	Total equity (Restated)
Opening balance at 1 January 2016	768,873	1,198,817	498,828	1,424,054	3,890,572
Total comprehensive income / (loss) for the period	-	-	(12,073)	397,017	384,944
Dividends	-	-	-	(192,218)	(192,218)
Appropriation of Statutory Common Reserve	-	-	27,357	(27,357)	-
Closing balance at 31 December 2016	768,873	1,198,817	514,112	1,601,496	4,083,298

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

There has been no change in the Company's share capital since 31 December 2016.

The Company does not have any shares that may be issued on conversion of any outstanding convertibles as at 31 December 2017 and 31 December 2016.

The Company did not hold any treasury shares and there were no subsidiary holdings as at 31 December 2017 and 31 December 2016.

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

		As at 31 December 2017	As at 31 December 2016
Number of issued shares excluding treasury shares	:	768,873,076	768,873,076
Number of treasury shares held	:	NIL	NIL

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

Not applicable.

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

Not applicable.

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

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

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

Audit Opinion as extracted from the auditors’ report:

Opinion

We have audited the accompanying financial statements of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the “Company”) and its subsidiaries (collectively, the “Group”), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and consolidated statement of cash flows of the Group, and statement of changes in equity of the Company for the reporting year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the International Financial Reporting Standards (“IFRSs”) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the reporting year ended on that date.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current reporting year. These matters were addressed in the context of our audit of the financial statements as a whole, and in

forming our opinion thereon, and we do not provide a separate opinion on these matters.

1) Impairment assessment of trade receivables

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

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

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

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

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

2) Assessment of allowance for impairment of inventories

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

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

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

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

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

Other information

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

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

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

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

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

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

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

process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated

financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

RSM Chio Lim LLP
Public Accountants and Chartered Accountants

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

29 March 2018

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

Ruihua Certified Public Accountants LLP
Certified Public Accountants

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

29 March 2018

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

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

The Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective on the beginning of its current reporting year on 1 January 2017. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current and prior periods.

The following disclosed the financial impact of acquisition of a subsidiary, Tianjin Chinese Medicinal Slices Co., Ltd during the financial year:

The Company acquired 100% equity interest in Tianjin Chinese Medicinal Slices Co., Ltd was acquired on 1 July 2017 for RMB62.7 million from a related company. The acquisition is accounted using pooling-of-interest method as the Company and the related company are under common control of the same ultimate parent company. The financial statements of the Group are presented as if the Group had been in existence for all periods presented and the combined assets, liabilities, and reserves of the pooled enterprises are recorded at their existing carrying amounts at the date of amalgamation. The excess of the fair value of the purchase consideration over the net book value of the assets acquired is adjusted to the capital reserve in equity.

The pooling-of-interests method has been applied retrospectively and the effects are as follows:

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

<u>Consolidated statement of financial of profit or loss and other comprehensive income</u>			
Revenue	6,242,573	6,178,822	63,751
Cost of sales	(4,272,922)	(4,235,160)	(37,762)
Interest income	5,542	5,512	30
Other gains	106,987	106,725	262
Marketing and distribution costs	(1,275,658)	(1,269,862)	(5,796)
Administrative expenses	(303,873)	(286,940)	(16,933)
Other losses	(69,378)	(66,730)	(2,648)
Income tax expenses	(57,639)	(57,911)	272
<u>Statement of financial position as at 1 January 2016</u>			
Property, plant and equipment	934,146	921,476	12,670
Land use rights	181,101	178,929	2,172
Deferred tax assets	87,153	82,410	4,743
Other assets, non-current	16,242	15,467	775
Inventories	995,773	974,155	21,618
Trade and other receivables	1,572,847	1,538,956	33,891
Other assets, current	176,172	175,808	364
Cash and cash equivalent	1,123,263	1,108,107	15,156
Retained earnings	1,503,973	1,532,323	(28,350)
Other reserves	492,012	421,696	70,316
Income tax payable	10,355	10,264	91
Trade and other payables	1,279,068	1,229,789	49,279
Other liabilities, current	64,671	64,618	53

	<u>After Restatement</u>	<u>Before Restatement</u>	<u>Difference</u>
<u>Group</u>	RMB'000	RMB'000	RMB'000
<u>2016 Consolidated Statement of Cash Flows</u>			
Profit before income tax	466,427	465,523	904
Depreciation of property, plant and equipment	76,181	74,545	1,636
Gain on disposal of property, plant and equipment	(13,824)	(13,835)	11
Impairment of receivables and inventories	53,169	53,111	58
Inventories	15,787	15,295	492
Trade and other receivables	(97,343)	(102,742)	5,399
Other assets	8,242	8,904	(662)
Trade and other payables	95,482	104,991	(9,509)
Other liabilities	10,919	10,823	96

Income tax paid	(59,883)	(59,359)	(524)
Purchase of property, plant and equipment	(118,201)	(116,203)	(1,998)

Except for the above, the Group has applied the same accounting policies and methods of computation as presented in the audited financial statements of the Group for the reporting year ended 31 December 2016.

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

Refer to Paragraph 4 above.

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

	<u>The Group</u>	
	2017 RMB	2016 RMB (Restated)
Earnings per ordinary share for the period based on net profits after deducting any provision for preference dividends:		
Based on weighted average number of ordinary share on issue	0.62	0.55

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

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

	Group		Company	
	31 December 2017 RMB	31 December 2016 RMB	31 December 2017 RMB	31 December 2016 RMB
Net asset backing per ordinary share	5.82	5.44	5.76	5.31

based on existing issued share capital as at the end of the period reported on				
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8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the Group's business.

(a) Revenue:

The Group's revenue for the financial year ended 31 December 2017 ("FY2017") was approximately RMB 5,689 million, a decrease of approximately RMB 553 million, or 9%, from RMB 6,242 million for the financial year ended 31 December 2016 ("FY2016").

(b) Gross profit margin:

The Group's gross profit in FY2017 increased by approximately 9% from approximately RMB 1,970 million in FY2016 to approximately RMB 2,144 million. Gross profit margin increased from 31.55% in FY2016 to 37.68% in FY2017.

(c) Other operating income:

Other gains in FY2017 were approximately RMB 96 million, a decrease of approximately RMB 11 million over the previous year, which was RMB 107 million. This was mainly contributed by the decrease in gain on disposal of property, plant and equipment.

(d) Major expenses:

(i) Marketing and Distribution costs in FY2017 was approximately RMB 1,427 million, an increase of approximately RMB 151 million, or 12% over the previous year. The increase in major expenses was due mainly to the increase in sales promotion expenses.

(ii) Research and Development costs in FY2017 increased by approximately RMB 13 million, to approximately RMB 79 million.

(iii) Administrative expenses in FY2017 decreased by approximately RMB 15 million, from approximately RMB 304 million in FY2016 to approximately RMB 289 million.

(iv) Finance costs in FY2017 decreased by approximately RMB 7 million or 37% from approximately RMB 19 million to approximately RMB 12 million. The decrease in financial costs was mainly due to the decrease in loan amounts and decrease in interest rates.

(v) Other losses in FY2017 decreased by approximately RMB 40 million, from approximately

RMB 69 million in FY2016 to approximately RMB 29 million. The decrease was mainly due to the decrease in allowance for doubtful debts.

(e) Shares of results of associated companies:

The Group's share of results of associated companies in FY2017 increased by RMB 2 million, or 2%, from approximately RMB 118 million in FY2016 to approximately RMB 120 million.

(f) Total comprehensive income:

The Group's total comprehensive income (net of tax) in FY2017 was approximately RMB 469 million, an increase of 18% over the previous year. The total comprehensive income attributable to equity holders of parent (net of tax) in FY2017 was approximately RMB 472 million, an increase of approximately RMB 60 million, or 15%, from FY2016.

(g) Major changes in statement of financial positions:

As at 31 December 2017, the Group's cash and cash equivalents amounted to approximately RMB 992 million, which is a decrease of approximately RMB 172 million, or 15% over previous year. As at 31 December 2017, the Group's short-term borrowings were approximately RMB 496 million, which is a decrease of approximately RMB 79 million, or 14% over previous year.

Trade and other receivables amounted to approximately RMB 1,541 million at 31 December 2017, which is an increase of approximately RMB 45 million, or 3% over previous year. Bills receivable increased by approximately RMB 3 million. Trade receivables increased by approximately RMB 56 million. Other receivables decreased by approximately RMB 14 million. Inventories increased by 19% to approximately RMB 1,104 million.

Other current assets increased by approximately 35% or RMB 58 million to approximately RMB 222 million as at 31 December 2017.

Investments in associates increased by approximately RMB 1 million to approximately RMB 562 million.

Property, plant and equipment increased by approximately RMB 80 million or 8% to RMB 1,076 million.

(h) Changes in cash flow position:

In FY2017, the Group recorded net cash outflow from operating activities of approximately RMB 14 million.

Cash inflow from investment activities was approximately RMB 204 million in FY2017.

Cash outflow from financing activities was approximately RMB 158 million in FY2017.

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

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any know factors or events that may affect the group in the next reporting period and the next 12 months

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

1. Actively fine tune its operating model by focusing on creating anchor brands, building a distinctive consumer oriented market system, and developing innovative marketing models to strengthen its operational capabilities.
2. Promote scientific research, emphasize quality management, and further strengthen its core competitiveness.
3. Enhance operational management and control, and build safety mechanisms to further improve the quality and efficiency of development.

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

11. Dividend

(a) Current Financial Period Reported On

The Directors propose to seek approval from the shareholders of the Company (the “Shareholders”) for declaring a final dividend of RMB 153,774,615.2 on the basis of RMB 2.0 for every 10 shares in the capital of the Company. Such proposed declaration of dividends will be subject to approval by Shareholders at the forthcoming annual general meeting to be held on 15 May 2018, and thus has not been included as a liability in these financial statements of the Company and/or Group. Upon obtaining the Shareholders’ approval, the proposed dividend is payable in respect of all issued ordinary shares in the capital of the Company as at the end of the FY2017.

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

(i) S-Shares

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

(ii) A-Shares

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

(b) Corresponding Period of the Immediately Preceding Financial Year

The Directors proposed a final dividend of RMB 115,330,961.4 on the basis of RMB 1.5 for every 10 shares in the capital of the Company for FY2016. The proposed dividend is payable in respect of all issued ordinary shares in the capital of the Company as at the end of the financial year 2016.

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

(iii) S-Shares

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

(iv) A-Shares

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

(c) Date payable

To be announced by the Company upon approval being granted by the Shareholders at the annual general meeting to be held on 15 May 2018, for the payment of the final dividend.

(d) Books closure date

To be announced by the Company upon approval being granted by the Shareholders at the annual general meeting to be held on 15 May 2018, for the payment of the final dividend.

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

Not applicable.

12. Interested Person Transaction disclosure

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

In RMB'000

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

Note: As at 31 December 2017, placement of deposit with TPGF amounted to RMB 287,675,910.

13. Financial Information by Operating Segments

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

2017	Revenue	Cost of sales	Gross profit
	RMB'000	RMB'000	RMB'000
Chinese medicine	3,648,838	(1,695,988)	1,952,850
Western medicine	1,490,925	(1,352,088)	138,837
Others	549,479	(497,332)	52,147
Total	5,689,242	(3,545,408)	2,143,834

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

The Group operates predominantly in the PRC.

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

Not applicable

15. A breakdown of sales as follows:

	Group		
	2017	2016	Increase/ (Decrease)
	RMB'000	RMB'000	%
(a) Sales reported for first half year	2,987,439	3,278,169	-8.87%
(b) Operating profit after tax before deducting non-controlling interests reported for first half year	273,983	250,246	9.49%

(c) Sales reported for second half year	2,701,803	2,964,404	-8.86%
(d) Operating profit after tax before deducting non-controlling interests reported for second half year	199,277	158,532	25.69%

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

	FY2017 RMB'000	FY2016 RMB'000
Ordinary - Interim	-	76,887
- Final (Proposed)	153,775	115,331
Preference	N.A.	N.A.
Total	153,775	192,218

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

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

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

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