

CIRCULAR DATED 9 APRIL 2021

THIS CIRCULAR IS ISSUED BY TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED (THE "COMPANY"). THIS CIRCULAR IS IMPORTANT AS IT CONTAINS THE RECOMMENDATION OF THE NON-INTERESTED DIRECTORS (AS DEFINED HEREIN) OF THE COMPANY AND THE ADVICE OF RHB BANK BERHAD, THROUGH ITS SINGAPORE BRANCH (AS THE INDEPENDENT FINANCIAL ADVISER FOR THE S SHARES CHAIN OFFER (AS DEFINED HEREIN)) IN RELATION TO THE S SHARES CHAIN OFFER. THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

If you are in any doubt about its contents or the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

If you have sold or transferred all your S Offer Shares (as defined herein) held through The Central Depository (Pte) Limited ("CDP"), you need not forward this Circular to the purchaser or transferee, as arrangements will be made by CDP for a separate Circular to be sent 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 Circular.



TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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

CIRCULAR TO S SHARES SHAREHOLDERS

in relation to the

MANDATORY CONDITIONAL CASH OFFER

by

DBS BANK LTD.
(Incorporated in the Republic of Singapore)
(Company Registration No.: 196800306E)

and

**BANK OF CHINA LIMITED,
SINGAPORE BRANCH**
(Foreign Company registered in Singapore)
(Entity No.: S36FC0753G)

for and on behalf of

TIANJIN PHARMACEUTICAL (SINGAPORE) INTERNATIONAL INVESTMENT PTE. LTD.
(Incorporated in the Republic of Singapore)
(Company Registration No.: 200922469M)

to acquire all the issued and paid-up S Shares (as defined herein) in the capital of the Company, other than those already owned, controlled or agreed to be acquired by the Purchaser (as defined herein), the Offeror (as defined herein) and TPH (as defined herein)

Independent Financial Adviser for the S Shares Chain Offer



RHB Bank Berhad

(UEN S99FC5710J)
(Incorporated in Malaysia 196501000373 (6171-M))

SHAREHOLDERS SHOULD NOTE THAT THE OFFER DOCUMENT (AS DEFINED HEREIN) STATES THAT THE S SHARES CHAIN OFFER WILL CLOSE AT 5.30 P.M. (SINGAPORE TIME) ON 29 APRIL 2021.

THE OFFEROR HAS GIVEN NOTICE THAT THE OFFEROR WILL NOT EXTEND THE S SHARES CHAIN OFFER (AS DEFINED HEREIN) BEYOND 5.30 P.M. (SINGAPORE TIME) ON THE S SHARES CHAIN OFFER CLOSING DATE (AS DEFINED HEREIN) AND THE S SHARES CHAIN OFFER WILL NOT BE OPEN FOR ACCEPTANCES BEYOND 5.30 P.M. (SINGAPORE TIME) ON THE S SHARES CHAIN OFFER CLOSING DATE, SAVE THAT SUCH NOTICE SHALL NOT BE CAPABLE OF BEING ENFORCED IN A COMPETITIVE SITUATION.

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DEFINITIONS

The following definitions apply throughout this Circular, unless the context otherwise requires:

- “A Offer Shares”** : All the A Shares, other than those A Shares with selling restrictions and those A Shares already owned, controlled or agreed to be acquired by the Purchaser, the Offeror and TPH
- “A Shares”** : The Shares which are listed on the SSE
- “A Shares Chain Offer”** : The mandatory unconditional cash offer by the Purchaser to acquire all the A Offer Shares on the terms and subject to the conditions set out in the Offer Document and the offer document issued to the A Shares Shareholders in accordance with the laws of the PRC
- “A Shares Offer Price”** : RMB17.43 in cash for each A Offer Share
- “A Shares Shareholders”** : The holders of the A Shares
- “Acquisition”** : Shall have the meaning ascribed to it in **Section 1.2** of this Circular
- “Articles of Association”** : The articles of association of the Company, as may be amended, modified or supplemented from time to time
- “Audit Committee”** : The Audit Committee of the Company as at the Latest Practicable Date, comprising Mr. Qiang Zhiyuan, Mr. Liew Yoke Pheng Joseph and Mr. Wong Gang
- “Business Day”** : A day (other than a Saturday, Sunday or a gazetted public holiday) on which commercial banks are open for business in Singapore
- “CDP”** : The Central Depository (Pte) Limited
- “Chain Offers”** : The S Shares Chain Offer and the A Shares Chain Offer collectively
- “Chain Offer Condition”** : Shall have the meaning ascribed to it in **Section 1.2** of this Circular
- “Circular”** : This circular to S Shares Shareholders dated 9 April 2021 issued by the Company in accordance with the Code, containing, *inter alia*, the advice of the IFA for S Shares Chain Offer and the recommendation of the Non-Interested Directors in relation to the S Shares Chain Offer
- “Code”** : The Singapore Code on Take-overs and Mergers, as may be amended, modified or supplemented from time to time

DEFINITIONS

“Companies Act”	:	The Companies Act (Chapter 50) of Singapore, as may be amended, modified or supplemented from time to time
“Company Law”	:	The Company Law of the People’s Republic of China (《中华人民共和国公司法》), as may be amended, modified or supplemented from time to time
“Company”	:	Tianjin Zhong Xin Pharmaceutical Group Corporation Limited
“Company Securities”	:	(i) Shares; (ii) securities which carry voting rights in the Company; and (iii) convertible securities, warrants, options and derivatives in respect of any Shares or such securities which carry voting rights in the Company
“Directors”	:	The directors of the Company as at the Latest Practicable Date, and “Director” means any one of them
“FAA”	:	Form of Acceptance and Authorisation for the S Offer Shares, which forms part of the Offer Document and which is issued to S Shares Shareholders whose S Offer Shares are deposited with CDP
“Formal Offer Announcement”	:	The announcement issued by the Joint Singapore Financial Advisers on SGXNET on 26 March 2021, for and on behalf of the Offeror, in relation to the Chain Offers
“Formal Offer Announcement Date”	:	26 March 2021
“FY”	:	Financial year ended or ending on (as the case may be) 31 December of a particular year as stated
“FY2018”	:	Financial year ended 31 December 2018
“FY2019”	:	Financial year ended 31 December 2019
“FY2020”	:	Financial year ended 31 December 2020
“Grant of Reserved Restricted A Shares”	:	The grant of the Reserved Restricted A Shares
“Grant Date of Reserved Restricted A Shares”	:	6 July 2020, being the date of the Grant of Reserved Restricted A Shares

DEFINITIONS

“Group”	:	The Company and its subsidiaries
“IFA for S Shares Chain Offer” or “RHBS”	:	RHB Bank Berhad, through its Singapore branch, being the independent financial adviser appointed in accordance with the Code to advise the Non-Interested Directors on the S Shares Chain Offer
“Initial Grant”	:	The grant of the Initial Granted Restricted A Shares
“Initial Grant Date”	:	9 December 2019, being the date of the Initial Grant
“Initial Granted Restricted A Shares”	:	The 4,010,000 Restricted A Shares granted under the Scheme, which was subsequently adjusted to 3,930,000 Restricted A Shares
“Interested Directors”	:	Mr. Tang Tiejun and Mr. Zhang Ping collectively
“Interested Person”	:	As defined in the Note on Rule 24.6 of the Code and read with Note on Rule 23.12 of the Code, an interested person, in relation a company, is: <ul style="list-style-type: none">(a) a director, chief executive officer, or substantial shareholder of the company;(b) the immediate family of a director, the chief executive officer, or a substantial shareholder (being an individual) of the company;(c) the trustees, acting in their capacity as such trustees, of any trust of which a director, the chief executive officer or a substantial shareholder (being an individual) and his immediate family is a beneficiary;(d) any company in which a director, the chief executive officer or a substantial shareholder (being an individual) together and his immediate family together (directly or indirectly) have an interest of 30% or more;(e) any company that is the subsidiary, holding company or fellow subsidiary of the substantial shareholder (being a company); or(f) any company in which a substantial shareholder (being a company) and any of the companies listed in (e) above together (directly or indirectly) have an interest of 30% or more
“Joint Singapore Financial Advisers”	:	DBS Bank Ltd. and Bank of China Limited, Singapore Branch collectively

DEFINITIONS

“Latest Practicable Date”	:	1 April 2021, being the latest practicable date prior to the electronic despatch of this Circular
“Listing Manual”	:	The listing manual of the SGX-ST, as may be amended, modified or supplemented from time to time
“Lock-up Period”	:	The period during which the Restricted A Shares granted to the eligible Participants under the Scheme shall not be transferred, used as security or for repayment of debts
“Market Day”	:	A day on which the SGX-ST is open for securities trading
“Non-Interested Directors”	:	The Directors who are considered to be independent for the purposes of making recommendations to the Shareholders in respect of the Chain Offers in accordance with the Code, namely, Mr. Li Liqun, Mr. Zhou Hong, Mr. Wang Mai, Ms. Li Yan, Mr. Qiang Zhiyuan, Mr. Liew Yoke Pheng Joseph and Mr. Wong Gang
“Offer Document”	:	The offer document dated 26 March 2021 issued by the Joint Singapore Financial Advisers, for and on behalf of the Offeror, in respect of the Chain Offers, which is uploaded on the SGXNET
“Offer Shares”	:	The S Offers Shares and the A Offer Shares collectively
“Offeror”	:	Tianjin Pharmaceutical (Singapore) International Investment Pte. Ltd.
“Offeror Securities”	:	(i) Offeror Shares; (ii) securities which carry voting rights in the Offeror; and (iii) convertible securities, warrants, options and derivatives in respect of the Offeror Shares, or securities which carry voting rights in the Offeror
“Offeror Shares”	:	Issued and paid-up ordinary shares in the capital of the Offeror
“Overseas Shareholders”	:	S Shares Shareholders whose addresses are outside Singapore as shown in the register of members of the Company or in the records of CDP (as the case may be), each an “Overseas Shareholder”

DEFINITIONS

“Participants”	:	The directors, members of senior management, members of the management team of the Company that the Board considers should be motivated, leading-level scientific research experts, core personnel for scientific research and technology and members of core management team of the subordinate enterprises of the Company (excluding the Company’s associated companies) to be granted the Restricted A Shares under the Scheme
“Possible Offer Announcement”	:	The announcement issued by the Joint Singapore Financial Advisers on SGXNET on the Possible Offer Announcement Date, for and on behalf of the Offeror, in relation to the possible Chain Offers
“Possible Offer Announcement Date”	:	20 December 2020
“PRC”	:	The People’s Republic of China
“PRC Acquisition Rules”	:	The Administrative Measures on the Acquisition of Listed Companies (《上市公司收购管理办法》)
“Proposed Mixed-ownership Reform”	:	Shall have the meaning ascribed to it in Section 1.1 of this Circular
“Proposed Transfer”	:	Shall have the meaning ascribed to it in Section 1.1 of this Circular
“Purchaser”	:	Jinhushen Biological Medical Science and Technology Co., Ltd (津沪深生物医药科技有限公司)
“Purchaser Securities”	:	(i) Purchaser Equity Interest; (ii) securities which carry voting rights in the Purchaser; and (iii) convertible securities, warrants, options and derivatives in respect of the Purchaser Equity Interest, or securities which carry voting rights in the Purchaser
“Purchaser Equity Interest”	:	The equity interest in the registered capital of the Purchaser
“Restricted A Shares”	:	A Shares granted under the Scheme which shall be subject to the terms and conditions of the Scheme

DEFINITIONS

“S Offer Shares”	:	All the S Shares, other than those already owned, controlled or agreed to be acquired by the Purchaser, the Offeror and TPH
“S Shares”	:	The Shares which are listed on the Official List of the SGX-ST
“S Shares Chain Offer”	:	The mandatory conditional cash offer by the Joint Singapore Financial Advisers, for and on behalf of the Offeror, to acquire all the S Offer Shares in accordance with Rule 14 of the Code on the terms and subject to the conditions set out in the Offer Document and the FAA
“S Shares Chain Offer Closing Date”	:	29 April 2021
“S Shares Chain Offer Unconditional Date”	:	The date on which the S Shares Chain Offer has become or is declared unconditional in all respects in accordance with its terms
“S Shares Offer Price”	:	USD0.894 in cash for each S Offer Share
“S Shares Shareholders”	:	The holders of S Shares (including persons whose S Shares are deposited with CDP or who have purchased S Shares on the SGX-ST)
“SAMR”	:	State Administration for Market Regulation (国家市场监督管理总局)
“Scheme”	:	The “2019 Restricted A-Share Incentive Scheme” (2019年A股限制性股票计划)
“Securities and Futures Act”	:	The Securities and Futures Act (Chapter 289) of Singapore, as may be amended, modified or supplemented from time to time
“SGXNET”	:	A system network used by listed companies to send information and announcements to the SGX-ST or any other system networks prescribed by the SGX-ST
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Shareholders”	:	The S Shares Shareholders and A Shares Shareholders collectively
“Shares”	:	The ordinary shares in the capital of the Company, including S Shares and A Shares
“SIC”	:	Securities Industry Council of Singapore

DEFINITIONS

“Singapore IFA Letter”	:	The letter dated 9 April 2021 from the IFA for S Shares Chain Offer to the Non-Interested Directors containing, <i>inter alia</i> , the advice of the IFA for S Shares Chain Offer to the Non-Interested Directors in respect of the S Shares Chain Offer, as reproduced in Appendix I to this Circular
“SPA”	:	Shall have the meaning ascribed to it in Section 1.2 of this Circular
“SRS”	:	The Supplementary Retirement Scheme
“SRS Investors”	:	Investors who have purchased Shares using their SRS contributions pursuant to the SRS
“SSE”	:	The Shanghai Stock Exchange
“Tianjin SASAC”	:	State-owned Assets Supervision and Administration Commission of Tianjin Municipal People’s Government (天津市人民政府国有资产监督管理委员会)
“TPH”	:	Tianjin Pharmaceutical Holdings Co., Ltd. (天津市医药集团有限公司), being the holding company of the Offeror
“Vendor”	:	Tianjin Bohai State-owned Assets Management Co., Ltd. (天津渤海国有资产经营管理有限公司)

Units and currencies

“HKD”	:	Hong Kong dollars, being the lawful currency of Hong Kong
“RMB”	:	Chinese Yuan Renminbi, being the lawful currency of the PRC
“S\$” and “cents”	:	Singapore dollars and cents, being the lawful currency of Singapore
“USD” or “US\$”	:	United States dollars, being the lawful currency of the United States of America
“%” or “per cent.”	:	Per centum or percentage

Acting in Concert. The expression “**acting in concert**” shall have the same meaning as ascribed to it in the Code.

Announcements and Notices. References to the making of an announcement or the giving of a notice by the Company shall include the release of an announcement by the Company or its agents, for and on behalf of the Company, to the press or the delivery of or transmission by telephone, facsimile, SGXNET or otherwise of an announcement to the SGX-ST. An announcement made otherwise than to the SGX-ST shall be notified to the SGX-ST simultaneously.

DEFINITIONS

Depository Related Terms. The terms “**Depositor**”, “**Depository Agent**” and “**Depository Register**” shall have the meanings ascribed to them respectively in Section 81SF of the Securities and Futures Act.

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

Headings. The headings in this Circular are inserted for convenience only and shall be ignored in construing this Circular.

Rounding. Any discrepancies in the figures included in this Circular between amounts shown and the totals thereof are due to rounding. Accordingly, the figures shown as totals in this Circular may not be arithmetic aggregations of the figures that precede them.

Shareholders. References to “**you**”, “**your**” and “**yours**” in this Circular are, as the context so determines, to S Shares Shareholders.

Statutes. Any reference in this Circular to any enactment or statutory provision is a reference to that enactment or statutory provision as for the time being amended or re-enacted, unless the context otherwise requires. Any word defined in the Company Law, the Companies Act, the Securities and Futures Act, the Listing Manual or the Code or any modification thereof and not otherwise defined in this Circular shall, where applicable, have the same meaning assigned to it under the Company Law, the Companies Act, the Securities and Futures Act, the Listing Manual or the Code, or any modification thereof, as the case may be, unless the context otherwise requires.

Subsidiary and Related Corporation. The terms “**subsidiary**” and “**related corporation**” shall have the meanings ascribed to them in Sections 5 and 6 of the Companies Act respectively.

Time and Date. Any reference to a time of the day and date in this Circular shall be a reference to Singapore time and date, respectively, unless otherwise stated.

Total Number of S Shares. Any reference in this Circular to the total number of issued S Shares is a reference to a total of 200,000,000 S Shares in issue as at the Latest Practicable Date (excluding treasury Shares).

Total Number of A Shares. Any reference in this Circular to the total number of issued A Shares is a reference to a total of 573,643,076 A Shares in issue as at the Latest Practicable Date (excluding treasury Shares).

Unless otherwise specified, all references to a percentage shareholding in the capital of the Company in this Circular are based on 773,643,076 Shares of the Company as at the Latest Practicable Date (excluding treasury Shares). As at the Latest Practicable Date, the Company does not have any treasury shares.

Statements which are reproduced in their entirety from the Offer Document, the Singapore IFA Letter and the Articles of Association are set out in this Circular within quotes and in italics, and capitalised terms used within these reproduced statements shall bear the same meanings as ascribed to them in the Offer Document, the Singapore IFA Letter and the Articles of Association respectively.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

All statements other than statements of historical facts included in this Circular are or may be forward-looking statements. Forward-looking statements include but are not limited to those using words such as “**aim**”, “**seek**”, “**expect**”, “**anticipate**”, “**believe**”, “**estimate**”, “**intend**”, “**project**”, “**plan**”, “**strategy**”, “**forecast**”, “**possible**”, “**probable**” and similar expressions or future or conditional verbs such as “**if**”, “**will**”, “**would**”, “**should**”, “**could**”, “**may**” and “**might**”. These statements reflect the Company’s current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information as at the Latest Practicable Date. Such forward-looking statements are not guarantees of future results, performance, events or achievements and involve known and unknown risks and uncertainties. Accordingly, actual results or outcomes may differ materially from those described in such forward-looking statements. Given the risks and uncertainties involved, S Shares Shareholders and investors should not place undue reliance on such forward-looking statements, and neither the Company nor the IFA for S Shares Chain Offer guarantees any future performance or event, or undertakes any obligation to update publicly or revise any forward-looking statements, subject to compliance with all applicable laws and regulations and/or the rules of the SGX-ST and/or any other regulatory or supervisory body or agency.

INDICATIVE TIMETABLE

Date of electronic despatch of the Offer Document	:	26 March 2021
Date of electronic despatch of this Circular	:	9 April 2021
S Shares Chain Offer Closing Date	:	5.30 p.m. (Singapore time) on 29 April 2021
Settlement of consideration for valid acceptances of the S Shares Chain Offer ⁽¹⁾	:	(a) in respect of acceptances of the S Shares Chain Offer which are complete and valid in all respects and are received on or before the S Shares Chain Offer Unconditional Date, within seven (7) Business Days of the S Shares Chain Offer Unconditional Date; or (b) in respect of acceptances of the S Shares Chain Offer which are complete and valid in all respects and are received after the S Shares Chain Offer Unconditional Date, but on or before the S Shares Chain Offer Closing Date, within seven (7) Business Days of the date of such receipt.

Note:

(1) Please refer to Appendix VI and Appendix VII to the Offer Document for further details.

LETTER TO S SHARES SHAREHOLDERS

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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

Board of Directors:

Mr. Li Liqun (Chairman of the Board)
Ms. Li Yan (Executive Director)
Mr. Wang Mai (Executive Director)
Mr. Zhou Hong (Executive Director)
Mr. Tang Tiejun (Non-Independent and Non-Executive Director)
Mr. Zhang Ping (Non-Independent and Non-Executive Director)
Mr. Qiang Zhiyuan (Independent and Non-Executive Director)
Mr. Liew Yoke Pheng Joseph (Independent and Non-Executive Director)
Mr. Wong Gang (Independent and Non-Executive Director)

Registered Office:

17 Baidi Road
Nankai District
Tianjin
The PRC

9 April 2021

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

Dear Sir/Madam

MANDATORY CONDITIONAL CASH OFFER BY DBS BANK LTD. AND BANK OF CHINA LIMITED, SINGAPORE BRANCH FOR AND ON BEHALF OF TIANJIN PHARMACEUTICAL (SINGAPORE) INTERNATIONAL INVESTMENT PTE. LTD. FOR THE S OFFER SHARES

1. INTRODUCTION

1.1 Information on the Proposed Mixed-ownership Reform

On 9 October 2018, the Company announced on SGXNET that TPH, the controlling shareholder of the Company, had proposed to carry out a mixed-ownership reform in order to effectively implement the general planning of the Tianjin Municipal Committee of the Communist Party of China, Tianjin Municipal People's Government and Tianjin SASAC on promoting the reform of state-owned enterprises (the "**Proposed Mixed-ownership Reform**").

On 28 September 2020, the Company announced on SGXNET that the Vendor will commence the process of officially disclosing the information relating to the proposed transfer of 67% of its equity interest in TPH (the "**Proposed Transfer**") on the website of Tianjin Property Rights Exchange (天津产权交易中心) on 29 September 2020.

On 20 December 2020, the Company announced on SGXNET that during the public tender-for-sale (公开挂牌出让) in relation to the Proposed Transfer, the Purchaser was the only successful bidder upon the end of the bidding and had been confirmed as the transferee of the Proposed Transfer.

On 22 December 2020, the Company announced on SGXNET that the Vendor had received the official reply from Tianjin SASAC and pursuant to which, Tianjin SASAC agrees to the indirect transfer of shares of the Company involved in the Mixed-ownership Reform.

LETTER TO S SHARES SHAREHOLDERS

On 1 February 2021, the Company announced on SGXNET that the SAMR had issued its decision that no further review will be conducted on the Acquisition (as defined below) by SAMR.

On 26 March 2021, the Company announced on SGXNET that TPH has completed the industrial and commercial modification registration formalities in relation to the Acquisition.

Please refer to the announcements made by the Company on SGXNET on 9 October 2018, 15 June 2020, 28 September 2020, 20 December 2020, 22 December 2020, 1 February 2021 and 26 March 2021 for further details on the Proposed Mixed-ownership Reform, the Proposed Transfer and the foregoing events.

Electronic copies of the abovementioned announcements in relation to the Proposed Mixed-ownership Reform are available on the website of the SGX-ST at <http://www.sgx.com>.

1.2 Possible Offer Announcement

On 20 December 2020, being the Possible Offer Announcement Date, the Joint Singapore Financial Advisers announced, for and on behalf of the Offeror, on SGXNET that, *inter alia*, the Purchaser had entered into a sales and purchase agreement (the “SPA”) on 19 December 2020 with the Vendor in relation to the acquisition of a stake of 67% in TPH (the “Acquisition”).

As stated in the Possible Offer Announcement, in the event that the Purchaser acquires statutory control of TPH pursuant to the Acquisition (the “Chain Offer Condition”), the S Shares Chain Offer will be made by the Joint Singapore Financial Advisers, for and on behalf of the Offeror, for the S Offer Shares. The Chain Offers will not be made unless and until the Chain Offer Condition is satisfied or waived.

An electronic copy of the Possible Offer Announcement is available on the website of the SGX-ST at <http://www.sgx.com>.

1.3 Formal Offer Announcement

On 26 March 2021, being the Formal Offer Announcement Date, the Joint Singapore Financial Advisers announced, for and on behalf of the Offeror, on SGXNET that, *inter alia*, the Acquisition was completed on 26 March 2021. Accordingly, the Chain Offer Condition is satisfied and the Joint Singapore Financial Advisers announced the Offeror’s firm intention to make the S Shares Chain Offer in accordance with Rule 14.1 of the Code.

An electronic copy of the Formal Offer Announcement is available on the website of the SGX-ST at <http://www.sgx.com>.

1.4 Offer Document

S Shares Shareholders should by now have received a copy of the notification with instructions on how S Shares Shareholders can locate the Offer Document electronically, together with the hardcopy FAAs, as announced on SGXNET by the Joint Singapore Financial Advisers, for and on behalf of the Offeror, which was despatched on 26 March 2021, setting out, *inter alia*, the terms and conditions of the Chain Offers. The principal terms and conditions of the Chain Offers are set out in Sections 2, 3 and 4 of the Offer Document and Appendices VI, VII, VIII and IX to the Offer Document.

LETTER TO S SHARES SHAREHOLDERS

S Shares Shareholders are advised to read the terms and conditions of the S Shares Chain Offer set out in the Offer Document carefully.

An electronic copy of the Offer Document is available on the website of the SGX-ST at <http://www.sgx.com>.

1.5 Independent Financial Adviser

RHBS has been appointed as the independent financial adviser in accordance with the Code to advise the Non-Interested Directors in respect of the S Shares Chain Offer.

1.6 Purpose of this Circular

The purpose of this Circular is to provide the S Shares Shareholders with relevant information pertaining to the Company, the Chain Offers, the S Shares Chain Offer, and to set out the advice of the IFA for S Shares Chain Offer and the recommendation of the Non-Interested Directors with regard to the S Shares Chain Offer.

S Shares Shareholders should read the Offer Document, this Circular and the Singapore IFA Letter as reproduced in Appendix I to this Circular carefully and consider the recommendation of the Non-Interested Directors and the advice of the IFA for S Shares Chain Offer on the S Shares Chain Offer before deciding whether or not to accept the S Shares Chain Offer.

If you are in any doubt in relation to this Circular or as to the action you should take, you should consult your stockbroker, bank manager, accountant, solicitor, tax advisor or other professional adviser immediately.

2. THE CHAIN OFFERS

Based on information set out in the Offer Document, the Purchaser had on 26 March 2021 completed the Acquisition and the Chain Offer Condition had been satisfied. Accordingly, in accordance with Rule 14.1 of the Code, the Offeror is required to make a mandatory conditional cash offer for all the S Offer Shares. A separate mandatory unconditional cash offer will be made by the Purchaser for the A Offer Shares.

3. THE S SHARES CHAIN OFFER

Based on information set out in the Offer Document, the Joint Singapore Financial Advisers have, for and on behalf of the Offeror, made the S Shares Chain Offer in accordance with Rule 14.1 of the Code to acquire all the S Offer Shares, subject to the terms and conditions set out in the Offer Document and the FAA.

LETTER TO S SHARES SHAREHOLDERS

3.1 Terms of the S Shares Chain Offer

The principal terms and conditions of the S Shares Chain Offers are set out in Section 3 of the Offer Document, extracts of which are set out in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

“3. THE S SHARES CHAIN OFFER”

3.1 *S Shares Chain Offer*

In accordance with Rule 14.1 of the Code, the Joint Singapore Financial Advisers, for and on behalf of the Offeror, hereby make the S Shares Chain Offer to acquire all the S Offer Shares, subject to the terms and conditions set out in this Offer Document and the FAA.

3.2 *S Offer Shares*

The S Shares Chain Offer is extended, on the same terms and conditions, to all the S Shares other than those already owned, controlled or agreed to be acquired by the Purchaser, the Offeror and TPH (the “S Offer Shares”).

3.3 *Consideration*

For each S Offer Share: USD0.894 in cash (“S Shares Offer Price”)

Further details on the computation of the S Shares Offer Price are set out in paragraph 2 of this Offer Document.

The S Offer Shares are to be acquired:

- (a) fully paid;*
- (b) free from all liens, equities, mortgages, charges, claims, assignments, hypothecations, pledges, encumbrances, rights of pre-emption and other third-party rights and interests of any nature whatsoever (“Encumbrances”); and*
- (c) together with all rights, benefits and entitlements attached thereto as at the Possible Offer Announcement Date, and thereafter attaching thereto (including the right to receive and retain all dividends, rights and other distributions or return of capital, if any, which may be announced, declared, paid or made thereon by the Company in respect of the S Shares on or after the Possible Offer Announcement Date).*

If any dividend, right or other distribution or return of capital is announced, declared, paid or made by the Company in respect of the S Shares on or after the Possible Offer Announcement Date, the Offeror reserves the right to reduce the S Shares Offer Price by an amount equivalent to such dividend, right, other distribution or return of capital.

LETTER TO S SHARES SHAREHOLDERS

3.4 Conditional S Shares Chain Offer

The S Shares Chain Offer is conditional upon the Offeror and the Purchaser having received, by the close of the Chain Offers, valid acceptances in respect of such number of Offer Shares, which when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror, the Purchaser and TPH and parties acting in concert with the Offeror, the Purchaser and TPH before or during the Chain Offers, will result in the Offeror, the Purchaser and TPH and parties acting in concert with the Offeror, the Purchaser and TPH holding more than 50% of the Shares (excluding any Shares held in treasury) as at the close of the S Shares Chain Offer.

*Accordingly, the S Shares Chain Offer will not become or be capable of being declared unconditional as to acceptances, unless at any time prior to the close of the Chain Offers, the Offeror and the Purchaser have received valid acceptances in respect of such Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror, the Purchaser and TPH and parties acting in concert with the Offeror, the Purchaser and TPH before or during the Chain Offers, will result in the Offeror, the Purchaser and TPH and parties acting in concert with the Offeror, the Purchaser and TPH holding such number of Shares carrying more than 50% of the voting rights attributable to the maximum potential issued share capital (excluding any Shares held in treasury) of the Company (the "**Minimum Acceptance Condition**"). For this purpose, the "**maximum potential issued share capital of the Company**" means the total number of Shares which would be in issue had all outstanding instruments convertible into, rights to subscribe for, and options in respect of, the Shares (including pursuant to the 2019 Restricted A-Share Incentive Scheme) (other than those acquired or agreed to be acquired by the Offeror, the Purchaser and TPH) been exercised as at the date of such declaration.*

3.5 Warranty

Acceptance of the S Shares Chain Offer will be deemed to constitute an unconditional and irrevocable warranty by the accepting S Shares Shareholder that each S Offer Share tendered in acceptance of the S Shares Chain Offer is sold by the accepting S Shares Shareholder, as or on behalf of the beneficial owner(s) thereof, (a) fully paid; (b) free from Encumbrances; and (c) together with all rights, benefits and entitlements attached thereto as at the Possible Offer Announcement Date and thereafter attaching thereto (including the right to receive and retain all dividends, rights and other distributions or return of capital, if any, which may be announced, declared, paid or made thereon by the Company in respect of the S Shares on or after the Possible Offer Announcement Date).

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3.9 No Options Proposal

Based on the latest information available to the Offeror, there are no outstanding options to subscribe for new S Shares granted under any employee share option scheme of the Company as at the Formal Offer Announcement Date. In view of the foregoing, the Offeror will not make an offer to acquire any such options."

LETTER TO S SHARES SHAREHOLDERS

In particular, the computation of the S Shares Offer Price is set out in Section 2 of the Offer Document.

3.2 Closing date of the S Shares Chain Offer

The closing date of the S Shares Chain Offer is set out in Section 3.6 of the Offer Document, extracts of which are set out in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

“3.6 Closing Date

Except insofar as the S Shares Chain Offer may be withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder, Rule 22.3 of the Code requires the S Shares Chain Offer to be open for acceptances by S Shares Shareholders for a period of at least 28 days from the date of posting of this Offer Document.

Accordingly, the S Shares Chain Offer will close at 5:30 p.m. (Singapore time) on 29 April 2021. Notice is hereby given that the Offeror will not extend the S Shares Chain Offer beyond 5:30 p.m. (Singapore time) on the S Shares Chain Offer Closing Date and the S Shares Chain Offer will not be open for acceptances beyond 5:30 p.m. (Singapore time) on the S Shares Chain Offer Closing Date, save that such notice shall not be capable of being enforced in a competitive situation.”

3.3 Details of the S Shares Chain Offer

The further details of the S Shares Chain Offer are set out in Appendix VI to the Offer Document, extracts of which are set out in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

“APPENDIX VI – DETAILS OF THE CHAIN OFFERS

1. DURATION OF THE OFFER

1.1 Closing Date

Except insofar as the S Shares Chain Offer may be withdrawn with the consent of the SIC and every person released from any obligation incurred thereunder, Rule 22.3 of the Code requires the S Shares Chain Offer to be open for acceptances by S Shares Shareholders for a period of at least 28 days from the date of posting of this Offer Document.

Accordingly, the S Shares Chain Offer will close at 5:30 p.m. (Singapore time) on 29 April 2021. Notice is hereby given that the Offeror will not extend the S Shares Chain Offer beyond 5:30 p.m. (Singapore time) on the S Shares Chain Offer Closing Date and the S Shares Chain Offer will not be open for acceptances beyond 5:30 p.m. (Singapore time) on the S Shares Chain Offer Closing Date, save that such notice shall not be capable of being enforced in a competitive situation.

LETTER TO S SHARES SHAREHOLDERS

1.2 **Final Day Rule**

Pursuant to Rule 22.9 of the Code, the S Shares Chain Offer (whether revised or not) will not be capable of becoming or being declared to be unconditional as to acceptances after 5:30 p.m. (Singapore time) on the 60th day after the date of despatch of this Offer Document or of being kept open after the expiry of such period, unless it has previously become or been declared to be unconditional as to acceptances, except with the permission of the SIC. The SIC will consider granting such permission in circumstances including but not limited to, where a competing offer has been announced.

1.3 **Revision**

Pursuant to Rule 20.1 of the Code, the S Shares Chain Offer, if revised, will remain open for acceptance for a period of at least 14 days from the date of despatch of the written notification of the revision to S Shares Shareholders. In any case, where the terms are revised, the benefit of the S Shares Chain Offer (as so revised) will be made available to each of the S Shares Shareholders, including those who had previously accepted the S Shares Chain Offer.

2. **SETTLEMENT**

2.1 **S Shares Chain Offer**

Subject to the S Shares Chain Offer becoming or being declared to be unconditional in all respects in accordance with its terms and to the receipt by the Offeror of valid acceptances, complete in all respects and in accordance with the instructions given in this Offer Document and the FAA and/or the terms and conditions for Electronic Acceptance (as the case may be) and in the case of a depositor, the receipt by the Offeror of confirmation satisfactory to it that the relevant number of S Offer Shares are standing to the credit of the "Free Balance" of the depositor's Securities Account at the relevant time(s), payment of the S Shares Offer Price will be made:

- (a) in respect of acceptances of the S Shares Chain Offer which are complete and valid in all respects and are received **on or before** the date on which the S Shares Chain Offer becomes or is declared to be unconditional in all respects in accordance with its terms, within seven (7) Business Days of that date; or*
- (b) in respect of acceptances of the S Shares Chain Offer which are complete and valid in all respects and are received **after** the S Shares Chain Offer becomes or is declared to be unconditional in all respects in accordance with its terms, but on or before the S Shares Chain Offer Closing Date, within seven (7) Business Days of the date of such receipt.*

*Please refer to **Appendix VII** for more details on the settlement of the S Shares Chain Offer.*

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LETTER TO S SHARES SHAREHOLDERS

3. ANNOUNCEMENTS

- (a) Pursuant to Rule 28.1 of the Code, by 8:00 a.m. (Singapore time) on the dealing day (the “**Relevant Day**”) immediately after the day on which the S Shares Chain Offer and/or the A Shares Chain Offer is due to expire, or becomes or is declared unconditional as to acceptances (if applicable) or is revised or extended (if applicable), the Offeror will announce and simultaneously inform the SGX-ST of the total number of Shares (as nearly as practicable):
- (i) in respect of which valid acceptances of the S Shares Chain Offer and/or the A Shares Chain Offer (as the case may be) have been received;
 - (ii) held by the Offeror and any party acting in concert with the Offeror before the S Shares Chain Offer Period; and
 - (iii) acquired or agreed to be acquired by the Offeror and any party acting in concert with it during the S Shares Chain Offer Period or the A Shares Chain Offer Period (as the case may be),
- and will specify the percentages of the issued share capital of the Company represented by such numbers.
- (b) Under Note 5 on Rule 28.1 of the Code, purchases made through the SGX-ST by the Offeror and parties acting in concert with the Offeror with no pre-agreement or collusion between the parties to such transactions or their agents, may be counted towards satisfying the acceptance condition. All other purchases by the Offeror and parties acting in concert with the Offeror (i.e. off market purchases) may only be counted when fully completed and settled.
- (c) Under Rule 28.2 of the Code, if the Offeror is unable, within the time limit, to comply with paragraph 3(a) above, the SIC will consider requesting the SGX-ST to suspend dealings in the S Shares until the relevant information is given.
- (d) In this Offer Document, references to the making of any announcement or the giving of notice by the Offeror include the release of an announcement by the Joint Singapore Financial Advisers or advertising agents, for and on behalf of the Offeror, to the press or the delivery of or transmission by telephone or facsimile or through SGXNET or otherwise of an announcement to the SGX-ST. An announcement made otherwise than to the SGX-ST shall be notified simultaneously to the SGX-ST.
- (e) In computing the number of Offer Shares represented by acceptances, the Offeror will at the time of making an announcement, take into account acceptances which are valid in all respects. Acceptances will only be treated as valid for the purposes of the Minimum Acceptance Condition if the relevant requirements of Note 2 on Rule 28.1 of the Code are met.

LETTER TO S SHARES SHAREHOLDERS

4. RIGHT OF WITHDRAWAL

4.1 S Shares Chain Offer

- (a) *Except as expressly provided in this Offer Document and the Code, acceptances of the S Shares Chain Offer shall be irrevocable.*
- (b) *If the S Shares Chain Offer has become or been declared to be unconditional as to acceptances, but the Offeror fails to comply with any of the requirements of Rule 28.1 of the Code by 3:30 p.m. (Singapore time) on the Relevant Day, then immediately thereafter, any S Shares Shareholder holding S Offer Shares which are deposited with CDP and accepting the S Shares Chain Offer will be entitled to withdraw his acceptance by written notice to Tianjin Pharmaceutical (Singapore) International Investment Pte. Ltd., c/o The Central Depository (Pte) Limited, 11 North Buona Vista Drive, #01-19/20, The Metropolis Tower 2, Singapore 138589. Such notice of withdrawal shall be effective only when actually received by the Offeror.*
- (c) *Subject to Rule 22.9 of the Code, this right of withdrawal may be terminated not less than eight (8) days after the Relevant Day by the Offeror confirming (if that be the case) that the S Shares Chain Offer is still unconditional and complying with Rule 28.1 of the Code. For the purpose of the 14-day period referred to in Rule 22.6 of the Code, such period will run from the date of such confirmation (if given), or the date on which the S Shares Chain Offer would otherwise have expired, whichever is later.*
- (d) *An S Shares Shareholder who accepts the S Shares Chain Offer will be entitled to withdraw his acceptance after 14 days from the first closing date of the S Shares Chain Offer, if the S Shares Chain Offer has not by then become unconditional as to acceptances. Such entitlement to withdraw will be exercisable until the S Shares Chain Offer becomes or is declared to be unconditional as to acceptances.*
- (e) *In a competitive situation, if one offer becomes unconditional as to acceptances, then S Shares Shareholders who have tendered their acceptances for the other offer (the "**Unsuccessful Offer**") can, if they wish, immediately withdraw their acceptances for the Unsuccessful Offer."*

3.4 Procedures for Acceptance of the S Shares Chain Offer

The procedures for acceptance of the S Shares Chain Offer are set out in Section 3.8 of the Offer Document and Appendix VII to the Offer Document.

LETTER TO S SHARES SHAREHOLDERS

4. INFORMATION ON THE OFFEROR AND ITS CONCERT PARTIES

Information on the Offeror and its concert parties has been extracted from Section 5 of the Offer Document and is reproduced in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

“5. INFORMATION ON THE OFFEROR AND ITS CONCERT PARTIES

5.1 The Offeror

The Offeror was incorporated in Singapore on 2 December 2009 and has been a wholly-owned subsidiary of TPH since incorporation. The Offeror’s principal activity is that of an investment holding company.

As at the Formal Offer Announcement Date, the Offeror has an issued and paid-up share capital of USD5,000,000 comprising 5,000,000 issued and paid-up ordinary shares.

The board of directors of the Offeror are Wang Jiaying and Wu Wing Yeu Michael.

Appendix I to this Offer Document sets out additional information on the Offeror.

5.2 The Purchaser

The Purchaser was incorporated in Tianjin, the PRC, on 21 October 2020 by Shanghai Liuliguang Medical Development Co., Ltd (上海琉璃光医药发展有限公司), Shenzhen Qianhai Furong Asset Management Co., Ltd (深圳市前海富荣资产管理有限公司), Shenzhen Ruice Biological Medical Development Co., Ltd (深圳市瑞测生物医药发展有限公司) and Hainan Special Economic Zone Yousheng Enterprise Management Limited Partnership (海南经济特区友盛企业管理合伙企业(有限合伙)) for the purpose of undertaking the Acquisition.

As at the Formal Offer Announcement Date:

(a) the Purchaser has a registered capital of RMB5 billion; and

(b) the board of directors of the Purchaser comprises:

(i) Xu Bo (徐波) (Chairman and Legal Representative);

(ii) Luo Xuan (罗讚);

(iii) Guo Tao (郭涛);

(iv) Guo Min (郭民);

(v) Feng Jun (冯骏); and

(vi) Zhang Hai Chen (张海晨).

LETTER TO S SHARES SHAREHOLDERS

Appendix II to this Offer Document sets out certain additional information on the Purchaser.

5.3 TPH

TPH is a vast conglomerate with over 160 subsidiaries across the world, and prior to the Acquisition, was wholly-owned by the State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government (天津市人民政府国有资产监督管理委员会) through its wholly-owned subsidiaries, the Vendor and Tianjin Tsinlien Investment Holding Co., Ltd (天津津联投资控股有限公司). As at the Formal Offer Announcement Date, the shareholders of TPH are the Purchaser (67%) and the Vendor (33%).

As at the Formal Offer Announcement Date:

- (a) TPH has an aggregate interest in 325,855,528 A Shares and 5,265,000 S Shares, representing approximately 42.8% of the total voting rights of the Company; and
- (b) the board of directors of TPH comprises:
 - (i) Guo Min (郭民) (Chairman);
 - (ii) Cui Xiaofei (崔小飞) (Vice-Chairman);
 - (iii) Zhong Tao (钟涛);
 - (iv) Jiang Kai (蒋恺);
 - (v) Lu Yanchang (卢彦昌);
 - (vi) Luo Xuan (罗譞);
 - (vii) Lu Zefeng (陆泽峰);
 - (viii) Yu Kexiang (于克祥); and
 - (ix) Yu Yang (于洋).

Appendix III to this Offer Document sets out certain additional information on TPH.”

LETTER TO S SHARES SHAREHOLDERS

5. RATIONALE FOR THE CHAIN OFFERS AND OFFEROR'S INTENTIONS

The full text of the rationale for the Chain Offers and the Offeror's and the Purchaser's intentions for the Company has been extracted from Section 7 of the Offer Document and is reproduced in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **S Shares Shareholders are advised to read the extracts below carefully.**

"7. RATIONALE FOR THE CHAIN OFFERS AND OFFEROR'S INTENTIONS

7.1 Compliance with Code and PRC Regulations

As a result of the Acquisition, the Offeror and the Purchaser are making the Chain Offers in compliance with the requirements of the Code, the PRC Securities Law and the PRC Acquisition Rules.

7.2 Intentions of the Offeror and the Purchaser for the Company

As at the Formal Offer Announcement Date:

- (a) the Purchaser and the Offeror have no plans for the Company or its subsidiaries to merge, enter into any joint venture or cooperate with a third party, nor does it have any restructuring plan to acquire or substitute the material assets of the Company;*
- (b) the Purchaser will, after completion of the Acquisition and the Chain Offers, recommend qualified directors, supervisors and senior management to the Company for appointment of directors and supervisors by a general meeting in accordance with applicable laws, regulations and articles of association of the Company and appointment of senior management by the board of the Company. The Purchaser does not have any agreement (implied or express) with other shareholders of the Company regarding the appointment and removal of the supervisors, directors and senior management of the Company;*
- (c) the Purchaser and the Offeror do not have any plans to amend the articles of association of the Company which may impede the acquisition of control of the Company;*
- (d) the Purchaser and the Offeror do not have any plans to materially change the employment arrangements of the existing employees of the Company;*
- (e) the Purchaser and the Offeror do not have any plans to make any changes to the dividend policy of the Company;*
- (f) the Purchaser and the Offeror do not have any plans to redeploy any of the fixed assets of the Company; and*
- (g) the Purchaser and the Offeror do not have any other plans which may have a material impact on the business and organisation of the Company.*

LETTER TO S SHARES SHAREHOLDERS

However, the Offeror and the Purchaser retain the flexibility at any time to further consider any options or opportunities which may present themselves and which the Purchaser and the Offeror may regard to be in the interests of the Company and its subsidiaries.”

6. FINANCIAL EVALUATION OF THE S SHARES CHAIN OFFER

Section 8 of the Offer Document sets out certain information on the financial evaluation of the S Shares Chain Offer, extracts of which are reproduced in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

“8. FINANCIAL EVALUATION OF THE S SHARES CHAIN OFFER

S Shares Offer Price

The S Shares Offer Price represents the following discount over the historical transacted prices of the S Shares on the SGX-ST:

<i>Description</i>	<i>Benchmark Price (USD)⁽¹⁾</i>	<i>Premium/(Discount) over Benchmark Price (%)⁽²⁾</i>
<i>Last transacted price per S Share on 17 December 2020</i>	<i>1.090</i>	<i>(18.0%)</i>
<i>VWAP of the S Shares traded on the SGX-ST for the one (1)-month period prior to and including 17 December 2020</i>	<i>0.979</i>	<i>(8.7%)</i>
<i>VWAP of the S Shares traded on the SGX-ST for the three (3)-month period prior to and including 17 December 2020</i>	<i>0.911</i>	<i>(1.9%)</i>
<i>VWAP of the S Shares traded on the SGX-ST for the six (6)-month period prior to and including 17 December 2020</i>	<i>0.897</i>	<i>(0.3%)</i>

Notes:

(1) The figures set out in the table above are based on data extracted from Bloomberg L.P., and rounded to the nearest three (3) decimal places.

(2) Rounded to the nearest one (1) decimal place.”

LETTER TO S SHARES SHAREHOLDERS

7. LISTING STATUS AND COMPULSORY ACQUISITION

Information in relation to the Offeror's and the Purchaser's intentions in relation to the listing status of the Company and the compulsory acquisition of the Company has been extracted from Section 9 of the Offer Document and is reproduced in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated. **S Shares Shareholders are advised to read the extracts below carefully.**

"9. LISTING STATUS AND COMPULSORY ACQUISITION

9.1 Trading Suspension and Listing Status

(a) S Shares Chain Offer

*Under Rule 723 of the Listing Manual, an issuer must ensure that at least 10% of the total number of issued shares excluding treasury shares (excluding preference shares and convertible equity securities) in a class that is listed is at all times held by the public (the "**Free Float Requirement**").*

Under Rule 724(1) of the Listing Manual, if the Free Float Requirement is not satisfied, the issuer must, as soon as practicable, announce that fact and the SGX-ST may suspend trading of the class, or all the securities of the issuer listed on the SGX-ST. Rule 724(2) of the Listing Manual states that the SGX-ST may allow the issuer a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of securities held in public hands to at least 10%. The issuer may be removed from the list of issuers maintained by the SGX-ST if it fails to restore the percentage of securities in public hands to at least 10% after the period.

Pursuant to Rule 1105 of the Listing Manual, where a takeover offer is made for the securities of an issuer, upon the announcement by the offeror that acceptances have been received that brings the holdings owned by the offeror and parties acting in concert with it to above 90% of the total number of issued shares excluding treasury shares, the SGX-ST may suspend the trading of such securities in the Ready and Unit Share markets until it is satisfied that at least 10% of the total number of issued shares excluding treasury shares are held by at least 500 shareholders who are members of the public.

Rule 1303(1) of the Listing Manual provides that, in a take-over situation, where the offeror succeeds in garnering acceptances exceeding 90% of the issuer's total number of issued shares excluding treasury shares, thus causing the percentage of an issuer's total number of issued shares excluding treasury shares held in public hands to fall below 10%, the SGX-ST will suspend trading of the listed securities of the issuer only at the close of the take-over offer.

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LETTER TO S SHARES SHAREHOLDERS

9.2 Compulsory Acquisition

As the Company is incorporated in the PRC, the Purchaser and/or the Offeror have no rights of compulsory acquisition under the laws of the PRC.

9.3 Offeror's and Purchaser's Intentions

(a) S Shares Chain Offer

It is the current intention of the Offeror to maintain the listing status of the S Shares of the Company on the Main Board of the SGX-ST. However, in the event that the Company does not meet the Free Float Requirement at the close of the Chain Offers, the Offeror reserves the right to re-evaluate its position, depending on, inter alia, the ultimate level of acceptances received by the Offeror and the prevailing market conditions at the relevant time."

8. CONFIRMATION OF FINANCIAL RESOURCES

Section 12 of the Offer Document sets out certain information on the confirmation of financial resources, extracts of which are reproduced in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

"12. CONFIRMATION OF FINANCIAL RESOURCES

12.1 S Shares Chain Offer

Bank of China, as one of the Joint Singapore Financial Advisers to the Offeror in respect of the S Shares Chain Offer, confirms that sufficient financial resources are available to the Offeror to satisfy full acceptance of the S Shares Chain Offer by the S Shares Shareholders on the basis of the S Shares Offer Price."

LETTER TO S SHARES SHAREHOLDERS

9. DISCLOSURES OF HOLDINGS, DEALINGS AND OTHER ARRANGEMENTS

Paragraph 1 of Appendix V to the Offer Document sets out certain information relating to disclosure of holdings, dealings and other arrangements, extracts of which are reproduced in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

“APPENDIX V – ADDITIONAL GENERAL INFORMATION

1. DISCLOSURE OF INTERESTS

- (a) *As at the Formal Offer Announcement Date, based on the latest information available to the Offeror, save as disclosed below, none of the Offeror or any party acting in concert with it owns, controls or has agreed to acquire any (i) Shares; (ii) securities which carry voting rights in the Company; or (iii) convertible securities, warrants, options and derivatives in respect of the Shares or securities that carry voting rights in the Company (collectively, the “**Company Securities**”).*

Name	Direct Interest		Deemed Interest		Total Interest	
	No. of Shares	%⁽¹⁾	No. of Shares	%⁽¹⁾	No. of Shares	%⁽¹⁾
<i>TPH</i>	<i>325,855,528</i>	<i>42.12</i>	<i>5,265,000</i>	<i>0.68</i>	<i>331,120,528</i>	<i>42.8</i>
<i>Offeror</i>	<i>5,265,000</i>	<i>0.68</i>	<i>325,855,528</i>	<i>42.12</i>	<i>331,120,528</i>	<i>42.8</i>
<i>Purchaser⁽²⁾</i>	<i>–</i>	<i>–</i>	<i>331,120,528</i>	<i>42.8</i>	<i>331,120,528</i>	<i>42.8</i>
<i>Shanghai Liuliguang Medical Development Co., Ltd⁽³⁾</i>	<i>–</i>	<i>–</i>	<i>331,120,528</i>	<i>42.8</i>	<i>331,120,528</i>	<i>42.8</i>
<i>SIIC Shanghai (Holdings) Co., Ltd⁽⁴⁾</i>	<i>–</i>	<i>–</i>	<i>331,120,528</i>	<i>42.8</i>	<i>331,120,528</i>	<i>42.8</i>
<i>Shanghai State-owned Assets Supervision and Administration Commission⁽⁵⁾</i>	<i>–</i>	<i>–</i>	<i>331,120,528</i>	<i>42.8</i>	<i>331,120,528</i>	<i>42.8</i>
<i>Shenzhen Qianhai Furong Asset Management Co., Ltd⁽⁶⁾</i>	<i>–</i>	<i>–</i>	<i>331,120,528</i>	<i>42.8</i>	<i>331,120,528</i>	<i>42.8</i>
<i>Shenzhen Yierde Investment Co., Ltd⁽⁷⁾</i>	<i>–</i>	<i>–</i>	<i>331,120,528</i>	<i>42.8</i>	<i>331,120,528</i>	<i>42.8</i>
<i>Guo Jingwen⁽⁸⁾</i>	<i>–</i>	<i>–</i>	<i>331,120,528</i>	<i>42.8</i>	<i>331,120,528</i>	<i>42.8</i>

Notes:

- (1) *The percentage shareholding interest is calculated based on the A Shares and S Shares in issue as at the Formal Offer Announcement Date. Percentages are rounded to the nearest two (2) decimal places.*
- (2) *The Purchaser holds a 67% shareholding interest in TPH and is therefore deemed interested in the Shares held by TPH.*

LETTER TO S SHARES SHAREHOLDERS

- (3) *Shanghai Liuliguang Medical Development Co., Ltd holds a 35% equity interest in the Purchaser, and is therefore deemed interested in the Shares in which the Purchaser is deemed to have an interest.*
 - (4) *SIIC Shanghai (Holdings) Co., Ltd holds a 51% equity interest in Shanghai Liuliguang Medical Development Co., Ltd, and is therefore deemed interested in the Shares in which the Purchaser is deemed to have an interest.*
 - (5) *The Shanghai State-owned Assets Supervision and Administration Commission holds 100% of the equity interests in SIIC Shanghai (Holdings) Co., Ltd, and is therefore deemed interested in the Shares in which the Purchaser is deemed to have an interest.*
 - (6) *Shenzhen Qianhai Furong Asset Management Co., Ltd has a 34% equity interest in the Purchaser, and is therefore deemed interested in the Shares in which the Purchaser is deemed to have an interest.*
 - (7) *Shenzhen Yierde Investment Co., Ltd holds 100% of the equity interest in Shenzhen Qianhai Furong Asset Management Co., Ltd, and is therefore deemed interested in the Shares in which the Purchaser is deemed to have an interest.*
 - (8) *Guo Jingwen holds 80% of the equity interest in Shenzhen Yierde Investment Co., Ltd, and is therefore deemed interested in the Shares in which the Purchaser is deemed to have an interest.*
- (b) *As at the Formal Offer Announcement Date, based on the latest information available to the Offeror, none of the Offeror or any party acting in concert with it has dealt for value in the Company Securities during the period commencing six (6) months prior to the Possible Offer Announcement Date and ending on the Formal Offer Announcement Date.*
 - (c) *As at the Formal Offer Announcement Date, none of the Offeror, TPH, the Purchaser or any party acting in concert with them has received any irrevocable undertaking from any other party to accept the Chain Offers.*
 - (d) *As at the Formal Offer Announcement Date, none of the Offeror or any party acting in concert with it has entered into any arrangement of the kind referred to in Note 7 on Rule 12 of the Code, including indemnity or option arrangements and any agreement or understanding, formal or informal, of whatever nature, relating to the Shares which may be an inducement to deal or refrain from dealing in the Shares.*
 - (e) *As at the Formal Offer Announcement Date, based on the latest information available to the Offeror, none of the Offeror or any party acting in concert with it has (i) granted a security interest over any Company Securities to another person, whether through a charge, pledge or otherwise; (ii) borrowed from another person any Company Securities (excluding borrowed Company Securities which have been on-lent or sold); or (iii) lent any Company Securities to another person.*
 - (f) *As at the Formal Offer Announcement Date, there is no agreement, arrangement or understanding between (i) the Offeror or any party acting in concert with the Offeror; and (ii) any of the current or recent directors of the Company, or any of the current or recent Shareholders that has any connection with or dependence upon the Chain Offers.*

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- (g) *As at the Formal Offer Announcement Date, there is no agreement, arrangement or understanding whereby any of the Shares acquired by the Offeror or the Purchaser pursuant to the Chain Offers will be transferred to any other person.*
- (h) *As at the Formal Offer Announcement Date, there is no agreement, arrangement or understanding between (i) the Offeror and/or the Purchaser; and (ii) any of the directors of the Company or any other person in connection with or conditional upon the outcome of the Chain Offers or otherwise connected with the Chain Offers.*
- (i) *As at the Formal Offer Announcement Date, there is no agreement, arrangement or understanding for payment or other benefit being made or given to any director of the Company or any of its related corporations (as defined in the Companies Act), as compensation for loss of office or as consideration for, or in connection with, his retirement from office or otherwise in connection with the Chain Offers.*
- (j) *Additional disclosures of interest:*
 - (i) *The directors, supervisors and senior management (or main persons in charge) of the Purchaser and their respective immediate family members do not own any Shares, and have not sold or purchased any Shares during the six (6) months immediately preceding 21 December 2020.*
 - (ii) *The Purchaser does not have any arrangement with any person regarding voting proxy for or withdrawal of Shares."*

10. DIRECTORS' INTERESTS

Details of the Directors including, *inter alia*, the Directors' direct and deemed interests in the Offeror Securities and the Company Securities as at the Latest Practicable Date are set out in **Appendix II** to this Circular.

11. ADVICE AND RECOMMENDATION IN RESPECT OF THE S SHARES CHAIN OFFER

11.1 General

RHBS has been appointed as the independent financial adviser in accordance with the Code to advise the Non-Interested Directors in respect of the S Shares Chain Offer.

S Shares Shareholders should read and consider carefully the advice of the IFA for S Shares Chain Offer and the recommendation of the Non-Interested Directors in their entirety before deciding whether or not to accept or reject the S Shares Chain Offer. The advice of the IFA for S Shares Chain Offer is set out in the Singapore IFA Letter which is reproduced in **Appendix I** to this Circular.

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11.2 Advice of the IFA for S Shares Chain Offer to the Non-Interested Directors on the S Shares Chain Offer

The following are extracts from Section 8 of the Singapore IFA Letter and should be read in conjunction with, and interpreted in, the full context of the Singapore IFA Letter. All capitalised terms and expressions used in the extract below shall have the same meanings as those defined in the Singapore IFA Letter, unless otherwise stated. **S Shares Shareholders should read and consider carefully the key considerations relied upon by the IFA for S Shares Chain Offer, in arriving at its advice to the Non-Interested Directors.**

“8. OPINION AND ADVICE

In arriving at our opinion in respect of the S Shares Chain Offer, we have taken into account the factors which we consider would have a significant bearing on our assessment as set out in the earlier sections and summarised below. The following should be read in conjunction with, and in the context of, the full text of this Letter.

- (a) market quotation and trading activity of the S Shares;*
- (b) S Shares price performance relative to selected market index;*
- (c) financial analysis of the Group;*
- (d) the Group’s NAV and NTA and net cash position;*
- (e) comparison with financial valuation ratios of selected listed companies considered to be comparable to the Company;*
- (f) comparison with recent non-privatisation takeovers for companies listed on the SGX-ST;*
- (g) other considerations in relation to the S Shares Chain Offer which have a significant bearing on our assessment; and*
- (h) estimated range of values for each S Share.*

Having regard to the considerations set out in this Letter, the information available to us as at the Latest Practicable Date and subject to the assumptions and qualifications set out in this Letter, we are of the opinion that the terms of the S Shares Chain Offer are NOT FAIR and NOT REASONABLE from a financial point of view based on the following key factors:

- (a) The S Shares Offer Price represents a discount of approximately 22.4% and 22.2% to the audited NAV per Share and NTA per Share respectively;*
- (b) The Ex-Cash S Shares Offer Price represents a discount of approximately 33.6% to the Ex-Cash NAV per Share;*

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- (c) *In respect of the comparison with financial valuation ratios of the Selected Comparable Companies:*
- (i) *the P/E ratio of the Company of 6.9 times as implied by the S Shares Offer Price is below the range of the P/E ratios of the Selected Comparable Companies;*
 - (ii) *the EV/EBITDA ratio of the Company of 3.2 times as implied by the S Shares Offer Price is below the range of the EV/EBITDA ratios of the Selected Comparable Companies; and*
 - (iii) *The P/NAV ratio of the Company of 0.8 times as implied by the S Shares Offer Price is below the range of the P/NAV ratios of the Selected Comparable Companies;*
- (d) *In respect of the comparison with the Selected Comparable Transactions:*
- (i) *The discount/premium represented by the S Shares Offer Price to the VWAPs for the Unaffected Date, 1-month, 3-months, 6-month periods prior to and including the Unaffected Date when compared to the Selected Comparable Transactions where the respective independent financial advisers had advised independent directors to recommend to shareholders to “accept” the offer, is below the mean and median premia for the Selected Comparable Transactions; and*
 - (ii) *The P/NAV ratio as implied by the S Shares Offer Price when compared to the Selected Comparable Transactions where the respective independent financial advisers had advised independent directors to recommend to shareholders to “accept” the offer, is below the mean and median P/NAV for the Selected Comparable Transactions;*
- (e) *In respect of the estimated range of values of each S Share, the S Shares Offer Price of USD0.894 is below the estimated range of values of USD2.091 to USD2.617 per S Share derived from the P/E and EV/EBITDA valuation multiples approach.*

Accordingly, we advise the Non-Interested Directors to recommend the S Shares Shareholders to REJECT the S Shares Chain Offer.”

11.3 Independence of Directors

Mr. Li Liqun, Mr. Zhou Hong, Mr. Wang Mai, Ms. Li Yan, Mr. Qiang Zhiyuan, Mr. Liew Yoke Pheng Joseph and Mr. Wong Gang are regarded as independent for the purposes of the Chain Offers and are required to make recommendations to the Shareholders in respect of the Chain Offers in accordance with the Code.

Each of the Interested Directors, namely, Mr. Tang Tiejun and Mr. Zhang Ping, is a key management personnel in TPH (the holding company of the Offeror) and was nominated to the board of directors of the Company by TPH who is presumed to be a person acting in concert with the Offeror under the Code for the purposes of the Chain Offers. As such, each of them would face a conflict of interests in relation to the Chain Offers that would render it inappropriate for them to join the Non-Interested Directors in making recommendations to Shareholders on the Chain Offers.

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The SIC had ruled that the Interested Directors are exempted from making recommendations on the Chain Offers.

Nonetheless, all the Directors (including, for the avoidance of doubt, the Interested Directors) are jointly and severally responsible for the accuracy of facts stated, opinions expressed and completeness of the information given by the Company to the Shareholders on the Chain Offers, including information contained in documents, announcements and advertisements issued by or on behalf of the Company in connection with the Chain Offers.

11.4 Views of the Audit Committee on the S Shares Chain Offer

The Audit Committee notes that there is no legal requirement under the Code and the PRC Acquisition Rules for the S Shares Offer Price to be the same as the A Shares Offer Price. The Audit Committee, having considered carefully the terms of the S Shares Chain Offer and the advice given by the IFA for S Shares Chain Offer to the Non-Interested Directors as set out in the Singapore IFA Letter, **CONCUR** with the advice of the IFA for S Shares Chain Offer that the terms of the S Shares Chain Offer are NOT fair and NOT reasonable from a financial point of view. **S Shares Shareholders are advised to read and consider carefully the Singapore IFA Letter as set out in Appendix I to this Circular.**

11.5 Recommendation of the Non-Interested Directors in respect of the S Shares Chain Offer

The Non-Interested Directors, having considered carefully the terms of the S Shares Chain Offer, the advice given by the IFA for S Shares Chain Offer to the Non-Interested Directors as set out in the Singapore IFA Letter and the views of the Audit Committee set out in **Section 11.4** of this Circular **CONCUR** with the advice of the IFA for S Shares Chain Offer in respect of the S Shares Chain Offer as set out in **Section 11.2** of this Circular and in the Singapore IFA Letter.

Accordingly, the Non-Interested Directors recommend the S Shares Shareholders to **REJECT** the S Shares Chain Offer.

S Shares Shareholders are advised to read the terms and conditions of the Offer Document carefully. S Shares Shareholders are also advised to read and consider carefully the recommendation of the Non-Interested Directors and the Singapore IFA Letter as set out in Appendix I to this Circular in their entirety before deciding whether to accept or reject the S Shares Chain Offer. S Shares Shareholders should note that the advice of the IFA for S Shares Chain Offer and the recommendation of the Non-Interested Directors in respect of the S Shares Chain Offer should not be relied upon by any S Shares Shareholder as the sole basis for deciding whether or not to accept the S Shares Chain Offer.

In rendering the above advice and making the above recommendation, the IFA for S Shares Chain Offer and the Non-Interested Directors have not had regard to the general or specific investment objectives, financial situation, tax position, risk profile or unique needs and constraints and circumstances of any individual Shareholder. As different Shareholders would have different investment portfolios and objectives, the Non-Interested Directors 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 adviser(s) immediately.

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12. OVERSEAS SHAREHOLDERS

12.1 Availability of the S Shares Chain Offer

The availability of the S Shares Chain Offer to Overseas Shareholders may be affected by the laws of the relevant overseas jurisdictions in which they are located.

Overseas Shareholders should refer to Section 11 of the Offer Document, extracts of which are reproduced in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

“11. OVERSEAS SHAREHOLDERS”

The availability of the S Shares Chain Offer to Overseas Shareholders may be affected by the laws of the relevant overseas jurisdictions in which they are located. Accordingly, Overseas Shareholders should inform themselves of, and observe, any applicable requirements in the relevant overseas jurisdictions. Overseas Shareholders should also exercise caution in relation to the S Shares Chain Offer, as this Offer Document and the FAA have not been reviewed by any regulatory authority in any overseas jurisdiction. Where there are potential restrictions on sending this Offer Document and/or the FAA to any overseas jurisdiction, the Offeror, the Joint Singapore Financial Advisers and CDP each reserves the right not to send these documents to S Shares Shareholders in such overseas jurisdictions. For the avoidance of doubt, the S Shares Chain Offer is open to all S Shares Shareholders, including those to whom this Offer Document and/or the FAA have not been, or may not be, mailed or otherwise forwarded, distributed or sent.

*Copies of this Offer Document and any formal documentation relating to the Chain Offers are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in or into or from any jurisdiction where the making of or the acceptance of the Chain Offers would violate the law of that jurisdiction (a “**Restricted Jurisdiction**”) and will not be capable of acceptance by any such use, instrumentality or facility within any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send them in or into or from any Restricted Jurisdiction.*

The Chain Offers (unless otherwise determined by the Offeror or the Purchaser (as the case may be) and permitted by applicable laws and regulations) will not be made, directly or indirectly, in or into, or by the use of mails of, or by any means or instrumentality (including, without limitation, telephonically or electronically) of interstate or foreign commerce of, or any facility of a national, state or other securities exchange of, any Restricted Jurisdiction and the Chain Offers will not be capable of acceptance by any such use, means, instrumentality or facilities.

It is the responsibility of any Overseas Shareholder who wishes to accept the S Shares Chain Offer, to satisfy himself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtaining of any governmental or other consent which may be required, and compliance with all necessary formalities or legal requirements and the payment of any taxes,

LETTER TO S SHARES SHAREHOLDERS

*imposts, duties or other requisite payments due in such jurisdiction. Such Overseas Shareholder shall be liable for any such taxes, imposts, duties or other requisite payments payable and the Offeror and any person acting on its behalf (including the Joint Singapore Financial Advisers) shall be fully indemnified and held harmless by such Overseas Shareholder for any such taxes, imposts, duties or other requisite payments as the Offeror and/or any person acting on its behalf (including the Joint Singapore Financial Advisers) may be required to pay. In accepting the S Shares Chain Offer, the Overseas Shareholder represents and warrants to the Offeror and the Joint Singapore Financial Advisers that he is in full observance of the laws of the relevant jurisdiction in that connection, and that he is in full compliance with all necessary formalities or legal requirements. **Any Overseas Shareholder who is in any doubt about his position should consult his professional adviser in the relevant jurisdiction.***

The Offeror and the Joint Singapore Financial Advisers each reserves the right to notify any matter, including the fact that the S Shares Chain Offer has been made, to any or all S Shares Shareholders who are not resident in Singapore by announcement to the SGX-ST or notice and if necessary, by paid advertisement in a newspaper published and circulated in Singapore, in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any S Shares Shareholder holding S Shares to receive or see such announcement, notice or advertisement.”

12.2 Copies of Circular

Where there are potential and/or any restrictions on sending this Circular and/or any related documents to any overseas jurisdictions, or where it may not be expedient to do so, the Company reserves the right not to send this Circular and/or any related documents to such overseas jurisdictions. Any affected Overseas Shareholder may, nevertheless, download a copy of this Circular from the website of the SGX-ST at <http://www.sgx.com>.

13. ELECTRONIC DESPATCH OF CIRCULAR AND RELATED DOCUMENTS

In line with the public statements issued by the SIC dated 6 May 2020 and 29 September 2020 on the despatch of take-over documents under the Code, **no printed copies of this Circular will be despatched to the S Shares Shareholders.**

Instead, this Circular will be despatched electronically to the S Shares Shareholders through publication on the website of the SGX-ST. Hardcopy notifications with instructions on how the S Shares Shareholders can locate this Circular electronically will be despatched by post to the S Shares Shareholders.

An electronic copy of this Circular is available on the website of the SGX-ST at <http://www.sgx.com> and at the “公司动态 (NEWS)” page on the website of the Company at the following URL: <http://www.zhongxinp.com/>. S Shares Shareholders will need an internet browser and PDF reader to view this Circular on the website of the SGX-ST.

In addition, an electronic copy of the circular issued by the Company to A Shares Shareholders in accordance with the Code dated 9 April 2021 containing, *inter alia*, the advice of the IFA for A Shares Chain Offer and the recommendation of the Non-Interested Directors in relation to the A Shares Chain Offer is available on the website of the SSE at <https://www.sse.com.cn>.

LETTER TO S SHARES SHAREHOLDERS

14. INFORMATION PERTAINING TO SRS INVESTORS

Section 14.2 of the Offer Document sets out information pertaining to SRS Investors, extracts of which are reproduced in italics below. All capitalised terms and expressions used in the extracts below shall have the same meanings as those defined in the Offer Document, unless otherwise stated.

“14.2 Information Pertaining to SRS Investors

SRS Investors should receive further information on how to accept the S Shares Chain Offer from their SRS Agent Banks. SRS Investors are advised to consult their SRS Agent Banks should they require further information, and if they are in any doubt as to the action they should take, SRS Investors should seek independent professional advice. SRS Investors who wish to accept the S Shares Chain Offer are to reply to their SRS Agent Banks by the deadline stated in the letter from their respective SRS Agent Banks, which may be earlier than the S Shares Chain Offer Closing Date. SRS Investors will receive the consideration payable in respect of their S Offer Shares validly tendered in acceptance of the S Shares Chain Offer through appropriate intermediaries in their SRS investment accounts.”

15. ACTION TO BE TAKEN BY S SHARES SHAREHOLDERS

S Shares Shareholders who **wish to accept the S Shares Chain Offer** must do so not later than **5.30 p.m. on the S Shares Chain Offer Closing Date**, and should take note of the procedures for acceptance of the S Shares Chain Offer as set out in Appendix VII to the Offer Document and the FAA.

The S Shares Shareholders should also note that the Offeror has given notice that the Offeror will not extend the S Shares Chain Offer beyond 5.30 p.m. (Singapore time) on the S Shares Chain Offer Closing Date and the S Shares Chain Offer will not be open for acceptance beyond 5.30 p.m. (Singapore time) on the S Shares Chain Offer Closing Date, save that such notice shall not be capable of being enforced in a competitive situation.

Acceptances should be completed and returned as soon as possible and, in any event, so as to be received, on behalf of the Offeror by CDP not later than **5.30 p.m. on the S Shares Chain Offer Closing Date**.

S Shares Shareholders who **do not wish to accept the S Shares Chain Offer** need not take any further action in respect of the Offer Document and the FAA.

16. DIRECTORS' RESPONSIBILITY STATEMENT

Save for the recommendation of the Non-Interested Directors to S Shares Shareholders set out in **Section 11.5** of this Circular which is the sole responsibility of the Non-Interested Directors, the Directors (including those who may have delegated detailed supervision of the preparation of this Circular) have taken all reasonable care to ensure that the facts stated and all opinions expressed in this Circular (other than those relating to the Chain Offers, the Offeror, the Purchaser, and parties acting in concert or deemed to be acting in concert with the Offeror and/or the Purchaser, and the Singapore IFA Letter (for which the IFA for S Shares Chain Offer has taken responsibility)) are fair and accurate, and there are

LETTER TO S SHARES SHAREHOLDERS

no other material facts not contained in this Circular, the omission of which would make any statement in this Circular (other than those relating to the Chain Offers, the Offeror, the Purchaser, and parties acting in concert or deemed to be acting in concert with the Offeror and/or the Purchaser, and the Singapore IFA Letter (for which the IFA for S Shares Chain Offer has taken responsibility)) misleading, and they jointly and severally accept full responsibility accordingly.

In respect of the Singapore IFA Letter, the sole responsibility of the Directors has been to ensure that the facts stated therein with respect to the Company are, to the best of their knowledge and belief, fair and accurate in all material respects.

Where any information in this Circular has been extracted or reproduced from published or otherwise publicly available sources (including, without limitation, the Formal Offer Announcement, the Offer Document, the announcements made by or on behalf of the Offeror and/or the Purchaser, and the Singapore IFA Letter), the sole responsibility of the Directors has been to ensure, through reasonable enquiries, that such information has been accurately and correctly extracted from such sources or, as the case may be, accurately and correctly reflected or reproduced in this Circular in its proper form and context.

17. ADDITIONAL INFORMATION

The attention of the Shareholders is also drawn to the Appendices which form part of this Circular.

Yours faithfully

For and on behalf of the Board of Directors of
TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Mr. Li Liquan
Chairman of the Board

APPENDIX I – LETTER FROM THE IFA FOR S SHARES CHAIN OFFER

9 April 2021

The Non-Interested Directors
Tianjin Zhong Xin Pharmaceutical Group Corporation Limited
17 Baidi Road, Nankai District
Tianjin
People's Republic of China

Dear Sirs,

MANDATORY CONDITIONAL CASH OFFER BY DBS BANK LTD. AND BANK OF CHINA LIMITED, SINGAPORE BRANCH FOR AND ON BEHALF OF TIANJIN PHARMACEUTICAL (SINGAPORE) INTERNATIONAL INVESTMENT PTE. LTD. TO ACQUIRE ALL THE ISSUED AND PAID-UP S SHARES IN THE CAPITAL OF TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED (“COMPANY”), OTHER THAN THOSE ALREADY OWNED, CONTROLLED OR AGREED TO BE ACQUIRED BY THE PURCHASER, OFFEROR AND TPH

Unless otherwise defined or the context otherwise requires, all terms used herein shall have the same meaning as defined in the circular to shareholders of the Company (“Shareholders”) dated 9 April 2021 (the “Circular”). For the purpose of this letter, unless otherwise specified, the indicative exchange rate of RMB6.5584:USD1 will be applied in this letter for illustrative purpose only.

1. INTRODUCTION

On 20 December 2020 (“**Possible Offer Announcement Date**”), DBS Bank Ltd. and Bank of China Limited, Singapore Branch (collectively, the “**Joint Singapore Financial Advisers**”) announced for and on behalf of Tianjin Pharmaceutical (Singapore) International Investment Pte. Ltd. (the “**Offeror**”) in relation to a possible mandatory conditional cash offer to acquire all the issued and paid-up shares in the capital of the Company (the “**Shares**”) which are listed on the Official List of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) (the “**S Shares**”), other than those already owned, controlled or agreed to be acquired by Jinhushen Biological Medical Science and Technology Co., Ltd (津沪深生物医药科技有限公司) (the “**Purchaser**”), the Offeror and the Company’s controlling shareholder, Tianjin Pharmaceutical Holdings Co., Ltd. (“**TPH**”) (the “**S Offer Shares**”) (the “**S Shares Chain Offer**”), and a possible mandatory unconditional cash offer by the Purchaser to acquire all the Shares which are listed on the Shanghai Stock Exchange (“**SSE**”) (the “**A Shares**”), other than those A Shares with selling restrictions and those A Shares already owned, controlled or agreed to be acquired by the Purchaser, the Offeror and TPH (the “**A Offer Shares**”) (the “**A Shares Chain Offer**”, and collectively with the S Shares Chain Offer, the “**Chain Offers**”) (“**Possible Offer Announcement**”).

On 26 March 2021 (“**Formal Offer Announcement Date**”), the Joint Singapore Financial Advisers announced for and on behalf of the Offeror, that the Purchaser had completed the Acquisition and the Chain Offer Condition had been satisfied, and in accordance with Rule 14.1 of the Code, the Offeror is required to make a mandatory conditional cash offer for all the S Offer Shares (“**Formal Offer Announcement**”). A separate mandatory unconditional cash offer will be made by the Purchaser for the A Offer Shares.

APPENDIX I – LETTER FROM THE IFA FOR S SHARES CHAIN OFFER

Copies of the Possible Offer Announcement and the Formal Offer Announcement are available on the website of the SGX-ST at www.sgx.com.

RHB Bank Berhad, through its Singapore branch (“**RHBS**”) has been appointed by the Company as the independent financial adviser (“**IFA**”) to advise the Directors who are deemed to be independent for the purposes of making a recommendation to the S Shares Shareholders in respect of the S Shares Chain Offer (“**Non-Interested Directors**”).

This letter (“**Letter**”) sets out, *inter alia*, our evaluation and assessment of the financial terms of the S Shares Chain Offer and forms part of the Circular containing, *inter alia*, details of the S Shares Chain Offer and the recommendation to the Non-Interested Directors in respect thereof.

2. TERMS OF REFERENCE

RHBS has been appointed to provide an opinion regarding the S Shares Chain Offer to the Non-Interested Directors in compliance with the provisions of the Singapore Code on Take-overs and Mergers (“**Code**”) and to advise the Non-Interested Directors on whether the financial terms of the S Shares Chain Offer are fair and reasonable. We note that the Purchaser has also launched the A Shares Chain Offer and that the Company has separately appointed an independent financial adviser in accordance with the PRC Acquisition Rules and the Code to advise on the A Shares Chain Offer. As A Shares and S Shares are not fungible and the holders of S Shares (“**S Shares Shareholders**”) are not eligible to accept the A Shares Chain Offer, we have confined our evaluation and assessment to the financial terms of the S Shares Chain Offer. We note that the Offeror has obtained the SIC’s ruling on the S Shares Chain Offer, including the S Shares Offer Price as detailed in Section 2.1 of the Offer Document.

We were not a party to the negotiations or discussions in relation to the S Shares Chain Offer. Our terms of reference do not require us to evaluate or comment on the strategic, commercial merits or risks (if any) of the S Shares Chain Offer or the listing status of the Company or future prospects of the Group. We have not been instructed or authorised to solicit, and we have not solicited, any indications of interest from any third party with respect to the S Offer Shares. Accordingly, we do not compare the relative merits of the S Shares Chain Offer vis-à-vis any 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 have not made such evaluation or comment. Any such evaluation or comment is and remains the sole responsibility of the Directors and the management of the Company (“**Management**”), although we may draw upon their views or make comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this Letter.

For the purpose of our advice and opinion, we have relied on publicly available information collated by us, information set out in the Circular, and information (including representations, opinions, facts and statements) provided to us by the Directors, Management and advisers of the Company. We have not independently verified any of the aforesaid information, whether written or verbal, and have assumed its accuracy, truth, completeness and adequacy. 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, representation or assurance. We have nevertheless 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.

APPENDIX I – LETTER FROM THE IFA FOR S SHARES CHAIN OFFER

We have relied on the assurances of the Directors (including those who may have delegated detailed supervision of the Circular) that, upon making all reasonable inquiries and to the best of their respective knowledge, information and belief, all material information in connection with the S Shares Chain Offer, the Company and the Group 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 make any statement in the Circular inaccurate, untrue, incomplete, unfair or misleading in any material respect. The Directors have jointly and severally accepted such responsibility accordingly.

Further, the Directors have confirmed that the Group's audited financial statements for the year ended 31 December 2020 have been prepared after due and careful enquiries and that to the best of their knowledge, as at 1 April 2021 (the "**Latest Practicable Date**") and save for matters disclosed in the Circular, this Letter, the Company's announcements, there has been no material changes to the Group's assets and liabilities, financial position, condition and performance.

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 and/or the Group, or to express any view on the future growth prospects, value and earnings potential of the Company and/or the Group. Accordingly, we do not express any opinion herein as to the prices at which the S Shares may trade or the future value, financial performance or condition of the Company and/or the Group.

We have not made any independent evaluation or appraisal on the assets and liabilities of the Company and/or the Group and we have not been furnished with any such evaluation or appraisal.

Our advice and opinion herein is based upon market, economic, industry, monetary and other conditions in effect 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 contained herein. S Shares Shareholders should also take note of any announcements relevant to their consideration of the S Shares Chain Offer which may be released by the Company and/or the Offeror after the Latest Practicable Date.

In rendering our opinion, we have not had regard to 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. As such, our opinion and advice should not be the sole basis for any S Shares Shareholder in deciding whether or not to accept the S Shares Chain Offer.

The Company has been separately advised by its advisers in the preparation of the Circular (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 Circular (other than this Letter). Accordingly, we take no responsibility for and express no views, expressed or implied, on the contents of the Circular (other than this Letter).

This Letter is prepared for the use and benefit of the Non-Interested Directors and the recommendations made to the S Shares Shareholders in relation to the S Shares Chain Offer remain the sole responsibility of the Non-Interested Directors.

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Our opinion and advice in respect of the S Shares Chain Offer should be considered in the context of the entirety of this Letter and the Circular.

3. TERMS AND CONDITIONS OF THE S SHARES CHAIN OFFER

The terms and conditions of the S Shares Chain Offer are set out in Section 3 of the Offer Document. **S Shares Shareholders are advised to read the terms and conditions of the S Shares Chain Offer set out in the Offer Document carefully.** The principal terms and conditions of the S Shares Chain Offer are as set out below:

3.1 S Offer Shares

The S Shares Chain Offer is extended, on the same terms and conditions, to all the S Shares, other than those already owned, controlled or agreed to be acquired by the Purchaser, the Offeror and TPH.

3.2 S Shares Offer Price

For each S Offer Share: **USD0.894 in cash**

3.3 No Encumbrances

The S Offer Shares will be acquired

- (a) fully paid-up;
- (b) free from all Encumbrances; and
- (c) together with all rights, benefits and entitlements attached thereto as at the Possible Offer Announcement Date, and thereafter attaching thereto (including the right to receive and retain all dividends, rights and other distributions or return of capital, if any, which may be announced, declared, paid or made thereon by the Company in respect of the S Shares on or after the Possible Offer Announcement Date).

If any dividend, right or other distribution or return of capital is announced, declared, paid or made by the Company in respect of the S Shares on or after the Possible Offer Announcement Date, the Offeror reserves the right to reduce the S Shares Offer Price by an amount equivalent to such dividend, right, other distribution or return of capital.

3.4 Minimum Acceptance Condition

Information on the minimum acceptance condition, as set out in Section 3.4 of the Offer Document is reproduced in italics below:

“3.4 Conditional S Shares Chain Offer

The S Shares Chain Offer is conditional upon the Offeror and the Purchaser having received, by the close of the Chain Offers, valid acceptances in respect of such number of Offer Shares, which when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror, the Purchaser and TPH and parties acting in concert with the Offeror, the Purchaser and TPH before or during the Chain Offers, will result in the Offeror,

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the Purchaser and TPH and parties acting in concert with the Offeror, the Purchaser and TPH holding more than 50% of the Shares (excluding any Shares held in treasury) as at the close of the S Shares Chain Offer.

*Accordingly, the S Shares Chain Offer will not become or be capable of being declared unconditional as to acceptances, unless at any time prior to the close of the Chain Offers, the Offeror and the Purchaser have received valid acceptances in respect of such Offer Shares which, when taken together with the Shares owned, controlled or agreed to be acquired by the Offeror, the Purchaser and TPH and parties acting in concert with the Offeror, the Purchaser and TPH before or during the Chain Offers, will result in the Offeror, the Purchaser and TPH and parties acting in concert with the Offeror, the Purchaser and TPH holding such number of Shares carrying more than 50% of the voting rights attributable to the maximum potential issued share capital (excluding any Shares held in treasury) of the Company (the "**Minimum Acceptance Condition**"). For this purpose, the "**maximum potential issued share capital of the Company**" means the total number of Shares which would be in issue had all outstanding instruments convertible into, rights to subscribe for, and options in respect of, the Shares (including pursuant to the 2019 Restricted A-Share Incentive Scheme) (other than those acquired or agreed to be acquired by the Offeror, the Purchaser and TPH) been exercised as at the date of such declaration."*

3.5 Other terms of the S Shares Chain Offer

Further details of the S Shares Chain Offer on the (i) the duration of the S Shares Chain Offer; (ii) the settlement of the consideration for the S Shares Chain Offer; (iii) the requirements relating to the announcement of the level of acceptances of the S Shares Chain Offer; and (iv) the right of withdrawal of acceptances of the S Shares Chain Offer are set out in Appendix VI of the Offer Document.

The procedures for acceptance of the S Shares Chain Offer are set out in Appendix VII of the Offer Document.

4. INFORMATION ON THE OFFEROR AND ITS CONCERT PARTIES

Information on the Offeror and its concert parties, as set out in Section 5 of the Offer Document, is reproduced in italics below:

5. INFORMATION ON THE OFFEROR AND ITS CONCERT PARTIES

5.1 The Offeror

The Offeror was incorporated in Singapore on 2 December 2009 and has been a wholly-owned subsidiary of TPH since incorporation. The Offeror's principal activity is that of an investment holding company.

As at the Formal Offer Announcement Date, the Offeror has an issued and paid-up share capital of USD5,000,000 comprising 5,000,000 issued and paid-up ordinary shares.

The board of directors of the Offeror are Wang Jiaying and Wu Wing Yeu Michael.

***Appendix I** to this Offer Document sets out additional information on the Offeror.*

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5.2 The Purchaser

The Purchaser was incorporated in Tianjin, the PRC, on 21 October 2020 by Shanghai Liuliguang Medical Development Co., Ltd (上海琉璃光医药发展有限公司), Shenzhen Qianhai Furong Asset Management Co., Ltd (深圳市前海富荣资产管理有限公司), Shenzhen Ruice Biological Medical Development Co., Ltd (深圳市瑞测生物医药发展有限公司) and Hainan Special Economic Zone Yousheng Enterprise Management Limited Partnership (海南经济特区友盛企业管理合伙企业(有限合伙)) for the purpose of undertaking the Acquisition.

As at the Formal Offer Announcement Date:

- (a) the Purchaser has a registered capital of RMB5 billion; and
- (b) the board of directors of the Purchaser comprises:
 - (i) Xu Bo (徐波) (Chairman and Legal Representative);
 - (ii) Luo Xuan (罗譞);
 - (iii) Guo Tao (郭涛);
 - (iv) Guo Min (郭民);
 - (v) Feng Jun (冯骏); and
 - (vi) Zhang Hai Chen (张海晨).

Appendix II to this Offer Document sets out certain additional information on the Purchaser.

5.3 TPH

TPH is a vast conglomerate with over 160 subsidiaries across the world, and prior to the Acquisition, was wholly-owned by the State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government (天津市人民政府国有资产监督管理委员会) through its wholly-owned subsidiaries, the Vendor and Tianjin Tsinlien Investment Holding Co., Ltd (天津津联投资控股有限公司). As at the Formal Offer Announcement Date, the shareholders of TPH are the Purchaser (67%) and the Vendor (33%).

As at the Formal Offer Announcement Date:

- (a) TPH has an aggregate interest in 325,855,528 A Shares and 5,265,000 S Shares, representing approximately 42.8% of the total voting rights of the Company; and
- (b) the board of directors of TPH comprises:
 - (i) Guo Min (郭民) (Chairman);
 - (ii) Cui Xiaofei (崔小飞) (Vice-Chairman);
 - (iii) Zhong Tao (钟涛);
 - (iv) Jiang Kai (蒋恺);
 - (v) Lu Yanchang (卢彦昌);

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(vi) Luo Xuan (罗讚);

(vii) Lu Zefeng (陆泽峰);

(viii) Yu Kexiang (于克祥); and

(ix) Yu Yang (于洋).

Appendix III to this Offer Document sets out certain additional information on TPH.”

5. RATIONALE FOR THE S SHARES CHAIN OFFER

The rationale for the S Shares Chain Offer, as set out in Section 7.1 of the Offer Document, is reproduced in italics below:

“7.1 Compliance with Code and PRC Regulations

As a result of the Acquisition, the Offeror and the Purchaser are making the Chain Offers in compliance with the requirements of the Code, the PRC Securities Law and the PRC Acquisition Rules.”

6. OFFEROR’S AND PURCHASER’S INTENTION FOR THE COMPANY

The Offeror’s and Purchaser’s intention for the Company, the listing status of the Company and its rights of compulsory acquisition as set out in Sections 7.2 and 9 of the Offer Document, are reproduced in italics below:

“7.2 Intentions of the Offeror and the Purchaser for the Company

As at the Formal Offer Announcement Date:

- (a) *the Purchaser and the Offeror have no plans for the Company or its subsidiaries to merge, enter into any joint venture or cooperate with a third party, nor does it have any restructuring plan to acquire or substitute the material assets of the Company;*
- (b) *the Purchaser will, after completion of the Acquisition and the Chain Offers, recommend qualified directors, supervisors and senior management to the Company for appointment of directors and supervisors by a general meeting in accordance with applicable laws, regulations and articles of association of the Company and appointment of senior management by the board of the Company. The Purchaser does not have any agreement (implied or express) with other shareholders of the Company regarding the appointment and removal of the supervisors, directors and senior management of the Company;*
- (c) *the Purchaser and the Offeror do not have any plans to amend the articles of association of the Company which may impede the acquisition of control of the Company;*
- (d) *the Purchaser and the Offeror do not have any plans to materially change the employment arrangements of the existing employees of the Company;*

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- (e) *the Purchaser and the Offeror do not have any plans to make any changes to the dividend policy of the Company;*
- (f) *the Purchaser and the Offeror do not have any plans to redeploy any of the fixed assets of the Company; and*
- (g) *the Purchaser and the Offeror do not have any other plans which may have a material impact on the business and organisation of the Company.*

However, the Offeror and the Purchaser retain the flexibility at any time to further consider any options or opportunities which may present themselves and which the Purchaser and the Offeror may regard to be in the interests of the Company and its subsidiaries.”

9. LISTING STATUS AND COMPULSORY ACQUISITION

9.1 Trading Suspension and Listing Status

(a) S Shares Chain Offer

*Under Rule 723 of the Listing Manual, an issuer must ensure that at least 10% of the total number of issued shares excluding treasury shares (excluding preference shares and convertible equity securities) in a class that is listed is at all times held by the public (the "**Free Float Requirement**").*

Under Rule 724(1) of the Listing Manual, if the Free Float Requirement is not satisfied, the issuer must, as soon as practicable, announce that fact and the SGX-ST may suspend trading of the class, or all the securities of the issuer listed on the SGX-ST. Rule 724(2) of the Listing Manual states that the SGX-ST may allow the issuer a period of three (3) months, or such longer period as the SGX-ST may agree, to raise the percentage of securities held in public hands to at least 10%. The issuer may be removed from the list of issuers maintained by the SGX-ST if it fails to restore the percentage of securities in public hands to at least 10% after the period.

Pursuant to Rule 1105 of the Listing Manual, where a takeover offer is made for the securities of an issuer, upon the announcement by the offeror that acceptances have been received that brings the holdings owned by the offeror and parties acting in concert with it to above 90% of the total number of issued shares excluding treasury shares, the SGX-ST may suspend the trading of such securities in the Ready and Unit Share markets until it is satisfied that at least 10% of the total number of issued shares excluding treasury shares are held by at least 500 shareholders who are members of the public.

Rule 1303(1) of the Listing Manual provides that, in a take-over situation, where the offeror succeeds in garnering acceptances exceeding 90% of the issuer's total number of issued shares excluding treasury shares, thus causing the percentage of an issuer's total number of issued shares excluding treasury shares held in public hands to fall below 10%, the SGX-ST will suspend trading of the listed securities of the issuer only at the close of the take-over offer.

(b) A Shares Chain Offer

*Pursuant to the PRC Securities Law and the Listing Rules of SSE 《上海证券交易所股票上市规则》 (the "**SSE Listing Rules**") (considering that the total equity of the Company is above RMB400 million) if the public shareholding in the Company is less*

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than 10% of the outstanding Shares upon expiry of the A Shares Chain Offer Period, there is a risk that the Company may not be able to maintain its listing status on the SSE due to failure to satisfy the public float requirements.

9.2 Compulsory Acquisition

As the Company is incorporated in the PRC, the Purchaser and/or the Offeror have no rights of compulsory acquisition under the laws of the PRC.

9.3 Offeror's and Purchaser's Intentions

(a) S Shares Chain Offer

It is the current intention of the Offeror to maintain the listing status of the S Shares of the Company on the Main Board of the SGX-ST. However, in the event that the Company does not meet the Free Float Requirement at the close of the Chain Offers, the Offeror reserves the right to re-evaluate its position, depending on, inter alia, the ultimate level of acceptances received by the Offeror and the prevailing market conditions at the relevant time.

(b) A Shares Chain Offer

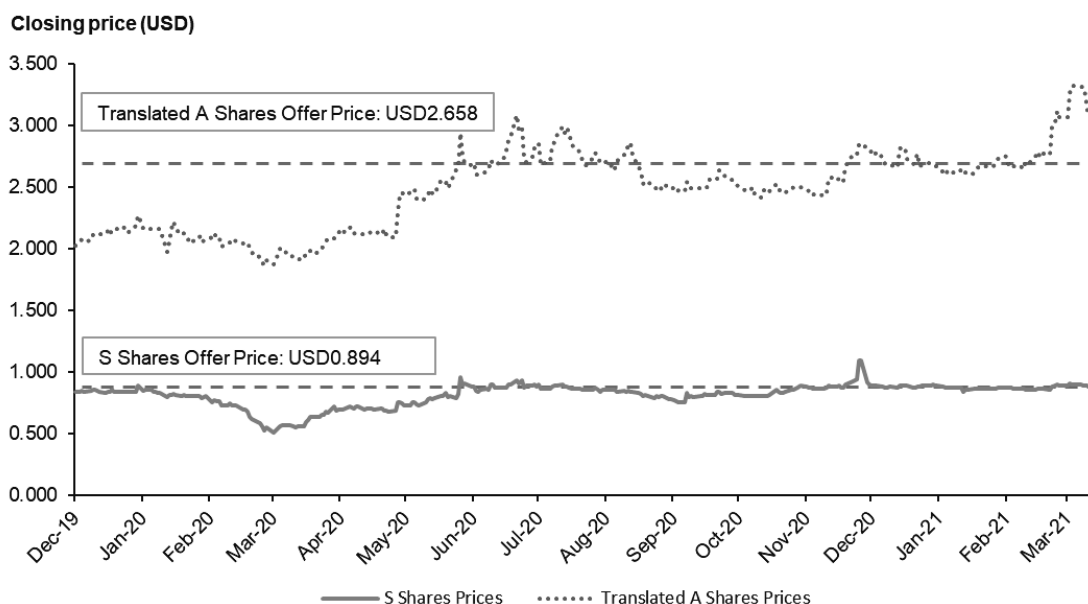
Pursuant to Clauses 12.14, 13.4.1(5), 13.4.9(5), 13.4.11, 13.4.14(5) of the SSE Listing Rules, if a general offer results in a listed company not meeting the public float requirements, but the acquirer does not intend to delist the listed company, the shares of the listed company should be continuously halted for one (1) month following the date the results of the general offer are announced. If within one (1) month, the public float requirements are still not satisfied, the shares of the listed company will resume trading and will be marked as having delisting risk. If the public float requirements are still not satisfied within six (6) months from the date the shares of the listed company are marked as having delisting risk, or an application for the withdrawal of the delisting risk warning is not submitted within five (5) trading days from the date on which the public float requirements are satisfied within such six (6) months, the shares of the listed company will be delisted.

If the A Shares are marked as having delisting risk, suspended from trading or delisted, the A Shares Shareholders may suffer loss and the A Shares Shareholders are reminded that there may be such risk. If the public float requirements are no longer satisfied as a result of the Chain Offers, the Purchaser will, as an indirect shareholder of the Company, actively exercise its voting rights or otherwise propose or endorse other solutions in line with laws, regulations and articles of association of the Company to procure that the Company will propose and implement a solution for maintenance of its listing status. If the Company is ultimately delisted, the Purchaser will, via proper arrangements, procure that the A Shares Shareholders holding the remaining A Shares will be able to sell their A Shares to the Purchaser at the A Shares Offer Price.”

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7. ASSESSMENT OF THE FINANCIAL TERMS OF THE S SHARES CHAIN OFFER

We understand from Section 4.1 of Appendix II of the Circular that all A Shares and S Shares rank *pari passu* in all aspects. The par value of these shares is RMB1 for each Share, and the A Shares Shareholder and the S Shares Shareholder are ordinary shareholders with equal rights and obligations (i.e. equal voting rights and rights to entitlements such as dividends and other distributions). However, share prices at the two exchanges are mainly driven by their respective market demand and supply for the shares, as noted in the significant differences in the A Shares market prices on the SSE and the S Shares market prices on the SGX-ST. For illustration purposes, we set out below a chart showing the daily closing market prices of the S Shares relative to the daily closing market prices of the A Shares (translated at an exchange rate of RMB6.5584:USD1) (“**Translated A Shares Prices**”) for the 12-month period prior to the Possible Offer Announcement Date and up to the Latest Practicable Date.



Source: Bloomberg L.P.

We further noted that the A Shares are only listed and traded on the SSE whereas the S Shares are only listed and traded on the SGX-ST. Pursuant to Section 3 and Section 4 of the Offer Document, the S Shares Chain Offer is extended to all S Offer Shares, while the A Shares Chain Offer is extended to all A Offer Shares. Accordingly, S Shares Shareholders are not eligible to accept the A Shares Chain Offer; neither are they able to convert their S Shares to A Shares and accept the A Shares Chain Offer.

Please note that the Offeror has obtained the SIC’s ruling on the S Shares Chain Offer, including the S Shares Offer Price as detailed in Section 2.1 of the Offer Document, which is the higher of (i) the simple average of the volume weighted average traded prices (“**VWAP**”) of the S Shares on the SGX-ST on either the latest 20 trading days or whatever number of trading days there were within the 30 calendar days up to and including the Possible Offer Announcement Date; and (ii) the price calculated by applying the ratio of the simple average of daily VWAP of the S Shares and the A Shares over the course of six (6) months up to and including the Possible Offer Announcement Date to the A Shares Offer Price.

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Based on the above, we have not considered the A Shares prices on the SSE or the A Shares Offer Price in evaluating and assessing the financial terms of the S Shares Chain Offer.

We have instead given due consideration to the following:-

- (a) market quotation and trading activity of the S Shares;
- (b) S Shares price performance relative to selected market index;
- (c) financial analysis of the Group;
- (d) the Group's NAV, NTA and net cash position;
- (e) comparison with financial valuation ratios of selected listed companies considered to be comparable to the Company;
- (f) comparison with recent non-privatisation takeovers for companies listed on the SGX-ST;
- (g) other considerations in relation to the S Shares Chain Offer which have a significant bearing on our assessment; and
- (h) estimated range of values for each S Share.

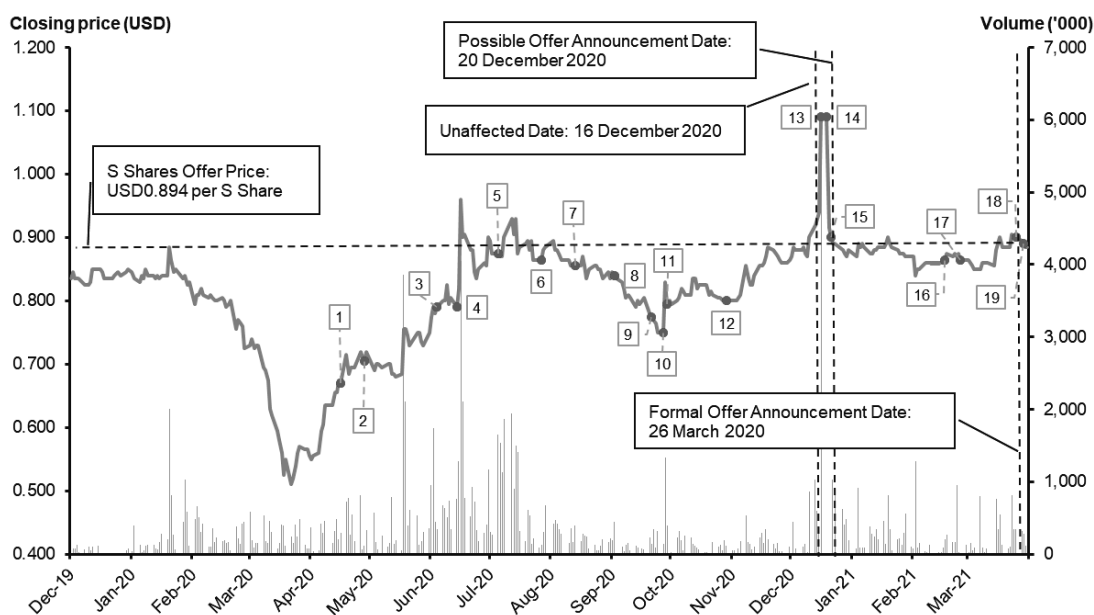
7.1 Market quotation and trading activity of the S Shares

We have compared the S Shares Offer Price against the historical closing market prices of the S Shares.

The Company received a query from SGX-ST at 10:43 a.m. on 17 December 2020 regarding unusual price movements in the Company's S Shares and subsequently requested for a trading halt later that day at 4:39 p.m.. Accordingly, 16 December 2020 was the last full day of trading of the S Shares immediately prior to the Possible Offer Announcement ("**Unaffected Date**").

We set out below a chart showing the S Shares Offer Price relative to the daily closing market prices and trading volume of the S Shares for the period between 17 December 2019, being 12 months prior to the Unaffected Date and up to the Latest Practicable Date.

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Source: Bloomberg L.P.

A summary of the salient announcements made by the Company on the SGX-ST during the 12-month period prior to the Unaffected Date and up to the Latest Practicable Date is set out below:

No	Date of announcement	Event
1	17 Apr 2020	<p>The Company announced its unaudited full year financial statements for the year ended 31 December 2019, reporting a 10.0% increase in revenue to RMB6,993.9 million and a 11.9% increase in net profit to RMB635.4 million, compared to revenue of RMB6,358.6 million and net profit of RMB567.8 million in the previous financial year.</p> <p>The Company separately announced that it proposes to enter into a new financial services agreement with Tianjin Pharmaceutical Group Finance Co., Ltd (“TPGF”) (a specific interested person transaction), pursuant to which, TPGF shall provide certain financial services for the period of three years from 1 July 2020 to 30 June 2023.</p>
2	29 Apr 2020	<p>The Company announced its unaudited results for the three-month period ended 31 March 2020, reporting a 5.6% decrease in revenue to RMB1,656.0 million and a 8.9% decrease in net profit to RMB174.6 million, compared to revenue of RMB1,753.4 million and net profit of RMB191.6 million in the previous corresponding three-month period.</p> <p>The Company separately announced the resolutions passed at its 4th Board Meeting for FY2020 including the proposed merger between two wholly-owned subsidiaries of the Company and the proposed establishment of Tianjin Pharmaceutical Holdings Marketing Management Co., Ltd as a domestic marketing management platform.</p>
3	5 Jun 2020	<p>The Company announced that all resolutions relating to matters as set out in the notice of annual general meeting (“AGM”) dated 21 May 2020 were duly passed at the Company’s AGM held on 5 June 2020.</p>

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No	Date of announcement	Event
4	15 Jun 2020	The Company announced an update on the proposed mixed-ownership reform (“ Proposed Mixed-ownership Reform ”) that on 13 June 2020 the Company was notified by its controlling shareholder, TPH that TPH’s controlling shareholder, Tianjin Bohai State-owned Assets Management Co., Ltd. (“ Bohai State-owned Assets Management ”) intends to transfer not less than 65% of its equity interest in TPH, and will commence pre-disclosure of such information on the website of Tianjin Property Rights Exchange (“ TPRE ”) on 16 June 2020.
5	6 Jul 2020	The Company announced the resolutions passed at its 5 th Board Meeting and 4 th Supervisory Committee Meeting for FY2020 in relation to the list of participants proposed to participate in the grant of the Reserved Restricted A-Shares under the 2019 Restricted A-Share Incentive Scheme (“ Scheme ”).
6	28 Jul 2020	The Company announced the results of the grant of Reserved Restricted A-Shares to the participants under the Scheme including the changes in share capital of the Company, plan for use of proceeds and its impact on the latest financial report.
7	14 Aug 2020	<p>The Company announced its unaudited financial results for the second quarter and six-month period ended 30 June 2020, reporting a 6.9% decrease in revenue to RMB3,290.4 million and a 5.7% decrease in net profit to RMB333.8 million, compared to revenue of RMB3,533.7 million and net profit of RMB353.9 million in the previous corresponding six-month period.</p> <p>The Company separately announced the resolutions passed at its 6th Board Meeting and 5th Supervisory Committee Meeting for FY2020 and the Notice of its Extraordinary General Meeting to be held on 30 September 2020.</p>
8	3 Sep 2020	The Company announced its responses to SGX queries in relation to its second quarter results for the period ended 30 June 2020.
9	22 Sep 2020	The Company announced the resolution passed at its 7 th Board Meeting for FY2020 to adjust the limit of using self-owned funds for cash management from RMB280 million to RMB480 million.
10	28 Sep 2020	The Company announced an update on the Proposed Mixed-ownership Reform that Bohai State-owned Assets Management intends to commence the process of officially disclosing the information relating to the proposed transfer of 67% of its equity interest in TPH (“ Proposed Transfer ”) on the website of TPRE including information that the Proposed Transfer is proposed to be implemented by way of equity transfer to introduce investors which may result in significant changes in the shareholding structure of TPH and a change in the actual controller of TPH and that the Proposed Transfer will be carried out on TPRE by way of a public tender-for-sale process.
11	30 Sep 2020	<p>The Company announced the resolutions passed at its 8th Board Meeting for FY2020 relating to the re-appointment of Mr Li Liqun as Chairman of the Board of Directors and the proposed temporary use of part of the net proceeds for the cash flow of the Company for a period of not exceeding 12 months from the date of approval.</p> <p>The Company separately announced (i) an update on the placement in relation to the temporary use of part of the net proceeds for the cash flow of the Company where pursuant to the approval obtained at the 8th Board Meeting and 6th Supervisory Committee meeting for FY2020, the Company could temporarily use an amount of RMB350 million from the net proceeds for the</p>

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No	Date of announcement	Event
		cash flow of the Company for a period not exceeding 12 months from the date of approval; and (ii) that all resolutions relating to matters set out in the notice of extraordinary general meeting (“EGM”) dated 14 August 2020 and superseded by the Notice of EGM dated 15 September 2020 were duly passed at the Company’s EGM held on 30 September 2020.
12	30 Oct 2020	<p>The Company announced its unaudited financial results for the third quarter and nine-month period ended 30 September 2020, reporting a 4.3% decrease in revenue to RMB4,957.0 million and a 8.8% increase in net profit to RMB493.4 million, compared to revenue of RMB5,177.5 million and net profit of RMB453.5 million in the previous corresponding nine-month period.</p> <p>The Company separately announced that it had on 30 October 2020 received a notice from TPH on the proposed transfer of equity interest of the indirect shareholder of the Company for nil consideration.</p>
13	17 Dec 2020	<p>The Company was queried by the SGX-ST regarding unusual price movement in the Company’s S Shares and the Company subsequently requested for a trading halt at 4:39 p.m.</p> <p>In response to the SGX queries, the Company informed Shareholders that it had been informed that the controlling shareholder of the Company, TPH, is contemplating a proposed acquisition of shares in the Company in connection with the Proposed Transfer, pursuant to the Proposed Mixed-ownership Reform (as announced by the Company on 9 October 2018, 15 June 2020 and 28 September 2020). The discussions were ongoing and there was no assurance that any definitive agreement or transaction would materialise.</p>
14	20 Dec 2020	<p>The Company announced an update on the Proposed Mixed-ownership Reform that the Purchaser was the only successful bidder upon the end of the bidding, and has been confirmed as the transferee of the Proposed Transfer and on 19 December 2020, the Purchaser had entered into a sale and purchase agreement (the “SPA”) with Bohai State-owned Assets Management in relation to the acquisition of 67% equity interest in TPH.</p> <p>DBS Bank Ltd and Bank of China Limited, Singapore Branch announced for and behalf of the Offeror the possible mandatory conditional cash offer for the S Shares and possible unconditional cash offer for the A Shares.</p>
15	22 Dec 2020	The Company announced an update on the Proposed Mixed-ownership Reform that the conditions in relation to the effectiveness of the SPA have all been fulfilled and the SPA shall come into force with immediate effect.
16	18 Feb 2021	The Company announced an update on the Possible Chain Offers that it has been notified by the Purchaser due to uncertainties involved, the Purchaser is unable to release the formal offer document in relation to the A Shares Chain Offer within 60 days from the date on which the Purchaser announced the possible A Shares Chain Offer.
17	26 Feb 2021	<p>The Company announced that SGX had granted the following waivers subject to certain conditions,</p> <ul style="list-style-type: none"> i. a waiver to announce its full year results within 60 days of the financial year and an extension of time to release its audited full year results for the financial year ended 31 December 2020 by 31 March 2021. ii. a waiver to hold its AGM within four months of the financial year and an extension of time to its AGM by 17 May 2021; and

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No	Date of announcement	Event
		iii. a waiver to hold all its general meetings in Singapore and for it to continue to hold its general meetings in the PRC.
18	26 Mar 2021	<p>The Company announced an update on the Proposed Mixed-ownership Reform that TPH has completed the industrial and commercial modification registration formalities in relation to the Acquisition. Accordingly, the equity interest held by Bohai State-owned Assets Management will reduce from 100% to 33%, and the Purchaser will hold 67% equity interest in TPH.</p> <p>The Joint Singapore Financial Advisers announced for and on behalf of the Offeror the Formal Offer Announcement in relation to the Chain Offers.</p>
19	30 Mar 2021	The Company announced its audited full year financial statements for the year ended 31 December 2020, reporting a 5.6% decrease in revenue to RMB6,603.7 million and a 7.0% increase in net profit to RMB679.7 million, compared to revenue of RMB6,993.9 million and net profit of RMB635.4 million in the previous financial year.

We also set out in the table below the VWAP, the highest and the lowest closing prices and the average daily trading volume (“ADTV”) of the S Shares for the selected reference periods prior to and including the Unaffected Date and after the Possible Offer Announcement Date up to the Latest Practicable Date:

Reference Periods	Highest S Shares closing price (USD)	Lowest S Shares closing price (USD)	VWAP (USD)	Premium/ (Discount) of S Shares Offer Price over/(to) VWAP (%)	ADTV ⁽¹⁾ (S Shares)	ADTV as a percentage of Free Float ⁽²⁾ (%)
Periods prior to and including the Unaffected Date						
Last 12 months	0.960	0.510	0.813	9.9	363,794	0.19
Last 6 months	0.960	0.750	0.878	1.8	362,144	0.19
Last 3 months	0.940	0.750	0.848	5.4	195,023	0.10
Last 1 month	0.940	0.855	0.900	(0.7)	240,436	0.12
Unaffected Date	N.A.	N.A.	0.944	(5.3)	339,200	0.17
17 December 2020						
(Trading of the S Shares was halted at 4:39 p.m. on 17 December 2020, being the last Market Day prior to the Possible Offer Announcement Date)	N.A.	N.A.	1.041	(14.1)	6,061,700	3.11
Period after the Possible Offer Announcement Date to the Formal Offer Announcement Date						
Between 21 December 2020, the Market Day immediately after the Possible Announcement Date and 26 March 2021, the Formal Offer Announcement Date (both dates inclusive)	0.915	0.840	0.885	1.0	372,180	0.19

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Reference Periods	Highest S Shares closing price (USD)	Lowest S Shares closing price (USD)	VWAP (USD)	Premium/ (Discount) of S Shares Offer Price over/(to) VWAP (%)	ADTV ⁽¹⁾ (S Shares)	ADTV as a percentage of Free Float ⁽²⁾ (%)
25 March 2021, being the last Market Day on which the S Shares were traded prior to the Formal Offer Announcement Date	N.A.	N.A.	0.907	(1.4)	350,200	0.18
Period after the Formal Offer Announcement Date to the Latest Practicable Date						
Between 29 March 2021, being the Market Day immediately after the Formal Offer Announcement Date and the Latest Practicable Date (both dates inclusive)	0.895	0.885	0.889	0.5	210,550	0.11
As at the Latest Practicable Date	N.A.	N.A.	0.886	0.8	131,400	0.07

Notes:

- (1) The ADTV is computed based on the total volume of S Shares traded for all the Market Days for the relevant reference periods, divided by the total number of Market Days (including Market Days on which no S Shares were traded) during the respective reference periods.
- (2) Free Float is defined as the number of S Shares outstanding (excluding treasury shares) held in the hand of the public (as defined in the Listing Manual). We have used 194,735,000 S Shares as Free Float for illustrative purposes in this section, which is computed by subtracting the total number of Shares held by TPH through the Offeror from the total number of S Shares in issue (excluding treasury shares) as at the Latest Practicable Date.

Based on the above, we note the following:

- (a) Over the 12-month period prior to and including the Unaffected Date, the S Shares have closed between a high of USD0.960 and a low of USD0.510. The S Shares Offer Price represents a discount of approximately 6.9% to the highest closing price of USD0.960 and a premium of 75.3% over the lowest closing price of USD0.510;
- (b) The S Shares Offer Price represents a premium of 9.9%, 1.8% and 5.4% over the VWAP for the 12-month, 6-month and 3-month periods prior to and including the Unaffected Date respectively and a discount of 0.7% to the VWAP for the 1-month period prior to and including Unaffected Date;
- (c) The S Shares Offer Price represents a discount of 5.3% to the VWAP for the Unaffected Date;
- (d) The S Shares Offer Price represents a discount of 14.1% to the VWAP for 17 December 2020 where the trading of S Shares was halted at 4:39 p.m., being the last Market Day prior to the Possible Offer Announcement;
- (e) The S Shares Offer Price represents a premium of 1.0% over the VWAP for the period between the Market Day immediately after the Possible Offer Announcement Date and the Formal Offer Announcement Date (both dates inclusive);
- (f) The S Shares Offer Price represents a discount of 1.4% to the VWAP on 25 March 2021, being the last Market Day on which the S Shares were traded prior to the Formal Offer Announcement Date;

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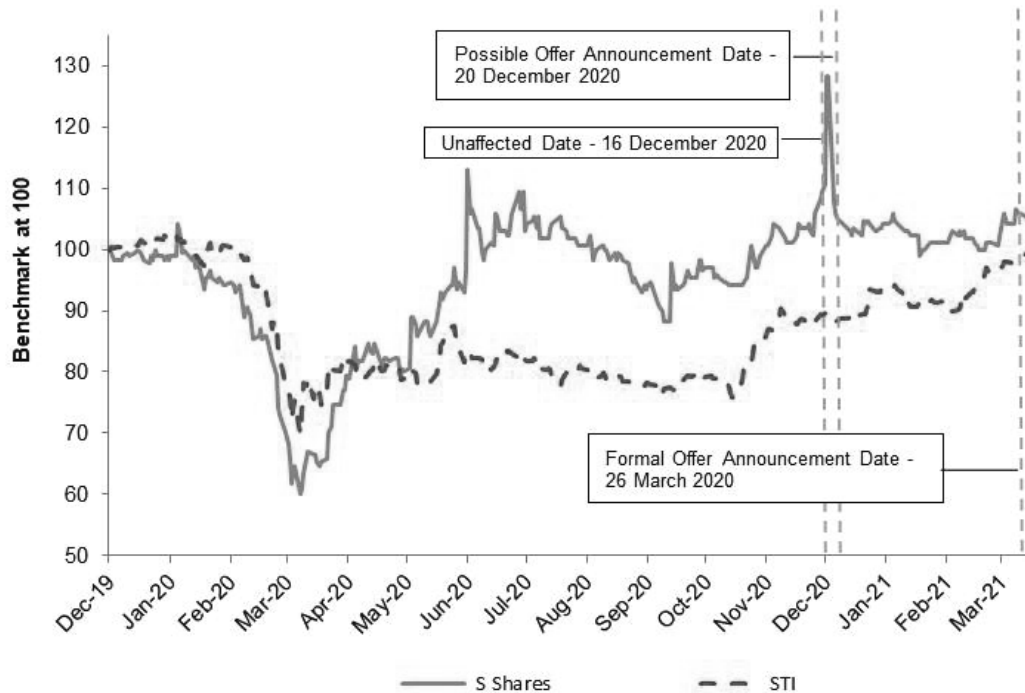
- (g) The S Shares Offer Price represents a premium of 0.5% over the VWAP for the period between the Market Day immediately after the Formal Offer Announcement Date and the Latest Practicable Date (both dates inclusive);
- (h) The S Shares Offer Price represents a premium of 0.8% over the VWAP as at the Latest Practicable Date;
- (i) The ADTV of the S Shares for the 12-month, 6-month, 3-month and 1-month periods prior to and including the Unaffected Date represents approximately 0.19%, 0.19%, 0.10% and 0.12% of the Free Float respectively;
- (j) The trading volume of the S Shares on the Unaffected Date represents 0.17% of the Free Float;
- (k) The trading volume of the S Shares on 17 December 2020 represents 3.11% of the Free Float;
- (l) The ADTV of the S Shares for the period between the Market Day immediately after the Possible Offer Announcement Date and the Formal Offer Announcement Date (both dates inclusive) represents 0.19% of the Free Float;
- (m) The trading volume of the S Shares on 25 March 2021, being the last Market Day on which the S Shares were traded prior to and including the Formal Offer Announcement Date represents 0.18% of the Free Float;
- (n) The ADTV of the S Shares for the period between the Market Day immediately after the Formal Offer Announcement Date and the Latest Practicable Date (both dates inclusive) represents 0.11% of the Free Float; and
- (o) The trading volume of the S Shares on the Latest Practicable Date represents 0.07% of the Free Float.

Based on the above observations, it would appear that since the Possible Offer Announcement Date and up to the Latest Practicable Date the S Shares were trading close to the S Shares Offer Price at a range between USD0.840 and USD0.915. S Shares Shareholders should note that there is no assurance that the trading volume and market prices of the S Shares after the close of the S Shares Chain Offer will be maintained at the prevailing level as at the Latest Practicable Date and the past trading performance of the S Shares should not in any way be relied upon as an indication of its future performance.

7.2 S Shares price performance relative to selected market index

To assess the market price performance of the S Shares vis-à-vis the general price performance of the Singapore equity market, we have compared, on a normalised basis, the market price movement of the S Shares against the FTSE Straits Times Index (“STI”), which is a market capitalisation weighted index that tracks the performance of the top 30 companies listed on the SGX, for the 12-month period prior to the Unaffected Date up to the Latest Practicable Date, as illustrated below.

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We note that, on a normalised basis, for the 12-month period prior to and including the Unaffected Date up to the Latest Practicable Date, the S Shares had generally out-performed the STI.

The movements in the closing prices of the S Shares and the STI between Unaffected Date, the last Market Date on which the Shares were traded prior to and including the Formal Offer Announcement Date and the Latest Practicable Date are as follows:

	Closing price as at the Unaffected Date	Closing price as at the last Market Day on which the S Shares were traded prior to and including the Formal Offer Announcement Date	Closing price as at the Latest Practicable Date	Percentage change between the Unaffected Date and the Latest Practicable Date (%)
S Shares	USD0.940	USD0.900	USD0.885	(5.9)
STI	2,872.8	3,141.7	3,181.7	10.8

Source: Bloomberg L.P.

Between the Unaffected Date and the Latest Practicable Date, the closing price of the S Shares has decreased by approximately 5.9%, while the STI has increased by approximately 10.8%.

S Shares Shareholders should note that past trading performance of the S Shares should not in any way be relied upon as an indication or a promise of future trading performance and that there is no assurance that the market prices of the S Shares after the close of the S Shares Chain Offer will be maintained at the prevailing level relative to the STI.

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7.3 Financial analysis of the Group

The following summary financial information and analysis should be read in conjunction with the full text of the Company's annual reports and results announcements in respect of the relevant financial years including the notes thereto.

7.3.1 Historical performance of the Group

Set out below are the profit and loss statements of the Group for the last three financial years ended 31 December 2018 ("FY2018"), 31 December 2019 ("FY2019") and 31 December 2020 ("FY2020").

	FY2018 RMB'000 (Audited)	FY2019 RMB'000 (Audited)	FY2020 RMB'000 (Audited)
Revenue	6,358,622	6,993,882	6,603,652
Cost of sales	(3,794,042)	(4,112,388)	(4,086,048)
Gross profit	2,564,580	2,881,494	2,517,604
Gross profit margin (%)	40.3	41.2	38.1
Interest income	11,115	14,896	28,072
Dividend income	1,488	2,361	1,447
Other income and gains	39,922	51,606	67,439
Marketing and distribution expenses	(1,699,293)	(1,829,060)	(1,457,878)
Research and development expenses	(100,926)	(133,361)	(149,202)
Administrative expenses	(291,100)	(363,325)	(358,552)
Finance costs	(13,899)	(7,281)	(2,509)
Other losses	(34,495)	(47,895)	(29,007)
Share of profits from equity-accounted associates	163,237	173,710	150,644
Profit before income tax	640,629	743,145	768,058
Income tax expense	(72,841)	(107,786)	(88,396)
Profit, net of tax	567,788	635,359	679,662

Source: Company's annual report for FY2019 and results announcement for FY2020

FY2019 vs FY2018

The Group's revenue increased by RMB635.3 million or 10.0% from RMB6,358.6 million in FY2018 to RMB6,993.9 million in FY2019 mainly due to the increase in sale of goods. Gross profit increased by RMB316.9 million or 12.4% from RMB2,564.6 million to RMB2,881.5 million and gross profit margin increased from 40.3% to 41.2%.

Other income and gains increased by RMB11.7 million or 29.3% from RMB39.9 million in FY2018 to RMB51.6 million in FY2019 mainly due to gains from disposal of property.

The Group's marketing and distribution expenses increased by RMB129.8 million or 7.6% from RMB1,699.3 million in FY2018 to RMB1,829.1 million in FY2019 mainly due to the increase in sales promotion expenses. Research and development expenses increased by RMB32.5 million or 32.2% from RMB100.9 million in FY2018 to RMB133.4 million in FY2019 mainly due to higher outlay for research and development projects. Administrative expenses increased by RMB72.2

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million or 24.8% from RMB291.1 million in FY2018 to RMB363.3 million in FY2019 due to higher staff salaries, depreciation and utilities expenses. Finance cost decreased by RMB6.6 million or 47.5% from RMB13.9 million in FY2018 to RMB7.3 million in FY2019 in line with the decrease in borrowings. Other losses increased by RMB13.4 million or 38.8% from RMB34.5 million in FY2018 to RMB47.9 million in FY2019 due to higher impairment losses.

The Group's share of profits from equity-accounted associates increased by RMB10.5 million or 6.4% from RMB163.2 million in FY2018 to RMB173.7 million in FY2019 due to increase in profits of Sino-American Tianjin Smithkline & French Lab., Ltd.

The Group recorded an increase of RMB67.6 million or 11.9% in net profit from RMB567.8 million in FY2018 to RMB635.4 million in FY2019.

FY2020 vs FY2019

The Group's revenue decreased by approximately RMB390.2 million or 5.6% from RMB6,993.9 million for FY2019 to RMB6,603.7 million for FY2020 mainly due to the decrease in sale of goods. The Group's gross profit decreased by approximately RMB363.9 million or 12.6% from RMB2,881.5 million for FY2019 to RMB2,517.6 million for FY2020 and its gross profit margin decreased from 41.2% in FY2019 to 38.1% in FY2020.

Other income and gains of the Group for FY2020 were approximately RMB67.4 million, representing an increase of approximately RMB15.8 million or 30.6% over the previous financial year. The increase was mainly due to increased government subsidies during FY2020.

For FY2020, the Group's (i) marketing and distribution expenses decreased by approximately RMB371.2 million or 20.3% from the previous financial year to RMB1,457.9 million for FY2020, which was in line with the decrease in revenue; (ii) research and development expenses increased by approximately RMB15.8 million or 11.8% from the previous financial year to RMB149.2 million for FY2020, which was mainly due to higher outlay for research and development projects during FY2020; (iii) administrative expenses decreased by approximately RMB4.7 million or 1.3% from the previous financial year to RMB358.6 million for FY2020, which was mainly due to lower repair and maintenance expenses during FY2020; (iv) finance costs decreased by approximately RMB4.8 million or 65.8% from the previous financial year to RMB2.5 million for FY2020, which was in line with the decrease of borrowings; and (v) other losses decreased by approximately RMB18.9 million or 39.5% from the previous financial year to RMB29.0 million for FY2020, which was mainly due to lower impairment losses.

The Group's share of results of associated companies decreased by approximately RMB23.1 million or 13.3% from the previous financial year to RMB150.6 million for FY2020, which was mainly due to the decrease in profits of Sino-American Tianjin Smithkline & French Lab., Ltd in FY2020 as compared to FY2019.

The Group recorded an increase of RMB44.3 million or 7.0% in net profit from RMB635.4 million in FY2019 to RMB679.7 million in FY2020.

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7.3.2 Financial position of the Group

Set out below are the statements of financial position of the Group as at 31 December 2020.

	As at 31 December 2020 RMB'000 (Audited)
Assets	
Non-current assets	
Property, plant and equipment	1,457,053
Investment properties	21,512
Right of use assets	2,609
Land use rights	188,289
Intangibles assets	15,734
Investment in associates	687,538
Other financial assets	116,311
Deferred tax assets	165,480
Other assets	25,259
Total non-current assets	2,679,785
Current assets	
Inventories	1,487,715
Trade and other receivables	2,007,426
Other assets	121,127
Cash and cash equivalents	1,987,334
Total current assets	5,603,602
Total assets	8,283,387
Liabilities	
Non-current liabilities	
Deferred tax liabilities	3,802
Trade payables	30,659
Other financial liabilities	30,000
Lease liabilities	1,710
Other liabilities	103,471
Total non-current liabilities	169,642
Current liabilities	
Income tax payable	10,492
Trade and other payables	1,870,907
Lease liabilities	1,000
Other liabilities	246,668
Total current liabilities	2,129,067
Total liabilities	2,298,709

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Equity	
Share capital	773,643
Share premium	1,229,980
Retained earnings	3,353,080
Other reserves	486,491
Total equity, attributable to owners	5,843,194
Non-controlling interest	141,484
Total equity	5,984,678

Source: Company's results announcement for FY2020

As at 31 December 2020, the Group's non-current assets amounted to approximately RMB2,679.8 million, representing 32.4% of total assets of the Group. Non-current assets comprise mainly property, plant and equity of RMB1,457.1 million, investment in associates of RMB687.5 million, land use rights of RMB188.3 million, deferred tax assets of RMB165.5 million and other financial assets of RMB116.3 million. Property, plant and equipment increased by approximately RMB93.3 million mainly due to the increase in construction in progress and investment in associates increased by RMB29.6 million as a result of new associates.

As at 31 December 2020, the Group's current assets amounted to approximately RMB5,603.6 million, representing 67.6% of the total assets of the Group. Current assets comprise mainly trade and other receivables of RMB2,007.4 million, cash and cash equivalents of RMB1,987.3 million and inventories of RMB1,487.7 million.

As at 31 December 2020, the Group's non-current liabilities amounted to approximately RMB169.6 million, representing 7.4% of total liabilities of the Group. Current liabilities amounted to approximately RMB2,129.1 million, representing 92.6% of the total liabilities of the Group. Current liabilities comprise mainly trade and other payables of RMB1,870.9 million.

7.3.3 Summary of consolidated statements of cash flows of the Group

	FY2018	FY2019	FY2020
	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)
Net cash generated from / (used in) operating activities	339,031	480,593	643,349
Net cash generated from / (used in) investing activities	401,764	(85,894)	101,844
Net cash generated from / (used in) financing activities	(260,843)	(370,362)	(237,262)
Net increase in cash and cash equivalents	479,952	24,337	507,931
Cash and cash equivalent at the beginning of the financial year	975,114	1,455,066	1,479,403
Cash and cash equivalent at the end of the financial year	1,455,066	1,479,403	1,987,334

Source: Company's annual report for FY2019 and results announcement for FY2020

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FY2019 vs FY2018

The Group recorded a net increase in cash and cash equivalent of RMB24.3 million for FY2019.

Net cash generated from operating activities increased by RMB141.6 million to RMB480.6 million in FY2019 due to faster collections generated from the sales of goods during FY2019. Cash outflow from investing activities of RMB85.9 million in FY2019 was mainly contributed by lower proceeds from disposal of financial assets as compared to FY2018. Net cash used in financing activities of RMB370.4 million in FY2019 was mainly due to higher repayment of borrowings during FY2019.

FY2020 vs FY2019

The Group recorded a net increase in cash and cash equivalent of RMB507.9 million for FY2020.

The Group recorded net cash generated from operating activities of RMB643.3 million in FY2020 which was increased by approximately RMB162.8 million as compared to FY2019. The increase was mainly due to lower cash outflows from operations during FY2020.

The Group recorded net cash generated from investing activities of RMB101.8 million in FY2020 compared to cash outflow of RMB85.9 million in FY2019. This was mainly contributed by higher returns from investments during FY2020.

Net cash used in financing activities amounted to RMB237.3 million in FY2020 compared to cash outflow of RMB370.4 million in FY2019. This was mainly contributed by higher payout of dividends and less repayment of borrowings during FY2020.

7.4 The Group's net asset value ("NAV"), net tangible assets ("NTA") and net cash position

The asset-based valuation of a company provides an estimate of the aggregate value of all the assets of the company in their existing condition, after deducting the sum of total liabilities and minority interests. The NAV-based valuation approach is generally used to show the extent to which the value of each share is backed by both tangible and intangible assets, while the NTA-based valuation approach only considers the value of tangible assets that are attributable to shareholders, assuming the hypothetical sale of all tangible assets of a company over a reasonable period of time, the proceeds of which are first used to settle all liabilities and minority interest of the company with the balance available for distribution to its shareholders. The NTA-based valuation is meaningful only in so far as to show the extent to which the value of each share is backed by tangible assets, without considering intangible assets such as land use rights, goodwill, patents and trademarks.

S Shares Shareholders should note that the analysis based on the above asset-based valuation approaches provides an estimate of the value of a company's total net assets or net tangible assets, as the case may be, that can be realised assuming the hypothetical sale of relevant assets over a reasonable period of time. Such a hypothetical scenario has not taken into account factors, such as time value of money, market conditions, transaction costs, among other things. The NAV or NTA of a company may also be affected by a company's accounting policies, in particular the depreciation, amortisation and valuation policies.

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7.4.1 NAV and NTA of the Group as at 31 December 2020 against the S Shares Offer Price

Based on the latest announced audited balance sheet of the Group as at 31 December 2020, the NAV of the Group was approximately RMB5,843.2 million or USD890.9 million, equivalent to approximately RMB7.55 per Share or USD1.152 per Share and the NTA of the Group was approximately RMB5,827.5 million or USD888.6 million, equivalent to approximately RMB7.53 per Share or USD1.149 per Share. The S Shares Offer Price represents a discount of approximately 22.4 and 22.2% to the audited NAV per Share and NTA per Share respectively.

In our evaluation of the financial terms of the S Shares Chain Offer, we have considered whether there are any factors which have not been otherwise disclosed in the financial statements of the Group that are likely to have a material impact on the audited NAV and/or NTA of the Group as at 31 December 2020.

In this respect, the Directors have confirmed that, to their best knowledge and belief, as at the Latest Practicable Date, save as disclosed in the audited financial statements of the Group as at 31 December 2020, the announcements released by the Company on the SGXNET and the Circular, there are no additional contingent liabilities which are likely to have a material impact on the NAV and/or NTA of the Group.

The Directors have confirmed that, to their best knowledge and belief, as at the Latest Practicable Date, save as disclosed in the audited financial statements of the Group as at 31 December 2020, the announcements released by the Company on the SGXNET and the Circular, there are no additional intangible assets which ought to be disclosed in the statement of financial position of the Group in accordance with the PRC Accounting Standards and the International Financial Reporting Standards and which have not been so disclosed and where such intangible assets would have had a material impact on the overall financial position of the Group.

7.4.2 Adjusted NAV / NTA of the Group as at 31 December 2020

In our evaluation of the financial terms of the S Shares Chain Offer, we have considered whether there are any material events that would impact the audited statement of financial position of the Group from 31 December 2020 to the Latest Practicable Date to determine whether adjustments need to be made to the NAV / NTA per Share as at 31 December 2020.

In this respect, the Directors have confirmed that, to their best knowledge and belief, as at the Latest Practicable Date, save as disclosed in the audited financial statements of the Group as at 31 December 2020, the announcements released by the Company on the SGXNET and the Circular, there have been no known material events that have or will have material impact to the audited statement of financial position of the Group since 31 December 2020.

7.4.3 Revalued NAV / NTA of the Group as at 31 December 2020

In our evaluation of the financial terms of the S Shares Chain Offer, we have also considered whether there are any tangible assets which should be valued at an amount that is materially different from those which were recorded in the audited statement of financial position of the Group as at 31 December 2020.

As at 31 December 2020, we note that on aggregate, property, plant and equipment, investment properties and land use rights (collectively the “**Relevant Non-Current Assets**”) accounted for 20.1%, 28.5% and 28.6% of the Group’s total assets, NAV and NTA respectively.

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	As a percentage of total assets (%)	As a percentage of NAV (%)	As a percentage of NTA (%)
Property, plant and equipment ⁽¹⁾	17.6	24.9	25.0
Investment properties	0.3	0.4	0.4
Land use rights	2.3	3.2	3.2
Total	20.1	28.5	28.6

Note:

(1) Property, plant and equipment comprises (i) buildings; (ii) plant and machinery; and (iii) construction-in-progress, as at 31 December 2020.

The Relevant Non-Current Assets are recorded at cost on initial recognition and subsequently measured at cost less accumulated depreciation or amortisation and any accumulated impairment losses. Accordingly, we note that the difference between the market value of the Relevant Non-Current Assets and its carrying value (if any) that would have an impact, is not reflected in the NAV/NTA of the Group as at 31 December 2020.

We have had discussions with the Management and we are of the view that a revalued NAV (“**RNAV**”) may not be relevant for the valuation of the Company and the Group for the following reasons. Management has confirmed that (i) the Relevant Non-Current Assets are used in the operations of the business and that it is their intention to continue using the Relevant Non-Current Assets in its current business, and (ii) as at the Latest Practicable Date, the Group does not have any current plans for a material disposal and/or conversion of the use of such Relevant Non-Current Assets.

We wish to highlight that should a valuation of the Relevant Non-Current Assets be performed, the Group’s RNAV could be potentially different from its NAV as at 31 December 2020. Management has confirmed that there has been no recent independent market valuation of the Relevant Non-Current Assets. As such, we are unable to comment whether the RNAV per Share is likely to be higher or lower than the S Shares Offer Price.

In respect to the above, the Directors have confirmed that, to their best knowledge and belief, as at the Latest Practicable Date, they are of the view that on aggregate basis, save as disclosed in the audited financial statements of the Group as at 31 December 2020, the announcements released by the Company on the SGXNET and the Circular, they are not aware of any circumstances which may cause the NAV / NTA of the Group to be materially different from their respective book values as at 31 December 2020.

7.4.4 Net cash⁽¹⁾ position of the Group as at 31 December 2020

We note that as at 31 December 2020, the Group had audited cash and cash equivalents of approximately RMB1,987.3 million, total lease liabilities of RMB2.7 million and total borrowings of RMB30.0 million, translating into an audited net cash of approximately RMB1,954.6 million or USD298.0 million equivalent to net cash per Share of RMB2.53 per Share or USD0.39 per Share. Adjusting for the net cash amount, the NAV of the Group as at 31 December 2020 on an ex-cash basis would be approximately RMB3,888.6 million or USD592.9 million, equivalent to approximately RMB5.03 per Share or USD0.77 per Share (the “**Ex-Cash NAV per Share**”). The S Shares Offer Price, after adjusting for the net cash per Share of USD0.39, would be approximately USD0.51 (the “**Ex-Cash S Shares Offer Price**”) and represents a discount of approximately 33.6% to the Ex-Cash NAV per Share.

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Note:

(1) Net cash is defined as cash and cash equivalents minus interest-bearing debts.

7.5 Comparison with financial valuation ratios of selected listed companies considered to be comparable to the Company

We wish to highlight that the financial figures used in our financial assessment have been extracted where available and/or applicable, from the Offer Document, the Circular and other publicly available sources. We make no representations or warranties, express or implied, as to the accuracy or completeness of such information.

For the purpose of assessing the S Shares Offer Price, references were made to listed companies that are primarily engaged in the business of manufacturing Chinese pharmaceutical products, which are broadly comparable with the Company ("**Selected Comparable Companies**") to give an indication of the current market expectations with regards to the valuation of these businesses, as implied by their respective closing market prices as at the Latest Practicable Date.

The Selected Comparable Companies have been identified through a search on Bloomberg and other public sources. Relevant information has been extracted from the annual reports and/or public announcements of the Selected Comparable Companies. We have had discussions with the Directors and Management about the suitability of the Selected Comparable Companies serving as basis for comparison with the core business of the Group and have obtained confirmations from the Directors on the appropriateness of the Selected Comparable Companies.

We recognise, however, that our list of Selected Comparable Companies is not exhaustive and they may differ from the Company in terms of business activities, scale of operations, types of products, geographical markets, track record, future prospects, asset base, risk profile, customer base and other relevant criteria. As such, any comparison made with respect to the Selected Comparable Companies is therefore intended to serve as an illustrative guide only.

For the purpose of our evaluation and for illustration, we have made comparisons between the Company and the Selected Comparable Companies on a historical basis using the following:

Valuation Ratio	General Description
Price-to-Earnings ("P/E")	P/E ratio illustrates the ratio of the market price of a company's shares to its consolidated basic earnings per share attributable to the owners of the company as stated in its financial statements. The P/E ratio is affected by, <i>inter alia</i> , the capital structure of a company, its tax position as well as its accounting policies relating to depreciation and intangible assets. In our analysis, we used the market price of the shares as of the Latest Practicable Date, divided by the aggregate of the most recent announced four quarters earnings per share where publicly available.

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Valuation Ratio	General Description
Enterprise Value-to-Earnings Before Interest, Tax, Depreciation and Amortisation ("EV/EBITDA")	<p>“EV” or “Enterprise Value” is the sum of a company’s market capitalisation, preferred equity, non-controlling interest, consolidated short and long-term debts, inclusive of finance lease liabilities, less its consolidated cash and cash equivalents. “EBITDA” stands for historical consolidated earnings before interest, tax, depreciation and amortisation expenses, inclusive of share of associates’ and joint ventures’ income.</p> <p>The EV/EBITDA ratio illustrates the ratio of the enterprise value of a company’s business to its historical pre-tax consolidated operating cashflow performance, without regard to its capital structure. In our analysis, we used the Enterprise Value that is derived from the company’s latest announced balance sheet and the company’s market capitalisation as of the Latest Practicable Date, divided by the aggregate of the most recent announced four quarters EBITDA where publicly available.</p>
Price-to-Net Asset Value ("P/NAV")	<p>“NAV” or “net asset value” is defined as total assets (including intangibles) less total liabilities and excludes where applicable non-controlling interest. P/NAV ratio illustrates the ratio of the market price of a company’s share relative to its historical NAV per share as recorded in its financial statements. The NAV figure provides an estimate of the value of a company assuming the sale of all its assets, the proceeds which are first used to settle its liabilities and obligations with the balance available for distribution to its shareholders. Comparisons of companies using their NAVs are affected by differences in their respective accounting policies, in particular, their depreciation and asset valuation policies. In our analysis, we used the market price of the shares as of the Latest Practicable Date, divided by the most recently announced NAV per share.</p>

The statistics for the Selected Comparable Companies are based on their closing prices as at the Latest Practicable Date and the publicly available financial results for the latest relevant financial periods.

Comparisons between the Company and the Selected Comparable Companies may be affected, *inter alia*, by differences in their accounting policies. Our analysis has not attempted to adjust for such differences.

We set out in the table below the list of Selected Comparable Companies, together with brief information on these companies.

Selected Comparable Companies	Stock Exchange	Description	Market Capitalisation ⁽¹⁾ (USD million)
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited (广州白云山医药集团股份有限公司) (“Baiyunshan”)	Hong Kong / Shanghai	Baiyunshan manufactures and sells Chinese patent medicine. The company also wholesales, retails, imports, and exports Western and Chinese pharmaceutical products and various medical apparatus.	6,532.1

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Selected Comparable Companies	Stock Exchange	Description	Market Capitalisation ⁽¹⁾ (USD million)
Beijing TongRenTang Co.,Ltd (北京同仁堂股份有限公司) ("TongRenTang")	Shanghai	TongRenTang develops, manufactures, and markets Chinese traditional medicines and medicinal wines. The company also operates pharmaceutical retail businesses and provides consulting services.	6,286.0
Shijiazhuang Yiling Pharmaceutical Co., Ltd (石家庄以岭药业股份有限公司) ("Yiling")	Shenzhen	Yiling develops, produces and sells Chinese patent medicine. The company's major products include Tongxinluo capsules, Shensongyangxin capsules, Lotus Qingwen capsules, Qili Qiangxin capsules and Bazi Bushen capsules.	4,548.1
Shandong Buchang Pharmaceuticals Co., Ltd (山东步长制药股份有限公司) ("Buchang")	Shanghai	Buchang researches, develops, produces, and sells herbal medicines, bio-pharmaceuticals, pharmaceutical preparations, and health drugs throughout China.	3,996.5
China Resources Sanjiu Medical & Pharmaceutical Co., Ltd. (华润三九医药股份有限公司) ("Sanjiu")	Shenzhen	Sanjiu develops, manufactures and sells prescription drugs, Chinese medicines, and other related products. The company also provides logistics transportation services.	3,604.6
China Traditional Chinese Medicine Holdings Co. Ltd (中国中药控股有限公司) ("CTCM")	Hong Kong	CTCM, through its subsidiaries, manufactures and sells medicine and pharmaceutical products in China.	3,101.6
Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂国药有限公司) ("TongRenTang HK")	Hong Kong	TongRenTang HK is a Chinese medicine manufacturer. The company mainly develops and produces health products, including patent medicines and health-care products.	1,194.8

Source: Bloomberg L.P.

Note:

- (1) Based on the closing price of the respective Selected Comparable Companies as at the Latest Practicable Date and translated at the foreign exchange rates of RMB6.5584:USD1 or HKD7.7771:USD1 where applicable.

We set out in the table below the financial ratios of the Selected Comparable Companies as at the Latest Practicable Date. For illustration purposes only, we have also set out below the financial ratios of the Company implied by the A Shares Offer Price and based on the closing price of the A Shares on the SSE as at the Latest Practicable Date.

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Selected Comparable Companies	Historical P/E (times)	Historical EV/EBITDA (times)	Historical P/NAV (times)
Baiyunshan	14.7	7.9	1.6
TongRenTang	40.0	17.0	4.2
Yiling	28.5	N.A. ⁽¹⁾	3.4
Buchang	13.2	N.A. ⁽¹⁾	2.0
Sanjiu	14.8	8.3	1.7
CTCM	12.2	7.9	1.1
TongRenTang HK	17.1	10.3	3.1
High	40.0	17.0	4.2
Mean	20.1	10.3	2.5
Median	14.8	8.3	2.0
Low	12.2	7.9	1.1

For illustration purposes only

Company (as implied by the A Shares Offer Price)⁽²⁾	20.4	13.6	2.3
Company (based on the closing price of A Shares on the SSE as at the Latest Practicable Date)⁽²⁾	23.9	16.4	2.7

Company (as implied by the S Shares Offer Price)⁽²⁾	6.9	3.2	0.8
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Source: Bloomberg L.P. and published financial statements of the respective Selected Comparable Companies

Notes:

- (1) N.A. as information relating to depreciation and amortisation expenses was not available for the computation of EBITDA for the most recent announced four quarters.
- (2) The valuation of the Company implied by the A Shares Offer Price, the closing price of A Shares on the SSE as at the Latest Practicable Date and S Shares Offer Price is based on the relevant price multiplied by 773,643,076 Shares, being the total number of Shares in issue as at the Latest Practicable Date.

Based on the above ratio analysis, we note that:-

- (a) the P/E ratio of the Company of 6.9 times as implied by the S Shares Offer Price is below the range of the P/E ratios of the Selected Comparable Companies;
- (b) the EV/EBITDA ratio of the Company of 3.2 times as implied by the S Shares Offer Price is below the range of the EV/EBITDA ratios of the Selected Comparable Companies;
- (c) the P/NAV ratio of the Company of 0.8 times as implied by the S Shares Offer Price is below the range of the P/NAV ratios of the Selected Comparable Companies; and

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- (d) for illustration purposes, the P/E, EV/EBITDA and P/NAV ratios as implied by the S Shares Offer Price are below the P/E, EV/EBITDA and P/NAV ratios as implied by the A Shares Offer Price and the P/E, EV/EBITDA and P/NAV ratios based on the closing price of the A Shares on the SSE as at the Latest Practicable Date.

7.6 Comparison with recent non-privatisation takeovers for companies listed on the SGX-ST

We note that it is the intention of the Offeror to maintain the listing status of the Company on the SGX-ST. In assessing the reasonableness of the S Shares Offer Price, we have compared the financial statistics based on the S Shares Offer Price with those of recently completed take-overs for companies listed on the SGX-ST which were announced in the 24-month period prior to the Possible Offer Announcement Date, where it was indicated the offeror's intentions to preserve the listing status of the target companies (collectively, the "**Selected Comparable Transactions**").

We wish to highlight that the list of target companies set out under the Selected Comparable Transactions are not directly comparable with the Company in terms of business activities, market capitalisation, size of operations, accounting policies, financial performance, future prospects and other relevant criteria. Each transaction must be judged on its own commercial and financial merits.

We also wish to highlight that the list of Selected Comparable Transactions is by no means exhaustive and has been compiled based on publicly available information as at the Latest Practicable Date.

The premium (if any) that an offeror would pay in respect of any particular takeover depends on various factors, *inter alia*, the offeror's intention with regard to the target company, the potential synergy that the offeror can derive from acquiring the target company, the presence of competing bids for the target company, prevailing market conditions and sentiment, attractiveness and profitability of the target company's business and assets and existing and desired level of control in the target company. Therefore, the comparison of the S Shares Chain Offer with the Selected Comparable Transactions set out below is for illustrative purposes only. Conclusions drawn from the comparisons made may not reflect any perceived market valuation of the Company.

Details of the Selected Comparable Transactions are set out below:

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Companies	Date of announcement	Premium/ (Discount) of offer price over/(to) last transacted price ("LTP") / VWAP prior to announcement				Offer price to NAV/ RNAV ⁽¹⁾ (times)	Independent financial advisers' advice in relation to the respective offers
		LTP (%)	1-month VWAP (%)	3-month VWAP (%)	6-month VWAP (%)		
Sevak Limited ⁽²⁾	1 Feb 2019 ⁽³⁾	17.4 ⁽⁴⁾	9.3 ⁽⁵⁾	9.8 ⁽⁵⁾	18.7 ⁽⁵⁾	1.1	Accept the offer
Thakral Corporation Ltd ⁽²⁾	4 Mar 2019	11.8	17.1	18.1	18.0	0.5	Accept the offer
Ying Li International Real Estate Limited	3 Apr 2019	1.6	5.7	10.5	17.8	0.3 ⁽⁶⁾	Reject the offer
ISEC Healthcare Ltd.	2 Jul 2019 ⁽⁷⁾	5.9 ⁽⁸⁾	11.3 ⁽⁹⁾	15.1 ⁽⁹⁾	19.9 ⁽⁹⁾	7.7	Accept the offer
DLF Holdings Limited (currently known as OIO Holdings Limited)	20 Sep 2019	(56.2)	(54.5)	(54.5)	(4.7)	18.6 ⁽¹⁰⁾⁽¹¹⁾	Accept the offer
TEE Land Limited (currently known as Amcorp Global Limited)	13 Jan 2020	8.0	12.1	19.6	20.4	0.6 ⁽¹²⁾	Accept the offer
Darco Water Technologies Limited.	5 May 2020	30.8	33.3	30.6	(15.9)	0.4	Reject the offer
Axington Inc.	1 Jun 2020	43.5	40.1	41.3	78.6	1.3 ⁽¹³⁾	Accept the offer
Tee International Limited	7 Jul 2020	12.7	13.8	26.6	(9.9)	1.0	Accept the offer
Blumont Group Ltd.	16 Nov 2020	(80.0) ⁽¹¹⁾	(79.4) ⁽¹¹⁾	(80.6) ⁽¹¹⁾	(80.0) ⁽¹¹⁾	1.1 ⁽¹⁴⁾	Reject the offer
Lum Chang Holdings Limited	17 Nov 2020	8.6	8.6	8.7	8.8	0.5 ⁽¹⁵⁾	Reject the offer

For all Selected Comparable Transactions

High	43.5	40.1	41.3	78.6	7.7
Mean	8.4	9.7	12.6	15.2	1.5
Median	10.2	11.7	16.6	17.9	0.8
Low	(56.2)	(54.5)	(54.5)	(15.9)	0.3

Selected Comparable Transactions where the respective independent financial advisers had advised to recommend to accept the offer

High	43.5	40.1	41.3	78.6	7.7
Mean	6.2	7.0	10.9	20.1	2.0
Median	11.8	12.1	18.1	18.7	1.0
Low	(56.2)	(54.5)	(54.5)	(9.9)	0.5

Company⁽¹⁶⁾
(as implied by the S Shares Offer Price)

(5.3) (0.7) 5.4 1.8 0.8

Source: Announcements and circulars to shareholders in relation to the respective take-over transactions and RHBS's calculations

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Notes:

- (1) Certain Selected Comparable Transactions involved revaluations and/or adjustments to the assets of the target companies which may have a material impact on their latest announced book values, as disclosed in the respective circulars. In such cases, we have compared the offer price to the RNAV or adjusted NAV disclosed in the respective circulars, as applicable.
- (2) These are voluntary conditional cash partial offers with the intention to maintain the target company's listing status on the SGX-ST.
- (3) Refers to the date of the holding announcement.
- (4) The LTP of Sevak Limited shares refers to the last transacted price per share on 1 February 2019.
- (5) The VWAPs of Sevak Limited shares for the selected reference periods were computed based on the share prices and volume during the 1-month, 3-month and 6-month periods prior to and including the date of the holding announcement.
- (6) Based on the RNAV per share of Ying Li International Real Estate Limited as at 31 December 2018.
- (7) Refers to the date of the holding announcement.
- (8) The LTP of ISEC Healthcare Ltd. refers to the last transacted price per share on 28 June 2019, being the last trading day prior to the trading halt of the shares, preceding the date of the holding announcement.
- (9) The VWAPs of ISEC Healthcare Ltd. shares for the selected reference periods were computed based on the share prices and volume during the 1-month, 3-month and 6-month periods prior to the date of the holding announcement.
- (10) Based on the RNAV per share of DLF Holdings Limited as at 30 June 2019.
- (11) Excluded as statistical outlier in the high, mean, median and low computations.
- (12) Based on the RNAV per share of TEE Land Limited as at 30 November 2019.
- (13) Based on the adjusted NAV per share of Axington Inc. as at 31 December 2019.
- (14) Based on the RNAV per share of Blumont Group Ltd. as at 3 December 2020.
- (15) Based on RNAV per share of Lum Chang Holdings Limited as at 30 Jun 2020.
- (16) Based on the LTP on 16 December 2020, being the Unaffected Date and the VWAPs for the 1-month, 3-month and 6-month periods prior to and including the Unaffected Date, as the case may be.

We note the following based on the above table:

- (a) The discount of 5.3% as implied by the S Shares Offer Price to the LTP on the Unaffected Date is within the range and below the mean and median premia for the Selected Comparable Transactions;
- (b) The discount of 0.7% as implied by the S Shares Offer Price to the VWAP for the 1-month period prior to and including the Unaffected Date is within the range and below the mean and median premia for the Selected Comparable Transactions;
- (c) The premium of 5.4% and 1.8% as implied by the S Shares Offer Price to the VWAP for the 3-month and 6-month periods prior to and including the Unaffected Date respectively, is within the range and below the mean and median premia for the Selected Comparable Transactions;
- (d) The P/NAV ratio of 0.8 times as implied by the S Shares Offer Price is within the range, lower than the mean and equivalent to the median of the P/NAV ratios for the Selected Comparable Transactions; and

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- (e) Among the Selected Comparable Transactions where the respective independent financial advisers had advised to recommend to accept the offer, (i) the premium / discount as implied by the S Shares Offer Price to the LTP, 1-month, 3 month and 6 months period is below the mean and median premia for these Selected Comparable Transactions; and (ii) the P/NAV ratio as implied by the S Shares Offer Price is below the mean and median P/NAV ratio for these Selected Comparable Transactions.

7.7 Other considerations in relation to the S Shares Chain Offer which have a significant bearing on our assessment

7.7.1 Outlook of the Group

In the Company's results announcement for the full year ended 31 December 2020, the following commentary was made on the significant trends and competitive conditions of the industry in which the Group operates in and any known factors or events that may affect the Group in the next reporting period and the next 12 months from the date of the results announcement:

"With the global spread of the Covid-19 pandemic and the complex and evolving external environment, China's economy has become the only major economy in the world to achieve positive economic growth in 2020.

In the fight against the Covid-19 pandemic, Chinese medicine has demonstrated its unique advantages and achieved improved world recognition. This has led to further consolidation of the reform and development of Chinese medicine.

On October 29, 2020, the Fifth Plenary Session of the 19th Central Committee of the Communist Party of China reviewed and approved the "Recommendations of the Central Committee of the Communist Party of China on Formulating the Fourteenth Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035." This emphasized the equal importance of both Chinese and Western medicine and promote the development of Chinese medicine.

In December 2020, the State Food and Drug Administration's "Implementation on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicines" pointed out that deepening reforms comply with the system of review and approval of traditional Chinese medicines. With the series of support and implementation policies, the Chinese medicine industry will embark on a new development path and period.

Faced with the challenges of the pandemic as well as the opportunities presented by state policies, the Company focuses on improving quality and efficiency, and places emphasis on innovation and development. In prevention and control of the pandemic, the Company has carried out in depth "Three system reforms" by promoting market-based recruitment, improving market-driven operations, streamlining roles and responsibilities, and optimizing the corporate governance. The Company also embarked on innovative marketing through online promotion, consumer development, academic promotion, establishing sales channels, brand promotion to promote continuing sales growth. To be the leading edge in innovation, the Company accelerates its product development, achieves evaluation consistency of generic drugs, and enhance scientific research capabilities.

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In improving efficiency and effectiveness, the Company continues to strengthen its internal management and control, asset utilization, project advancement, cost reduction and efficiency enhancement, financial management, talent development, and safety and environmental protection.

In 2020, while revenue of the Group decreased by 5.6% year-on-year, the net profit attributable to the parent increased by 6% year-on-year, and the operating performance continues to be good.”

7.7.2 Offeror’s and Purchaser’s intention in relation to the Company

The Offeror’s and Purchaser’s intention in relation to the Company as at the Formal Offer Announcement Date was set out in Section 7.2 of the Offer Document and reproduced in italics in Section 6 of this Letter. We note that as at the Formal Announcement Date, the Offeror and Purchaser have no plan which may have a material impact on the business and organisation of the Company. However, they retain the flexibility at any time to further consider any options or opportunities which may present themselves and which the Purchaser and the Offeror may regard to be in the interests of the Company and its subsidiaries.

Shareholders are advised to read the full text of Section 7.2 of the Offer Document in the context of the S Shares Chain Offer.

7.7.3 Compulsory acquisition

As the Company is incorporated in the PRC, the Purchaser and/or the Offeror have no rights of compulsory acquisition under the laws of the PRC.

7.7.4 Listing status

We note that is the current intention of the Offeror to maintain the listing status of the S Shares of the Company on the SGX-ST. However, in the event that the Company does not meet the free float requirement, as set out in Rule 723 of the Listing Manual, at the close of the Chain Offers, the Offeror reserves the right to re-evaluate its position, depending on, *inter alia*, the ultimate level of acceptances received by the Offeror and the prevailing market conditions at the relevant time.

7.7.5 Dividend track record

For the purposes of assessing the S Shares Chain Offer, we have considered the dividend yield of the S Shares implied by the S Shares Offer Price and compared them with the returns which an S Shares Shareholder may potentially obtain by re-investing the proceeds from the S Shares Chain Offer, in the event the S Shares Shareholder accepts the S Shares Chain Offer, in other comparable investments.

For illustration purposes only, we set out in a table below information on the dividends declared by the Company in respect of the latest three financial years:-

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	FY2018	FY2019	FY2020
Gross Dividend Declared (RMB) ⁽¹⁾	0.22	0.30	0.30 ⁽²⁾
Gross Dividend Declared (USD) ⁽³⁾	0.03	0.05	0.05
Average daily closing price of S Shares (USD) ⁽⁴⁾	0.998	0.871	0.796
Implied Gross Dividend Yield based on average closing price of S Shares for the respective years	3.0%	5.7%	6.3%
Implied Gross Dividend Yield⁽⁵⁾	3.8%	5.1%	5.1%

Notes:

- (1) Source: Company's annual reports and announcements.
- (2) Subject to approval by Shareholders at the forthcoming annual general meeting to be held on 17 May 2021.
- (3) The gross dividend declared by the Company for the respective financial years are translated to USD based on the exchange rate of RMB6.5584:USD1 for illustration purpose only and should not be construed as representations that RMB amounts actually represent such USD or could be converted into USD at the rate indicated or at any other rate and *vice versa*.
- (4) Source: Bloomberg L.P.
- (5) Based on the gross dividend declared by the Company for the respective financial year translated to USD and divided by the S Shares Offer Price of USD0.894.

Based on the above, we note that over the last three financial years, the Company declared dividends per Share ranging from 22 RMB cents to 30 RMB cents. The dividend yield based on the average daily closing price of S Shares for the corresponding year ranges from 3.0% to 6.3%, with a mean of approximately 5.0%. The dividend yield implied by the S Shares Offer Price ranges from 3.8% to 5.1%, with a mean implied dividend yield of approximately 4.7%.

We noted and reproduced in italics below the statements in relation to the Company's dividend policy from the Company's annual reports for FY2018 and FY2019. S Shares Shareholders are advised to read the full text of the dividend policy in the context of the said annual reports.

"The Company currently does not have a formal dividend policy. The Board considers that it is imperative to balance the Group's needs with the needs 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."

We further noted in the Company's annual report for FY2019, a shareholder return plan (the "**Plan**") for the next three years (2020 – 2022) was formulated by the Board, which was subsequently approved at the Company's AGM held on 5 June 2020. Pursuant to the Plan, if the conditions for cash dividends are met, the Company shall distribute profits in the form of cash dividends. As for the quantum of the cash dividend, the following are noted and extracted in

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italics from the Company's annual report for FY2019 for ease of reference. S Shares Shareholders are advised to read the full text of the Plan in the context of the said annual report.

- “1. *...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.....*

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.”*

We wish to highlight that the above dividend yield analysis of the Company serves only as an illustrative guide and is not an indication of the cash dividends that the Company may declare and/or distribute in future. There is no assurance that the Company will continue to pay dividends in future and/or maintain the level of dividends paid in the past periods.

For illustration purposes only and based on data as at the Latest Practicable Date, the S Shares Shareholders who accept the S Shares Chain Offer and reinvest the cash in the below selected types of alternative investment may potentially receive the following returns:

Selected types of alternative investment	Return on investment (%)
12-month S\$ fixed deposit (below S\$20,000) ⁽¹⁾	1.15
12-month S\$ fixed deposit (S\$20,000 and above) ⁽¹⁾	0.15
1-year Singapore government treasury bill ⁽²⁾	0.39
5-year Singapore government securities bond ⁽²⁾	0.91
10-year Singapore government securities bond ⁽²⁾	1.72
STI ⁽³⁾	3.33
Selected Comparable Companies	Dividend Yield⁽⁴⁾ (%)
Baiyunshan	1.6 ⁽⁵⁾ / 3.0 ⁽⁵⁾
TongRenTang	1.0
Yiling	N.A. ⁽⁶⁾
Buchang	N.A. ⁽⁶⁾
Sanjiu	1.7
CTCM	- ⁽⁷⁾
TongRenTang HK	2.3

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Notes:

- (1) Based on the highest available fixed deposit rates offered by the three major Singapore commercial banks, namely DBS Bank Ltd, United Overseas Bank Limited and Overseas-Chinese Banking Corporation Limited on the Latest Practicable Date as extracted from their websites.
- (2) Based on the latest yields as at the Latest Practicable Date as extracted from the website of the Monetary Authority of Singapore.
- (3) Based on the trailing 12 months' dividends and market value of the STI composite stocks on the Latest Practicable Date as extracted from Bloomberg.
- (4) Based on total dividend declared in respect of the respective Selected Comparable Companies' latest full financial year as extracted from the respective annual reports and/or financial results announcements and their average closing prices for the year 2020.
- (5) Baiyunshan's dividend yield of 1.6% is calculated based on the its average closing price per A share for the year 2020; while its dividend yield of 3.0% is calculated based on the its average closing price per H share for the year 2020.
- (6) N.A as information regarding dividend payment for the latest full financial year was not available as at the Latest Practicable Date.
- (7) CTCM did not declare any dividends for FY2020.

It is observed from the table set out above that based on the implied mean dividend yield of the Company of 4.7%, an S Shares Shareholder who accepts the S Shares Chain Offer may potentially experience a decrease in investment income if he re-invests the proceeds in the shares of the Selected Comparable Companies and alternative investments.

Please note that the above observations are based on the assumption that the Company and the Selected Comparable Companies maintain their respective dividend per share at the same level as that set out in the table above. There is no assurance that the Company and the Selected Comparable Companies will continue to pay dividends in future and/or maintain the level of dividends paid in the past periods.

In addition, we wish to highlight that the above selected types of alternative investments are of varying characteristics and provide fundamentally different risk-return profiles as compared to that of the S Shares. S Shares Shareholders should also note that the above expressed returns on investment of the selected types of alternative investment as extracted from various sources should not be relied upon as promises of its future returns on investment. Accordingly, the above comparisons with the selected types of alternative investment are solely for illustrative purposes only at the prevailing market conditions as at the Latest Practicable Date, and should not be construed as any form of investment advice for any type of financial instrument, including the Shares.

7.7.6 Alternative offers from third parties

As at the Latest Practicable Date, there is no publicly available evidence of an alternative takeover offer for the S Shares from any third party. The Directors have confirmed that, as at the Latest Practicable Date, save for the S Shares Chain Offer made by the Offeror, no alternative takeover offer from any third party has been received.

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7.7.7 No irrevocable undertaking

As at the Formal Offer Announcement Date, none of the Offeror, TPH, the Purchaser or any party acting in concert with them has received any irrevocable undertaking from any other party to accept the Chain Offers.

7.8 Estimated range of values for each S Share

Having considered Sections 7.1 to 7.7 of this Letter, the P/E and EV/EBITDA multiple valuation is our primary valuation methodology taking into consideration the nature of the Group's core business as well as the Group being profitable for the latest three financial years and its ability to continue as a going concern.

Applying the mean P/E and EV/EBITDA multiples of the Selected Comparable Companies to the Group's earnings of RMB661.7 million and EBITDA of RMB856.0 million for FY2020 and taking into account the net cash of the Group of RMB1,954.6 million and non-controlling interest of the Group of RMB141.5 million as at 31 December 2020, the estimated range of values is between USD2.091 to USD2.617 per S Share. We note that the S Shares Offer Price of USD0.894 is below the estimated range of values.

We have also considered the asset-based approach to show the extent to which the value of each S Share is backed by both tangible and intangible assets, assuming the hypothetical sale of all assets of the Group over a reasonable period of time. However, the asset-based approach does not take into account the future earning prospects of the Group and the Group is not an asset heavy company such as investment / real estate holding companies or property developers. The Group's non-current assets are primarily property, plant and equipment which are used in the operation of the business and that it is their intention to continue using them in its current business. Nevertheless, the asset-based approach serves as a meaningful reference point for comparison with the S Shares Offer Price against the Company's NAV per Share. We note that the S Shares Offer Price represents a discount of approximately 22.4% and 22.2% to the audited NAV per Share and NTA per Share respectively. We also note that the P/NAV ratio of 0.8 times implied by the S Shares Offer Price is below the mean of the P/NAV ratios of the Selected Comparable Companies of 2.5 times and the mean of the P/NAV ratios of the Selected Comparable Transactions of 1.5 times.

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8. OPINION AND ADVICE

In arriving at our opinion in respect of the S Shares Chain Offer, we have taken into account the factors which we consider would have a significant bearing on our assessment as set out in the earlier sections and summarised below. The following should be read in conjunction with, and in the context of, the full text of this Letter.

- (a) market quotation and trading activity of the S Shares;
- (b) S Shares price performance relative to selected market index;
- (c) financial analysis of the Group;
- (d) the Group's NAV, NTA and net cash position;
- (e) comparison with financial valuation ratios of selected listed companies considered to be comparable to the Company;
- (f) comparison with recent non-privatisation takeovers for companies listed on the SGX-ST;
- (g) other considerations in relation to the S Shares Chain Offer which have a significant bearing on our assessment; and
- (h) estimated range of values for each S Share.

Having regard to the considerations set out in this Letter, the information available to us as at the Latest Practicable Date and subject to the assumptions and qualifications set out in this Letter, we are of the opinion that the terms of the S Shares Chain Offer are NOT FAIR and NOT REASONABLE from a financial point of view based on the following key factors:

- (a) The S Shares Offer Price represents a discount of approximately 22.4% and 22.2% to the audited NAV per Share and NTA per Share respectively;
- (b) The Ex-Cash S Shares Offer Price represents a discount of approximately 33.6% to the Ex-Cash NAV per Share;
- (c) In respect of the comparison with financial valuation ratios of the Selected Comparable Companies:
 - (i) the P/E ratio of the Company of 6.9 times as implied by the S Shares Offer Price is below the range of the P/E ratios of the Selected Comparable Companies;
 - (ii) the EV/EBITDA ratio of the Company of 3.2 times as implied by the S Shares Offer Price is below the range of the EV/EBITDA ratios of the Selected Comparable Companies; and
 - (iii) The P/NAV ratio of the Company of 0.8 times as implied by the S Shares Offer Price is below the range of the P/NAV ratios of the Selected Comparable Companies;
- (d) In respect of the comparison with the Selected Comparable Transactions:

APPENDIX I – LETTER FROM THE IFA FOR S SHARES CHAIN OFFER

- (i) The discount/premium represented by the S Shares Offer Price to the VWAPs for the Unaffected Date, 1-month, 3-months, 6-month periods prior to and including the Unaffected Date when compared to the Selected Comparable Transactions where the respective independent financial advisers had advised independent directors to recommend to shareholders to “accept” the offer, is below the mean and median premia for the Selected Comparable Transactions; and
 - (ii) The P/NAV ratio as implied by the S Shares Offer Price when compared to the Selected Comparable Transactions where the respective independent financial advisers had advised independent directors to recommend to shareholders to “accept” the offer, is below the mean and median P/NAV for the Selected Comparable Transactions;
- (e) In respect of the estimated range of values of each S Share, the S Shares Offer Price of USD0.894 is below the estimated range of values of USD2.091 to USD2.617 per S Share derived from the P/E and EV/EBITDA valuation multiples approach.

Accordingly, we advise the Non-Interested Directors to recommend the S Shares Shareholders to REJECT the S Shares Chain Offer.

This Letter is addressed to the Non-Interested Directors for their use and benefit, in connection with and for the purposes of their consideration of the S Shares Chain Offer only. The recommendation made by the Non-Interested Directors to the S Shares Shareholders in respect of the S Shares Chain Offer shall remain the sole responsibility of the Non-Interested Directors.

Whilst a copy of this Letter may be reproduced in the Circular, 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 the purpose of the S Shares Chain Offer, at any time and in any manner without the prior written consent of RHBS in each specific case.

Our opinion and advice are governed by, and construed in accordance with, the laws of Singapore, and are strictly limited to the matters stated herein and do not apply by implication to any other matter.

Yours faithfully
For and on behalf of
RHB Bank Berhad

Goh Ken-Yi
Head
Corporate and Investment Banking

Lien I Ping
Deputy Director
Corporate Finance

APPENDIX II – ADDITIONAL GENERAL INFORMATION

1. DIRECTORS

The names, addresses and descriptions of the Directors as at the Latest Practicable Date are set out below:

Name	Address	Designation
Mr. Li Liqun	c/o 17 Baidi Road, Nankai District, Tianjin, the PRC	Chairman of the Board
Ms. Li Yan	c/o 17 Baidi Road, Nankai District, Tianjin, the PRC	Executive Director
Mr. Wang Mai	c/o 17 Baidi Road, Nankai District, Tianjin, the PRC	Executive Director
Mr. Zhou Hong	c/o 17 Baidi Road, Nankai District, Tianjin, the PRC	Executive Director
Mr. Tang Tiejun	c/o 17 Baidi Road, Nankai District, Tianjin, the PRC	Non-Independent and Non-Executive Director
Mr. Zhang Ping	c/o 17 Baidi Road, Nankai District, Tianjin, the PRC	Non-Independent and Non-Executive Director
Mr. Qiang Zhiyuan	c/o 17 Baidi Road, Nankai District, Tianjin, the PRC	Independent and Non-Executive Director
Mr. Liew Yoke Pheng Joseph	c/o 17 Baidi Road, Nankai District, Tianjin, the PRC	Independent and Non-Executive Director
Mr. Wong Gang	c/o 17 Baidi Road, Nankai District, Tianjin, the PRC	Independent and Non-Executive Director

2. REGISTERED OFFICE

The registered office of the Company is at 17 Baidi Road, Nankai District, Tianjin, the PRC.

3. HISTORY AND PRINCIPAL ACTIVITIES

The Company was incorporated in the PRC on 29 December 1981 and was listed on the Main Board of the SGX-ST in 1997 and on the SSE in 2001.

With Chinese traditional medicine manufacturing as its core business, the Company's businesses cover a wide range of areas including research, development and manufacturing of Chinese patent medicine, Chinese medicinal raw materials, chemical raw material medicine and preparations, biotechnology medicine and nutritional and health products and pharmaceutical commerce.

APPENDIX II – ADDITIONAL GENERAL INFORMATION

4. SHARE CAPITAL

4.1 Issued Share Capital

The Company has one class of Shares, being ordinary shares. As at the Latest Practicable Date, the registered capital of the Company is RMB773,643,076 comprising 773,643,076 Shares, of which,

- (a) 573,643,076 Shares are A Shares; and
- (b) 200,000,000 Shares are S Shares.

All A Shares and S Shares rank *pari passu* in all aspects. The par value of these shares is RMB1 for each Share, and the A Shares Shareholders and the S Shares Shareholders are ordinary shareholders with equal rights and obligations. Each Share carries one (1) vote. The A Shares are only listed and traded on the SSE whereas the S Shares are only listed and traded on the SGX-ST.

As at the Latest Practicable Date, the Company does not have any treasury shares.

4.2 Rights of Shareholders in respect of capital, dividends and voting

The rights of Shareholders in respect of capital, dividends and voting are contained in the Articles of Association, which is available for inspection at the registered office of the Company at 17 Baidi Road, Nankai District, Tianjin, the PRC during normal business hours for the period during which the Chain Offers remain open for acceptance. The relevant provisions in the Articles of Association in relation to the rights of Shareholders in respect of capital, dividends and voting have been extracted from the Articles of Association and are reproduced in **Appendix V** to this Circular. Capitalised terms and expressions not defined in the extracts have the meanings ascribed to them in the Articles of Association.

4.3 Number of Shares issued since the end of the last financial year

No Shares have been issued by the Company since 31 December 2020, being the end of the last financial year up to the Latest Practicable Date.

4.4 Options and Convertible Instruments

Save as disclosed below and in this Circular, the Company has not issued any instruments convertible into, rights to subscribe for, and options in respect of, Shares and securities of the Company which carry voting rights affecting Shares, that are outstanding as at the Latest Practicable Date.

The Scheme

Pursuant to the Scheme, the Company had granted 3,930,000 Restricted A Shares to the eligible Participants under the Initial Grant on 9 December 2019 and granted 940,000 Reserved Restricted A Shares to the eligible Participants under the Grant of Reserved Restricted A Shares on 6 July 2020. Of these 4,870,000 Restricted A Shares, an aggregate of 100,000 Restricted A Shares granted but not yet released from the lock-up requirements had been repurchased and cancelled by the Company.

APPENDIX II – ADDITIONAL GENERAL INFORMATION

As disclosed in the circular dated 15 November 2019 issued by the Company in relation to the Scheme, the aggregate number of Restricted A Shares proposed to be granted under the Scheme shall be no more than 5,012,500 A Shares. As mentioned above, as an aggregate of 4,870,000 Restricted A Shares have been granted under the Initial Grant and the Grant of Reserved Restricted A Shares, the balance number of Restricted A Shares under the Scheme is 142,500 Restricted A Shares. Such Restricted A Shares will not be further granted and have been forfeited by the Company pursuant to the Scheme.

The Lock-up Periods of the Restricted A Shares granted under the Scheme shall be 24 months, 36 months and 48 months from the date of completion of the registration of the Restricted A Shares granted under the Initial Grant or the Grant of Reserved Restricted A Shares (as the case may be).

The validity period of the Scheme shall commence on the Initial Grant Date or the Grant Date of Reserved Restricted A Shares (as the case may be) and end on the date when all the Restricted A Shares granted to the Participants under the Initial Grant or the Grant of Reserved Restricted A Shares (as the case may be) are released from the lock-up requirements or repurchased and cancelled by the Company, and shall not exceed 60 months.

Please refer to the announcements made by the Company on SGXNET on 9 December 2019, 8 January 2020, 17 February 2020, 6 July 2020, 17 July 2020, 28 July 2020 and 14 August 2020, and the circular dated 15 November 2019 issued by the Company in relation to the Scheme, for further details on the Scheme and the foregoing events.

5. DISCLOSURE OF INTERESTS AND DEALINGS

5.1 Interests of the Company in Offeror Securities and/or Purchaser Securities

The Company does not have any direct or deemed interests in the Offeror Securities and the Purchaser Securities as at the Latest Practicable Date.

5.2 Dealings in Offeror Securities and/or Purchaser Securities by the Company

The Company has not dealt for value in the Offeror Securities and the Purchaser Securities during the period commencing six (6) months prior to the Possible Offer Announcement Date and ending on the Latest Practicable Date.

5.3 Interests of the Directors in Offeror Securities and/or Purchaser Securities

None of the Directors has any direct or deemed interests in the Offeror Securities and the Purchaser Securities as at the Latest Practicable Date.

5.4 Dealings in Offeror Securities and/or Purchaser Securities by the Directors

None of the Directors has dealt for value in the Offeror Securities and the Purchaser Securities during the period commencing six (6) months prior to the Possible Offer Announcement Date and ending on the Latest Practicable Date.

APPENDIX II – ADDITIONAL GENERAL INFORMATION

5.5 Interests of the Directors in Company Securities

Save as disclosed in the table below, as at the Latest Practicable Date, none of the Directors has any direct or deemed interests in the Company Securities:

Name of Director	Direct Interest		Deemed Interest		Total Interest	
	No. of Shares	% ⁽¹⁾	No. of Shares	% ⁽¹⁾	No. of Shares	% ⁽¹⁾
Li Liquan	70,000 ⁽²⁾	0.009	–	–	70,000	0.009
Wang Mai	70,000 ⁽²⁾	0.009	–	–	70,000	0.009
Zhou Hong	70,000 ⁽²⁾	0.009	–	–	70,000	0.009
Li Yan	70,000 ⁽²⁾	0.009	–	–	70,000	0.009

Notes:

(1) Calculated based on a total of 773,643,076 Shares (excluding treasury shares) in issue as at the Latest Practicable Date and rounded to the nearest three (3) decimal places. The Company does not have any treasury shares as at the Latest Practicable Date.

(2) These are the Restricted A Shares granted under the Scheme.

5.6 Dealings in Company Securities by the Directors

On 6 July 2020, Ms. Li Yan was granted 70,000 Restricted A Shares at the grant price of RMB8.89 for each Restricted A Share under the Grant of Reserved Restricted A Shares pursuant to the Scheme.

Save as disclosed above, none of the Directors has dealt for value in the Company Securities during the period commencing six (6) months prior to the Possible Offer Announcement Date and ending on the Latest Practicable Date.

5.7 Interests of the IFA for S Shares Chain Offer in Company Securities

As at the Latest Practicable Date, none of the IFA for S Shares Chain Offer nor any funds whose investments are managed by the IFA for S Shares Chain Offer on a discretionary basis owns or controls any Company Securities.

5.8 Dealings in Company Securities by the IFA for S Shares Chain Offer

None of the IFA for S Shares Chain Offer nor any funds whose investments are managed by the IFA for S Shares Chain Offer on a discretionary basis has dealt for value in any Company Securities during the period commencing six (6) months prior to the Possible Offer Announcement Date and ending on the Latest Practicable Date.

5.9 Directors' Intentions in respect of their Shares

As at the Latest Practicable Date, none of the Directors holds or has a deemed interest in the Offer Shares.

For the avoidance of doubt, the Restricted A Shares held by the Directors granted under the Scheme as disclosed in **Paragraph 5.5** in this **Appendix II** above are subject to the lock-up

APPENDIX II – ADDITIONAL GENERAL INFORMATION

requirements and shall not be transferred pursuant to the terms of the Scheme. Accordingly, such Restricted A Shares are not part of the A Offer Shares.

6. OTHER DISCLOSURES

6.1 Directors' service contracts

As at the Latest Practicable Date:

- (a) there are no service contracts between any of the Directors or proposed directors with the Company or any of its subsidiaries which have more than 12 months to run and which are not terminable by the employing company within the next 12 months without paying any compensation; and
- (b) there are no such contracts entered into or amended during the period commencing six (6) months prior to the Possible Offer Announcement Date and ending on the Latest Practicable Date.

6.2 Arrangements affecting Directors

As at the Latest Practicable Date,

- (a) it is not proposed that any payment or other benefit shall be made or given to any Director or director of any other corporation which is by virtue of Section 6 of the Companies Act deemed to be related to the Company, as compensation for loss of office or otherwise in connection with the Chain Offers;
- (b) there are no agreements or arrangements made between any Director and any other person in connection with or conditional upon the outcome of the Chain Offers; and
- (c) none of the Directors has a material personal interest, whether direct or indirect, in any material contract entered into by the Offeror and/or the Purchaser.

7. MATERIAL CONTRACTS WITH INTERESTED PERSONS

As at the Latest Practicable Date, save as disclosed below and in any information on the Company which is publicly available (including, without limitation, the annual reports of the Company and the announcements released by the Company on SGXNET and on the website of the SSE), neither the Company nor any of its subsidiaries has entered into material contracts (other than those entered into in the ordinary course of business) with persons who are Interested Persons during the period commencing three (3) years before the Possible Offer Announcement Date and ending on the Latest Practicable Date.

Financial services agreement between the Company and Tianjin Pharmaceutical Group Finance Co., Ltd. as an interested person transaction

At the annual general meeting of the Company held on 5 June 2020, Shareholders approved the proposed financial services agreement (“FSA”) to be entered into between the Company and Tianjin Pharmaceutical Group Finance Co., Ltd. (“TPGF”) as an interested person transaction and all transactions arising therefrom. TPGF is a subsidiary of TPH, the controlling shareholder of the Company.

APPENDIX II – ADDITIONAL GENERAL INFORMATION

As disclosed in the Annexure Accompanying the Notice of Annual General Meeting dated 21 May 2020 (appended to the Company's annual report for the financial year ended 31 December 2019), TPGF shall provide the following financial services to the Company under the FSA:

- 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 China Banking and Insurance Regulatory Commission (中国银行 保险监督管理委员会) 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 of the FSA 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.

Following the annual general meeting of the Company held on 5 June 2020, the Company had entered into the FSA with TPGF, and the tenure for the FSA shall be from 1 July 2020 to 30 June 2023.

Please refer to the Annexure Accompanying the Notice of Annual General Meeting dated 21 May 2020 (appended to the Company's annual report for the financial year ended 31 December 2019 uploaded on SGXNET) for further details on the above transaction, including the rationale for and key terms of the FSA.

APPENDIX II – ADDITIONAL GENERAL INFORMATION

8. MATERIAL LITIGATION

As at the Latest Practicable Date:

- (a) neither the Company nor any of its subsidiaries is engaged in any material litigation or arbitration proceedings, as plaintiff or defendant, which might materially and adversely affect the financial position of the Company or the Group, taken as a whole; and
- (b) the Directors are not aware of any litigation, claims or proceedings pending or threatened against the Company or any of its subsidiaries or of any facts likely to give rise to any litigation, claims or proceedings which might materially and adversely affect the financial position of the Company or the Group, taken as a whole.

9. SUMMARY OF FINANCIAL INFORMATION

9.1 Consolidated Statements of Comprehensive Income

A summary of the audited consolidated statements of comprehensive income of the Group for FY2018, FY2019 and FY2020 is set out below.

	2020 ⁽¹⁾	2019 ⁽²⁾	2018 ⁽²⁾
	RMB'000	RMB'000	RMB'000
Revenue	6,603,652	6,993,882	6,358,622
Cost of sales	(4,086,048)	(4,112,388)	(3,794,042)
Gross profit	2,517,604	2,881,494	2,564,580
Interest income	28,072	14,896	11,115
Dividend income	1,447	2,361	1,488
Other income and gains	67,439	51,606	39,922
Marketing and distribution expenses	(1,457,878)	(1,829,060)	(1,699,293)
Research and development expenses	(149,202)	(133,361)	(100,926)
Administrative expenses	(358,552)	(363,325)	(291,100)
Finance costs	(2,509)	(7,281)	(13,899)
Other losses	(29,007)	(47,895)	(34,495)
Share of profit from equity-accounted associates	150,644	173,710	163,237
Profit before income tax	768,058	743,145	640,629
Income tax expense	(88,396)	(107,786)	(72,841)
Profit, net of tax	679,662	635,359	567,788
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value gain on equity investment measured at FVTOCI, net of tax	5,756	532	(9,653)

APPENDIX II – ADDITIONAL GENERAL INFORMATION

	2020 ⁽¹⁾	2019 ⁽²⁾	2018 ⁽²⁾
	RMB'000	RMB'000	RMB'000
Share of other comprehensive (loss)/income from equity-accounted associates, net of tax	(26,313)	3,722	(16,876)
Items that may be reclassified subsequently to profit or loss:			
Reclassification adjustments due to disposal of debt instruments at FVTOCI	–	–	19,379
Total other comprehensive (loss)/income, net of tax	(20,557)	4,254	(7,150)
Total comprehensive income for the year	659,105	639,613	560,638

Notes:

- (1) The audited consolidated statements of comprehensive income of the Group for FY2020 set out in the table is based on the information set out in the FY2020 Results (as defined below) announced by the Company on SGXNET on 30 March 2021.
- (2) The audited consolidated statements of comprehensive income of the Group for FY2018 and FY2019 set out in the table is based on the information set out in the annual reports of the Company for FY2018 and FY2019 respectively, as uploaded by the Company on SGXNET.

The above summary financial information is extracted from, and should be read together with, the audited consolidated financial statements of the Group and the accompanying notes as set out in the annual reports of the Company for FY2018 and FY2019 (as uploaded on SGXNET), and the audited consolidated financial results of the Group in respect of FY2020 (the “**FY2020 Results**”) and the accompanying notes as set out therein (as announced by the Company on SGXNET on 30 March 2021).

The audited consolidated financial statements of the Group for FY2019 (as set out in the annual report of the Company for FY2019 as uploaded on SGXNET) and the audited FY2020 Results (as set out in the announcement made by the Company on SGXNET on 30 March 2021) are reproduced in **Appendix III** and **Appendix IV** to this Circular, respectively.

APPENDIX II – ADDITIONAL GENERAL INFORMATION

9.2 Consolidated Statements of Financial Position

A summary of the audited consolidated statement of financial position of the Group as at 31 December 2020 (being the date to which the Company's last published audited financial statements were made up) is set out below. Such summary is based on the information set out in the FY2020 Results announced by the Company on SGXNET on 30 March 2021.

	The Group		The Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	1,457,053	1,363,795	1,035,555	1,007,797
Investment properties	21,512	22,547	20,634	21,618
Right-of-use assets	2,609	3,603	–	–
Land use rights	188,289	157,997	161,744	130,638
Intangibles assets	15,734	17,575	13,045	14,700
Investment in subsidiaries	–	–	498,428	473,528
Investment in associates	687,538	657,906	687,538	657,906
Other financial assets	116,311	249,003	8,348	142,712
Deferred tax assets	165,480	183,804	150,376	167,119
Other assets	25,259	52,197	22,415	22,254
Total non-current assets	2,679,785	2,708,427	2,598,083	2,638,272
Current assets				
Inventories	1,487,715	1,594,558	1,344,912	1,469,193
Trade and other receivables	2,007,426	1,808,588	1,918,755	1,640,338
Other financial assets	–	43,525	–	–
Other assets	121,127	208,639	104,942	254,950
Cash and cash equivalents	1,987,334	1,479,441	1,791,009	1,290,160
Total current assets	5,603,602	5,134,751	5,159,618	4,654,641
Total assets	8,283,387	7,843,178	7,757,701	7,292,913
EQUITY				
Equity				
Share capital	773,643	768,873	773,643	768,873
Share premium	1,229,980	1,198,817	1,229,980	1,198,817
Retained earnings	3,353,080	2,881,174	3,278,987	2,798,064
Other reserves	486,491	539,310	536,706	589,525
Equity attributable to owners of the Company	5,843,194	5,388,174	5,819,316	5,355,279
Non-controlling interests	141,484	135,032	–	–
Total equity	5,984,678	5,523,206	5,819,316	5,355,279

APPENDIX II – ADDITIONAL GENERAL INFORMATION

	The Group		The Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	RMB'000	RMB'000	RMB'000	RMB'000
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	3,802	8,939	3,802	8,939
Trade payables	30,659	37,390	30,507	37,211
Other financial liabilities	30,000	30,000	–	–
Lease liabilities	1,710	2,710	–	–
Other liabilities	103,471	83,725	67,618	47,043
Total non-current liabilities	169,642	162,764	101,927	93,193
Current liabilities				
Income tax payable	10,492	59,366	1,760	49,638
Trade and other payables	1,870,907	1,732,580	1,598,324	1,437,421
Lease liabilities	1,000	962	–	–
Other liabilities	246,668	364,300	236,374	357,382
Total current liabilities	2,129,067	2,157,208	1,836,458	1,844,441
Total liabilities	2,298,709	2,319,972	1,938,385	1,937,634
Total equity and liabilities	8,283,387	7,843,178	7,757,701	7,292,913

The above summary financial information is extracted from, and should be read together with, the audited FY2020 Results and the related notes thereto (as announced by the Company on SGXNET on 30 March 2021).

The audited FY2020 Results (as set out in the announcement made by the Company on SGXNET on 30 March 2021) is reproduced in **Appendix IV** to this Circular.

APPENDIX II – ADDITIONAL GENERAL INFORMATION

9.3 Significant Accounting Policies

The audited consolidated financial statements of the Group for FY2020 as set out in the FY2020 Results which was announced by the Company on SGXNET on 30 March 2021 have been prepared in accordance with the International Financial Reporting Standards (“IFRS”). As disclosed in the audited FY2020 Results, the Group has applied the same accounting policies and methods of computation as in the most recently audited financial statements save as otherwise disclosed therein.

A summary of the significant accounting policies of the Group is set out in Note 2C to the audited consolidated financial statements of the Group for FY2019 (as set out in the annual report of the Company for FY2019 as uploaded on SGXNET) which is reproduced in **Appendix III** to this Circular. A summary of the changes in the accounting policies used in respect of the audited FY2020 Results is set out in the audited FY2020 Results (as set out in the announcement made by the Company on SGXNET on 30 March 2021), which is reproduced in **Appendix IV** to this Circular.

Save as disclosed in this Circular and publicly available information on the Group (including but not limited to that contained in the audited financial statements of the Group for FY2019 (as set out in the annual report of the Company for FY2019 as uploaded on SGXNET) and in the audited FY2020 Results (as set out in the announcement made by the Company on SGXNET on 30 March 2021)), there are no significant accounting policies or any matter from the notes of the financial statements of the Group which are of any major relevance for the interpretation of the accounts.

9.4 Changes in Accounting Policies

The Group has applied the same accounting policies and methods of computation as presented in the audited financial statements of the Group for FY2019 (as set out in the annual report of the Company for FY2019 as uploaded on SGXNET), except for the adoption of all the new and revised IFRS that are relevant to the operations of the Group and effective on the beginning of its reporting year on 1 January 2020. As at the Latest Practicable Date, save as disclosed in this Circular and in publicly available information on the Group (including, without limitation, the announcements, financial statements and annual reports released by the Company on SGXNET and the website of the SSE), there are no changes in the accounting policies of the Group which will cause the figures disclosed in this Circular not to be comparable to a material extent.

9.5 Material Changes in Financial Position

Save as disclosed in this Circular and in publicly available information on the Company (including, without limitation, the announcement released by the Company on SGXNET on 30 March 2021 in respect of its audited FY2020 Results as reproduced in **Appendix IV** to this Circular, the announcement released by the Company on SSE on 31 March 2021 in respect of its audited FY2020 Results and any other announcements released by the Company on SGXNET and on the website of the SSE), as at the Latest Practicable Date, there has not been, within the knowledge of the Directors, any material change in the financial position of the Company since 31 December 2020, being the date of the last published audited financial statements of the Company.

APPENDIX II – ADDITIONAL GENERAL INFORMATION

9.6 Material Changes in Information

Save as disclosed in this Circular and save for the information in relation to the Company and the Chain Offers that is publicly available, there has been no material change in any information previously published by or on behalf of the Company during the period commencing from the Chain Offers Announcement Date and ending on the Latest Practicable Date.

10. GENERAL

10.1 Costs and Expenses

All expenses and costs incurred by the Company in relation to the Chain Offers will be borne by the Company.

10.2 Consents

- (a) RHBS, named as the IFA for S Shares Chain Offer, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of (i) its name and all references thereto, and (ii) the Singapore IFA Letter as reproduced in **Appendix I** to this Circular containing its advice to the Non-Interested Directors in respect of the S Shares Chain Offer and all references thereto, in the form and context in which they appear in this Circular.
- (b) RSM Chio Lim LLP, named as the international auditors of the Company, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of (i) its name and all references thereto; (ii) the independent auditor's report in relation to the audited consolidated financial statements of the Group for FY2019 (as set out in the annual report of the Company for FY2019 as uploaded on SGXNET) as reproduced in **Appendix III** to this Circular and all references thereto; and (iii) the independent auditor's report in relation to the audited consolidated financial statements of the Group for FY2020 as set out in the audited FY2020 Results (as announced by the Company on SGXNET on 30 March 2021) which is reproduced in **Appendix IV** to this Circular and all references thereto, in the form and context in which they appear in this Circular.
- (c) ShineWing Certified Public Accountants, named as the PRC auditors of the Company, has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of (i) its name and all references thereto; (ii) the independent auditor's report in relation to the audited consolidated financial statements of the Group for FY2019 (as set out in the annual report of the Company for FY2019 as uploaded on SGXNET) as reproduced in **Appendix III** to this Circular and all references thereto; and (iii) the independent auditor's report in relation to the audited consolidated financial statements of the Group for FY2020 as set out in the audited FY2020 Results (as announced by the Company on SGXNET on 30 March 2021) which is reproduced in **Appendix IV** to this Circular and all references thereto, in the form and context in which they appear in this Circular.

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11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the registered address of the Company at 17 Baidi Road, Nankai District, Tianjin, the PRC during normal business hours¹ for the period during which the Chain Offers remain open for acceptance:

- (a) the Articles of Association of the Company;
- (b) the Singapore IFA Letter as reproduced in **Appendix I** to this Circular;
- (c) the letters of consent referred to in **Paragraph 10.2** in **Appendix II** to this Circular;
- (d) the annual reports of the Company for FY2018 and FY2019 (as uploaded on SGXNET), which include the audited consolidated financial statements of the Group for FY2018 and FY2019 respectively; and
- (e) the audited FY2020 Results (as set out in the announcement made by the Company on SGXNET on 30 March 2021) as reproduced in **Appendix IV** to this Circular.

¹ Prior appointment is required in light of the COVID-19 situation.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

The audited consolidated financial statements of the Group for FY2019 (as set out in the annual report of the Company for FY2019 as uploaded on SGXNET) which are reproduced below have been extracted from the Company's annual report for FY2019 (as uploaded on SGXNET), and were not specifically prepared for inclusion in this Circular.

All capitalised terms used in Notes to the audited consolidated financial statements of the Group for FY2019 set out below shall have the same meanings given to them in the annual report of the Company for FY2019 (as uploaded on SGXNET).

A copy of the annual report of the Company for FY2019 (as uploaded on SGXNET) is available for inspection at the registered address of the Company at 17 Baidi Road, Nankai District, Tianjin, the PRC during normal business hours for the period during which the Chain Offers remain open for acceptance.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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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

**APPENDIX III – AUDITED CONSOLIDATED FINANCIAL
STATEMENTS OF THE GROUP FOR FY2019**

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

**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			
Basic and diluted	10	0.81	0.73

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

**APPENDIX III – AUDITED CONSOLIDATED FINANCIAL
STATEMENTS OF THE GROUP FOR FY2019**

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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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2019

<u>Group</u>	<----- Attributable to owners of the Company ----->						
	<u>Total Equity</u>	<u>Total</u>	<u>Share</u>	<u>Share</u>	<u>Retained</u>	<u>Other</u>	<u>Non-</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>Capital</u>	<u>Premium</u>	<u>Earnings</u>	<u>Reserves</u>	<u>Controlling</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>Interests</u>
							<u>RMB'000</u>
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.

**APPENDIX III – AUDITED CONSOLIDATED FINANCIAL
STATEMENTS OF THE GROUP FOR FY2019**

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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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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.

**APPENDIX III – AUDITED CONSOLIDATED FINANCIAL
STATEMENTS OF THE GROUP FOR FY2019**

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CONSOLIDATED STATEMENT OF **CASH FLOWS**

YEAR ENDED 31 DECEMBER 2019

	2019	2018
	RMB'000	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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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.

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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.

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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.

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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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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.

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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.

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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.

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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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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.

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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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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.

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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.

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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.

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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.

APPENDIX III – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR FY2019

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.

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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.

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NOTES TO THE FINANCIAL STATEMENTS

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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.

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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).

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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.

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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

Associates	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
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	<u>29,349</u>	<u>28,896</u>	<u>29,349</u>	<u>28,894</u>
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)
	<u>29,349</u>	<u>28,896</u>	<u>29,349</u>	<u>28,894</u>

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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
<u>Related parties</u>				
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)

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NOTES TO THE FINANCIAL STATEMENTS

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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.

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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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.

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

5. INTEREST INCOME

	Group	
	2019	2018
	RMB'000	RMB'000
Interest income	<u>14,896</u>	<u>11,115</u>

6. OTHER INCOME AND GAINS AND (OTHER LOSSES)

	Group	
	2019	2018
	RMB'000	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)
	<u>3,711</u>	<u>5,427</u>
Presented in consolidated statement of profit or loss as:		
Other income and gains	51,606	39,922
Other losses	(47,895)	(34,495)
	<u>3,711</u>	<u>5,427</u>

7. FINANCE COSTS

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

**APPENDIX III – AUDITED CONSOLIDATED FINANCIAL
STATEMENTS OF THE GROUP FOR FY2019**

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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

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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)

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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YEAR ENDED 31 DECEMBER 2019

9. INCOME TAX (CONT'D)

9C. Deferred tax recognised in other comprehensive income

	Group	
	2019	2018
	RMB'000	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	2018	2019	2018
	RMB'000	RMB'000	RMB'000	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.

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9. INCOME TAX (CONT'D)

9E. Unrecognised deferred tax assets

	2019		2018	
	Gross amount	Tax effect	Gross amount	Tax effect
	RMB'000	RMB'000	RMB'000	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
	<u>196,916</u>	<u>40,727</u>	<u>174,907</u>	<u>32,679</u>

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	2018	2019	2018
	RMB'000	RMB'000	RMB'000	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	-
	<u>134,264</u>	<u>108,445</u>	<u>28,844</u>	<u>20,062</u>

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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		
<u>Group and Company</u>				
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.

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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

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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

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

Allocation of the depreciation expense:

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 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 RMB'000	2018 RMB'000	2019 RMB'000	2018 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

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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

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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-to-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.

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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15. LAND USE RIGHTS

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

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16. INTANGIBLE ASSETS

	Production Technology	Patents	Trademarks	Software	Development Cost	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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

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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)

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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	%	%
<u>Held by the Company</u>					
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. ("天津隆顺裕发展制药有限公司") (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

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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 %
<i>Held by the Company (Cont'd)</i>					
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		

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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 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.

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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
Group	
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)

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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.

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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

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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

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TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

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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.

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18. INVESTMENTS IN ASSOCIATES (CONT'D)

18A. Material associates (Cont'd)

	Group and Company	
	2019	2018
	RMB'000	RMB'000
THP:		
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	<u>295,976</u>	<u>288,870</u>
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	<u>78,139</u>	<u>24,399</u>
TSKF:		
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	<u>238,776</u>	<u>223,787</u>
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	<u>569,628</u>	<u>509,669</u>

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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	2018
	RMB'000	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	<u>399,474</u>	<u>387,448</u>

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	2018	2019	2018
	RMB'000	RMB'000	RMB'000	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	-	-	-
	<u>292,528</u>	<u>195,393</u>	<u>142,712</u>	<u>142,086</u>
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	-	-
	<u>292,528</u>	<u>195,393</u>	<u>142,712</u>	<u>142,086</u>

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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".

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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:

<u>Unquoted equity shares:</u>	<u>Valuation technique</u>	<u>Unobservable input</u>	<u>Range</u>
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

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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.

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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	4,353	5,331

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	21,306	21,306
<u>Movements during the year:</u>		
Balance at beginning and end of the year	21,306	21,306

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.

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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	<u>106,291</u>	<u>-</u>

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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

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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	<u>56,751</u>	<u>36,717</u>	<u>52,784</u>	<u>32,094</u>
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	<u>3,592,389</u>	<u>3,317,909</u>	<u>3,226,206</u>	<u>2,976,681</u>

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)
	<u>1,797,146</u>	<u>1,706,425</u>	<u>1,603,912</u>	<u>1,548,024</u>
<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)
	<u>11,442</u>	<u>22,083</u>	<u>36,426</u>	<u>58,254</u>
	<u>1,808,588</u>	<u>1,728,508</u>	<u>1,640,338</u>	<u>1,606,278</u>

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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	<u>132,890</u>	<u>133,605</u>	<u>125,237</u>	<u>126,580</u>
<u>Trade receivables – subsidiaries</u>				
Balance at beginning of the year	–	–	–	19
Used	–	–	–	(19)
Balance at end of the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
<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	<u>5,868</u>	<u>5,868</u>	<u>5,868</u>	<u>5,868</u>
<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	<u>6,533</u>	<u>6,170</u>	<u>5,860</u>	<u>6,039</u>
<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	<u>22,657</u>	<u>23,546</u>	<u>12,022</u>	<u>15,905</u>
<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	<u>27,021</u>	<u>26,254</u>	<u>27,021</u>	<u>26,254</u>
<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	<u>74</u>	<u>74</u>	<u>74</u>	<u>74</u>

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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
<u>2019</u>						
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>
<u>2018</u>						
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.

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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
Not restricted in use				
Cash and bank balances	1,479,403	1,455,066	1,290,160	993,131
Restricted in use				
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

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23. CASH AND CASH EQUIVALENTS (CONT'D)

23B. Reconciliation of liabilities arising from financing activities

	Non-cash changes				
	At	Cash flows	Interest expenses	Others	At end of the year
	beginning of the year				
<u>2019</u>					
Advances from employees under Restricted A-Shares Incentive Scheme	-	28,296	-	-	28,296
Lease liabilities	-	(1,141)	216	4,597 ^(a)	3,672
Other financial liabilities	252,000	(222,000)	-	-	30,000
Interest payables	362	(5,022)	4,694	-	34
Dividend payables	12,748	(170,495)	-	171,316 ^(b)	13,569
Total liabilities from financing activities	<u>265,110</u>	<u>(370,362)</u>	<u>4,910</u>	<u>173,542</u>	<u>75,571</u>

	Non-cash changes				
	At	Cash flows	Interest expenses	Others	At end of the year
	beginning of the year				
<u>2018</u>					
Other financial liabilities	496,357	(81,950)	-	(162,407) ^(c)	252,000
Interest payables	695	(11,715)	11,382	-	362
Dividend payables	11,934	(158,480)	-	159,294 ^(b)	12,748
Total liabilities from financing activities	<u>508,986</u>	<u>(252,145)</u>	<u>11,382</u>	<u>(3,113)</u>	<u>265,110</u>

(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.

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24. SHARE CAPITAL

	Group and Company	
	Number of ordinary share issued	Share capital RMB'000
"A" shares		
Balance at 1 January 2018, 31 December 2018 and 31 December 2019	568,873,076	568,873
"S" shares		
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
"A" shares		
Circulating shares	565,868,076	565,868
Restricted circulating shares	3,005,000	3,005
Subtotal	568,873,076	568,873
"S" shares		
Circulating shares	200,000,000	200,000
Total	768,873,076	768,873

All "S" and "A" shares rank pari passu in all aspects. The par value of these shares is RMB1. 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.

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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.

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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%

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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.

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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	-
	<u>539,310</u>	<u>532,579</u>	<u>589,525</u>	<u>582,794</u>

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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	<u>60,833</u>	<u>57,111</u>	<u>138,264</u>	<u>134,542</u>

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	<u>436,330</u>	<u>434,365</u>

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.

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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	<u>34,031</u>	<u>33,499</u>	<u>34,031</u>	<u>33,499</u>

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	<u>7,604</u>	<u>7,604</u>	<u>(19,612)</u>	<u>(19,612)</u>

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

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27. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 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
	<u>847,590</u>	<u>1,121,557</u>	<u>662,765</u>	<u>974,266</u>
<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
	<u>922,380</u>	<u>305,372</u>	<u>811,867</u>	<u>176,627</u>
	<u>1,769,970</u>	<u>1,426,929</u>	<u>1,474,632</u>	<u>1,150,893</u>
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
	<u>1,769,970</u>	<u>1,426,929</u>	<u>1,474,632</u>	<u>1,150,893</u>

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 amounting RMB28.3 million (2018: Nil) received from participants under Restricted A-Shares Incentive Scheme as disclosed in Note 25.

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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)	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>30,000</u>	<u>252,000</u>	<u>-</u>	<u>250,000</u>
Presented in the statements of financial position as:				
Non-current	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current	<u>-</u>	<u>252,000</u>	<u>-</u>	<u>250,000</u>
	<u>30,000</u>	<u>252,000</u>	<u>-</u>	<u>250,000</u>

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)	<u>4%</u>	<u>-</u>	<u>-</u>	<u>-</u>

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.

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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.

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29. OTHER LIABILITIES (CONT'D)

29A. Contract liabilities (Cont'd)

Transaction price allocated to the remaining performance obligations:

	Group		Company	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	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	2018
	RMB'000	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	2018
	RMB'000	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.

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32. FINANCIAL INSTRUMENTS: INFORMATION ON FINANCIAL RISKS

32A. Categories of financial assets and liabilities

	Group		Company	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Financial assets:				
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>
Financial liabilities:				
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.

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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
2019				
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
	1,733,658	72,219	–	1,805,877
2018				
Gross borrowings commitments	257,362	–	–	257,362
Trade and other payables	1,385,479	41,310	140	1,426,929
	1,642,841	41,310	140	1,684,291

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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.

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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	1,479,441	1,467,085	1,290,160	993,131
<u>Financial liabilities:</u>				
Fixed rate	30,000	252,000	30,000	250,000

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	2,900	3,150
Audit fees to other independent auditors	143	136
Other fees to the independent auditors of the Company	860	1,075
Other fees to other independent auditors	102	128
	4,005	4,489

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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.

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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.

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL
RESULTS OF THE GROUP FOR FY2020**

TIANJIN ZHONG XIN PHARMACEUTICAL GROUP CORPORATION LIMITED

Full Year Financial Statement (*) And Dividend Announcement

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

	The Group		Change
	2020 RMB'000	2019 RMB'000	%
Revenue	6,603,652	6,993,882	-6
Cost of sales	(4,086,048)	(4,112,388)	-1
Gross profit	2,517,604	2,881,494	-13
Interest income	28,072	14,896	88
Dividend income	1,447	2,361	-39
Other income and gains	67,439	51,606	31
Marketing and distribution expenses	(1,457,878)	(1,829,060)	-20
Research and development expenses	(149,202)	(133,361)	12
Administrative expenses	(358,552)	(363,325)	-1
Finance costs	(2,509)	(7,281)	-66
Other losses	(29,007)	(47,895)	-39
Share of profit from equity-accounted associates	150,644	173,710	-13
Profit before income tax	768,058	743,145	3
Income tax expense	(88,396)	(107,786)	-18
Profit, net of tax	679,662	635,359	7
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value gain on equity investment measured at FVTOCI, net of tax	5,756	532	n.m
Share of other comprehensive (loss) / income from equity-accounted associates, net of tax	(26,313)	3,722	n.m
Total other comprehensive (loss) / income, net of tax	(20,557)	4,254	n.m
Total comprehensive income for the year	659,105	639,613	3

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL
RESULTS OF THE GROUP FOR FY2020**

	The Group		Change
	2020 RMB'000	2019 RMB'000	%
Profit, net of tax attributable to:			
Owners of the parent	661,705	625,569	6
Non-controlling interests	17,957	9,790	83
	679,662	635,359	7
Total comprehensive income attributable to:			
Owners of the parent	641,148	629,823	2
Non-controlling interests	17,957	9,790	83
	659,105	639,613	3

(*) prepared under International Financial Reporting Standards

n.m Not Meaningful

	Group	
	2020 RMB'000	2019 RMB'000
Profit, net of tax is arrived at after crediting / (charging):		
Other income (including government grant)	54,479	21,971
Interest income	28,072	14,896
Allowance for impairment on other receivables – (loss) / reversal	(3,194)	121
Gain on disposal of property, plant and equipment, intangible assets and other non-current assets	6,621	29,163
Dividend income	1,447	2,361
Foreign currency translation gains / (losses), net	1,735	(473)
Allowance for impairment loss on trade receivables – (loss) / reversal	(6,349)	351
Employment termination benefits – reversal / (charge)	490	(2,888)
Interest on borrowings	(2,509)	(4,893)
Inventories written down – reversal / (loss)	4,114	(26,378)
Share-based payments	(9,750)	(512)
Depreciation and amortisation	(113,554)	(101,238)

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL
RESULTS OF THE GROUP FOR FY2020**

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

	<u>The Group</u>		<u>The Company</u>	
	31 December 2020 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	31 December 2019 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	1,457,053	1,363,795	1,035,555	1,007,797
Investment properties	21,512	22,547	20,634	21,618
Right-of-use assets	2,609	3,603	-	-
Land use rights	188,289	157,997	161,744	130,638
Intangibles assets	15,734	17,575	13,045	14,700
Investment in subsidiaries	-	-	498,428	473,528
Investment in associates	687,538	657,906	687,538	657,906
Other financial assets	116,311	249,003	8,348	142,712
Deferred tax assets	165,480	183,804	150,376	167,119
Other assets	25,259	52,197	22,415	22,254
Total non-current assets	2,679,785	2,708,427	2,598,083	2,638,272
Current assets				
Inventories	1,487,715	1,594,558	1,344,912	1,469,193
Trade and other receivables	2,007,426	1,808,588	1,918,755	1,640,338
Other financial assets	-	43,525	-	-
Other assets	121,127	208,639	104,942	254,950
Cash and cash equivalents	1,987,334	1,479,441	1,791,009	1,290,160
Total current assets	5,603,602	5,134,751	5,159,618	4,654,641
Total assets	8,283,387	7,843,178	7,757,701	7,292,913
EQUITY				
Equity				
Share capital	773,643	768,873	773,643	768,873
Share premium	1,229,980	1,198,817	1,229,980	1,198,817
Retained earnings	3,353,080	2,881,174	3,278,987	2,798,064
Other reserves	486,491	539,310	536,706	589,525
Equity attributable to owners of the Company	5,843,194	5,388,174	5,819,316	5,355,279
Non-controlling interests	141,484	135,032	-	-
Total equity	5,984,678	5,523,206	5,819,316	5,355,279

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL
RESULTS OF THE GROUP FOR FY2020**

	<u>The Group</u>		<u>The Company</u>	
	31 December 2020 RMB'000	31 December 2019 RMB'000	31 December 2020 RMB'000	31 December 2019 RMB'000
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	3,802	8,939	3,802	8,939
Trade payables	30,659	37,390	30,507	37,211
Other financial liabilities	30,000	30,000	-	-
Lease liabilities	1,710	2,710	-	-
Other liabilities	103,471	83,725	67,618	47,043
Total non-current liabilities	169,642	162,764	101,927	93,193
Current liabilities				
Income tax payable	10,492	59,366	1,760	49,638
Trade and other payables	1,870,907	1,732,580	1,598,324	1,437,421
Lease liabilities	1,000	962	-	-
Other liabilities	246,668	364,300	236,374	357,382
Total current liabilities	2,129,067	2,157,208	1,836,458	1,844,441
Total liabilities	2,298,709	2,319,972	1,938,385	1,937,634
Total equity and liabilities	8,283,387	7,843,178	7,757,701	7,292,913

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

Amount repayable in one year or less, or on demand

As at 31 December 2020		As at 31 December 2019	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
-	-	-	-

Amount repayable after one year

As at 31 December 2020		As at 31 December 2019	
Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
30,000	-	30,000	-

Borrowings were secured by pledges of legal mortgages over a subsidiary's land use rights.

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL
RESULTS OF THE GROUP FOR FY2020**

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

	The Group	
	2020 RMB'000	2019 RMB'000
Cash flows from operating activities		
Profit before income tax	768,058	743,145
Adjustments for:		
Interest income	(28,072)	(14,896)
Interest expense	2,509	7,281
Dividend income	(1,447)	(2,361)
Gain on maturity and disposal of financial assets	(8,319)	(9,964)
Share of profit of equity-accounted associates	(150,644)	(173,710)
Depreciation and amortisation of property, plant and equipment, investment properties, right-of-use assets, land use rights, intangible assets and other assets	113,554	101,238
Gains on disposals of property, plant and equipment, intangible assets and other non-current assets	(6,621)	(29,163)
Impairment losses on receivables and inventories	5,429	25,906
Share-based payments	9,750	512
Fair value losses on financial assets at FVTPL	-	3,307
Operating cash flows before changes in working capital	704,197	651,295
Inventories	110,957	(292,565)
Trade and other receivables	(225,549)	(62,401)
Other assets	111,744	(40,302)
Trade and other payables	166,221	230,256
Cash restricted in use	38	11,981
Other liabilities	(97,886)	123,141
Net cash flows from operations	769,722	621,405
Income tax paid	(126,373)	(140,812)
Net cash flows from operating activities	643,349	480,593
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(189,162)	(205,615)
Acquisition of financial assets	(34,473,715)	(71,552,594)
Acquisition of associate	(1,000)	-
Proceeds from disposal of financial assets	34,502,007	71,454,541
Dividends income received from associates and financial asset	207,313	155,440
Proceeds from disposals of property, plant and equipment and intangible assets	6,769	38,346
Proceeds from unquoted bonds	13,758	-
Interest income received	35,874	23,988
Net cash flows from / (used in) investing activities	101,844	(85,894)

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL
RESULTS OF THE GROUP FOR FY2020**

	The Group	
	<u>2020</u> RMB'000	<u>2019</u> RMB'000
<u>Cash flows from financing activities</u>		
Advances received from issuance of restricted A-shares	8,357	28,296
Proceeds from new borrowings	-	130,000
Dividends paid to equity owners	(230,769)	(168,331)
Distribution to non-controlling interests	(11,209)	(2,164)
Interest expense paid	(1,839)	(5,022)
Repayment of borrowings	-	(352,000)
Repurchase of restricted A-shares	(697)	-
Repayment of lease liabilities	(1,105)	(1,141)
Net cash flows used in financing activities	(237,262)	(370,362)
Net increase in cash and cash equivalents	507,931	24,337
Cash and cash equivalents, consolidated statement of cash flows, beginning balance	1,479,403	1,455,066
Cash and cash equivalents, consolidated statement of cash flows, ending balance	1,987,334	1,479,403

	The Group	
	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Cash and cash equivalents in consolidated statement of cash flows:		
Amount as shown in the statement of financial positions	1,987,334	1,479,441
Restricted cash deposits for bank notes payables	-	(38)
Cash and cash equivalents for consolidated statement of cash flows purpose at end of the period	1,987,334	1,479,403

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL
RESULTS OF THE GROUP FOR FY2020**

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

All in RMB'000

Group	Share capital	Share premium	Other reserves	Retained earnings	Parent sub-total	Non-controlling interests	Total equity
Current year							
Balance at 1 January 2020	768,873	1,198,817	539,310	2,881,174	5,388,174	135,032	5,523,206
Issuance of shares under Restricted A-Shares	4,870	31,783	-	-	36,653	-	36,653
Repurchase and cancellation of restricted A-shares	(100)	(620)	-	-	(720)	-	(720)
Total comprehensive income for the year	-	-	(20,557)	661,705	641,148	17,957	659,105
Transfers from equity instruments at FVTOCI reserve	-	-	(42,432)	42,432	-	-	-
Dividends	-	-	-	(231,811)	(231,811)	-	(231,811)
Distribution to non-controlling interests	-	-	-	-	-	(11,505)	(11,505)
Appropriation of statutory common reserve	-	-	420	(420)	-	-	-
Share-based payments	-	-	9,750	-	9,750	-	9,750
Balance at 31 December 2020	773,643	1,229,980	486,491	3,353,080	5,843,194	141,484	5,984,678
Previous year							
Balance at 1 January 2019	768,873	1,198,817	532,579	2,426,722	4,926,991	127,406	5,054,397
Total comprehensive income for the year	-	-	4,254	625,569	629,823	9,790	639,613
Dividends	-	-	-	(169,152)	(169,152)	-	(169,152)
Distribution to non-controlling interests	-	-	-	-	-	(2,164)	(2,164)
Appropriation of statutory common reserve	-	-	1,965	(1,965)	-	-	-
Share-based payments	-	-	512	-	512	-	512
Balance at 31 December 2019	768,873	1,198,817	539,310	2,881,174	5,388,174	135,032	5,523,206

**APPENDIX IV – AUDITED CONSOLIDATED FINANCIAL
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All in RMB'000

Company	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Current year					
Balance at 1 January 2020	768,873	1,198,817	589,525	2,798,064	5,355,279
Issuance of shares under Restricted A-Shares	4,870	31,783	-	-	36,653
Repurchase and cancellation of restricted A-shares	(100)	(620)	-	-	(720)
Total comprehensive income for the year	-	-	(20,557)	670,722	650,165
Transfers from equity instruments at FVTOCI reserve	-	-	(42,432)	42,432	-
Dividends	-	-	-	(231,811)	(231,811)
Appropriation of statutory common reserve	-	-	420	(420)	-
Share-based payments	-	-	9,750	-	9,750
Balance at 31 December 2020	773,643	1,229,980	536,706	3,278,987	5,819,316
Previous year					
Balance at 1 January 2019	768,873	1,198,817	582,794	2,344,847	4,895,331
Total comprehensive income for the year	-	-	4,254	624,334	628,588
Dividends	-	-	-	(169,152)	(169,152)
Appropriation of statutory common reserve	-	-	1,965	(1,965)	-
Share-based payments	-	-	512	-	512
Balance at 31 December 2019	768,873	1,198,817	589,525	2,798,064	5,355,279

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

The changes in the Company’s share capital were as follows:

1. as announced on 9 December 2019, the Company granted 3,930,000 Restricted A-Shares to its employees under the 2019 Restricted A-Shares Incentive Scheme (the “**Scheme**”). The registration of the Restricted A-Shares was completed on 7 January 2020. Subsequently on 6 July 2020, the Company granted an additional 940,000 Restricted A-Shares to its employees and the registration was completed on 27 July 2020.
2. as announced on 17 February 2020 and 13 August 2020, 100,000 Restricted A-Shares, representing 0.013% of the total share capital of the Company were repurchased or cancelled by the Company in accordance with the relevant provisions of the Scheme. The repurchase and cancellation were completed on 30 October 2020.

The total number of shares in the capital of the Company as at 31 December 2020 were 773,643,076 shares. Save as disclosed above, there have been no other changes to the Company’s share capital.

The Company does not have any shares that may be issued on conversion of any outstanding convertibles as at 31 December 2020 and 31 December 2019.

The Company did not hold any treasury shares and there were no subsidiary holdings as at 31 December 2020 and 31 December 2019.

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

	As at 31 December 2020	As at 31 December 2019
Number of issued shares excluding : treasury shares	773,643,076	768,873,076
Number of treasury shares held :	NIL	NIL

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

Not applicable.

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

Not applicable.

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

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

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

Audit Opinion as extracted from the auditors’ report:

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 2020, 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.

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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 2020 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.

(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 were 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

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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.

For the samples selected, our audit procedures included, but were 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.

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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.

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.

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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.

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.

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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	ShineWing Certified Public Accountants Certified Public Accountants
8 Wilkie Road, #03-08 Wilkie Edge, Singapore 228095	9/F, Block A, Fu Hua Mansion, No. 8, Chaoyang Men Beidajie, Dongcheng District, Beijing, People's Republic of China 100027
29 March 2021	29 March 2021
Partner-in-charge: Ng Thiam Soon Effective from year ended 31 December 2016	Partner-in-charge: Luo Jun Effective from year ended 31 December 2020

3A. Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion:—

(a) Updates on the efforts taken to resolve each outstanding audit issue.

(b) Confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been adequately disclosed.

This is not required for any audit issue that is a material uncertainty relating to going concern.

Not applicable.

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

Save as disclosed in paragraph 5 below, the Group has applied the same accounting policies and methods of computation as in the most recently audited financial statements.

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

The Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) that are relevant to its operations and effective on the beginning of its current reporting year on 1 January 2020. The adoption of these new and revised IFRS did not result in significant changes to the Group’s accounting policies and amounts reported for the current and prior periods.

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

	<u>The Group</u>	
	2020	2019
	RMB	RMB
Earnings per ordinary share for the period based on net profits after deducting any provision for preference dividends:		
Based on weighted average number of ordinary share on issue	0.86	0.81

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

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

	Group		Company	
	31 December	31 December	31 December	31 December
	2020	2019	2020	2019
	RMB	RMB	RMB	RMB
Net asset backing per ordinary share based on existing issued share capital as at the end of the period reported on	7.55	7.01	7.53	6.97

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

(a) Revenue:

The Group's revenue for the financial year ended 31 December 2020 ("FY2020") was approximately RMB 6,604 million, a decrease of approximately RMB 390 million, or 6%, as compared to RMB 6,994 million for the financial year ended 31 December 2019 ("FY2019").

(b) Gross profit margin:

The Group's gross profit in FY2020 decreased by approximately 13% from approximately RMB 2,881 million in FY2019 to approximately RMB 2,518 million. Gross profit margin decreased from 41% in FY2019 to 38% in FY2020.

(c) Other operating income:

Other gains in FY2020 were approximately RMB 67 million, an increase of approximately RMB 16 million over the previous year, which was RMB 52 million. The increase was mainly due to more government subsidies during the year.

(d) Major expenses:

(i) Marketing and Distribution costs in FY2020 was approximately RMB 1,458 million, a decrease of approximately RMB 371 million, or 20% over the previous year. The decrease was in line with the decrease in revenue.

(ii) Research and Development costs in FY2020 increased by approximately RMB 16 million, to approximately RMB 149 million. This was mainly due to higher outlay for research and development projects.

(iii) Administrative expenses in FY2020 decreased by approximately RMB 5 million, from approximately RMB 363 million in FY2019 to approximately RMB 359 million. The decrease was mainly due to lower repair and maintenance expenses.

(iv) Finance costs in FY2020 decreased by approximately RMB 5 million or 66% from approximately RMB 7 million to approximately RMB 2 million. The decrease was in line with the decrease of borrowings.

(v) Other losses in FY2020 decreased by approximately RMB 19 million, from approximately RMB 48 million in FY2019 to approximately RMB 29 million. The decrease was due to lower impairment losses.

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(e) Shares of results of associated companies:

The Group's share of results of associated companies in FY2020 decreased by RMB 23 million, or 13%, from approximately RMB 174 million in FY2019 to approximately RMB 151 million. This was mainly due to the decrease in profits of Sino-American Tianjin Smithkline & French Lab., Ltd in FY 2020 as compared to FY2019.

(f) Total comprehensive income:

The Group's total comprehensive income (net of tax) in FY2020 was approximately RMB 659 million, an increase of 3% over the previous year. The profit attributable to owners of the Company (net of tax) in FY2020 was approximately RMB 662 million, an increase of approximately RMB 36 million, or 6%, from FY2019.

(g) Major changes in statement of financial positions:

As at 31 December 2020, the Group's cash and cash equivalents amounted to approximately RMB 1,987 million, which is an increase of approximately RMB 508 million, or 34% over previous year. The Group's borrowings as at 31 December 2020 amounted to approximately RMB 30 million which was consistent with 31 December 2019.

Trade and other receivables amounted to approximately RMB 2,007 million at 31 December 2020, which is an increase of approximately RMB 199 million, or 11% over previous year. Bills receivables and contract assets increased by approximately RMB 34 million. Trade receivables increased by approximately RMB 140 million. Other receivables increased by approximately RMB 25 million. Inventories decreased by 7% to approximately RMB 1,488 million.

Other current assets decreased by approximately 42% or RMB 88 million to approximately RMB 121 million as at 31 December 2020.

Investments in associates increased by approximately RMB 30 million to approximately RMB 688 million due to new associates.

Property, plant and equipment increased by approximately RMB 93 million or 7% to RMB 1,457 million. This was mainly due to increase in construction in progress.

(h) Changes in cash flow position:

In FY2020, the Group recorded net cash inflow from operating activities of approximately RMB 643 million which has increased by RMB 163 million as compared to FY2019. The increase was mainly due to lower cash outflows from operations.

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Cash inflow from investment activities was approximately RMB 102 million in FY2020 compared to cash outflow of RMB 86 million in FY2019. This was mainly contributed by higher returns from investments.

Cash outflow from financing activities was approximately RMB 237 million in FY2020 compared to cash outflow of RMB 370 million in FY2019. This was mainly contributed by higher payout of dividends and less repayment of borrowings during the year.

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

Not applicable.

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

With the global spread of the Covid-19 pandemic and the complex and evolving external environment, China's economy has become the only major economy in the world to achieve positive economic growth in 2020.

In the fight against the Covid-19 pandemic, Chinese medicine has demonstrated its unique advantages and achieved improved world recognition. This has led to further consolidation of the reform and development of Chinese medicine.

On October 29, 2020, the Fifth Plenary Session of the 19th Central Committee of the Communist Party of China reviewed and approved the "Recommendations of the Central Committee of the Communist Party of China on Formulating the Fourteenth Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035." This emphasized the equal importance of both Chinese and Western medicine and promote the development of Chinese medicine.

In December 2020, the State Food and Drug Administration's "Implementation on Promoting the Inheritance, Innovation and Development of Traditional Chinese Medicines" pointed out that deepening reforms comply with the system of review and approval of traditional Chinese medicines. With the series of support and implementation policies, the Chinese medicine industry will embark on a new development path and period.

Faced with the challenges of the pandemic as well as the opportunities presented by state policies, the Company focuses on improving quality and efficiency, and places emphasis on innovation and development.

In prevention and control of the pandemic, the Company has carried out in-depth "Three system reforms" by promoting market-based recruitment, improving market-driven operations, streamlining roles and responsibilities, and optimizing the corporate governance. The

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Company also embarked on innovative marketing through online promotion, consumer development, academic promotion, establishing sales channels, brand promotion to promote continuing sales growth. To be the leading edge in innovation, the Company accelerates its product development, achieves evaluation consistency of generic drugs, and enhance scientific research capabilities.

In improving efficiency and effectiveness, the Company continues to strengthen its internal management and control, asset utilization, project advancement, cost reduction and efficiency enhancement, financial management, talent development, and safety and environmental protection.

In 2020, while revenue of the Group decreased by 5.6% year-on-year, the net profit attributable to the parent increased by 6% year-on-year, and the operating performance continues to be good.

11. Dividend

(a) Current Financial Period Reported On

The Directors propose to seek approval from the shareholders of the Company (the "Shareholders") for declaring a final dividend of RMB 232,092,922.80 on the basis of RMB 3.0 for every 10 shares in the capital of the Company. Such proposed declaration of dividends will be subject to approval by Shareholders at the forthcoming annual general meeting to be held on 17 May 2021, and thus has not been included as a liability in these financial statements of the Company and/or Group. Upon obtaining the Shareholders' approval, the proposed dividend is payable in respect of all issued ordinary shares in the capital of the Company as at the end of the FY2020.

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

(i) S-Shares

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

(ii) A-Shares

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

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(b) Corresponding Period of the Immediately Preceding Financial Year

The Directors had proposed a final dividend of RMB 230,661,922 on the basis of RMB 3.0 for every 10 shares in the capital of the Company for FY2019. The proposed dividend then was payable in respect of all issued ordinary shares in the capital of the Company as at the end of the financial year 2019.

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

(i) S-Shares

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

(ii) A-Shares

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

(c) Date payable

To be announced by the Company upon approval being granted by the Shareholders at the annual general meeting to be held on 17 May 2021, for the payment of the final dividend.

(d) Books closure date

To be announced by the Company upon approval being granted by the Shareholders at the annual general meeting to be held on 17 May 2021, for the payment of the final dividend.

(e) If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision

Not applicable.

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12. Interested Person Transaction disclosure

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

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)		Aggregate value of all interested person transactions conducted during the financial year under review under a shareholders’ mandate pursuant to Rule 920 of SGX Listing Manual (excluding transactions less than S\$100,000)	
		2020	2019	2020	2019
		RMB’000	RMB’000	RMB’000	RMB’000
Tianjin Pharmaceutical Group Finance Co., Ltd (“TPGF”) (天津医药集团财务有限公司)	Subsidiary 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: 1,267	1,460	-	-
Tianjin Pharmaceutical Holdings Co., Ltd. (“TPH”) (天津市医药集团有限公司)	Controlling shareholder of the Company	Additional payment to TPH for upsize of land area of land use right: 6,757	-	-	-
Total		8,024	1,460	-	-

Note: As at 31 December 2020, placement of deposit with TPGF amounted to RMB 594,659,000.

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13. Financial Information by Operating Segments

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

2020	Revenue	Cost of sales	Gross profit
	RMB'000	RMB'000	RMB'000
Chinese medicine	4,369,713	2,157,969	2,211,744
Western medicine	1,645,029	1,419,690	225,339
Others	588,910	508,389	80,521
Total	6,603,652	4,086,048	2,517,604

2019	Revenue	Cost of sales	Gross profit
	RMB'000	RMB'000	RMB'000
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

The Group operates predominantly in the PRC.

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

Not applicable.

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15. A breakdown of sales as follows:

	Group		
	2020	2019	Increase/ (Decrease)
	RMB'000	RMB'000	%
(a) Sales reported for first half year	3,290,437	3,533,718	(6.88%)
(b) Operating profit after tax before deducting non-controlling interests reported for first half year	333,826	353,857	(5.66%)
(c) Sales reported for second half year	3,313,215	3,460,164	(4.25%)
(d) Operating profit after tax before deducting non-controlling interests reported for second half year	345,836	281,502	22.85%

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

	FY2020 RMB'000	FY2019 RMB'000
Ordinary - Interim	-	-
- Final (Proposed)	232,093	231,811
Preference	N.A.	N.A.
Total	232,093	231,811

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

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

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

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

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19. Additional Information Required On Acquisitions and Realisations Pursuant to Rule 706A

On 29 April 2020, the Company announced the proposed merger of two of its wholly-owned subsidiaries, Tianjin Chinese Medicine Yinpian Factory Co., Ltd. (天津市中药饮片厂有限公司) (“Yinpian Factory Co.”) and Tianjin Long Shun Rong Development Pharmaceutical Co., Ltd. (天津隆顺榕发展制药有限公司) (“Long Shun Rong Development Co.”). Long Shun Rong Development Co. was dissolved and all the assets, debts, businesses and personnel of Long Shun Rong Development Co. were taken over by Yinpian Factory Co..

On 7 May 2020, Tianjin Pharmaceutical Marketing Management Co., Ltd (天津医药集团营销管理有限公司) (“TPMM”) was incorporated in the People’s Republic of China, with an initial registered and paid-in capital of RMB5 million. The Company had contributed RMB1 million in cash to the initial registered and paid-in capital of TPMM, and owns 20% equity interest in TPMM. Accordingly, TPMM is an associated company of the Company. In addition, the Company has deregistered Tianjin Zhong Xin International Trading Co., Ltd. (天津中新药业国际贸易有限公司), a wholly-owned subsidiary, with effect from 25 March 2020.

Other than the above, the Company did not acquire or dispose of any shares in 2020 which would result in any company becoming or ceasing to be a subsidiary or associated company of the Company, or increase or reduce the Company’s shareholding percentage in any subsidiary or associated company.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

The provisions in the Articles of Association of the Company relating to the rights of Shareholders in respect of capital, dividends and voting have been reproduced below.

All capitalised terms used in the following extracts shall have the same meanings ascribed to them in the Articles of Association of the Company and/or the Company Law, a copy of which is available for inspection at the registered address of the Company at 17 Baidi Road, Nankai District, Tianjin, the PRC during normal business hours for the period during which the Chain Offers remain open for acceptance.

(A) RIGHTS IN RESPECT OF CAPITAL

“CHAPTER 3 EQUITY AND REGISTERED CAPITAL

Article 13

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

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

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

Article 14

Each share issued by the Company shall have a par value. The par value shall be RMB 1.00.

Article 15

Subject to the approval of the department-in-charge of securities in the State Council, the Company may issue shares to investors inside the PRC and to investors outside the PRC. The term “investors outside the PRC” shall refer to investors from foreign countries or from Hong Kong, Macau and Taiwan that subscribe for shares issued by the Company. The term “investors inside the PRC” shall refer to investors inside the PRC, excluding the territories mentioned above, that subscribe for the shares issued by the Company.

Article 16

Shares issued by the Company to investors inside the PRC and to be subscribed for in Renminbi shall be referred to as “Domestic Investment Shares”. Shares issued by the Company to investors outside the PRC and to be subscribed in a currency other than Renminbi shall be referred to as “Foreign Investment Shares”. Domestic Shares listed in the PRC shall be referred to as “Domestic Shares listed inside the PRC (or may also be referred to as “A” Shares)”. Foreign Investment Shares listed outside the PRC shall be referred to as “Foreign Investment Shares listed outside the PRC” (those listed in Singapore may also be referred to as “S” Shares). “S” shares and

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

“A” shares shall be collectively referred to as “Transferable Shares”. Unless otherwise provided in these Articles, the holders of Domestic Investment Shares (“Domestic Shareholders” and each a “Domestic Shareholder”) and Foreign Investment Shares (whether listed outside the PRC or otherwise) (“Foreign Shareholders” and each a “Foreign Shareholder”) shall be ordinary shareholders having the same rights and obligations.

Article 17

Subject to the verification and approval of the relevant examination and approval authority authorised by the State Council, the Company may issue 329,654,360 ordinary shares comprising 194,654,360 shares to the founder members (the “Founders”) at the time of the Company’s establishment which comprises 59.05% of the issued ordinary shares, 12,050,000 to legal persons which comprises 3.66% of the issued ordinary shares, 22,950,000 shares to employees which comprises 6.96% of the issued ordinary shares, and 100,000,000 Foreign Investment Shares (“S” Shares) which comprised 30.33% of the issued ordinary shares and 45,800,000 shares to be listed in the PRC (“A” Shares) which comprises 12.21% of the issued ordinary shares of the Company.

Article 18

After capital enlargement following the issuance of domestically listed domestic capital shares as stated in the preceding article, the share capital structure of the Company is: 369,654,360 ordinary shares, comprising 194,654,360 state shares that represent 52.66% of the Company’s total issued ordinary shares; 40,000,000 domestic public shares (A-shares) that represent 10.82% of the Company’s total issued ordinary shares; 100,000,000 overseas public shares (S-shares) that represent 27.05% of the Company’s total issued ordinary shares; 12,050,000 directionally placed legal person shares that represents 3.26% of the Company’s total issued ordinary shares; and 22,950,000 staff-held shares that represent 6.21% of the Company’s total issued ordinary shares.

After the listing of the staff-held shares in May 2004 and the execution of the split equity structure reform in July 2006, the share capital structure of the Company is temporarily as follows: 369,654,360 ordinary shares, comprising 177,377,119 state shares (tradable shares with limiting conditions for sale) that represent 47.98% of the Company’s total issued ordinary shares; 80,576,000 domestic public shares (tradable shares without limiting conditions for sale) (A-shares) that represent 21.8% of the Company’s total issued ordinary shares; 100,000,000 overseas public shares (S-shares) that represents 27.05% of the Company’s total issued ordinary shares; and 11,701,241 directionally placed legal person shares (tradable shares with limiting conditions for sale) that represent 3.17% of the Company’s total issued ordinary shares.

Article 19

Shareholders of the Company approved a proposed bonus issue (the “Bonus Issue”) of an aggregate 369,654,360 new ordinary shares in the capital of the Company by way of capitalisation of the Company’s share premium, on 14 May 2010. Details of the Bonus Issue are as follows: ‘Based on the audited financial report of the company for the financial year ended 31 December 2009 (prepared in accordance with the PRC accounting standards) audited by RSM China Certified Public Accountants, the Company’s share premium is RMB783,780,650. On the basis of an aggregate 369,654,360 shares in the capital of the Company as at 20 April 2010, the Company decides to offer 10-for-10 Bonus Issue, through which RMB369,654,360 of the

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Company's share premium will be capitalised into the Company's registered capital, and RMB576,081,016 will be remained in the share premium account of the Company'. Upon completion of the Bonus Issue, the Company has an issued share capital in aggregate of 739,308,720 shares, comprising 269,654,360 ordinary shares issued by the Company under the companies law promulgated by the PRC to natural and legal persons in the PRC, and which are denominated in renminbi, which represent 72.95% of the total registered and paid-up capital of the Company, and 100,000,000 ordinary shares issued by the Company to natural and legal persons in countries other than PRC, which represents 27.05% of the total registered and paid-up capital of the Company.

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

The 2nd extraordinary general meeting of the Company held on 2 December 2019 and the 10th Board meeting held on 9 December 2019 for the financial year ended 31 December 2019 considered and approved relevant proposals relating to the 2019 Restricted A-Share Incentive Scheme (the "Scheme") respectively. The procedures for the registration of Restricted A-Shares under the Initial Grant were completed on 7 January 2020, and the total number of shares in the capital of the Company increased to 772,803,076 shares accordingly. The 5th Board meeting held on 6 July 2020 for the financial year ending 31 December 2020 considered and approved the proposed grant of the Reserved Restricted A-Shares to the participants under the Scheme. The procedures for the registration of Restricted A-Shares under the Grant of Reserved Restricted A-Shares were completed on 27 July 2020, and the total number of shares in the capital of the Company increased to 773,743,076 shares accordingly.

The 2nd Board meeting held on 17 February 2020 and the 6th Board meeting held on 13 August 2020 for the financial year ending 31 December 2020 considered and approved the 1st proposed repurchase and cancellation and 2nd proposed repurchase and cancellation of Restricted A-Shares granted but not yet released from the lock-up requirements under the Scheme respectively (the "Repurchase"). Upon completion of the Repurchase, the capital structure of the Company is as follows: there are 773,643,076 ordinary shares, of which, 573,643,076 ordinary shares are held by the A-shares holders, accounting for 74.15% of the total number of ordinary shares issued by the Company, and 200,000,000 ordinary shares are held by S-shares holders, accounting for 25.85% of the total number of ordinary shares issued by the Company.

Article 20

After the plan for issuing Foreign Investment Shares listed outside the PRC or issuing Domestic Investment Shares has been approved by the State Council department-in-charge of securities, the Board of Directors may arrange for implementation of such plan by means of separate issues of Foreign Investment Shares listed outside the PRC and Domestic Investment Shares.

The Company's plan for separate issues of Foreign Investment Shares listed outside the PRC and Domestic Investment Shares in accordance with the preceding paragraph may be implemented within 15 months of the approval thereof by the Securities Commission of the State Council respectively.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 21

Where the Company issues Foreign Investment Shares listed outside the PRC and Domestic Investment Shares separately within the total number of shares specified in the issue plan, every such issue shall be fully subscribed for in one issue. Where special circumstances render it impossible for every such issue to be fully subscribed for at one time, the shares may be issued in several stages, subject to the approval of the Securities Commission of the State Council.

Article 22

The registered capital of the Company is RMB773,643,076.

Article 23

The Company may increase its capital according to the Company's business and development requirements in accordance with the relevant provision of these Articles. The Company may increase its capital by way of

- (i) an offer of shares to non-specific investors; or*
- (ii) rights issue to existing shareholders; or*
- (iii) bonus issue to existing shareholders; or*
- (iv) any other method permitted by laws and administrative regulations.*

The Company's increase of capital by issuing new shares shall be carried out in accordance with the procedures provided for in relevant laws and administrative regulations of the PRC after having been approved in accordance with these Articles.

Article 24

Subject to these Articles and to any direction to the contrary that may be given by the Company in a General Meeting and the relevant authorities in the PRC and/or the stock exchange on which the shares of the Company may be listed, all new Foreign Investment Shares shall, before issue, be offered to such persons who are Foreign Shareholders and who as at the date of the offer are entitled to receive notices from the Company of General Meetings in proportion, as far as the circumstances admit, to the amount of the existing Foreign Investment Shares to which they are entitled. The offer shall be made by notice in writing specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of a notice from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this Article 24.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 25

Subject to the terms and conditions of any application for shares, the Directors shall allot the “S” Shares applied for within ten market days of the closing date (or such other period as may be approved by any stock exchange upon which the shares in the Company may be listed) of any such application. For the purposes of this Article 25, the term “market day” shall mean a day on which the Stock Exchange of Singapore Limited is open for trading in securities. The Directors may, at any time after the allotment of any Foreign Investment Share but before any person has been entered in the Register of Shareholders as the holder or (as the case may be) before that share is entered against the name of a Depositor in the Depository Register, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Directors may think fit to impose.

Article 26

Unless otherwise provided by law and administrative regulations, the shares issued by the Company can be transferred free of any lien. No shares may be issued by the Company to transfer a controlling interest (being the shareholding of more than 50 per cent. of the issued share capital of the Company or such other percentage as may be specified from time to time by the stock exchange on which the shares of the Company may be listed) in the Company without the prior approval of the shareholders in a General Meeting.

CHAPTER 4 CAPITAL REDUCTION AND REPURCHASE OF THE SHARES

Article 27

The Company may reduce its registered capital in accordance with these Articles.

Article 28

When the Company wishes to reduce its capital, it must prepare a balance sheet and an inventory of the Company’s assets.

The Company must, within 10 days from the date of the passing of a resolution to reduce the registered capital, notify the creditors and shall make a public announcement in the newspapers (including a daily English language newspaper in Singapore) not less than 3 times within 30 days from the date of the passing of such resolution. A creditor has the right to make a claim within 30 days of the notice or for those who have not received a written notice, within 90 days of the first public announcement in a newspaper for payment of debts owed to it or the provision of security therefor.

The reduced registered capital shall not be less than the minimum statutory requirement.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 29

In the following circumstances, the Company may, after passing the procedures as stipulated by its Articles of Association and making a report to the competent organ in charge of the State, buy back its issued shares:

- (1) to cancel shares for the purpose of reducing the capital of the Company;*
- (2) to amalgamate with other companies that hold shares of the Company;*
- (3) to award shares to staff members of the Company;*
- (4) Shareholders ask the Company to buy back its shares for opposing the resolutions for amalgamation or spin-off of the Company adopted by the General Meeting of Shareholders; and*
- (5) other circumstances as permitted by laws and administrative regulations.*

Except for the aforesaid circumstances, the Company shall not conduct any activity of buying or selling its shares.

Article 30

Subject to the prior approval of the relevant department-in-charge in the PRC, the Company may repurchase shares by:

- (i) making an offer to all the shareholders to repurchase their shares in proportion to their shareholding;*
- (ii) repurchasing in the open market on a stock exchange;*
- (iii) repurchasing under an off-market agreement.*

Article 31

The Company may repurchase its shares under an off-market agreement (the “Off-Market Agreement”) subject to the prior approval of shareholders in General Meeting obtained in accordance with these Articles. The Company may cancel or alter the terms of the Off-Market Agreement or waive any of its rights thereunder subject to the prior approval of shareholders in General Meeting obtained in accordance with these Articles.

The Off-Market Agreement referred to above includes without limitation agreements to undertake to re-purchase shares and agreements in respect of the option/right to re-purchase shares.

The Company shall not assign contracts for the re-purchasing of its shares or any rights thereunder.

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Article 32

If the Company is to buy back its shares for the causes as stated in the items (1) to (3) of Article 29 of the Articles of Association, it shall have the General Meeting of Shareholders pass a related resolution. After the Company buys back its shares according to provisions of Article 29, if the circumstance of item (1) is available, it shall cancel the shares within ten days starting from the date of the buyback; if the circumstance of items (2) and (4) are available, it shall transfer the shares within six months. For cancellation of shares, the Company shall apply to the original company registration organ for handing the registered capital alteration registration and also make an announcement in newspapers (including a local English-language daily newspaper in Singapore).

The total face value of the cancelled shares shall be subtracted from the registered capital of the Company.

The sum of shares of the Company bought back by the Company according to provisions of item (3) of Article 29 will not exceed 5% of the total issued shares of the Company; the capital for the buyback shall come from the after-tax profit of the Company; the shares bought back shall be transferred to staff members within one year.

Article 33

Except where the Company is in the process of liquidation, in the exercise to repurchase its issued shares the Company shall comply with the following:

- (i) (where the shares are to be repurchased at a price equal to the aggregate nominal value) the net book value of distributable profits and/or the proceeds from the issue of shares to raise funds for the repurchase of shares shall be used to pay for the said repurchase;*
- (ii) (where the shares are to be repurchased at a price above the aggregate nominal value, the net book value of distributable profits and/or the proceeds from the issue of shares to raise funds for the repurchase of shares shall be used to pay for the said aggregate nominal value and the premium shall be paid for as follows:*
 - (1) (where the shares to be repurchased have been issued at par) from the net book value of the distributable profits;*
 - (2) (where the shares to be repurchased have been issued at a premium) from the net book value of the distributable profits and/or the proceeds from the issue of new shares to raise funds for the repurchase of shares including the premium from the issue of shares, provided that the proceeds from the issue of shares to raise funds for the repurchase of shares shall not exceed (a) the aggregate value of the share premium in respect of the shares to be repurchased obtained at the time of the issuance of such shares or (b) the amount representing the Company's capital reserve account at the time of the repurchase (including the share premium in respect of issue of new shares);*
- (iii) the following expenses shall be paid out of the distributable profits:*
 - (1) obtaining the option to repurchase;*
 - (2) amending the agreement for the repurchase of shares;*
 - (3) terminating the obligations in the agreement for the repurchase of shares;*
- (iv) upon the cancellation of any shares, the registered capital of the Company shall be reduced by such amount representing the aggregate nominal value thereof and an entry on the amount drawn from the distributable profits to pay for that part of the nominal value of the shares to be repurchased, shall be made in the Company's capital reserve account.*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

CHAPTER 5 FINANCIAL ASSISTANCE FOR THE PURCHASE OF SHARES OF THE COMPANY

Article 34

The Company or its subsidiaries shall not at any time and in any manner provide financial assistance to any person purchasing or intending to purchase shares of the Company. Persons who purchase shares of the Company referred to above include persons who directly or indirectly undertake obligations arising from the purchase of the shares of the Company. The Company or its subsidiaries shall not at any time and in any manner provide financial assistance to any of the aforesaid persons, to reduce that person's obligations or relieve that person of its obligations. The foregoing provisions shall not apply to Article 36.

Article 35

A reference to financial assistance in this chapter includes without limitation, the following:

- (i) the making of a gift;*
- (ii) the giving of security (including providing security or giving a guarantee to secure the performance of the obligations of an obligor), indemnity (but shall exclude indemnity in relation to the Company's default), release or waiver of any right;*
- (iii) the making of a loan or entering into a contract which obliges the Company to perform its obligations first before the other party or any amendment to any party to such loan or contract or transferring the rights in the loan or the said contract etc;*
- (iv) any other form of financial assistance when the Company is insolvent or has no net assets or has entered into any arrangement having a material adverse effect on the net assets of the Company.*

A reference to obligations in this chapter includes a person assuming obligations by way of entering into a contract or arrangement (regardless of whether the contracts or arrangements are enforceable or whether the obligations are to be undertaken by him alone or jointly with another person), or any obligation the performance of which could affect its financial position.

Article 36

Nothing in Article 34 prohibits:

- (i) the giving of financial assistance in good faith and in the interests of the Company and (a) the principal purpose of the financial assistance is not to purchase shares of the Company or (b) the financial assistance is an incidental part of an overall plan of the Company;*
- (ii) the payment of a dividend in cash by the Company in accordance with law;*
- (iii) the payment of a dividend by way of issue of shares;*
- (iv) the reduction of capital, the purchase of shares and variation of the shareholding structure etc. in accordance with these Articles;*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

- (v) *the making of a loan by the Company in the ordinary course of its business (where the making of such loan would not have the effect of reducing the value of the Company's net assets or if reduced, would have been paid out of the Company's distributable profits); and*
- (vi) *the making of a loan by the Company for the purpose of an employee share scheme (where the making of such loan would not have the effect of reducing the value of the Company's net assets or if reduced, would have been paid out of the Company's distributable profits).*

CHAPTER 6 SHARE TRANSFER

Article 37

The shares of the Company may be transferred according to law.

Article 38

The Company does not accept the use of its shares as the target of pledges.

Article 39

The shares of the Company held by its initiators may not be transferred within one year starting from the date of establishment of the Company. The shares already issued before the Company made the initial public offering may not be transferred within one year starting from the day when the shares of the Company were listed for trading on the stock exchange.

The directors, supervisors and senior managerial personnel of the Company shall report to the Company the number of shares of the Company they hold and related changes, and the number of shares they transfer every year during their term of office shall not exceed 25% of the total number of shares of the Company they hold; shares of the Company they hold may not be transferred within one year starting from the day when the shares of the Company are listed for trading. Within half a year after the aforesaid personnel quit office, they may not transfer the shares of the Company they hold.

Article 40

If the directors, supervisors and senior managerial personnel of the Company and the shareholders each holding more than 5% of the total shares of the Company sell the shares of the Company they hold within six months after the shares are bought, or buy in the shares of the Company again within six months after sale, the gains thereof shall be attributed to the Company and be recalled by the Board of Directors of the Company. However, the securities companies that hold more than 5% shares of the Company as a result of buying the remaining shares in underwriting are not bound by the six-month limit in selling the said shares.

If the Board of Directors of the Company fails to implement the stipulations of the preceding paragraph, the shareholders are entitled to ask for implementation by the Board of Directors within 30 days. If the Board of Directors of the Company fails to make implementation within the aforesaid time limit, the shareholders are, for the interest of the Company, entitled to file a suit directly with the people's court in their own names.

If the Board of Directors of the Company fails to implement according to the stipulations of the first paragraph, the directors who hold responsibilities shall according to the law shoulder joint liabilities.

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CHAPTER 7 SHARE CERTIFICATES AND REGISTER OF SHAREHOLDERS

Article 41

The Company's shares shall be in registered form.

Each share certificate shall contain such particulars as are required by the Company Law, the Special Regulations and such other particulars as may be required by the stock exchange(s) on which the shares of the Company are listed.

In the case of the "S" Shares, every shareholder (other than a Depositor) shall be entitled to receive a reasonable number of share certificates in proportion to its shareholding subject to the payment of a fee not exceeding S\$2.00 (if payable).

Article 42

Each share certificate shall be signed by the Chairman of the Board of Directors and by such other senior managerial officer (as may be required by stock exchange(s) on which the shares of the Company are listed). A share certificate shall be valid upon the affixation of the Company Seal with the prior authority of the Board of Directors or upon the affixation of a specially designated securities stamp or the impression of the Company Seal or stamp, as the case may be, on that share certificate. Each of the signatures of the Chairman of the Board of Directors and the aforesaid senior managerial officer may be produced in the form of an impression.

Article 43

In relation to the "S" Shares, subject to the payment of all or any part of the stamp duty payable (if any) on each share certificate prior to the delivery thereof which the Directors in their absolute discretion may require, every person whose name is entered as a shareholder in the Register of Shareholders in respect of any "S" Shares shall be entitled to receive within ten market days of the closing date of any application for "S" Shares (or such other period as may be approved by any stock exchange upon which the "S" Shares of the Company may be listed) or within fifteen market days after the date of lodgement of a registrable transfer (or such other period as may be approved by any stock exchange upon which the "S" Shares of the Company may be listed) one certificate for all his "S" Shares or several certificates in reasonable denominations each for a part of the "S" Shares so allotted or transferred. Where such a shareholder transfers part only of the "S" Shares comprised in a certificate or where such a shareholder requires the Company to cancel any certificate or certificates and issue new certificates for the purpose of subdividing his holding in a different manner, the old certificate or certificates shall be cancelled and a new certificate or certificates for the balance of such "S" Shares issued in lieu thereof and such shareholder shall pay all or any part of the stamp duty payable (if any) on each share certificate prior to the delivery thereof which the Directors may require and a maximum fee of S\$2.00 for each new certificate or such other fee as the Directors in their absolute discretion may from time to time determine having regard to any limitation thereof as may be prescribed by any stock exchange upon which the "S" Shares of the Company may be listed. The term "market day" shall have the meaning ascribed to it in Article 24.

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Article 44

- (i) *In relation to the “S” Shares, any two or more certificates representing the “S” Shares held by any person whose name is entered in the Register of Shareholders may at his request be cancelled and a single new certificate for such shares issued in lieu without charge.*
- (ii) *If any person whose name is entered in the Register of Shareholders shall surrender for cancellation a share certificate representing “S” Shares held by him and request the Company to issue in lieu two or more share certificates representing such shares in such proportions as he may specify, the Directors may, if they think fit, comply with such request. Such person shall (unless such fee is waived by the Directors) pay a maximum fee of S\$2.00 for each share certificate issued in lieu of a share certificate surrendered for cancellation or such other fee as the Directors may from time to time determine having regard to any limitation thereof as may be prescribed by any stock exchange upon which the “S” Shares of the Company may be listed.*
- (iii) *In the case of “S” Shares registered jointly in the names of several persons, any such request may be made by any one of the registered joint holders.*

Article 45

The Company shall establish a register of shareholders containing the following particulars based on confirmations provided by the securities registration organisation:

- (i) *the name, address (of domicile) and occupation of each shareholder;*
- (ii) *the class and number of shares held by each shareholder;*
- (iii) *the amount paid or payable for the shares held by each shareholder;*
- (iv) *the share certificate number;*
- (v) *the date on which each shareholder is registered as a shareholder; and*
- (vi) *the date on which each shareholder ceases to be a shareholder.*

The register of shareholders shall be sufficient evidence of each shareholder’s interest in the Company unless there is evidence to the contrary.

The Company shall not be bound to register more than three persons as the registered joint holders of a share except in the case of executors, trustees or administrators of the estate of a deceased shareholder. In the case of a share registered jointly in the names of several persons, the Company shall not be bound to issue more than one certificate therefor and delivery of a certificate to any one of the registered joint holders shall be sufficient delivery to all.

Article 46

The Company may, pursuant to the understanding and agreement of the State Council securities department in charge and an overseas securities regulatory organisation keep the register (the “Register of Foreign Shareholders”) of Foreign Shareholders outside the PRC in the country where the shares of the Company are listed and to entrust the administration thereof to an agent outside the PRC. The Company shall keep a duplicate of the Register of Foreign Shareholders in its domicile. The appointed agent outside the PRC shall at all times ensure that the particulars in the Register of Foreign Shareholders kept by it are consistent with the particulars set out in the duplicate thereof. If there is any inconsistency between the particulars in the Register of Foreign Shareholders kept by the appointed agent and the duplicate thereof, the former shall prevail.

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The Register of Substantial Shareholders of Foreign Shares (as defined in Article 47(2)(i)) shall be kept outside the PRC in the country where the shares of the Company are listed and the Register of Substantial Shareholders of Domestic Shares (as defined in Article 47(2)(ii)) shall be kept in at “China Securities Registration Settlement Co., Ltd, Shanghai Branch”. The Register of Foreign Substantial Shareholders and the Register of Domestic Substantial Shareholders shall be open for inspection by a shareholder of the Company without charge and by any other person on payment for each inspection of a sum of S\$2.00 or such lesser sum as the Company requires. The Company shall forthwith notify the stock exchange on which the “S” Shares of the Company may be listed of any notice received under Articles 58(3), (4) and (5). The Company shall keep a duplicate of the Register of Foreign Substantial Shareholders in its domicile. The appointed agent outside the PRC shall at all times ensure that the particulars in the Register of Foreign Substantial Shareholders kept by it are consistent with the particulars set out in the duplicate thereof. If there is any inconsistency between the particulars in the Register of Foreign Substantial Shareholders kept by the appointed agent and the duplicate thereof, the former shall prevail.

Article 47

(1) The Company shall maintain a complete register of shareholders.

The register of shareholders shall include:

- (i) the register of shareholders of Domestic Shares (including “A” shares) kept by “China Securities Registration Settlement Co., Ltd, Shanghai Branch”;*
- (ii) the register of holders of the Foreign Investment Shares listed outside the PRC deposited at the place where the Foreign Investment Shares are listed; and in the case of the “S” shares listed on the Stock Exchange of Singapore Limited deposited in Singapore; and*
- (iii) such register of shareholders deposited in such place as the Directors may designate for the purpose of listing the shares of the Company.*

(2) The Company shall also maintain a complete register of Substantial Shareholders (as defined in Article 59(2)). The register of substantial shareholders should include:

- (i) the register of holders of Foreign Investment Shares who are Substantial Shareholders (as defined in Article 59(2)) (the “Register of Foreign Substantial Shareholders”) in which it shall forthwith enter:*
 - (a) in alphabetical order, the names of persons who are holders of Foreign Investment Shares from whom it has received a notice under Article 58(3)(i); and*
 - (b) against each name so entered, the information given in the notice and, where it receives a notice under Articles 58(3), (4) and (5), the information given in that notice;*
- (ii) the register of holders of Domestic Investment Shares who are Substantial Shareholders (as defined in Article 59(2)), (the “Register of Domestic Substantial Shareholders”) in which it shall forthwith enter:*
 - (a) in alphabetical order, the names of persons who are holders of Domestic Shares from whom it has received a notice under Article 58(3)(i); and*
 - (b) against each name so entered, the information given in the notice and, where it receives a notice under Articles 58(3), (4) and (5), the information given in that notice.*

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Article 48

The particulars in a register of shareholders shall not be repeated in another register of shareholders. The particulars in a register of Substantial Shareholders shall not be repeated in another register of Substantial Shareholders. In a transfer of a share registered in one register of shareholders (the "Original Register"), no entry of the transfer shall be made in another register while the holder of that share remains registered as the holder in the Original Register.

Any alteration or amendment of any part of a register of shareholders or register of Substantial Shareholders shall be made in accordance with the laws of the country where that register is maintained.

Article 49

- (1) No change in the particulars of the register of shareholders (other than in relation to the Transferable Shares) shall be made during the period of 30 days prior to the date of a General Meeting. In relation to "S" Shareholders, an "S" Shareholder shall be entitled to attend any General Meeting or class meeting if his name appears on the register of shareholders or the Depository Register (as the case may be) forty-eight (48) hours before the said meeting and to speak and vote thereat. The registration date shall be the same for the shares of "S" Shareholders and "A" Shareholders.*
- (2) The Company or the Directors may, subject to the requirements of the stock exchange on which the shares of the Company may be listed, fix any date as the record date for determining the shareholders entitled to receive any dividend, distribution, allotment or issue.*

No changes resulting from the transfer of shares may be made to the register of shareholders (other than the register of holders of Foreign Investment Shares and the Depository Register) within 5 days prior to the record date.

Article 50

Save as may otherwise be provided in these Articles, for the purposes of convening General Meetings of shareholders, distributing dividends, liquidating the Company or dealing with such other matters requiring the confirmation of shareholding, the Board of Directors shall determine a date (the "Shareholders' Verification Date") to verify shareholding in the Company. The shareholders whose names appear in the register of shareholders as at the Shareholders' Verification Date shall be deemed to be the Company's shareholders.

Article 51

Any person that challenges the register of shareholders and requires to have his name entered in or removed from the register of shareholders, may apply to make such amendment in the register of shareholders in a court having jurisdiction to do so.

Article 52

Any person whose name appears on, or wishing to have his name entered in the register of shareholders may if the share certificate held by it (the "Original Share Certificate") is lost, apply to the Company for the issue of a replacement share certificate in replacement of the lost share certificate.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

If a holder of domestic capital shares loses his share certificates and applies for reissuance, it shall be handled according to the provisions of Article 144 of the Company Law.

A Foreign Shareholder may if the share certificate held by it is lost, apply for the issue of a replacement share certificate in replacement of the lost share certificate in accordance with the laws of the country where the relevant Register of Foreign Shareholders is deposited, the rules of the stock exchange on which that share is listed and any other relevant regulations. In relation to the “S” Shares, subject to provisions of law, if any share certificates representing the “S” Shares shall be defaced, worn-out, destroyed, lost or stolen, it may be renewed on such evidence being produced and a letter of indemnity (if required) being given by the shareholder, transferee, person entitled, purchaser, member firm or member company of any stock exchange upon which the Company is listed or on behalf of its or their client or clients as the Directors of the Company shall require, and (in case of defacement or wearing out) on delivery up of the old certificate and in any case on payment of such sum not exceeding S\$2.00 as the Directors may from time to time require together with the amount of the proper duty with which such share certificate is chargeable under any law for the time being in force relating to stamps. In the case of destruction, loss or theft, a shareholder or person entitled to whom such renewed certificate is given shall also bear the loss and pay to the Company all expenses incidental to the investigations by the Company of the evidence of such destruction or loss.

Article 53

After the Company has issued a replacement share certificate in accordance with these Articles, it shall not delete from the register of shareholders the name of a bona fide purchaser who acquires the share as evidenced by the replacement share certificate or any subsequent person registered as the holder of that share (provided that he is a bona fide purchaser).

Article 54

The Company shall not be obliged to compensate any person who has suffered loss arising from any cancellation of an Original Share Certificate or the issuance of a replacement share certificate unless there can be shown that there is fraud on the part of the Company.”

(B) RIGHTS IN RESPECT OF VOTING

“CHAPTER 8 RIGHTS AND OBLIGATIONS OF SHAREHOLDERS

Article 55

Save as may otherwise be provided in this Article 55, a shareholder is a person whose name appears in the register of shareholders in accordance with these Articles.

In relation to the persons named as Depositors in the Depository Register, such persons shall, for such period as any book-entry securities of the Company are entered against their names in the Depository Register, be deemed to be:

- (i) shareholders of the Company in respect of the amount of book-entry securities (relating to stocks and shares issued by the Company) entered against their respective names in the Depository Register; or*
- (ii) holders of the amount of the Company’s book-entry securities (relating to debentures or any derivatives instruments) entered against their names in the Depository Register.*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

The Depository shall be deemed not to be a shareholder of the Company.

A shareholder shall enjoy the rights and obligations in accordance with the number and class of shares held by it. Persons holding the same class of shares shall enjoy the same rights and undertake the same obligations.

Article 56

A holder of ordinary shares (the “Ordinary Shareholder”) shall be entitled to:

- (i) receive dividends or other distribution in proportion to the number of shares held by it;*
- (ii) request, call, chair, attend or appoint a shareholder proxy to attend the shareholder meeting according to law and also exercise the voting right;*
- (iii) supervise and control the Company’s activities in respect of business operations and to make recommendations or raise queries relating thereto;*
- (iv) transfer, donate and pledge the shares held according to the provisions of laws, administrative regulations and the Articles of Association of the Company;*
- (v) obtain related information according to the provisions of the Articles of Association of the Company. If shareholders request to read related information or get materials, they shall present to the Company a written document that is able to prove the type and quantity of shares of the Company they hold, and the Company shall provide according to the requests of the shareholders after verifying their shareholder identity, including:
 - (1) (upon the payment of a fee to cover costs) a copy of these Articles;*
 - (2) (upon payment of a reasonable fee), inspect and make copies of:
 - (a) information on personal holding of shares;*
 - (b) information on the Directors, Supervisors, General Manager and other senior managerial officers, including:
 - 1. past and present names and aliases;*
 - 2. principal address (of domicile);*
 - 3. nationality;*
 - 4. profession and other part time employment; and*
 - 5. personal identification document and number;**
 - (c) Company’s share capital;*
 - (d) the report on the aggregate number, aggregate nominal value, the lowest and highest price on every repurchase of shares (in respect of each class) by the Company, and the expenses incurred by the Company in connection therewith since the last financial year; and*
 - (e) the minutes of General Meetings (including meetings of holders of shares of a particular class);***

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

- (vi) *participate in the distribution of the residual assets according to their shareholding in the dissolution or winding-up of the Company; and*
- (vii) *right to be informed and to participate on major matters stipulated in the laws, administrative regulations and these Articles;*
- (viii) *entitled to protect their legitimate rights through civil action or other legal means according to the provisions of laws and administrative regulations.*

If the contents of resolutions of the General Meeting of Shareholders and the Board of Directors act against the provisions of the laws and administrative regulations, the shareholder are entitled to request the people's court to find them as being invalid.

If the procedures for calling meetings of the General Meeting of Shareholders and the voting form act against the provisions of laws and administrative regulations or the Articles of Association, or the contents of the resolution run counter to the Articles of Association, the shareholders are entitled to make a request to the people's court for cancellation within 60 days starting from the day when the resolution is made.

If directors and senior managerial personnel act against the provisions of laws, administrative regulations or the Articles of Association when performing their duties, and thus cause loss to the Company, the shareholder who separately or jointly hold more than 1% of the shares of the Company for more than 180 days running are entitled to make a written request to the Board of Supervisors to file a suit with the people's court. If the Board of Supervisors acts against the provisions of laws, administrative regulations or the Articles of Association when performing its duties, and thus causes loss to the Company, the shareholders are entitled to make a written request to the Board of Directors to file a suit with the people's court.

If the Board of Supervisors or the Board of Directors refuses to file a suit after receiving the written request from the shareholders as stated in the preceding paragraph, or fails to file a suit within 30 days starting from the day of receiving the request, or if the circumstance is urgent and harm that is difficult to be made up may be caused to the interest of the Company if a suit is not filed immediately, the shareholders as stated in the preceding paragraph are, for the sake of the interest of the Company, entitled to directly file a suit with the people's court in their own names.

If a their party encroaches up the legitimate rights and interests of the Company and thus causes loss to the Company, the shareholders as stated in the fourth paragraph of this clause may file a suit with the people's court according to the stipulations of the preceding two paragraphs.

If directors, supervisors and managers act against the provisions of laws, administrative regulations or the Articles of Association when performing their duties, and thus cause harm to the Company, they are liable for making compensations and the shareholders are entitled to request the Company to file according to law a suit asking for compensation; and

- (ix) *such other rights as may be conferred by laws, administrative regulations and these Articles.*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 57

Holders of ordinary shares of the Company shall shoulder the following obligations:

- (1) abide by the Articles of Association of the Company;*
- (2) pay share capital according to their subscribed shares and the form of equity admission;*
- (3) not withdraw shares except for the circumstances as stipulated by laws and regulations;*
- (4) not abuse the rights of shareholders to do harm to the interest of the Company or other shareholders; not abuse the independent status of corporate entity and limited liabilities of shareholders to the interests of the creditors of the Company;*

If any shareholder of the Company abuses the rights of shareholders and causes loss to the Company or other shareholders hereof, it shall according to law shoulder the liability for making compensation.

If any shareholder of the Company abuses the independent status of corporate entity and limited liabilities of shareholders to dodge debts and causes serious harm to the interests of the creditors of the Company thereof, it shall shoulder joint liabilities of the debts of the Company.

- (5) Other obligations that shall be shouldered as stipulated by laws, administrative regulations and the Articles of Association of the Company.*

Except for the terms and conditions agreed by the subscribers of shares at the time of subscription, a shareholder shall not shoulder any liability for adding any share capital later.

Article 58

- (1) In addition to the obligations imposed by laws, administrative regulations or listing rules of the stock exchange(s) on which the shares of the Company are listed, a controlling shareholder (as defined in Article 59) in exercising its rights as a shareholder shall not cast his votes on the following matters in a manner prejudicial to the interests of all or any of the shareholders:*

- (i) release any Director or Supervisor from the obligation to act in good faith and in the best interests of the Company;*
- (ii) approve any Director's or Supervisor's wrongful appropriation of the Company's assets in any manner (whether for its own benefit or a third party's benefit) including (but not limited to) any opportunity that is favourable to the Company;*
- (iii) approve any Director's or Supervisor's wrongful appropriation of other shareholder's rights (whether for its own benefit or a third party's benefit) including (but not limited to) any distribution rights, voting rights (except for a reorganisation of the Company on terms approved by the shareholders in General Meeting in accordance with these Articles);*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

- (iv) shall not override the authority of the shareholders in General Meeting and Board of Directors in the appointment and removal of senior management personnel of the Company;
- (v) shall not in any way influence the independence of the operation and management of the Company.
- (2) The obligation to comply with Articles 58(3), (4) and (5) extends to all natural persons, whether resident in Singapore or not and whether citizens of Singapore or not, and to all legal persons and companies, bodies corporate, whether incorporated or carrying on business in Singapore or not.
- (3) (i) A person who is a Substantial Shareholder (as defined in Article 59(2)) in the Company shall give notice in writing to the Company stating his name and address and all his interests (including unless the interest or interests cannot be related to a particular share or shares the name of the person who is registered as the holder) in the voting shares in the Company and of the circumstances by reason of which he has that interest. In relation to a holder of “S” Shares who is a Substantial Shareholder, such notice shall disclose full particulars of the voting shares in the Company in which he has an interest or interests and full particulars of each such interest.

(ii) The notice shall be given within two days after becoming a Substantial Shareholder.

(iii) The notice shall be so given notwithstanding that the person has ceased to be a Substantial Shareholder.
- (4) (i) Where there is a change in the interest or interests of a Substantial Shareholder in the Company in voting shares in the Company, he shall give notice in writing to the Company stating his name and particulars of the change, including the date of the change and the circumstances by reason of which that change has occurred.

(ii) The aforesaid notice shall be given within two days after the date of the change in the interest(s).

(iii) For the purposes of Article 58(4)(i), where a Substantial Shareholder in the Company acquires or disposes of voting shares in the Company there shall be deemed to be a change in the interest or interests of the Substantial Shareholder in the voting shares in the Company.
- (5) (i) A person who ceases to be a Substantial Shareholder in the Company shall give notice in writing to the Company stating his name and the date on which he ceased to be a Substantial Shareholder and particulars of the circumstances by reason of which he ceased to be a Substantial Shareholder.

(ii) The notice shall be given within two days after the person ceased to be a Substantial Shareholder.
- (6) The circumstances required to be stated in the notice under Articles 58(3), (4) and (5) include circumstances by reason of which:

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

- (i) a person has an interest in voting shares;
 - (ii) a change has occurred in an interest in voting shares; or
 - (iii) a person has ceased to be a Substantial Shareholder in a company,
- respectively.

Article 59

(1) "Controlling shareholder" referred to in Article 58(1) is defined as a person who:

- (i) either alone or acting in concert with other persons, is able to elect more than half of the Board of Directors; or
- (ii) either alone or acting in concert with other persons, is able to exercise 30% or more of the voting rights or control 30% or more of the voting rights of the Company; or
- (iii) either alone or acting in concert with other persons, holds 30% or more of the shares issued by the Company; or
- (iv) either alone or acting in concert with other persons, controls the Company in any other manner.

(2) For the purposes of Articles 58(3), (4) and (5), a person has a substantial shareholding in the Company if he has an interest or interests in the voting shares in the Company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is not less than 5% of the aggregate of the nominal amount of all the voting shares in the Company and a person who has a substantial shareholding in the Company is a "Substantial Shareholder" in the Company.

Article 60

If any shareholder holding more than 5% of the shares with voting power of the Company mortgages the shares it holds, it shall make a written report to the Company on the day when the said fact occurs.

Article 61

The controlling shareholder and actual controller of the Company shall not do harm to the interests of the Company by taking advantage of their related party relationship. In case they act against the stipulation and cause loss to the Company thereof, they are liable for making compensation.

Article 62

There shall be no restriction on the transfer of fully paid-up "S" Shares (except where required by law or the requirements of the stock exchange upon which the "S" Shares may be listed). All transfers of the title in the "S" Shares may be effected by the registered holders thereof by transfer in writing in the form for the time being approved by any stock exchange upon which the shares of the Company may be listed or any other written form acceptable to the Directors. The instrument of transfer of any share shall be signed by or on behalf of both the transferor and the transferee and be witnessed Provided that an instrument of transfer in respect of which the transferee is the Depository shall be effective although not signed or witnessed by or on behalf of the Depository. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Register of Shareholders in respect thereof.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 63

There shall be paid to the Company in respect of the registration of any instrument of transfer in relation to the “S” Shares or probate or letters of administration or certificate of marriage or death or stop notice or power of attorney or other document relating to or affecting the title to any such shares or otherwise for registering or in any other manner making any entry in the Register of Shareholders affecting the title to any such shares such fee not exceeding S\$2.00 as the Directors may from time to time require or prescribe.

CHAPTER 9 GENERAL MEETINGS

Article 64

A General Meeting is an organ vested with the highest authority in the Company and its functions and powers shall be exercised in accordance with law.

Article 65

A General Meeting shall exercise the following functions and powers:

- (i) determine the business principles and investment schemes of the Company;*
- (ii) elect and replace directors and supervisors not served by representatives of the staff, and determine the matters concerning remuneration to directors and supervisors;*
- (iii) examine and approve reports submitted by the Board of Directors;*
- (iv) examine and approve reports submitted by the Board of Supervisors;*
- (v) examine and approve the annual financial budget and financial account programs of the Company;*
- (vi) examine and approve the profit distribution programs and loss compensation programs of the Company;*
- (vii) make resolutions on increasing or decreasing the registered capital of the Company;*
- (viii) make resolutions on amalgamation, spin-off, dissolution, liquidation and other matters of the Company;*
- (ix) make resolutions on bond issues of the Company;*
- (x) make resolutions on appointment, dismissal or termination of continuous appointment of the accounting firm of the Company;*
- (xi) amend the Articles of Association of the Company;*
- (xii) examine and approve the guarantee matters as stipulated by Article 66;*
- (xiii) examine and approve matters related to change of the purposes of raised capital;*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

- (xiv) examine equity incentive schemes;*
- (xv) examine matters related to the Company's purchase or sale within one year of significant assets that are in excess of 30% of the Company's audited gross assets in the latest period;*
- (xvi) examine motions put forward by shareholders that hold 5% or more shares with voting power of the Company; and*
- (xiv) other matters subject to resolution of the General Meeting of Shareholders as stipulated by laws, administrative regulations and the Articles of Association of the Company.*

Article 66

The following external guarantee acts of the Company shall be examined and approved by the General Meeting of Shareholders:

- (i) any guarantee provided after the sum of external guarantees of the Company and its controlled subsidiaries reaches or exceeds 50% of their audited net assets for the latest period;*
- (ii) any guarantee provided after the sum of external guarantees of the Company reaches or exceeds 30% of its audited gross assets for the latest period;*
- (iii) guarantees provided to the guaranteed whose asset-liability ratio exceeds 70%;*
- (iv) guarantees in which the amount of a single guarantee exceeds 10% of the audited net assets for the latest period; and*
- (v) guarantees provided to shareholders, the actual controller and their related parties.*

Article 67

Without approval by a special resolution of the General Meeting of Shareholders, the Company shall not make any contract for managing or significant business of the Company with any person other than its directors, supervisors, general manager and other senior managerial personnel.

Article 68

General Meetings comprise annual General Meetings or extraordinary General Meetings. General Meetings are convened by the Board of Directors. An annual General Meeting shall be convened once a year and within a period not later than 6 months from the date of the last financial year or 15 months from the last preceding annual General Meeting, whichever is shorter.

The Board of Directors shall determine the date and venue of General Meetings.

The venue of the General Meetings shall be at the place of domicile of the Company, or determined in accordance with the Articles of Association.

General Meetings shall be held at an appropriate venue for a live meeting. Pursuant to the applicable laws, regulations and rules of the China Securities Regulatory Commission or the Articles of Association, the Company shall also provide safe, economic and convenient forms of participation to Shareholders via the Internet or alternative forms. If Shareholders attend a General Meeting via the alternative forms provided, they are regarded as having attended the meeting.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

A Shareholder may personally attend a General Meeting to vote, or he may appoint a proxy to vote on his behalf.

The Board of Directors shall, within 2 months from the occurrence of any of the following events, convene an extraordinary General Meeting:

- (i) the number of Directors is fewer than that required by the Company Law or less than two-third of the requisite number required under these Articles;*
- (ii) the losses of the Company that have not been made up equals to one-third of its aggregate share capital;*
- (iii) shareholders holding 10% or more of the voting shares issued by the Company make a requisition in writing to convene an extraordinary General Meeting;*
- (iv) such other meeting as the Board of Directors may think fit to convene or as may be requisitioned by the Supervisory Committee.*

Article 69

To convene a shareholders' meeting, the Company shall issue 45 days in advance a written notice, informing all registered shareholders and the stock exchanges on which the Company's share are listed of the matters to be examined at the meeting and the date and venue of the meeting. The holders of tradable shares with limiting conditions for sale who are to attend the shareholders' meeting shall send a written reply of attending the meeting to the Company 20 days prior to the convening of the meeting. All shareholders are eligible to attend any shareholders' meeting (excluding categorized shareholders' meetings) and speak and vote at the meeting given the name of the shareholder is registered with the shareholders' register of the Company on the equity record day. A-share holders to attend a shareholders' meeting shall send a written reply of attending the meeting to the Company at 12:00 of one day prior to the convening of the meeting.

Article 70

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.

Article 71

Based on the written replies received 20 days prior to a shareholders' General Meeting, the Company shall calculate the number of voting shares represented by the shareholders intending to attend the meeting. A General Meeting can only be held if two or more such shareholders intend to attend that General Meeting. If the abovesaid requirements are not satisfied, the Company shall, within 5 days therefrom, by way of public announcement, notify the shareholders of the agenda, date and place of the General Meeting. Upon such public announcement, the Company may convene the General Meeting. At the General Meeting, any one or more shareholders present in person or by proxy shall be a quorum.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

After the notice on shareholders' meeting is issued, if without good causes, the shareholders' meeting shall not be postponed or cancelled, and the motions listed in the notice of shareholders' meeting shall not be cancelled. Once the circumstance of postponement or cancellations occurs, the convener shall make an announcement and also state the causes at least two working days prior to the originally set day of convening.

No resolution shall be passed at an extraordinary General Meeting on matters not contained in the notice convening the extraordinary General Meeting.

The Chairman of any General Meeting at which a quorum is present may with the consent of the meeting (and shall if so directed by the meeting) adjourn the meeting from time to time (or sine die) and from place to place, but no business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place. Where a meeting is adjourned sine die, the time and place for the adjourned meeting shall be fixed by the Directors. When a meeting is adjourned for thirty days or more or sine die, not less than seven days' notice of the adjourned meeting shall be given in like manner as in the case of the original meeting.

Save as hereinbefore expressly provided, it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

Article 72

When convening a shareholders' meeting, the Company will appoint a lawyer to give legal opinions and also make an announcement on the following issues:

- (i) whether or not the convening of the meeting and the convening procedures accord with laws, administrative regulations and the Article of Association;*
- (ii) whether or not the qualifications of the attendants and the convener are lawful and effective;*
- (iii) whether or not the voting procedures and voting results of the meeting are lawful and effective; and*
- (iv) legal opinions on other related issued given at the request of the Company.*

Article 73

Every notice of a General Meeting shall comply with the following requirements:

- (i) be in writing;*
- (ii) specify the venue, date and time of the General Meeting;*
- (iii) specify the agenda of the General Meeting;*
- (iv) contain such information and explanation as to enable a shareholder to make an informed decision in respect of the agenda. This principle shall apply to the following matters including, but not limited to, a proposed merger, repurchase of shares, variation of share capital or other reorganisation. The information to be provided shall include the specific conditions and contracts (if any) relating to such transactions and the explanations relating to the reasons and effects thereof;*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

- (v) *(if any of the Directors, Supervisors, General Manager or other senior managerial officers is interested in any of the resolutions to be passed at a General Meeting) disclose the nature and extent of such interests; and if by reason of its capacity as a shareholder of the Company, such Director, Supervisor, General Manager or other senior managerial officer's interest in any of the resolutions to be passed at that General Meeting is different from holders of shares of the same class, disclose information relating to such difference;*
- (vi) *contain the full text of the Special Resolutions to be passed at that General Meeting;*
- (vii) *appear with reasonable prominence, a statement as to the right of the shareholder to appoint one or more proxies to attend and vote instead of the shareholder and that a proxy need not also be a shareholder; and*
- (viii) *contain a statement as to the place and time for the deposit of the instrument of proxy for the purposes of that General Meeting.*

Article 74

All notices of General Meetings shall be sent to the shareholders (regardless of whether such a shareholder shall have a right to vote at a General Meeting) to their addresses in accordance with Article 254. Domestic Shareholders may be notified by public announcement as well.

Public announcement as aforesaid of the General Meeting shall be made in one or more newspapers designated by the securities department-in-charge of State Council not less than 45 days to 50 days prior to the General Meeting. All Domestic Shareholders shall be deemed to have notice of the General Meeting upon publication of the public announcement in the designated newspaper(s).

Article 75

If, as a result of an inadvertent omission, notice was not given to a person entitled to receive notice of a General Meeting or such person did not receive notice of a General Meeting, the non-receipt thereof shall not invalidate the proceedings of that General Meeting and the resolutions passed thereat.

Article 76

Shareholders having the right to attend and vote at General Meetings may appoint one or more persons (who need not also be shareholders) to act as their proxies to attend and vote on their behalf Provided that if the shareholder is a Depositor, the Company shall be entitled and bound:

- (i) *to reject any instrument of proxy lodged if the Depositor is not shown to have any shares entered against his name in the Depository Register as at forty-eight hours before the time of the relevant General Meeting as certified by the Depository to the Company; and*
- (ii) *to accept as the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll a number which is the number of shares entered against the name of that Depositor in the Depository Register as at forty-eight hours before the time of the relevant General Meeting as certified by the Depository to the Company, whether that number is greater or smaller than the number specified in any instrument of proxy executed by or on behalf of that Depositor.*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 77

A proxy appointed to attend and vote instead of a shareholder shall have the right to:

- (i) speak at that General Meeting;*
- (ii) demand or join in demanding a poll;*
- (iii) vote on a poll or a show of hands except that if a shareholder has appointed more than one proxy, such proxies may only exercise their voting rights by poll; and*
- (iv) to move any resolution or amendment thereto.*

Article 78

The appointment of a proxy shall be made by an instrument in writing signed by the appointor or his attorney (appointed in writing) and where the shareholder is a legal person, given under its common seal or signed on its behalf by its Directors or by its officially appointed attorney or by an officer duly authorised by that shareholder. The instrument shall specify the proportion of votes as to be represented by each proxy. The Company shall be entitled and bound, in determining rights to vote and other rights of a proxy upon receipt of an instrument of proxy submitted to it, to comply with the contents of such instrument and the notes (if any) set out in the instrument of proxy.

Article 79

An instrument appointing a proxy must be left at such place as may be specified for in the notice convening the General Meeting (if any) or the domicile of the Company not less than 48 hours before the time appointed for the holding of the meeting or voting proceedings to commence at that General Meeting, failing which such an instrument shall be treated as invalid. The instrument shall, unless the contrary is stated thereon, be valid as well for any adjournment of the meeting as for the meeting to which it relates. Provided that an instrument of proxy relating to more than one meeting (including any adjournment thereof) having once been so delivered for the purposes of any meeting shall not be required again to be delivered for the purposes of any subsequent meeting to which it relates. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or power of attorney shall be notarised. The notarised letter or power of attorney together with the proxy form shall be deposited at the domicile of the Company or such place as is specified for in the notice convening the meeting.

Article 80

Where a shareholder is a legal person, its legal representative, or such other person authorised by a resolution of its Board of Directors or other decision-making body, shall act as its corporate representative in attending General Meetings and for the purposes of these Articles, the attendance by that representative or that representative's actions in any meeting shall be deemed to be the attendance of that shareholder or as the case may be, the actions of that shareholder as if that shareholder had attended that meeting.

Article 81

A proxy form issued by the Directors to shareholders for the appointment of a proxy shall be in such form as would provide a shareholder with an option of instructing its proxy to vote for or against each and every resolution in the agenda. A proxy form must also state that if a shareholder fails to instruct its proxy, its proxy may vote in the General Meeting in such manner as it may think fit.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 82

Subject to Article 69, a vote cast by the proxy shall not be invalidated by the previous death or incapacity of the principal or by the revocation of the appointment of the proxy or of the authority under which the appointment was made or the relevant shares had been transferred prior to voting provided that no intimation in writing of such death, incapacity, revocation or transfer shall have been received by the Company at its legal address at least an hour before the commencement of the General Meeting.

Article 83

If the General Meeting of Shareholders is to deliberate matters concerning election of directors and supervisors, the shareholders' meeting notice shall give full exposure of detailed information about the director and supervisor candidates, at least including the following contents:

- (1) the educational background, work experiences, concurrent posts and other personal information;*
- (2) whether or not there is any association relationship with the Company or the controlling shareholder and actual controller of the Company;*
- (3) disclosure of the number of shares of the Company he or she holds;*
- (4) whether or not he or she received any punishment imposed by the China Securities Regulatory Commission and other related departments and the stock exchange.*

Except for the adoption of cumulative voting system in electing directors and supervisors, each director and supervisor candidate shall be put forward in a separate motion.

Article 84

The resolutions passed at a General Meeting comprise Ordinary Resolutions and Special Resolutions.

A resolution shall be an Ordinary Resolution when it has been passed by a majority of more than one-half of the voting rights of such shareholders as, being present at a General Meeting and entitled to do so, vote in person, or by proxy, at a General Meeting.

A resolution shall be a Special Resolution when it has been passed by a majority of more than two-thirds of the voting rights of such shareholders as, being present at a General Meeting and entitled to do so, vote in person, or by proxy, at a General Meeting.

Article 85

If an amendment shall be proposed to any resolution but shall in good faith be ruled out of order by the Chairman of the meeting, the proceedings on the said resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a Special Resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 86

In the case of a vote on a show of hands, every shareholder (including proxies) shall have one vote. In the case of a vote on a poll, every shareholder (including proxies) shall be entitled to one vote for every share he holds or represents. For the purposes of determining the number of votes which a shareholder, being an “S” Shareholder (whether a Depositor or otherwise), or his proxy may cast at any General Meeting on a poll, the reference to shares held or represented shall, in relation to shares of that “S” Shareholder or Depositor, be the number of shares entered against his name in the register of shareholders or the Depository Register (as the case may be) as at forty-eight hours before the time of the relevant General Meeting and in the case of the Depository Register, as certified by the Depository to the Company.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the Register of Shareholders or (as the case may be) the Depository Register in respect of the share.

Article 87

The Company should put all the General Meetings’ resolutions to vote by poll.

Article 88

If a poll is requested to decide on the election of the Chairman of a meeting or cancel the meeting, the poll shall forthwith be conducted. On any other questions on which a poll is requested, the Chairman of the meeting may conduct the poll at such time as he may think fit and the demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the question on which the poll has been demanded. If a poll is required, it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the meeting may direct, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The Chairman of the meeting may (and if so directed by the meeting shall) appoint scrutineers and may adjourn the meeting to some place and time fixed by him for the purpose of declaring the result of the poll.

Article 89

On a poll, a shareholder (including proxies) entitled to two or more votes need not cast all their votes in the same way.

Article 90

In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting shall be entitled to a casting vote.

Article 91

Where in PRC, Singapore or elsewhere, a receiver or other person (by whatever name called) has been appointed by any court claiming jurisdiction in that behalf to exercise powers with respect to the property or affairs of any shareholder on the ground (however formulated) of mental disorder, the Directors may in their absolute discretion, upon or subject to production of such evidence of the appointment as the Directors may require, permit such receiver or other person on behalf of such shareholder to vote in person or by proxy at any General Meeting or to exercise any other right conferred by membership in relation to shareholders’ meetings of the Company.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 92

No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting at which the vote objected to is or may be given or tendered and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the Chairman of the meeting whose decision shall be final and conclusive.

Article 93

An Ordinary Resolution is required to be passed by the Company in General Meeting in relation to the following:

- (i) the working reports prepared by the Board of Directors and the Supervisory Committee;*
- (ii) the profit distribution plan and the plans for making good losses prepared by the Board of Directors;*
- (iii) the appointment and dismissal and the remuneration and payment methods of the members of the Board of Directors and the Board of Supervisors;*
- (iv) the annual budget and final account reports, annual report, balance sheet, profit statement and other financial statements of the Company; and*
- (v) such other matters as are not required by laws, administrative regulations or these Articles to be passed by Special Resolution.*

Article 94

A Special Resolution is required to be passed by the Company in General Meeting in relation to the following:

- (i) the increase or reduction of share capital by the issue of shares of any class, options or other similar securities;*
- (ii) the issue of bonds;*
- (iii) the merger, division, dissolution or winding up, of the Company;*
- (iv) the amendment of these Articles;*
- (v) if the amount of the Company of the Company's purchase or sale of significant assets or guarantees within one year exceeds 30% of its audited gross assets for the latest period;*
- (vi) equity incentive scheme; and*
- (vii) other matters which the General Meeting of Shareholders affirms through ordinary resolutions will have significant influence on the Company and need to be adopted through special resolutions.*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 95

If the General Meeting of Shareholders adopts a motion on election of directors and supervisors, the time for the newly elected directors and supervisors to take office is the day when the related resolution is adopted by the General Meeting of Shareholders.

Article 96

If the General Meeting of Shareholders adopts a motion on cash dividend distribution, bonus shares or conversion of capital reserve into share capital, the Company shall carry out the specific scheme within two months after the conclusion of the shareholders' meeting.

Article 97

The controlling shareholder and actual controller of the Company owed fiduciary duties to the public shareholders. A controlling shareholder of the Company shall exercise his/her/its rights as a promoter strictly in accordance with the applicable laws and regulations, and shall not jeopardise the lawful interests of the Company and the public shareholders through interested person transactions, scheme of profit distribution, reorganisation of assets of the Group, investments, mis-use of funds, or provision of corporate guarantees by the Company to such controlling shareholder for his/her/its loans.

1. *The following matters may only be implemented or applied for after they are passed by the General Meeting and by a majority of the holders of public shares participating in voting:*
 - (1) *issue of new shares (including Foreign Investment Shares listed overseas and certificates of shares of other nature) to the public by the Company, issue of convertible bonds of the Company, placement of shares to existing shareholders (except where the controlling shareholders has prior to the general meeting undertaken to subscribe for the entire share issue in cash);*
 - (2) *material asset restructuring, where the total price of the assets acquired exceeds the audited book value of the assets by 20% or more;*
 - (3) *the shareholders repaying their debts to the Company with the shares of the Company which they hold;*
 - (4) *overseas listing of the Company's subsidiary or associated company that has a material impact on the Company;*
 - (5) *matters that arise in the development of the Company that would have a material impact on the interests of public shareholders.*

When convening a General Meeting for the above matters, the Company shall provide an arrangement whereby shareholders may vote via the internet.

2. *The Company shall encourage greater shareholder participation at General Meetings through providing a system for shareholders to vote on internet or any other necessary methods, Provided Always that any General Meeting shall be held legally and validly in accordance with the applicable laws and regulations, and these Articles.*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

When implementing internet voting, the Company shall adhere to the “(Test) Guidelines for Internet Voting for General Meetings of Listed Companies” and “Detailed Implementation Rules of Shanghai Securities Exchange for Internet Voting for General meetings of Listed Companies.

3. *Board of Directors, independent directors and shareholders who meet the necessary requirements shall be entitled to invite minority/public shareholders to appoint him/her as the proxy to vote on the General Meeting. No consideration will be paid for such invitation, and the relevant directors and/or shareholders shall disclose all necessary information to the minority/public shareholders.”*

Article 98

The following procedures apply to a shareholder(s) requisitioning an extraordinary General Meeting or any class meeting:

- (i) *two or more shareholders may by an instrument or instruments in writing (signed by the shareholders which are identical in form and substance) holding not less than 10% of the shares carrying the right to vote at the meeting so requisitioned, request that the Board of Directors convene an extraordinary General Meeting or class meeting (as the case may be) and the notice shall contain the agenda of that meeting and the Board of Directors upon receiving the said notice, shall promptly convene the extraordinary General Meeting or class meeting (as the case may be). The shareholding referred to above shall be calculated as of the date of the instrument in writing;*
- (ii) *(if the Board of Directors fails to issue a notice convening the extraordinary General Meeting or class meeting (as the case may be) within 30 days of the receipt of instrument in writing), the shareholders who made the requisition may convene the meeting within 4 months from the date of the Board of Directors’ receipt of the instrument in writing and the shareholders shall, as far as possible, follow such procedures for convening a shareholders’ meeting as if such shareholders’ meeting had been convened by the Board of Directors.*

If, as a result of the failure by the Board of Directors to convene the meeting, a shareholder convenes the meeting, the Company shall bear all reasonable expenses incurred which amount shall be deducted from the amounts owed by the Company to such Directors who failed to convene the extraordinary General Meeting; and

- (iii) *if within thirty minutes from the time appointed for a meeting (or such longer interval as the Chairman of the meeting may think fit to allow) a quorum is not present, the meeting shall be dissolved.*

Article 99

Independent directors are entitled to make proposals to the Board of Directors to convene extraordinary shareholders’ meeting. In response to the proposal of independent directors calling for convening of an extraordinary shareholders’ meeting, the Board of Directors shall, pursuant to the stipulations of laws, administrative regulations and the Articles of Association, given written feedback options on whether or not agreeing to the convening of the extraordinary shareholders’ meeting within ten days after receiving the proposal.

If the Board of Directors agrees to the convening of the extraordinary shareholders’ meeting, it shall issue a notice of convening the shareholders’ meeting within five days after making the resolution of the Board of Directors; if it disagrees to the convening of the extraordinary shareholders’ meeting, it shall state the causes and also make an announcement.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 100

The Board of Supervisors is entitled to make proposals to the Board of Directors to convene extraordinary shareholders' meetings, and such a proposal shall be made to the Board of Directors in writing. The Board of Directors shall, pursuant to the stipulations of laws, administrative regulations and the Articles of Association, given written feedback opinions on whether or not agreeing to the convening of the extraordinary shareholders' meeting within ten days after receiving the motion.

If the Board of Directors agrees to the convening of the extraordinary shareholder' meeting, it shall issue a notice of convening the shareholders' meeting within five days after making the resolution of the Board of Directors. Where there is any change to the original motion in notice, the consent of the Board of Supervisors is necessary.

If the Board of Directors disagrees to the convening of the extraordinary shareholders' meeting or fails to give a feedback within ten days after receiving the motion, this shall be regarded that the Board of Directors is unable to perform or does not perform its function of calling shareholders' meetings, and the Board of Supervisors may call and chair the meeting by itself.

Article 101

If the Board of Supervisors or shareholders decide to call a shareholders' meeting by themselves, they shall inform the Board of Directors in writing, and at the same time report to the local agency of the China Securities Regulatory Commission and the stock exchanges for record. Before the announcement of the resolution of the General Meeting of Shareholders, the equity holdings of the shareholders calling the meeting shall not be less than 10%.

When issuing the notice on the shareholders' meeting and the announcement of the resolution of the General Meeting of Shareholders, the shareholders calling the meeting shall submit related certification materials to the local agency of the China Securities Regulatory Commission and the stock exchanges.

Article 102

The Board of Directors and its board secretary shall collaborate with the Board of Supervisors or shareholders in calling shareholders' meetings by themselves. The Board of Directors shall provide the shareholder register of the equity record day.

Article 103

The costs necessary for the shareholders' meetings called by the Board of Supervisors or shareholders themselves are borne on the Company.

Article 104

When a shareholders' meeting is convened, all directors, supervisors and the board secretary of the Company shall attend, and the general manager and other senior managements shall attend as nonvoting delegates.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 105

The Chairman of the Board shall convene and chair the General Meetings of the Company. If the Chairman of the Board shall be unable to attend the General Meeting, the vice-Chairman of the Board shall convene and chair the General Meeting. Where both the Chairman and the vice-Chairman are unable to attend the General Meeting, the Board of Directors may appoint a director to convene and chair the General Meeting. In the absence of any prior appointment of chairman of the General Meeting, the shareholders present at the meeting may elect a person to be the chairman of the meeting. If for any reason whatsoever, the shareholders are unable to elect a chairman, the meeting shall be chaired by the shareholder (or its proxy) present at the meeting holding the largest number of shares with voting rights.

A shareholders' meeting called by the Board of Supervisors itself shall be chaired by the chairman of the Board of Supervisors. If the chairman of the Board of Supervisors is unable to perform his or her duty or does not perform his or her duty, it shall be chaired by the vice-chairman of the Board of Supervisors; if the vice-chairman of the Board of Supervisors is unable to perform his or her duty or does not perform his or her duty, it shall be chaired by a supervisor elected by more than half of all supervisors.

A shareholders' meeting called by shareholders themselves shall be chaired by a representative chosen by the convener.

If when a shareholders' meeting is convened, the meeting is unable to continue as the presiding person of the meeting acts against the standing order, the General Meeting of Shareholders may, with the consent of shareholders holding more than half of the voting rights present at the meeting, elect one person to chair the meeting and further the meeting.

Article 106

The Chairman of the meeting shall determine whether a resolution at the meeting has been duly passed and the decision shall be final and conclusive. The Chairman of the meeting shall declare the decision which shall be recorded in the minutes of the meeting.

Article 107

If the Chairman of the meeting has any doubt as to the outcome of any resolution, he may request for a recount of the number of votes cast for and against the resolution. If the Chairman decides not to recount the number of votes cast for and against the resolution, any shareholder or proxy having any doubt as to the outcome of any resolution may, upon the Chairman's declaration thereof, forthwith request for a recount of the number of votes cast for and against the resolution. The Chairman of the meeting shall forthwith comply.

Article 108

If counting of votes is held at a General Meeting, the result of the counting shall be recorded in the minutes of the meeting.

The minutes of meetings shall cover the following contents:

- (a) the time, venue, agenda, and name of the convener of the meeting;*

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- (b) *the name of the person chairing the meeting, and the directors, supervisors, managers and other senior managerial personnel who attend or attend as nonvoting delegates;*
- (c) *the number of shareholders and their proxies attending the meeting, the total number of shares with voting power they hold, and their proportions in total shares of the Company;*
- (d) *the deliberation course, main point of speeches, voting results for each motion;*
- (e) *inquiry opinions or suggestions of shareholders and related replies or explanations;*
- (f) *the names of the lawyer, and the vote counter and scrutineer;*
- (g) *the contents that shall be carried into the minutes of the meeting as stipulated by the Articles of Association.*

The minutes of such a meeting shall be kept together with the signature register of shareholders attending the meeting and the letters of proxy for attending on agency, and the effective materials about online and other forms of voting, for a period of not less than ten years.

Article 109

A shareholder may without charge inspect the duplicate of the minutes of a meeting during office hours of the Company. A shareholder may request for a copy of the minutes of a meeting and the Company shall make the copy available to the shareholder within 7 days of the receipt of a reasonable fee.

Article 110

The Company formulates the “Rules on Conduct of General Meetings”. The adoption and any subsequent amendment of the Rules on Conduct of General Meetings shall be effective upon approval of the shareholders in General Meeting. The procedures for convening and the conduct of the General Meetings shall strictly adhere to the Rules on Conduct of General Meetings.

Article 111

Pursuant to the relevant regulations of the Shanghai Securities Exchange and Singapore Exchange, the following material events involving specific amounts require approvals at the General Meeting:

- (1) *the acquisition or disposal of assets where the transaction value amounts to more than 20% of the latest audited net tangible assets value of the Company;*
- (2) *an related party transaction amounting to more than 5% of the latest audited net tangible assets value of the Company;*
- (3) *in any of the following events where the transaction value reaches the level stipulated in (1) above:*
 - (a) *entering into, amendments or termination of material contracts (loan, appointment of a management agent, accepting appointment as a management agent, appointment of a financial management agent, grant, contracting, lease etc);*
 - (b) *material investments.*

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Article 112

Pursuant to the relevant regulations of the Shanghai Exchange and Singapore Exchange, the General Meeting authorised the Board of Directors the power to examine and approve the following material events involving specific amounts:

- (1) the acquisition or disposal of assets where the transaction value amounts to less than 20% of the latest audited net tangible assets value of the Company;*
- (2) an interested persons transaction amounting to less than 5% of the latest audited net tangible assets value of the Company;*
- (3) in any of the following events where the transaction value is below the level stipulated in (1) above:*
 - (a) entering into, amendments or termination of material contracts (loan, appointment of a management agent, accepting appointment as a management agent, appointment of a financial management agent, grant, contracting, lease etc);*
 - (b) material investments.*

CHAPTER 10 SPECIAL VOTING PROCEEDINGS FOR DIFFERENT CLASSES OF SHAREHOLDERS

Article 113

Shareholders who hold different classes of shares, shall be shareholders of different classes.

A holder of a different class of shares shall enjoy such rights and undertake such obligations as may be prescribed under laws, administrative regulations and these Articles.

Article 114

The Company may, subject to the consent of the shareholders in General Meeting passing a Special Resolution and the sanction of a resolution passed at a separate meeting of the holders of the shares of that class in such proceedings and manner as prescribed in Articles 116 to 120, vary or abrogate the rights attached to any class of shares.

Article 115

The following shall be deemed to be a variation or abrogation of the rights attached to the shares of a class:

- (1) any increase or decrease in the number of shares in such class of shares, or an increase or decrease in the number of shares belonging to different classes which enjoy equal or more voting rights, distribution rights or other special rights attaching to such class;*
- (2) any conversion of such class of shares in whole or in part into another class or conversion of the shares in another class in whole or in part into such class of shares or the creation of any right to effect such conversion;*

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- (3) *any abrogation or diminution of the right to payment of dividend, whether declared or not, whether cumulative or otherwise attaching to such class;*
- (4) *any abrogation or diminution of the right to preferential payment of dividend or to participate in the preferential distribution of assets in the event of the winding-up of the Company attaching to such class;*
- (5) *any increase, abrogation or diminution of the right to effect conversion, exercise option, voting right, right of transfer, pre-emption rights to subscribe for securities issued by the Company attaching to such class;*
- (6) *any abrogation or diminution of the right to payment by the Company in a designated currency attaching to such class;*
- (7) *any creation of another class of shares having the same or greater voting rights, distribution rights or special rights as the holders of such class of shares;*
- (8) *any restriction or increase in restrictions on the transferability or ownership of shares in such class;*
- (9) *any grant of option to subscribe for shares in such class or another class or the right to convert shares;*
- (10) *any increase in the rights and special rights of the shares in another class;*
- (11) *any proposed reorganisation of the Company resulting in holders of shares in different classes assuming liabilities in different proportions; and*
- (12) *any alteration or abrogation of the provision of these Articles.*

Article 116

Holders of a class of shares shall, if their rights are affected by reason of Articles 115(2) to (8), (11) to (12), be entitled to vote at a meeting of that class, regardless of whether such holders have the right to vote in a General Meeting, except that interested shareholders shall not have the right to vote at meetings of shareholders of different classes.

For the purposes of the preceding paragraph, the term “interested shareholders” shall have the following meanings:

- (1) *if the Company has made an offer to all the shareholders to repurchase shares in the Company under Article 30 in the proportion of their respective shareholdings or the Company has repurchased its shares through open transactions on a securities exchange, the controlling shareholders as defined in Article 59 shall be “interested shareholders”;*
- (2) *if the Company enters into an off-market agreement to repurchase its shares under Article 30, the party to such agreement shall be “interested shareholders”;*
- (3) *if that shareholder shall bear proportionately less liabilities than other holders of shares in the same class or enjoy different rights from other holders of shares in that class, pursuant to a reorganisation of the Company, such shareholder shall be “interested shareholder”.*

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Article 117

A majority comprising shareholders representing more than two-thirds of the voting rights of the shareholders of a particular class present and voting in accordance with Article 116 is required to pass any resolution in a meeting of that class.

Article 118

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

All notices of such meeting shall be sent to the holders of the Foreign Investment Shares (regardless of whether such a shareholder shall have a right to vote at such meeting) to their addresses in accordance with Article 254. Domestic Shareholders may be notified by public announcement as well.

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

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

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

Article 119

Only holders of shares in a class having the right to vote are entitled to receive notice of any meeting of holders of that class.

Proceedings at any meeting of holders of shares in a class shall mutatis mutandis follow the same proceedings at any General Meeting and the provisions in these Articles on the proceedings at any General Meeting shall mutatis mutandis apply to any meeting of holders of shares in a class.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 120

In addition to different classes of shares, Domestic Investment Shares and Foreign Investment Shares listed outside the PRC shall be deemed as shares of different classes.

The special voting procedures of holders of shares in a class shall not apply in the following event:

- 1. where, pursuant to the approval of the shareholders in General Meeting by way of a Special Resolution, the Company makes an offer of Domestic Investment Shares or Foreign Investment Shares listed outside the PRC once every 12 months whether such offer is made separately or concurrently and the proposed issue of Domestic Investment Shares or Foreign Investment Shares listed outside the PRC does not exceed 20% of the issued shares of that class at that time; or*
- 2. any proposed issue of Domestic Investment Shares and Foreign Investment Shares listed outside the PRC at the time of the formation of the Company which was completed within 15 months from the date of the approval given by the Securities Commission of the State Council.”*

(C) RIGHTS IN RESPECT OF DIVIDENDS

“CHAPTER 21 FIANCIAL ACCOUNTING SYSTEM, PROFIT DISTRIBUTION AND AUDIT

Article 220

The after-tax profits of the Company shall be applied in the following order:

- (i) in making good any accumulated losses;*
- (ii) in making provision for its statutory common reserve;*
- (iii) in making provision for its statutory welfare reserve;*
- (iv) subject to the approval of the shareholders in General Meeting, in making provision for general purpose common reserve; and*
- (v) in making payment of dividend to the holders of ordinary shares.*

The Company shall not, without making good all accumulated losses, making provision for its statutory common reserve and statutory welfare reserve, make any distribution in the form of dividend or bonus shares.

Article 221

The capital common reserve shall include the following:

- (i) the premiums obtained from the issue of shares in excess of the par value;*
- (ii) such other revenue required by the State Council’s department in charge of finance to be included in the capital common reserve.*

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Article 222

The common reserve shall only be applied for the following purposes:

- (i) making good any accumulated losses;*
- (ii) towards capitalisation of the Company. The Company may, subject to the prior approval of the shareholders in General Meeting and laws, capitalise the common reserve by way of issuing shares to existing shareholders in proportion to their shareholding after any capitalisation of the statutory common reserve, the amount of the statutory common reserve remaining after such capitalisation, shall not be less than an amount representing 25% of the registered capital of the Company; and*
- (iii) expansion of the Company's operations.*

Article 223

The Company may by Ordinary Resolution passed at a General Meeting declare dividends according to the recommendation made by the Board of Directors.

Article 224

The Company's policies in connection with profit distribution are as follows:–

- (1) General Principles for Profit Distribution: The Company shall place great emphasis on giving reasonable returns to the Shareholders while taking into consideration the sustainable development of the Group, and provide reasonable return on investments to the Shareholders. In addition, the Company's policy of profit distribution shall be stable and continuous. The Company should take into account (i) the general operational results of the Group and the market conditions, (ii) interests of the Shareholders, and (iii) relevant requirements under the laws and regulations of the People's Republic of China ("PRC") and implement reasonable profit distribution policies.*
- (2) Profit Distribution Methods: The Company can distribute profits to Shareholders in form of cash, shares, a combination of cash and shares and/or any other methods as permitted under the laws and regulations of the PRC and in compliance with SGX-ST Listing Rules. If the conditions for distributing profits through cash dividends are met, then the Company shall distribute profits through cash dividends. Subject to the operational results of the Group, the Company is allowed to distribute interim dividends.*
- (3) Conditions for Distributing Profits through Cash Dividends:*
 - (a) The Company has achieved a net profit of not less than RMB0.05 per share for the relevant financial year or half financial year;*
 - (b) The Company's distributable profits for the relevant financial year (after offsetting any losses and deducting the appropriations of the statutory surplus reserve and general reserve) are positive;*
 - (c) The Company's net cash flows and cash flow from operations are positive;*

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- (d) *For the year of profit distribution, the auditors of the Company have issued an audit report without any qualifications;*
- (e) *The Company does not have any Major Investment Plan and/or expected Major Cash Outflow in the subsequent twelve (12) months.*

For the purpose of this Article,

“Major Investment Plan” and/or “Major Cash Outflow” means (i) any major investments in companies, (ii) acquisition of assets and/or major equipments, (iii) and/or any expected cash outflow, during the subsequent twelve (12) months, which in aggregate, equal to or exceed 5% of the latest audited net tangible assets of the Group.

(4) Policies for Distributing Cash Dividends

- (a) *The Company should ensure the consistency and stability of the profit distribution policies. In principle, the annual profits distributed by the Company shall not be less than 15% of (i) the Company’s net cash flow from operations in the relevant financial year, or (ii) the Group’s distributable profits for the relevant financial year, whichever is lower. If the conditions for distributing profits through cash dividends are met, then the Company shall distribute profits through cash dividends. The detailed percentage shall be determined and recommended by the Board, and approved by the Shareholders in general meeting.*
- (b) *If the Company intends to issue securities to the public in accordance with the “Regulations for the Administration of the Issuance of Securities by Listed Companies” (《上市公司证券发行管理办法》), its aggregate distributed cash dividends in the last three years must not be less than 30% of the average distributable profits in the last three years.*
- (c) *Any undistributed distributable profits for the relevant financial year can be distributed to Shareholders in the following financial years.*
- (d) *The aggregated distributed profits shall not be more than the aggregated distributable profits, and shall not jeopardize the sustainable development of the Group.*

(5) Timing for Distributing Cash Dividends

Subject to the general principles for profit distribution and the above conditions for distribution profits through declaring cash dividends, the Company in-principle shall distribute profits to Shareholders once a year, provided always that such distribution of profits shall not jeopardize the ordinary operation and sustainable development of the Group. Subject to the operational results and funding requirements of the Group, the Company can declare interim dividend where necessary.

(6) Conditions for Distributing Profits through Share Dividend

In the event that the Board is of the view that the Company’s share capital does not match its asset and operation scale, and subject to the fulfilment of the above conditions for distribution profits through declaring cash dividends, the Company is entitled to distribute profits through declaring share dividends. The detailed percentage of entitlement shall be decided and recommended by the Board, and approved by Shareholders in general meeting.

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

(7) *Procedures for Scheme of Profit Distribution*

- (a) *After taking into consideration (i) the operational and financial results, and the funding requirements of the Group, (ii) the policies and requirements under this Article, and (iii) scheme on return of investment to Shareholders, the Board shall discuss, approve and recommend the scheme of profit distribution of the Company on an annual basis, and submit the same for Shareholders' approval in general meeting. During the discussion of the scheme of profit distribution of the Company, the Board should consider and decide on the timing and conditions of declaring cash dividends, as well as the minimum percentage of entitlement. The Company's independent directors shall express their independent opinions in relation to any scheme of profit distribution of the Company. The Company shall strengthen its considerations on providing investment returns to the Shareholders. Every 3 years, the Company shall draft a scheme on return of investment to Shareholders, specifying the relevant arrangements and forms of the profit distribution, and the intervals between any cash distributions, to be implemented for the next 3 years. The scheme on return of investment to Shareholders shall be drafted after considering (i) the operational and financial results; (ii) the funding requirements of the Company; (iii) development targets; and (iv) provision of a reasonable return of investment to Shareholders.*

The Board shall also consider the characteristics of the industry, the stage of development, business model and profitability of the Company, as well as additional factors such as whether there are any planned major expenditures, to determine if one of the following exceptions apply, such that the Company may propose cash dividends that differ from the scheme on return of investment to Shareholders:

- (i) *If the Company is at a mature stage of development and there are no planned major expenditures, the cash dividends distribution shall not be less than or equal to 80% of the total profit distribution.*
- (ii) *If the Company is at a mature stage of development and there are planned major expenditures, the cash dividends distribution shall not be less than or equal to 40% of the total profit distribution.*
- (iii) *If the Company is at an immature stage of development and there are planned major expenditures, the cash dividends distribution shall not be less than or equal to 20% of the total profit distribution.*

If it is difficult to distinguish the Company's current development stage, but there are planned major expenditures, the Board may consider the profit distribution percentage set out in part (iii) above.

- (b) *In the event that the Company records a profit in the relevant financial year but no scheme of profit distribution was recommended by the Board, the Board shall explain the reasons for not recommending any scheme of profit distribution in the Company's annual report and the usage of such profits. The independent directors of the Company shall provide and disclose their independent opinions in relation to such arrangement.*
- (c) *The board of supervisors shall supervise the execution of the profit distribution policies and the status in connection with return on investment to the Shareholders by the management of the Company and the Board.*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

(8) *Amendment, Modification and Supplement of Profit Distribution Policies*

- (a) *Any profit distribution policies and/or amendment, modification and supplement to the profit distribution policies shall comply with the relevant rules and regulations promulgated by CSRC, the Shanghai Stock Exchange and the Singapore Exchange Securities Trading Limited, and shall be discussed and approved by the Board after taking into consideration the interests of the Shareholders and the principle of fully protecting Shareholders' interests and providing stable return on investment to the Shareholders. The independent directors should provide their independent opinions in relation to such profit distribution policies and/or amendment, modification and supplement to the profit distribution policies. The Board shall take the Company's growth and dilution in net assets per share into account when approving the profit distribution policies.*
- (b) *If the Company makes revisions to the profit distribution policies due to cash requirements arising from the Company's operations, significant investments or major expenditures, the revised profit distribution policy shall not be in violation of the relevant provisions of the CSRC and the Stock Exchanges. The Board, the Supervisory Committee and the Shareholders shall review the resolutions regarding the revisions to the profit distribution policy, which shall be passed with the consent of the majority of the Directors, the majority of the independent directors and the majority of the Supervisory Committee. Any profit distribution policy and/or amendment, modification and/or supplement to the profit distribution policies must be approved as special resolution by the Shareholders of the Company. The Company shall uphold and protect the rights of the public Shareholders in attending the general meeting for considering and approving the proposed profit distribution policy. Shareholders are entitled to communicate their queries, comments, opinions in connection with the proposed profit distribution policy with the Company prior to the general meeting, either via telephone, facsimile, Company website, public mailbox or reception office of the Company for the purpose of considering and approving the proposed profit distribution policy, and the Company shall actively communicate with, and respond to, the Shareholders (especially the minority Shareholders).*

(9) *Protection to the Shareholders' interests*

- (a) *The Board and the Shareholders shall take into full consideration the opinions of the Company's independent directors and public Shareholders. Shareholders are entitled to communicate their queries, comments, opinions in connection with the proposed profit distribution policy with the Company prior to the general meeting, either via telephone, facsimile, Company website, public mailbox or reception office of the Company for the purpose of considering and approving the proposed profit distribution policy, and the Company shall actively communicate with, and respond to, the Shareholders (especially the minority Shareholders).*
- (b) *In the event that any independent director has a different opinion in relation to any scheme of profit distribution, he should disclose the same to the public and such independent director is entitled to invite minority/public A-Share Shareholders to appoint him as the proxy to vote on the relevant scheme of profit distribution via internet. For the avoidance of doubt, only A-Share Shareholders are entitled to vote via an internet voting system established by the Shanghai Stock Exchange. The independent directors may also propose an alternate scheme of profit distribution (based on the feedback received from minority Shareholders) to the Board for approval.*
- (c) *In the case that a Shareholder of the Company mis-uses the Company's fund unlawfully, the Company shall have the right to deduct the cash dividends payable to that Shareholder to compensate for the unlawfully mis-used funds."*

APPENDIX V – RELEVANT PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

Article 225

Dividends in respect of ordinary shares and any other amount payable to shareholders shall be declared in Renminbi. Dividends payable in respect of Domestic Investment Shares shall be paid out in Renminbi. Dividends payable in respect of Foreign Investment Shares shall be in foreign currency and shall be made in the currency in which Foreign Investment Shares are listed.

Article 226

Where dividends and any other items are paid in a currency other than Renminbi, the applicable exchange rate shall be the average of the buying and selling price quoted by the People's Bank of the PRC on the date falling one week before the declaration of dividend or the making of any other payment.

Article 227

The Company shall appoint a collection agent for holders of Foreign Investment Shares listed outside the PRC.

The collection agent shall, on behalf of the relevant shareholders, collect dividends and other payments in respect of Foreign Investment Shares listed outside the PRC. The collection agent shall be a person which fulfils such requirements as may be imposed by the laws or stock exchange of the venue where the shares are listed or in respect of the "S Shares" listed on the Stock Exchange of Singapore Limited, the Stock Exchange of Singapore Limited.

Article 228

The Company implements an internal audit system, in which full-time auditing personnel are arranged to conduct internal audit and supervision of the Company's financial payments and economic activities.

Article 229

The person in charge of audit holds himself responsible and also reports work to the Board of Directors."