

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

(Company Registration No. 91120000103100784F)

(Incorporated in the Republic of China)

RESPONSE TO THE QUERIES OF THE SGX-ST ON THE UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR 3Q FY2016

The Board of Directors (the “**Board**”) of Tianjin Zhong Xin Pharmaceutical Group Corporation Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) would like to provide the following information in response to the queries from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 22 November 2016 with regards to the unaudited financial statements of the Group for 3Q FY2016, which was announced on 28 October 2016 (the “**Results Announcement**”).

Unless otherwise defined herein, capitalised terms used but not defined herein shall have the same meanings ascribed to them in the Results Announcement.

SGX query 1

We refer to page 3 of the Results Announcement. Please provide the following information:-

- (a) Provide breakdown and explain material items for ‘Other gains’. Provide details on “gain on disposal of associates” on page 14.
- (b) Explain why ‘Marketing and distribution costs’ has increased when ‘Revenue’ has decreased by 10%.
- (c) Explain why ‘Research and development costs’ has increased.
- (d) Explain why ‘Administrative expenses’ has increased.

The Company's response to query 1

- (a) The other gains for 9M 2016 mainly consists of:
 - (i) the gains of RMB 30,723,200 from the investments in financial instruments by Zhejiang Zhong Xin Chuang Rui Investment Co., Ltd;
 - (ii) the compensation fee of RMB 9,198,800 from Tianjin Pharmaceutical Group Co., Ltd;

Pursuant to the announcements made by the Company dated 30 March 2012, 3 April 2012, 19 April 2012, 23 April 2012 and 27 April 2012, as well as the circular dated 28 May 2012, the Company had acquired 40% equity interest in Tianjin Hong Ren Tang Pharmaceutical Co., Ltd. from Tianjin Pharmaceutical Group Co., Ltd (the “**Proposed Acquisition**”). Pursuant to the supplemental agreement in relation to the Proposed Acquisition, Tianjin Pharmaceutical Group Co., Ltd had agreed that, in the event that the actual profits of Tianjin Hong Ren Tang is lower than the respective forecasted profits, it will compensate the differential amount to the Company.
 - (iii) the government grants and subsidies of RMB 7,555,400 which were mainly for research and development activities; and
 - (iv) the gains of RMB 3,119,600 from disposal of interests in associates.

The other gains for 9M 2015 mainly consists of:

- (i) the gains of RMB 10,678,400 from investments in financial instruments by Zhejiang Zhong Xin Chuang Rui Investment Co., Ltd;
- (ii) the compensation fee of RMB 21,728,800 from the government for relocation;

- (iii) the government grants and subsidies of RMB 5,228,200 which were mainly for research and development; and
- (iv) the gains of RMB 75,716,700 from disposal of interests in associates

Details on the gain on disposal of associates are as follows:

- (i) Pursuant to the announcement made by the Company dated 21 July 2014, the Company proposed to dispose of the Company's 30% shareholding in Baxter Healthcare (Tianjin) Co., Ltd in public. In 2015, the Company disposed of its 30% shareholding in Baxter Healthcare (Tianjin) Co., Ltd. to Baxter (China) Investment Co., Ltd. for a consideration of RMB 80,000,000.
 - (ii) In 2015, the Company disposed of its 20% shareholding in Tianjin Weiming Biological Pharmaceutical Co., Ltd (formerly known as Tianjin Hualida) to an unrelated third party, Xiamen West Holding Co., Ltd for a consideration of RMB 40,000,000. The consideration was based on the valuation report issued by China Alliance Appraisal Co., Ltd. Upon completion of the sale, the Company's shareholding in Tianjin Weiming Biological Pharmaceutical Co., Ltd has been reduced from 40% to 20%.
 - (iii) Pursuant to the announcement made by the Company dated 11 July 2016, the Company disposed of its 33% equity stake in Tianjin Pharm Group Tech Dev. Co. Ltd for a cash consideration of RMB 3, 119,614.04.
- (b) The Marketing and Distribution costs incurred by the Company have increased by RMB 2,960,000 in 3Q FY2016, as compared to 3Q FY2015, even though revenue has decreased by 10%, because of the increase in salaries of the employees dealing with sales.
 - (c) Research and Development costs incurred by the Company is not calculated on an average basis but is based on the progress of the project. Although the Company had incurred more Research and Development costs in 3Q FY2016, the total accrued Research and Development costs for 9M 2016 have reduced compared to 9M 2015.
 - (d) The increase in (i) employees' salaries, (ii) consultancy fees for professional services rendered, and (iii) repair and maintenance fees have contributed to the increase in administrative expenses of the Company by RMB 16,690,000.

SGX query 2

We refer to page 14 of the Results Announcement. We note the Group's revenue in 3QFY2016 is a decrease of approximately RMB168 million or 10%. Please explain factors which affected performance.

The Company's response to query 2

The Group's revenue in 3Q FY2016 was a decrease of approximately RMB 168 million or 10% from 3Q FY2015 because of the influence from the economic decline in China, as well as the decrease in the bidding prices of medicine.

SGX query 3

We refer to page 16 of the Results Announcement. We note that Trade receivables increased by approximately RMB95 million. Please elaborate why 'Trade receivables' has increased when 'Revenue' has decreased by 10%.

The Company's response to query 3

As the commercial enterprises will usually settle their outstanding balances at the end of the year, hence the amount of trade receivables appeared higher at end of 3QFY2016 when compared to end of FY2015..

BY ORDER OF THE BOARD

24 November 2016