

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Second Quarter Financial Statement (*) And Dividend Announcement

1(a) A statement of comprehensive income (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

	The Group					
	3-month period from 1 April to 30 June 2018 RMB'000	3-month period from 1 April to 30 June 2017 RMB'000	Change %	6-month period from 1 January to 30 June 2018 RMB'000	6-month period from 1 January to 30 June 2017 RMB'000	Change %
Revenue	1,497,080	1,505,607	-1	3,112,247	2,987,439	4
Cost of sales	(867,776)	(995,972)	-13	(1,781,769)	(1,922,063)	-7
Gross profit	629,304	509,635	23	1,330,478	1,065,376	25
Interest income	3,138	1,840	71	5,322	3,619	47
Dividend income	566	746	-24	566	746	-24
Other gains	9,774	48,813	-80	32,822	66,063	-50
Marketing and distribution costs	(435,483)	(342,695)	27	(932,110)	(724,130)	29
Research and development costs	(17,803)	(17,733)	-	(37,471)	(29,495)	27
Administrative expenses	(64,291)	(64,600)	-	(127,520)	(130,740)	-2
Finance costs	(3,095)	(2,579)	20	(5,984)	(4,940)	21
Other losses	(6,372)	381	n.m	(6,636)	(8)	n.m
Share of profit of associates	41,973	23,369	80	97,019	61,732	57
Profit before income tax	157,711	157,177	-	356,486	308,223	16
Income tax expense	(14,562)	(16,486)	-12	(39,218)	(34,240)	15
Profit, net of tax	143,149	140,691	2	317,268	273,983	16

	<u>The Group</u>					
	3-month period from 1 April to 30 June 2018 RMB'000	3-month period from 1 April to 30 June 2017 RMB'000	Change %	6-month period from 1 January to 30 June 2018 RMB'000	6-month period from 1 January to 30 June 2017 RMB'000	Change %
Other comprehensive income:						
Items that may be reclassified subsequently to profit or loss:						
Share of other comprehensive loss of associates	(635)	(1,078)	n.m	(805)	(1,078)	n.m
Fair value (loss) / gain on re-measuring of financial assets	(26)	(2,368)	n.m	2,543	(147)	n.m
Other comprehensive (loss) / income, net	(661)	(3,446)	-81	1,738	(1,225)	n.m
Total comprehensive income	142,488	137,245	4	319,006	272,758	17
Profit, net of tax attributable to:						
Owners of the parent	142,167	142,108	-	315,534	275,863	14
Non-controlling interests	982	(1,417)	n.m	1,734	(1,880)	n.m
	143,149	140,691	2	317,268	273,983	16
Total comprehensive income attributable to:						
Owners of the parent	141,506	138,662	2	317,272	274,638	16
Non-controlling interests	982	(1,417)	n.m	1,734	(1,880)	n.m
	142,488	137,245	4	319,006	272,758	17

(*) prepared under International Financial Reporting Standards

n.m Not Meaningful

	The Group			
	3-month period from 1 April to 30 June 2018 RMB'000	3-month period from 1 April to 30 June 2017 RMB'000	6-month period from 1 January to 30 June 2018 RMB'000	6-month period from 1 January to 30 June 2017 RMB'000
Profit, net of tax is arrived at after crediting / (charging):				
Dividend income	566	746	566	746
Other income including interest income	10,342	15,892	19,214	28,107
(Loss) / gain on disposal of property, plant and equipment, intangible assets and other non-current assets	3,492	(141)	3,213	5,355
Allowance for impairment on trade receivables – reversal / (loss)	(3,998)	1,097	(2,204)	1,214
Gain on disposal of associate	-	33,525	-	33,525
Gain on disposals of interests in subsidiaries, net	-	-	306	-
Gain on dilution of interests in an associate	2,042	-	2,042	-
Foreign exchange (loss) / gain	(1,167)	175	(281)	214
Interest on borrowings	(3,095)	(2,580)	(5,984)	(4,940)
Depreciation and amortization	(21,973)	(22,620)	(42,106)	(43,125)
Allowance for impairment on inventories – (loss) / reversal	(2,500)	(44)	(2,764)	1,118
Allowance for impairment on other receivables	(5)	150	13,369	150
Impairment loss on property, plant and equipment	-	(8)	-	(8)

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

	<u>The Group</u>		<u>The Company</u>	
	30 June 2018 RMB'000	31 December 2017 RMB'000	30 June 2018 RMB'000	31 December 2017 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	1,109,178	1,075,695	841,717	810,984
Investment properties	24,655	25,186	23,095	23,587
Land use rights	165,656	168,020	137,363	139,605
Intangibles assets	11,099	11,315	8,602	8,967
Goodwill	-	-	-	-
Investment in subsidiaries	-	-	455,478	437,080
Investment in associates	644,713	562,458	644,713	562,458
Other financial assets, non-current	-	691,169	-	149,221
Financial assets at fair value through other comprehensive income	384,811	-	141,574	-
Deferred tax assets	112,943	109,497	96,714	96,714
Other assets, non-current	16,638	17,912	18,282	19,570
Total non-current assets	2,469,693	2,661,252	2,367,538	2,248,186
Current assets				
Inventories	1,142,982	1,104,488	1,025,290	991,505
Trade and other receivables	1,758,361	1,541,127	1,842,125	1,619,286
Other financial assets, current	-	100,500	-	-
Financial assets at fair value through profit or loss	197,081	-	-	-
Financial assets at amortised cost	30,000	-	-	-
Other asset, current	218,956	222,260	206,655	208,055
Cash and cash equivalents	1,200,742	992,178	987,373	863,858
Total current assets	4,548,122	3,960,553	4,061,443	3,682,704
Total assets	7,017,815	6,621,805	6,428,981	5,930,890

	The Group		The Company	
	30 June 2018 RMB'000	31 December 2017 RMB'000	30 June 2018 RMB'000	31 December 2017 RMB'000
EQUITY				
Equity attributable to the owners of the parent				
Share capital	768,873	768,873	768,873	768,873
Share premium	1,198,817	1,198,817	1,198,817	1,198,817
Retained earnings	2,180,576	2,018,817	2,087,471	1,922,178
Other reserves	472,593	490,251	533,144	540,449
Total equity, attributable to equity holders of the parent	4,620,859	4,476,758	4,588,305	4,430,317
Non-controlling interests	123,399	148,733	-	-
Total equity	4,744,258	4,625,491	4,588,305	4,430,317
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	5,835	6,982	5,835	6,982
Trade payables, non-current	39,915	39,915	39,470	39,470
Other liabilities, non-current	90,875	87,956	51,345	48,586
Total non-current liabilities	136,625	134,853	96,650	95,038
Current liabilities				
Other financial liabilities at fair value through profit or loss	153,748	-	-	-
Income tax payable	16,413	27,072	14,919	25,346
Trade and other payables	1,647,990	1,282,903	1,420,080	1,077,156
Other financial liabilities at amortised cost	252,000	496,357	250,000	260,000
Other liabilities, current	66,781	55,129	59,027	43,033
Total current liabilities	2,136,932	1,861,461	1,744,026	1,405,535
Total liabilities	2,273,557	1,996,314	1,840,676	1,500,573
Total equity and liabilities	7,017,815	6,621,805	6,428,981	5,930,890

1(b)(ii) Aggregate amount of group's borrowings and debt securities**Amount repayable in one year or less, or on demand**

<u>The Group</u>			
As at 30/06/2018		As at 31/12/2017	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
153,748	252,000	234,357	262,000

Details of collateral for secured borrowings:

As at 30 June 2018, loans of RMB 153,748,000 (31 December 2017: RMB 234,357,000) are secured by pledges of investment in corporate and government bonds of the same amount.

Amount repayable after one year

<u>The Group</u>			
As at 30/06/2018		As at 31/12/2017	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
-	-	-	-

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

	The Group			
	3-month period from 1 April to 30 June 2018 RMB'000	3-month period from 1 April to 30 June 2017 RMB'000	6-month period from 1 January to 30 June 2018 RMB'000	6-month period from 1 January to 30 June 2017 RMB'000
<u>Cash flows from operating activities</u>				
Profit before income tax	157,711	157,177	356,486	308,223
Interest income	(3,138)	(1,840)	(5,322)	(3,619)
Interest expense	3,095	2,580	5,984	4,940
Dividend income	(566)	(746)	(566)	(746)
Gain upon maturity and disposal of financial assets	(3,150)	(9,533)	(8,560)	(18,216)
Share of loss / (profit) of equity-accounted associates	(41,973)	(23,369)	(97,019)	(61,732)
Gain on disposal of an associate	-	(33,525)	-	(33,525)
Gain on disposals of interests in subsidiaries, net	-	-	(306)	-
Gain on dilution of interests in an associate	(2,042)	-	(2,042)	-
Depreciation and amortisation of property, plant and equipment, investment properties, land use rights and intangible assets	21,973	22,620	42,106	43,125
(Gain) / loss on disposals of property, plant and equipment, intangible assets and other non-current assets	(3,492)	141	(3,213)	(5,355)
Allowance for impairment on trade and other receivables	6,503	(1,195)	(8,401)	(2,474)
Fair value loss on derivative financial instruments	53	(2,968)	(558)	(2,863)
Operating cash flows before changes in working capital	134,974	109,342	278,589	227,758

	<u>The Group</u>			
	3-month period from 1 April to 30 June 2018 RMB'000	3-month period from 1 April to 30 June 2017 RMB'000	6-month period from 1 January to 30 June 2018 RMB'000	6-month period from 1 January to 30 June 2017 RMB'000
Inventories	(54,043)	(92,893)	(41,258)	(70,171)
Trade and other receivables	(64,031)	(42,806)	(212,654)	(149,449)
Other assets	(2,079)	(46,936)	4,578	(64,127)
Trade and other payables	60,492	176,138	213,868	168,529
Other liabilities	10,271	(42,837)	18,753	(48,213)
Net cash flows from operations	85,584	60,008	261,876	64,327
Income tax paid	(48,166)	(32,035)	(50,049)	(35,964)
Net cash flows from operating activities	37,418	27,973	211,827	28,363
Cash flows from investing activities				
Purchase of property, plant and equipment, intangibles, land use rights and investment properties	(30,916)	(27,309)	(62,325)	(44,171)
Acquisition of available-for-sale financial assets	(8,644,195)	(10,920,060)	(15,420,565)	(17,943,641)
Disposals of subsidiaries (net of cash disposal)	-	-	(11,582)	-
Proceeds from disposal of financial assets	8,695,189	11,296,893	15,482,389	17,671,421
Cash restricted in use	-	(90,000)	-	200,000
Dividends income received from associates and available-for-sale financial assets	1,584	746	17,584	3,080
Proceeds from disposals of property, plant and equipment, intangible assets and other assets	151	99	239	112
Interest income received	4,934	10,483	12,878	18,577
Net cash flows from / (used in) investing activities	26,747	270,852	18,618	(94,622)

	<u>The Group</u>			
	3-month period from 1 April to 30 June 2018 RMB'000	3-month period from 1 April to 30 June 2017 RMB'000	6-month period from 1 January to 30 June 2018 RMB'000	6-month period from 1 January to 30 June 2017 RMB'000
Cash flows from financing activities				
Proceeds from new borrowings	-	100,000	170,000	100,000
Proceeds from other borrowings	4,306,782	1,653,851	7,754,664	2,336,945
Dividends paid to equity owners	-	-	-	(31)
Distribution to non-controlling interests	(5,152)	(319)	(5,152)	(5,119)
Interest expense paid	(3,028)	(2,533)	(6,125)	(7,297)
Repayment of borrowings	(40,000)	(60,000)	(180,000)	(80,000)
Repayment of other borrowings	(4,308,174)	(1,610,229)	(7,755,269)	(2,293,519)
Cash restricted in use and/or maturing after 3 months	(5,854)	7,654	(3,954)	9,876
Net cash flows (used in) / from financing activities	(55,426)	88,424	(25,836)	60,855
Net increase / (decrease) in cash and cash equivalents	8,739	387,249	204,609	(5,404)
Cash and cash equivalents, consolidated statement of cash flows, beginning balance	1,186,149	1,059,039	975,114	943,038
Cash and cash equivalents, consolidated statement of cash flows, ending balance	1,194,888	1,446,288	1,179,723	937,634

Cash and cash equivalents in consolidated statement of cash flows				
Amount as shown in the statement of financial positions	1,200,742	1,348,634	1,200,742	1,348,634
Restricted cash deposits for bank notes payables	(5,854)	97,654	(21,019)	(411,000)
Cash and cash equivalents for consolidated statement of cash flows purpose at end of the period	1,194,888	1,446,288	1,179,723	937,634

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

All in RMB'000

Group	Share capital	Share premium	Other reserves	Retained earnings	Parent sub-total	Non-controlling interests	Total equity
Balance at 1 January 2018	768,873	1,198,817	490,251	2,018,817	4,476,758	148,733	4,625,491
Restatements	-	-	(19,379)	-	(19,379)	-	(19,379)
Restated balance at 1 January 2018	768,873	1,198,817	470,872	2,018,817	4,457,379	148,733	4,606,112
Total comprehensive income for the period	-	-	1,738	315,534	317,272	1,734	319,006
Dividends	-	-	-	(153,775)	(153,775)	-	(153,775)
Distribution to non-controlling interests	-	-	-	-	-	(5,152)	(5,152)
Disposal of subsidiary	-	-	-	-	-	(13,235)	(13,235)
Acquisition from non-controlling interest without a change in control	-	-	(17)	-	(17)	(8,681)	(8,698)
Balance at 30 June 2018	768,873	1,198,817	472,593	2,180,576	4,620,859	123,399	4,744,258

Group	Share capital	Share premium	Other reserves	Retained earnings	Parent sub-total	Non-controlling interests	Total equity
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 for the period	-	-	(1,225)	275,863	274,638	(1,880)	272,758
Dividends	-	-	-	(115,331)	(115,331)	-	(115,331)
Distribution to non-controlling interests	-	-	-	-	-	(5,119)	(5,119)
Adjustment to Merger reserves	-	-	(62,712)	-	(62,712)	-	(62,712)
Balance at 30 June 2017	768,873	1,198,817	443,106	1,868,529	4,279,325	155,660	4,434,985

All in RMB'000

Company	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 1 January 2018	768,873	1,198,817	540,449	1,922,178	4,430,317
Total comprehensive income for the period	-	-	(7,305)	319,068	311,763
Dividends	-	-	-	(153,775)	(153,775)
Balance at 30 June 2018	768,873	1,198,817	533,144	2,087,471	4,588,305

Company	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Balance at 1 January 2017	768,873	1,198,817	514,112	1,601,496	4,083,298
Total comprehensive income for the period	-	-	(1,225)	288,204	286,979
Dividends	-	-	-	(115,331)	(115,331)
Deficit on acquisition of subsidiary accounted under Pooling-of-Interests method	-	-	(3,922)	-	(3,922)
Balance at 30 June 2017	768,873	1,198,817	508,965	1,774,369	4,251,024

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

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

The Company does not have any shares that may be issued on conversion of any outstanding convertibles as at 30 June 2018 and 31 December 2017.

The Company did not hold any treasury shares and there were no subsidiary holdings as at 30 June 2018 and 31 December 2017.

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

		As at 30 June 2018	As at 31 December 2017
Number of issued shares excluding treasury shares	:	768,873,076	768,873,076
Number of treasury shares held	:	NIL	NIL

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

Not applicable.

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

Not applicable.

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

These figures have been prepared in accordance with International Financial Reporting Standards (“IFRS”). They have not been audited or reviewed.

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

Not applicable.

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

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

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

5. If there are any changes 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 Paragraph 4 above.

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

	Group			
	3-month period from 1 April to 30 June 2018 RMB	3-month period from 1 April to 30 June 2017 RMB	6-month period from 1 January to 30 June 2018 RMB	6-month period from 1 January to 30 June 2017 RMB
Earnings per ordinary share for the period based on net profits after deducting any provision for preference dividends:				
Based on weighted average number of ordinary share on issue	0.18	0.18	0.41	0.36

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	
	30 June 2018 RMB	31 December 2017 RMB	30 June 2018 RMB	31 December 2017 RMB
Net asset value per ordinary share based on existing issued share capital as at the end of the period reported on	6.01	5.82	5.97	5.76

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business.

(a) Revenue:

The Group's revenue in the second quarter of FY2018 ("2Q FY2018") was approximately RMB 1,497 million, a decrease of approximately RMB 9 million, or 1%, from RMB1,506 million in the second quarter of FY2017 ("2Q FY2017"). For the 6 months ended 30 June 2018 ("1H18"), the Group recorded a revenue of approximately RMB 3,112 million, an increase of approximately RMB 125 million, approximately 4% over the corresponding period in FY2017.

(b) Gross Profit Margin:

The Group's gross profit in 2Q FY2018 increased by approximately 23% from approximately RMB 510 million in 2Q FY2017 to approximately RMB 629 million. For 1H18, the Group's gross profit was approximately RMB 1,330 million compared to approximately RMB 1,065 million in the corresponding period of FY2017, with an increase of approximately 25% amounting to approximately RMB 265 million. The gross profit margin has increased from 35.66% in first half financial year of FY2017 ("1H17") to 42.75% in 1H18.

(c) Other Gains:

Other gains in 2Q FY2018 were RMB 10 million. For 1H18, the Group's other gains were approximately RMB 33 million, a decrease of approximately RMB 33 million over the previous corresponding period. The decrease in other gains was mainly due to gain on disposal of equity interest of Tianjin Sinobioway Biomedicine Co., Ltd in previous year.

(d) Major Expenses:

(i) Marketing and Distribution costs in 2Q FY2018 increased by approximately 27% to approximately RMB 435 million. For 1H18, the Marketing and Distribution costs was approximately RMB 932 million, an increase of approximately RMB 208 million or 29% over the previous corresponding period. The increase in major expenses was mainly due to the increase in sales promotion expenses.

(ii) Research and Development costs in 2Q FY2018 were approximately RMB 18 million, which is comparable to previous year. For 1H18, the Research and Development costs increased by approximately RMB 8 million, from approximately RMB 29 million in 1H17 to approximately RMB 37 million.

(iii) Administrative expenses in 2Q FY2018 were approximately RMB 64 million, which is comparable to previous year. For 1H18, the administration expenses were approximately RMB 128 million, a decrease of approximately RMB 3 million.

(iv) Finance costs in 2Q FY2018 increased by approximately 20% to approximately RMB 3 million, while for 1H18, the finance costs increased by approximately RMB 1 million or 21% from approximately RMB 5 million to approximately RMB 6 million. The increase in financial costs was mainly due to the increase in interest rates.

(v) Other losses in 2Q FY2018 increased by approximately RMB 6 million, while for 1H18, the other losses were approximately RMB 6 million. The increase was mainly due to the reversal of allowance for doubtful debts.

(e) Share of results of associated companies:

The Group's share of profits of associated in 2Q FY2018 has increased by approximately RMB 19 million to approximately RMB 42 million. The Group's share of profits of associated in 1H18 increased from approximately RMB 62 million to approximately RMB 97 million.

(f) Total comprehensive income:

The Group's total comprehensive income (net of tax) in 2Q FY2018 was approximately RMB 142 million, an increase of 4% over the previous corresponding period. The Group's total comprehensive income (net of tax) in 1H18 was approximately RMB 319 million, an increase of approximately RMB 46 million or 17% over the previous corresponding period.

The profit attributable to equity holders of parent (net of tax) in 2Q FY2018 was approximately RMB 142 million, which is comparable to previous year. The profit attributable to equity holders of parent (net of tax) in 1H18 was approximately RMB 316 million, an increase of approximately RMB 40 million, or 14% from RMB 276 million of the corresponding period in 1H17.

(g) Major changes in statement of financial positions:

As at 30 June 2018, the Group's cash and cash equivalents amounted to approximately RMB 1,201 million, which is an increase of approximately RMB 209 million, or 21% over the balance as at 31 December 2017. The Group's short-term borrowings as at 30 June 2018 amounted to approximately RMB 252 million, which is a decrease of approximately RMB 244 million, or 49% over the balance as at 31 December 2017.

Trade and other receivables increased by approximately 14% or RMB 217 million to approximately RMB 1,758 million as at 30 June 2018. Notes receivable decreased by approximately RMB 7 million. Trade receivables increased by approximately RMB 217 million. Other receivables increased by approximately RMB 7 million. Inventories increased by 3% to approximately RMB 1,143 million.

Other current asset decreased by approximately 1% or RMB 3 million to approximately RMB 219 million as at 30 June 2018.

Investment in associates of the Group increased by 15% to approximately RMB 645 million, which is mainly attributable to the Group's share of the associates' profits in 1H18.

Property, plant and equipment increased by approximately RMB 33 million to approximately RMB 1,109 million.

(h) Change in cash flow position:

In 1H18, the Group recorded net cash inflow from operating activities of approximately RMB 212 million.

Cash inflow from investing activities was approximately RMB 19 million in 1H18.

Cash outflow from financing activities was approximately RMB 26 million in 1H18.

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 significant trends and announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months

The pharmaceutical industry is presented with new opportunities and challenges from continuing reforms, two invoice system, no additional mark-up on drugs, consistent evaluation and graded diagnosis and treatment. The Company continues to calibrate its operations by focusing on the following:

- (1) Respond proactively to the policy changes and take on the initiative to change the marketing model;
- (2) Revitalize working capital and optimize the allocation of resources;
- (3) Promote technological innovation and regard "good medicine" as its core competitiveness;
- (4) Strengthen the internal control and improve the level of science and technology management.

As at 30 June 2018, the net profit of the Group attributable to the Company was approximately RMB315.53 million, which was an increase of approximately RMB39.67 million compared to the corresponding period of the previous year, representing an increase of approximately 14%.

In the first half of 2018, the Group relied on stable self-operating business to achieve a substantial increase in profits, thereby generating positive cash flow. The net cash flows from operating activities is approximately RMB211.83 million, which was an increase of approximately RMB183.46 million compared to the corresponding period of the previous year. In view of the domestic monetary tightening situation, the company had strengthened capital control and reserves for future development.

In the second half of 2018, in the face of changes in the domestic policy environment, management and employees at all levels of the Company will shoulder the mission of progressive development of Chinese medicine, overcoming difficulties faced, embarking on technological innovation and working hard towards the execution of the Company's strategy.

11. Dividend

(a) Current Financial Period Reported On

No dividend has been declared for the current financial period reported on.

(b) Corresponding Period of the Immediately Preceding Financial Year

No dividend was declared for the corresponding period of the immediately preceding financial year.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect

Not applicable.

13. 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: (1,220) The interest receivable on the placement of deposit with TPGF: 0	0
Total	(1,220)	0

Note: As at 30 June 2018, placement of deposit with TPGF amounted to RMB 480,314,230 (31 December 2017: RMB287,675,910).

14. Statement Pursuant to SGX Listing Rule 705(5) of the Listing Manual

The Board of Directors confirm that, to the best of their knowledge, nothing has come to the attention of the Directors which may render the unaudited interim consolidated financial results for the quarter ended 30 June 2018, to be false or misleading in any material respect.

15. 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.