

STRENGTHENING **OUR CORE** GROWING **OUR INNOVATION**

ANNUAL REPORT 2019



中新药业

ZHONGXIN PHARMACEUTICALS

TIANJIN ZHONG XIN PHARMACEUTICAL
GROUP CORPORATION LIMITED



TABLE OF **CONTENTS**

01	CORPORATE INFORMATION
02	BRIEF INTRODUCTION OF THE COMPANY
04	EQUITY STRUCTURE OF THE COMPANY
05	STRUCTURE OF THE COMPANY
06	RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS
12	WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS
24	FINANCIAL REVIEW
26	WORK REPORT OF THE BOARD OF SUPERVISORS
28	2020-2022 SHAREHOLDER RETURN PLAN
32	FINANCIAL CONTENTS
33	CORPORATE GOVERNANCE STATEMENT
153	NOTICE OF ANNUAL GENERAL MEETING
158	PROXY FORM
163	INFORMATION ON SHAREHOLDING
165	PROPOSED RENEWAL OF MANDATE FOR INTERESTED PERSON TRANSACTIONS
187	PROPOSED FINANCIAL SERVICES AGREEMENT
225	SUSTAINABILITY REPORTING

CORPORATE 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, No. 17 Baidi Road, Nankai District, Tianjin, PRC
Post code:	300193
Telephone:	86-22-27020892
Bank of Deposit:	Chengdudao Sub-office, Tianjin Xinhua Sub-branch, the Industrial and Commercial Bank of China

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

AUDITORS:

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

BOARD OF DIRECTORS:

Chairman:	Mr. Li Liquan
Executive Directors:	Mr. Wang Mai, Mr. Zhou Hong
Non-Executive Directors:	Mr. Tang Tiejun, Mr. Zhang Ping
Independent and Non-executive Directors:	Mr. Timothy Chen Teck Leng, Mr. Wong Gang, Mr. Qiang Zhiyuan
Secretary to the Board:	Mr. Wong Gang (Singapore), Ms. Jiao Yan

SUPERVISORY COMMITTEE:

Chairman:	Mr. Wang Yuanxi
Supervisors:	Mr. Zhao Zhibin, Ms. Guo Xiumei

SENIOR EXECUTIVES:

General Manager:	Ms. Li Yan
Deputy General Manager:	Mr. Zhang Jian
Deputy General Manager and Chief Engineer:	Mr. Zhou Hong
Deputy General Manager:	Mr. Wang Xin
Deputy General Manager:	Mr. Ni Zhengguo
Deputy General Manager (Chief Accountant):	Ms. Niu Shengfang

AUDIT COMMITTEE:

Chairman:	Mr. Timothy Chen Teck Leng
Members:	Mr. Wong Gang, Mr. Qiang Zhiyuan

STRATEGY COMMITTEE:

Chairman:	Mr. Li Liquan
Members:	Ms. Li Yan, Mr. Qiang Zhiyuan

NOMINATION COMMITTEE:

Chairman:	Mr. Qiang Zhiyuan
Members:	Mr. Wong Gang, Mr. Tang Tiejun

REMUNERATION COMMITTEE:

Chairman:	Mr. Wong Gang
Members:	Mr. Timothy Chen Teck Leng, Mr. Zhang Ping

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"). Boasting a long history, the Company is a national high- and new-tech enterprise featuring innovation in Chinese traditional medicine. It was listed on the Singapore Exchange in 1997 and on the Shanghai Stock Exchange in 2001.

With green Chinese traditional medicine as its core business, Zhong Xin Pharmaceutical is equipped with a complete industry chain, product chain and talent chain integrating production, management and scientific research. Its business covers a number of areas including research, development and manufacturing of Chinese herbal medicine, proprietary Chinese

medicine, chemical raw materials and preparations and nutritional and health products as well as pharmaceutical commerce. The Company has 25 branches, 20 wholly-owned and controlled subsidiaries. Its two major business operation, Chinese medicine industry and pharmaceutical commerce, are complementary to each other, laying a solid foundation for the steady development of the Company and allowing Zhong Xin Pharmaceutical to rank among quality listed companies in recent years. Da Ren Tang (达仁堂), Le Ren Tang (乐仁堂), Long Shun Rong (隆顺榕) and other time-honoured Chinese brands and trademarks under Zhong Xin Pharmaceutical have won the title of "Famous Chinese Trademark", and the "Song Bai" (松柏) brand of the Sixth Chinese Medicine Plant, an iconic modern Chinese medicine enterprise, has also been awarded the title of "Famous Chinese

Trademark". The Company has become a leading enterprise in the protection of time-honoured Chinese brands.

Upholding the development philosophy of "inheriting the essence of Chinese medicine development and caring for healthy and quality life" and the corporate spirit of "inheritance and innovation", Zhong Xin Pharmaceutical is devoted to innovative research, development and manufacturing of general-purpose, good-quality, high-efficiency and quick-acting medicines with innovation in Chinese traditional medicine playing a commanding role in its business development. It has obtained certificates of approval for 499 medicine belonging to 17 types of preparations. Two of which are China's treasure-class Chinese traditional medicine. Suxiao Jiuxin Wan (速效救心丸) which was invented by Professor Zhang

Chengui, senior consultant of Zhong Xin Pharmaceutical and honorary director of its technology centres as well as a famous expert in Chinese medicine preparations in China is a national classified variety. In addition, Jing Wan Hong (京万红) is a national confidential variety. The Company has five product varieties being Chinese medicines protected by the State, 94 product varieties being exclusively produced by the Company, 75 product varieties being included in the National Essential Medicine Catalogue, 601 product varieties being processed Chinese medicine and 216 product varieties being covered by national medical insurance. Zhong Xin Pharmaceutical has a nationwide marketing network and many of its quality products, while enjoying a high reputation, are exported to over 20 countries and regions around the world.

The Company has one national-level enterprise technology centre, five municipality-level enterprise technology centres, one municipality-level modern technological engineering centre on Chinese medicine and a key enterprise laboratory as well as postdoctoral workstations approved by the Ministry of Personnel. It has 1,259 patents, 748 of which are invention patents. It has six famous Chinese trademarks, namely Da Ren Tang, Le Ren Tang, Long Shun Rong, Song Bai, Jing Wan Hong and Bi Qi (痹祺), as well as four national-level and nine Tianjin-level representative intangible cultural heritage projects. After years of practices and explorations, the Company has integrated and optimised the world's most advanced Chinese medicine

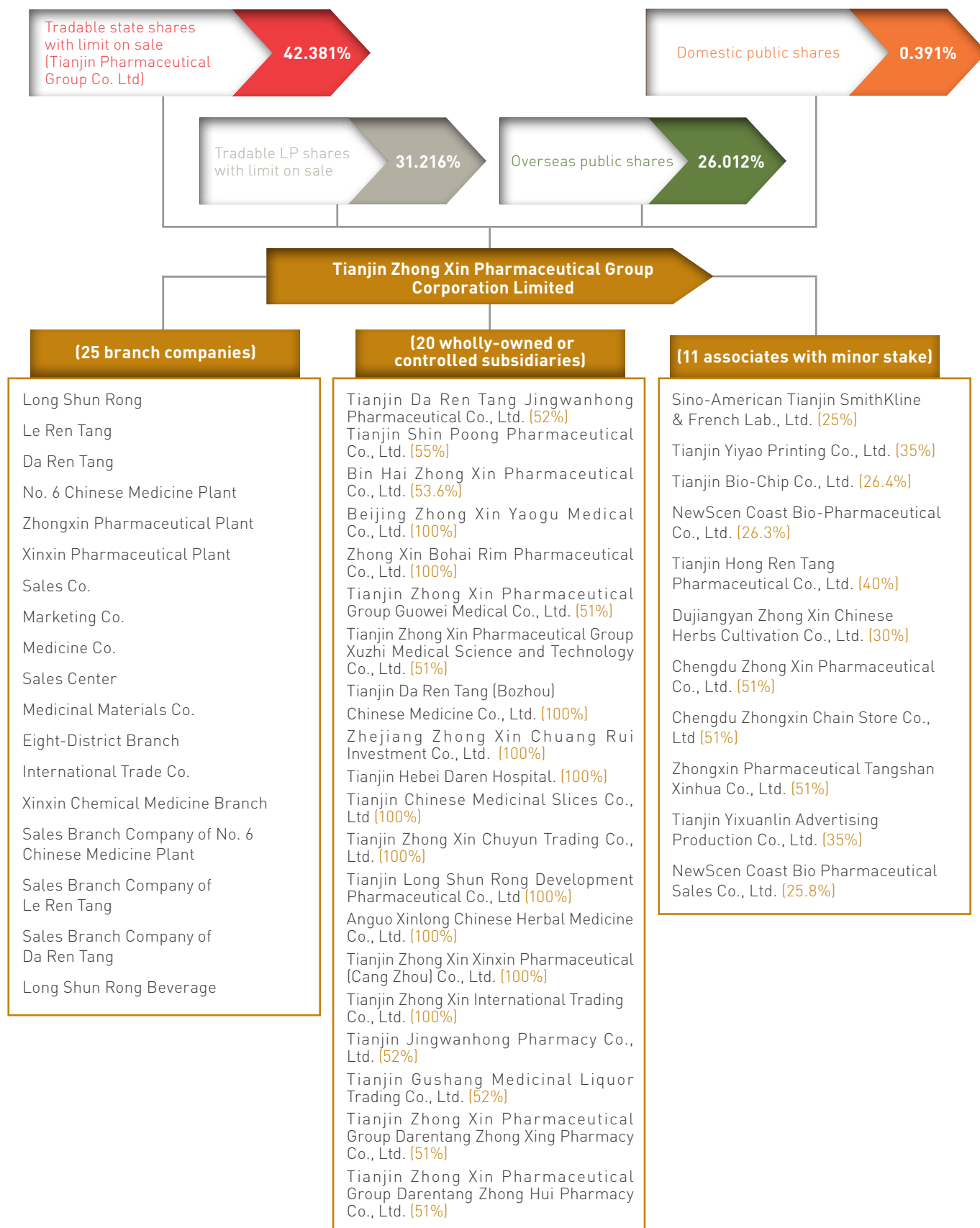
equipment and technology to form an integrated modern Chinese medicine development platform unique to Zhong Xin Pharmaceutical. It implements the GAP, GLP, GCP, GMP and GSP series of standards on a full scale and carries out quality control throughout the process to ensure the safety and efficacy of its products.

Zhong Xin Pharmaceutical has always dedicated its development to healthcare, harmony, integrity and responsibility, resolutely moving towards the strategic positioning of being the "promoter of a sound China, guardian of national health and leader in scientific Chinese medicine". In the market environment, the Company establishes and intensifies the awareness of social responsibility and the concept of sustainable development, optimising the supply chain and streamlining business operations, improving efficiency and saving resources, balancing

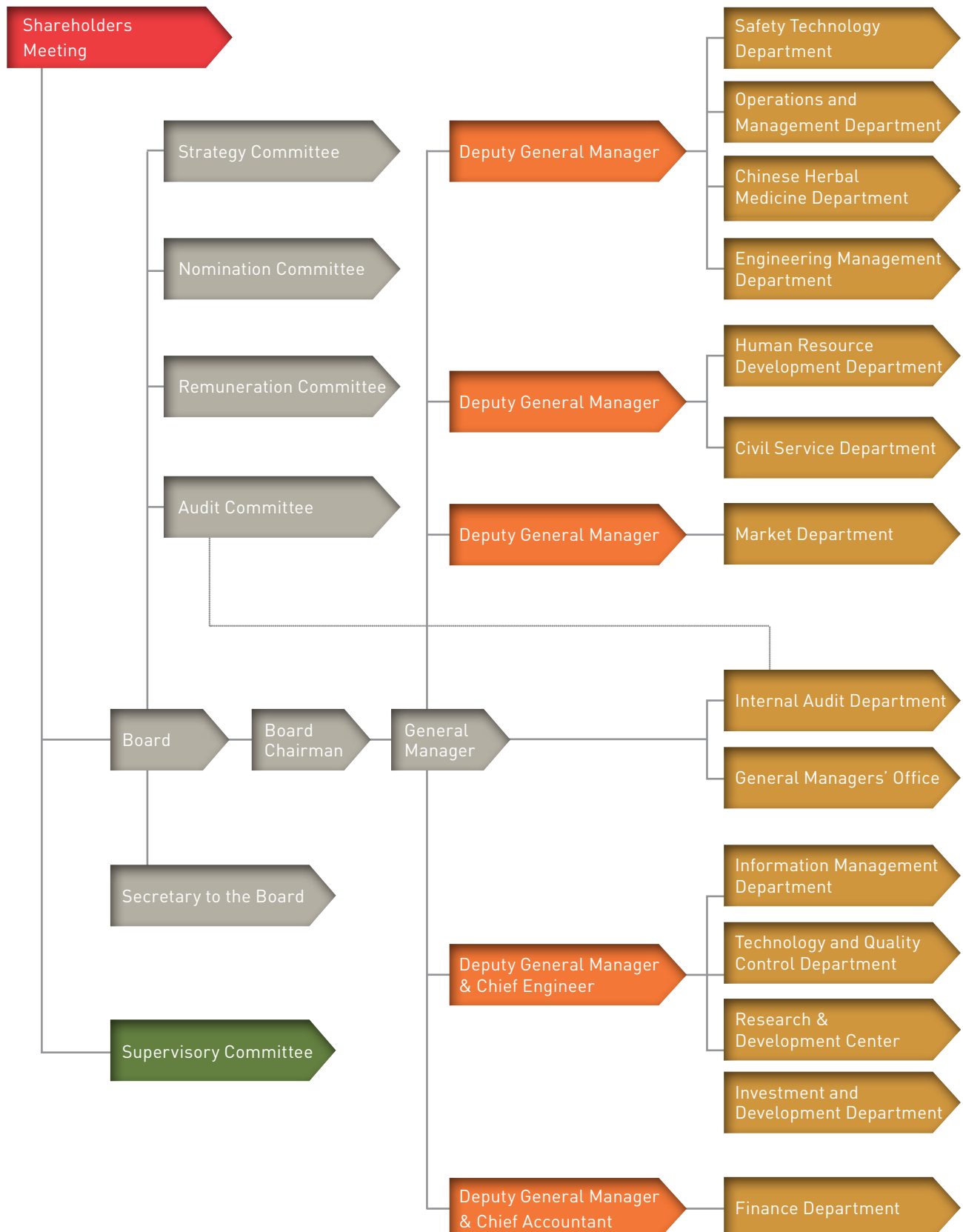
stakeholders' expectation and long-term sustainable development planning, complying with the laws and regulations of countries and regions where it operates, adhering to environmental protection, abiding by social morality and business ethics, and integrating social responsibility and sustainable development into the ordinary course of business. It is the Company's pursuit in its development process to uphold the good traditions of the Chinese people, observe the law of business development, and promote harmony between business development and social progress.



EQUITY STRUCTURE OF THE COMPANY



STRUCTURE OF THE COMPANY



RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

DIRECTORS

The particulars of our Directors are as follows:

Name	Age	Address	Current Occupation
Mr. Li Liquan	59	9-2-302 Huaxin Apartment Huachang Ave, Hedong District, Tianjin PRC	Chairman of Board of Directors
Mr. Wang Mai	49	2-1-302 Huimingyuan Apartment Heping District Tianjin, PRC	Executive Director
Mr. Zhou Hong	49	3-4-101 Yibo li, Hongqiao District, Tianjin, PRC	Executive Director
Mr. Tang Tiejun	49	Jinchuanxi li, Nankai District, Tianjin, PRC	Non-Executive Director
Mr. Zhang Ping	50	3-4-601 Yunsong li, Nankai District, Tianjin, PRC	Non-Executive Director
Mr. Timothy Chen Teck Leng	65	46, Meyer Road, #03-03, Singapore 437871	Independent and Non-Executive Director
Mr. Wong Gang	49	38 Jalan Novena, Singapore 308656	Independent and Non-Executive Director
Mr. Qiang Zhiyuan	63	#25 Zhujiang Road, Hexi District, Tianjin, PRC	Independent and Non-Executive Director

Information on the business and working experience of our Directors is set out below: -

Mr. Li Liquan previously held the following positions: Deputy Secretary of the Party Committee and the No. 101 Workshop Supervisor of Tianjin Pharmaceutical Company, General Manager and Deputy Secretary of the Party Committee of Tianjin Tianyao Pharmaceutical Co., Ltd, Chairman of the board of Tianjin Wanning Health Products Co., Ltd, Chairman of the board of Tianjin Gesibao Medicine Industry Co., Ltd, Secretary of the Party Committee, Secretary of the Disciplinary Committee and Chairman of the Union of Tianjin Jinyao Group Co., Ltd, Secretary of the Party Committee, Secretary of the Disciplinary Committee and Chairman of the Union of Tianjin Pharmaceuticals Group Co., Ltd, Deputy Chairman of the board of Lier Chemical Co., Ltd. From December 2013 to November 2015, he was appointed as Chairman of the board of Tianjin Tianyao Pharmaceutical Co., Ltd. From December 2015 to August 2017, he was appointed as Employee Supervisor and Chairman of the board of supervisors of the Company. Since September 2015, he holds office as Secretary of the Party Committee of the Company.

Mr. Wang Mai, an economist, holds a postgraduate and doctorate degree. From September 2004 to August 2014, he was appointed as the Vice Manager and Manager of Tianjin Tianfa Pharmaceutical Import & Export Co.,

Ltd. From October 2006 to June 2017, he was appointed as the Vice Manager and Manager of USA Dasheng Trading Technology Co., Ltd. From November 2010 to December 2012, he was appointed as the Vice Manager and Board Secretary of Tianjin Tianyao Pharmaceutical Co., Ltd. From December 2012 to December 2013, he was appointed as Assistant to the general manager of Tianjin Pharmaceutical Company. From December 2012 to August 2014, he was appointed as the Manager of Tianyao Medicine Sales Co., Ltd. of the Tianjin Jinyao Group. From December 2013 to June 2016, he was appointed as the Vice Manager of the enterprise management department of Tianjin Pharmaceutical Company. Since June 2017, he holds office as the Chairman of the Union and the Director of the organization department of the Company.

Mr. Zhou Hong, a Chief Engineer, holds a Ph.D. degree in engineering. For the period from July 1992 to December 2007, he successively held the positions as Sales Executive, Deputy Director of Factory Workshop, Director of Factory Workshop, Leader of the technical process and Head of the Technology Department of Tianjin Zhong Xin Pharmaceutical Factory No. 6. From December 2007 to January 2010, he held the position of Deputy Director of Tianjin Zhong Xin Pharmaceutical Factory

DIRECTORS

No. 6. From January 2010 to July 2011, he was promoted to the Executive Deputy Director of Tianjin Zhong Xin Pharmaceutical Factory No. 6. From July 2011 to October 2017, he was Director and Deputy Secretary to the Party Committee of Tianjin Zhong Xin Pharmaceutical Factory No. 6. From December 2012 to March 2019, he served as Employee Director of the Company. From February 2017 to August 2017, he was an Assistant to the General Manager of the Company. From October 2017 to present, he is working as Deputy General Manager and Chief Engineer of the Company. Mr. Zhou has been a Director of the Company since 15 May 2019.

Mr. Tang Tiejun, a Senior Politician, holds a Master Degree from the Party School of the Communist Party of China of Tianjin Committee. From September 1989 to March 1998, he was an Officer of the Youth Committee in Tianjin Chemical Industry Bureau Technical School, Tianjin Chemical Industry Bureau, Tianjin Chemical Industry Corporation and Tianjin Bohai Chemical Industry Group Corporation. From March 1998 to May 2014, he successively held the posts of Deputy Secretary, Secretary to the Youth Committee, Deputy Director, Director of the Publicity Department, and held a concurrent post of Secretary to the Party Committee and Chairman of the Labour Union of Tianjin Bohai Chemical Industry Group Corporation. From June 2010 to August 2013, he was a Member of the County Party Committee, Deputy County Chief (Division-Head level) of Jomda County, Tibet. From May 2014 to March 2019, he held positions as Director of the Publicity Department, Deputy Chairman of the Labour Union, Director of Organization Department, Head of the United Front Work Department and Assistant to the General Manager of Tianjin Bohai Chemical Industry Group Co., Ltd. From March 2019 to present, he was appointed as Deputy Secretary to the Party Committee and Chairman of the Labour Union of Tianjin Pharmaceutical Group Co., Ltd.

Mr. Zhang Ping, a Senior Engineer, holds a Bachelor Degree in Chemical Pharmaceutical Engineering from East China University of Science and Technology, a Master Degree in Business Administration from Tianjin University of Finance and Economics and a PhD in Business Administration from Nankai University. For the period from August 1991 to August 1997, he held the positions as Technical Researcher and Deputy Secretary to the Youth Committee of Tianjin Pharmaceutical Research Institute. From August 1997 to November 2006, he successively served as Principal Staff Member of Organization

Department, Deputy Secretary, Secretary to the Youth Committee, Director of Modernization of Traditional Chinese Medicine Department and a Supervisor of the Board of Supervisor of Tianjin Pharmaceutical Group Co., Ltd., and concurrently held office as Assistant to the General Manager of the Company for the period from March 2002 to November 2006. From November 2006 to October 2012, he was appointed as Deputy General Manager and Chief Engineer of the Company. For the period from November 2006 to November 2009, he also held position as Director of Tianjin Zhong Xin Pharmaceutical Factory, and December 2007 to December 2012, he was also a Director of the Company. From July 2010 to August 2013, he was a Member of the County Party Committee, Deputy County Chief of Qamdo County, Tibet. From June 2018 to June 2019, he served temporary position as Deputy District Mayor of Ninghe District,



RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

» DIRECTORS

Tianjin. Since August 2013, he was appointed as Chief Engineer of Tianjin Pharmaceutical Group Co., Ltd. From February 2015 to present, he is holding the position of Member of the Party Committee of Tianjin Pharmaceutical Group Co., Ltd.

Mr Timothy Chen Teck Leng, our lead Independent Director has more than three decades of experience in banking , insurance, investment fund, and corporate advisory work. He has held positions in Bank of America, Wells Fargo Bank, Bank of Nova Scotia and Sunlife Financial Inc. He was formerly the General Manager, China for Sun Life Financial Inc., and the President & CEO of Sunlife Everbright Life Insurance company in China.

Mr. Timothy Chen earned his Bachelor of Science degree from University of Tennessee and his Master's of Business Administration degree from Ohio State University . He is a graduate of Harvard Business School's Executive Management Program. He received his Certified Corporate Director (ICD.D) designation from the Canadian Institute of Corporate Directors.

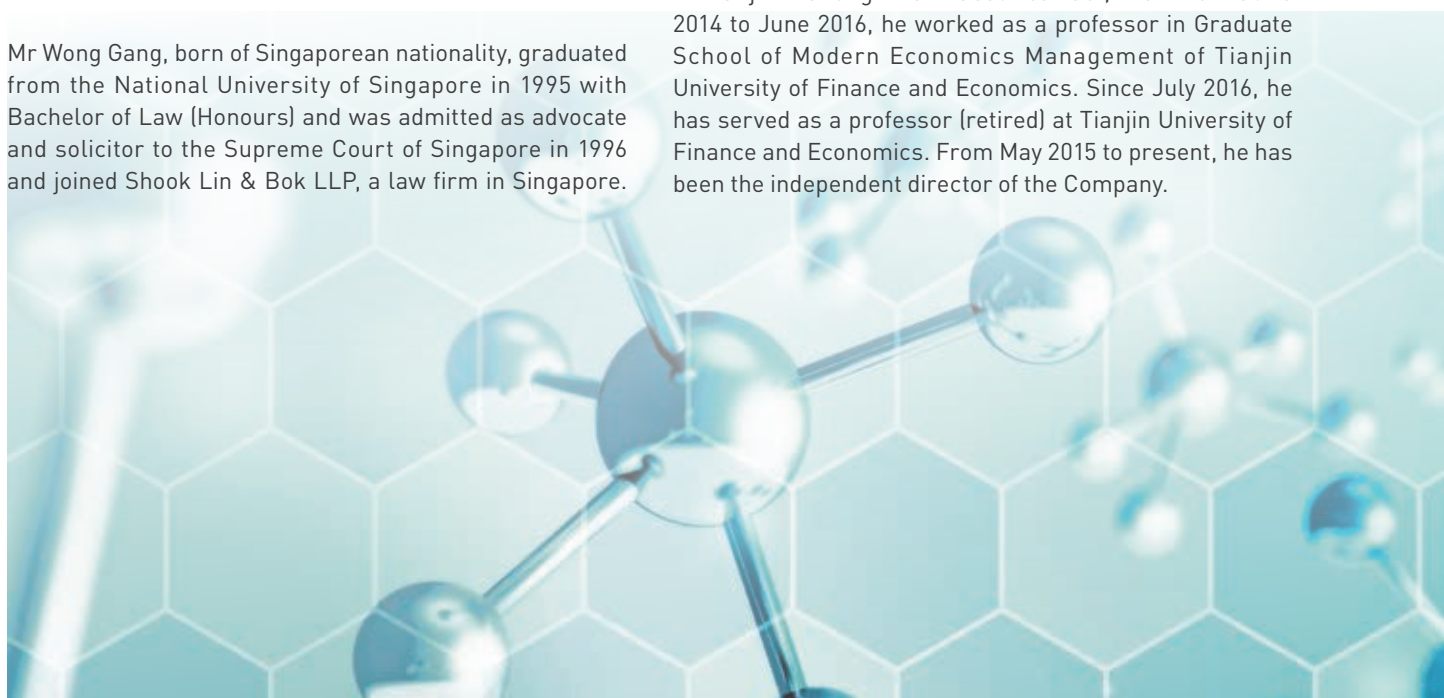
Mr. Timothy Chen currently sits on the board of several Singapore listed companies. He has been the independent director for Yangzijiang Shipbuilding Holdings Ltd., Tyesoon Ltd., Sysma Holdings Ltd. and Boldtek Holdings Ltd.

Mr Wong Gang, born of Singaporean nationality, graduated from the National University of Singapore in 1995 with Bachelor of Law (Honours) and was admitted as advocate and solicitor to the Supreme Court of Singapore in 1996 and joined Shook Lin & Bok LLP, a law firm in Singapore.

He was a partner since 2002 at Shook Lin & Bok LLP, Head of Shook Lin & Bok LLP's China practice group and has advised multinational corporations and Singapore companies on cross border transactions in China, as well as on public offerings of securities in Singapore by companies from China, Hong Kong and South-East Asia.

From May 2008 to May 2014, he was appointed as independent director in the Company. He is currently the independent director of JEP Holdings Ltd (listed on SGX Catalist).

Mr. Qiang Zhiyuan, born of Chinese nationality, obtained a PhD in management (accounting), and is a professor at Tianjin University of Finance and Economics, a member of the American Management Association and China Market Association, the vice president of Tianjin Science Research Association, a senior management consultant registered with the Certified Management Consultant (CMC). He was also the former director and former deputy director of economics research centre of Tianjin University of Finance and Economics, the vice president, president and vice Chairman of Tianjin Northern Talent Co., Ltd. From June 2009 to May 2014, he worked as the dean in Graduate School of Modern Economics Management of Tianjin University of Finance and Economics. From August 2007 to December 2013, he was appointed as independent director in Tianjin Lisheng Pharmaceutical Co., Ltd. From June 2014 to June 2016, he worked as a professor in Graduate School of Modern Economics Management of Tianjin University of Finance and Economics. Since July 2016, he has served as a professor (retired) at Tianjin University of Finance and Economics. From May 2015 to present, he has been the independent director of the Company.



SUPERVISORS

The particulars of members of our Supervisory Committee are as follows:

Name	Age	Address	Current Occupation
Mr. Wang Yuanxi	41	2-1-603 Wanrun Apartment, Dongli District, Tianjin PRC	Chairman of the Supervisory Committee
Mr. Zhao Zhibin	40	Wanke Chengshi Garden Apartment, Hebei District, Tianjin PRC	Supervisor
Ms. Guo Xiumei	37	16-1-1502 Wantong Xinxinyuan Apartment Binhai District Tianjin, PRC	Supervisor

The business and working experience of our supervisors are as follows:-

Mr. Wang Yuanxi, an Economist, obtained his bachelor degree of chemical engineering from Tianjin University of Science and Technology and his MBA from Tianjin University. From July 2002 to September 2008, he successively served as a staff of Tianjin Tianyao Pharmaceutical Co., Ltd., Tianjin Jinyao Group Co., Ltd. and Tianjin Pharmaceutical Group Co., Ltd. From September 2008 to December 2013, he successively held the positions as Deputy Director of the Board of Director Office and the President Office of Tianjin Jinyao Group Co., Ltd., and Deputy Director of the Board of Director Office and the Manager Office of Tianjin Pharmaceutical Group Co., Ltd. Mr. Wang was appointed as Deputy Director, and then was promoted as Director, of the General Manager Office of Tianjin Pharmaceutical Holdings Co., Ltd. for the period from December 2013 to August 2019. He was appointed as a Director of Tianjin Pharmaceutical Group International Holdings Co., Ltd. since October 2017, Party Branch Secretary and Executive Director of Tianjin Pharmaceutical Group Sales Co., Ltd. since May 2018 and Director of the Party Committee Office and Director of the Board of Director Office of Tianjin Pharmaceutical Holdings Co., Ltd. since August 2019.

Mr. Zhao Zhibin, a Senior Policy Advisor, holds a bachelor's degree. From July 2001 to June 2008, Mr. Zhao was an employee of Tianjin Zhong Xin Pharmaceutical Factory No. 6. From June 2008 to June 2013, he was a senior staff member of the Labour Union of Tianjin Pharmaceutical Group Co., Ltd. From June 2013 to December 2013, he was a principal staff member of the Labour Union of Tianjin Pharmaceutical Group Co., Ltd. From December 2013 to December 2014, he was the Assistant to the Vice Chairman of the Labour Union of Tianjin Pharmaceutical Group Co., Ltd. From December 2014 to present, he is the Vice Chairman of the Labour Union of Tianjin Pharmaceutical Group Co., Ltd.

Ms. Guo Xiumei, an Assistant Engineer, holds a bachelor degree. From September 2006 to July 2016, Ms. Guo was the employee in the Liquid and Packaging Workshop of Long Shun Rong Pharmaceutical Factory of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the "Company"). From July 2016 to April 2018, she was the Integrated Workshop Supervisor and held a concurrent post of Vice Chairman of the Labour Union of Long Shun Rong Pharmaceutical Factory of the Company. From December 2018 to present, she holds a concurrent post of Vice Chairman of the Labour Union of the Company.



RESUMES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERS

» MANAGEMENT

The particulars of our key management personnel are as follows:

Name	Age	Address	Current Occupation
Ms. Li Yan	50	2-2-504 Yuejin Li Hongqiao District Tianjin, PRC	General Manager
Mr. Zhang Jian	56	5-A-403 Changshou Apartment House Rongye Ave, Heping District, Tianjin PRC	Deputy General Manager
Mr. Zhou Hong	49	3-4-101 Yibo li, Hongqiao District, Tianjin, PRC	Deputy General Manager and Chief Engineer
Mr. Wang Xin	49	1-5-1502 Qianhuayuan Apartment, Hebei District, Tianjin, PRC	Deputy General Manager
Mr. Ni Zhengguo	50	20-5 Baojielou Honghu Li Hongqiao District Tianjin, PRC	Deputy General Manager
Ms. Niu Shengfang	45	Tianfang Meiyu Apartment, Weijinnan Road, Xiqing District, Tianjin PRC	Vice General Manager and Chief Accountant

The business and working experience of our key management personnel are as follows:–

Ms. Li Yan graduated from the School of Traditional Chinese Medicine of China Pharmaceutical University, majoring in Identification of Traditional Chinese Medicine. She holds a Master's degree in Business Administration, is a senior engineer and licensed pharmacist. From July 1992 to April 2004, she successively held the positions as Technical Cadre, Deputy Head of the Quality Department, Deputy Director of the Factory Director's Office, Director of the International Pharmaceutical Exchange Department, Director of the Planning Department, Director of the Factory Director's Office, Assistant to

the Factory Director, and Deputy Factory Director of Company's Le Ren Tang Pharmaceutical Factory. From April 2004 to April 2008, she was appointed as Deputy Director of the Industrial Management Department and Director of the Economic Operation Department of the Company. From November 2007 to May 2008, Ms. Li served as Secretary of the Party Committee and Deputy General Manager of the Pharmaceutical Marketing Company of the Company. From May 2008 to October 2009, she was appointed as Deputy Director of the Economic



Coordination Department of Tianjin Pharmaceutical Holdings Co., Ltd. From October 2009 to July 2012, Ms. Li was Executive Deputy General Manager of Tianjin Lisheng Pharmaceutical Co., Ltd. ("Tianjin Lisheng"). From July 2012 to June 2017, she successively served as Secretary of the Party Committee, and Chairman and General Manager of Tianjin Taihe Pharmaceutical Co., Ltd. From November 2016 to May 2017, she re-joined Tianjin Lisheng and assumed role of Deputy General Manager. From May 2017 to January 2020, she was appointed as Deputy Secretary of the Party Committee and Chairman of the Labour Union of Tianjin Lisheng, while from October 2017 to February 2020, she was also appointed as Chairman of the Board of Supervisors of Tianjin Lisheng. From September 2018 to August 2019, she served as Vice Chairman of Tianjin Xinneitian Pharmaceutical Co., Ltd. From December 2017 to January 2020, she was a Director of Tianjin Ledun Traditional Chinese Medicine Co., Ltd. Ms. Li was appointed as General Manager of the Company on 17 February 2020.

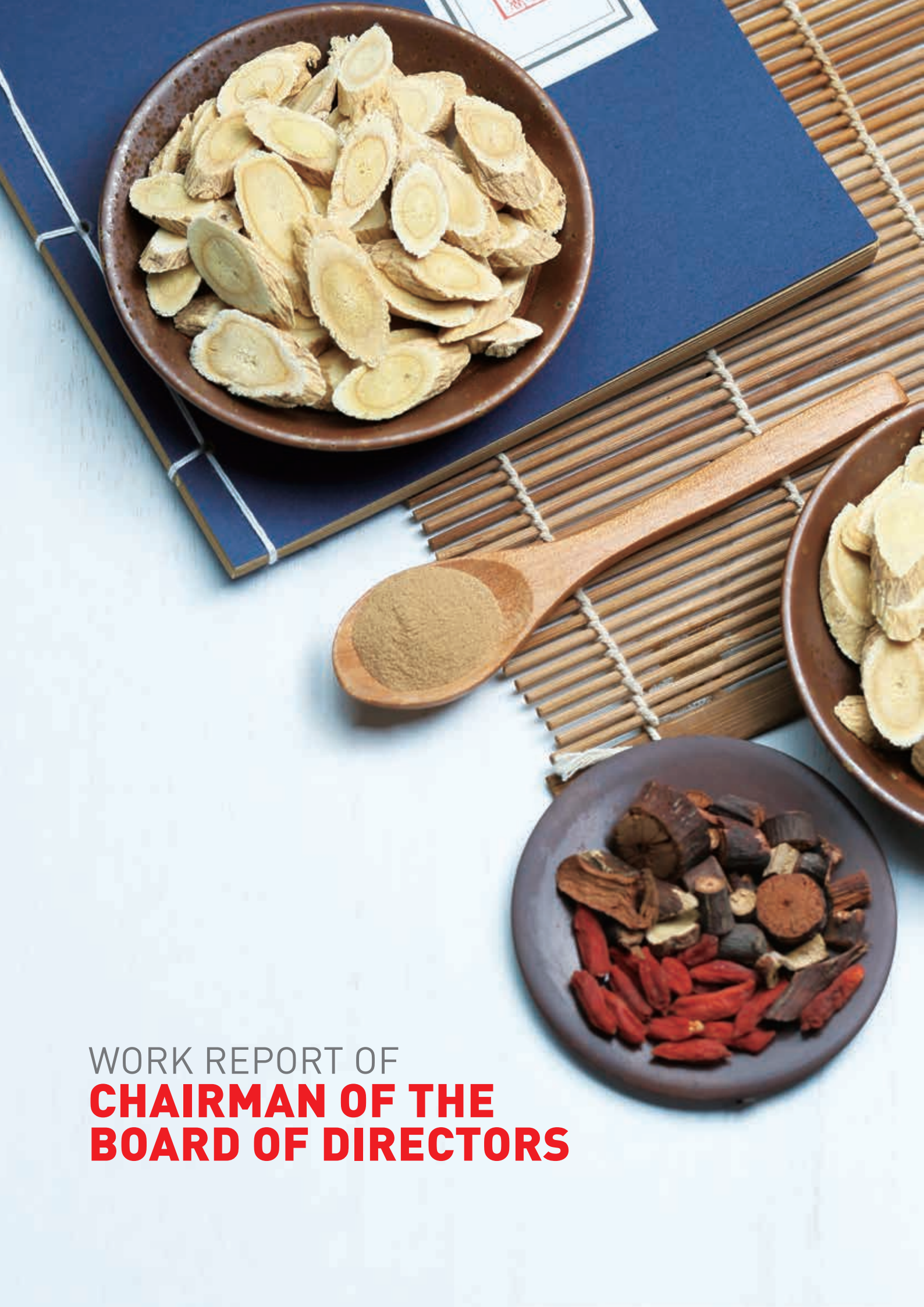
Mr. Zhang Jian, an Associate Chief Physician, holds a bachelor degree. From October 1983 to September 2000, he successively served as staff member of Tianjin Medicinal Materials Group ("TMMG"), Director of Sales Department and Deputy General Manager of Patent Medicine Branch of TMMG and Manager of the Patent Medicine Department of TMMG. From September 2000 to October 2001, he served as Manager of Patent Medicine Department and Deputy Manager of Chinese Patent Medicine Department of the Company. From October 2001 to August 2007, he served as Secretary to the Party Committee and Executive Deputy General Manager of the sales company of the Company. From August 2007 to February 2010, he successively held the positions of Secretary to the Party Committee and General Manager of the sales company of the Company. From March 2008 to June 2009, he was General Manager of the pharmaceutical marketing company of the Company. Mr. Zhang has served as Deputy General Manager of the Company since April 2008.

Mr. Wang Xin graduated from Tianjin Traditional Chinese Medicine College (currently known as Tianjin University of Traditional Chinese Medicine), majoring in Traditional Chinese Medicine and holds a bachelor degree and is also a Senior Engineer. From July 1993 to November 2011, he successively held the positions as Minister of Technology Department, Minister of Production Department, Director of Technical Quality Centre, Chief Engineer, Executive Deputy Director, Director and Deputy Secretary of Communist Party of China (the "CPC") of Tianjin Long

Shun Rong Pharmaceutical Factory. From November 2011 to present, he is the General Manager and Deputy Secretary of Party Branch of CPC of Medicine Co. of the Company. From September 2015 to September 2018, he held the position as the General Manager of Tianjin Darentang (Bozhou) Chinese Medicine Co., Ltd. From March 2017 to present, he holds the position of Minister of Medicine Department of the Company. From August 2017 to July 2019, he is Assistant General Manager of the Company, and holds concurrent position as Minister of the Department of Administrative Affairs of the Company. He has served as Deputy General Manager of the Company since July 2019.

Mr. Ni Zhenguo graduated from Tianjin University of Traditional Chinese Medicine, majoring in Traditional Chinese Medicine and holds a bachelor degree and a master's degree in Business Administration. He is also a senior engineer. From July 1992 to November 2006, he successively held the positions as Cadre of Pharmaceutical Research Room, Regional Manager of Sales Department, Minister of Planning Department and Deputy Director of Marketing Centre of Tianjin Long Shun Rong Pharmaceutical Factory. From November 2006 to October 2011, he successively held the positions as Marketing Director, Sales Director and Assistant to the Director of the sales company of Le Ren Tang. From October 2011 to April 2013, he held the position as Deputy Minister of Marketing Department of the Company. From April 2013 to July 2019, he held the position as Marketing Director of the Company. He has served as Deputy General Manager of the Company since July 2019.

Ms. Niu Shengfang graduated from Tianjin University of Finance and Economics and holds a bachelor degree and a master degree in accounting. She is also a Chief Accountant. From August 1995 to September 2000, she was the head of the Finance Department of Tianjin Kangcheng Steel Structure Engineering Co., Ltd. From September 2000 to December 2009, she successively held the positions of Principal Staff Member and Deputy Section Chief of the Planning and Finance Department, Director of the Finance Department and Deputy Chief Accountant of Tianjin Central Pharmaceutical Co., Ltd. From December 2009 to October 2010, Ms. Niu served as Deputy Director of the Finance Department and Delegate Chief Financial Officer of the Company. Between July 2010 and January 2019, she successively served as Deputy Director and Director of the Audit Department of the Company. She has served as Deputy General Manager of the Company since November 2019.



WORK REPORT OF
**CHAIRMAN OF THE
BOARD OF DIRECTORS**

DEAR SHAREHOLDERS,

In 2019, under the guidance of Xi Jinping's thought on socialism with Chinese characteristics for a new era, Zhong Xin Pharmaceutical fully implemented the spirit of the 19th National Congress and the Fourth Plenary Session of the 19th Central Committee of the Communist Party of China, carrying out the campaign of "not forgetting the original aspiration and remembering the mission", and transforming results achieved in the campaign into scientific and effective working concepts and practical measures. The overall operation of the Company maintained a good momentum; the level of scientific management and the ability to prevent operational risks were both improved; and breakthroughs in mid- and long-term incentives and market-oriented operating mechanisms were achieved. The Company developed the market externally and focused on management internally. All economic indicators and tasks for the year were successfully completed.

1. With the continuous deepening of scientific marketing and the strengthening of internal control, the quality of economic operations improved

In 2019, with the guiding ideology of strengthening top-level design and highlighting group marketing advantages, the Company adhered to academic marketing, developed sales models, and leveraged its brand advantages to improve sales to end users, thus achieving a healthy and sustainable growth of the "large major products groups".

1. Adhering to academic marketing to drive incremental end demand.

In 2019, the Company relied on scientific research results to carry out valuable academic promotions so that doctors and consumers understand and recognize the Company's brands and products, thus driving incremental end demand. The sales companies established an expert network covering the whole country and a number of cardio-cerebral vascular associations, issued the Chinese Expert Consensus for the Treatment of Coronary Heart Disease with Suxiao Jiuxin Wan (《速效救心丸治疗冠心病中国专家共识》), and participated in the expert argumentation on the Guidelines for the Diagnosis and Treatment of Stable Angina Pectoris in Coronary Heart Disease (《冠心病稳定型心绞痛中医诊疗指南》). The marketing companies launched academic promotion activities, training for chain pharmacies and agents, academic conferences and other promotional events, effectively expanding the academic impact of the Company's products and brands.

In 2019, the sales of Suxiao Jiuxin Wan (速效救心丸), a key variety, increased by 13.32% year on year; the sales of Wei Chang An Wan (胃肠安丸) increased by 24.44% year on year; the sales of Qingfei Xiaoyan Wan (清肺消炎丸) increased by 31.67% year on year.

2. Developing sales models to promote sales growth.

Aiming at varying products and customers, the Company adopted different sales models with a definite target to promote sales growth. In cooperation with e-commerce platforms, the online "industrial enterprise - pharmaceutical company - e-commerce platform" sales model was used to establish the "Special Zone for Zhong Xin Pharmaceutical Brands". Da Ren Tang (达仁堂) established a sales promotion department to strengthen promotion activities for regions with end demand. The Sixth Chinese Medicine Plant continued to step up efforts on developing the top 100 chains, regionally-leading chains, and small and medium chains. A total



WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

of 37 medium and large chains was developed throughout the year. The annual sales of Yatong Tingdi Wan (牙痛停滴丸) and Zhihai Chuanbei Pipa Di Wan (治咳川贝枇杷滴丸) increased by 30.8% and 20.6% year on year, respectively. The pharmaceutical company obtained the qualification for the delivery of the "4+7" varieties, successfully winning the major share of the community for its largest variety in that tender, thus driving a substantial increase in sales.

3. Giving full play to the role of the brand to boost the development of markets.

In strengthening unified branding, the Company organised enterprises to carry out systematic publicity and promotion activities, and launched targeted brand activities. In 2019, the Company completed the design work of its VI identification system, updated the corporate logo and the extended logo of the office buildings of its enterprises, and promoted the application of the new logo in advertising. The Company leveraged the advantages of its official website, the WeChat platform and other new media in the running of the "Health & Wellness" section on WeChat in cooperation with a third party, which has enhanced awareness toward the Company and its brands. The Company organised and participated in the 2019 Tianjin Investment and Trade Fair, the 2019 China International Silver Industry Expo, the 2019 CPEO Summit, the 81st PharmChina, the 11th Forum on the Development



of Chinese Medicine in 2019 and the 2019 National Pharmaceutical Economic Information Press Conference, and co-organised the Third Joint Meeting on Drug Safety Cooperation, promoting the overall image and comprehensive strength of the Company. Da Ren Tang's store in Beijing Daxing Airport opened for business on 8 October, further boosting the brand awareness of Da Ren Tang.

4. Establishing the family property awareness to vigorously reduce cost and tap potential.

With the "family property awareness" firmly established, the Company seek out opportunities to reduce cost, generate income, and tap potential on ensuring product quality. The Company carried out centralised procurement, developed new suppliers, bargained with existing suppliers, adjusted packaging

materials, put instructions onto packing boxes and other measures, which reduced procurement costs by more than RMB3 million throughout the year. The Company built a centralised procurement platform for Zhong Xin Pharmaceutical, realising the Company's online procurement of "non-production materials". The operation of some of the Company's subordinate enterprises was put online for trial, which is expected to reduce the annual purchase amount by 3%. Based on the principle of "ensuring supply and sustaining energy", the medicinal materials companies took advantage of centralised procurement and purchased more than 200 varieties throughout the year, achieving an overall 6% capital savings rate when compared with the market conditions.

5. Strengthening risk management and control to improve the safety factor.

The Company completed internal audit for the safety risk assessment of its subordinate enterprises, to understand the background information, laying a solid foundation for systematic and hierarchical management going forward. The Company organised and conducted nine special inspections including the special concentrated action inspection, spring safety inspection, safety inspection for projects under construction, "Ensuring Safety for Big Celebration" special operation, and special inspection of fire control rooms, with a total of 53 inspections implemented, so that hidden dangers could be immediately rectified. The Company organised and carried out training on environmental protection policies and regulations, special training on environmental accountability, and special VOCs governance training, as well as environmental self-inspection among subordinate enterprises to improve the Company's environmental management level.

6. Priority on research and development to provide scientific research support.

In 2019, the Company placed priority on research and development and increased investment in scientific research to ensure that process improvement, secondary product development, clinical research, consistency evaluation and other respects are properly done, providing scientific research support for the Company's product developments.

In cooperation with the Clinical Evaluation and Research Special Committee of the China Association of Chinese Medicine, the Company invited academicians and well-known experts in the industry to set up the "Expert Steering Committee of Tianjin Zhong Xin Pharmaceutical Group" to complete sorting out the strategic secondary development direction of the Company's existing 28 key product varieties to meet market needs. The Company established strategic cooperation with Tianjin University of Traditional Chinese Medicine to carry out the design of strategic research on the Company's key product varieties such as Suxiao Jiuxin Wan. The Company completed research on Chuanxiong composition to further strengthen the quality control of Chuanxiong, a fundamental raw material in Suxiao Jiuxin Wan. Key projects were advanced in an orderly manner. Led by tech giants in Tianjin, a major project "Clinical Re-evaluation and Automated Process Research for Suxiao Jiuxin Wan" was brought up, which successfully passed the acceptance check. The re-evaluation of the large variety Wei Chang An Wan after being launched in the market won the third prize

of Tianjin Science and Technology Progress Awards, laying a solid foundation for enhancing product awareness and expanding market share.

7. Strengthening financial management to improve the internal control system.

The Company scientifically analysed the use of funds, timely repaying short-term loans with surplus funds to reduce the cost of capital, thereby saving approximately RMB6 million in interest expenses during the year. The Company utilized idle funds and implemented risk-free cash management of surplus funds to improve financial returns, achieving a gain of more than RMB5 million during the year. The Company formulated and implemented the Working Capital Management Appraisal Plan for Pharmaceutical Business Branches (Trial) (《医药商业分公司营运资金管理考核方案(试行)》) to control the use of funds in the commercial segment, reducing the use of working capital by more than RMB100 million. The Company increased efforts on the cleanup of accounts receivable, and receivables



WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

due over one year amounting to more than RMB10 million were recovered. Throughout the year, the Company completed all financial audits of revenue and expenditure, resignation audits, IT audits, and engagement of external audit institutions for the audit of engineering projects and other projects to prevent and resolve risks, promoting the transformation of audit results into an effective method to improve management standards.

II. As the corporate governance structure became more perfect, the interests of shareholders were effectively guaranteed

The Company is a listed company with shares issued on both the Singapore Exchange and the Shanghai Stock Exchange. It is subject to the regulatory governance of both exchanges in Singapore and Shanghai and is required to comply with the laws and regulations of China and Singapore. The Company has always followed the Articles of Association, the Rules of Procedures of the General Meeting of Shareholders, the Rules of Procedures of Meetings of the Board of Directors, the Rules of Procedures of Meetings of the Supervisory Committee and other regulations and policies to regulate governance. In 2019, the convening and decision-making of the Company's general meetings of shareholders, meetings of the board of directors and meetings of the supervisory committee were in compliance with relevant laws and regulations. The Company has safeguarded the legitimate rights and interests of all shareholders, especially minority shareholders.

The Company is committed to enhancing the quality of the listed company and improving the level of corporate governance so as to optimize standardised operation. The Company has commenced a series of work in accordance with the relevant requirements of the China Securities Regulatory Commission, the Shanghai Stock Exchange and the Singapore Exchange. The Company continued to carry out publicity activities on the protection of investors. In May 2019, the Company held the "2018 Online Performance Presentation" via online interaction. The management communicated with investors on the operating performance, profit distribution and other circumstances of the Company. In November 2019, the Company held the "Investors' Exchange Tour of Zhong Xin Pharmaceutical (Sixth Plant)" event. More than 20 investors were briefed on the Company's special reports at the site. They visited the cultural exhibition hall where they interacted with the participating enterprises. The event has allowed investors and potential investors to gain a sufficient understanding of the Company's business development, thereby promoting the Company's good corporate image. To safeguard the shareholders' right to investment returns, the Company reviewed and approved the 2018 profit distribution plan at the 2018 Annual General Meeting of Shareholders, under which "a cash dividend of RMB2.2 (including tax) for every ten shares held amounting to cash dividends of RMB169,152,076.72 will be distributed to all shareholders based on the total share capital of 768,873,076 shares as at 31 December 2018" with the aim of

paying back investors with practical actions. In 2019, the Company continued to focus on strengthening the management of insiders, and carried out insider filing and registration work and confidentiality notification work in accordance with the Insider Management Policy of the Company. In the 2019 annual report work, both the independent directors and the audit committee carried out the audit work in accordance with relevant policies. To sum up, in 2019, various rules and policies of the Company were effectively followed.

Based on the principles of more over less and stringency over leniency, the Company has always done a good job on information disclosure in compliance with the requirements of the regulatory authorities in China and Singapore. In 2019, the Company followed the Information Disclosure Management Policy in carrying out information disclosure work, achieving the truthfulness, accuracy, timeliness and completeness of the information announced, and ensuring the consistency of information disclosed at home and abroad. At the same time, the Company welcomes investors' visits and consultations. Compliant and adequate disclosure of information has enabled the Company to strengthen communication with investors, foster the understanding and recognition of the Company among investors, maintain good relations with investors, and establish a positive image of the Company in the market.



III. The quickened advance of "Double-Hundred Actions" added impetus to the high quality development of the Company

Since the Company was included in the "Double-Hundred Actions" of the state-owned enterprise reform in August 2018, the Company has implemented the new deployment and new requirements introduced by the 19th National Congress of the Communist Party of China for deepening the reform of state-owned enterprises. With strengthening of the Party's leadership as the foundation, the Company has improved the legal person governance structure, the market-oriented operating mechanisms, as well as the incentive and restraint mechanisms to stimulate the vitality of its enterprises and enhance their market competitiveness. In accordance with the overall deployment of the "Three-System" reform of the municipal

State-owned Assets Supervision and Administration Commission (SASAC), the Company has actively promoted the "market-oriented income distribution system reform", the "market-oriented selection and employment mechanism reform", the "market-oriented incentive system reform", the "market-oriented labour system improvement" and other work. In 2019, the Company's priorities in equity incentives, professional managers and other respects were fully implemented, and the Company continued to increase efforts on reform at a quickened pace.

1. Implementing a restricted stock plan to establish a medium- and long-term incentive mechanism.

Under the guidance and assistance of the municipal SASAC and Pharmaceutical Group, the Company has determined that a "restricted stock plan" will be its medium- and long-term incentive approach. On 2 December 2019, the Company reviewed and approved the 2019 A-share restricted stock equity incentive plan and related proposals at the 2019 Second Extraordinary General Meeting of Shareholders. On 9 December 2019, the Company granted a total of 3.93 million restricted shares to 115 eligible employees. The restricted stock plan was both motivational and challenging, further stimulating the passion for entrepreneurship among cadres and employees, and improving management efficiency.

2. Promoting the professional managerial system to improve the market-oriented operating mechanism.

In order to improve the Company's operational and management levels and enhance market competitiveness, the Company has built a high-calibre and professional management team, established and improved the management model of "market-oriented selection and recruitment, contractual management, differentiated pay, and market-based withdrawal", and perfected the incentive and restraint mechanisms, effectively enhancing the enthusiasm and creativity of the Company's operational and management teams at all levels, and promoting the Company's sustained, healthy and quality development. On 13 November 2019, the Company convened the 9th meeting of the board of directors. At the meeting, the Company reviewed and approved the proposal of appointing six professional senior managers. At the same time, the Company carried out the selection and recruitment of professional managers among its subordinate enterprises. All professional managers of the subordinate enterprises officially arrived on duty before the end of 2019.

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

IV. Technological innovation was continuously strengthened to enhance core competitiveness

Adhering to the innovation-driven strategy, the Company accelerates product development with focus on the main business. In 2019, the Company invested RMB126 million in science and technology, accounting for 5.82% of the total investment, and completed new products with an output value of RMB1.125 billion.

1. Prioritizing on research and development in providing scientific research support.

In 2019, the Company prioritized on research and development, and increased investment in scientific research to ensure that process improvement, secondary product development, clinical research, consistency evaluation and other aspects are properly done, providing scientific research support for the Company's products development. In cooperation with the Clinical Evaluation and Research Special Committee of the China Association of Chinese Medicine, the Company invited academicians and well-known experts in the industry to set up the "Expert Steering Committee of Tianjin Zhong Xin Pharmaceutical Group" to complete sorting out the strategic secondary development direction of the Company's existing 28 key products varieties on the basis of adapting to market needs. The Company established strategic cooperation with Tianjin University of Traditional Chinese Medicine to carry out the design of strategic research on the Company's key products such as Suxiao Jiuxin Wan.

The Company completed research on Chuanxiong composition, a group-level wall-chart combating project, to strengthen the quality control of Chuanxiong, a fundamental raw material in Suxiao Jiuxin Wan. Key projects were advanced in an orderly manner. The project on Picato, a chemical generic drug, was successfully initiated and pharmaceutical research has commenced. The clinical research projects on Zilong Jin Pian (紫龙金片) for maintaining the treatment of advanced non-small cell lung cancer and Shenfu Qiangxin Wan (参附强心丸) for the treatment of chronic heart failure were successfully included in the national major research and development project "Modernisation of Chinese Medicine" as a special research item. Led by tech giants in Tianjin, a major project "Clinical Re-evaluation and Automated Process Research for Suxiao Jiuxin Wan" was brought up, which successfully passed the acceptance check. Yansuan Erjia Shuangguan Pian (盐酸二甲双胍片) passed the consistency

evaluation and obtained the Approval for Supplementary Drug Application from the National Medical Products Administration on 3 March 2020. In 2019, the re-evaluation of the large variety Wei Chang An Wan after being launched in the market won the third prize of Tianjin Science and Technology Progress Awards, laying a solid foundation for enhancing product awareness and expanding market share.

2. Strengthening quality management in laying a solid foundation for quality.

The Company strengthened the quality control and data analysis of key areas in the production and operation, and taking the new version of GMP/GSP internal audit as the starting point, implemented the drug quality accountability system to reduce quality risk in production and operation. Guided by the prevention and control of problems and risks, the Company completed internal audit for 49



subordinate industrial enterprises, branches and pharmacies. Five industrial enterprises were awarded the A-grade "Reassuring Medicine Plant" medal of Tianjin Municipality, ten subordinate pharmacies were awarded the A-grade "Reassuring Pharmacy" medal of Tianjin Municipality, and three subordinate pharmacies were named as a demonstration pharmacy among pharmaceutical retail enterprises in Tianjin. QC group projects were launched, of which, 12 projects won the first prize for excellent quality management published by QC groups in the national pharmaceutical industry and two projects won the best release award. Four industrial enterprises, Anguo preparation workshop and Qingguang warehouse passed the on-site inspection for TGA certification.

3. Paying attention to the protection of property rights in building a strong protection system.

The Company formulated and implemented a comprehensive protection registration plan for the new version of corporate logo. The Company submitted 34 trademark registration applications and three copyright protection registration applications, and obtained certificates of registration for the copyright of three new logos. The Company strengthened work on the protection of traditional Chinese medicine varieties, of which, Zilong Jin Pian of Long Shun Rong (隆顺榕) completed the authenticity verification for the insurance renewal of Chinese medicine varieties under protection, and the

application for insurance renewal of Tongmai Yangxin Wan (通脉养心丸) of Le Ren Tang (乐仁堂) has been reported to the State Food and Drug Administration. The project on the implementation and transformation of the 2018 patent awards was successfully concluded, which has laid a good foundation for improving patent quality and carrying out subsequent operations. The Company completed the annual review for the selection of national intellectual property demonstration enterprises, and submitted the annual work progress report on time. The Company successfully passed the recertification of its intellectual property management system and was again awarded the Certificate for Intellectual Property Management System. Le Ren Tang was approved as a model enterprise for the implementation of the trademark strategy in Tianjin, which has further enhanced its reputation.

V. The recruitment model was developed for retaining talent resources

The Company strengthens cooperation with key colleges and universities, and organises and participates in the campus career fair of Tianjin University, Nankai University, Zhengzhou University, Shandong University, Beijing University of Chinese Medicine and other institutions. In 2019, the Company employed a total of 157 people, an increase of 24 staff from 2018. Among them, 20 staff were graduates from Project 985, Project 211 and overseas colleges, and 45 staff came from the "Double First-

class" colleges and key subject institutions. Staff recruitment was guaranteed in terms of both "quality" and "quantity". The Company organised training for new joiners, "Capacity Improvement Training for Newly-promoted Middle Managers", "Execution Optimisation and Improvement for Young Core Staff of Subordinate Enterprises", "Thinking Maps – Application of Innovative Work Management Tools", "Interpretation of the New Financial and Tax Collection and Settlement Policies from the Business Perspective" and other training to step up efforts on staff training. As to strengthening the introduction and cultivation of high-end talents, one staff and 20 staff were newly selected into the first and third level of the "131" innovative talent training project of Tianjin in 2019 respectively, and one staff was recommended as the national-level candidate for the 2019 Ten Million Talents Project. The Company jointly trained doctors with the mobile stations of postdoctoral scientific researchers of Tianjin University of Traditional Chinese Medicine, and one doctor was successfully admitted into the station to carry out scientific research work.

VI. Profit distribution in 2019

The Company plans to distribute cash dividends from the profits of 2019. Details of the profit distribution plan: "A cash dividend of RMB3.0 (including taxes) for every ten shares held will be distributed to all shareholders based on the total share capital as at the equity registration date for the implementation of the profit distribution."

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS



VII. Significant legal disputes

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

VIII. Performance of related party transaction contracts

In 2019, the Company had related party transactions on the purchase and sale of goods and services with Tianjin Pharmaceutical Group Corporation and its subordinate enterprises and other related companies.

All of the aforesaid related party transactions were conducted normally and there was no related party transaction detrimental to the interests of the Company. The Company was engaged in related party transactions in the amount of more than S\$100,000 as follows:

In RMB1,000

Name of interested person	Nature of relationship	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 of the SGX Listing Manual)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 of the SGX Listing Manual (excluding transactions less than S\$100,000)
Tianjin Pharmaceutical Group Finance Co., Ltd ("TPGF")	Associate of Tianjin Pharmaceutical Holdings Co., Ltd. (天津市医药集团有限公司), the controlling shareholder of the Company	The interest payable on the credit facilities provided by TPGF: 1,460	0
Total		1,460	0

Note: As at 31 December 2019, the Company had deposits with TPGF amounting to RMB 589,423,145.

IX. Priorities in 2020

2020 is the ending year of the "13th Five-Year Plan" and the comprehensive building of a moderately prosperous society. The Company has deeply studied and implemented Xi Jinping's thought on socialism with Chinese characteristics for a new era and the spirit of the 19th National Congress of the Communist Party of China. With the Party's political construction as the command, the Company implements the responsibility of a main entity in the Party's committees, and promotes the continuous in-depth development of comprehensively and strictly governing the Party, further opening up the mind, innovating thinking, adhering to high-quality development, pushing forward Party building, marketing, scientific and technological innovation, scientific management and control and other priorities to ensure that all tasks are detailed, implemented, and in place, thus allowing the Company to develop with a higher quality.

In the coming year, the Company will continue to intensify academic marketing, focus on improving the market competitiveness of products, innovate promotional approach, leverage brand to increase sales, and strengthen compliance management to pave the way for the growth of business. In 2020, the Company will focus on the following aspects:

1. Reinforce academic marketing to improve product competitiveness.

Relying on the results of its scientific research projects, the Company will promote the inclusion of its key product varieties into various authoritative directories such as clinical application guidelines, clinical pathways, diagnosis and treatment plans, and expert consensus to provide guidance on the reasonable use of its drugs, which will enhance product awareness and thus lay the foundation for the development at hospitals and the improvement in clinical prescriptions. The Company will give a multidimensional scale of publicity to its project achievements among the target population in the form of academic conferences and expert demonstration meetings, with the view of winning expert recognition and consumer trust with clear clinical data and excellent product efficacy, so that scientific research results can be quickly transformed into the market competitiveness of products. The Company will continue to improve the construction of a system of experts ranging from top domestic experts through regional academic leaders to clinical doctors, so as to promote the rapid transformation of scientific research results and improve the market competitiveness of products while ensuring high recognition from experts in the professional field.

2. Innovate publicity approach to highlight brand value.

With the brand as the core, the Company will innovate publicity approach, and enhance product exposure through various publicity campaigns to increase sales among end users. The Company will carry out the "My Family's Little Drug Box" special promotion to raise publicity of the brands and products of Zhong Xin Pharmaceutical, for which audio and video of varying durations will be recorded and put on selected online media platforms such as the WeChat official accounts platform, and Zhong Xin's official website and WeChat account for promotional purposes to increase product exposure and foster the maximisation of its brand value. The Company will deepen the "the more frequently you use drugs, the more importantly you choose Zhong Xin" promotional event integrating publicity, end demand generation activities, and the maintenance of pharmacies, refining and fine-tuning promotion activities to ensure an optimal result of the event. The Company will strengthen promotion on its official website and official WeChat account to increase online and offline activities, enhancing popularity at the back end, and increasing promotional efforts such as search engine optimisation (SEO).

WORK REPORT OF CHAIRMAN OF THE BOARD OF DIRECTORS

3. Focus on market demand to strengthen technological support.

With clinical value as the orientation, the Company will ensure appropriate work is done in re-evaluating the clinical value of its key varieties, and accumulate high-quality evidence-based practices for the clinical application of its key varieties. Closely keeping abreast of the market demand, the Company will fully leverage national policies and regulations in favour of the development of Chinese medicine to provide scientific research evidence for its varieties to enter the national catalogue of essential medicine, the national catalogue of medicine covered by the medical insurance system, the national catalogue of advantageous drug varieties, and the national catalogue of diseases with advantageous therapeutic approaches. The Company will concentrate its scientific and technological resources and strength to solve problems and bottlenecks in the production and management process. The Company will strengthen cooperation with external experts and research platforms with the aim of boosting its scientific research level to a new level. In 2020, it is expected to carry out 35 clinical research projects, 25 pharmacological and pharmacodynamics research projects, 40 process improvement and quality standard enhancement projects, ten new product development projects, and five consistency evaluation projects.

4. Strengthen quality control to build a strong quality foundation.

The Company will seriously organise the promotion and implementation of the new version of the Pharmaceutical Administration Law to improve the establishment of its quality management systems and policies, effectively fulfilling the responsibility of a main entity in terms of drug production and operational quality. The Company will give full play to the role of internal audit as well as follow-up and unannounced inspection work to timely capture the enterprise's quality management conditions so that issues can be identified and proactively resolved. The Company will continue to promote quality risk prevention and control work, implementing prevention and control measures and continuing implementations or improvements to keep quality risk to the minimum. As to the upcoming Chinese Pharmacopoeia (2020 version), the Company will make good preparations for the revision of quality standards for raw and supplementary materials, finished products and packaging materials, regulations for operating inspections and regulations for production processes as well as the training of relevant personnel.

5. Strengthen cost management to tap intrinsic potential.

Relying on informatisation means, the Company will strengthen tracking and analysis of the production costs of its key varieties, and promote optimisation of

the variety mix and strengthen management and control of the production process by formulating raw material cost control indicators and expense control indicators, taking practical and effective measures in terms of procurement, expenditure, process, energy conservation and other respects to effectively reduce production costs. As to issues and suggestions put forward in the 2019 cost survey, the Company will continue optimization, urging its enterprises to finish on schedule, and standardise the cost of varieties. The Company will continue to pay attention to the issue of cost allocation with energy firms and help rationally divide the costs and expenses of industrial parks so that cost accounting will be more in line with the actual situation. In the areas such as warehousing and delivery, the Company will innovate management approaches and optimise work processes starting from vehicle management, energy consumption management, position allocation, etc. to achieve efficient operation of the logistics centre and save costs.

6. Strengthen information management to improve management efficiency.

In accelerating improvement of the intelligent manufacturing level for traditional Chinese medicine, the Company will rely on the establishment of six intelligent workshops for Chinese medicine dripping pills and leverage the high integration of industrialisation and informatisation to gradually realise

the digitisation, informatisation and intelligentisation of workshops for Suxiao Jiuxin Wan, and use this as a benchmark in leading the transformation and upgrading of industrial production and adding impetus to the high-quality development of Zhong Xin Pharmaceutical. The Company will organise and implement informatisation projects properly, promote management transformation and upgrading, complete the construction of smart energy monitoring platform projects, advance the trial and promotion of Zhong Xin Pharmaceutical's project on a centralised procurement platform for non-productive materials, and implement publicity projects on the human resources training management system.

7. Strengthen risk management to enhance risk control capabilities.

In strengthening capital management, the Company will control funds before, during and after usage, track and manage budget execution, create scientific layouts and make overall arrangements to improve the efficiency of funds used on the basis of ensuring normal production and operation. In strengthening the management of accounts receivable, the Company will continue to carry out work for the management and control of accounts receivable to reduce the risk of credit losses arising from accounts receivable, thereby maintaining a virtuous cycle of accounts receivable. In strengthening routine audit, special audit of financial

receipts and expenditures of four enterprises, joint special contract audit of six enterprises by the Audit Department and the Office of General Manager, and special audit of accounts receivable of two enterprises will be conducted. In strengthening IT internal audit, the Company will commence IT field audit of three enterprises, and carry out IT retrospective audit for the re-audit of issues found in past audits, identifying and correcting IT management risks in a timely manner.

8. Strengthen safety management to ensure production safety.

The Company will commence the construction of a production safety risk management and control system of Zhong Xin Pharmaceutical, and conduct special risk management training for relevant production safety management personnel, paving the way for the gradual establishment of a risk management and control system of Zhong Xin Pharmaceutical. In putting in practice the responsibilities of a main entity at all levels, the Company will strictly implement the production safety accountability system, and organise the signing of letters of responsibility among the Company and its subordinate enterprises. The Company will fully implement the standardised management of fire control rooms and micro fire stations, and conduct a comprehensive investigation of fire control rooms and micro fire stations within the system to standardise and improve daily fire management.

The Company will continue to carry out in-depth company-wide safety inspection and troubleshooting, and increase investments and efforts for rectification to improve the safety factor, thus ensuring that the Company's situation is stable and orderly on the production safety front.

In 2020, the Company will take the initiative to seize strategic opportunities such as the "Healthy China" initiative and the intensifying state-owned enterprise reforms, earnestly comprehend and fully capture the spirit of General Secretary Xi Jinping's important instructions on the work for traditional Chinese medicine, thoroughly study the regulatory policies of the pharmaceutical industry, the medical, medical insurance and medicine reforms and policies, the policies for the integrity and innovative development of Chinese medicine and others, and intensively learn the laws of market and industry development in defining the Company's development direction and strengthening the guiding role of planning to ensure that all indicators are fully accomplished in 2020, sparing no effort in achieving the Company's strategic positioning.

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 2019 ("FY2019") was approximately RMB6,994 million, an increase of approximately RMB635 million, or 10%, as compared to RMB6,359 million for the financial year ended 31 December 2018 ("FY2018").

(B) GROSS PROFIT MARGIN:

The Group's gross profit in FY2019 increased by approximately 12% from approximately RMB2,565 million in FY2018 to approximately RMB2,881 million. Gross profit margin increased from 40% in FY2018 to 41% in FY2019.

(C) OTHER OPERATING INCOME:

Other gains in FY2019 were approximately RMB52 million, an increase of approximately RMB12 million over the previous year, which was RMB40 million. The increase was mainly due to gains on disposal of property during the year.

(D) MAJOR EXPENSES:

(i) Marketing and Distribution expenses in FY2019 was approximately RMB1,829 million, an increase of approximately RMB130 million, or 8% over the previous year. The increase in major expenses was due mainly to the increase in sales promotion expenses.

(ii) Research and Development expenses in FY2019 increased by approximately RMB32 million,

to approximately RMB133 million. This was mainly due to higher outlay for research and development projects.

(iii) Administrative expenses in FY2019 increased by approximately RMB72 million, from approximately RMB291 million in FY2018 to approximately RMB363 million. The increase was due to higher staff salaries, depreciation and utilities expenses.

(iv) Finance costs in FY2019 decreased by approximately RMB7 million or 48% from approximately RMB14 million to approximately RMB7 million. The decrease was in line with the decrease of borrowings.

(v) Other losses in FY2019 increased by approximately RMB14 million, from approximately RMB34 million in FY2018 to approximately RMB48 million. The increase was due to higher impairment losses.

(E) SHARES OF RESULTS OF ASSOCIATED COMPANIES:

The Group's share of results of associated companies in FY2019 increased by RMB11 million, or 6%, from approximately RMB163 million in FY2018 to approximately RMB174 million. This was mainly due to the increase in profits of Sino-American Tianjin Smithkline & French Lab., Ltd in FY 2019 as compared to FY2018.

(F) TOTAL COMPREHENSIVE INCOME:

The Group's total comprehensive income (net of tax) in FY2019 was approximately RMB640 million, an increase of 14% over the previous

year. The profit attributable to equity holders of the Company (net of tax) in FY2019 was approximately RMB626 million, an increase of approximately RMB64 million, or 11%, from FY2018.

(G) MAJOR CHANGES IN STATEMENT OF FINANCIAL POSITIONS:

As at 31 December 2019, the Group's cash and cash equivalents amounted to approximately RMB1,479 million, which is an increase of approximately RMB12 million, or 1% over previous year. As at 31 December 2019, the Group's short-term borrowings has decreased by approximately RMB222 million, or 88% as compared to previous year.

Trade and other receivables amounted to approximately RMB1,809 million at 31 December 2019, which is an increase of approximately RMB80 million, or 5% over previous year. Bills receivables increased by approximately RMB38 million. Trade receivables increased by approximately RMB53 million. Other receivables decreased by approximately RMB11 million. Inventories increased by 20% to approximately RMB1,595 million.

Other current assets increased by approximately 3% or RMB6 million to approximately RMB209 million as at 31 December 2019.

Investments in associates increased by approximately RMB27 million to approximately RMB658 million, which is mainly attributable from higher profits of associate, Sino-American Tianjin Smithkline & French Lab., Ltd.

Property, plant and equipment increased by approximately RMB164 million or 14% to RMB1,364 million.

The increase was mainly due to increase in construction in progress projects.

(H) CHANGES IN CASH FLOW POSITION:

In FY2019, the Group recorded net cash inflow from operating activities of approximately RMB481 million which has increased by RMB142 million as compared to FY2018. The increase was mainly due to faster collections generated from the sales of goods during the year.

Cash outflow from investment activities was approximately RMB86 million in FY2019. This was mainly contributed by lower proceeds from disposal of financial assets as compared to previous year.

Cash outflow from financing activities was approximately RMB370 million in FY2019. This was mainly contributed by higher repayment of borrowings during the year.

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.

There were significant changes in the pharmaceutical industry in 2019. The advancement of the industry which was contributed by new products and increasing consumption has slowed down.

On one hand, the following continue to present operational challenges:

- (i) Medical insurance cost control
- (ii) Decrease in tender prices
- (iii) Dual bargaining

(iv) Purchases in bulk

(v) Quality control over major products

(vi) Regulations on management of medical products.

On the other hand, the following policy changes present opportunities for growth of the pharmaceutical industry:

(i) Revised National Medical Insurance Directory

(ii) Consistent evaluation

(iii) Accelerated review and approval of new innovative drugs

(iv) State encouragement for traditional Chinese medicine to embark on innovative development

With the full implementation of the two-tier invoicing system, medical oriented products and enterprises have to make adjustments to the supply chain. The number of first-level distributors have increased and the network have become more wide-reaching. This pose challenges to the ability to control commercial channels and receivables.

At the same time, prices of traditional Chinese medicines fluctuates significantly, and there is rising trend

of raw materials prices. With the improvement of labor compensation and social security, labor costs continue to increase.

In early 2020, the outbreak of the new coronavirus epidemic has brought uncertainty to the company's operation. The degree of impact depends on the progress and duration of the epidemic prevention and control.

Faced with difficulties, the company adjusted its business plan timely by adopting effective measures such as strengthening capital management and control, controlling production costs, and strengthening academic promotion, to ensure the smooth and effective development of various business operations.

At the same time, the company accelerates reforms and implements equity incentive scheme to attract external managers. This binds the development of the enterprise with the interests of individuals and stimulates the enthusiasm, creativity and vitality of the management team. Management also strives to minimize the impact of the epidemic situation and aim to complete all goals in 2020.



WORK REPORT OF THE BOARD OF SUPERVISORS



DEAR SUPERVISORS,

In FY2019, in accordance with the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Code of Corporate Governance for Listed Companies of China, the relevant laws and regulations of Singapore and the provisions of the Articles of Association, the board of supervisors of Tianjin Zhongxin Pharmaceutical Group Corporation Limited conscientiously performed their duties and responsibilities to safeguard the interests of shareholders and the Company and carried out their work with reasonable care, diligence and initiation following the principle of good faith.

In 2019, the board of supervisors held a total of nine meetings at which the 2018 annual report, 1Q2019 report, 2019 interim report, 3Q2019 report, 2018 Profit Distribution Plan of the Company, 2018 Internal

Control Assessment Report of the Company, Resolution on the Election of Supervisors, Resolution on the Company's Write-off of Assets and Allocation of Provisions for Impairment of Assets in 2018, Resolution on the Company's Implementation of 2019 A Shares Restricted Share Scheme and the Related Equity Interest Incentives, Resolution on the Company's Implementation of the Newly Amended Accounting Standards by the Ministry of Finance in 2018 and other matters were considered. At the same time, the board of supervisors attended meetings of the board of directors, the annual shareholders' general meeting, the extraordinary general meeting(s), etc. during the year to exercise supervision of the Company's operations according to the 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, the Securities Law, the Shanghai Stock Exchange's Rules Governing the Listing of Stocks, the Singapore Exchange's Listing Manual, the Articles of Association as well as other legal and regulatory requirements. As a result, internal controls have been further strengthened and improved. In carrying out their duties, the Company's directors and senior management personnel were not in breach of any laws and regulations and the Articles of Association, nor did they cause any damage to the interests of the Company. The Company's board of directors had given full play to the role of independent directors, paying attention to the protection of the legitimate rights and interests of minority shareholders. In 2019, the Company continued to focus on strengthening insider management work to ensure that the registration of insider files and the notification



of confidentiality obligations were properly done in strict accordance with the 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 reinforced the sense of return to shareholders and established a scientific, sustainable and stable profit distribution policy aiming at safeguarding the legitimate rights and interests of investors. The 2018 profit distribution plan and cash dividend programme was successfully implemented in July 2019. Prices of related transactions carried out between the Company and the related parties through regular trade were fair and reasonable and the development of contracts on related transactions was rational and legitimate without damaging the interests of the listed company. The Company's decision-making

and review procedures for matters concerning the use of proceeds were in compliance with the laws and regulations. There were no cases of changes or covert changes in the use of proceeds and damage to the interests of the Company and all shareholders, particularly the interests of minority shareholders.

The board of supervisors of the Company has inspected and examined the Company's financial systems and conditions and we believe that the Company's 2019 financial report has truly and accurately reflected the Company's financial conditions and operating results. The audit opinions issued by ShineWing Certified Public Accountants and RSM Chio Lim LLP for the Company in accordance with the China Accounting Standards and the International Financial Reporting Standards respectively as well as the evaluation of the matters involved were objective and fair.

The board of supervisors is of the view that, in FY2019, 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 would certainly make greater progress in 2020 and give better returns to shareholders.

Wang Yuanxi

Chairman of Board of Supervisors



2020-2022 SHAREHOLDER RETURN PLAN OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (hereinafter the "Company"), actively fulfills the social responsibilities of public companies and attaches great importance to a reasonable return on shareholders' investment while achieving its own rapid development. In accordance with relevant provisions of the Guidelines No.3 on the Supervision and Administration of Listed Companies – Distribution of Cash Dividends of Listed Companies (CSRC Announcement [2013] No.43) and the Notice on Further Implementing Matters concerning Cash Dividends of Listed Companies (Zheng Jian Fa [2012] No.37) of China Securities Regulatory Commission and the Articles of Association of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (hereinafter the "Articles of Association"), a shareholder return plan (hereinafter the "Plan") for the next three years (2020-2022) is hereby formulated by the board of directors of the Company. The details are as follows:

I. Consideration factors of the Plan

With focus on the long-term sustainable development and comprehensively taking into account the Company's actual business developments, shareholders' requirements and objectives, social capital costs, external financing environments and other factors, a sustained, stable and scientific return plan and mechanism for investors is established by the Company to ensure the continuity and stability of its profit distribution policy.

II. Principles of the Plan

Subject to compliance with relevant laws and regulations and the relevant profit distribution provisions of the Articles of Association, the Plan is formulated after fully considering and listening to the opinions of independent directors, supervisors and public shareholders, and balancing the Company's short-term interests and long-term developments according to its actual business developments and capital needs to ensure the continuity and stability of the Company's profit distribution policy.

III. 2020-2022 shareholder return plan

(1) Profit distribution method:

The Company may use cash, stock, a combination of cash and stock or other means permitted by law to distribute dividends. If the conditions for cash dividends are met, the Company shall distribute profits in the form of cash dividends; where conditions allow, the Company may distribute interim dividends according to its actual operating circumstances.

(2) Conditions for the Company to distribute profits in the form of cash dividends:

1. The Company's net profit for the year or half year is positive and not less than RMB0.05 per share;
2. The distributable profits realised by the Company during the year (i.e., the remaining after-tax

profits of the Company after making up for losses and setting aside funds for the statutory and discretionary common reserve funds according to law) are positive;

3. The Company's net cash flow and cash flows from operating activities for the year are positive;
4. When the Company distributes its annual profits, a standard unqualified audit report on the Company's financial reports for that year shall be issued by an auditing institution;
5. The Company has no significant foreign investment plans or major cash outlays (excluding fundraising projects) within the next twelve months.

Significant investment plans or major cash outlays refer to: the aggregate amount of expenditures in major projects such as foreign investments, asset acquisitions or equipment purchases that are planned by the Company within the next twelve months will reach or exceed 5% of the Company's latest audited net tangible assets.

(3) Cash dividend policy:

1. The Company shall maintain the continuity and stability of its profit distribution policy. In principle, the profits to be distributed by the Company each year shall not be less than the net operating cash flow realised in that year or 15% of the distributable profits realised

in that year, whichever is less. If the conditions for cash dividends are met, the Company shall distribute profits in the form of cash dividends. The specific distribution ratio shall be drawn up by the board of directors according to the Company's operating conditions and shall be submitted to the general meeting of shareholders for review and decision.

2. When the Company publicly offers securities in accordance with the Measures for the Administration of Securities Offering by Listed Companies, the requirement that "the cumulative profit distributed in cash in the last three years shall not be less than 30% of the annual average distributable profits realised by the Company in those three years" shall be met.
3. Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years.
4. The Company's profit distribution shall not exceed the scope of its accumulated distributable profits and shall not damage the Company's ability to continue its operation.

(4) Time for distributing cash dividends:

Subject to compliance with the profit distribution principles and ensuring the normal operation and long-term development of the Company, when

the conditions for cash dividends are met, the Company will, in principle, distribute cash dividends once a year. The Company may distribute interim cash dividends according to profitability and capital needs.

(5) Conditions for distributing stock dividends:

If the board of directors is of the view that the scale of the Company's assets, operations and so forth does not match the size of the Company's share capital, the Company may distribute profits in the form of stock dividends under the premise that the distribution of cash dividends referred to above has been implemented. The specific dividend payout ratio shall be submitted to the Company's general meeting of shareholders for review and decision after being considered and passed by the board of directors.

(6) Decision making of the profit distribution plan:

1. The board of directors proposes a profit distribution plan every year according to the Company's profitability, capital requirements and shareholder return plan and the provisions of the Articles of Association, which will be submitted to the general meeting of shareholders for consideration and approval after being considered and passed by the board of directors. Independent directors shall express their independent opinions on the profit distribution plan. In examining the specific plan for cash dividends, the

board of directors shall carefully study and demonstrate the timing, conditions, minimum proportion and other matters concerning the Company's distribution of cash dividends, and independent directors shall express clear opinions. The Company shall strengthen the awareness of shareholder return, and taking every three years as a cycle, formulate a shareholder return plan within the cycle after comprehensively considering the Company's profitability, capital needs, development goals, reasonable shareholder returns and other factors, to define the specific dividend arrangement and format over a three-year period, the cash dividend plan, the intervals and other details.

The board of directors shall comprehensively consider the industry characteristics, the development stage, the Company's business model and profitability, and other factors including whether the Company has any major capital outlays and arrangements, which are classified into the following situations, and propose a differentiated cash dividend policy according to the procedures provided for in the Articles of Association:

- (1) When the Company which is in the mature stage of development without having any major capital outlays and arrangements distributes its profits, the

2020-2022 SHAREHOLDER RETURN PLAN OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

proportion of cash dividends in this profit distribution shall be 80% minimum;

(2) When the Company which is in the mature stage of development having major capital outlays and arrangements distributes its profits, the proportion of cash dividends in this profit distribution shall be 40% minimum;

(3) When the Company which is in the growing stage of development having major capital outlays and arrangements distributes its profits, the proportion of cash dividends in this profit distribution shall be 20% minimum;

In the case where the Company is in a stage of development which is not easy to be classified while having major capital outlays and arrangements, it may be handled in accordance with the provisions of the preceding paragraph.

2. If profits are achieved for the year but the board of directors has not proposed a profit distribution plan, the board of directors shall specify the reasons for not distributing dividends as well as the use of funds that are retained in the Company not for the purpose of distributing dividends in the annual report of

that year. Independent directors shall express their independent opinions in this regard and the Company shall make a disclosure.

3. The board of supervisors shall supervise the implementation of the Company's profit distribution policy and shareholder return plan by the board of directors and management and their decision-making procedures.

(7) Decision-making process in the profit distribution policy:

1. In accordance with relevant regulations of the China Securities Regulatory Commission, the Shanghai Stock Exchange and the Singapore Exchange, the Company shall formulate and revise its profit distribution policy based on the interests of shareholders, paying attention to the protection of investor interests and the provision of a stable return to investors, which shall be fully demonstrated by the board of directors. When the Company formulates and revises its profit distribution policy, independent directors shall express their independent opinions. When reviewing the specific plan for distributing stock dividends and profits, the board of directors shall take into consideration the Company's growth, dilution of net assets per share and other true and reasonable factors.

2. If there is indeed the need for the Company to adjust its profit distribution policy according to its capital needs in terms of production and operation, major investment, development planning and other respects, the adjusted profit distribution policy may not violate any relevant regulations of the China Securities Regulatory Commission and the securities exchanges. Proposals for adjustment of the profit distribution policy reviewed by the board of directors, the board of supervisors and the general meeting of shareholders shall be passed by more than half of the directors and more than half of the independent directors, more than half of the supervisors, and shareholders (including proxies) attending the general meeting holding more than two-thirds of the voting rights, respectively. The general meeting of shareholders shall, when considering any proposals submitted by the board of directors concerning the formulation and revision of the profit distribution policy, effectively protect the rights of public shareholders to participate in the general meeting, and may actively communicate and conduct exchanges with shareholders, especially small and medium shareholders, through telephone, facsimile, company website, mailing, reception visit and other channels.

IV. Formulation of future return plans and related decision-making mechanisms

The Plan shall be prepared by the board of directors based on the Company's profitability, capital needs and development stage, taking into account the opinions of shareholders (especially public shareholders) and independent directors, and shall be submitted to the general meeting of shareholders for consideration after being considered and passed by the board of directors.

The Company shall review the Shareholder Return Plan for the Next Three Years at least once every three years, and make appropriate and necessary changes to the profit distribution policy being implemented by the Company based on the opinions of shareholders (especially public shareholders) and independent directors to determine the shareholder return plan for that period.

V. Mechanism for the coming into force of the Plan

The Plan shall be implemented commencing from the date of consideration and approval by shareholders at the general meeting.

Board of Directors
Tianjin Zhong Xin Pharmaceutical
Group Corporation Limited
17 April 2020



FINANCIAL **CONTENTS**

33	CORPORATE GOVERNANCE STATEMENT
61	STATEMENT BY DIRECTORS
66	INDEPENDENT AUDITORS' REPORT
71	CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
72	STATEMENTS OF FINANCIAL POSITION
73	STATEMENTS OF CHANGES IN EQUITY
75	CONSOLIDATED STATEMENT OF CASH FLOWS
77	NOTES TO THE FINANCIAL STATEMENTS
153	NOTICE OF ANNUAL GENERAL MEETING
158	PROXY FORM
163	INFORMATION ON SHAREHOLDING
165	PROPOSED RENEWAL OF MANDATE FOR INTERESTED PERSON TRANSACTIONS
187	PROPOSED FINANCIAL SERVICES AGREEMENT
225	SUSTAINABILITY REPORTING

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 2018 (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 ended 31 December 2019 (“FY2019”), with specific references made to the Code.

BOARD MATTERS

Role of the Board of Directors

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

- (a) Establishing a framework of prudent and effective controls which enables risks to be assessed and managed, including safeguarding of shareholders’ interest and the Company’s assets;
- (b) Ensuring that necessary resources are in place for the Company to meet its strategic objectives;
- (c) Establishing and maintaining a sound risk management framework to effectively monitor and manage risks, and to achieve an appropriate balance between risks and company performance;
- (d) Identifying key stakeholder groups and recognising that their perceptions affect the Company’s reputation, and ensuring transparency and accountability to key stakeholder groups;
- (e) Constructively challenging the management of the Company and reviewing its performance;
- (f) Setting the Company’s values and standards (including ethical standards), and ensuring that obligations to shareholders and other stakeholders are understood and met; and
- (g) Considering sustainability issues as part of its strategic formulation.

In the course of carrying out their duties and responsibilities, all Directors are expected to consider at all times the interests of the Company. For FY2019, the Board is satisfied that all Directors have indeed discharged their duties objectively and sufficiently.

The Company has formulated a set of guidelines named the “Internal Responsibility System” (内部问责制度) in accordance with the relevant provisions of the applicable laws, regulations, normative documents including the Company Law of the PRC, as well as the Articles of Association of the Company, for the purposes of further enhancing the corporate governance of the Company, improving the internal restraints and accountability mechanism and enhancing the decision-making and operating management capabilities of the Company. Such guidelines had been approved at the annual general meeting of the Company held on 15 May 2015.

CORPORATE GOVERNANCE STATEMENT

The guidelines contained in the Internal Responsibility System applies to directors, supervisors, senior managers and other relevant persons of the Company (including its subsidiaries and branches) and sets out a system for holding the aforementioned persons accountable for the acts that cause serious adverse effects or serious adverse consequences to the Company as a result of intentional or gross negligence within the scope of their duties.

Board Processes

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

The full Board holds 4 scheduled quarterly meetings each year. In addition, it holds such additional meetings as are necessary to consider any matters that require the Board's attention. To facilitate efficient discharge of the Board's business, the Company's Articles of Association provide for the Board and its Board Committees to decide on matters by way of circular resolution. The Articles of Association of the Company also provides 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. In this relation, there are internal guidelines adopted by the Group which govern the matters that require Board's approval. Amongst others, the Board meets for the following matters:

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

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

Directors facing conflicts of interest recuse themselves from discussions and decisions involving the issues of conflict.

CORPORATE GOVERNANCE STATEMENT

Access to Information

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

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

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

Meetings held in 2019

During FY2019, the Board had held 10 meetings and the Company had held 3 general meetings (comprising the annual general meeting and 2 extraordinary general meetings), and the Directors' attendance at these meetings are as follows:

Name of director	Number of Board meetings held during the director's term of office in FY2019		Number of general meetings held during the director's term of office in FY2019	
		Attendance		Attendance
Li Liquan	10	10	3	3
Yu Hong ¹	10	10	3	2
Wang Mai ²	9	9	3	2
Zhou Hong ³	8	8	2	1
Timothy Chen Teck Leng	10	10	3	3
Wong Gang ⁴	7	7	3	3
Vincent Toe Teow Heng ⁵	3	3	1	0
Qiang Zhiyuan	10	10	3	3
Yan Min ⁶	3	3	1	0
Tang Tiejun ⁷	5	5	1	1
Zhang Ping ⁸	5	5	1	1

Notes:

1. Ms. Yu Hong ceased to be an Executive Director with effect from 22 January 2020.
2. Mr. Wang Mai was appointed as an Executive Director with effect from 12 March 2019.

CORPORATE GOVERNANCE STATEMENT

3. Mr. Zhou Hong ceased to be an Executive Director with effect from 12 March 2019. Subsequently, Mr. Zhou Hong was appointed as an Executive Director with effect from 15 May 2019.
4. Mr. Wong Gang was appointed as an Independent and Non-Executive Director with effect from 15 May 2019.
5. Mr. Vincent Toe Teow Heng ceased to be an Independent and Non-Executive Director with effect from 15 May 2019.
6. Ms. Yan Min ceased to be an Executive Director with effect from 15 May 2019.
7. Mr. Tang Tiejun was appointed as a Non-Executive Director with effect from 30 September 2019.
8. Mr. Zhang Ping was appointed as a Non-Executive Director with effect from 30 September 2019.

Training of Directors

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

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

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

Board Composition and Balance

Presently, the Board comprises 3 Executive Directors, 2 Non-Executive Directors, and 3 Independent Directors. The participation of the Directors in the various Board Committees are as follows:

Name of Director	Appointed on	Date of last re-election	Board	Audit Committee	Strategy Committee	Remuneration Committee	Nominating Committee
Li Liqun	10 October 2017	N.A.	Chairman		C		
Wang Mai	12 March 2019	N.A.	Executive Director				
Zhou Hong	15 May 2019	N.A.	Executive Director				
Tang Tiejun	30 September 2019	N.A.	Non-Executive Director				M
Zhang Ping	30 September 2019	N.A.	Non-Executive Director			M	
Timothy Chen Teck Leng	15 May 2014	15 May 2017	Lead Independent and Non-Executive Director	C		M	

CORPORATE GOVERNANCE STATEMENT

Name of Director	Appointed on	Date of last re-election	Board	Audit Committee	Strategy Committee	Remuneration Committee	Nominating Committee
Wong Gang	15 May 2019	N.A.	Independent and Non-Executive Director	M		C	M
Qiang Zhiyuan	15 May 2015	15 May 2018	Independent and Non-Executive Director	M	M		C
Former Directors							
Yu Hong ¹	15 May 2018	N.A.	Executive Director		M		
Yan Min ²	16 May 2016	N.A.	Non-Executive Director				
Vincent Toe Teow Heng ³	15 May 2013	16 May 2016	Independent and Non-Executive Director	M		C	M

Notes:

1. Ms. Yu Hong ceased to be an Executive Director with effect from 22 January 2020.
2. Ms. Yan Min ceased to be a Non-Executive Director with effect from 15 May 2019.
3. Mr. Vincent Toe Teow Heng ceased to be an Independent and Non-Executive Director with effect from 15 May 2019.

Taking into account *inter alia* the nature and scope of the Group's operations, the requirements of the Group's businesses and the need to avoid undue disruptions from changes to the composition of the Board and its Board Committees, the Board is of the view that the current size of the Board is appropriate for the time being for facilitation of effective decision-making on the part of the Board. In addition, the current Board members comprise persons whose diverse skills, experience and attributes provide for effective direction for the Group as each Director with his/her special contributions brings to the Board an independent and objective perspective to enable balanced and well considered decisions to be made. There is also some gender diversity as there is 1 female Director on the Board.

The profile of each of the Directors is disclosed in the "Resumes of Directors, Supervisors and Senior Managers – Directors" section of this Annual Report. In addition, the Director(s) proposed for appointment, re-election or re-appointment at the forthcoming annual general meeting ("AGM") is set out in the notice of AGM dated 17 April 2020, and information relating to them as required under Appendix 7.4.1 of the Listing Manual is set out at the end of this report, in accordance with Rule 720(6) of the Listing Manual.

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

- a majority of the Board members shall be independent or non-executive directors;
- the Board should have enough directors to serve on various committees of the Board so that each member will be able to fully discharge his/her responsibilities; and
- the Board should comprise members with varied core competencies in management experience, strategic planning, accounting and finance, and industry knowledge, and diverse backgrounds and experience needed for effective Board performance.

CORPORATE GOVERNANCE STATEMENT

The composition of the Board is reviewed on an annual basis by the Nominating Committee to ensure that the Board has the appropriate mix of expertise and experience. Keeping in mind the need for Board diversity, in identifying director nominees, the Nominating Committee will consider factors such as gender, age, ethnicity and other relevant factors, in addition to skills, background and experiences.

Taking into consideration the requirements of the PRC securities supervision commission, Shanghai Stock Exchange and the SGX-ST, the Board will use its best endeavours to meet the requirement for independent directors to make up a majority of the Board.

Independent Members of the Board of Directors

The Board of Directors has 3 independent members: Mr. Timothy Chen Teck Leng, Mr. Wong Gang and Mr. Qiang Zhiyuan. The criterion of independence is based on the definition given in Rule 210(5) of the Listing Manual and the Code. The Board considers an “independent” director as one who has no relationship (whether familial, business, financial, employment, or otherwise) with the Company, its related companies, its substantial shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director’s independent business judgment with a view to the best interests of the Company.

Pursuant to Article 14 under the “Guidelines of Filing and Training for Independent Director in the Listed Companies” promulgated by the Shanghai Stock Exchange in 2010, an independent director cannot serve on the board of a listed company for more than 6 years. As the Company adheres to this Article 14, it does not have, and will not have, any independent director who has served on the Board for more than 9 years.

Board Guidance

The Board and management believes that an effective and robust Board is fundamental to good corporate governance. As such, the Board members continually engage in open and constructive discussions and debate and the Board, in particular its Independent Directors and Non-Executive Directors, are updated and kept well informed of the Company’s business and the industry in which such business operate. This enables the Directors to offer new perspectives and insights and specifically, facilitates Independent and/or Non-Executive Directors to constructively challenge and help develop proposals on strategy.

In addition, the Independent and/or Non-Executive Directors also review the performance of management in achieving predetermined goals and objectives and monitor the reporting of the management’s performance. Whenever necessary, the Independent and/or Non-Executive Directors will also meet privately without the presence of management.

Chairman and Chief Executive Officer

The Group keeps the roles of the Chairman and Chief Executive Officer separate. In this regard, there is a clear division of responsibilities between the Chairman and the Chief Executive Officer, which ensures that there is a balance of power and authority at the top of the Group.

CORPORATE GOVERNANCE STATEMENT

Mr Li Liquan is the Executive Chairman of the Board. The Executive Chairman is responsible for leading the Board in mapping the strategic direction of the Group. For this purpose, he strives to foster a culture of openness and debate within Board members, maintain open channels of communication with management, and monitor the implementation and execution of the Board's decisions and directions. The Executive Chairman also approves the agendas for the Board meetings and ensures adequate amount of time is set aside for thorough discussion of each agenda item.

Ms. Yu Hong was appointed as the General Manager on 19 March 2018, and was the General Manager of the Company during FY2019¹. She has over 20 years' experience in the pharmaceutical industry. Ms. Yu Hong's responsibilities during her term of office as General Manager included overseeing the Group's overall operations, general management, investment, business development and strategic planning. The Chairman and the General Manager were not related.

To promote effective communication with shareholders of the Company, the Executive Chairman also ensures that there is constructive and meaningful dialogue between the shareholders, Board and management at AGMs or other general meetings of the Company.

With the full support of the Directors, Board Secretaries and management, the Executive Chairman also takes charge in ensuring that the Company achieves and maintains high standards of corporate governance.

The Executive Chairman is assisted by the General Manager's Executive Meeting. Members attending the General Manager's Executive Meeting for FY2019 include: General Manager Ms. Yu Hong², Deputy General Manager Mr. Zhang Jian, Deputy General Manager and Chief Engineer Mr. Zhou Hong, Deputy General Manager Mr. Wang Xin, Deputy General Manager Mr. Ni Zhengguo and Deputy General Manager and Chief Accountant Ms. Niu Shengfang. The General Manager's Executive Meeting is responsible for the day-to-day running of the Group as well as the exercise of control over the quality, quantity and timeliness of information flow between the Board and management.

3 out of 8 Directors are Independent Directors. All major decisions made by the Executive Chairman are reported to and subject to review by the Board. His performance and appointment to the Board is reviewed by the Nominating Committee and his remuneration package is reviewed by the Remuneration Committee. The Board believes that the existing governance structure involving the delegation of certain functions and authority to several Board Committees, and the fact that these Committees comprised a majority of independent directors and each of them is chaired by an Independent Director, would provide for a balance of power and authority within the Board.

Lead Independent Director

In view that the Executive Chairman is part of the management team, and the Chairman is not an independent director, the Board has appointed Mr. Timothy Chen Teck Leng as Lead Independent Director to head and coordinate the activities of the Independent Directors, including but not limited to Independent Directors' meetings. Shareholders have access to the Lead Independent Director where they have concerns and for which contact through the normal channels of the Executive Chairman or Chief Accountant or the Supervisory Board has failed to resolve or is inappropriate. As Mr. Timothy Chen is the most experienced amongst all the Independent Directors, the Board is of the view that he is the most suitable choice for the role of Lead Independent Director.

¹ With effect from 17 February 2020, Ms. Li Yan had assumed the role of General Manager within the Company.

² *Ibid.*

CORPORATE GOVERNANCE STATEMENT

The Independent Directors, led by the Lead Independent Director, will meet amongst themselves without the presence of the other Directors where necessary, and the Lead Independent Director will provide any suggestion or feedback to the Executive Chairman after such meetings.

Board Committees

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

Strategy Committee

The Strategy Committee was established in 2002. The Strategy Committee is currently chaired by Mr. Li Liqun and its other member is Mr. Qiang Zhiyuan. Ms. Yu Hong was a member of the Strategy Committee before she ceased to be an Executive Director with effect from 22 January 2020. The Strategy Committee is entrusted with the conduct of the Group's business and affairs, in line with the overall strategy set by the Board. The Committee meets periodically and at such other times where necessary.

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

Name of director/executive	Appointment	Number of meetings held	Attendance
Li Liqun	Executive Chairman	1	1
Yu Hong ¹	Executive Director	1	1
Qiang Zhiyuan	Independent Director	1	1

Note:

1. Ms. Yu Hong ceased to be an Executive Director with effect from 22 January 2020.

Audit Committee

The Audit Committee was established in 1997. It is presently chaired by Mr. Timothy Chen Teck Leng and its other members are Mr. Wong Gang and Mr. Qiang Zhiyuan. Mr. Vincent Toe Teow Heng was a member of the Audit Committee before he ceased to be an Independent and Non-Executive Director with effect from 15 May 2019. All the members of the Audit Committee are Independent and Non-Executive Directors of the Company. None of the members of the Audit Committee were previous partners or directors of the Company's existing auditing firms, ShineWing Certified Public Accountants LLP and RSM Chio Lim LLP. As the members of the Audit Committee collectively have relevant accounting or related financial expertise, the Board is satisfied that the members of the Audit Committee are appropriately qualified to discharge their responsibilities.

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

- reviewed the audit plans and scope of audit examination of the external auditors;
- reviewed with the external auditors their findings arising from the audit and making recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditor, and the remuneration and terms of engagement of the external auditor;

CORPORATE GOVERNANCE STATEMENT

- reviewed internal audit findings and internal audit plan;
- reviewed the adequacy, effectiveness, independence, scope and results of the external audit and the Company's internal audit function;
- reviewed the annual and quarterly financial statements and the draft earnings announcements before their submission to the Board for approval;
- reviewed the significant financial reporting issues and judgements (if any) so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance;
- reviewed the assurance from the Chief Executive Officer and the Chief Accountant on the financial records and financial statements;
- reviewed interested person transactions; and
- reviewed the adequacy and effectiveness of the Company's internal control and risk management systems.

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

The Audit Committee has conducted a review and the Company confirms that it is in compliance with Rules 712 and 716 of the SGX-ST Listing Manual for FY2019. The Audit Committee and the Board have satisfied themselves that the appointment of different auditing firms for certain of the Company's associated companies 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 to pay an aggregate of approximately RMB2,900,000 to the external auditors for their provision of audit services, and an aggregate of approximately RMB860,000 to the external auditors for their provision of other non-audit services. The Audit Committee, having reviewed the range and value of non-audit services performed by the external auditors, RSM Chio Lim LLP and ShineWing 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.

In 2019, the Audit Committee had 4 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 also had 3 meetings with the internal auditors, without the presence of management, during FY2019.

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

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
Wong Gang ¹	Independent Director	2	2
Qiang Zhiyuan	Independent Director	6	6
Vincent Toe Teow Heng ²	Independent Director	4	4

Notes:

1. Mr. Wong Gang was appointed as an Independent and Non-Executive Director with effect from 15 May 2019.
2. Mr. Vincent Toe Teow Heng ceased to be an Independent and Non-Executive Director with effect from 15 May 2019.

Nominating Committee

The Nominating Committee was established in 2002. The chairman of the Nominating Committee is presently Mr. Qiang Zhiyuan, and the other members are Mr. Wong Gang and Mr. Tang Tiejun. Mr. Vincent Toe Teow Heng was a member of the Nominating Committee before he ceased to be an Independent and Non-Executive Director with effect from 15 May 2019. Even though Mr. Timothy Chen Teck Leng has been appointed as Lead Independent Director, he is not a member of the Nominating Committee. The Board is of the view that Mr. Timothy Chen is the most suitable choice for the role of Lead Independent Director as he is the most experienced amongst all the Independent Directors.

The responsibilities of the Nominating Committee are to determine the criteria for identifying suitable candidates and reviewing nominations for the appointment and re-appointment of Directors to the Board. As part of the process, the Nominating Committee will evaluate the relevant background, skills and experience of the proposed director, to ensure that his/her skills and experience are a good fit for the Board's existing attributes and requirements. The Nominating Committee is also charged with the function of recommending a framework for evaluating the effectiveness of the Board and the contribution of each individual director to the effectiveness of the Board. The Nominating Committee will also carry out such evaluation and present its findings and recommendations to the Board. In addition to the foregoing, the Nominating Committee will also make recommendations to the Board on other relevant matters pertaining to *inter alia* board succession plans for Directors, in particular, the Executive Chairman, and the review of training and professional development programmes for the Board.

Pursuant to Article 156 of the Articles of Association of the Company, the tenure of an Independent Director shall be 3 years which may be extended upon re-election, with a maximum term of no more than 6 years. The Board, the Supervisory Board, or shareholders who, singly or jointly, hold more than 1% issued share of the listed company, may nominate candidates for appointment as independent directors, following which the Nominating Committee will review these nominated candidates for suitability and the shareholders in a general meeting shall make the final decision on the nomination of such candidates as independent directors.

CORPORATE GOVERNANCE STATEMENT

The Nominating Committee has not set a limit on the maximum number of listed company board representations which Directors may hold, as such a limit is not meaningful. Notwithstanding the foregoing, formal written guidelines have been instituted to address issues relating to competing time commitments when Directors serve on multiple boards in various companies. The contributions of each Director should be assessed based on the specific circumstances applicable to him/her, such as whether he/she has a full-time vocation or other responsibilities, his/her capabilities, and his/her appointment in the Company. The Nominating Committee will assess each Director on a regular basis to ensure that he/she is adequately carrying out his/her duties as a director. Specific considerations are also given to their attendance, responsibility, contributions and individual capabilities. Following the review, if necessary, the Executive Chairman will act on the results of the performance evaluation, and, in consultation with the Nominating Committee, propose, where appropriate, new members to be appointed to the Board or seek the resignation of Directors. For FY2019, the Board is of the view that the Board and its Board Committees operate effectively and each Director is contributing to the overall effectiveness of the Board.

When there is a need for a new appointment of a director to the Board, the senior management personnel, Board Secretaries and the human resources department of the Company will work together to ensure that the necessary preparatory work is completed, and the required materials are prepared, before the Nominating Committee meets to discuss the suitability of the list of potential candidates. The decision made by the Nominating Committee in such meetings will then be put forward to the Board for its consideration. If required, the Nominating Committee may engage the professional advisory services of an external consultant to assist the Nominating Committee in arriving at a decision.

With regard to the performance evaluation process undertaken by the Nominating Committee for FY2019, the Nominating Committee had conducted an assessment of Board performance based on numerous financial criteria such as the return on equity of the Group, etc. and other non-financial criteria such as *inter alia* the Board's input to strategy and the level of engagement with management. Such criteria employed by the Nominating Committee are comparable with industry peers and have not changed from year to year. Key areas for improvement or suggestions are then raised to the Board for discussion.

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

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

CORPORATE GOVERNANCE STATEMENT

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 Zhiyuan	Independent Director	4	4
Wong Gang ¹	Independent Director	3	3
Tang Tiejun ²	Non-Executive Director	1	1
Vincent Toe Teow Heng ³	Independent Director	1	1

Notes:

1. Mr. Wong Gang was appointed as an Independent and Non-Executive Director with effect from 15 May 2019.
2. Mr. Tang Tiejun was appointed as a Non-Executive Director with effect from 30 September 2019.
3. Mr. Vincent Toe Teow Heng ceased to be an Independent and Non-Executive Director with effect from 15 May 2019.

Remuneration Committee

The Remuneration Committee was established in 2002. The Remuneration Committee is presently chaired by Mr. Wong Gang, and the other members are Mr. Timothy Chen Teck Leng and Mr. Zhang Ping. Mr. Vincent Toe Teow Heng was previously the chairman of the Nominating Committee before he ceased to be an Independent and Non-Executive Director with effect from 15 May 2019.

The Remuneration Committee reviews and approves recommendations on remuneration policies and packages for all Directors and key executives. The review covers all aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, share options, and benefits-in-kind. The committee's recommendations are made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board. If necessary, the Remuneration Committee will engage appropriate external consultants to provide expert advice on executive compensation. When this is the case, the Remuneration Committee will ensure that existing relationships, if any, between the Company and its appointed remuneration consultants will not affect the independence and objectivity of such remuneration consultants.

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

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

CORPORATE GOVERNANCE STATEMENT

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
Wong Gang ¹	Independent Director	0	0
Timothy Chen Teck Leng	Independent Director	1	1
Zhang Ping ²	Non-Executive Director	0	0
Vincent Toe Teow Heng ³	Independent Director	1	1

Notes:

1. Mr. Wong Gang was appointed as an Independent and Non-Executive Director with effect from 15 May 2019.
2. Mr. Zhang Ping was appointed as a Non-Executive Director with effect from 30 September 2019.
3. Mr. Vincent Toe Teow Heng ceased to be an Independent and Non-Executive Director with effect from 15 May 2019.

Alternate Directors

The Company has no alternate directors on its Board.

REMUNERATION MATTERS

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

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

CORPORATE GOVERNANCE STATEMENT

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

	Salary %	Bonus %	Termination, Retirement and Post-employment benefits %	Other Benefits %	Total %
Below S\$250,000					
Li Liqun	100	–	–	–	100
Wang Mai	100	–	–	–	100
Zhou Hong	100	–	–	–	100
Yu Hong ¹	100	–	–	–	100
Yan Min ²	100	–	–	–	100
Above S\$250,000 but below S\$750,000					
–	–	–	–	–	–

Notes:

1. Ms. Yu Hong ceased to be an Executive Director with effect from 22 January 2020.
2. Ms. Yan Min ceased to be a Non-Executive Director with effect from 15 May 2019.

The remuneration of each individual Executive Director is not disclosed as the Company believes that disclosure may be prejudicial to its business interests given the highly competitive environment it is operating in.

The directors' fees paid to the Independent Directors of the Company for FY2019 are set out below:

Name of Director	Salary	Bonus	Directors' fees	Total
Timothy Chen Tack Leng	–	–	S\$60,000	S\$60,000
Wong Gang ¹	–	–	S\$36,700	S\$36,700
Qiang Zhiyuan	–	–	RMB60,000	RMB60,000
Vincent Toe Teow Heng ²	–	–	S\$22,900	S\$22,900

Notes:

1. Mr. Wong Gang was appointed as an Independent and Non-Executive Director with effect from 15 May 2019.
2. Mr. Vincent Toe Teow Heng ceased to be an Independent and Non-Executive Director with effect from 15 May 2019.

CORPORATE GOVERNANCE STATEMENT

Details of remuneration paid to the executives (who are not Directors) of the Group for FY2019 are set out below:

Name of executive	*Total Remuneration
Li Yong	RMB686,700
Zhang Jian	RMB709,600
Wang Xin	RMB655,100
Ni Zhengguo	RMB768,700
Niu Shengfang	RMB243,100

A breakdown of the level and mix of remuneration of the top 5 key executives is as follows:

	Salary %	Bonus %	Termination, Retirement and Post-employment benefits %	Other Benefits %	Total %
Li Yong	100	–	–	–	100
Zhang Jian	100	–	–	–	100
Wang Xin	100	–	–	–	100
Ni Zhengguo	100	–	–	–	100
Niu Shengfang	100	–	–	–	100

The aggregate total remuneration paid to or accrued to the top 5 key executives amounted to RMB3,063,200.

There are no employees of the Company who are substantial shareholders of the Company, or are immediate family members of a Director or the Chief Executive Officer or a substantial shareholder of the Company, and whose remuneration exceeds S\$100,000 during the year.

Pursuant to an extraordinary general meeting of the Company held on 2 December 2019, the shareholders of the Company approved, *inter alia*, the adoption of the 2019 Restricted A-Share Incentive Scheme. Please refer to the Company's circular dated 15 November 2019 and announcements for further details on the 2019 Restricted A-Share Incentive Scheme.

Aggregate restricted shares granted to the directors under the 2019 Restricted A-Share Incentive Scheme as at 31 December 2019 are set out below:

Name of directors	Aggregate Restricted Shares granted as at 31 December 2019
Li Liquan	70,000
Yu Hong	70,000
Wang Mai	70,000
Zhou Hong	70,000

CORPORATE GOVERNANCE STATEMENT

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

The Remuneration Committee is of the view that it is currently not necessary to use contractual provisions to allow the Company to reclaim incentive components of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

ACCOUNTABILITY AND AUDIT

To enable the Board to make a balanced and informed assessment of the Company's performance, position and prospects, management provides all members of the Board with management accounts and such explanation and information on a quarterly basis, and as and when the Board may require such information from time to time.

In addition, the Board takes steps to ensure compliance with legislative and regulatory requirements, including requirements under the listing rules of SGX-ST, and will establish written policies in this relation, if appropriate.

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

Internal Audit

The effectiveness of the internal control systems and procedures is monitored by management and progressively reviewed by the Audit Committee and the role of an internal audit function is to assist the Audit Committee in such review. The Audit Committee receives the audit findings and recommendations made by the Group's internal audit function and external auditors and deliberate on the treatment of such findings and recommendations. Subsequently, the internal audit function carries out follow-up actions to ensure that the implementation of decisions made by the Audit Committee are timely and appropriate, and internal audit reports are submitted at regular intervals to the Audit Committee for their review. The Audit Committee ensures that the internal audit function is adequately resourced and has appropriate standing within the Company.

The internal audit function is carried out by the Group's internal audit department which reports to the Audit Committee and the Board. The internal audit department has unfettered access to all of the Company's documents, records, properties and personnel, including access to the Audit Committee.

As the in-house internal audit department is treated similarly with the other departments in the Company, the Audit Committee does not deliberate nor approve the hiring, removal, evaluation and compensation of the head of the internal audit department. Nevertheless, the internal audit department is staffed by persons who are suitably qualified and experienced.

CORPORATE GOVERNANCE STATEMENT

In carrying out the internal audit function, it is ensured that the principles set out in the Basic Rules for Internal Control of Enterprises (《企业内部控制基本规范》), Guidelines on the Application of Internal Control (《企业内部控制应用指引》), Guidelines for the Evaluation of Enterprise Internal Control (《企业内部控制评价指引》), and the Guidelines for Internal Control of Enterprises (《企业内部控制审计指引》) are adhered to. In addition, the internal audit procedures are also in accordance with the external auditor's requirements, as well as relevant accounting standards.

The Audit Committee reviews the adequacy and effectiveness of the Group's internal audit function annually. For FY2019, the Audit Committee is of the view that the Group's internal audit function is independent, effective and adequately resourced.

Internal Controls and Risk Management

The Board is responsible for the overall internal control framework, which also encompasses risk management, and oversees management in the design, implementation and monitoring of such systems. The Board recognises that no cost effective internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. In terms of risk management, the Board determines the Company's levels of risk tolerance and put in place appropriate risk management policies to address potential issues. The Company will ensure that through the review of the findings of the internal audit and of the external auditors, and such other reviews and examinations as are considered necessary from time to time, in any case, at least annually, the Board seeks to ascertain the adequacy and effectiveness of the internal controls, including financial, operational, compliance and information technology controls, and risk management systems.

On a day-to-day basis, the Company has a corporate management department which develops the relevant rules and regulations relating to internal controls that are applicable to all the various departments in the Company, and also supervises the processes conducted by these departments. This is in addition to the internal audit department which, as mentioned above, conducts the internal review and is expected to inform the Audit Committee regularly on the progress of the internal audit. The Board of Supervisors are also involved in the process as it supervises all matters relating to the internal control framework and ultimately, the Board oversees the entire system that is in place.

To ensure that the internal controls and risk management systems in place are not undermined as a result of mismanagement, the Company has developed internal regulations to hold any of the Directors, supervisors, senior management or other relevant employees of the Company personally liable, and to subject the relevant person(s) to corresponding punitive measures, in the event that there are any serious adverse effects or consequences to the Company as a result of any intentional misconduct or gross negligence by such person(s).

The Board had received assurance from the Chief Executive Officer and Chief Accountant that the financial records as at 31 December 2019 have been properly maintained and the financial statements for FY2019 give a true and fair view of the Company's operations and finances and regarding the adequacy and 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 its internal and external auditors, the Board is of the view that the present internal controls of the Group, including financial, operational, compliance and information technology controls, and risk management systems, are adequate and effective for the nature and the size of the Group's operations and business. The Audit Committee similarly concurs with the views of the Board on the adequacy and effectiveness of the present internal controls of the Group, including financial, operational, compliance and information technology controls, and risk management systems, to address its risk areas.

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

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Communication with Shareholders

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

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

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

Shareholders in Singapore are encouraged to attend the Company's video conference of the AGM held in the PRC. The AGM is the principal forum for dialogue with shareholders. The notice of the AGM is dispatched to shareholders at least 45 days before the meeting, in accordance with the requirements of the Shanghai Stock Exchange. Additional information will be provided in explanatory notes or in a circular on items of special business. The Board welcomes questions from shareholders on performance and operations of the Group. Where possible, all the Directors will attend the meeting. In particular, the Chairmen of the Audit, Remuneration and Nominating Committees are normally available at the meeting to answer those questions relating to the work of the respective Board Committees. External auditors and/or advisers of the Company are also present at such meeting to assist the Directors to address shareholders' queries, if necessary.

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

Dividend Policy

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

Pursuant to the issuance or amendment of Guideline No. 3 – Issuance of Cash Dividends by Listed Companies promulgated by CSRC (《上市公司監管指引第3號-上市公司現金分紅》), Guideline for the Issuance of Cash Dividends by Listed Companies (《上市公司現金分紅指引》) promulgated by the Shanghai Stock Exchange, and other relevant laws and regulations, Article 224 of the Articles of Association of the Company was amended pursuant to a resolution passed by shareholders in an extraordinary general meeting held on 18 August 2014 to (i) state explicitly that when the conditions for distributing profits through cash dividends are met, the Company shall distribute profits through cash dividends; and (ii) set out the procedure and requisite contents of a scheme on return of investment to shareholders. More information on the foregoing can be found in the circular to shareholders dated 1 August 2014.

CORPORATE GOVERNANCE STATEMENT

DEALINGS IN SECURITIES

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

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

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

COMPLIANCE WITH EXISTING BEST PRACTICES GUIDE OF THE SINGAPORE EXCHANGE

The Board of Directors confirms that for the financial year ended 31 December 2019, the Company has complied with the principal corporate governance recommendations set out in the Best Practices Guide issued by the SGX-ST.

INFORMATION AS REQUIRED UNDER APPENDIX 7.4.1 OF THE LISTING MANUAL

At the Company's forthcoming annual general meeting on 5 June 2020, the following resolutions will be tabled for shareholders' approval, amongst others:

- (i) To consider and approve the appointment of Mr. Liew Yoke Pheng Joseph as independent director of the Company; and
- (ii) To consider and approve the appointment of Ms. Li Yan as director of the Company.

Accordingly, in accordance with Rule 720(6) of the Listing Manual, information on the above individuals as required under Appendix 7.4.1 of the Listing Manual is set out hereunder.

- [1] Information on Mr. Liew Yoke Pheng Joseph

<i>Date of Appointment</i>	<i>Subject to shareholders' approval of his appointment</i>
<i>Date of last re-appointment (if applicable)</i>	–
<i>Name of person</i>	<i>Liew Yoke Pheng Joseph</i>
<i>Age</i>	64
<i>Country of principal residence</i>	<i>Singapore</i>

CORPORATE GOVERNANCE STATEMENT

<i>The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)</i>	<i>Approve of the decision</i>
<i>Whether appointment is executive, and if so, the area of responsibility</i>	<i>Duties as an Independent and Non-executive Director of the Company</i>
<i>Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)</i>	<i>Independent and Non-executive Director</i>
<i>Professional qualifications</i>	<i>Bachelor of Commerce (Accountancy)</i>
<i>Working experience and occupation(s) during the past 10 years</i>	<p><i>Mr. Liew obtained his Singapore Certified Public Accountant (CPA) qualification in 1983 and became a Certified Information Systems Auditor (CISA) in 1992. He also obtained his Certified Fraud Examiner (CFE) qualification in 1998. Mr. Liew has been a fellow of the Association of Chartered Certified Accountants (ACCA) since 2006 and a fellow of the Institute of Singapore Chartered Accountants (ISCA) since 2013. He is also a member of the Singapore Institute of Directors. He is fluent in Mandarin, Cantonese and English.</i></p> <p><i>Mr. Liew has extensive experience in corporate strategy management, and in particular, is a professional in the fields of information technology, corporate governance, finance and accounting. He has held senior management positions in many large multinational companies in the PRC and Singapore. Currently, Mr. Liew is the Executive Chairman and Chief Executive Officer of Hoe Leong Corporation LTD. (listed on SGX Mainboard), the Lead Independent Director and Chairman of the Audit Committee of Grand Venture Technology Limited (listed on SGX Catalyst) and a director of Lew Foundation and Char Yong Foundation.</i></p>
<i>Shareholding interest in the listed issuer and its subsidiaries</i>	<i>No</i>
<i>Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries</i>	<i>NIL</i>
<i>Conflict of interest (including any competing business)</i>	<i>NIL</i>

CORPORATE GOVERNANCE STATEMENT

<i>Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer</i>	<i>Subject to shareholders' approval of his appointment</i>
<i>Other Principal Commitments* Including Directorships</i>	
<i>* "Principal Commitments" has the same meaning as defined in the Code of Corporate Governance 2018</i>	
<i>Past (for the last 5 years)</i>	<i>NIL</i>
<i>Present</i>	<ul style="list-style-type: none"> <i>Executive Chairman and Chief Executive Officer of Hoe Leong Corporation LTD. (listed on SGX Mainboard)</i> <i>Lead Independent Director and Chairman of the Audit Committee of Grand Venture Technology Limited (listed on SGX Catalist)</i> <i>Director of Lew Foundation and Char Yong Foundation</i>
<i>(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?</i>	<i>No</i>
<i>(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?</i>	<i>No</i>
<i>(c) Whether there is any unsatisfied judgment against him?</i>	<i>No</i>
<i>(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?</i>	<i>No</i>

CORPORATE GOVERNANCE STATEMENT

(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:-	
(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No

CORPORATE GOVERNANCE STATEMENT

(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No
Any prior experience as a director of an issuer listed on the Exchange? If yes, please provide details of prior experience. If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.	Yes. He is currently the Executive Chairman and Chief Executive Officer of Hoe Leong Corporation LTD. (listed on SGX Mainboard) and the Lead Independent Director and Chairman of the Audit Committee of Grand Venture Technology Limited (listed on SGX Catalyst).
Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).	Not applicable.

(2) Information on Ms. Li Yan

Date of Appointment	Subject to shareholders' approval of her appointment
Date of last re-appointment (if applicable)	-
Name of person	Li Yan

CORPORATE GOVERNANCE STATEMENT

Age	51
Country of principal residence	China
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	Approve of the decision
Whether appointment is executive, and if so, the area of responsibility	Duties as an Executive Director of the Company
Job Title (e.g. Lead ID, AC Chairman, AC Member etc.)	Executive Director
Professional qualifications	Senior Engineer, licensed pharmacist and holds a Master's degree in Business Administration
Working experience and occupation(s) during the past 10 years	From November 2007 to May 2008, Ms. Li served as Secretary of the Party Committee and Deputy General Manager of the Pharmaceutical Marketing Company of the Company. From May 2008 to October 2009, she was appointed as Deputy Director of the Economic Coordination Department of Tianjin Pharmaceutical Holdings Co., Ltd. From October 2009 to July 2012, Ms. Li was Executive Deputy General Manager of Tianjin Lisheng Pharmaceutical Co., Ltd. ("Tianjin Lisheng"). From July 2012 to June 2017, she successively served as Secretary of the Party Committee, and Chairman and General Manager of Tianjin Taihe Pharmaceutical Co., Ltd. From November 2016 to May 2017, she re-joined Tianjin Lisheng and assumed role of Deputy General Manager. From May 2017 to January 2020, she was appointed as Deputy Secretary of the Party Committee and Chairman of the Labour Union of Tianjin Lisheng, while from October 2017 to February 2020, she was also appointed as Chairman of the Board of Supervisors of Tianjin Lisheng. From September 2018 to August 2019, she served as Vice Chairman of Tianjin Xinneitian Pharmaceutical Co., Ltd. From December 2017 to January 2020, she was a Director of Tianjin Ledun Traditional Chinese Medicine Co., Ltd. Ms. Li was appointed as General Manager of the Company on 17 February 2020.
Shareholding interest in the listed issuer and its subsidiaries	No
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	NIL
Conflict of interest (including any competing business)	NIL

CORPORATE GOVERNANCE STATEMENT

<i>Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer</i>	<i>Subject to shareholders' approval of her appointment</i>
<i>Other Principal Commitments* Including Directorships</i>	
<i>* "Principal Commitments" has the same meaning as defined in the Code of Corporate Governance 2018</i>	
<i>Past (for the last 5 years)</i>	<i>NIL</i>
<i>Present</i>	<i>NIL</i>
<i>(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?</i>	<i>No</i>
<i>(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?</i>	<i>No</i>
<i>(c) Whether there is any unsatisfied judgment against him?</i>	<i>No</i>
<i>(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?</i>	<i>No</i>
<i>(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?</i>	<i>No</i>

CORPORATE GOVERNANCE STATEMENT

(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:-	
(i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No

CORPORATE GOVERNANCE STATEMENT

(ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or	No
(iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?	No
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No
<p>Any prior experience as a director of an issuer listed on the Exchange?</p> <p>If yes, please provide details of prior experience.</p> <p>If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.</p>	No. The Company will arrange for Ms. Li to attend training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.
Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).	N.A.

CORPORATE GOVERNANCE STATEMENT

DISCLOSURE REGARDING COMPANY'S RELATIONSHIP WITH TIANJIN SASAC

Tianjin Pharmaceutical Holdings Co., Ltd. (天津市医药集团有限公司), the controlling shareholder of the Company, is ultimately owned by 天津市人民政府国有资产监督管理委员会 (State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government) ("Tianjin SASAC") through its wholly-owned subsidiaries, 天津渤海国有资产经营管理有限公司 (Tianjin Bohai State-owned Assets Management Co., Ltd.) and 天津津联投资控股有限公司 (Tianjin Tsinlien Investment Holding Co., Ltd). Notwithstanding the foregoing, under the laws of Singapore, Tianjin SASAC is not considered a controlling shareholder of the Company.

Pursuant to the Law of the People's Republic of China on the State-Owned Assets of Enterprises (《中华人民共和国企业国有资产法》), the State Council of the People's Republic of China ("PRC") ("State Council") and the local people's governments shall, in accordance with laws and administrative regulations, perform respectively the contributor's functions for state-invested enterprises and enjoy the contributor's rights and interests on behalf of the state. In this relation, the state-owned assets supervision and administration bodies established by the local people's governments according to the provisions of the State Council shall perform the contributor's functions for state-invested enterprises on behalf of and upon the authorisation of the corresponding people's government. Accordingly, the establishment and responsibilities of Tianjin SASAC are based on, and subject to, PRC laws, rules and regulations and Tianjin SASAC does not influence decisions on the financial and operating policies of the Company in normal circumstances. As such, under the Securities and Futures Act (Chapter 289) of Singapore and the listing manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), Tianjin SASAC is not considered to be able to exercise "control" over the Company and is therefore, not a controlling shareholder of the Company. In this relation, Tianjin SASAC and its associates are also not considered interested persons of the Company and hence, the interested person transaction requirements under the SGX-ST Listing Rules do not apply to them.

STATEMENT BY DIRECTORS

The directors are pleased to present the consolidated financial statements of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the “Company”) and its subsidiaries (collectively, the “Group”) and the statement of financial position and statement of changes in equity of the Company for the reporting year ended 31 December 2019.

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 consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 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 year ended on that date; and
- (b) at the date of the statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

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

2. Directors

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

Li Liquan	
Timothy Chen Teck Leng @ Chen Teck Leng	
Qiang Zhiyuan	
Zhang Ping	(Appointed on 30 September 2019)
Tang Tiejun	(Appointed on 30 September 2019)
Wang Mai	
Wong Gang	(Appointed on 15 May 2019)
Zhou Hong	(Appointed on 15 May 2019)

3. Directors’ interests in shares and debentures

Except as disclosed under the “Option” section of this statement, no director who held office at the end of the reporting year had interests in shares, debentures, warrants or share options of the Company, or of related corporations, either at the beginning of the reporting year, or date of appointment if later, or at the end of the financial year.

The directors’ interests as at 21 January 2020 were the same as those at the end of the reporting year.

STATEMENT BY DIRECTORS

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

Except as disclosed under the “Option” section of this statement, neither at the end of, nor at any time during the reporting year, was the Company a party to arrangements whose objects are, or one of whose objects is, to enable directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

5. Options

During the reporting year, no option to take up unissued shares of the Company or any other body corporate in the Group except for the following:

2019 Restricted A-Share Incentive Scheme (the “Scheme”)

The Scheme was approved at Extraordinary General Meeting on 2 December 2019 and granted to employees on 9 December 2019 at grant price of RMB7.20 per share. The Scheme is administered by the board of directors. The Remuneration Committee shall be responsible for formulating and revising the Scheme while the Supervisory Committee and the Independent Directors shall act as the supervisory body for the Scheme.

The Scheme is established to improve the long-term incentive mechanism of the Company, attract and retain outstanding talents, fully motivate the key personnel of the Company, and align the interests of the shareholders and the Company with individual interests of the members of management team of the Company so that all parties will make joint efforts for the long-term development of the Company.

The Scheme is centred on the accomplishment of specific pre-determined performance objectives and service conditions, which is the prerequisite for the contingent award of fully paid Shares. The reward structure allows the Company to target specific performance objectives and incentivise the Participants to put in their best efforts to achieve these targets.

The Participants under the Scheme include directors, members of senior management, members of middle-level management and core personal that the Board considers should be motivated. The Participants under the Scheme do not include supervisors, non-executive directors and Independent Directors, and also do not include controlling shareholders of the Company and their associates, directors and employees of the Company’s associated companies, and directors and employees of the Company’s parent company and its subsidiaries.

There shall be no restriction on the eligibility of any Participant to participate in any other share option or share incentive schemes implemented or to be implemented by the Company or another company within the Group.

The aggregate number of Restricted Shares proposed to be granted to the Participants under the Scheme shall be no more than 5,012,500 shares, among which, the number of Initial Granted Restricted Shares shall be 4,010,000, representing approximately 80% of the total number of Restricted Shares proposed to be granted under the Scheme, while the balance number of Restricted Shares proposed to be reserved shall be 1,002,500, representing approximately 20% of the total number of Restricted Shares proposed to be granted under the Scheme.

STATEMENT BY DIRECTORS

5. Options (Cont'd)

2019 Restricted A-Share Incentive Scheme (the "Scheme") (Cont'd)

The number of Restricted Shares to be granted to any one Participant under the Scheme shall not exceed 1% of the total issued share capital of the Company prior to the submission of the Scheme for consideration at a general meeting. The total number of Restricted Shares to be granted under the Scheme, when added to the number of shares issued and/or issuable in respect of all shares, options or awards granted under any other share incentive scheme of the Company for the time being in force (if any) shall not exceed 10% of the total issued share capital of the Company from time to time.

The final number of Restricted Shares awarded will depend on the achievement of pre-determined target set for each release arrangement set out below:

Release arrangement	Release Period	Proportion of Restricted Shares to be released as a percentage of the total number of Restricted Shares to be granted under the Scheme
First Release Period	Commencing on the first trading day after expiry of the 24-month lock-up period from the date of completion of the registration of the Restricted Shares, and ending on the last trading day of the 36-month period from the date of completion of the registration of the Restricted Shares	33%
Second Release Period	Commencing on the first trading day after expiry of the 36-month lock-up period from the date of completion of the registration of the Restricted Shares, and ending on the last trading day of the 48-month period from the date of completion of the registration of the Restricted Shares	33%
Third Release Period	Commencing on the first trading day after expiry of the 48-month lock-up period from the date of completion of the registration of the Restricted Shares, and ending on the last trading day of the 60-month period from the date of completion of the registration of the Restricted Shares	34%

Restricted Shares granted to the Participants under the Scheme shall not be transferred or used as security or for repayment of debts during the relevant Lock-up Periods and shall be repurchased and cancelled by the Company if the release condition is not met.

STATEMENT BY DIRECTORS

5. Options (Cont'd)

2019 Restricted A-Share Incentive Scheme (the "Scheme") (Cont'd)

The details of the Restricted Shares granted under the Scheme since its commencement up to 31 December 2019 are as follows:

Participants	Restricted Shares granted during the year/Aggregate Restricted Shares granted since commencement of the Scheme	Restricted Shares vested and released during the year/ Aggregate Restricted Shares vested and released since commencement of the Scheme	Aggregate Restricted Shares outstanding as at 31 December 2019
Li Liquan	70,000	–	70,000
Yu Hong ^(a)	70,000	–	70,000
Wang Mai	70,000	–	70,000
Zhou Hong	70,000	–	70,000
Other participants ^(b)	3,650,000	–	3,650,000
	<u>3,930,000</u>	<u>–</u>	<u>3,930,000</u>

(a) 70,000 Restricted A-shares to be repurchased and cancelled by the Company in accordance with the relevant provisions of the Scheme.

(b) Consists 111 members of management team, leading-level scientific research experts, core personnel for scientific research and technology and members of core management team of subordinate enterprises of the Company.

Registration and issuance of these shares was completed on 7 January 2020.

No participant has received 5% or more of the total number of the options available under the Scheme.

Except for the above, during the reporting year, no other option to take up unissued shares of the Company or its subsidiaries was granted; and there were no shares issued by virtue of the exercise of an option to take up unissued shares.

At the end of the reporting year, there were no unissued shares of the Company or its subsidiaries under options granted by the Company or its subsidiaries as at end of the reporting year.

STATEMENT BY DIRECTORS

6. Independent auditors

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

On behalf of the directors

.....
Li Liqun
Director

.....
Zhou Hong
Director

17 April 2020

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated 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 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and statement of changes in equity of the Company for the reporting year then ended, and notes to the financial statements, including 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 ("IFRS") 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 2019 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 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements, 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Key audit matters (Cont'd)

(a) Impairment assessment of trade receivables

Please refer to Notes 2C, 2D and 22 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 historical default rates.

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.

(b) Assessment of allowance for impairment of inventories

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

The Group is principally engaged in the manufacturing and sale of traditional Chinese and western 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 for each categories of inventory.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Key audit matters (Cont'd)

(b) Assessment of allowance for impairment of inventories (Cont'd)

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; and (d) assessing whether disclosures in respect of the impairment allowance of inventory is appropriate.

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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 scepticism 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.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Auditors' responsibilities for the audit of the financial statements (Cont'd)

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

17 April 2020

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

ShineWing Certified Public Accountants
Certified Public Accountants

9/F, Block A, Fuhua Mansion,
No. 8 Chaoyangmen Beidajie,
Dongcheng District,
Beijing 100027,
People's Republic of China

17 April 2020

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	4	6,993,882	6,358,622
Cost of sales		(4,112,388)	(3,794,042)
Gross profit		2,881,494	2,564,580
Interest income	5	14,896	11,115
Dividend income		2,361	1,488
Other income and gains	6	51,606	39,922
Marketing and distribution expenses		(1,829,060)	(1,699,293)
Research and development expenses		(133,361)	(100,926)
Administrative expenses		(363,325)	(291,100)
Finance costs	7	(7,281)	(13,899)
Other losses	6	(47,895)	(34,495)
Share of profits from equity-accounted associates		173,710	163,237
Profit before income tax		743,145	640,629
Income tax expense	9	(107,786)	(72,841)
Profit, net of tax		635,359	567,788
Other comprehensive income/(loss):			
Items that will not be reclassified to profit or loss:			
Fair value gain/(loss) on equity investment measured at FVTOCI, net of tax	26C	532	(9,653)
Share of other comprehensive income/(loss) from equity-accounted associates, net of tax	26A	3,722	(16,876)
Items that may be reclassified subsequently to profit or loss:			
Reclassification adjustments due to disposal of debt instruments at FVTOCI	26C	–	19,379
Total other comprehensive income/(loss), net of tax		4,254	(7,150)
Total comprehensive income for the year		639,613	560,638
Profit, net of tax attributable to:			
Owners of the Company		625,569	561,680
Non-controlling interests		9,790	6,108
		635,359	567,788
Total comprehensive income for the year attributable to:			
Owners of the Company		629,823	554,530
Non-controlling interests		9,790	6,108
		639,613	560,638
Earnings per share			
Earnings per share currency unit		RMB	RMB
Basic and diluted	10	0.81	0.73

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

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	Group		Company	
		2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	1,363,795	1,199,669	1,007,797	877,159
Investment properties	13	22,547	23,582	21,618	22,602
Right-of-use assets	14	3,603	–	–	–
Land use rights	15	157,997	163,296	130,638	135,124
Intangible assets	16	17,575	11,563	14,700	8,605
Investments in subsidiaries	17	–	–	473,528	630,578
Investments in associates	18	657,906	630,925	657,906	630,925
Other financial assets	19	249,003	142,086	142,712	142,086
Deferred tax assets	9	183,804	133,290	167,119	124,806
Other assets	20	52,197	20,858	22,254	22,881
Total non-current assets		2,708,427	2,325,269	2,638,272	2,594,766
Current assets					
Inventories	21	1,594,558	1,328,371	1,469,193	1,229,042
Trade and other receivables	22	1,808,588	1,728,508	1,640,338	1,606,278
Other financial assets	19	43,525	53,307	–	–
Other assets	20	208,639	202,766	254,950	191,798
Cash and cash equivalents	23	1,479,441	1,467,085	1,290,160	993,131
Total current assets		5,134,751	4,780,037	4,654,641	4,020,249
Total assets		7,843,178	7,105,306	7,292,913	6,615,015
EQUITY AND LIABILITIES					
Equity					
Share capital	24	768,873	768,873	768,873	768,873
Share premium		1,198,817	1,198,817	1,198,817	1,198,817
Retained earnings		2,881,174	2,426,722	2,798,064	2,344,847
Other reserves	26	539,310	532,579	589,525	582,794
Equity attributable to owners of the Company		5,388,174	4,926,991	5,355,279	4,895,331
Non-controlling interests		135,032	127,406	–	–
Total equity		5,523,206	5,054,397	5,355,279	4,895,331
Non-current liabilities					
Deferred tax liabilities	9	8,939	5,911	8,939	5,911
Trade payables	27	37,390	41,450	37,211	41,241
Other financial liabilities	28	30,000	–	–	–
Lease liabilities	14	2,710	–	–	–
Other liabilities	29	83,725	89,485	47,043	51,191
Total non-current liabilities		162,764	136,846	93,193	98,343
Current liabilities					
Income tax payable		59,366	41,185	49,638	39,146
Trade and other payables	27	1,732,580	1,385,479	1,437,421	1,109,652
Other financial liabilities	28	–	252,000	–	250,000
Lease liabilities	14	962	–	–	–
Other liabilities	29	364,300	235,399	357,382	222,543
Total current liabilities		2,157,208	1,914,063	1,844,441	1,621,341
Total liabilities		2,319,972	2,050,909	1,937,634	1,719,684
Total equity and liabilities		7,843,178	7,105,306	7,292,913	6,615,015

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

STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2019

Group	<----- Attributable to owners of the Company ----->						Non-Controlling Interests
	Total Equity RMB'000	Total 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 2019	5,054,397	4,926,991	768,873	1,198,817	2,426,722	532,579	127,406
Changes in equity							
Total comprehensive income for the year	639,613	629,823	-	-	625,569	4,254	9,790
Appropriation of statutory common reserve (Note 26B)	-	-	-	-	(1,965)	1,965	-
Dividends paid (Note 11)	(169,152)	(169,152)	-	-	(169,152)	-	-
Distribution to non-controlling interests (Note 11B)	(2,164)	-	-	-	-	-	(2,164)
Share-based payments (Note 25)	512	512	-	-	-	512	-
Closing balance at 31 December 2019	<u>5,523,206</u>	<u>5,388,174</u>	<u>768,873</u>	<u>1,198,817</u>	<u>2,881,174</u>	<u>539,310</u>	<u>135,032</u>
Previous year							
Opening balance at 1 January 2018	4,666,351	4,517,618	768,873	1,198,817	2,018,817	531,111	148,733
Changes in equity							
Total comprehensive income/ (loss) for the year	560,638	554,530	-	-	561,680	(7,150)	6,108
Dividends paid (Note 11)	(153,775)	(153,775)	-	-	(153,775)	-	-
Acquisition of non-controlling interest without a change in control (Note 17B)	(8,697)	(17)	-	-	-	(17)	(8,680)
Disposal of a subsidiary (Note 17C)	(13,236)	-	-	-	-	-	(13,236)
Distribution to non-controlling interests (Note 11B)	(5,519)	-	-	-	-	-	(5,519)
Equity share of changes in other net assets of associates (Note 18)	8,635	8,635	-	-	-	8,635	-
Closing balance at 31 December 2018	<u>5,054,397</u>	<u>4,926,991</u>	<u>768,873</u>	<u>1,198,817</u>	<u>2,426,722</u>	<u>532,579</u>	<u>127,406</u>

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

STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2019

<u>Company</u>	<u>Total Equity RMB'000</u>	<u>Share Capital RMB'000</u>	<u>Share Premium RMB'000</u>	<u>Retained Earnings RMB'000</u>	<u>Other Reserves RMB'000</u>
Current year					
Opening balance at 1 January 2019	4,895,331	768,873	1,198,817	2,344,847	582,794
Changes in equity					
Total comprehensive income for the year	628,588	-	-	624,334	4,254
Dividends paid (Note 11)	(169,152)	-	-	(169,152)	-
Appropriation of statutory common reserve (Note 26B)	-	-	-	(1,965)	1,965
Share-based payments (Note 25)	512	-	-	-	512
Closing balance at 31 December 2019	<u>5,355,279</u>	<u>768,873</u>	<u>1,198,817</u>	<u>2,798,064</u>	<u>589,525</u>
Previous year					
Opening balance at 1 January 2018	4,490,556	768,873	1,198,817	1,922,178	600,688
Changes in equity					
Total comprehensive income for the year	549,915	-	-	576,444	(26,529)
Dividends paid (Note 11)	(153,775)	-	-	(153,775)	-
Equity share of changes in other net assets of associates (Note 18)	8,635	-	-	-	8,635
Closing balance at 31 December 2018	<u>4,895,331</u>	<u>768,873</u>	<u>1,198,817</u>	<u>2,344,847</u>	<u>582,794</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
Profit before income tax	743,145	640,629
Adjustments for:		
Interest income	(14,896)	(11,115)
Interest expense	7,281	13,899
Dividend income	(2,361)	(1,488)
Gain on maturity and disposal of financial assets	(9,964)	(2,173)
Share of profits from equity-accounted associates	(173,710)	(163,237)
Gain on disposals of interests in a subsidiary, net	-	(306)
Depreciation and amortisation of property, plant and equipment, investment property, right-of-use assets, land use rights, intangible assets and other assets	101,238	81,340
Gain on disposal of property, plant and equipment, intangible assets and other non-current assets	(29,163)	(3,476)
Impairment losses on receivables and inventories	25,906	2,510
Share-based payments	512	-
Fair value losses/(gains) on financial assets at FVTPL	3,307	(3,307)
Operating cash flows before changes in working capital	651,295	553,276
Inventories	(292,565)	(239,999)
Trade and other receivables	(62,401)	(170,830)
Other assets	(40,302)	10,000
Trade and other payables	230,256	85,519
Cash restricted in use	11,981	5,045
Other liabilities	123,141	181,799
Net cash flows from operations	621,405	424,810
Income tax paid	(140,812)	(85,779)
Net cash flows from operating activities	480,593	339,031
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(205,615)	(175,809)
Proceeds from disposals of property, plant and equipment and intangible assets	38,346	1,530
Acquisition of financial assets	(71,552,594)	(38,655,165)
Proceeds from disposals of financial assets	71,454,541	39,066,926
Disposal of a subsidiary (net of cash disposed) (Note 17C)	-	(11,582)
Interest income received	23,988	31,198
Dividends income received from associates and equity investments at FVTOCI	155,440	144,666
Net cash flows (used in)/from investing activities	(85,894)	401,764

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

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
Cash flows from financing activities		
Advances received for issuance of Restricted Shares	28,296	–
Acquisition of non-controlling interests without a changes in control	–	(8,698)
Proceeds from new borrowings	130,000	372,000
Proceeds from other borrowings	–	12,379,238
Dividends paid to equity owners	(168,331)	(153,034)
Distribution to non-controlling interests	(2,164)	(5,446)
Interest expense paid	(5,022)	(11,715)
Repayments of borrowings	(352,000)	(382,000)
Repayment of lease liabilities	(1,141)	–
Repayment of other borrowings	–	(12,451,188)
Net cash flows used in financing activities	(370,362)	(260,843)
Net increase in cash and cash equivalents	24,337	479,952
Cash and cash equivalents, beginning balance	1,455,066	975,114
Cash and cash equivalents, ending balance (Note 23A)	1,479,403	1,455,066

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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 2019 comprise those of the Company, its subsidiaries (the “Group”) and the Group’s interests in associates. All financial information presented in Chinese Renminbi (“RMB”) have been rounded to the nearest thousand (“RMB’000”), unless when otherwise indicated.

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors.

The principal activities of the Company are the production and sale of traditional Chinese medicine, western medicine, healthcare products and investment holding.

The principal activities of the subsidiaries are disclosed in Note 17 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

2A. Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) and the related interpretations to IFRS (“INT FRS”) as issued by the International Accounting Standards Board and the IFRS Interpretations Committee as appropriate for for-profit oriented entities.

The statutory financial statements prepared by the Directors in accordance with the People’s Republic of China Accounting Regulations are audited by ShineWing Certified Public Accountants, whose audit report dated 17 April 2020 expressed an unmodified opinion on those financial statements.

The differences between the financial statements of the Group and of the Company prepared in accordance with IFRS and the People’s Republic of China Accounting Regulations are disclosed in Note 35.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2A. Basis of preparation (Cont'd)

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's and the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2D.

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 31 December 2019 and the results of all subsidiaries for the reporting year then ended. The Company and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the subsidiaries are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2A. Basis of preparation (Cont'd)

Segment reporting

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

2B. New or amended accounting standards and interpretations adopted

The Group and the Company adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB") that are mandatory for the current reporting year.

Any new or amended accounting standards or interpretations that are not yet mandatory have not been early adopted.

The following new accounting standards are most relevant to the Group and the Company:

IFRS 16 Leases

The Group and the Company have adopted IFRS 16 from 1 January 2019. The standard replaces IAS 17 *Leases* and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17.

However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2B. New or amended accounting standards and interpretations adopted (Cont'd)

IFRS 16 Leases (Cont'd)

IFRS 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 January 2019 was as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	7,140
Relief option for short-term leases and leases of low-value assets	(2,150)
Lease liability before discounting	4,990
Discounted using incremental borrowing rate	(393)
Lease liability recognised at 1 January 2019	4,597
Lease liabilities – current portion	913
Lease liabilities – non-current portion	3,684

2C. Significant accounting policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Revenue recognition

The financial reporting standard on revenue from contracts with customers establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer (which excludes estimates of variable consideration that are subject to constraints, such as right of return exists, trade discounts, volume rebates and changes to the transaction price arising from modifications), net of any related sales taxes and excluding any amounts collected on behalf of third parties. An asset (goods or services) is transferred when or as the customer obtains control of that asset. As a practical expedient the effects of any significant financing component is not adjusted if the payment for the good or service will be within one year.

Revenue from sale of goods is recognised at a point in time when the performance obligation is satisfied by transferring a promised good or service to the customer. Control of the goods is transferred to the customer, generally on delivery of the goods (in this respect, incoterms are considered).

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Revenue recognition (Cont'd)

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

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

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. Grants in recognition of specific expenses are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate. The grant related to assets is presented in the statement of financial position by recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset and in the proportions in which depreciation expense on those assets is recognised.

Employee benefits

The Group contributes to a pension scheme in the People's Republic of China, under which the Group pays fixed contributions into a defined contribution retirement scheme organised by the local municipal government for eligible employees, and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding reporting 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Share-based payments

The Company offers 2019 Restricted A-Share Incentive Scheme (the "Scheme") (equity-settled share-based compensation) to its directors, members of senior management, members of middle-level management and core personal that the Company considers should be motivated (excluding supervisors, non-executive directors and Independent Directors).

Under the terms of the plan, the employees are entitled to purchase the shares at grant price of RMB7.20, which is less than the market price of the entity's shares on the grant date, and the purchase price must be paid immediately upon acceptance of the offer. All shares purchased by the employees is not transferable during vesting period.

The cost of the Scheme with employees are measured at fair value on the grant date. The fair value is measured by reference to the market price of the shares on grant date and the impact of any non-market vesting conditions. This cost of the Scheme is charged to profit or loss over the vesting period of the Scheme, with the corresponding increase in equity. The value of the charge is adjusted in profit or loss over the remainder of the vesting period to reflect expected and actual quantities vesting, with the corresponding adjustment made in equity.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group and of the Company or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group and of the Company or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If the Scheme is cancelled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) are accounted for as an acceleration of vesting, therefore any amount unrecognised that would otherwise have been charged is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Foreign currency translation

The financial statements are presented in Chinese Renminbi ("RMB"), which is the functional and presentation currency of the Company and all its subsidiaries and associates.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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 tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- (i) When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- (ii) When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Income tax (Cont'd)

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that there will be sufficient taxable profits available for the asset to be utilised within the same tax jurisdiction.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's and the Company's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's and the Company's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Property, plant and equipment

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight-line method 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 are as follows:

	<u>Useful life</u>	<u>Residual value</u>
Buildings	7 – 35 years	4 – 10%
Plant and machinery	3 – 15 years	4 – 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.

The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the 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 costs 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.

Investment property

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

Depreciation is calculated on a straight-line basis over estimated useful lives ranging from 30 to 35 years.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Right-of-use assets

A right-of-use asset ("ROU asset") is recognised at the commencement date of a lease. The ROU asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

ROU assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. ROU assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a ROU asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Land use rights

The land use rights are for the land in the People's Republic of China where the factories occupied by the Group are situated. The carrying amounts 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Intangible assets (Cont'd)

Research and development (Cont'd)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Associates

Associates are entities over which the Group and the Company have significant influence but not control or joint control. Investments in associates are accounted for using the equity method. Under the equity method, the share of the profits or losses of the associate is recognised in profit or loss and the share of the movements in equity is recognised in other comprehensive income. Investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Group's and the Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. Dividends received or receivable from associates reduce the carrying amount of the investment.

When the Group's and the Company's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables, the consolidated entity does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group and the Company discontinue the use of the equity method upon the loss of significant influence over the associate and recognises any retained investment at its fair value. Any difference between the associate's carrying amount, fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Business combinations

There were no business combinations during the reporting year.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Inventories

Raw materials, work-in-progress and finished goods are stated at the lower of cost (weighted average method) and net realisable value. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

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.

Financial instruments

Recognition and derecognition of financial instruments

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires.

At initial recognition the financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification and measurement of financial assets

- (i) Financial asset classified as measured at amortised cost: A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL"), that is (a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Typically trade and other receivables, bank and cash balances are classified in this category.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Financial instruments (Cont'd)

Classification and measurement of financial assets (Cont'd)

- (ii) Financial asset that is a debt asset instrument classified as measured at fair value through other comprehensive income ("FVTOCI"): A debt asset instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL, that is (a): the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets are not reclassified subsequent to their initial recognition, except when, and only when, the reporting entity changes its business model for managing financial assets (expected to be rare and infrequent events). The previously recognised gains, losses, or interest cannot be restated. When these financial assets are derecognised, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.
- (iii) Financial asset that is an equity investment measured at FVTOCI: On initial recognition of an equity investment that is not held for trading, an irrevocably election may be made to present subsequent changes in fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis. Fair value changes are recognised in OCI but dividends are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. The gain or loss that is presented in OCI includes any related foreign exchange component arising on non-monetary investments (eg, equity instruments). On disposal, the cumulative fair value changes are not recycled to profit or loss but remain in reserves within equity. The weighted average or specific identification method is used when determining the cost basis of equities being disposed of.
- (iv) Financial asset classified as measured at FVTPL: All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, management may irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Classification and measurement of financial liabilities

Financial liabilities are classified as at FVTPL in either of the following circumstances:

- (i) The liabilities are managed, evaluated and reported internally on a fair value basis; or
- (ii) The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All other financial liabilities are carried at amortised cost using the effective interest method. Reclassification of any financial liability is not permitted.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, on demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value. For the consolidated statement of cash flows, the item includes cash and cash equivalents less cash subject to restriction and bank overdrafts payable on demand that form an integral part of cash management.

Contract liabilities

Contract liabilities represent the Group's and the Company's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the Group and the Company recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the Group and the Company has transferred the goods or services to the customer.

Provisions

Provisions are recognised when the Group and the Company have a present (legal or constructive) obligation as a result of a past event, it is probable the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

Fair value measurement (Cont'd)

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

New accounting standards and interpretations not yet mandatory or early adopted

A number of new standards, interpretations and amendments to standards were issued by the International Accounting Standards Board and the IFRS Interpretations Committee Singapore Accounting Standards Council. These new or amended standards and interpretations will only be effective for future reporting years and earlier application is permitted. However, the Group has not early adopted the new or amended standards and interpretations in preparing these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

2C. Significant accounting policies (Cont'd)

New accounting standards and interpretations not yet mandatory or early adopted (Cont'd)

The following new accounting standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements and the Company's statement of financial position.

<u>Standard name</u>	<u>Effective date for periods beginning on or after</u>
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Definition of a Business (Amendments to IFRS 3)	1 January 2020
IFRS 17 Insurance Contracts	1 January 2021
Sale or Contribution of Assets between and Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Not fixed yet

2D. 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.

There are current uncertainties in the economy related to the recent COVID-19 outbreak, which uncertainties may create questions about the impairment or recoverability of certain assets (including impairment allowances for inventories and doubtful receivables) and the completeness or valuation of certain liabilities reflected in the financial statements. An assessment is made for the reporting year whether there is any indication that the above mentioned assets and liabilities may be impacted adversely (which are described in the following paragraphs). If any such indication exists, an estimate is made of the fair value of the account balance. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year are different from assumptions and could require a material adjustment to the carrying amount of the balances affected.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

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

Allowance for trade receivable

The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates (over a period of certain months) over the expected life of the trade receivables and is adjusted for forward-looking estimates.

At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined accordingly. The carrying amounts might change materially within the next reporting year but these changes may not arise from assumptions or other sources of estimation uncertainty at the end of the reporting year. The carrying amounts of trade receivables are disclosed in the Note 22.

Net realisable value of inventories

A review is made on inventory for excess inventory, and declines in net realisable value below cost and an allowance is recorded against the inventory balance for any such declines. These reviews require management to consider future demand for the products. In any case the realisable value represents the best estimate of the recoverable amount and is based on the acceptable evidence available at the end of the reporting year and inherently involves estimates regarding the future expected realisable value. The usual considerations for determining the amount of allowance or write-down include ageing analysis, technical assessment and subsequent events. In general, such an evaluation process requires significant judgement and materially affects the carrying amount of inventories at the end of the reporting year. Possible changes in these estimates could result in revisions to the valuation of inventory. The carrying amounts of inventories are disclosed in the Note 21.

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 reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amount of the assets of the Group at the end of the reporting year affected by the assumption was RMB257 million (2018: RMB218 million).

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

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

Income tax

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.

3. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

The international financial reporting standard on related party disclosures requires the reporting entity to disclose: (a) transactions with its related parties; and (b) relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. A party is related to a party if the party controls, or is controlled by, or can significantly influence or is significantly influenced by the other party.

3A. Members of a group

The directors of the Company consider Tianjin Pharmaceutical Group Co., Ltd (“天津市医药集团有限公司”) and Tianjin Tsinlien Investment Holding Co., Ltd (“天津津联投资控股有限公司”) as the Company's immediate parent company and ultimate parent company respectively. Tianjin Pharmaceutical Group Co., Ltd and Tianjin Tsinlien Investment Holding Co., Ltd are incorporated in the People's Republic of China. The ultimate controlling party is Tianjin State-owned Assets Supervision and Administration Commission of the State Council.

Related companies in these financial statements include members of the ultimate parent company's group of companies. Associates also include those that are associates of the parent and/or related companies.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

3B. Related companies transactions

There are transactions and arrangements between the Group and its subsidiaries and associates and the effects of these on the basis determined between the parties are reflected in these financial statements. The related company balances and transfer of resources, services or obligations if any are unsecured, without fixed repayment terms and interest or charge 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.

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

	Group	
	2019 RMB'000	2018 RMB'000
Sale of goods to associates	1,200	1,341
Purchase of goods from associates	(76,988)	(74,673)
Rental income from an associate	881	872

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Associates				
Balance at beginning of the year	28,896	26,944	28,894	26,944
Amounts paid out and settlement of liabilities on behalf of associates	1,217	2,342	1,219	2,340
Amounts paid in and settlement on behalf of the Group and of the Company	(764)	(390)	(764)	(390)
Balance at end of the year	29,349	28,896	29,349	28,894

Presented in the statements of financial position as follows:

Other receivables (Note 22)	29,349	28,936	29,349	28,934
Other payables (Note 27)	-	(40)	-	(40)
	29,349	28,896	29,349	28,894

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

3C. Related parties other than related companies

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

There are transactions and arrangements between the Group and its related companies and the effects of these on the basis determined between the parties are reflected in these financial statements. The related company balances and transfer of resources, services or obligations if any are unsecured, without fixed repayment terms and interest or charge unless stated otherwise.

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

	Group	
	2019 RMB'000	2018 RMB'000
Sale of goods to related parties	133,732	147,449
Purchase of goods from related parties	(261,001)	(204,114)
Interest income from a related party	2,386	2,279
Interest expense payable to a related party	(1,460)	(2,217)
Rental income from a related party	262	-
Rental expenses to related parties	(4,482)	(849)

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Related parties				
Balance at beginning of the year	(1,063)	9,959	(398)	(13,035)
Amounts paid out and settlement of liabilities on behalf of related parties	3,999	12,820	3,337	12,637
Amounts paid in and settlement on behalf of the Group and of the Company	(3,476)	(23,842)	(3,476)	-
Balance at end of the year	(540)	(1,063)	(537)	(398)

Presented in the statements of financial position as follows:

Other receivables (Note 22)	74	74	74	74
Other payables (Note 27)	(614)	(1,137)	(611)	(472)
	(540)	(1,063)	(537)	(398)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

3D. Key management compensation

	Group	
	2019	2018
	RMB'000	RMB'000
Salaries and other short-term employee benefits	7,955	6,305

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

	Group	
	2019	2018
	RMB'000	RMB'000
Remuneration of directors of the Company	4,339	3,875

Further information about the remuneration of individual directors is provided in the report on corporate governance statement in the annual report. Key management personnel include the directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The above amounts for key management compensation are for all the directors and other key management personnel.

3E. Assets held in trust by related parties

Title to properties and land use rights

As at the end of the reporting year, the legal titles of certain properties and land use rights of the Group and of the Company are held by related parties (see Notes 12, 13 and 15). These properties and land use rights were transferred to the Group and to the Company under a restructuring exercise during the early days of its operations. Management considers the beneficial interests of these assets for which the titles have not been obtained rest with the Group and with the Company and there are no circumstances that affect the Group's and the Company's rights to such interests. Management has obtained confirmations from the related parties that the beneficial interests of these properties and land use rights belong to the Group and to the Company 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 15.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

3E. Assets held in trust by related parties (Cont'd)

Title to investments

As at the end of the reporting year, the legal titles of certain investments of the Group are held by a related party (see Note 19). These investments were transferred to the Group and to the Company under a restructuring exercise during the early days of its operations. Management considers the beneficial interests of these investments for which the titles have not been obtained rest with the Group and with the Company and there are no circumstances that affect the Group's and the Company's rights to such interests. Management has obtained confirmations from the related party that the beneficial interests of these investments belong to the Group and to the Company and does not foresee any difficulties in getting the titles when the need arises. The carrying amounts of the relevant investments are disclosed in Note 19.

4. REVENUE

4A. Revenue classified by type of good or service

	Group	
	2019 RMB'000	2018 RMB'000
Sale of goods	6,974,630	6,336,322
Rental and service income	17,552	20,077
Others	1,700	2,223
	6,993,882	6,358,622

4B. Revenue classified by timing of revenue recognition

	Group	
	2019 RMB'000	2018 RMB'000
Point in time	6,974,630	6,336,322
Over time	19,252	22,300
	6,993,882	6,358,622

All the contracts are less than 12 months. The customers are retailers and wholesalers. A small portion of the goods is exported.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

5. INTEREST INCOME

	Group	
	2019 RMB'000	2018 RMB'000
Interest income	14,896	11,115

6. OTHER INCOME AND GAINS AND (OTHER LOSSES)

	Group	
	2019 RMB'000	2018 RMB'000
Allowance for impairment on other receivables, net of reversal	122	19,087
Allowance for impairment on trade receivables, net of reversal/(charge)	352	(5,481)
Employment termination benefits	(2,888)	(9,713)
(Losses)/Gains on fair value changes of investments at FVTPL, net	(3,307)	3,307
Investment income on debts instruments at amortised cost	3,242	-
Foreign currency adjustment losses, net	(473)	(1,806)
Gain on disposals of interests in a subsidiary (Note 17C)	-	306
Gain on disposals of financial assets	6,723	2,173
Government grants and subsidies	10,302	11,573
Impairment losses on inventories	(26,378)	(16,116)
Gain on disposal and write-off of property, plant and equipment and intangible assets, net	29,163	3,476
Penalty	(6,547)	-
Others	(6,600)	(1,379)
	3,711	5,427
Presented in consolidated statement of profit or loss as:		
Other income and gains	51,606	39,922
Other losses	(47,895)	(34,495)
	3,711	5,427

7. FINANCE COSTS

	Group	
	2019 RMB'000	2018 RMB'000
Interest expense	4,893	11,382
Imputed interest on accrued retirement and termination benefits	2,388	2,517
	7,281	13,899

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

8. EMPLOYEE BENEFIT EXPENSE

	Group	
	2019	2018
	RMB'000	RMB'000
Salaries and bonuses	640,594	539,384
Contributions to defined contribution plans and other welfare	113,539	103,545
Post-employment benefits	95,902	81,623
Termination benefits	7,179	9,713
Share-based payments	512	–
	857,726	734,265

The employee benefit expense is charged as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
Cost of sales	255,442	225,749
Marketing and distribution expenses	338,191	322,951
Research and development expenses	50,286	33,426
Administrative expenses	213,808	183,939
	857,726	734,265

9. INCOME TAX

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

	Group	
	2019	2018
	RMB'000	RMB'000
<u>Current tax</u>		
Current tax expense	155,693	95,322
(Over)/Under adjustments in respect of prior years	(327)	1,311
	155,366	96,633
<u>Deferred tax</u>		
Deferred tax income	(47,580)	(23,792)
Total income tax expense	107,786	72,841

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

9. INCOME TAX (CONT'D)

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

The income tax expense varied from the amount determined by applying the PRC statutory corporate income tax rate of 25% (2018: 25%) to profit before income tax as a result of the following differences:

	Group	
	2019 RMB'000	2018 RMB'000
Profit before income tax	743,145	640,629
Less: Share of profits from equity-accounted associates	(173,710)	(163,237)
	569,435	477,392
Income tax expense at the above rate	142,359	119,348
Effect of concessionary tax rate at 15%	(32,646)	(22,371)
Other tax incentives	(12,292)	(8,525)
Not deductible items	29,174	5,874
Not taxable items	(26,530)	(28,436)
Unrecognised deferred tax assets	8,048	5,640
(Over)Under adjustments to tax in respect of prior years	(327)	1,311
	107,786	72,841

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% (2018: 15%) while most of its subsidiaries are subject to the statutory corporate income tax rate of 25% (2018: 25%).

Dividends payable to "S" shareholders are subject to withholding tax at 10% (2018: 10%) payable to tax authority in the People's Republic of China.

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

9B. Deferred tax recognised in profit or loss

	Group	
	2019 RMB'000	2018 RMB'000
Deferred income	622	(391)
Accruals and allowances	(65,979)	(421)
Contract liabilities	21,896	(22,980)
Government grant	2,934	-
Total deferred tax income recognised	(47,580)	(23,792)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

9. INCOME TAX (CONT'D)

9C. Deferred tax recognised in other comprehensive income

	Group	
	2019 RMB'000	2018 RMB'000
Financial assets at FVTOCI (Note 26C)	94	(1,704)
	94	(1,704)

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

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
<u>Deferred tax assets</u>				
Deferred income	3,332	3,954	3,332	3,954
Contract liabilities	42,579	22,980	42,579	22,980
Accruals and allowances	137,893	106,356	121,208	97,872
	183,804	133,290	167,119	124,806
<u>Deferred tax liabilities</u>				
Fair value changes on equity investment at FVTOCI	(6,005)	(5,911)	(6,005)	(5,911)
Government grant	(2,934)	–	(2,934)	–
	(8,939)	(5,911)	(8,939)	(5,911)

Deferred 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

9. INCOME TAX (CONT'D)

9E. Unrecognised deferred tax assets

	2019		2018	
	Gross amount RMB'000	Tax effect RMB'000	Gross amount RMB'000	Tax effect RMB'000
Group				
Deferred income	22,733	5,002	24,345	5,357
Tax loss carryforwards	134,264	28,844	108,445	20,062
Accruals and allowances	39,919	6,881	42,117	7,260
	196,916	40,727	174,907	32,679

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

The unutilised tax losses are expiring in the following years:

	Unutilised tax losses		Unrecognised deferred tax assets	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Group				
Expiring in 31 December 2019	–	4,289	–	793
Expiring in 31 December 2020	22,184	22,403	5,202	4,144
Expiring in 31 December 2021	32,723	32,723	6,066	6,054
Expiring in 31 December 2022	25,044	25,044	5,086	4,633
Expiring in 31 December 2023	23,987	23,986	5,424	4,438
Expiring in 31 December 2024	30,326	–	7,066	–
	134,264	108,445	28,844	20,062

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the Group's profit for the year attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the reporting year.

Diluted earnings per share is calculated by dividing the Group's profit for the year attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the reporting year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

	Group	
	2019 RMB'000	2018 RMB'000
Profit for the year attributable to owners of the Company	625,569	561,680
	Number of shares '000	Number of shares '000
Weighted average number of ordinary shares for basic earnings per share computation	768,873	768,873
Effects of dilution:		
Restricted shares granted conditionally under the 2019 Restricted A-Share Incentive (Note 25)	3,930	-
Weighted average number of ordinary shares for diluted earnings per share computation	772,803	768,873

11. DIVIDENDS ON EQUITY SHARE

11A. Dividend to owners of the Company

	Rate per share		2019 RMB'000	2018 RMB'000
	2019 RMB'000	2018 RMB'000		
Group and Company				
Dividend paid net of income tax	0.22	0.20	169,152	153,775

On 17 April 2020, the directors had proposed a final dividend of an aggregate amount of RMB230,662,000 (2018: RMB169,152,000) on the basis of RMB3.00 (2018: RMB2.20) for every 10 shares in the capital of the Company. This dividend is subject to approval of shareholders at the next annual general meeting and has not been included as a liability in these financial statements. The proposed dividend is payable in respect of all ordinary shares in issue at the end of the reporting year and including any new qualifying shares issued up to the date the dividend becomes payable.

11B. Dividends to non-controlling interest

Interim exempt (1-tier) dividends totalled RMB2,164,000 (2018: RMB5,519,000) were paid by certain subsidiaries to their non-controlling shareholders.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and Machinery RMB'000	Construction in Progress RMB'000	Total RMB'000
Group				
<u>Cost</u>				
At 1 January 2018	1,064,058	763,139	279,706	2,106,903
Additions	6,355	38,278	150,291	194,924
Disposals/written-off	(798)	(35,070)	-	(35,868)
Reclassifications	19,716	49,976	(69,692)	-
Transfer from investment properties (Note 14)	1,007	-	-	1,007
Transfer to intangible assets (Note 16)	-	-	(417)	(417)
Elimination on disposal of a subsidiary (Note 17C)	-	(581)	-	(581)
At 31 December 2018	1,090,338	815,742	359,888	2,265,968
Additions	1,537	28,067	226,220	255,824
Disposals/written-off	(7,402)	(21,373)	-	(28,775)
Reclassifications	258,360	124,672	(383,032)	-
At 31 December 2019	1,342,833	947,108	203,076	2,493,017
<u>Accumulated depreciation and impairment loss</u>				
At 1 January 2018	464,908	566,300	-	1,031,208
Depreciation for the year	32,384	36,428	-	68,812
Disposals/written-off	(697)	(33,001)	-	(33,698)
Transfer from investment properties (Note 14)	459	-	-	459
Elimination on disposal of a subsidiary (Note 17C)	-	(482)	-	(482)
At 31 December 2018	497,054	569,245	-	1,066,299
Depreciation for the year	40,561	47,978	-	88,539
Disposals/written-off	(5,204)	(20,412)	-	(25,616)
At 31 December 2019	532,411	596,811	-	1,129,222
<u>Carrying value</u>				
At 1 January 2018	599,150	196,839	279,706	1,075,695
At 31 December 2018	593,284	246,497	359,888	1,199,669
At 31 December 2019	810,422	350,297	203,076	1,363,795

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

	Buildings RMB'000	Plant and Machinery RMB'000	Construction in Progress RMB'000	Total RMB'000
Company				
<u>Cost</u>				
At 1 January 2018	930,189	624,545	147,941	1,702,675
Additions	6,197	35,077	77,853	119,127
Disposals/written-off	(787)	(28,234)	-	(29,021)
Reclassifications	508	41,064	(41,572)	-
At 31 December 2018	936,107	672,452	184,222	1,792,781
Additions	1,140	22,247	192,710	216,097
Disposals/written-off	(11,593)	(18,640)	(13,187)	(43,420)
Reclassifications	175,274	73,341	(248,615)	-
At 31 December 2019	1,100,928	749,400	115,130	1,965,458
<u>Accumulated depreciation and impairment loss</u>				
At 1 January 2018	406,228	485,463	-	891,691
Depreciation for the year	24,994	26,187	-	51,181
Disposals/written-off	(687)	(26,563)	-	(27,250)
At 31 December 2018	430,535	485,087	-	915,622
Depreciation for the year	30,689	34,413	-	65,102
Disposals/written-off	(5,204)	(17,859)	-	(23,063)
At 31 December 2019	456,020	501,641	-	957,661
<u>Carrying value</u>				
At 1 January 2018	523,961	139,082	147,941	810,984
At 31 December 2018	505,572	187,365	184,222	877,159
At 31 December 2019	644,908	247,759	115,130	1,007,797

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

Allocation of the depreciation expense:

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of sales	45,477	39,000	31,025	27,660
Distribution expenses	657	806	74	151
Research and development expenses	7,930	4,571	6,225	4,571
Administrative expenses	34,475	24,435	27,778	18,799
	88,539	68,812	65,102	51,181

Titles to certain buildings of the Group and the Company with carrying value of approximately RMB85 million and RMB41 million respectively (2018: RMB86 million and RMB44 million) as at the end of the reporting year were held in the name of certain related parties. See Note 3E "Assets held in trust by related parties".

13. INVESTMENT PROPERTIES

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Cost:</u>				
At beginning of the year	38,511	39,518	36,690	36,690
Transfer to property, plant and equipment (Note 12)	–	(1,007)	–	–
At end of the year	38,511	38,511	36,690	36,690
<u>Accumulated depreciation:</u>				
At beginning of the year	14,929	14,332	14,088	13,103
Depreciation for the year	1,035	1,056	984	985
Transfer to property, plant and equipment (Note 12)	–	(459)	–	–
At end of the year	15,964	14,929	15,072	14,088
<u>Carrying value:</u>				
At beginning of the year	23,582	25,186	22,602	23,587
At end of the year	22,547	23,582	21,618	22,602
<u>Fair value:</u>				
Fair value at end of the year	212,027	223,803	200,117	212,188
Rental and service income	8,996	9,352	7,556	7,616
Direct operating expenses	1,035	1,055	985	984

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

13. INVESTMENT PROPERTIES (CONT'D)

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 31 on operating lease income commitments.
- (b) There are no restrictions on the realisability of investment properties or the remittance of income and proceeds of disposal.
- (c) The fair value is estimated by the management based on the use of inputs other than quoted prices included within the observable for the assets or liability, either directly or indirectly. The valuation technique used is the comparison of market evidence of recent transaction prices for similar properties. The management had obtained the market information from the publicly available website based on recent transactions in the vicinity of the investment properties held by the Group and the Company. The fair value is regarded as Level 3 (2018: Level 3) for fair value measurement as the valuation includes inputs for the asset that are based on comparison with market evidence of recent transaction prices for similar properties. The observable inputs and range (weighted average) is RMB10,500 to RMB34,600 (2018: RMB10,500 to RMB34,600) per square metre.
- (d) Titles to certain investment properties of the Group and the Company with carrying value of approximately RMB6.8 million (2018: RMB7.1 million) as at the end of the reporting year were held in the name of certain related parties. See Note 3E "Assets held in trust by related parties".

14. RIGHT-OF-USE ASSETS AND LEASES LIABILITIES

The right-of-use assets and lease liabilities in the statements of financial position. The movements are as follows:

	Office building RMB'000	Lease liabilities RMB'000
Group		
<u>At cost</u>		
At 1 January 2019, as previously reported	-	-
Adoption of IFRS 16 (Note 2B)	4,597	4,597
Adjusted balances as at 1 January 2019	4,597	4,597
Accretion of interest	-	216
Repayments of lease liabilities	-	(1,141)
At 31 December 2019	4,597	3,672
<u>Accumulated depreciation</u>		
At 1 January 2019	-	-
Depreciation for the year	(994)	-
At 31 December 2019	(994)	-
<u>Carrying value</u>		
At 1 January 2019	4,597	4,597
At 31 December 2019	3,603	3,672

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

14. RIGHT-OF-USE ASSETS AND LEASES LIABILITIES (CONT'D)

Lease liabilities are presented in the statements of financial position as follows:

	2019 RMB'000
Lease liabilities, current	962
Lease liabilities, non-current	2,710
	<u>3,672</u>

The leases are for shops. The lease contracts are usually for fixed periods of 4 to 5 with no extension options. Lease terms contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

At the date of transition to the new standard on leases, management elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition (applied to leases previously classified as finance leases or operating leases). The lease liability does not include the short-term leases and leases of low-value underlying assets. Variable lease payments which do not depend on an index or a rate or based on a percentage of revenue are not included from the initial measurement of the lease liability and the right-of-use assets.

The new standard on leases has been applied using the modified retrospective transition approach. Therefore no comparative amounts for the year ended 31 December 2018 are presented.

On transition to the new standard on leases the weighted average incremental borrowing rate applied to lease liabilities recognised was 4.27% per annum.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

15. LAND USE RIGHTS

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Cost</u>				
At beginning and at end of the year	246,926	246,926	211,217	211,217
<u>Accumulated amortisation</u>				
At beginning of the year	83,630	78,906	76,093	71,612
Amortisation for the year	5,299	4,724	4,486	4,481
At the end of the year	88,929	83,630	80,579	76,093
<u>Carrying value</u>				
At beginning of the year	163,296	168,020	135,124	139,605
At end of the year	157,997	163,296	130,638	135,124

The amortisation expense is charged to administrative expenses.

- (a) The land use rights are for land in the People's Republic of China.
- (b) Titles to certain land use rights of the Group and the Company with carrying value of RMB20.5 million (2018: RMB21.2 million) as at the end of the reporting year were held in the name of certain related parties. See Note 3E "Assets held in trust by related parties".

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

16. INTANGIBLE ASSETS

	Production Technology RMB'000	Patents RMB'000	Trademarks RMB'000	Software RMB'000	Development Cost RMB'000	Total RMB'000
Group						
<u>At cost</u>						
At 1 January 2018	9,817	1,778	1,760	14,694	1,269	29,318
Additions	-	-	-	1,323	63	1,386
Transfer from construction in progress (Note 12)	-	-	-	417	-	417
Disposal	-	-	-	(150)	-	(150)
At 31 December 2018	9,817	1,778	1,760	16,284	1,332	30,971
Additions	-	-	-	8,114	180	8,294
At 31 December 2019	9,817	1,778	1,760	24,398	1,512	39,265
<u>Accumulated amortisation</u>						
At 1 January 2018	7,218	865	1,760	8,160	-	18,003
Amortisation for the year	290	170	-	1,095	-	1,555
Disposal	-	-	-	(150)	-	(150)
At 31 December 2018	7,508	1,035	1,760	9,105	-	19,408
Amortisation for the year	168	170	-	1,944	-	2,282
At 31 December 2019	7,676	1,205	1,760	11,049	-	21,690
<u>Carrying value</u>						
At 1 January 2018	2,599	913	-	6,634	1,269	11,315
At 31 December 2018	2,309	743	-	7,179	1,332	11,563
At 31 December 2019	2,141	573	-	13,349	1,512	17,575

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

16. INTANGIBLE ASSETS (CONT'D)

	Production Technology RMB'000	Patents RMB'000	Trademarks RMB'000	Software RMB'000	Total RMB'000
Company					
<u>At cost</u>					
At 1 January 2018	8,122	1,778	1,760	13,298	24,958
Additions	875	–	–	964	1,839
At 31 December 2018	8,997	1,778	1,760	14,262	26,797
Additions	–	–	–	8,115	8,115
At 31 December 2019	8,997	1,778	1,760	22,377	34,912
<u>Accumulated amortisation</u>					
At 1 January 2018	6,066	866	1,760	7,299	15,991
Amortisation for the year	1,097	170	–	934	2,201
At 31 December 2018	7,163	1,036	1,760	8,233	18,192
Amortisation for the year	100	170	–	1,750	2,020
At 31 December 2019	7,263	1,206	1,760	9,983	20,212
<u>Carrying value</u>					
At 1 January 2018	2,056	912	–	5,999	8,967
At 31 December 2018	1,834	742	–	6,029	8,605
At 31 December 2019	1,734	572	–	12,394	14,700

The amortisation expense is charged to administrative expenses.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2019 RMB'000	2018 RMB'000
Equity interests, at cost	497,711	637,711
Less: Allowance for impairment	(24,183)	(7,133)
Net carrying amount	473,528	630,578
<u>Movements in carrying value</u>		
At beginning of the year	630,578	437,080
Additions	–	208,798
Disposal	–	(15,300)
Impairment allowance charged to profit or loss	(17,050)	–
Reduction of capital	(140,000)	–
At end of the year	473,528	630,578
<u>Movements in allowance for impairment loss</u>		
At beginning of the year	(7,133)	(7,133)
Additions charged to profit or loss included in other losses	(17,050)	–
At end of the year	(24,183)	(7,133)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

17. INVESTMENTS IN SUBSIDIARIES (CONT'D)

17A. Subsidiaries held by the Group

The subsidiaries held by the Group are listed below:

Name of subsidiaries	Principal activities	Cost		Effective equity held by the Group	
		2019	2018	2019	2018
		RMB'000	RMB'000	%	%
Held by the Company					
Tianjin Da Ren Tang (Bozhou) Chinese Medicine Co., Ltd. (“天津达仁堂(亳州)中药饮片有限公司”) (Note 17B(a))	Manufacture and sale of Chinese medicine	180,014	180,014	100	100
Beijing Zhong Xin Yaogu Medical Co., Ltd. (“北京中新药谷医药有限公司”)	Wholesale and retail sale of medicine	11,000	11,000	100	100
Tianjin Zhong Xin Chuyun Trading Co., Ltd. (“天津中新楚运贸易有限公司”)	Logistics, stocks, services, equipment installation, simple processing of medicine	6,999	6,999	100	100
Tianjin Long Shun Rong Development Pharm Co., Ltd. (“天津隆顺榕发展制药有限公司”) (Note 17D(a))	Manufacture and sale of Chinese pharmaceutical products and biological products	45,000	45,000	100	100
Zhong Xin Bohai Rim Pharmaceutical Co., Ltd. (“天津中新药业集团环渤海药业有限公司”)	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. (“浙江中新创睿投资有限公司”) (Note 17E)	Investment holding	60,000	200,000	100	100
Tianjin Hebei Daren Hospital (“天津河北达仁医院”) (Note 17D(b))	Operation of hospital	17,050	17,050	100	100
Tianjin Chinese Medicinal Slices Co., Ltd. (“天津市中药饮片厂有限公司”)	Manufacture and sale of chinese pharmaceutical products and biological products	43,100	43,100	100	100

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

17. INVESTMENTS IN SUBSIDIARIES (CONT'D)

17A. Subsidiaries held by the Group (Cont'd)

Name of subsidiaries	Principal activities	Cost		Effective equity held by the Group	
		2019	2018	2019	2018
		RMB'000	RMB'000	%	%
Held by the Company (Cont'd)					
Tianjin Zhong Xin Xinxin Pharmaceutical (Cang Zhou) Co., Ltd. (“天津中新药业集团新新(沧州)制药有限公司”)	Manufacture and sale of chinese pharmaceutical products and biological products	50,000	50,000	100	100
Tianjin Zhong Xin International Trading Co., Ltd. (“天津中新药业国际贸易有限公司”)	Dormant	100	100	100	100
Tianjin Shin Poong Pharmaceutical Co., Ltd. (“天津新丰制药有限公司”)	Manufacture and sale of western pharmaceutical products	41,315	41,315	55	55
Bin Hai Zhong Xin Pharmaceutical Co., Ltd. (“天津中新药业滨海有限公司”)	Sale of Chinese pharmaceutical products and biological products	10,500	10,500	53.6	53.6
Tianjin Da Ren Tang Jingwanhong Pharmaceutical Co., Ltd. (“天津达仁堂京万红药业有限公司”)	Manufacture and sale of Chinese pharmaceutical products and biological products	13,072	13,072	52	52
Tianjin Zhong Xin Pharmaceutical Group Guowei Medical Co., Ltd. (“天津中新药业集团国卫医药有限公司”)	Wholesale and retail sale of medicine	8,950	8,950	51	51
Tianjin Zhong Xin Pharmaceutical Group Xuzhi Medical Science and Technology Co., Ltd. (“天津中新药业集团旭志医药科技有限公司”)	Sale of chinese pharmaceutical products and biological products	5,611	5,611	51	51
		497,711	637,711		

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

17. INVESTMENTS IN SUBSIDIARIES (CONT'D)

17A. Subsidiaries held by the Group (Cont'd)

Name of subsidiaries	Principal activities	Cost		Effective equity held by the Group	
		2019 RMB'000	2018 RMB'000	2019 %	2018 %
Held by Tianjin Chinese Medicinal Slices Co., Ltd.					
Anguo Xinlong Chinese Herbal Medicine Co., Ltd. ("安国新隆商贸有限公司")	Pharmaceutical consultancy	10,340	10,340	100	100
Held by Tianjin Da Ren Tang Jingwanhong Pharmaceutical Co., Ltd.					
Tianjin Jingwanhong Pharmacy Co., Ltd. ("天津京万红大药房有限公司")	Wholesale and retail sale of medicine, biochemical pharmaceutical products and daily use products	1,000	1,000	52	52
Tianjin Gushang Medicinal Liquor Trading Co., Ltd. ("天津沽上药酒贸易有限公司")	Wholesale and retail sale of medicine, biochemical pharmaceutical products.	500	500	52	52
Held by Tianjin Zhong Xin Pharmaceutical Group Xuzhi Medical Science and Technology Co., Ltd.					
Tianjin Zhong Xin Pharmaceutical Group Darentang Zhong Xing Pharmacy Co., Ltd. ("天津中新药业集团达仁堂中兴大药房有限公司")	Wholesale and retail sale of medicine, biochemical pharmaceutical products and daily use products	200	200	51	51
Tianjin Zhong Xin Pharmaceutical Group Darentang Zhong Hui Pharmacy Co., Ltd. ("天津中新药业集团达仁堂中惠大药房有限公司")	Wholesale and retail sale of medicine, biochemical pharmaceutical products and daily use products	200	200	51	51

All subsidiaries are registered in the People's Republic of China and audited by ShineWing Certified Public Accountants.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

17. INVESTMENTS IN SUBSIDIARIES (CONT'D)

17B. Acquisitions of subsidiaries in 2018

- (a) The Company acquired an additional interest of 29% in Tianjin Da Ren Tang (Bo Zhou) Chinese Medicine Co., Ltd in 2018 for RMB8.7 million in cash, in turn increased its equity interest held by the Company increased from 71% to 100% in 2018. Subsequent to the completion of acquisition, the Company injected additional RMB150 million as share capital of the subsidiary in 2018.

Changes in the ownership interest in a subsidiary that do not result in change in control are accounted as transactions with owners in their capacity as owners (as equity transactions). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amounts by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent. The proportionate share of the carrying amount of the net assets of Tianjin Da Ren Tang (Bo Zhou) Chinese Medicine Co., Ltd. has been transferred from non-controlling interest amounted to RMB8.68 million in 2018.

17C. Disposal of a subsidiary in 2018

Tianjin Xin Long Pharmaceutical Co., Ltd. was disposed in January 2018 to a third party. The following table is a summary of the carrying value of assets and liabilities at the date when the Company dispose the subsidiary and the cash effect:

	RMB'000
<u>Group</u>	
Property, plant and equipment	99
Trade and other receivables	99
Other assets, current	1,356
Cash and cash equivalents	25,664
Trade and other payables	(206)
Net assets derecognised	27,012
Less: Non-controlling interests	(13,236)
Net assets disposed of	13,776
Gain on disposals of interests in a subsidiary (Note 6)	306
Total proceeds received	14,082
Net cash outflow on disposal of a subsidiary	(11,582)

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

17. INVESTMENTS IN SUBSIDIARIES (CONT'D)

17D. Impairment of subsidiaries

- (a) Tianjin Long Shun Rong Development Pharm Co., Ltd. is continuing suffering losses over the years. As at the end of the reporting year, an impairment test was performed on the Company's carrying amount of investment in the subsidiary amounting to RMB37,867,000. An impairment loss of RMB7,133,000 has been recognised since 2016. No further impairment loss was made as the recoverable amount approximately the carrying amount of investment.

The value-in-use was measured by the management using discounted cash flow valuation technique (Level 3). The key assumptions used for value-in-use calculations, which are unobservable inputs, are as follows:

	2019	2018
<u>Unobservable inputs</u>		
Estimated discount rates using pre-tax rates that reflect current market assessments at the risks specific to the CGUs	11.37%	11.37%
Growth rates based on industry growth forecasts and not exceeding the average long-term growth rate for the relevant markets (average rate)	4% – 68% (20%)	4% – 32% (19%)
Cash flow forecasts derived from the most recent financial budgets and plans approved by management	10 years	10 years

- (b) Full impairment allowance was made to carrying value of the investment in Tianjin Hebei Daren Hospital as this subsidiary was in capital deficit position.

17E. Capital reduction in subsidiaries

During the reporting year, the Company reduced its investment in Zhejiang Zhong Xin Chuang Rui Investment Co., Ltd. from RMB200 million to RMB60 million by way of capital reduction due to excess in capital. The reduction do not result in change in control as Zhejiang Zhong Xin Chuang Rui Investment Co., Ltd. remain as wholly owned subsidiary of the Group.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

17. INVESTMENTS IN SUBSIDIARIES (CONT'D)

17F. Material subsidiaries with non-controlling interests

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

	Group	
	2019 RMB'000	2018 RMB'000
<u>Tianjin Da Ren Tang Jingwanhong Pharmaceutical Co., Ltd.</u>		
Profit for the year allocated to NCI of the subsidiary	13,747	7,397
Accumulated NCI of the subsidiary at the end of the reporting year	111,406	82,951
The summarised financial information of the subsidiary (not adjusted for the percentage ownership held by the Group and amounts before inter-company eliminations):		
Dividends paid to non-controlling interests	-	4,800
Current assets	208,154	263,203
Non-current assets	158,810	50,068
Current liabilities	(124,104)	(98,541)
Non-current liabilities	(10,765)	(11,275)
Revenue	375,414	350,676
Profit for the reporting year	28,640	28,285
Total comprehensive income	28,640	28,285
Operating cash flows, increase	13,958	48,443
Net cash flows, (decrease)/increase	(92,562)	139,113

18. INVESTMENTS IN ASSOCIATES

	Group and Company	
	2019 RMB'000	2018 RMB'000
Equity interests, at cost	402,373	402,373
Less: Allowance for impairment	(14,220)	(14,220)
Share of post-acquisition profits, net of dividends received	236,877	213,618
Share of other-equity items of associates	32,876	29,154
Net carrying value	657,906	630,925

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

18. INVESTMENTS IN ASSOCIATES (CONT'D)

	Group and Company	
	2019	2018
	RMB'000	RMB'000
<u>Movements in carrying value:</u>		
Balance at beginning of the year	630,925	619,108
Share of the profits for the year	173,710	163,237
Dividends received	(150,451)	(143,179)
Share of other comprehensive income/(loss), net	3,722	(16,876)
Share of capital contribution by other shareholders	-	8,635
Balance at end of the year	657,906	630,925

The associates held by the Group are listed below:

Name of associates	Principal activities	Effective equity held by the Group	
		2019	2018
		%	%
<u>Held by the Company</u>			
Tianjin Hong Ren Tang Pharmaceutical Co., Ltd. ("THP") ("天津宏仁堂药业有限公司") ^(a)	Manufacture and sale of pharmaceutical products	40	40
Sino-American Tianjin SmithKline & French Lab., Ltd. ("TSKF") ("中美天津史克制药有限公司") ^(b)	Manufacture and sale of western medicine and biochemical products	25	25
Tianjin Yiyao Printing Co., Ltd. ("天津宜药印务有限公司") ^(a)	Packing of medical and other products and printing of paper for packaging purposes	35	35
NewScen Coast Bio Pharmaceutical Co., Ltd. ("天津中新科炬生物制药有限公司") ^(d)	Manufacture and sale of biological medicine	26.3	26.3
Tianjin Bio-Chip Co., Ltd. ("天津生物芯片技术有限责任公司") ^(c)	Development and sale of biological products	26.4	26.4
Dujiangyan Zhong Xin Chinese Herbs Cultivation Co., Ltd. ("都江堰市中新中药材种植有限公司") ^(e)	Cultivation and processing of Chinese Herbs	30	30
Zhong Xin Pharmaceutical Tangshan Xinhua Co., Ltd. ("中新药业唐山新华有限公司") ^(e)	Wholesale and retail sale of medicine and biochemical pharmaceutical products	51	51
Chengdu Zhong Xin Pharmaceutical Co., Ltd. ("成都中新药业有限公司") ^(e)	Sale of Chinese pharmaceutical products and biological products	51	51

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

18. INVESTMENTS IN ASSOCIATES (CONT'D)

Name of associates	Principal activities	Effective equity held by the Group	
		2019 %	2018 %
Held by Chengdu Zhong Xin Pharmaceutical Co., Ltd.			
Chengdu Zhong Xin Chain Store Co., Ltd. (“成都中新药业连锁有限公司”) ^(e)	Wholesale and retail sale of medicine	51	51
Held by Tianjin Yiyao Printing Co., Ltd.			
Tianjin Yixuanlin Advertising Production Co., Ltd. (“天津市艺轩林广告制作有限公司”) ^(a)	Advertising and promotion services	35	35
Held by NewScen Coast Bio Pharmaceutical Co., Ltd.			
NewScen Coast Bio Pharmaceutical Sales Co., Ltd. (“天津中新科炬生物制品销售有限公司”) ^(d)	Wholesale and retail sale of biological medicine	25.8	25.8

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

(a) Audited by ShineWing Certified Public Accountants.

(b) Audited by Touche Tohmatsu Certified Public Accountants LLP.

(c) Audited by Tianjin Zhengzhe Certified Public Accountants.

(d) Audited by Zhong Xi Certified Public Accountants.

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

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

18A. Material associates

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

18. INVESTMENTS IN ASSOCIATES (CONT'D)

18A. Material associates (Cont'd)

	Group and Company	
	2019	2018
	RMB'000	RMB'000
<u>THP:</u>		
Current assets	267,016	144,895
Non-current assets	385,630	359,832
Current liabilities	(51,441)	(45,367)
Non-current liabilities	(122,080)	(2,400)
Net assets of the associate	479,125	456,960
Equity interest	40%	40%
Proportion of the Group's and Company's interest in the associate	191,650	182,784
Goodwill	92,336	92,336
Fair value adjustments pertaining to purchase price allocation	11,990	13,750
Carrying amount of the Group's and Company's interest in the associate	295,976	288,870
Dividends received from the associate	(20,000)	(36,000)
Revenue	314,764	283,998
Profit for the reporting year	70,072	70,060
Other comprehensive income	8,067	-
Total comprehensive income	78,139	24,399
<u>TSKF:</u>		
Current assets	1,506,767	1,303,779
Non-current assets	513,235	521,027
Current liabilities	(1,064,582)	(929,660)
Non-current liabilities	(315)	-
Net assets of the associate	955,105	895,146
Proportion of the Group's and Company's interest in the associate	25%	25%
Carrying amount of the Group's and Company's interest in the associate	238,776	223,787
Dividends received from the associate	(129,131)	(105,330)
Revenue	2,509,893	2,341,524
Profit for the reporting year	569,628	509,669
Total comprehensive income	569,628	509,669

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

18. INVESTMENTS IN ASSOCIATES (CONT'D)

18B. Aggregate for all non-material associates

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

	Group and Company	
	2019 RMB'000	2018 RMB'000
Profit for the reporting year	17,424	24,565
Other comprehensive income	12,302	9,625
Total comprehensive income	17,424	34,190
Net assets of the associates	399,474	387,448

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

19. OTHER FINANCIAL ASSETS

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Investments in equity shares at FVTOCI (Note 19A)	121,406	120,780	121,406	120,780
Investments at FVTPL (Note 19B)	43,525	53,307	–	–
Investments in unquoted equity shares at cost through OCI (Note 19C)	21,306	21,306	21,306	21,306
Investments in debt assets instruments at amortised cost (Note 19D)	106,291	–	–	–
	292,528	195,393	142,712	142,086
Presented in the statements of financial position as:				
Other financial assets, non-current	249,003	142,086	142,712	142,086
Other financial assets, current	43,525	53,307	–	–
	292,528	195,393	142,712	142,086

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

19. OTHER FINANCIAL ASSETS (CONT'D)

19A. Investments in equity shares at FVTOCI

	Group and Company	
	2019	2018
	RMB'000	RMB'000
Quoted equity shares (Note 19A1)	38,481	39,420
Unquoted equity shares (Note 19A2)	82,925	81,360
	121,406	120,780

19A1. QUOTED EQUITY SHARES

	Group and Company	
	2019	2018
	RMB'000	RMB'000
<u>Movements during the year</u>		
Fair value at beginning of the year	39,420	52,915
Decrease in fair value through other comprehensive income (Note 26C)	(939)	(13,495)
Fair value at end of the year	38,481	39,420

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

	Level	Group and Company	
		2019	2018
		RMB'000	RMB'000
Property development	1	2,850	3,088
Energy	1	6,807	8,190
Transportation and shipping	1	12,160	11,399
Pharmaceutical	1	3,182	2,878
Financial services	1	13,482	13,865
Total		38,481	39,420

Fair values of quoted equity shares in corporations are derived based on quoted prices in active markets of the Shenzhen Stock Exchange and Shanghai Stock Exchange in the People's Republic of China.

The Group has not obtained titles to certain investments with fair value of approximately RMB23 million as at the end of the reporting year. The titles of these investments are held in trust by related parties. See Note 3E "Assets held in trust by related parties".

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

19. OTHER FINANCIAL ASSETS (CONT'D)

19A2. Unquoted equity shares

	Group and Company	
	2019	2018
	RMB'000	RMB'000
Unquoted equity shares at FVTOCI (Level 3)	82,925	81,360
<u>Movements during the year:</u>		
Balance at beginning of the year	81,360	79,222
Increase in fair value through other comprehensive income (Note 26C)	1,565	2,138
Fair value at end of the year	82,925	81,360

For fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation techniques and information about the significant unobservable inputs used in the fair value measurement are as follows:

Unquoted equity shares:	Valuation technique	Unobservable input	Range
Finance service Industry	Net asset value	Not applicable	Not applicable

The management has determined that the reported net asset value represents fair value at the end of the reporting year as the investee company only provide service to related parties.

19A3. Sensitivity analysis for price risk of equity shares at FVTOCI

The 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	
	2019	2018
	RMB'000	RMB'000
A hypothetical 10% increase in the market index of quoted equity shares would have an effect on the fair value of	3,848	3,942
A hypothetical 10% increase in the net asset value to unquoted equity interest would have an effect on fair value of	8,293	8,136

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

19. OTHER FINANCIAL ASSETS (CONT'D)

19A3. Sensitivity analysis for price risk of equity shares at FVTOCI (Cont'd)

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

The quoted equity shares and unquoted equity interest in corporations are denominated in the Company's functional currency which is RMB.

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

19B. Investments at FVTPL

	Group	
	2019 RMB'000	2018 RMB'000
Unquoted bonds in corporations (Level 3)	43,525	53,307
<u>Movements during the year</u>		
Fair value at beginning of the year	53,307	507,479
Additions	-	50,000
(Decrease)/Increase in fair value included through profit or loss under other income and gains (Note 6)	(3,307)	3,307
Disposal	(6,475)	(507,479)
Fair value at end of the year	43,525	53,307

The unquoted bonds are issued by corporations in the energy industry. These bonds bear fixed interest rate at 8.3% per annum and mature in 2020.

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

19. OTHER FINANCIAL ASSETS (CONT'D)

19B. Investments at FVTPL (Cont'd)

The unquoted bonds in corporations are not rated by reputable agencies.

	Group	
	2019 RMB'000	2018 RMB'000
A hypothetical 10% increase in fair value of unquoted bond in corporations would have an effect on pre-tax profit of	<u>4,353</u>	<u>5,331</u>

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

The unquoted bonds in corporations are denominated in the Company's functional currency which is RMB.

19C. Investments in unquoted equity shares at cost through OCI

	Group and Company	
	2019 RMB'000	2018 RMB'000
Unquoted equity interest	<u>21,306</u>	<u>21,306</u>
<u>Movements during the year:</u>		
Balance at beginning and end of the year	<u>21,306</u>	<u>21,306</u>

Unquoted equity shares represent equity interests in companies in the real estate, financial services industry, wholesale and retail sale of medicine industries, registered and operating in the People's Republic of China.

The financial reporting standard on financial instruments require that all investments in unquoted equity interest and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. When information about the performance and operations of the investee becomes available after the date of initial recognition and that relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the unquoted equity interest have to be measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

19. OTHER FINANCIAL ASSETS (CONT'D)

19C. Investments in unquoted equity shares at cost through OCI (Cont'd)

There are no indicators that cost might not be representative of fair value such as:

- (a) a significant change in the performance of the investee compared with budgets, plans or milestones.
- (b) changes in expectation that the investee's technical product milestones will be achieved.
- (c) a significant change in the market for the investee's equity or its products or potential products.
- (d) a significant change in the global economy or the economic environment in which the investee operates.
- (e) a significant change in the performance of comparable entities, or in the valuations implied by the overall market.
- (f) internal matters of the investee such as fraud, commercial disputes, litigation, changes in management or strategy.
- (g) evidence from external transactions in the investee's equity, either by the investee (such as a fresh issue of equity), or by transfers of equity instruments between third parties.

Management has not identified a market for these unquoted equity instruments and it has not made a decision on how and when it intends to dispose of them in the foreseeable future.

Management has determined that the cost of investment in these unquoted equity interest approximate fair value due to the basis state above.

19D. Investments in debt assets instruments at amortised cost

	Group	
	2019	2018
	RMB'000	RMB'000
<u>Movements during the year, at amortised cost</u>		
Balance at beginning of the year	-	-
Additions	105,000	-
Accretion in amortised cost	1,291	-
Balance at end of the year	106,291	-

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

19. OTHER FINANCIAL ASSETS (CONT'D)

19D. Investments in debt assets instruments at amortised cost (Cont'd)

A summary of investments in debt assets instruments as at the end of reporting year is as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Deposits held by financial institutions with fixed interest rate of 4.18% per annum and maturing on 2 April 2022	65,000	-
Deposits held by a financial institution with fixed interest rate of 4.18% per annum and maturing on 29 March 2022	40,000	-
	105,000	-

The debt assets instruments at amortised cost are subject to the expected credit loss model under the standard on financial instruments. The debt investments are considered to have low credit risk as they are held by reputable financial institutions and no loss allowance is recognised as at end of the reporting year.

20. OTHER ASSETS

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Prepayments	260,836	223,624	277,204	214,679
Presented in the statements of financial position as:				
Other assets, non-current	52,197	20,858	22,254	22,881
Other assets, current	208,639	202,766	254,950	191,798
	260,836	223,624	277,204	214,679

21. INVENTORIES

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Raw materials	480,583	464,332	449,828	446,363
Work-in-progress	179,120	141,421	168,665	133,774
Finished goods	934,855	722,618	850,700	648,905
	1,594,558	1,328,371	1,469,193	1,229,042

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

21. INVENTORIES (CONT'D)

Inventories are stated after allowance as follows:

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	36,717	24,882	32,094	21,880
Charge to profit or loss included under other losses (Note 6)	26,378	16,116	25,861	14,304
Used	(6,344)	(4,281)	(5,171)	(4,090)
Balance at end of the year	56,751	36,717	52,784	32,094
Changes in inventories of finished goods and work-in-progress (increase)	(249,935)	(156,384)	(236,686)	(162,415)
Raw materials, consumables and goods for resale recognised as expenses	3,592,389	3,317,909	3,226,206	2,976,681

There are no inventories pledged as security for liabilities.

22. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
<u>Trade receivables</u>				
Bills receivable	424,126	386,554	389,093	359,123
Outside parties	1,492,840	1,432,513	1,189,038	1,137,262
Less: Allowance for impairment	(132,890)	(133,605)	(125,237)	(126,580)
Subsidiaries (Note 3)	-	-	140,710	162,845
Less: Allowance for impairment	-	-	-	-
Associates (Note 3)	5,961	6,109	5,961	6,109
Less: Allowance for impairment	(5,868)	(5,868)	(5,868)	(5,868)
Related parties (Note 3)	19,510	26,892	16,075	21,172
Less: Allowance for impairment	(6,533)	(6,170)	(5,860)	(6,039)
	1,797,146	1,706,425	1,603,912	1,548,024
<u>Other receivables</u>				
Outside parties	31,771	42,947	19,746	29,675
Less: Allowance for impairment	(22,657)	(23,546)	(12,022)	(15,905)
Subsidiaries (Note 3)	-	-	30,192	41,804
Less: Allowance for impairment	-	-	(3,818)	-
Associates (Note 3)	29,349	28,936	29,349	28,934
Less: Allowance for impairment	(27,021)	(26,254)	(27,021)	(26,254)
Related parties (Note 3)	74	74	74	74
Less: Allowance for impairment	(74)	(74)	(74)	(74)
	11,442	22,083	36,426	58,254
	1,808,588	1,728,508	1,640,338	1,606,278

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

22. TRADE AND OTHER RECEIVABLES (CONT'D)

Movements in above allowances:

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
<u>Trade receivables – outside parties</u>				
Balance at beginning of the year	133,605	154,215	126,580	149,760
Charge (reversed) for trade receivables to profit or loss included in other losses/(other income and gains)	(715)	4,624	(1,343)	1,808
Used	–	(25,234)	–	(24,988)
Balance at end of the year	132,890	133,605	125,237	126,580
<u>Trade receivables – subsidiaries</u>				
Balance at beginning of the year	–	–	–	19
Used	–	–	–	(19)
Balance at end of the year	–	–	–	–
<u>Trade receivables – associates</u>				
Balance at beginning of the year	5,868	5,011	5,868	5,011
Charge for trade receivables to profit or loss included in other losses	–	857	–	857
Balance at end of the year	5,868	5,868	5,868	5,868
<u>Trade receivables – related parties</u>				
Balance at beginning of the year	6,170	8,833	6,039	8,467
Charge (reversed) for trade receivables to profit or loss included in other losses/(other income and gains)	363	–	(179)	–
Used	–	(2,663)	–	(2,428)
Balance at end of the year	6,533	6,170	5,860	6,039
<u>Other receivables – outside parties</u>				
Balance at beginning of the year	23,546	23,643	15,905	15,995
Charge (reversed) for other receivables to profit or loss included in other losses/(other income and gains)	(889)	(63)	68	(90)
Used	–	(34)	(3,951)	–
Balance at end of the year	22,657	23,546	12,022	15,905
<u>Other receivables – associates</u>				
Balance at beginning of the year	26,254	23,529	26,254	23,529
Charge for other receivables to profit or loss included in other losses	767	2,725	767	2,725
Balance at end of the year	27,021	26,254	27,021	26,254
<u>Other receivables – related parties</u>				
Balance at beginning of the year	74	21,823	74	74
Reversal for other receivables to profit or loss included in other income and gains	–	(21,749)	–	–
Balance at end of the year	74	74	74	74

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

22. TRADE AND OTHER RECEIVABLES (CONT'D)

The trade receivables are subject to the expected credit loss model under the financial reporting standard on financial instruments. The methodology applied for impairment loss is the simplified approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates (over a period of 60 months) over the expected life of the trade receivables and is adjusted for forward-looking estimates.

At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined as follows:

	Group			Company		
	Gross amount RMB'000	ELR %	Loss allowance RMB'000	Gross amount RMB'000	ELR %	Loss allowance RMB'000
2019						
Within 1 year	1,354,268	0.03	400	1,198,830	0.03	298
1 – 2 years	16,366	20.00	3,273	14,263	20.00	2,853
2 – 3 years	12,116	50.00	6,058	9,754	50.00	4,877
Over 3 years	135,561	100.00	135,560	128,937	100.00	128,937
Total	<u>1,518,311</u>		<u>145,291</u>	<u>1,351,784</u>		<u>136,965</u>
2018						
Within 1 year	1,280,748	0.03	384	1,156,863	0.03	298
1 – 2 years	45,383	20.00	9,077	39,230	20.00	7,846
2 – 3 years	6,401	50.00	3,200	1,905	50.00	953
Over 3 years	132,982	100.00	132,982	129,390	100.00	129,390
Total	<u>1,465,514</u>		<u>145,643</u>	<u>1,327,388</u>		<u>138,487</u>

ELR = Expected Loss Rate

Trade receivables are written-off when there are indications that there is no reasonable expectation of recovery or the failure of a debtor to make contractual payments over an extended period.

There is no concentration of credit risk with respect to trade receivables, as there are a large number of customers.

Bill receivables which graded as low risk individually are considered to have low credit risk as these bill receivables were written by reputable financial institutions in PRC. At end of the reporting year, the Company has transferred or discounted bill receivables that have not yet expired approximate RMB485 million (2018: RMB469 million). These bill receivables were derecognised.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

22. TRADE AND OTHER RECEIVABLES (CONT'D)

The other receivables at amortised cost shown above are subject to the expected credit loss model under the financial reporting standard on financial instruments. The other receivables at amortised cost and which can be graded as low risk individually are considered to have low credit risk. At the end of the first reporting period a loss allowance is recognised at an amount equal to 12-month expected credit losses because there has not been a significant increase in credit risk since initial recognition.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
<u>Not restricted in use</u>				
Cash and bank balances	1,479,403	1,455,066	1,290,160	993,131
<u>Restricted in use</u>				
Bank deposits	38	12,019	-	-
Total	1,479,441	1,467,085	1,290,160	993,131

Restricted in use bank balances include security deposits to cover bills payable (Note 28) which has a maturity date within 3 months from the end of the reporting year.

The rate of interest for the cash on short-term bank deposits ranged from 0.35% – 2.03% (2018: 0.35% – 2.03%) per annum.

The bank balances of the Group and the Company include placement of deposit with a related party amounted to RMB589 million (2018: 567 million) and RMB489 million (2018: RMB475 million) respectively.

23A. Cash and cash equivalents in consolidated statement of cash flows

	Group	
	2019 RMB'000	2018 RMB'000
Amount as shown above	1,479,441	1,467,085
Restricted bank deposits	(38)	(12,019)
Cash and cash equivalents in consolidated statement of cash flows	1,479,403	1,455,066

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

23. CASH AND CASH EQUIVALENTS (CONT'D)

23B. Reconciliation of liabilities arising from financing activities

	Non-cash changes			
	At beginning of the year	Cash flows	Interest expenses	Others
	RMB'000	RMB'000	RMB'000	RMB'000
2019				
Advances from employees under Restricted A-Shares Incentive Scheme	-	28,296	-	-
Lease liabilities	-	(1,141)	216	4,597 ^(a)
Other financial liabilities	252,000	(222,000)	-	-
Interest payables	362	(5,022)	4,694	-
Dividend payables	12,748	(170,495)	-	171,316 ^(b)
Total liabilities from financing activities	265,110	(370,362)	4,910	173,542

	Non-cash changes			
	At beginning of the year	Cash flows	Interest expenses	Others
	RMB'000	RMB'000	RMB'000	RMB'000
2018				
Other financial liabilities	496,357	(81,950)	-	(162,407) ^(c)
Interest payables	695	(11,715)	11,382	-
Dividend payables	11,934	(158,480)	-	159,294 ^(b)
Total liabilities from financing activities	508,986	(252,145)	11,382	(3,113)

(a) Recognition of lease liabilities under IFRS 16 (Note 2B).

(b) Final dividend proposed and approved for the year.

(c) Transfer of debts to trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

24. SHARE CAPITAL

	Group and Company	
	Number of ordinary share issued	Share capital RMB'000
<u>"A" shares</u>		
Balance at 1 January 2018, 31 December 2018 and 31 December 2019	568,873,076	568,873
<u>"S" shares</u>		
Balance at 1 January 2018, 31 December 2018 and 31 December 2019	200,000,000	200,000
Total	768,873,076	768,873

	Group and Company	
	Number of ordinary share issued	Share Capital RMB'000
<u>"A" shares</u>		
Circulating shares	565,868,076	565,868
Restricted circulating shares	3,005,000	3,005
Subtotal	568,873,076	568,873
<u>"S" shares</u>		
Circulating shares	200,000,000	200,000
Total	768,873,076	768,873

All "S" and "A" shares rank pari passu in all aspects. The par value of these shares is RMB1. These shares are fully paid and carry one vote each and have no right to fixed income. The holders of these shares are entitled to receive dividends when declared by the Company. All shares carry one vote per share without restrictions at meetings of the Company.

In 1997, the Company issued 100 million "S" shares for listing on the Singapore Exchange. On 9 May 2002, the Company issued 40 million "A" shares for listing on the Shanghai Stock Exchange.

On 10 July 2015, the Company carried out a share placement exercise and issued 29,564,356 "A" shares with par value of RMB1 for cash at RMB28.28 each on the Shanghai Stock Exchange.

The restricted circulating shares originated from legal person shares which were issued following the conversion of the Company from a state-owned enterprise to a Company limited by shares. Legal person shares are restricted in trading. Pursuant to a share reform exercise approved by the Company's shareholders on 10 July 2006, Tianjin Pharmaceutical Holdings Co., Ltd, the former controlling shareholder of the Company and the other holders of non-circulating legal person shares collectively offered 2.8 shares for every 10 circulating "A" shares to the circulating "A" shareholders registered as at 19 July 2006. On 9 December 2019, the Company granted additional 3,930,000 restricted circulating shares to employees under 2019 Restricted A-Share Incentive Scheme as disclosed in Note 25. These shares were registered on 7 January 2020.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

24. SHARE CAPITAL (CONT'D)

The non-circulating shares cannot be sold in the market for a restricted period. During the reporting year, the Shanghai Stock Exchange approved the Company's application to convert 100,000 restricted circulating shares into circulating shares. The remaining 3,005,000 shares will remain restricted until applications are made with the Shanghai Stock Exchange to convert the restricted circulating shares to circulating shares.

Capital management

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

There are no significant external borrowings. The debt-to-adjusted capital ratio does not provide a meaningful indicator of the risk of borrowings.

25. SHARE-BASED PAYMENTS

2019 Restricted A-Share Incentive Scheme (the "Scheme")

The Scheme was approved at Extraordinary General Meeting on 2 December 2019 and initial granted to employees on 9 December 2019 at grant price of RMB7.20 per share. The Scheme is administered by the board of directors. The Remuneration Committee shall be responsible for formulating and revising the Scheme while the Supervisory Committee and the Independent Directors shall act as the supervisory body for the Scheme.

The Scheme is established to improve the long-term incentive mechanism of the Company, attract and retain outstanding talents, fully motivate the key personnel of the Company, and align the interests of the shareholders and the Company with individual interests of the members of management team of the Company so that all parties will make joint efforts for the long-term development of the Company.

The Scheme is centred on the accomplishment of specific pre-determined performance objectives and service conditions, which is the prerequisite for the contingent award of fully paid Shares. The reward structure allows the Company to target specific performance objectives and incentivise the Participants to put in their best efforts to achieve these targets.

The Participants under the Scheme include directors, members of senior management, members of middle-level management and core personal that the Board considers should be motivated. The Participants under the Scheme do not include supervisors, non-executive directors and Independent Directors, and also do not include controlling shareholders of the Company and their associates, directors and employees of the Company's associated companies, and directors and employees of the Company's parent company and its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

25. SHARE-BASED PAYMENTS (CONT'D)

2019 Restricted A-Share Incentive Scheme (the "Scheme") (Cont'd)

There shall be no restriction on the eligibility of any Participant to participate in any other share option or share incentive schemes implemented or to be implemented by the Company or another company within the Group.

The aggregate number of Restricted Shares proposed to be granted to the Participants under the Scheme shall be no more than 5,012,500 shares, among which, the number of Initial Granted Restricted Shares shall be 4,010,000, representing approximately 80% of the total number of Restricted Shares proposed to be granted under the Scheme, while the balance number of Restricted Shares proposed to be reserved shall be 1,002,500, representing approximately 20% of the total number of Restricted Shares proposed to be granted under the Scheme.

The number of Restricted Shares to be granted to any one Participant under the Scheme shall not exceed 1% of the total issued share capital of the Company prior to the submission of the Scheme for consideration at a general meeting. The total number of Restricted Shares to be granted under the Scheme, when added to the number of shares issued and/or issuable in respect of all shares, options or awards granted under any other share incentive scheme of the Company for the time being in force (if any) shall not exceed 10% of the total issued share capital of the Company from time to time.

The final number of Restricted Shares awarded will depend on the achievement of pre-determined target set for each release arrangement set out below:

Release arrangement	Release Period	Proportion of Restricted Shares to be released as a percentage of the total number of Restricted Shares to be granted under the Scheme
First Release Period	Commencing on the first trading day after expiry of the 24-month lock-up period from the date of completion of the registration of the Restricted Shares, and ending on the last trading day of the 36-month period from the date of completion of the registration of the Restricted Shares	33%
Second Release Period	Commencing on the first trading day after expiry of the 36-month lock-up period from the date of completion of the registration of the Restricted Shares, and ending on the last trading day of the 48-month period from the date of completion of the registration of the Restricted Shares	33%
Third Release Period	Commencing on the first trading day after expiry of the 48-month lock-up period from the date of completion of the registration of the Restricted Shares, and ending on the last trading day of the 60-month period from the date of completion of the registration of the Restricted Shares	34%

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

25. SHARE-BASED PAYMENTS (CONT'D)

2019 Restricted A-Share Incentive Scheme (the "Scheme") (Cont'd)

Restricted Shares granted to the Participants under the Scheme shall not be transferred or used as security or for repayment of debts during the relevant Lock-up Periods and shall be repurchased and cancelled by the Company if the release condition is not met.

Activities under the Scheme

The details of the Restricted Shares granted under the Scheme since its commencement up to 31 December 2019 are as follows:

Participants	Restricted Shares granted during the year/Aggregate Restricted Shares granted since commencement of the Scheme	Restricted Shares vested and released during the year/ Aggregate Restricted Shares vested and released since commencement of the Scheme	Aggregate Restricted Shares outstanding as at 31 December 2019
Li Liqun	70,000	–	70,000
Yu Hong ^(a)	70,000	–	70,000
Wang Mai	70,000	–	70,000
Zhou Hong	70,000	–	70,000
Other participants ^(b)	3,650,000	–	3,650,000
	3,930,000	–	3,930,000

(a) 70,000 Restricted A-shares to be repurchased and cancelled by the Company in accordance with the relevant provisions of the Scheme.

(b) Consists 111 members of management team, leading-level scientific research experts, core personnel for scientific research and technology and members of core management team of subordinate enterprises of the Company.

Registration and issuance of these shares was completed on 7 January 2020.

No participant has received 5% or more of the total number of the options available under the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

25. SHARE-BASED PAYMENTS (CONT'D)

Accounting for the Scheme

Under the Scheme, directors and employees receive remuneration in the form of shares of the Company as consideration for services rendered. Restricted shares are granted conditionally and the final number of restricted shares awarded will depend on the achievement of pre-determined targets set out above.

The cost of the Scheme with employees are measured at fair value on the grant date. The fair value is measured by reference to the market price of the shares on grant date and the impact of any non-market vesting conditions. This cost of the Scheme is charged to profit or loss over the vesting period of the Scheme, with the corresponding increase in equity. The value of the charge is adjusted in profit or loss over the remainder of the vesting period to reflect expected and actual quantities vesting, with the corresponding adjustment made in equity.

	Group and Company	
	2019	2018
	RMB'000	RMB'000
Share-based compensation reserve		
Balance at beginning of the year	-	-
Expense recognised in administrative expenses	512	-
Balance at end of the year	512	-

26. OTHER RESERVES

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Capital reserve (Note 26A)	60,833	57,111	138,264	134,542
Statutory common reserve (Note 26B)	436,330	434,365	436,330	434,365
Fair value reserve (Note 26C)	34,031	33,499	34,031	33,499
Merger reserve (Note 26D)	7,604	7,604	(19,612)	(19,612)
Share-based compensation reserve (Note 25)	512	-	512	-
	539,310	532,579	589,525	582,794

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

26. OTHER RESERVES (CONT'D)

26A. Capital reserve

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	57,111	65,369	134,542	142,783
Equity share of changes in other reserves of associates	3,722	(16,876)	3,722	(16,876)
Acquisition from non-controlling interest without a change in control	-	(17)	-	-
Share of capital contribution by other shareholders	-	8,635	-	8,635
Balance at end of the year	60,833	57,111	138,264	134,542

Capital reserve comprises mainly reserve arising from the share of associates' other comprehensive income and the acquisition or disposal of equity interest in subsidiaries without a change in control.

26B. Statutory common reserve

	Group and Company	
	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	434,365	434,365
Appropriation from retained earnings	1,965	-
Balance at end of the year	436,330	434,365

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. As at end of the reporting year, the Group's and the Company's statutory common reserve have reached the limit of 50% on the registered capital and no further transfer was made during the reporting year.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

26. OTHER RESERVES (CONT'D)

26B. Statutory common reserve (Cont'd)

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

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

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

26C. Fair value reserve

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	33,499	23,773	33,499	43,152
Fair value loss on equity investment measured at FVTOCI	626	(11,357)	626	(11,357)
Deferred tax thereon	(94)	1,704	(94)	1,704
	532	(9,653)	532	(9,653)
Reclassification adjustments due to disposal of debt instruments at FVTOCI	-	19,379	-	-
Balance at end of the year	34,031	33,499	34,031	33,499

26D. Merger reserve

	RMB'000		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Balance at beginning of the year and end of the year	7,604	7,604	(19,612)	(19,612)

The merger reserve arises from the effects of business combination between entities under common control.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

27. TRADE AND OTHER PAYABLES

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Trade payables</u>				
Bills payable	5,749	12,382	4,989	–
Outside parties	641,373	572,537	475,503	454,603
Accrued retirement benefits	607	719	462	719
Accrued termination benefits	48,547	54,363	48,331	54,080
Accrued operating expenses	131,783	465,859	108,990	438,373
Subsidiaries (Note 3)	–	–	10,803	14,174
Associates (Note 3)	7,560	7,022	5,780	6,352
Related parties (Note 3)	11,971	8,675	7,907	5,965
	847,590	1,121,557	662,765	974,266
<u>Other payables:</u>				
Outside parties	855,292	235,487	752,093	111,481
Other taxes payables	52,905	55,960	41,407	42,359
Dividend payable	13,569	12,748	13,569	12,748
Subsidiaries (Note 3)	–	–	4,187	9,527
Associates (Note 3)	–	40	–	40
Related parties (Note 3)	614	1,137	611	472
	922,380	305,372	811,867	176,627
	1,769,970	1,426,929	1,474,632	1,150,893
Presented in the statements of financial position as:				
Non-current	37,390	41,450	37,211	41,241
Current	1,732,580	1,385,479	1,437,421	1,109,652
	1,769,970	1,426,929	1,474,632	1,150,893

The bills payable are secured by pledges of bank deposits of the Group (Notes 23).

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

Included in other payables are funds amounted RMB28.3 millions (2018: Nil) received from participants under Restricted A-Shares Incentive Scheme as disclosed in Note 25.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

28. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Bank loans A (unsecured)	-	200,000	-	200,000
Other loans A (unsecured)	-	52,000	-	50,000
Other loans B (secured)	30,000	-	-	-
	30,000	252,000	-	250,000
Presented in the statements of financial position as:				
Non-current	30,000	-	-	-
Current	-	252,000	-	250,000
	30,000	252,000	-	250,000

These loans bore interest rates per annum as follows:

	Group		Company	
	2019	2018	2019	2018
Fixed rate				
Bank loans A (unsecured)	-	4%	-	4%
Other loans A (unsecured)	-	5%	-	5%
Other loans B (secured)	4%	-	-	-

Other loans A

Other loans were due to a related party. The loan has fully settled during the year.

Other loans B

In 2019, other loans B from a related party of RMB30 million were secured by pledges of legal mortgages over a subsidiary's land use rights of RMB26 million (see Note 15). The loan is due on August 2022.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

29. OTHER LIABILITIES

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Contract liabilities (Note 29A)	364,300	235,399	357,382	222,543
Deferred income	44,944	50,704	22,211	26,359
Advance payments received	34,832	34,832	24,832	24,832
Others	3,949	3,949	–	–
	448,025	324,884	404,425	273,734
Presented in the statements of financial position as:				
Non-current	83,725	89,485	47,043	51,191
Current	364,300	235,399	357,382	222,543
	448,025	324,884	404,425	273,734

Deferred income represents grants from government and other third parties.

29A. Contract liabilities

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Contract liabilities on expected refunds to customers	364,300	235,399	357,382	222,543

The movement in the contract liabilities are as follows:

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	235,399	181,573	222,543	169,477
Refunds	(153,962)	(99,376)	(149,024)	(100,136)
Changes in transaction price	283,863	153,202	283,863	153,202
Balance at end of the year	364,300	235,399	357,382	222,543

Contract liabilities amounting to RMB7 million (2018: RMB7 million) of the Group and the Company were advances from related parties, so that immediate delivery of medical products can be made in event of any emergency needs.

Contract liabilities related primarily to advances from and volume rebate to customers.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

29. OTHER LIABILITIES (CONT'D)

29A. Contract liabilities (Cont'd)

Transaction price allocated to the remaining performance obligations:

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Expected to be recognised within 1 year	364,300	235,399	357,382	222,543

30. CAPITAL COMMITMENTS

Estimated amounts committed at the end of the reporting year for future capital expenditure but not recognised in the financial statements are as follows:

	Group	
	2019 RMB'000	2018 RMB'000
Contractual obligations to purchase and construct	257,673	11,155

31. 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	
	2019 RMB'000	2018 RMB'000
Not later than one year	7,362	8,555
Later than one year and not later than three years	12,872	11,991
Later than three years	8,762	7,778

Operating lease income commitments are for the investment properties.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

32. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

32A. Categories of financial assets and liabilities

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Financial assets:</u>				
Financial assets at amortised cost	3,288,029	3,195,593	2,930,498	2,599,409
Financial assets at fair value through profit or loss (FVTPL)	43,525	53,307	-	-
Financial assets that is an equity investment at fair value through other comprehensive income (FVTOCI)	249,003	142,086	142,712	142,086
	<u>3,580,557</u>	<u>3,390,986</u>	<u>3,073,210</u>	<u>2,741,495</u>
<u>Financial liabilities:</u>				
Financial liabilities at amortised cost	1,803,642	1,678,929	1,474,632	1,400,893

Further quantitative disclosures are included throughout these financial statements.

32B. 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

32C. 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.

32D. 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. These arise principally from cash balances with banks, cash equivalents, receivables and other financial assets. The maximum exposure to credit risk is the total of the fair value of the financial assets 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. For expected credit losses (ECL) on financial assets, a simplified approach is permitted by the financial reporting standards on financial instruments for financial assets that do not have a significant financing component, such as trade receivables. On initial recognition, a day-1 loss is recorded equal to the 12-month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For credit risk on trade receivables an ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limits are made. Renewals and reviews of credits limits are subject to the same review process.

Note 23 discloses the maturity of the cash and cash equivalents balances. Cash and cash equivalents are also subject to the impairment requirements of the standard on financial instruments. There was no identified impairment loss.

32E. 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
<u>2019</u>				
Gross borrowings commitments	–	32,000	–	32,000
Lease liabilities	1,078	2,829	–	3,907
Trade and other payables	1,732,580	37,390	–	1,769,970
	<u>1,733,658</u>	<u>72,219</u>	<u>–</u>	<u>1,805,877</u>
<u>2018</u>				
Gross borrowings commitments	257,362	–	–	257,362
Trade and other payables	1,385,479	41,310	140	1,426,929
	<u>1,642,841</u>	<u>41,310</u>	<u>140</u>	<u>1,684,291</u>

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

32E. Liquidity risk – financial liabilities maturity analysis (Cont'd)

<u>Company</u>	<u>Less than 1 year RMB'000</u>	<u>2 – 5 years RMB'000</u>	<u>Total RMB'000</u>
<u>2019</u>			
Trade and other payables	1,437,421	37,211	1,474,632
	<u>1,437,421</u>	<u>37,211</u>	<u>1,474,632</u>
<u>2018</u>			
Gross borrowings commitments	256,956	–	256,956
Trade and other payables	1,109,652	41,241	1,150,893
	<u>1,366,608</u>	<u>41,241</u>	<u>1,407,849</u>

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 (2018: 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.

32F. 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.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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

32F. Interest rate risk (Cont'd)

The following table analyses the breakdown of the significant financial instruments by type of interest rate:

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
<u>Financial assets:</u>				
Floating rate	<u>1,479,441</u>	<u>1,467,085</u>	<u>1,290,160</u>	<u>993,131</u>
<u>Financial liabilities:</u>				
Fixed rate	<u>30,000</u>	<u>252,000</u>	<u>30,000</u>	<u>250,000</u>

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

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

32G. 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.

32H. 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 19.

33. ITEMS IN PROFIT OR LOSS

The following charges have been included in administrative expenses:

	Group	
	2019 RMB'000	2018 RMB'000
Audit fees to the independent auditors of the Company	<u>2,900</u>	3,150
Audit fees to other independent auditors	<u>143</u>	136
Other fees to the independent auditors of the Company	<u>860</u>	1,075
Other fees to other independent auditors	<u>102</u>	128
	<u>4,005</u>	<u>4,489</u>

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

34. 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 segregated 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 RMB'000	Cost of sales RMB'000	Gross profit RMB'000
2019			
Chinese Medicine	4,845,374	(2,339,683)	2,505,691
Western Medicine	1,696,785	(1,417,236)	279,549
Others	451,723	(355,469)	96,254
Total	6,993,882	(4,112,388)	2,881,494
2018			
Chinese Medicine	4,199,609	(2,036,387)	2,163,222
Western Medicine	1,774,235	(1,438,309)	335,926
Others	384,778	(319,346)	65,432
Total	6,358,622	(3,794,042)	2,564,580

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

35. 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 are as follows:

	As reported in the statutory financial statements prepared under People's Republic of China Accounting Regulations RMB'000	Reconciliation RMB'000	As reported in the financial statements prepared under IFRS RMB'000
<u>Group</u>			
<u>2019</u>			
Share capital	772,803	(3,930) ^(a)	768,873
Treasury shares	(28,296)	28,296 ^(a)	–
Share premium	1,348,737	(149,920) ^{(a)(b)}	1,198,817
Retained earnings	2,772,426	108,748 ^(b)	2,881,174
Other Reserve	522,504	16,806 ^{(a)(b)}	539,310
<u>2018</u>			
Share premium	1,323,859	(125,042) ^(b)	1,198,817
Retained earnings	2,317,974	108,748 ^(b)	2,426,722
Other Reserve	516,285	16,294 ^(b)	532,579
<u>Company</u>			
<u>2019</u>			
Share capital	772,803	(3,930) ^(a)	768,873
Treasury shares	(28,296)	28,296 ^(a)	–
Share premium	1,321,204	(122,387) ^{(a)(b)}	1,198,817
Retained earnings	2,767,064	31,000 ^(b)	2,798,064
Other Reserve	522,504	67,021 ^{(a)(b)}	589,525
<u>2018</u>			
Share premium	1,296,326	(95,509) ^(b)	1,198,817
Retained earnings	2,313,847	31,000 ^(b)	2,344,847
Other Reserve	516,285	66,509 ^(b)	582,794

(a) Difference in accounting treatments for 2019 Restricted A-Share Incentive Scheme prepared in accordance with IFRS and the People's Republic of China Accounting Regulations, whereas the People's Republic of China Accounting Regulations required the Company to recognise treasury shares on its obligation on share buyback; and

(b) Reclassification of share premium in accordance with IFRS.

There is no difference in respect of total comprehensive income and net assets of the Group and of the Company at end of the reporting year.

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 2019 ("FY2019") at the meeting room of Zhongxin Mansion, No. 17 Baidi Road, Nankai District, Tianjin, the People's Republic of China 300193 on 5 June 2020 at 1:30 p.m.. Concurrently, a video conferencing for holders of "S" shares will be held at Pinnacle Suite, Wangz Business Centre, 7 Temasek Blvd, #44-01, The Penthouse Suntec Tower 1, Singapore 038987.

The agenda for the meeting shall be as follows:

1. To consider and approve the Chairman's Report for FY2019. (Resolution 1)
2. To consider and approve the Board of Directors' Report for FY2019. (Resolution 2)
3. To consider and approve the Supervisory Committee's Report for FY2019. (Resolution 3)
4. To consider and approve the Financial Report and Audit Report for FY2019 audited by ShineWing Certified Public Accountants LLP and RSM Chio Lim LLP and reviewed by the Audit Committee of the Company. (Resolution 4)
5. To consider and approve the scheme of profit distribution policy of the Company for FY2019. (Resolution 5)
6. To consider and approve the remuneration of S\$60,000 for independent director Mr. Timothy Chen Teck Leng for FY2019. (Resolution 6)
7. To consider and approve the remuneration of S\$36,700 for independent director Mr. Wong Gang for FY2019 (specifically, for the period from May 2019 to December 2019). (Resolution 7)
8. To consider and approve the remuneration of S\$22,900 for independent director Mr. Toe Teow Heng for FY2019 (specifically, for the period from January 2019 to May 2019). (Resolution 8)
9. To consider and approve the remuneration of RMB60,000 for independent director Mr. Qiang Zhiyuan for FY2019. (Resolution 9)
10. To consider and approve the aggregate remuneration for directors of the Company for FY2019. (Resolution 10)
11. To consider and approve the aggregate remuneration for members of the Supervisory Committee for FY2019. (Resolution 11)
12. To consider and approve the appointment of Mr. Liew Yoke Pheng Joseph as independent director of the Company. (Resolution 12)
13. To consider and approve the appointment of Ms. Li Yan as director of the Company be approved. (Resolution 13)

NOTICE OF ANNUAL GENERAL MEETING

14. To consider and approve the renewal of the shareholders' mandate for the interested person transactions. (Resolution 14)
 - (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.
15. To consider and approve the proposed financial services agreement to be entered into between the Company and Tianjin Pharmaceutical Group Finance Co., Ltd. as an interested person transaction and all transactions arising therefrom. (Resolution 15)
16. To consider and approve the proposed "Scheme on Return of Investment to Shareholders from 2020 to 2022". (Resolution 16)
17. To consider and approve the proposed line of credit granted to the Company up to an aggregate limit of RMB6,250,000,000. (Resolution 17)
18. To consider and approve the proposed re-appointment of ShineWing Certified Public Accountants LLP as PRC auditors of the Company for FY2020, re-appointment of RSM Chio Lim LLP as international auditors of the Company for FY2020, and to authorise the Board to determine their remuneration. (Resolution 18)

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

NOTICE OF ANNUAL GENERAL MEETING

Notes:

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

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

2. To be effective, the instrument appointing a proxy or proxies must be lodged at the Company's "S" Shares Registrar and Singapore Transfer Office, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 (in the case of a holder of "S" shares) no later than 1:30 p.m. on 3 June 2020.
3. A holder of "S" Shares who is planning to attend the Annual General Meeting must register with his or her identity card and share certificates, no later than 1:30 p.m. on 3 June 2020.

The Company is closely monitoring the 2019 Novel Coronavirus ("Covid-19") situation, including any precautionary measures which may be required or recommended by government agencies to minimise the risk of the spread of the virus. In light of the evolving situation, it may be necessary to change the arrangements for this year's Annual General Meeting. The Company reserves the right to take such measures as appropriate in order to minimise any risk to the shareholders and others attending the Annual General Meeting. In the event such measures are adopted, the Company will make such announcements as appropriate.

4. Personal Data Privacy: By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.
5. Pursuant to the Company's Articles of Association, a holder of tradable domestic shares with limiting conditions for sale shall notify the Company in writing not less than 20 days prior to the Annual General Meeting of his or her intention to attend the Annual General Meeting. A holder of "S" share shall be registered in the shareholder name list or in the Depository Register 48 hours before the appointed time for holding the Annual General Meeting.
6. 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 12 May 2020.
7. A holder of "S" Shares must be registered in the shareholder name list or in the Depository Register pursuant to his/her identity card and share certificates no later than 1:30 p.m. on 3 June 2020.
8. The Annual General Meeting is expected to last for half a day and all accommodation and other expenses incurred by a shareholder or his/her proxy in connection with his/her attendance at the Annual General Meeting shall be borne by that Shareholder.

NOTICE OF ANNUAL GENERAL MEETING

MEASURES TO MINIMISE RISKS OF COMMUNITY SPREAD OF COVID-19

In view of the evolving Covid-19 situation, the Company reserves the right to take appropriate precautionary measures at the Annual General Meeting, including any precautionary measures that may be required or recommended by government agencies and/or the SGX-ST (where applicable), in order to minimise the risk of community spread of Covid-19. Such measures may include the following:

- (1) All persons attending the Annual General Meeting of the Company will be required to undergo a temperature check and sign a health declaration form to provide the travel history on whether during the last 14 days he/she have been travelling to any country outside Singapore, prior the date of the Annual General Meeting of the Company. The health declaration form will be also be used for the purpose of contact tracing, if required.
- (2) Any person who has recent travel history or has been in contact with a suspected or confirmed COVID-19 patient, irrespective of nationality, during the said 14 days period will not be permitted to attend the Annual General Meeting of the Company.
- (3) Any person who has fever or exhibits flu-like symptoms will not be permitted to attend the Annual General Meeting of the Company.
- (4) There will be no food served at the Annual General Meeting of the Company.
- (5) Any shareholders who are feeling unwell on the date of the Annual General Meeting of the Company are advised not to attend the AGM of the Company, and any person who becomes unwell during the Annual General Meeting should leave immediately to seek appropriate medical attention.

Shareholders and other attendees are also advised to arrive at the venue of the Annual General Meeting of the Company early given that the above-mentioned measures may cause delay in the registration process.

In view of the COVID-19 situation, we wish to advise shareholders that it is not essential for you to attend the AGM of the Company in person. Shareholders should refrain from attending the AGM of the Company under the present circumstances as long as the DORSCON level remains at Orange, or higher.

To vote on any or all of the resolutions at the Annual General Meeting of the Company, you are encouraged to send in your votes in advance by proxy. You may appoint the Chairman of the AGM of the Company as your proxy. The proxy form is attached to the Notice of AGM.

As the COVID-19 situation continues to evolve, the Company will closely monitor the situation and reserves the right to take further measures as appropriate up to the day of the Annual General Meeting of the Company, according to the guidelines issued by MOH in order to minimise any risk to shareholders and others attending the Annual General Meeting of the Company. The Company seeks the understanding and cooperation of all shareholders to minimise the risk of community spread of the COVID-19.

NOTICE OF ANNUAL GENERAL MEETING

The Company, the Group, their officers and employees shall have no liability whatsoever to shareholders, their proxies, corporate representatives or any other party arising out of or in connection with any of them being infected or suspected of being infected with COVID-19 or suffering any losses arising out of or in connection with attendance at the Annual General Meeting of the Company and/or the Company taking precautionary measures at the Company's discretion in response to the COVID-19 pandemic.

By order of the Board of Directors
Jiao Yan
Company Secretary

PROXY FORM

IMPORTANT

1. This AGM (as defined below) will be held by electronic means pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. The Notice of AGM and this proxy form will also be sent to members by electronic means via publication on the Company's website at <http://www.zhongxinp.com/> and the SGXNet.
2. Alternative arrangements relating to attendance at the AGM via electronic means (including arrangements by which the meeting can be electronically accessed via "live" audio-and-video webcast or "live" audio-only stream), submission of questions to the Chairman of the AGM in advance of the AGM, addressing of substantial and relevant questions at AGM and voting by appointing the Chairman of the AGM as proxy at the AGM, are set out in the Notice of AGM and the accompanying Company's announcement dated 21 May 2020. This announcement may be accessed at the Company's website at <http://www.zhongxinp.com/> and the SGXNet.
3. **Due to the current Covid-19 restriction orders in Singapore, a member will not be able to attend the AGM in person. A member will also not be able to vote online on the resolutions to be tabled for approval at the AGM. A member (whether individual or corporate) must appoint the Chairman of the AGM as his/her/its proxy to attend, speak and vote on his/her/its behalf at the AGM if such member wishes to exercise his/her/its voting rights at the AGM. The Chairman of the AGM, as proxy, need not be a member of the Company.**
4. An investor who holds shares under the Central Provident Fund Investment Scheme ("CPF Investor") and/or the Supplementary Retirement Scheme ("SRS Investor") (as may be applicable) and wishes to appoint the Chairman of the AGM as proxy should inform their respective CPF Agent Banks and/or SRS Operators to submit their votes at least 7 working days before the AGM.
5. This Proxy Form is not valid for use by CPF and SRS Investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
6. **Personal Data Privacy:** By submitting this proxy form, a member of the Company accepts and agrees to the personal data terms set out in the Notice of AGM dated 17 April 2020.
7. Please read the notes overleaf which contain instructions on, inter alia, the appointment of the Chairman of the AGM as a member's proxy to attend, speak and vote on his/her/its behalf at the AGM.

PROXY FORM

TIANJIN ZHONGXIN PHARMACEUTICAL GROUP CORPORATION LTD

(Incorporated in the People's Republic of China)

ANNUAL GENERAL MEETING PROXY FORM

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

I/We, _____

of _____

being a member/members of Tianjin Zhongxin Pharmaceutical Group Corporation Ltd (the "**Company**"), hereby appoint the **Chairman of the Annual General Meeting** ("**AGM**" or "**Annual General Meeting**") as my/our* proxy to vote for me/us* on my/our* behalf at the AGM of the Company to be held by way of electronic means on 5 June 2020 at 1.30 p.m. and at any adjournment thereof. I/We* direct the Chairman of the AGM to vote for, against or to abstain from voting the Resolutions proposed at the AGM as indicated hereunder.

(If you wish to exercise all your votes "For", "Against" or to "Abstain" from voting, please indicate with a tick (✓) within the box provided. Alternatively, please indicate the number of votes as appropriate. If you mark the abstain box for a particular resolution, you are directing your proxy not to vote on that resolution on a poll and your votes will not be counted in computing the required majority on a poll. In the absence of specific directions, the appointment of the Chairman of the AGM as your proxy will be treated as invalid.)

No.	Resolutions relating to:	For	Against	Abstain
1.	To consider and approve the Chairman's Report for FY2019.			
2.	To consider and approve the Board of Directors' Report for FY2019.			
3.	To consider and approve the Supervisory Committee's Report for FY2019.			
4.	To consider and approve the Financial Report and Audit Report for FY2019 audited by ShineWing Certified Public Accountants LLP and RSM Chio Lim LLP and reviewed by the Audit Committee of the Company.			
5.	To consider and approve the scheme of profit distribution policy of the Company for FY2019.			
6.	To consider and approve the remuneration of S\$60,000 for independent director Mr. Timothy Chen Teck Leng for FY2019.			
7.	To consider and approve the remuneration of S\$36,700 for independent director Mr. Wong Gang for FY2019 (specifically, for the period from May 2019 to December 2019).			
8.	To consider and approve the remuneration of S\$22,900 for independent director Mr. Toe Teow Heng for FY2019 (specifically, for the period from January 2019 to May 2019).			

PROXY FORM

No.	Resolutions relating to:	For	Against	Abstain
9.	To consider and approve the remuneration of RMB60,000 for independent director Mr. Qiang Zhiyuan for FY2019.			
10.	To consider and approve the aggregate remuneration for directors of the Company for FY2019.			
11.	To consider and approve the aggregate remuneration for members of the Supervisory Committee for FY2019.			
12.	To consider and approve the appointment of Mr. Liew Yoke Pheng Joseph as independent director of the Company.			
13.	To consider and approve the appointment of Ms. Li Yan as director of the Company be approved.			
14.	<p>To consider and approve the renewal of the shareholders' mandate for the interested person transactions.</p> <p>(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</p> <p>(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.</p>			
15.	To consider and approve the proposed financial services agreement to be entered into between the Company and Tianjin Pharmaceutical Group Finance Co., Ltd. as an interested person transaction and all transactions arising therefrom.			
16.	To consider and approve the proposed "Scheme on Return of Investment to Shareholders from 2020 to 2022".			
17.	To consider and approve the proposed line of credit granted to the Company up to an aggregate limit of RMB6,250,000,000.			
18.	To consider and approve the proposed re-appointment of ShineWing Certified Public Accountants LLP as PRC auditors of the Company for FY2020, re-appointment of RSM Chio Lim LLP as international auditors of the Company for FY2020, and to authorise the Board to determine their remuneration.			

PROXY FORM

No.	Resolutions relating to:	For	Against	Abstain
	Other agenda to be resolved in the General Meeting shall, include any agenda proposed by a shareholder in accordance with Article 70 of the Articles of Association, which states: "When the Company is to hold an annual General Meeting, shareholders holding 3% or more of the voting shares of the Company shall be entitled to propose new motions in writing to the Company. The Company shall include in the agenda of the General Meeting those motions, the subject matter of which, are required to be decided by shareholders in General Meeting."			

Dated this _____ day of _____ 2020

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

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

PROXY FORM

NOTES

- a. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members of the Company, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, this instrument of proxy will be deemed to relate to all the Shares held by you.
- b. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint no more than two proxies to attend and vote on his behalf and such proxy need not be a member of the Company. Where a member appoints two proxies, the appointment shall be deemed to be alternative unless he specifies the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy.
- c. A member of the Company which is a corporation is entitled to appoint its authorised representative or proxy by resolution of its directors or other governing body such person as it thinks fit to vote on its behalf.
- d. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company at 50 Raffles Place, #32-01 Singapore Land Tower, Singapore 048623 not later than forty-eight (48) hours before the time appointed for the Annual General Meeting.

In view of the current COVID-19 situation and the related safe distancing measures which may make it difficult for members to submit completed proxy forms by post, members are strongly encouraged to submit completed proxy forms electronically via email to AGM.TeamE@boardroomlimited.com.

- e. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies.
- f. In the case of members whose Shares are deposited with The Central Depository (Pte) Limited ("CDP"), the Company shall be entitled to reject any instrument appointing a proxy or proxies lodged if such members are not shown to have Shares entered against their names in the Depository Register as at forty-eight (48) hours before the time appointed for holding the Annual General Meeting as certified by the Central Depository (Pte) Limited to the Company.
- g. The instrument appointing a proxy or proxies must be under the hand of the appointor or his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
- h. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

INFORMATION ON SHAREHOLDING

Registered Capital: RMB772,803,076

Class of Shares: Ordinary shares of RMB1.00 each (of which 572,803,076 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 30 April 2020

Range of Shareholdings	No. Of		No. Of Shares	
	Shareholders	%		%
1 – 99	2	0.08	15	0.00
100 – 1,000	85	3.29	63,338	0.03
1,001 – 10,000	1,592	61.61	8,270,562	4.14
10,001 – 1,000,000	885	34.25	46,576,500	23.29
1,000,001 AND ABOVE	20	0.77	145,089,585	72.54
Total	2,584	100.00	200,000,000	100.00

Foreign Substantial Shareholders as at 30 April 2020

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 25.880%, and the Company hereby confirms that Rule 723 has been complied with.

Domestic Substantial Shareholders as at 30 April 2020

Name	Direct Interests		Deemed Interests	
	No. of Shares	%	No. of Shares	%
TPH	325,855,528	42.17	5,265,000 ⁽¹⁾	0.68

Note:

(1) Pursuant to Section 4 of the Securities and Futures Act (Chapter 289) of Singapore, TPH is deemed interested in the 5,265,000 shares in the capital of the Company held by its wholly-owned subsidiary, Tianjin Pharmaceutical (Singapore) International Investment Pte. Ltd.

INFORMATION ON SHAREHOLDING

Major Foreign Shareholder's List as at 30 April 2020

	Name	No. Of Shares	%
1	DBS NOMINEES (PRIVATE) LIMITED	24,997,040	12.50
2	RAFFLES NOMINEES (PTE.) LIMITED	24,067,100	12.03
3	PHILLIP SECURITIES PTE LTD	19,067,800	9.53
4	ABN AMRO CLEARING BANK N.V.	15,928,500	7.96
5	CITIBANK NOMINEES SINGAPORE PTE LTD	9,540,445	4.77
6	OCBC SECURITIES PRIVATE LIMITED	7,704,400	3.85
7	HSBC (SINGAPORE) NOMINEES PTE LTD	7,306,000	3.65
8	UOB KAY HIAN PRIVATE LIMITED	6,914,100	3.46
9	LU ZU LIANG	4,405,200	2.20
10	TAN TOH HEAH OR TAN SWEE TECK MICHAEL	3,700,000	1.85
11	CGS-CIMB SECURITIES (SINGAPORE) PTE. LTD.	3,478,800	1.74
12	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	3,447,100	1.72
13	BANK OF CHINA NOMINEES (PTE) LTD	3,041,000	1.52
14	DB NOMINEES (SINGAPORE) PTE LTD	2,357,400	1.18
15	MAYBANK KIM ENG SECURITIES PTE.LTD	1,967,300	0.98
16	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	1,881,300	0.94
17	KUEK SIAW KIA @ QUEK SHIEW POH	1,757,600	0.88
18	NG HAK HONG	1,248,500	0.62
19	TAN SWEE TECK MICHAEL	1,222,000	0.61
20	ZHANG JUN	1,058,000	0.53
	Total	145,089,585	72.52

THIS ANNEXURE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

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

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

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



中新药业
ZHONGXIN PHARMACEUTICALS

**TIANJIN ZHONG XIN PHARMACEUTICAL
GROUP CORPORATION LIMITED**

(Incorporated in the People's Republic of China)

(Company Registration No.: 91120000103100784F)

**ANNEXURE ACCOMPANYING
THE NOTICE OF ANNUAL GENERAL MEETING**

in relation to

PROPOSED RENEWAL OF MANDATE FOR INTERESTED PERSON TRANSACTIONS

CONTENTS

DEFINITIONS	167
1. INTRODUCTION.....	171
2. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS	172
3. DIRECTORS' RESPONSIBILITY STATEMENT.....	173
4. DOCUMENTS FOR INSPECTION	173
APPENDIX A	174

DEFINITIONS

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

"2020 AGM"	:	The annual general meeting of the Company to be held on 5 June 2020
"AGM"	:	An annual general meeting of the Company
"Annexure"	:	This Annexure to Shareholders dated 21 May 2020
"Articles" or "Articles of Association"	:	The articles of association of the Company, as amended, supplemented and/or modified from time to time
"associate"	:	<p>(a) In relation to any Director, chief executive officer, Substantial Shareholder or Controlling Shareholder (being an individual) means:</p> <ul style="list-style-type: none"> (i) his immediate family; (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of thirty per cent. (30%) or more; <p>(b) In relation to a Substantial Shareholder or Controlling Shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of thirty per cent. (30%) or more</p>
"Associated Company"	:	A company in which at least 20% but not more than 50% of its shares are held by the Company or the Group
"Audit Committee"	:	The audit committee of the Company for the time being
"Board" or "Board of Directors"	:	The board of directors of the Company for the time being
"CDP"	:	The Central Depository (Pte) Limited

<i>"Company"</i>	:	Tianjin Zhong Xin Pharmaceutical Group Corporation Limited
<i>"Controlling Shareholder"</i>	:	A person who: <ul style="list-style-type: none"> (i) holds directly or indirectly fifteen per cent. (15%) or more of the total voting rights in the Company; or (ii) in fact exercises control over the Company
<i>"Directors"</i>	:	The directors of the Company as at the date of this Annexure
<i>"Group"</i>	:	The Company, its Subsidiaries and Associated Companies
<i>"FY" or "Financial Year"</i>	:	Financial year ended or, as the case may be, ending 31 December
<i>"FY2019"</i>	:	Financial year ended 31 December 2019
<i>"Independent Directors"</i>	:	The directors that are deemed independent for the purposes of making the recommendation in paragraph 2.10 of Appendix A of this Annexure, namely, all the Directors except Mr. Zhang Ping and Mr. Tang Tiejun
<i>"Interested Persons"</i>	:	A director, chief executive officer or controlling shareholder of the Company or an associate of such director, chief executive officer or controlling shareholder
<i>"Interested Person Transaction" or "IPT"</i>	:	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
<i>"Latest Practicable Date"</i>	:	The latest practicable date prior to the despatch of this Annexure, being 8 May 2020
<i>"Listing Manual"</i>	:	The listing manual of the SGX-ST, as amended, modified and/or supplemented from time to time
<i>"Market Day"</i>	:	A day on which the SGX-ST is open for trading of securities
<i>"Notice of AGM"</i>	:	Notice of the 2020 AGM given on 17 April 2020
<i>"NTA"</i>	:	Net tangible assets
<i>"PRC"</i>	:	People's Republic of China

<i>"Proposed Renewal"</i>	:	Has the meaning ascribed to it in Section 1.2 of this Annexure
<i>"securities accounts"</i>	:	The securities accounts maintained with CDP, but not including the securities accounts maintained with a Depository Agent
<i>"SFA"</i>	:	The Securities and Futures Act, Chapter 289 of Singapore, as amended, supplemented and/or modified from time to time
<i>"SGX-ST"</i>	:	Singapore Exchange Securities Trading Limited
<i>"Shareholders"</i>	:	Registered holders of Shares except that where the registered holder is CDP, the term <i>"Shareholders"</i> 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
<i>"Shareholders' Mandate"</i>	:	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
<i>"Shares"</i>	:	Ordinary shares in the capital of the Company
<i>"Subsidiaries"</i>	:	The subsidiaries of the Company, and <i>"Subsidiary"</i> shall be constructed accordingly
<i>"Substantial Shareholder"</i>	:	A person who has an interest or interests in one (1) or more voting Shares (excluding treasury shares) in the Company, and the total votes attached to that Share, or those Shares, represent not less than five per cent. (5.0%) of the total votes attached to all the voting Shares (excluding treasury shares) in the Company
<i>"TPH"</i>	:	Tianjin Pharmaceutical Holdings Co., Ltd. (天津市医药集团有限公司)
<i>"TPH Group"</i>	:	TPH and its subsidiaries and associated companies
<i>"TPH Sales and Marketing Branch Office"</i>	:	The Sales and Marketing Branch Office of TPH (天津市医药集团有限公司营销分公司) which is not an independent legal entity and does not have the ability to sue or be sued in its own name

<i>"TYPs"</i>	:	Tianjin Yiyao Printing Services Company Limited (formerly known as Tianjin Medicinal Products Packaging and Printing Company)
<i>"Unrelated Parties Discount"</i>	:	Has the meaning ascribed to it in paragraph 2.3.2 of Appendix A of this Annexure
<i>"%" or "per cent."</i>	:	Percentage or per centum

The terms "Depositor", "Depository Register" and "Depository Agent" shall have the meanings ascribed to them respectively in Section 81SF of the SFA.

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

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

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

Any discrepancies in this Circular between the sum of the figures stated and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Circular may not be an arithmetic aggregation of the figures which precede them.

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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

Board of Directors

Mr. Li Liquan (Chairman)
Mr. Wang Mai (Executive Director)
Mr. Zhou Hong (Executive Director)
Mr. Zhang Ping (Non-Executive and Non-Independent Director)
Mr. Tang Tiejun (Non-Executive and Non-Independent Director)
Mr. Timothy Chen Teck Leng (Lead Independent and Non-Executive Director)
Mr. Wong Gang (Independent and Non-Executive Director)
Mr. Qiang Zhiyuan (Independent and Non-Executive Director)

Registered Office

17 Baidi Road,
Nankai District,
Tianjin, the PRC

21 May 2020

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

Dear Sir/Madam

1. INTRODUCTION

- 1.1 The Company has issued a notice of the 2020 AGM on 17 April 2020 (the “**Notice of AGM**”).
- 1.2 Resolution 14 in the Notice of AGM relates to the renewal of the general mandate for Interested Persons Transactions (the “**Proposed Renewal**”) to authorise the Group to continue to enter into transactions with the TPH Group in compliance with Chapter 9 of the Listing Manual.
- 1.3 The purpose of this Annexure is to provide Shareholders with information pertaining to, and to seek Shareholders’ approval for, the Proposed Renewal at the forthcoming AGM to be held on 5 June 2020.

2. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

2.1 Directors' and Substantial Shareholders' interests in Shares

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

	Direct Interest		Deemed Interest	
	No of Shares	% ⁽¹⁾	No of Shares	% ⁽¹⁾
Directors				
Li Liquan	70,000	0.009	–	–
Wang Mai	70,000	0.009	–	–
Zhou Hong	70,000	0.009	–	–
Zhang Ping	–	–	–	–
Tang Tiejun	–	–	–	–
Timothy Chen Teck Leng	–	–	–	–
Wong Gang	–	–	–	–
Qiang Zhiyuan	–	–	–	–
Substantial Shareholders				
TPH	325,855,528	42.17	5,265,000 ⁽²⁾	0.68

Notes:

(1) Based on the total issued share capital of 772,803,076 Shares as at the Latest Practicable Date.

(2) Pursuant to Section 4 of the SFA, TPH is deemed interested in the 5,265,000 shares in the capital of the Company held by its wholly-owned subsidiary, Tianjin Pharmaceutical (Singapore) International Investment Pte. Ltd.

- 2.2 TPH will abstain, and has undertaken to ensure that its respective associates will abstain, from voting at the 2020 AGM, in respect of the Shares held by them respectively, on Resolution 14 relating to the Proposed Renewal. TPH will also not, and has undertaken to ensure that its respective associates will also not, accept nomination as proxies or otherwise for voting at the 2020 AGM in respect of Resolution 14, unless specific instructions have been given in the proxy instrument on how the relevant Shareholders wish their votes to be cast for Resolution 14.
- 2.3 Each of Mr. Zhang Ping and Mr. Tang Tiejun is a key management personnel in TPH. Accordingly, they will abstain from making any recommendation to Shareholders on the Proposed Renewal.
- 2.4 Save as disclosed in this Annexure, none of the Directors or Substantial Shareholders has any interest in the Proposed Renewal.

3. DIRECTORS' RESPONSIBILITY STATEMENT

- 3.1 The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Annexure and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Annexure constitutes full and true disclosure of all material facts about the Proposed Renewal, the Company and its Subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Annexure misleading.
- 3.2 Where information in the Annexure has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Annexure in its proper form and context.

4. DOCUMENTS FOR INSPECTION

Copies of the following documents may be inspected at the registered office of the Company at 17 Baidi Road, Nankai District, Tianjin, the PRC, during normal business hours from the date of this Annexure up to and including the date of the 2020 AGM: –

- (a) the Articles of Association of the Company; and
- (b) the Annual Report of the Company for FY2019.

Yours faithfully

For and on behalf of the Directors

Li Liquan

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

APPENDIX A

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

1. INTRODUCTION

TPH holds approximately 42.847% equity interest in the issued and paid-up capital of the Company as at the Latest Practicable Date. As such, the TPH 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 TPH Group.

The Company had, at its annual general meeting held on 15 May 2019, 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 TPH Group.

Accordingly, it is proposed that the resolution relating to the renewal of the Shareholders' Mandate be tabled to Shareholders for approval at the 2020 AGM, in order to authorise the Group to continue to enter into transactions with the TPH Group in compliance with Chapter 9 of the Listing Manual. The purpose of this Annexure is to provide Shareholders with the relevant information pertaining to the proposed renewal of the Shareholders' Mandate.

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

Interested Person Transactions that the Company were involved in are detailed on page 20 of the Company's annual report for FY2019.

2. Proposed renewal of the Shareholders' Mandate for interested person transactions

2.1 Requirements of Chapter 9 of Listing Manual

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

Pursuant to Listing Rule 906, shareholders' approval (in addition to an immediate announcement) is required where:

- (a) the value of such transaction is equal to or exceeds 5% of the Group's latest audited NTA; or
- (b) the value of such transaction with interested persons when aggregated with the values of other transactions previously entered into with the same interested person during the same financial year, equals to or exceeds 5% of the Group's latest audited NTA, such aggregation need not include any transaction that has been approved by shareholders previously or is the subject of aggregation with another transaction that has been previously approved by shareholders.

Interested person transactions below \$100,000 each are to be excluded. However, the Listing Manual provides that while transactions below S\$100,000 are not normally aggregated under Chapter 9 of the Listing Manual, the SGX-ST may aggregate any such transaction entered into during the same financial year and treat them as if they were one transaction.

In interpreting the term “same interested person” for the purpose of aggregation in Rules 905, 906 and 907 of the Listing Manual, the following applies:

- (a) Transactions between (a) an entity at risk and a primary interested person; and (b) an entity at risk and an associate of that primary interested person, are deemed to be transactions between an entity at risk with the same interested person.
- (b) Transactions between an entity at risk and interested persons who are members of the same group are deemed to be transactions between the entity at risk with the same interested person.

If an interested person (which is a member of a group) is listed, its transactions with the entity at risk need not be aggregated with transactions between the entity at risk and other interested persons of the same group, provided that the listed interested person and other listed interested persons have boards the majority of whose directors are different and are not accustomed to act on the instructions of the other interested person and have audit committees whose members are completely different.

Pursuant to Listing Rule 909, the value of a transaction is the amount at risk to the issuer. This is illustrated by the following examples:

- (a) In the case of a partly-owned subsidiary or associated company, the value of the transaction is the issuer’s effective interest in that transaction;
- (b) In the case of a joint venture, the value of the transaction includes the equity participation, shareholders’ loans and guarantees given by the entity at risk;
- (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; and
- (d) In the case that the market value or book value of the asset to be disposed of is higher than the consideration from an interested person, the value of the transaction is the higher of the market value or book value of the asset.

2.2 Classes of Interested Persons under the Shareholders' Mandate

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

- (a) TPH (including the TPH Sales and Marketing Branch Office), which is a Controlling Shareholder with 42.847% shareholdings in the Company as at the Latest Practicable Date;
- (b) Wholly-owned subsidiaries of TPH comprising, amongst others:
 - (i) Tianjin Pharmaceutical Group Taiping Medicine Co., Ltd.;
 - (ii) Tianjin Pharmaceutical Group Jin Yi Tang Chain Co., Ltd. (formerly known as Tianjin Pharmaceutical Group Chain Co., Ltd.);
 - (iii) Tianjin Pharmaceutical Group Hongze Medicine Co., Ltd.; and
 - (iv) Tianjin Haoda Medical Device Co., Ltd.;
- (c) Tianjin Yiyao Printing Services Company Limited (formerly known as Tianjin Medicinal Products Packaging and Printing Company) ("TYPs"), which is 65% owned by TPH as at the Latest Practicable Date;
- (d) Tianjin Lisheng Pharmaceutical Co. Ltd, which is 51.36% owned by TPH as at the Latest Practicable Date;
- (e) Tianjin Central Pharmaceutical Co., Ltd., which is 51.36% owned by TPH as at the Latest Practicable Date;
- (f) Tianjin Taiping Longlong Pharmaceutical Co., Ltd., which is 51% owned by TPH as at the Latest Practicable Date;
- (g) Tianjin Taiping Xiangyun Pharmaceutical Co., Ltd., which is 50% owned by TPH as at the Latest Practicable Date;
- (h) Tianjin Taiping Zhenhua Pharmacy Co., Ltd. (天津太平振华大药房有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (i) Tianjin Taiping Jizhou Pharmaceutical Co., Ltd. (天津市蓟州太平医药有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (j) Tianjin Taiping Ninghe District Pharmaceutical Co., Ltd. (天津市宁河区太平医药有限公司), which is 100% owned by TPH as at the Latest Practicable Date;

- (k) Tianjin Jincao Pharmaceutical Co., Ltd. (天津市金草药业有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (l) Tianjin Jincao Guoyao Investment Co., Ltd. (天津金草国药投资有限公司), which is 50% owned by TPH as at the Latest Practicable Date;
- (m) Tianjin Meiyin Nutritional Supplement Co., Ltd. (天津美饮保健食品有限公司), which is 50% owned by TPH as at the Latest Practicable Date;
- (n) Tianjin Pharmaceutical Group Jian Kang Da Medical Apparatus and Instruments Co., Ltd. (天津医药集团众健康达医疗器械有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (o) Tianjin Pharmaceutical Clean Air Testing Center Co., Ltd. (天津市医药空气洁净检测中心有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (p) Tianjin Medical Apparatus and Instruments Factory Co., Ltd. (天津市医疗器械厂有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (q) Tianjin Kang Dun Bao Medical Polyurethane Technology Co., Ltd. (天津市康盾宝医用聚氨酯技术有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (r) Tianjin Hana Good Medical Materials Co., Ltd. (天津哈娜好医材有限公司), which is 51.5% owned by TPH as at the Latest Practicable Date;
- (s) Tianjin Zhong Jian Ai and Medical Technology Co., Ltd. (天津众健爱和医疗科技有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (t) Hebei De Ze Long Pharmaceutical Co., Ltd. (河北德泽龙医药有限公司), which is 54.99% owned by TPH as at the Latest Practicable Date;
- (u) Tianjin Yiyao Medicine Co., Ltd. (天津市谊耀药业有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (v) Tianjin Traditional Chinese Medicine Machinery Co., Ltd. (天津市中药机械厂有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (w) Tianjin Taiping Xinhua Medical Apparatus and Instruments Co., Ltd. (天津太平新华医疗器械有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (x) Tianjin Taiping Bai Shi Kang Medical Apparatus and Instruments Co., Ltd. (天津太平百时康医疗器械有限公司), which is 100% owned by TPH as at the Latest Practicable Date;
- (y) Tianjin Pharmaceutical Research Institute Co., Ltd. (天津药物研究院有限公司), which is 35% owned by TPH as at the Latest Practicable Date;

- (z) Tianjin Institute Of Pharmaceutical Research Medicine Co., Ltd. (天津药物研究院药业有限责任公司), which is 35% owned by TPH as at the Latest Practicable Date;
- (aa) Tianjin Jinyao Pharmaceutical Co., Ltd. (天津金耀药业有限公司), which is 62% owned by TPH as at the Latest Practicable Date;
- (bb) Tianjin Tianyao Pharmaceutical Co., Ltd. (天津天药药业股份有限公司), which is 50.79% owned by TPH as at the Latest Practicable Date;
- (cc) Tianjin Tianyao Pharmaceutical Technology Co., Ltd. (天津天药医药科技有限公司), which is 62% owned by TPH as at the Latest Practicable Date;
- (dd) Tianjin Jinyao Group Sales Co., Ltd. (天津金耀集团天药销售有限公司), which is 90% owned by TPH as at the Latest Practicable Date;
- (ee) Tianjin Jinyao Logistics Co., Ltd. (天津金耀物流有限公司), which is 62% owned by TPH as at the Latest Practicable Date;
- (ff) Tianjin Wanning Health Products Co., Ltd. (天津万宁保健品有限公司), which is 91.19% owned by TPH as at the Latest Practicable Date;
- (gg) Tianjin Jinyao Amino Acid Co., Ltd. (天津金耀氨基酸有限公司), which is 62% owned by TPH as at the Latest Practicable Date;
- (hh) Tianjin Tianan Pharmaceutical Co., Ltd. (天津天安药业股份有限公司), which is 62% owned by TPH as at the Latest Practicable Date; and
- (ii) Tianjin Gesibao Medicine Industry Co., Ltd. (天津格斯宝药业有限公司), which is 62% owned by TPH as at the Latest Practicable Date.

2.3 Categories of Interested Person Transactions

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

2.3.1 Supply of Raw Materials

The “Supply of Raw Materials” contracts between the Group and the following Interested Persons for a period of three (3) years up to 30 June 2022:

- (a) Tianjin Pharmaceutical Group Jin Yi Tang Chain Co., Ltd. (天津医药集团津一堂连锁 股份有限公司);
- (b) Tianjin Jinyao Pharmaceutical Co., Ltd. (天津金耀药业有限公司); and
- (c) Tianjin Gesibao Medicine Industry Co., Ltd. (天津格斯宝药业有限公司).

The terms of these contracts⁽¹⁾ will be in effect only upon the Company obtaining Shareholders’ approval for such Interested Person Transactions in the relevant time period during which the Shareholders’ Mandate is valid. The Group has no obligation under these contracts should Shareholders’ approval not be obtained for the renewal of the Shareholders’ Mandate at the 2020 AGM or any subsequent renewal.

Note:

- (1) These contracts do not set the volume and price of raw materials to be provided to the Interested Persons. However, it is provided for in the contract that the transactions with the respective Interested Person would be carried out on normal commercial terms and would not be detrimental to the interest of the Company and its minority Shareholders. Please refer to the Company’s announcement dated 29 January 2019 for further details on these contracts.

2.3.2 Sale and Purchase of Medicinal Products

The “Sale and Purchase of Medicinal Products” contracts⁽¹⁾⁽²⁾ between the Group and the following interested persons for a period of three (3) years up to 30 June 2022:

- (a) Tianjin Pharmaceutical Group Taiping Medicine Co., Ltd. (天津医药集团太平医药有限公司);
- (b) Tianjin Taiping Zhenhua Pharmacy Co., Ltd. (天津太平振华大药房有限公司);
- (c) Tianjin Taiping Jizhou Pharmaceutical Co., Ltd. (天津市蓟州太平医药有限公司);
- (d) Tianjin Taiping Ninghe District Pharmaceutical Co., Ltd. (天津市宁河区太平医药有限公司);
- (e) Tianjin Taiping Longlong Pharmaceutical Co., Ltd. (天津太平龙隆医药有限公司);
- (f) Tianjin Taiping Xiangyun Pharmaceutical Co., Ltd. (天津市太平祥云医药有限公司);
- (g) Tianjin Jinciao Pharmaceutical Co., Ltd. (天津市金草药业有限公司);
- (h) Tianjin Jinciao Guoyao Investment Co., Ltd. (天津金草国药投资有限公司);
- (i) Tianjin Meiyin Nutritional Supplement Co., Ltd. (天津美饮保健食品有限公司);

- (j) Tianjin Pharmaceutical Group Jian Kang Da Medical Apparatus and Instruments Co., Ltd. (天津医药集团众健康达医疗器械有限公司);
- (k) Tianjin Haoda Medical Device Co., Ltd. (天津市浩达医疗器械有限公司);
- (l) Tianjin Pharmaceutical Clean Air Testing Center Co., Ltd. (天津市医药空气洁净检测中心有限公司);
- (m) Tianjin Medical Apparatus and Instruments Factory Co., Ltd. (天津市医疗器械厂有限公司);
- (n) Tianjin Kang Dun Bao Medical Polyurethane Technology Co., Ltd. (天津市康盾宝医用聚氨酯技术有限公司);
- (o) Tianjin Hana Good Medical Materials Co., Ltd. (天津哈娜好医材有限公司);
- (p) Tianjin Zhong Jian Ai and Medical Technology Co., Ltd. (天津众健爱和医疗科技有限公司);
- (q) Tianjin Pharmaceutical Group Jin Yi Tang Chain Co., Ltd. (天津医药集团津一堂连锁股份有限公司);
- (r) Tianjin Pharmaceutical Group Hongze Medicine Co., Ltd. (天津医药集团泓泽医药有限公司);
- (s) Hebei De Ze Long Pharmaceutical Co., Ltd. (河北德泽龙医药有限公司);
- (t) Tianjin Yiyao Medicine Co., Ltd. (天津市谊耀药业有限公司);
- (u) Tianjin Traditional Chinese Medicine Machinery Co., Ltd. (天津市中药机械厂有限公司);
- (v) Tianjin Taiping Xinhua Medical Apparatus and Instruments Co., Ltd. (天津太平新华医疗器械有限公司);
- (w) Tianjin Taiping Bai Shi Kang Medical Apparatus and Instruments Co., Ltd. (天津太平百时康医疗器械有限公司);
- (x) Tianjin Lisheng Pharmaceutical Co. Ltd. (天津力生制药股份有限公司);
- (y) Tianjin Central Pharmaceutical Co., Ltd. (天津市中央药业有限公司);
- (z) Tianjin Pharmaceutical Research Institute Co., Ltd. (天津药物研究院有限公司);
- (aa) Tianjin Institute Of Pharmaceutical Research Medicine Co., Ltd. (天津药物研究院药业有限责任公司);
- (bb) Tianjin Jinyao Pharmaceutical Co., Ltd. (天津金耀药业有限公司);
- (cc) Tianjin Tianyao Pharmaceutical Co., Ltd. (天津天药药业股份有限公司);
- (dd) Tianjin Tianyao Pharmaceutical Technology Co., Ltd. (天津天药医药科技有限公司);

- (ee) Tianjin Jinyao Group Sales Co., Ltd. (天津金耀集团天药销售有限公司);
- (ff) Tianjin Jinyao Logistics Co., Ltd. (天津金耀物流有限公司);
- (gg) Tianjin Wanning Health Products Co., Ltd. (天津万宁保健品有限公司);
- (hh) Tianjin Jinyao Amino Acid Co., Ltd. (天津金耀氨基酸有限公司); and
- (ii) Tianjin Tianan Pharmaceutical Co., Ltd. (天津天安药业股份有限公司).

The terms of these contracts will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant time period during which the Shareholders' Mandate is valid. The Group has no obligation under these contracts should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate at the 2020 AGM or any subsequent renewal.

Notes:

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

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

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

The 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. Please refer to the Company's announcement dated 29 January 2019 for further details on these contracts.

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 three (3) years up to 30 June 2022. The terms of this contract will be in effect only upon the Company obtaining Shareholders' approval for such Interested Person Transactions in the relevant time period during which the Shareholders' Mandate is valid. The Group has no obligation under this contract should Shareholders' approval not be obtained for the renewal of the Shareholders' Mandate at the 2020 AGM or any subsequent renewal. The packaging services are for traditional Chinese medicine. The contract does not set the volume and price of products and services to be purchased from TYPs. However it is provided for in the contract that the transactions with the respective Interested Person would be carried out on normal commercial terms and would not be detrimental to the interest of the Company and its minority Shareholders. Please refer to the Company's announcement dated 29 January 2019 for further details on these contracts.

2.4 Rationale for and Benefits of the Shareholders' Mandate

The Shareholders' Mandate will give the Company the flexibility to enter into transactions with the TPH 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 TPH 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 (2) other unrelated parties in respect of substantially similar types of transactions. The Deputy Distribution General Manager of the Domestic Trade (Business) Department of the Group (who has no interest, directly or indirectly, in the transaction) will approve the purchase after reviewing these quotations, taking into account all pertinent factors including, but not limited to, pricing (including discounts, if any, accorded for bulk purchases as well as the credit terms offered), quality of the products or services and terms of delivery and track record, to ensure that the interests of the minority Shareholders are not disadvantaged.
- (b) When selling products or services to an Interested Person, the prices and terms of at least two (2) other successful sales of similar products to third parties or market rates (wherever possible or available) will be examined for comparison. The Deputy Distribution General Manager of the Domestic Trade (Business) Department of the Group (who has no interest, directly or indirectly, in the transaction) will approve the sales after reviewing these prices and terms or market rates, taking into account all pertinent factors including, but not limited to, price, government pricing regulations, quality and quantity of products, terms of delivery and credit worthiness of the customers, to ensure that the interests of minority Shareholders are not disadvantaged.

- (c) Interested Person Transactions will not be approved unless:-
- (i) they are in accordance with the usual industry practice and business policies of the Group;
 - (ii) the pricing and terms of the Interested Person Transactions are not, in transactions where the Group purchases goods and/or obtains services from Interested Persons, less favourable to the Group than those available in other substantially similar types of transactions between the Group and unrelated third parties. The Company takes into consideration, primarily, pricing, terms of the contracts with the Interested Persons as stated in paragraph 2.3 of Appendix A of this Annexure, the availability, suitability and quality of the products and services and promptness of delivery of such products and services; and
 - (iii) the pricing and terms of the Interested Person Transactions are not, in transactions where the Group sells goods to Interested Persons, more favourable to the Interested Person than those extended to unrelated third parties for substantially similar types of transactions, after taking into consideration factors (where applicable) such as, but not limited to, pricing, the contracts with the Interested Persons as stated in paragraph 2.3 of Appendix A of this Annexure, the availability, suitability and quality of the products to be sold, terms of delivery and the creditworthiness of the customers.
- (d) In the event that it is not possible to obtain market rates or quotations from unrelated third parties (for example, where there are no suppliers for certain goods or for a specified quantity which the Group requires or if the product or service is proprietary) to determine whether the terms of the Interested Person Transactions are more or less favourable than that of the aggregate terms quoted by unrelated third parties, factors such as the quality of goods, standard of services and terms of delivery and, where applicable, discounts accorded for bulk purchases, will be taken into, and given due and proper, consideration.
- (e) Where the prevailing market rates or prices are not available due to the nature of the products to be sold (for instance, if there are no other purchasers or customers for similar products, or if the products is proprietary), the terms of supply will, where applicable, be in accordance with the Group's usual business practices and pricing policies, consistent with the usual margin of the Group for the same or substantially similar types of transaction with unrelated parties.
- (f) All transactions in the excess of \$100,000 each will be summarised and presented to the Audit Committee and external auditors of the Company for review of whether the transactions are in accordance with the contractual terms and conditions and in accordance with the Company's policies and procedures, and are carried out on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders. The Company's external auditors will review such transactions as part of its regular audit. Furthermore, the Company's internal audit department will also conduct review of the transactions, and submit its findings to the Audit Committee.

- (g) The Audit Committee shall review all Interested Person Transactions, at least on a quarterly basis, to ensure that they are carried out at arm's length basis and on normal commercial terms and in accordance with the procedures outlined in this Section 2.5. All relevant non-quantitative factors will also be taken into account. Such review includes the examination of the transaction and its supporting documents or such other data deemed necessary by the Audit Committee. The Audit Committee shall, when it deems fit, have the right to require the appointment of independent sources, advisers or valuers to provide additional information pertaining to the transaction under review. In the event that a member of the Audit Committee is interested in any Interested Person Transaction, he shall abstain from participating in the review of that particular transaction.
- (h) Pursuant to Rule 920(1)(a) of the Listing Manual:-
 - (i) disclosure will be made in the annual report of the Company, giving details of the aggregate value of all Interested Person Transactions conducted with Interested Persons pursuant to the respective Shareholders' Mandate during the financial year under review (in the form set out in Rule 907 of the Listing Manual) and in the annual reports for the subsequent financial years during which the respective Shareholders' Mandate is in force, as required by the provisions of the Listing Manual; and
 - (ii) announcements will be made with regard to the aggregate value of transactions conducted pursuant to the respective Shareholders' Mandate for the financial periods which the Company is required to report on, pursuant to Rule 705 of the Listing Manual, within the time required for the announcement of such report (in the form set out in Rule 907 of the Listing Manual).
- (i) If, arising from the Audit Committee's periodic reviews, the Audit Committee is of the view that the procedures have become inappropriate or are insufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms, and will not be prejudicial to the interests of the Company and its minority Shareholders, or in the event of any amendment to Chapter 9 of the Listing Manual, it will consult with the Board and take such actions as it deems proper, including modifying or implementing such additional policies and procedures as may be necessary, and the Company shall submit the revised policies and procedures to Shareholders for a fresh mandate.

2.6 Validity Period of the Shareholders' Mandate

If approved at the 2020 AGM, the Shareholders' Mandate will take effect from the date of the passing of the resolution to be proposed at the 2020 AGM and will (unless revoked or varied by the Company in a general meeting) continue to be in force until the subsequent AGM. The renewal of the Shareholders' Mandate has to be made in accordance with, and in the manner prescribed by, the rules in the Listing Manual, and such other laws and regulations as may, for the time being, be applicable. It shall also be subject to satisfactory review by the Audit Committee and advisers of the continued requirements of the Shareholders' Mandate and the procedures for the transactions.

2.7 Disclosure to Shareholders

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

2.8 Audit Committee's Statement

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

- (a) the review procedures for the Interested Person Transactions concerning the TPH Group have not changed since the last Shareholders' approval granted on 15 May 2019; and
- (b) the review procedures for the Interested Person Transactions concerning the TPH Group as well as the reviews to be made periodically by the Audit Committee in relation thereto, are adequate to ensure that the Interested Person Transactions concerning the TPH Group will be transacted on arm's length basis and on normal commercial terms and will not be on terms or conditions that would be prejudicial to the interests of the Company and/or its minority Shareholders.

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

2.9 Directors' Recommendation

Having considered, *inter alia*, the terms, rationale and benefits of the proposed renewal of the Shareholders' Mandate as set out in this Appendix A, 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 14 (as set out in the Notice of AGM) relating to the proposed renewal of the Shareholders' Mandate.

The Independent Directors, in rendering their recommendation, have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any Shareholder. As different Shareholders would have different investment objectives, the Independent Directors recommend that any individual Shareholder who may require advice in the context of his specific investment portfolio, should consult his stockbroker, bank manager, solicitor, accountant or other professional advisers.

2.10 Abstention from voting

TPH, which holds 42.847% of the shareholdings in the Company as at the Latest Practicable Date, will abstain, and has undertaken to ensure that its respective associates will abstain, from voting at the 2020 AGM in respect of the ordinary resolution relating to the proposed renewal of the Shareholders' Mandate as it is, in relation to the said one transaction or many transactions, an Interested Person as defined under the Listing Manual. It will also not, and has undertaken to ensure that its respective associates will also not, accept nomination as proxies or otherwise for voting at the 2020 AGM in respect of the aforesaid ordinary resolution unless specific instructions have been given in the proxy instrument on how the relevant Shareholders wish their votes to be cast for such resolution.

ANNEXURE DATED 21 MAY 2020**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 AGM (as defined herein) and 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.



**ANNEXURE ACCOMPANYING
THE NOTICE OF ANNUAL GENERAL MEETING**

in relation to

THE PROPOSED FINANCIAL SERVICES AGREEMENT TO BE ENTERED INTO BETWEEN TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED AND TIANJIN PHARMACEUTICAL GROUP FINANCE CO., LTD AS AN INTERESTED PERSON TRANSACTION

Independent Financial Adviser in relation to
the Proposed IPT (as defined herein)



RHB Securities Singapore Pte. Ltd.

RHB Securities Singapore Pte. Ltd.

(Company Registration No: 198701140E)

(Incorporated in Singapore)

CONTENTS

DEFINITIONS	189
1 INTRODUCTION	194
2 THE PROPOSED IPT	195
3 DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS	209
4 DIRECTORS' RECOMMENDATIONS	210
5 ABSTENTION FROM VOTING.....	210
6 DIRECTORS' RESPONSIBILITY STATEMENT	210
7 CONSENTS	211
8 DOCUMENTS FOR INSPECTION	211
SCHEDULE 1	212

DEFINITIONS

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

<i>"2020 AGM"</i>	: The annual general meeting of the Company to be held on 5 June 2020
<i>"AGM"</i>	: An annual general meeting of the Company
<i>"Agreement 2020"</i>	: A financial service agreement proposed to be entered into between the Company and TPGF for the provision by TPGF to the Company of the Financial Services for the Term, which shall be based on substantially the same terms as that set out in the Prior Agreements
<i>"Annexure"</i>	: This annexure to Shareholders dated 21 May 2020
<i>"Articles" or "Articles of Association"</i>	: The articles of association of the Company, as amended, supplemented and/or modified from time to time
<i>"Associate"</i>	: (a) in relation to any Director, chief executive officer, Substantial Shareholder or Controlling Shareholder (being an individual) means: <ul style="list-style-type: none"> (i) his immediate family; (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30% or more; (b) in relation to a Substantial Shareholder or Controlling Shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more
<i>"Associated Company"</i>	: A company in which at least 20% but not more than 50% of its shares are held by the Company or the Group

<i>"Audit Committee"</i>	: The audit committee of the Company for the time being
<i>"Board" or "Board of Directors"</i>	: The board of Directors of the Company for the time being
<i>"Business Scope"</i>	: Refers to the business activities of TPGF which includes providing financing consulting, credit authentication, and related consulting services to the TPH Group, assisting the members of the TPH Group to fulfill the collection and payment of money for transactions, providing approved insurance agency services, providing guarantees to the members of the TPH Group, handling entrusted loans and entrusted investments between the members of the TPH Group, handling the settlement of bills for the members of the TPH Group, handling internal transfer settlement between the members of the TPH Group, and designing programs for internal settlement and clearance, absorbing deposits from the members of the TPH Group, granting loans to and handling financial lease for the members of the TPH Group, engaging in inter-bank borrowings and investing in fixed income securities, and other businesses as approved by the CBIRC
<i>"Centre"</i>	: National Inter-bank Funding Centre (全国银行间同业拆借中心)
<i>"CBIRC"</i>	: China Banking and Insurance Regulatory Commission (中国银行保险监督管理委员会)
<i>"CDP"</i>	: The Central Depository (Pte) Limited
<i>"Company"</i>	: Tianjin Zhong Xin Pharmaceutical Group Corporation Limited
<i>"Controlling Shareholder"</i>	: A person who: <ul style="list-style-type: none"> (i) holds directly or indirectly 15% or more of the total voting rights in the Company. The SGX-ST may determine that a person who satisfies this paragraph is not a controlling shareholder; or (ii) in fact exercises control over the Company
<i>"CSRC"</i>	: China Securities Regulatory Commission
<i>"Directors"</i>	: The directors of the Company as at the date of this Annexure

<i>"Financial Services"</i>	: The financial services including settlement and intermediary business services, deposit business services and credit business services (such as providing loans to the Company) to be provided by TPGF under the Agreement 2020
<i>"FY" or "Financial Year"</i>	: Financial year ended or, as the case may be, ending 31 December
<i>"FY2019"</i>	: Financial year ended 31 December 2019
<i>"Group"</i>	: The Company and its subsidiaries
<i>"IFA"</i>	: RHB Securities Singapore Pte. Ltd., the independent financial adviser in relation to the Proposed IPT
<i>"IFA Letter"</i>	: The letter dated 21 May 2020 from the IFA in relation to the Proposed IPT, as set out in Schedule 1 of this Annexure
<i>"Interested Person"</i>	: As defined in the Listing Manual, an interested person, in the case of the Company, means: <ul style="list-style-type: none"> (a) a Director, chief executive officer, or Controlling Shareholder of the Company; or (b) an Associate of any such Director, chief executive officer, or Controlling Shareholder
<i>"Interested Person Transaction" or "IPT"</i>	: A transaction proposed to be entered into between the Group or any of its subsidiaries or Associated Companies with interested persons as defined under Chapter 9 of the Listing Manual
<i>"Latest Practicable Date"</i>	: The latest practicable date prior to the despatch of this Annexure, being 8 May 2020
<i>"Listing Manual"</i>	: The listing manual of the SGX-ST, as amended, modified and/or supplemented from time to time
<i>"Listing Rule"</i>	: The main board rules of the SGX-ST, as amended, modified and/or supplemented from time to time
<i>"LPR"</i>	: Loan prime rate
<i>"Market Day"</i>	: A day on which the SGX-ST is open for trading of securities

<i>"Non-Interested Directors"</i>	: The directors who are deemed independent for the purposes of making a recommendation to Shareholders in relation to the Proposed IPT, namely, all the Directors except Mr. Zhang Ping and Mr. Tang Tiejun
<i>"Notice of AGM"</i>	: Notice of the 2020 AGM given on 17 April 2020
<i>"NTA"</i>	: Net tangible assets
<i>"PRC"</i>	: People's Republic of China
<i>"Prior Agreement #1"</i>	: The financial service agreement dated 30 December 2016 that was entered into between the Company and TPGF, pursuant to which TPGF shall provide certain financial services to the Company until 30 June 2017
<i>"Prior Agreement #2"</i>	: The financial service agreement dated 1 July 2017 that was entered into between the Company and TPGF, pursuant to which TPGF shall provide certain financial services to the Company until 30 June 2020
<i>"Prior Agreements"</i>	: Prior Agreement #1 and Prior Agreement #2 collectively
<i>"Proposed IPT"</i>	: The proposed entry into Agreement 2020 by the Company with TPGF and the transactions contemplated thereunder as an interested person transaction
<i>"Relevant Period"</i>	: The current financial year beginning 1 January 2020 up to the Latest Practicable Date
<i>"RMB"</i>	: Renminbi, the lawful currency of the PRC
<i>"Securities Accounts"</i>	: The securities account maintained with CDP, but not including the securities accounts maintained with a Depository Agent
<i>"SFA"</i>	: The Securities and Futures Act (Chapter 289) of Singapore, as amended, supplemented and/or modified from time to time
<i>"SGX-ST"</i>	: Singapore Exchange Securities Trading Limited

“Shareholders”	: Registered holders of Shares except that where the registered holder is CDP, the term “Shareholders” in relation to Shares held by CDP shall mean the persons named as Depositors in the Depository Register maintained by CDP and to whose Securities Accounts such Shares are credited
“Shares”	: Ordinary shares in the capital of the Company
“Substantial Shareholder”	: A person who has an interest or interests in one (1) or more voting Shares (excluding treasury shares) in the Company, and the total votes attached to that Share, or those Shares, represent not less than five per cent. (5.0%) of the total votes attached to all the voting Shares (excluding treasury shares) in the Company
“Term”	: The period of three (3) years from 1 July 2020 to 30 June 2023
“TPGF”	: Tianjin Pharmaceutical Group Finance Co., Ltd (天津医药集团财务有限公司)
“TPH”	: Tianjin Pharmaceutical Holdings Co., Ltd. (天津市医药集团有限公司)
“TPH Group”	: TPH and its subsidiaries and associated companies
“%” or “per cent.”	: Percentage or per centum

The terms “Depositor”, “Depository”, “Depository Register” and “Depository Agent” shall have the meanings ascribed to them respectively in Section 81SF of the SFA.

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

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

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

Any discrepancies in this Annexure between the sum of the figures stated and the totals thereof are due to rounding. Accordingly, figures shown as totals in this Annexure may not be an arithmetic aggregation of the figures which precede them.

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Incorporated in the People's Republic of China)

(Company Registration No.: 91120000103100784F)

Board of Directors

Mr. Li Liquan (Chairman)
 Mr. Wang Mai (Executive Director)
 Mr. Zhou Hong (Executive Director)
 Mr. Zhang Ping (Non-Executive and Non-Independent Director)
 Mr. Tang Tiejun (Non-Executive and Non-Independent Director)
 Mr. Timothy Chen Teck Leng (Lead Independent and Non-Executive Director)
 Mr. Wong Gang (Independent and Non-Executive Director)
 Mr. Qiang Zhiyuan (Independent and Non-Executive Director)

Registered Office

17 Baidi Road,
 Nankai District,
 Tianjin, the PRC

21 May 2020

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

Dear Sir/Madam

THE PROPOSED FINANCIAL SERVICES AGREEMENT TO BE ENTERED INTO BETWEEN TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED AND TIANJIN PHARMACEUTICAL GROUP FINANCE CO., LTD AS AN INTERESTED PERSON TRANSACTION

1 INTRODUCTION

The Company has issued a notice of the 2020 AGM on 17 April 2020 (the “**Notice of AGM**”).

The purpose of this Annexure is to provide Shareholders with information pertaining to, and to seek Shareholders' approval for, the Proposed IPT, at the forthcoming AGM to be held on 5 June 2020 at 1.30 p.m. This Annexure has been prepared solely for the purposes set out herein and may not be relied upon by any persons (other than Shareholders) or for any other purpose.

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.

The Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) assumes no responsibility for the correctness of any of the statements made, reports contained or opinions expressed in this Annexure.

2 THE PROPOSED IPT

2.1 Background

On 29 December 2016, the Company announced that it proposed to enter into a financial services agreement (the “**Prior Agreement #1**”) with TPGF, pursuant to which TPGF shall provide several financial services, including settlement and intermediary business services, deposit business services and credit business services (such as providing loans to the Company), from the date of the Prior Agreement #1 until 30 June 2017.

On 14 April 2017, the Company announced that it proposed to enter into a financial services agreement (the “**Prior Agreement #2**”, together with the Prior Agreement #1, the “**Prior Agreements**”) with TPGF, pursuant to which TPGF shall provide several financial services including settlement and intermediary business services, deposit business services and credit business services (such as providing loans to the Company) for a period of 3 years from the effective date of the Prior Agreement #2. The entry into the Prior Agreement #2 and the transactions contemplated thereunder was subject to approval from Shareholders, pursuant to the requirements of Chapter 9 of the Listing Manual. Please refer to the Company’s circular dated 15 June 2017 for more information on the terms of the Prior Agreement #2, including the scope of the financial services provided to the Company and the pricing basis and policies.

The resolution relating to the entry into the Prior Agreement #2 was passed by the Shareholders at an extraordinary general meeting of the Company held on 30 June 2017.

As the tenure of the Prior Agreement #2 will be expiring on 30 June 2020, the Company intends to enter into a new financial services agreement with TPGF, based on substantially the same terms as that set out in the Prior Agreements (the “**Agreement 2020**”). For the avoidance of doubt, the scope of the Financial Services proposed to be provided under the Agreement 2020, as well as the pricing basis and policies, shall be largely similar to that provided under the Prior Agreements. The tenure for the Agreement 2020 is proposed to be from 1 July 2020 to 30 June 2023 (the “**Term**”). The Company had on 17 April 2020 announced that it proposes to enter into the Agreement 2020 with TPGF.

As the value of the Proposed IPT for the Term is an aggregate of RMB681,000,000¹ or approximately 12.37% of the Group’s latest audited NTA as at 31 December 2019 of RMB5,505,631,000, the Proposed IPT is subject to Shareholders’ approval pursuant to the requirements of Chapter 9 of the Listing Manual. More details on the foregoing is set out in Section 2.2 below.

The scope of the Financial Services provided under the Prior Agreements and the Agreement 2020 are largely similar, and the relevant amount under the Prior Agreement #2 and the Agreement 2020 are the same. However, the tenure of the Prior Agreements and the Agreement 2020 are different as the Prior Agreement #1 has expired on 30 June 2017, and the Prior Agreement #2 will expire on 30 June 2020 and will be superseded by the Agreement 2020, which shall commence after obtaining Shareholders’ approval for the Proposed IPT.

¹ Please refer to Section 2.2 of this Annexure for the calculation of RMB681,000,000, and Sections 2.7 and 2.8 of this Annexure for the basis for the charges for each of the Financial Services to be provided under the Agreement 2020.

2.2 Requirements of Chapter 9 of Listing Manual

TPGF is a subsidiary of TPH, the controlling shareholder of the Company. Accordingly, TPH and TPGF are Interested Persons and the Proposed IPT constitutes an Interested Person Transaction.

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. However, pursuant to Listing Rule 906(4), while transactions below \$100,000 are not normally aggregated under Listing Rule 906(2), the SGX-ST may aggregate any such transaction entered into during the same financial year and treat them as if they were one transaction in accordance with Listing Rule 902.

Pursuant to Listing Rule 909, the value of a transaction is the amount at risk to the issuer. This is illustrated by the following examples:

- (a) In the case of a partly-owned subsidiary or associated company, the value of the transaction is the issuer's effective interest in that transaction;
- (b) In the case of a joint venture, the value of the transaction includes the equity participation, shareholders' loans and guarantees given by the entity at risk;
- (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; and
- (d) In the case that the market value or book value of the asset to be disposed of is higher than the consideration from an interested person, the value of the transaction is the higher of the market value or book value of the asset.

Based on the audited accounts of the Group for FY2019, the Group's NTA was RMB5,505,631,000 as at 31 December 2019. Given that the total amount of the Financial Services to be provided by TPGF to the Company for the Term will not exceed RMB1,281,000,000⁽¹⁾ and the amount at risk of the Proposed IPT to the Company for the Term is an aggregate of RMB681,000,000⁽²⁾ representing approximately 12.37% of the latest audited NTA of the Group, the Proposed IPT is an interested person transaction which exceeds the 5.0% threshold mentioned above. Consequently, the Proposed IPT is subject to the approval of Shareholders.

Notes:

1. RMB1,281,000,000 = RMB9,000,000 (the maximum services fees payable by the Company for 3 years) + RMB72,000,000 (the estimated maximum interest payable on the credit facilities granted to the Company for 3 years) + RMB600,000,000 (the maximum daily balance in the Company's deposit account with TPGF, including interest) + RMB600,000,000 (the maximum daily balance of credit facilities granted to the Company (excluding interest payable))
2. RMB681,000,000 = RMB9,000,000 (the maximum services fees payable by the Company for 3 years) + RMB72,000,000 (the estimated maximum interest payable on the credit facilities granted to the Company for 3 years) + RMB600,000,000 (the maximum daily balance in the Company's deposit account with TPGF, including interest)

2.3 Previous Interested Person Transactions with TPGF

Save for the transactions made pursuant to the Prior Agreement #2 (which have been approved by Shareholders at an extraordinary general meeting of the Company held on 30 June 2017), over the past 12 months immediately preceding the Latest Practicable Date, the Company did not have any other interested person transactions with TPGF.

For the current financial year beginning 1 January 2020 up to the Latest Practicable Date (the "Relevant Period"), save for the transactions made pursuant to the Prior Agreement #2 (which have been approved by Shareholders at an extraordinary general meeting of the Company held on 30 June 2017), there are no other interested person transactions (excluding transactions less than S\$100,000) that were or are proposed to be entered into by the Company with TPGF. As such, the current total value of all interested person transactions with TPGF for the Relevant Period is approximately RMB173,231,491.71⁽¹⁾. This amount is within the limit of RMB681,000,000 approved by the Shareholders at an extraordinary general meeting of the Company held on 30 June 2017. Please refer to the Company's circular dated 15 June 2017 for further details on the Prior Agreement #2.

Note:

1. For the period from 1 January 2020 to the Latest Practicable Date, the current total value of all interested person transactions with TPGF is approximately RMB173,231,491.71, which comprise the deposit of RMB171,612,431.98, interest accruable on deposit of RMB1,185,097.23 and interest payable on credit facilities of RMB433,962.50.

2.4 Other Interested Person Transactions

For the Relevant Period, there are no interested person transactions (excluding transactions less than S\$100,000) entered into with TPH and/or its Associates that are conducted under the general shareholders' mandate pursuant to Rule 920 of the Listing Manual.

As announced by the Company on 17 February 2020, the Company is required to make an additional payment of RMB6,757,338 (representing 0.137% of the audited net assets of the Company for the financial year ended 31 December 2018) to TPH (the "Additional Payment"), as the land area covered by the land use right over the land located in the North of Qingguang Village, Beichen District, Tianjin (being the current location of Pharmaceutical Factory No. 6) that was actually delivered by TPH to the Company pursuant to the "Asset Exchange Agreement" (资产置换协议) dated 29 July 2003 entered into between TPH and the Company was 161,088.9 square meters, which was 16,088.9 square meters more than the area stipulated in the aforesaid agreement. Such payment had been made by the Company to TPH on 9 March 2020. Please refer to the Company's announcement dated 17 February 2020 for further details on the foregoing.

Save for the Additional Payment, for the Relevant Period, there are no interested person transactions (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920 of the Listing Manual) entered into with TPH and/or its Associates.

Accordingly, the current total value of all interested person transactions (excluding interested person transactions less than S\$100,000) entered into between the Group and all Interested Persons for the Relevant Period is approximately RMB179,988,829.71⁽¹⁾, representing approximately 3.27% of the Group's latest audited NTA for FY2019.

Note:

1. For the period from 1 January 2020 to the Latest Practicable Date, the current total value of all interested person transactions (excluding interested person transactions less than S\$100,000) entered into between the Group and all Interested Persons is approximately RMB179,988,829.71, which comprise the current total value of all interested person transactions with TPGF of approximately RMB173,231,491.71 and the Additional Payment of RMB6,757,338.

2.5 Information on TPGF and the TPH Group

2.5.1 Information on TPGF

TPGF is a limited company incorporated in the PRC on 14 September 2016, with a registered capital of RMB500,000,000. It is located at 3-2-501/502 Ronghe Square, No. 168 Fourth West Road, Free Trade Zone (Airport Economic Zone), PRC. Zhao Wei (赵伟) is the legal representative of TPGF. The principal activity of TPGF is to provide the following financial services (the “**Business Scope**”):

- (a) providing financing consulting, credit authentication, and related consulting services to the TPH Group;
- (b) assisting the members of the TPH Group to fulfill the collection and payment of money for transactions;
- (c) providing approved insurance agency services;
- (d) providing guarantees to the members of the TPH Group;
- (e) handling entrusted loans and entrusted investments between the members of the TPH Group;
- (f) handling the settlement of bills for the members of the TPH Group;
- (g) handling internal transfer settlement between the members of the TPH Group, and designing programs for internal settlement and clearance;
- (h) absorbing deposits from the members of the TPH Group;
- (i) granting loans to and handling financial lease for the members of the TPH Group;
- (j) engaging in inter-bank borrowings and investing in fixed income securities; and
- (k) other businesses as approved by the CBIRC.

As at the Latest Practicable Date, the shareholdings in TPGF are in the following proportions:

Name of shareholder	Equity Contribution (RMB)	Shareholding Proportion
TPH Company	250,000,000	50%
Tianjin Yaoye Group Co., Ltd (天津药业集团有限公司)	75,000,000	15%
Tianjin Lisheng Pharmaceutical Co. Ltd (天津力生制药股份有限公司)	75,000,000	15%
Tianjin Jin Yi Investment Guarantee Co., Ltd (天津金益投资担保有限责任公司)	25,000,000	5%
Total	500,000,000	100%

In accordance with the provisions of the PRC Company Law (《公司法》) and the Articles of Association of TPGF, the Company had nominated Ms. Niu Shengfang, the head of the finance department of the Company, as a director of TPGF. This arrangement where shareholders nominate directors to the board of directors of the finance company appears to be a common practice in the finance industry in the PRC. Notwithstanding the appointment of Ms. Niu Shengfang as a director of TPGF, the Company believes that this will not affect the independence of the transactions between TPGF and the Company for the following reasons: (i) even though Ms. Niu Shengfang represents the Company on the board of directors of TPGF, the Company holds only 15% voting rights in TPGF (as mentioned above) and hence, Ms. Niu Shengfang will not be able to influence the board of directors of TPGF; (ii) the business conducted between the Company and TPGF is a related party transaction, which shall, in accordance with the regulations of the CSRC and Shanghai Stock Exchange, be approved by Shareholders at a general meeting of the Company, where the interested Shareholders shall abstain from voting, and such transaction will only take effect upon it being approved by a majority of independent Shareholders; and (iii) the Company compares the conditions/terms offered by other financial institutions and by TPGF before arriving at its decision as to engage which institution for its specific financial needs. Save for the foregoing and as disclosed in Section 3.2 of this Annexure, there are no common members in the board and management of the Company, TPGF and TPH, the Controlling Shareholder of the Company.

2.5.2 Information on the TPH Group

The TPH Group comprises of listed companies such as the Company and Tianjin Tianyao Pharmaceutical Co., Ltd. (天津天药药业股份有限公司), as well as non-listed companies, of which 82 legal person entities and 41 branches within the TPH Group have made use of the financial services provided by TPGF.

2.6 Rationale for the Proposed IPT

TPGF is a non-bank financial institution approved by the CBIRC and is established to provide financial services under the Business Scope to the entities in the TPH Group, including the Company. TPGF will set up cash pooling in banks to provide channels for financing and lower the cost of financing for the entities in the TPH Group. This will optimize the use of surplus funds of the entities in the TPH Group.

As a financial institution, TPGF strictly follows the requirements of the CBIRC and prudently conducts its financial business. Accordingly, TPGF strictly implements the regulatory requirements and indicators of the CBIRC for the industry, strictly controls its capital adequacy ratio and the level of liabilities, maintains good liquidity, and ensures that the funding needs of all member entities in the TPH Group are met. At the same time, in accordance with the requirements of Article 8 of the *Administrative Measures on Finance Companies of Enterprise Groups* (Order of China Banking Regulatory Commission No. 8 of 2006) (《企业集团财务公司管理办法》[银监会[2006]年8号令]), the fourth paragraph of Article 16 of the Articles of Association of TPGF clearly provides "Tianjin Pharmaceutical Holdings Co., Ltd. (天津市医药集团有限公司), as the parent company of TPGF, promises to increase the corresponding capital according to the actual need to solve the payment difficulties in the emergency situation of TPGF's payment difficulties". This is to ensure that TPGF can satisfy the funding needs of the member entities in the TPH Group.

Further, TPGF will ensure that the Company has access to funding as:

- (i) TPGF will keep abreast of the demand for short-term funds by the Company in a timely manner and will reserve sufficient funds through fund budget management;
- (ii) TPGF will also analyse the capital characteristics of each company within the TPH Group, and based on such characteristics, will reserve sufficient funds to ensure the use of funds required by the Company after earmarking a certain level of safety provisions;
- (iii) TPGF will hold onto a certain amount of other liquid assets that can be encashed at any time, such as time deposits that can be released at any time and bank acceptance bills that can be rediscounted at any time, to ensure that the aforementioned assets can be encashed in a timely manner to satisfy any funding needs;
- (iv) TPGF has deposited the statutory deposit reserves and excess deposit reserves in the People's Bank of China, and may use these reserves to solve its liquidity requirements at any time;
- (v) TPGF is required to adhere to certain liquidity requirements of the regulatory authorities. For example, the CBIRC stipulates that the liquidity ratio shall not be less than 25% and the statutory deposit reserve ratio shall not be less than 7%; and
- (vi) TPGF may obtain short-term liquidity funds through inter-bank borrowing up to a limit of RMB500 million, and the term of borrowing is seven (7) days.

If TPGF still faces a liquidity crisis after employing the abovementioned methods, TPH shall provide funds to meet the liquidity demand. This is provided in the *Administrative Measures on Finance Companies of Enterprise Groups* (《企业集团财务公司管理办法》) and has also been enshrined in the Articles of Association of TPGF, as stated above.

In addition, by way of obtaining the loans from TPGF, the Group will receive long-term financing support as well as competitive financing costs. In this regard, since the signing of the Prior Agreement #2 in July 2017, the terms under which the Company had obtained loans from TPGF have not been higher than those offered by the other financial institutions in the PRC in the same period.

Furthermore, the deposit services provided by TPGF will enhance the management of funds of the Company and improve the Company's efficiency in the use of available funds. The management of funds is enhanced as:

- (i) there is security of funds as TPGF provides safe and efficient online banking services to the member entities in the TPH Group, and these member entities can monitor the changes in the funds deposited in their accounts with TPGF at any time;

- (ii) funds payment can be made and settled efficiently as any payment made by the Company for its branches can be realized through the internal transfer function of TPGF's online banking system, which is efficient and convenient; and
- (iii) TPGF can provide credit support to the Company within a short period of time, and this can reduce the Company's need to maintain a certain amount of reserves from time to time.

The settlement services provided by TPGF will facilitate to attain better efficiency and convenience in settlement between the Company and the other entities of the TPH Group, as well as speed up the Company's capital turnover.

The Company will make full use of the Financial Services to expand its financing panels, reduce its financing cost, ensure the sufficiency of working capital of the Company, and optimize the efficiency of capital utilization.

2.7 Total amount of Financial Services to be provided under the Agreement 2020

Under the Agreement 2020, the total amount of the Financial Services to be provided by TPGF to the Company for the Term will not exceed RMB1,281,000,000, which is the aggregate of the maximum services fees payable by the Company, the maximum daily balance in the deposit account with TPGF (including interest), the maximum daily balance of credit facilities granted to the Company (excluding interest) and the estimated maximum interest payable on such credit facilities for the Term, as set out in Section 2.8 of this Annexure.

The individual limits were arrived at based on the legal and voluntary principles and the principle of mutual benefits, and after taking into consideration the following factors: (i) the maximum daily balance in the Company's deposit account with TPGF (including interest) of up to RMB600 million was arrived at based on the average bank deposits made by the Company of approximately RMB1.3 billion, and deducting for the non-collectable funds raised of approximately RMB530 million as required by the CSRC as well as other non-collectable funds; (ii) the maximum daily balance of credit facilities of up to RMB600 million (excluding interest) is in line with the maximum daily balance in the Company's deposit account with TPGF (including interest) of RMB600 million²; (iii) the estimated maximum interest payable on the credit facilities granted to the Company of up to RMB24 million per year was arrived at based on the estimated maximum balance of the loans of RMB600 million and with reference to the average interest rate on the loans of the Company and its subsidiaries of approximately 4% per annum³; and (iv) the maximum services fees payable by the Company of up to RMB3 million per year was determined based on the Company's needs for such banking services during the Term and the estimated costs and expenses that may be incurred by TPGF in providing such banking services.

² For the avoidance of doubt, the maximum daily balance of credit facilities of up to RMB600 million (excluding interest) is different from the maximum daily balance in the Company's deposit account with TPGF (including interest) of RMB600 million. As a non-bank financial institution approved by the CBIRC, the size of the loans which TPGF may provide is limited by the size of the deposits and capital it receives. Accordingly, the maximum limit of credit facilities that may be given is aligned with the maximum amount of funds that could be deposited with TPGF. However, whether TPGF grants credit facilities is not contingent on whether deposits have been made in the account with TPGF. For illustration purposes, if the Company does not have any funds deposited with TPGF on a certain day, TPGF would still be able to provide loans of up to RMB600 million to the Company, if liquidity permits.

³ For Shareholders' reference only, as at 20 March 2020, the LPR (as defined herein) for 1-year loan is approximately 4.05%, and the LPR for loans with tenure of 5 years or more is 4.75%. There is presently no LPR for loans with a tenure of 3 years.

2.8 Main terms of the Agreement 2020

2.8.1 Principles of Cooperation

Each party is legally authorised to enter into the Agreement 2020, and has entered into the Agreement 2020 on a voluntary basis for its own commercial benefit.

2.8.2 Condition Precedent

The Agreement 2020 is conditional upon all approvals being granted by or obtained from, *inter alia*, the shareholders of the Company in a general meeting.

2.8.3 Financial Services

Pursuant to the Business Scope approved by the CBIRC, TPGF shall provide the following Financial Services to the Company:

- (a) Settlement and intermediary business services, including but not limited to draft, collection and acceptance, consignment collection, exchange, provision of balance of payment and settlement service, and payment of various types of payments. The Company will open a settlement account with TPGF, which provides collection and payment services in accordance with the Company's instructions, as well as other ancillary services related to the settlement business services.

The maximum services fees which TPGF can charge for the provision of all settlement and intermediary business services shall not be higher than the fees charged by TPGF to other third parties for similar type of services for the same period and shall not exceed RMB3 million per year.

- (b) Deposit business services, including but not limited to current deposits, time deposits, negotiated deposits, call deposits. The Company will open a deposit account with TPGF and deposit the funds in such account. The maximum daily balance in the deposit account (including interest) shall not exceed RMB600 million.
- (c) Credit business services, including but not limited to working capital loan, fixed asset loan, project loan, bill acceptance and discount business.

In accordance with the PRC laws, regulations and policies, and the requirements of the CBIRC as well as TPGF's own operating and credit policies, TPGF shall use its best endeavors to meet the Company's funds demands, and shall design the scientific and reasonable financing plans for the Company as well as comprehensive credit and discounted bills services and other credit services. The maximum daily balance of credit facilities (excluding interest) provided by TPGF during the Term shall not be more than RMB600 million. The aggregate amount of interest payable on the credit facilities shall not be more than RMB24 million per year, which shall be accrued from 1 January to 31 December in the same year.

2.8.4 Pricing Basis and Policies

- (a) TPGF provides the deposit services for the Company. The deposit interest rates shall be determined with reference to the interest rates published by the People's Bank of China for the same type of deposits⁴ with the same duration and shall not be lower than the interest rates offered by other domestic financial institutions for the same type of deposits with the same duration.
- (b) The pricing of credit business services, such as loans and bill discounting, provided by TPGF to the Company will be determined with reference to the loan prime rate ("LPR") published by the National Inter-bank Funding Centre (全国银行间同业拆借中心)⁵ (the "Centre") (as authorised by the People's Bank of China)⁶. The interest rates and fee rates charged by TPGF for the credit facilities granted to the Company shall not be higher than the interest rates and fee rates the Company can obtain from other domestic financial institutions in the PRC for the same period.
- (c) The pricing in relation to the funds settlement service, the opening of electronic banking acceptance drafts, agency service and other intermediary business services provided by TPGF to the Company will be determined with reference to market rates⁷. The rates charged by TPGF for such settlement and intermediary business services provided to the Company shall not be higher than the rates the Company can obtain from other domestic financial institutions in the PRC.
- (d) The above fee rates and interest rates refer to the market rates quoted by other financial institutions in the PRC under prevailing market conditions, without taking into account special rates such as policy lending rates or government subsidized rates.

⁴ As of April 2020, the benchmark interest rates for RMB deposits for financial institutions as stipulated by the People's Bank of China are as follows: (1) current deposits: 0.35%; (2) term deposits (3 months): 1.1%; term deposits (6 months): 1.3%; term deposits (1 year): 1.5%; term deposits (2 years): 2.1%; term deposits (3 years): 2.75%; (3) installment time deposits (1 year): 1.1%; installment time deposits (3 years): 1.3%; (3) for agreement deposits: 1.15%; and (4) for call deposits (1-day notice): 0.8%; call deposits (7-day notice): 1.35%.

⁵ The website of the Centre can be accessed from <http://www.chinamoney.com.cn/english/>.

⁶ The LPR is issued by the National Inter-bank Funding Center as authorised by the People's Bank of China. As of 20 February 2020, the LPR for loans are as follows: 4.05% for one-year term, and 4.75% for loans with tenure of 5 years or more. As of 20 March 2020, the LPR for loans are as follows: 4.05% for one-year term and 4.75% for loans with tenure of 5 years or more.

⁷ There are many different types of intermediary business services, each of which is priced differently.

2.8.5 Principles of Financial Services

- (a) TPGF will provide the Financial Services to the Company within the boundaries of the business scope approved by the CBIRC, and based on the broad principles as set out in Sections 2.8.1 and 2.8.5 of the Annexure and terms of the Agreement 2020 as set out in this Section 2.8 of the Annexure, but the precise details of the Financial Services to be provided will be specified in other agreements and signed and approved by TPGF and the Company⁸.
- (b) The Financial Services to be provided by TPGF under the Agreement 2020 shall be extended to the Group.
- (c) When TPGF is providing the Financial Services, it may require the Company to provide the corresponding security according to the actual situation and business demand. For the avoidance of doubt, the Company had not been required to provide any security in connection with the provision of the Financial Services by TPGF since the signing of the Prior Agreements. In any case, should the Company be required to provide any security in connection with the provision of the Financial Services by TPGF under the Agreement 2020, this will be a related party transaction and under the rules of the Shanghai Stock Exchange, the Company will be required to obtain Shareholders' approval prior to the provision of such security.

2.8.6 Modification and Termination of the Agreement 2020

The Agreement 2020 will be effective upon signing by the parties and satisfaction of the condition precedent, and shall be valid from 1 July 2020 to 30 June 2023.

The parties to the Agreement 2020 shall not modify and terminate the Agreement 2020 without prior written agreement reached by all parties.

⁸ This term is also contained in the Prior Agreements. For the provision of each financial service pursuant to the Agreement 2020, a specific contract needs to be entered into between TPGF and the Company, and the terms of such contract shall be in accordance with regulatory and market management requirements. For example, for opening an account, the parties will need to execute *inter alia* an "Application for Opening (Change) Corporate Settlement Account" (《开立(变更)单位结算账户申请书》); for deposits, the parties will need to execute *inter alia* a "Corporate Deposit Agreement" (《单位协定存款协议》) and "Agreement on Administration of RMB Internal Settlement Accounts" (《人民币内部结算账户管理协议》); and for loans, the parties will need to execute *inter alia* a "Credit Line Contract" (《授信额度合同》), a "Working Capital Loan Contract" (《流动资金借款合同》) and a "Fixed Asset Loan Contract" (《固定资产借款合同》). For the avoidance of doubt, the broad principles and the terms of the Agreement 2020 (being similar to a framework agreement) shall guide and regulate the general principles and amounts of financial services to be provided by TPGF to the Company, though these may not be replicated in full in each specific contract to be entered into between TPGF and the Company subsequently.

2.8.7 Key difference between the terms of the Agreement 2020 and the Prior Agreements

A key difference between the terms of the Agreement 2020 and the Prior Agreements is that under the Agreement 2020, the pricing of credit business services, such as loans and bill discounting, provided by TPGF to the Company will be determined with reference to the LPR published by the Centre (as authorised by the People's Bank of China). On the other hand, under the Prior Agreements, the pricing of credit business services, such as loans, bills acceptance and discounted bills, provided by TPGF to the Company was to be determined with reference to the benchmark lending rate and rediscount rate announced by the People's Bank of China. Save for the foregoing, there is no substantive difference in the terms of the Agreement 2020 and the Prior Agreements.

2.9 Review procedures in relation to the Proposed IPT

To ensure that the transactions pursuant to the Agreement 2020 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 of the transactions contemplated under the Proposed IPT:

- (a) Settlement and intermediary business services and credit business services: The Group will obtain quotations from TPGF and at least two (2) other unrelated financial institutions in respect of substantially similar types of transactions for comparison. The head of the finance department of the Company, namely Ms. Niu Shengfang (or such person appointed to such capacity from time to time), will review the quotations and approve the transaction provided that the quotation offered by TPGF is not less favourable than those offered by unrelated third parties and that overall the terms are in accordance with the usual industry practice and business policies of the Group.
- (b) Deposit business services: The Group will obtain interest rates from at least two (2) other unrelated financial institutions in respect of substantially similar types of deposits for comparison as and when necessary, and in the event that the interest rates are adjusted by the People's Bank of China, the interest rates for comparison will be re-examined. The head of the finance department of the Company, namely Ms. Niu Shengfang (or such person appointed to such capacity from time to time), will review the interest rates and approve the transaction provided that the interest rates offered by TPGF is not less favourable than those offered by unrelated third parties and that overall the terms are in accordance with the usual industry practice and business policies of the Group.

As disclosed in Section 2.5.1 of this Annexure, notwithstanding the appointment of Ms. Niu Shengfang as a director of TPGF, the Company believes that this will not affect the independence of the transactions between TPGF and the Company for the following reasons: (i) even though Ms. Niu Shengfang represents the Company on the board of directors of TPGF, the Company holds only 15% voting rights in TPGF (as mentioned above) and hence, Ms. Niu Shengfang will not be able to influence the board of directors of TPGF; (ii) the business conducted between the Company and TPGF is a related party transaction, which shall, in accordance with the regulations of the CSRC and Shanghai Stock Exchange, be approved by Shareholders at a general meeting of the Company, where the interested Shareholders shall abstain from voting, and such transaction will only take effect upon it being approved by a majority of independent Shareholders; and (iii) the Company compares the conditions/terms offered by other financial institutions and by TPGF before arriving at its decision as to engage which institution for its specific financial needs.

In addition, the transactions to be carried out pursuant to the Agreement 2020 will also be subject to the guidelines and review procedures that the Group has adopted for any Interested Person Transaction undertaken by the Group, where applicable, including but not limited to the following:

- (i) All transactions in excess of S\$100,000 each will be summarized and presented to the Audit Committee for review, 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 Group's procedures for Interested Person Transactions. For the avoidance of doubt, all trades under one agreement are considered as one transaction. Such review shall include the examination of the transaction and its supporting documents or such other data and all non-quantitative factors deemed necessary by the Audit Committee. The Audit Committee will, when it deems fit, have the right to require the appointment of independent sources, advisers or valuers to provide additional information pertaining to the transaction under review. In the event that a member of the Audit Committee is interested in any Interested Person Transaction, he shall abstain from participating in the review of that particular transaction;
- (ii) The Company's internal audit department will arrange to conduct a special audit on the Company's use of funds on an annual basis, and will review the implementation of the Agreement 2020 and the supplementary agreements entered into between the Company and TPGF in connection therewith, and submit its findings to the Audit Committee;
- (iii) The Company's external auditors will also review Interested Person Transactions as part of its regular audit; and
- (iv) Furthermore, the Company will disclose the aggregate value of the transactions carried out pursuant to the Agreement 2020 in the form set out in Listing Rule 907 in the Company's quarterly/full year financial statement and its annual report.

2.10 IFA's opinion

Pursuant to Chapter 9 of the Listing Manual, RHB Securities Singapore Pte. Ltd. has been appointed as the IFA to opine on whether the Proposed IPT is on normal commercial terms and is not prejudicial to the interests of the Company and its Shareholders. The IFA Letter is set out in Schedule 1 of this Annexure. Shareholders are advised to read the IFA Letter carefully.

The following is an extract from Sections 7 and 8 of the IFA Letter and should be read in conjunction with, and interpreted in, the full context of the IFA Letter. All terms and expression used in the extract below shall have the same meanings as those defined in the IFA Letter, unless otherwise stated. Shareholders should read and consider carefully the key considerations relied upon by the IFA, in arriving at its advice.

“7. EVALUATION OF THE PROPOSED IPT

We note from Section 2.8.3 and 2.8.4 of the Annexure that pursuant to the terms of the Agreement 2020, TPGF shall provide the following services to the Company at the interest rates or fee rates determined in the following manner:

- (a) Deposit services whereby the deposit interest rate offered by TPGF shall be determined with reference to the interest rates published by the People's Bank of China for the same type of deposits with the same duration and shall not be lower than the interest rates offered by other domestic financial institutions in the PRC for the same type of deposits with the same duration;
- (b) Credit services, such as loans and bill discounting, whereby the interest rates shall be determined with reference to the loan prime rate published by the National Inter-bank Funding Centre (全国银行间同业拆借中心) (as authorised by the People's Bank of China) and the interest rates and fee rates shall not be higher than those that the Company can obtain from other domestic financial institutions in the PRC for the same period; and
- (c) Settlement and intermediary services whereby the rates charged by TPGF will be determined with reference to market rates and shall not be higher than the rates the Company can obtain from other domestic financial institutions in the PRC.

We further note from Section 2.9 of the Annexure that the transactions pursuant to the Agreement 2020 shall be reviewed and approved by the head of the finance department of the Company (or such person appointed to such capacity from time to time), provided that the interest rates, fee rates and/or services fees, as the case may be, offered by TPGF are not less favourable when compared with those offered by at least two other unrelated third parties and that overall the terms are in accordance with the usual industry practice and business policies of the Group.

8. RECOMMENDATION

In arriving at our opinion in respect of the Proposed IPT, we have considered, inter alia, the pricing basis and policies for the Financial Services, the review procedures of the Company for the Proposed IPT and the rationale for the Proposed IPT.

Having regard to the considerations set out in this Letter and the information available to us as at the Latest Practicable Date, we are of the opinion that the Proposed IPT is on normal commercial terms and will not be prejudicial to the interests of the Company and its Independent Shareholders. **We therefore advise the Non-Interested Directors to recommend that Independent Shareholders vote in favour of the Proposed IPT to be proposed at the 2020 AGM to be convened.**

The Non-Interested Directors should note that our recommendation is based upon market, economic, industry, monetary and other conditions prevailing and information made available to us as at the Latest Practicable Date.”

In summary, having considered the factors set out in the IFA Letter, the IFA is of the view that the Proposed IPT is on normal commercial terms and will not be prejudicial to the interests of the Company and its Shareholders who are not interested persons as defined in Chapter 9 of the Listing Manual.

2.11 Audit Committee's statement

Having considered, amongst others, the rationale for, and terms and benefit of, the Proposed IPT, as well as the opinion and advice of the IFA as set out in Schedule 1 of this Annexure, the Audit Committee concurs with the opinion of the IFA and is of the view that the Proposed IPT is on normal commercial terms and is not prejudicial to the interests of the Company and its minority Shareholders. Accordingly, the opinion of the Audit Committee on the Proposed IPT does not differ from that of the IFA.

3 DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

3.1 Directors' and Substantial Shareholders' interests in Shares

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

	Direct Interest		Deemed Interest	
	No of Shares	% ⁽¹⁾	No of Shares	% ⁽¹⁾
<u>Directors</u>				
Li Liqun	70,000	0.009	–	–
Wang Mai	70,000	0.009	–	–
Zhou Hong	70,000	0.009	–	–
Zhang Ping	–	–	–	–
Tang Tiejun	–	–	–	–
Timothy Chen Teck Leng	–	–	–	–
Wong Gang	–	–	–	–
Qiang Zhiyuan	–	–	–	–
<u>Substantial Shareholders</u>				
TPH	325,855,528	42.17	5,265,000 ⁽²⁾	0.68

Notes:

(1) Based on the total issued share capital of 772,803,076 Shares as at the Latest Practicable Date.

(2) Pursuant to Section 4 of the SFA, TPH is deemed interested in the 5,265,000 shares in the capital of the Company held by its wholly-owned subsidiary, Tianjin Pharmaceutical (Singapore) International Investment Pte. Ltd.

3.2 Directors' and Substantial Shareholders' interests in the Proposed IPT

As disclosed in Section 2.5 of this Annexure, TPH holds 50% equity interest in TPGF as at the Latest Practicable Date. Accordingly, TPGF is a subsidiary and an Associate of TPH. Therefore, as disclosed in Section 2.2 of this Annexure, TPH and TPGF are Interested Persons in relation to the Proposed IPT.

Each of Mr. Zhang Ping and Mr. Tang Tiejun is a key management personnel in TPH. Accordingly, they will abstain from making any recommendation to Shareholders on the Proposed IPT.

Saved as disclosed in this Annexure, none of the Directors or Substantial Shareholders have any interest in the Proposed IPT.

4 DIRECTORS' RECOMMENDATIONS

Having considered, amongst others, the rationale for, and terms and benefit of, the Proposed IPT, the opinion and advice of the IFA as set out in Schedule 1 of this Annexure, and the opinion of the Audit Committee as set out in Section 2.11 of this Annexure, the Non-Interested Directors are of the opinion that the Proposed IPT is in the interests of the Company and the Shareholders as a whole. Therefore, the Non-Interested Directors (which excludes Mr. Zhang Ping and Mr. Tang Tiejun as they shall abstain from making a recommendation for reasons set out in Section 3.2 of this Annexure) recommend that the Shareholders vote in favour of the ordinary resolution set out in the Notice of AGM in relation to the Proposed IPT.

5 ABSTENTION FROM VOTING

As disclosed in Section 3.2 of this Annexure, TPGF is a subsidiary and an Associate of TPH. Accordingly, TPH will abstain, and has undertaken to ensure that its respective Associates will abstain, from voting at the 2020 AGM in respect of the ordinary resolution approving the Proposed IPT. In addition, it shall, and has undertaken to ensure that its respective Associates shall, also not accept nomination as proxies or otherwise for voting at the 2020 AGM in respect of the aforesaid ordinary resolution unless specific instructions have been given in the proxy instrument on how the relevant Shareholders wish their votes to be cast for the said ordinary resolution.

6 DIRECTORS' RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Annexure (save in respect of the IFA letter set out in Schedule 1 of 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 IPT and the Group, and the Directors are not aware of any facts the omission of which would make any statement in this 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.

7 CONSENTS

The IFA has given and has not withdrawn its written consent to the issue of this Annexure with the inclusion of the IFA Letter as Schedule 1 of this Annexure, the IFA Letter, and references to its name, in the form and context in which it appears in the Annexure and the IFA Letter.

8 DOCUMENTS FOR INSPECTION

Copies of the following documents may be inspected at the registered office of the Company at 17 Baidi Road, Nankai District, Tianjin, the PRC, during normal business hours from the date of this Annexure up to and including the date of the 2020 AGM:

- (a) the Agreement 2020;
- (b) the Articles of Association of the Company;
- (c) the annual report of the Company for FY2019;
- (d) the IFA Letter; and
- (e) the letter of consent issued by the IFA as described in Section 7.

Yours faithfully

For and on behalf of the Directors

Li Liquan
Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

SCHEDULE 1

LETTER FROM RHB SECURITIES SINGAPORE PTE. LTD. TO TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

21 May 2020

Tianjin Zhong Xin Pharmaceutical Group Corporation Limited

17 Baidi Road, Nankai District

Tianjin

People's Republic of China

Dear Sirs,

THE PROPOSED FINANCIAL SERVICES AGREEMENT TO BE ENTERED INTO BETWEEN TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED (THE "COMPANY" AND TOGETHER WITH ITS SUBSIDIARIES, THE "GROUP") AND TIANJIN PHARMACEUTICAL GROUP FINANCE CO., LTD AS AN INTERESTED PERSON TRANSACTION

Unless otherwise defined or the context requires otherwise, all terms used herein have the same meanings as defined in the annexure to shareholders of the Company ("Shareholders") dated 21 May 2020 (the "Annexure").

1. INTRODUCTION

The Company had, at the extraordinary general meeting held on 30 June 2017, sought and obtained the approval of its Shareholders for the Company to enter into a financial services agreement dated 1 July 2017 ("**Agreement 2017**" or "**Prior Agreement #2**") with Tianjin Pharmaceutical Group Finance Co., Ltd (天津医药集团财务有限公司) ("**TPGF**"), which constitutes an interested person transaction as defined in Chapter 9 of the Listing Manual ("**Interested Person Transaction**"). Pursuant to the Agreement 2017, TPGF shall provide certain financial services to the Company for a period of three (3) years with effect from the date of Agreement 2017, i.e. 1 July 2017. Accordingly, Agreement 2017 will be expiring on 30 June 2020.

On 17 April 2020, the Company announced that it proposed to enter into a new financial services agreement ("**Agreement 2020**") with TPGF, pursuant to which TPGF shall provide certain financial services including settlement and intermediary business services, deposit business services and credit business services (such as providing loans to the Company) ("**Financial Services**") for the period of three (3) years from 1 July 2020 to 30 June 2023 ("**Proposed IPT**").

As TPGF is a subsidiary of Tianjin Pharmaceutical Holdings Co., Ltd. (天津市医药集团有限公司) ("**TPH**"), the controlling shareholder of the Company, TPH and TPGF are interested persons and the Proposed IPT constitutes an Interested Person Transaction as defined in Chapter 9 of the Listing Manual.

Pursuant to Listing Rule 909, the value of a transaction is the amount of risk to the issuer and in the case of borrowing of funds from an interested person, the value of the transaction is the interest payable on the borrowing. Consequently, the total value of the Proposed IPT (i.e. the amount at risk to the Company) is estimated to be up to RMB681 million¹, representing approximately 12.37% of the Group's latest audited net tangible assets ("**NTA**") of RMB5,505,631,000 as at 31 December 2019. Accordingly, the Proposed IPT is subject to the approval of the Company's shareholders who are not interested persons as defined in Chapter 9 of the Listing Manual ("**Independent Shareholders**"), pursuant to Listing Rule 906.

In connection with the above and pursuant to the requirements of Chapter 9 of the Listing Manual, RHB Securities Singapore Pte. Ltd. ("**RHBSec**") was appointed by the Company as the independent financial adviser ("**IFA**") to advise whether the Proposed IPT is on normal commercial terms and is not prejudicial to the interests of the Company and its Independent Shareholders.

This letter ("**Letter**") sets out, *inter alia*, our evaluation of the Proposed IPT as an Interested Person Transaction and our opinion thereon. It forms part of the Annexure providing, *inter alia*, details of the Proposed IPT and the recommendations of the Non-Interested Directors in respect thereof.

2. TERMS OF REFERENCE

RHBSec has been appointed in accordance with Listing Rule 921(4)(a) to advise only in respect of whether the Proposed IPT is on normal commercial terms and is not prejudicial to the interests of the Company and its Independent Shareholders.

RHBSec is neither a party to the negotiations or discussions in relation to the Proposed IPT nor were we involved in the deliberations leading up to the decision on the part of the Company to enter into the Proposed IPT. We do not, by this Letter, in any way advise on the merits of the Proposed IPT other than to form an opinion on whether the Proposed IPT is on normal commercial terms and is not prejudicial to the interests of the Company and its Independent Shareholders.

Our terms of reference do not require us to evaluate or comment on the strategic, commercial, financial merits or risks (if any) of the Proposed IPT or to compare their relative merits vis-à-vis alternative transactions previously considered by the Company (if any) or that may otherwise be available to the Company currently or in the future, and we do not express any opinion on any of the aforesaid.

¹ RMB681 million = RMB9 million (the maximum services fees payable by the Company for 3 years) + RMB72 million (the estimated maximum interest payable on the credit facilities granted to the Company for 3 years) + RMB600 million (the maximum daily balance in the Company's deposit account with TPGF, including interest).

We are not required to and have not made any independent appraisal or valuation of the assets and liabilities of the Company, the Group, TPGF and/or TPH and we have not been furnished with any such appraisal or valuation. Any such evaluation, comment, comparison, consideration, appraisal or valuation remains and is solely the responsibility of the Directors and the management of the Company ("**Management**"), but we may draw upon their views or make comments in respect thereof (to the extent we deem necessary or appropriate and at our sole discretion) in arriving at our opinion as set out in this Letter. We have also relied on information on the Company, the Group, TPGF and/or TPH, including the disclosures and representations made by the Company on the values of the assets and liabilities of the Company, the Group, TPGF and/or TPH stated herein (if any).

For the purpose of our advice and opinion, we have relied on publicly available information collated by us, information set out in the Annexure, and information (including representations, opinions, facts and statements) provided to us by the Directors, Management and the advisers of the Company. We have relied on the assurances of the Directors and Management that they jointly and severally accept full responsibility for the accuracy, truth, completeness and adequacy of such information. They have confirmed to us that, upon making all reasonable inquiries and to the best of their respective knowledge, information and belief, all material information in connection with the Proposed IPT, the Company, the Group, TPGF and/or TPH has been disclosed to us, that such information is true, complete, accurate and fair in all material respects and that there is no other information or fact, the omission of which would cause any information disclosed to or relied upon by us or the facts of or in relation to the Proposed IPT, the Company, the Group, TPGF and/or TPH to be inaccurate, untrue, incomplete, unfair or misleading in any material respect.

We have not independently verified any of the aforesaid information whether written or verbal, and have assumed its accuracy, truth, completeness and adequacy, including without limitation any information on the assets and liabilities of the Company, the Group, TPGF and/or TPH. Accordingly, we cannot and do not represent or warrant (expressly or impliedly), and do not accept any responsibility for the accuracy, truth, completeness or adequacy of such information. We have further assumed that all statements of fact, belief, opinion and intention made by the Directors and the Management to us or in the Annexure have been reasonably made after due and careful inquiry. We have exercised care in reviewing the information which we have relied on, and made such reasonable enquiries and exercised our judgment on the reasonableness of such information as we deemed necessary and have found no reason to doubt the accuracy or reliability of the information.

The scope of our appointment does not require us to conduct a comprehensive independent review of the business, operations or financial conditions of the Company, the Group, TPGF and/or TPH, or to express, and we do not express, any view on the future growth prospects, value and earnings potential of the Company, the Group, TPGF and/or TPH. Such review or comment, if any, remains the responsibility of the Directors and the Management, although we may draw upon their views or make such comments in respect thereof (to the extent required by the Listing Manual and/or deemed necessary or appropriate by us) in arriving at our advice as set out in this Letter. We have not obtained from the Company, the Group, TPGF and/or TPH any projection of the future performance including financial performance of the Company, the Group, TPGF and/or TPH and further, we did not conduct discussions with the Directors and the management of the Company, the Group, TPGF and/or TPH on, and did not have access to, any business plan and financial projections of the Company, the Group, TPGF and/or TPH. We also do not express any opinion herein as to the prices at which the shares of the Company may trade or the future value, financial performance or condition of the Company and/or the Group, upon or after completion of the Proposed IPT.

Our advice and opinion herein is based upon market, economic, industry, monetary and other conditions prevailing on, and the information provided to us as of the Latest Practicable Date. Such conditions may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion in light of, and this Letter does not take into account, any subsequent development after the Latest Practicable Date that may affect our opinion herein.

The Company has been separately advised by its advisers in the preparation of the Annexure (other than this Letter). We have no role or involvement and have not provided any advice, financial or otherwise, whatsoever in the preparation, review and verification of the Annexure (other than this Letter). Accordingly, we take no responsibility for and express no views, expressed or implied, on the contents of the Annexure (other than this Letter).

We have not regarded the general or specific investment objectives, financial situation, tax position, risk profile or unique needs and constraints of any individual Shareholder. As different Shareholders would have different investment portfolios and objectives, we would advise the Non-Interested Directors to recommend that any individual Shareholder who may require specific advice in relation to his or her investment portfolio should consult his or her stockbroker, bank manager, solicitor, accountant, tax adviser or other professional advisers.

This Letter is required under Listing Rule 921(4)(a) as well as for the use and benefit of the Non-Interested Directors and the recommendations made by them to the Independent Shareholders are the responsibility of the Non-Interested Directors. Shareholders should also take note of any announcements relevant to the Proposed IPT which may be released by the Company after the Latest Practicable Date.

3. INFORMATION ON TPGF AND THE TPH GROUP

Information on TPGF and the TPH Group has been extracted from Sections 2.5.1 and 2.5.2 of the Annexure respectively and set out below in italics. Shareholders are advised to read Sections 2.5.1 and 2.5.2 of the Annexure carefully.

“2.5.1 Information on TPGF

TPGF is a limited company incorporated in the PRC on 14 September 2016, with a registered capital of RMB500,000,000. It is located at 3-2-501/502 Ronghe Square, No. 168 Fourth West Road, Free Trade Zone (Airport Economic Zone), PRC. Zhao Wei (赵伟) is the legal representative of TPGF. The principal activity of TPGF is to provide the following financial services (the “Business Scope”):

- (a) providing financing consulting, credit authentication, and related consulting services to the TPH Group;*
- (b) assisting the members of the TPH Group to fulfill the collection and payment of money for transactions;*
- (c) providing approved insurance agency services;*
- (d) providing guarantees to the members of the TPH Group;*
- (e) handling entrusted loans and entrusted investments between the members of the TPH Group;*
- (f) handling the settlement of bills for the members of the TPH Group;*
- (g) handling internal transfer settlement between the members of the TPH Group, and designing programs for internal settlement and clearance;*
- (h) absorbing deposits from the members of the TPH Group;*
- (i) granting loans to and handling financial lease for the members of the TPH Group;*
- (j) engaging in inter-bank borrowings and investing in fixed income securities; and*
- (k) other businesses as approved by the CBIRC.”*

As at the Latest Practicable Date, the shareholding structure in TPGF are in the following proportions:

Name of shareholder	Equity Contribution (RMB)	Shareholding Proportion
TPH	250,000,000	50%
Company	75,000,000	15%
Tianjin Yaoye Group Co., Ltd (天津药业集团有限公司)	75,000,000	15%
Tianjin Lisheng Pharmaceutical Co. Ltd (天津力生制药股份有限公司)	75,000,000	15%
Tianjin Jin Yi Investment Guarantee Co., Ltd (天津金益投资担保有限责任公司)	25,000,000	5%
Total	500,000,000	100%

In accordance with the provisions of the PRC Company Law (《公司法》) and the Articles of Association of TPGF, the Company had nominated Ms. Niu Shengfang, the head of the finance department of the Company, as a director of TPGF. This arrangement where shareholders nominate directors to the board of directors of the finance company appears to be a common practice in the finance industry in the PRC. Notwithstanding the appointment of Ms. Niu Shengfang as a director of TPGF, the Company believes that this will not affect the independence of the transactions between TPGF and the Company for the following reasons: (i) even though Ms. Niu Shengfang represents the Company on the board of directors of TPGF, the Company holds only 15% voting rights in TPGF (as mentioned above) and hence, Ms. Niu Shengfang will not be able to influence the board of directors of TPGF; (ii) the business conducted between the Company and TPGF is a related party transaction, which shall, in accordance with the regulations of the CSRC and Shanghai Stock Exchange, be approved by Shareholders at a general meeting of the Company, where the interested Shareholders shall abstain from voting, and such transaction will only take effect upon it being approved by a majority of independent Shareholders; and (iii) the Company compares the conditions/terms offered by other financial institutions and by TPGF before arriving at its decision as to engage which institution for its specific financial needs. Save for the foregoing and as disclosed in Section 3.2 of this Annexure, there are no common members in the board and management of the Company, TPGF and TPH, the Controlling Shareholder of the Company.

2.5.2 Information on the TPH Group

The TPH Group comprises of listed companies such as the Company and Tianjin Tianyao Pharmaceutical Co., Ltd. (天津天药药业股份有限公司), as well as non-listed companies, of which 82 legal person entities and 41 branches within the TPH Group have made use of the financial services provided by TPGF."

4. RATIONALE FOR THE PROPOSED IPT

It is not within our terms of reference to comment or express an opinion on the merits of the Proposed IPT or the future prospects of the Group in view of the Proposed IPT. Nevertheless, we have reviewed the rationale for the Proposed IPT as set out in Section 2.6 of the Annexure and reproduced in italics below for your reference. Shareholders are advised to read the information carefully.

“2.6 Rationale for the Proposed IPT

TPGF is a non-bank financial institution approved by the CBIRC and is established to provide financial services under the Business Scope to the entities in the TPH Group, including the Company. TPGF will set up cash pooling in banks to provide channels for financing and lower the cost of financing for the entities in the TPH Group. This will optimize the use of surplus funds of the entities in the TPH Group.

As a financial institution, TPGF strictly follows the requirements of the CBIRC and prudently conducts its financial business. Accordingly, TPGF strictly implements the regulatory requirements and indicators of the CBIRC for the industry, strictly controls its capital adequacy ratio and the level of liabilities, maintains good liquidity, and ensures that the funding needs of all member entities in the TPH Group are met. At the same time, in accordance with the requirements of Article 8 of the Administrative Measures on Finance Companies of Enterprise Groups [Order of China Banking Regulatory Commission No. 8 of 2006] (《企业集团财务公司管理办法》(银监会[2006]年8号令)), the fourth paragraph of Article 16 of the Articles of Association of TPGF clearly provides “Tianjin Pharmaceutical Holdings Co., Ltd. (天津市医药集团有限公司), as the parent company of TPGF, promises to increase the corresponding capital according to the actual need to solve the payment difficulties in the emergency situation of TPGF’s payment difficulties”. This is to ensure that TPGF can satisfy the funding needs of the member entities in the TPH Group.

Further, TPGF will ensure that the Company has access to funding as:

- (i) TPGF will keep abreast of the demand for short-term funds by the Company in a timely manner and will reserve sufficient funds through fund budget management;*
- (ii) TPGF will also analyse the capital characteristics of each company within the TPH Group, and based on such characteristics, will reserve sufficient funds to ensure the use of funds required by the Company after earmarking a certain level of safety provisions;*
- (iii) TPGF will hold onto a certain amount of other liquid assets that can be encashed at any time, such as time deposits that can be released at any time and bank acceptance bills that can be rediscounted at any time, to ensure that the aforementioned assets can be encashed in a timely manner to satisfy any funding needs;*
- (iv) TPGF has deposited the statutory deposit reserves and excess deposit reserves in the People’s Bank of China, and may use these reserves to solve its liquidity requirements at any time;*

- (v) TPGF is required to adhere to certain liquidity requirements of the regulatory authorities. For example, the CBIRC stipulates that the liquidity ratio shall not be less than 25% and the statutory deposit reserve ratio shall not be less than 7%; and
- (vi) TPGF may obtain short-term liquidity funds through inter-bank borrowing up to a limit of RMB500 million, and the term of borrowing is seven (7) days.

If TPGF still faces a liquidity crisis after employing the abovementioned methods, TPH shall provide funds to meet the liquidity demand. This is provided in the Administrative Measures on Finance Companies of Enterprise Groups (《企业集团财务公司管理办法》) and has also been enshrined in the Articles of Association of TPGF, as stated above.

In addition, by way of obtaining the loans from TPGF, the Group will receive long-term financing support as well as competitive financing costs. In this regard, since the signing of the Prior Agreement #2 in July 2017, the terms under which the Company had obtained loans from TPGF have not been higher than those offered by the other financial institutions in the PRC in the same period.

Furthermore, the deposit services provided by TPGF will enhance the management of funds of the Company and improve the Company's efficiency in the use of available funds. The management of funds is enhanced as:

- (i) there is security of funds as TPGF provides safe and efficient online banking services to the member entities in the TPH Group, and these member entities can monitor the changes in the funds deposited in their accounts with TPGF at any time;
- (ii) funds payment can be made and settled efficiently as any payment made by the Company for its branches can be realized through the internal transfer function of TPGF's online banking system, which is efficient and convenient; and
- (iii) TPGF can provide credit support to the Company within a short period of time, and this can reduce the Company's need to maintain a certain amount of reserves from time to time.

The settlement services provided by TPGF will facilitate to attain better efficiency and convenience in settlement between the Company and the other entities of the TPH Group, as well as speed up the Company's capital turnover.

The Company will make full use of the Financial Services to expand its financing panels, reduce its financing cost, ensure the sufficiency of working capital of the Company, and optimize the efficiency of capital utilization."

5. THE PROPOSED IPT

We note from Section 2.8.3 of the Annexure that TPGF shall provide the following categories of Financial Services to the Company under the Agreement 2020: (i) settlement and intermediary business services; (ii) deposit business services; and (iii) credit business services. Details relating to the total amount of the Financial Services to be provided under the Agreement 2020 and the salient terms of the Agreement 2020 are set out in Section 2.7 and Section 2.8 of the Annexure respectively. Shareholders are advised to read the information carefully.

Specifically, information relating to the pricing of the Financial Services is extracted from Section 2.8.4 of the Annexure and set out below in italics for your reference.

"2.8.4 Pricing Basis and Policies

- (a) TPGF provides the deposit services for the Company. The deposit interest rates shall be determined with reference to the interest rates published by the People's Bank of China for the same type of deposits with the same duration and shall not be lower than the interest rates offered by other domestic financial institutions for the same type of deposits with the same duration.*
- (b) The pricing of credit business services, such as loans and bill discounting, provided by TPGF to the Company will be determined with reference to the loan prime rate ("**LPR**") published by the National Inter-bank Funding Center (全国银行间同业拆借中心) (the "**Center**") (as authorised by the People's Bank of China). The interest rates and fee rates charged by TPGF for the credit facilities granted to the Company shall not be higher than the interest rates and fee rates the Company can obtain from other domestic financial institutions in the PRC for the same period.*
- (c) The pricing in relation to the funds settlement service, the opening of electronic banking acceptance drafts, agency service and other intermediary business services provided by TPGF to the Company will be determined with reference to market rates. The rates charged by TPGF for such settlement and intermediary business services provided to the Company shall not be higher than the rates the Company can obtain from other domestic financial institutions in the PRC.*
- (d) The above fee rates and interest rates refer to the market rates quoted by other financial institutions in the PRC under prevailing market conditions, without taking into account special rates such as policy lending rates or government subsidized rates."*

6. REVIEW PROCEDURES IN RELATION TO THE PROPOSED IPT

We have reviewed the review procedures for the Financial Services under the Agreement 2020 as set out in Section 2.9 of the Annexure and reproduced in italics below for your reference. Shareholders are advised to read the information carefully.

“2.9 Review procedures in relation to the Proposed IPT

To ensure that the transactions pursuant to the Agreement 2020 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 of the transactions contemplated under the Proposed IPT:

- (a) Settlement and intermediary business services and credit business services: The Group will obtain quotations from TPGF and at least two (2) other unrelated financial institutions in respect of substantially similar types of transactions for comparison. The head of the finance department of the Company, namely Ms. Niu Shengfang (or such person appointed to such capacity from time to time), will review the quotations and approve the transaction provided that the quotation offered by TPGF is not less favourable than those offered by unrelated third parties and that overall the terms are in accordance with the usual industry practice and business policies of the Group.*
- (b) Deposit business services: The Group will obtain interest rates from at least two (2) other unrelated financial institutions in respect of substantially similar types of deposits for comparison as and when necessary, and in the event that the interest rates are adjusted by the People’s Bank of China, the interest rates for comparison will be re-examined. The head of the finance department of the Company, namely Ms. Niu Shengfang (or such person appointed to such capacity from time to time), will review the interest rates and approve the transaction provided that the interest rates offered by TPGF is not less favourable than those offered by unrelated third parties and that overall the terms are in accordance with the usual industry practice and business policies of the Group.*

As disclosed in Section 2.5.1 of this Annexure, notwithstanding the appointment of Ms. Niu Shengfang as a director of TPGF, the Company believes that this will not affect the independence of the transactions between TPGF and the Company for the following reasons: (i) even though Ms. Niu Shengfang represents the Company on the board of directors of TPGF, the Company holds only 15% voting rights in TPGF (as mentioned above) and hence, Ms. Niu Shengfang will not be able to influence the board of directors of TPGF; (ii) the business conducted between the Company and TPGF is a related party transaction, which shall, in accordance with the regulations of the CSRC and Shanghai Stock Exchange, be approved by Shareholders at a general meeting of the Company, where the interested Shareholders shall abstain from voting, and such transaction will only take effect upon it being approved by a majority of independent Shareholders; and (iii) the Company compares the conditions/terms offered by other financial institutions and by TPGF before arriving at its decision as to engage which institution for its specific financial needs.

In addition, the transactions to be carried out pursuant to the Agreement 2020 will also be subject to the guidelines and review procedures that the Group has adopted for any Interested Person Transaction undertaken by the Group, where applicable, including but not limited to the following:

- (i) All transactions in excess of S\$100,000 each will be summarized and presented to the Audit Committee for review, 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 Group's procedures for Interested Person Transactions. For the avoidance of doubt, all trades under one agreement are considered as one transaction. Such review shall include the examination of the transaction and its supporting documents or such other data and all non-quantitative factors deemed necessary by the Audit Committee. The Audit Committee will, when it deems fit, have the right to require the appointment of independent sources, advisers or valuers to provide additional information pertaining to the transaction under review. In the event that a member of the Audit Committee is interested in any Interested Person Transaction, he shall abstain from participating in the review of that particular transaction;*
- (ii) The Company's internal audit department will arrange to conduct a special audit on the Company's use of funds on an annual basis, and will review the implementation of the Agreement 2020 and the supplementary agreements entered into between the Company and TPGF in connection therewith, and submit its findings to the Audit Committee;*
- (iii) The Company's external auditors will also review Interested Person Transactions as part of its regular audit; and*
- (iv) Furthermore, the Company will disclose the aggregate value of the transactions carried out pursuant to the Agreement 2020 in the form set out in Listing Rule 907 in the Company's quarterly/full year financial statement and its annual report."*

7. EVALUATION OF THE PROPOSED IPT

We note from Sections 2.8.3 and 2.8.4 of the Annexure that pursuant to the terms of the Agreement 2020, TPGF shall provide the following services to the Company at the interest rates or fee rates determined in the following manner:

- (a) Deposit services whereby the deposit interest rate offered by TPGF shall be determined with reference to the interest rates published by the People's Bank of China for the same type of deposits with the same duration and shall not be lower than the interest rates offered by other domestic financial institutions in the PRC for the same type of deposits with the same duration;
- (b) Credit services, such as loans and bill discounting, whereby the interest rates shall be determined with reference to the loan prime rate published by the National Inter-bank Funding Centre (全国银行间同业拆借中心) (as authorised by the People's Bank of China) and the interest rates and fee rates shall not be higher than those that the Company can obtain from other domestic financial institutions in the PRC for the same period; and
- (c) Settlement and intermediary services whereby the rates charged by TPGF will be determined with reference to market rates and shall not be higher than the rates the Company can obtain from other domestic financial institutions in the PRC.

We further note from Section 2.9 of the Annexure that the transactions pursuant to the Agreement 2020 shall be reviewed and approved by the head of the finance department of the Company (or such person appointed to such capacity from time to time), provided that the interest rates, fee rates and/or services fees, as the case may be, offered by TPGF are not less favourable when compared with those offered by at least two other unrelated third parties and that overall the terms are in accordance with the usual industry practice and business policies of the Group.

8. RECOMMENDATION

In arriving at our opinion in respect of the Proposed IPT, we have considered, *inter alia*, the pricing basis and policies for the Financial Services, the review procedures of the Company for the Proposed IPT and the rationale for the Proposed IPT.

Having regard to the considerations set out in this Letter and the information available to us as at the Latest Practicable Date, we are of the opinion that the Proposed IPT is on normal commercial terms and will not be prejudicial to the interests of the Company and its Independent Shareholders. **We therefore advise the Non-Interested Directors to recommend that Independent Shareholders vote in favour of the Proposed IPT to be proposed at the 2020 AGM to be convened.**

The Non-Interested Directors should note that our recommendation is based upon market, economic, industry, monetary and other conditions prevailing and information made available to us as at the Latest Practicable Date.

This Letter is prepared pursuant to Listing Rule 921(4)(a) for the purposes of the Independent Shareholders' consideration of the Proposed IPT. The Non-Interested Directors' recommendations to the Independent Shareholders in respect of the Proposed IPT shall remain their responsibility. Whilst a copy of this Letter may be reproduced in the Annexure, neither the Company, the Directors nor any other persons may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose other than for the purpose of the 2020 AGM and for the purpose of the Proposed IPT, at any time in any manner without our prior written consent in each specific case.

Yours faithfully

For and on behalf of

RHB Securities Singapore Pte. Ltd.

Lien I Ping
Deputy Director
Corporate Finance

Wong Kee Seong
Deputy Director
Corporate Finance

SUSTAINABILITY REPORTING

Zhong Xin Pharmaceutical upholds the highest possible standards of responsible, sustainable and socially aware business practices. We are committed to instilling sustainability in our corporate culture and improving the economic, environmental and social wellbeing of our stakeholders. We prudently balance economic viability with sustainability and social progress for future generations.

As a responsible corporate citizen that takes pride in supplying pharmaceutical products of high quality and safety standards, we have always prioritised product health and safety. We regularly review our quality control policies and manufacturing practices, and strictly comply with industrial regulations to ensure that our drugs are safe for patients.

Other than producing and distributing responsibly, we also deliver and market our products ethically. Our business activities strictly comply with national and industrial standards on product marketing, labelling and advertising, and establish stringent marketing guidelines to ensure that we do not transgress important ethical and legal boundaries.

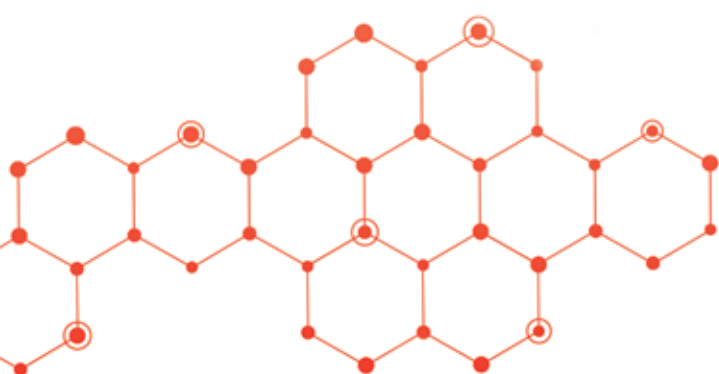
We believe that product research and development is key to the sustainability of our business. We invest significantly in our product development, facilities and equipment to supply efficacious pharmaceutical products to our customers.

The Group has assigned a Sustainability task force to oversee sustainability reporting, to monitor our sustainability performance and the implementation of our sustainability policies and measures. We endeavour to streamline our business operations to improve efficiency and conserve resources.

Below is a summary table of the key topics that are relevant to the Group and our stakeholders.

Economic	Environmental	Social
Indirect Economic Impacts	Energy Water Emissions Effluents and Waste	Customer Health and Safety Marketing and Labelling Occupational Health and Safety Diversity and Equal Opportunity

More information on the Group's efforts on sustainability management in FY2019 can be found in the Tianjin Zhong Xin Pharmaceutical Group's 2019 Sustainability Report which is published in May 2020.



中新药业
ZHONGXIN PHARMACEUTICALS

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