THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China NT Pharma Group Company Limited** (the "Company"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer, or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

中国泰凌医药集团
CHINA NT PHARMA GROUP

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01011)

(1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF NT PHARMA INTERNATIONAL; (2) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF 40% EQUITY INTERESTS IN KANGCHEN; AND (3) NOTICE OF EGM

A notice convening an EGM of the Company to be held at 17th Floor, Tower B, Yi Fang Building, 359 Dongchangzhi Road, Hongkou District, Shanghai, the PRC on Wednesday, 24 June 2020 at 12:00 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (http://www.ntpharma.com).

Whether or not you are able to attend the EGM, you are advised to read the notice and to complete and sign the accompanying form of proxy, in accordance with the instructions printed thereon and return it to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjournment thereof should they so wish.

PRECAUTIONARY MEASURES FOR THE EGM

The following precautionary measures will be implemented by the Company at the EGM to prevent the spreading of the COVID-19:

(1) Compulsory body temperature checks
(2) Submission of health declaration form
(3) Wearing of surgical face mask
(4) No refreshments will be provided and no corporate gifts will be distributed

Attendees who do not comply with the precautionary measures (1) to (3) above may be denied entry to the EGM, at the absolute discretion of the Company, as permitted by law.

The Company encourages Shareholders to consider appointing the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

5 June 2020

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition Completion"	completion of the Proposed Acquisition pursuant to the terms and conditions of the Transaction Documents and as defined under the paragraph headed "Letter from the Board – Acquisition Consideration" of this circular
"Acquisition Completion Date"	the date on which Acquisition Completion shall take place
"Annie Investment"	Annie Investment Co., Ltd. is the beneficial owner as to 1,700,000 Shares and 218,579,000 CPS of the Company which are convertible into 218,579,000 Shares and is wholly-owned by Ms. Shum
"Announcement"	the announcement of the Company dated 27 April 2020 in the relation to, among other matters, the Proposed Transactions and the Transaction Documents
"Base Date"	31 December 2019
"Beijing Konruns"	Beijing Konruns Pharmaceutical Co., Ltd. (北京康辰藥業股份有限公司), a joint stock company established under the laws of the PRC, the shares of which are listed on the Shanghai Stock Exchange (stock code: 603590)
"Board"	the board of Directors
"Business Day(s)"	a day other than a Saturday, Sunday or public holiday on which commercial banks are open for business in Hong Kong and the PRC
"Cash Compensation Amount"	has the meaning as defined in paragraph headed "Letter from the Board – The Profit Guarantee – Cash Compensation" of this circular
"Company"	China NT Pharma Group Company Limited (中國泰凌醫藥集團有限公司) (Stock Code: 1011), a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the main board of the Stock Exchange
"Compensation Amount"	has the meaning as defined under paragraph headed "Letter from the Board – The Profit Guarantee" of this circular
"Completion"	the Acquisition Completion and the Disposal Completion
"Core Sales Areas"	core sales area of Miacalcic products, i.e. the PRC, Hong Kong, Switzerland, Singapore, Malaysia, Thailand, Australia, New Zealand, Vietnam, Taiwan, Indonesia and Egypt

"CPS"	convertible preference shares of the Company which can be converted into ordinary shares of the Company
"Director(s)"	the director(s) of the Company
"Disposal Completion"	completion of the transfer of the NT Pharma International Shares to Kangchen pursuant to the terms and conditions of the Sale and Purchase Agreement
"Disposal Completion Date"	the date on which Disposal Completion shall take place, being the next Business Day upon the Share Charge having been discharged and released
"EGM"	an extraordinary general meeting of the Company to be held at 17th Floor, Tower B, Yi Fang Building, 359 Dongchangzhi Road, Hongkou District, Shanghai, the PRC on Wednesday, 24 June 2020 at 12:00 p.m. for the Shareholders to consider and, if thought fit, approve, the Transaction Documents and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Proposed Acquisition upon Acquisition Completion
"Equity Compensation"	payment of the Compensation Amount by way of transferring equity interests in Kangchen held by the Company
"Equity Compensation Amount"	has the meaning as defined under paragraph headed "Letter from the Board – The Profit Guarantee – Equity Compensation Amount" of this circular
"First Payment"	has the meaning as defined under paragraph headed "Letter from the Board – Consideration – Payment Terms" of this circular
"First Payment Conditions"	the conditions set out under paragraph headed "Letter from the Board – Conditions – First Payment Conditions" of this circular
"Five Office"	Five Office Ltd, a company incorporated in Switzerland with Future Health as its affiliated company
"Future Health"	Future Health Pharma GmbH, a company incorporated in Switzerland with Five Office as its affiliated company
"Group"	the Company and its subsidiaries

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third parties independent of the Company and its connected persons
"Independent Valuer"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
"Jointly Managed Account A"	a bank account established in the name of NT Pharma Overseas for the purpose of the First Payment and the Third Payment, which is jointly managed by NT Pharma Pacific and Kangchen
"Jointly Managed Account B"	a bank account established in the name of NT Pharma Pacific for the purpose of payment of Acquisition Consideration, but is jointly managed by NT Pharma Pacific and the Purchaser Parties
"Kangchen"	Beijing Kangchen Biological Technology Co., Ltd. (北京康辰生物科技有限公司), a limited liability company established under the laws of the PRC and wholly-owned by Beijing Konruns, being the purchaser of the NT Pharma International Shares under the Proposed Disposal pursuant to the Sale and Purchase Agreement
"Kangchen Shares"	40% equity interests in Kangchen upon the Acquisition Completion
"Kangchen Valuation Report"	a valuation report of the valuation of the NT Pharma International Shares, Miacalcic Business and the Miacalcic Assets, as at the Base Date, by a valuer appointed by the Purchaser Parties
"Latest Practicable Date"	3 June 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein
"Lender"	China Minsheng Banking Corp, Shanghai Fta Test Area Branch* (中國民生銀行股份有限公司上海自貿試驗區分行) and has no interest in the Company and the Group
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Loan"	a term loan in the principal amount of US$40 million (equivalent to approximately RMB284.8 million) granted by the Lender to NT Pharma International pursuant to the terms of the Loan Agreement
"Loan Agreement"	a loan agreement dated 25 October 2018 entered into between the Lender and NT Pharma International as the borrower

"Miacalcic Assets"	means all the rights and benefits of the contracts relating to the Miacalcic Business (including employment contracts of employees relating to the Miacalcic Business), all books and records relating to the Miacalcic Business
"Miacalcic Business"	the business carried on by and on behalf of the Company as at the date hereof in relation to Miacalcic
"Miacalcic Sale Licenses"	the licenses and qualifications for sale of Miacalcic products in Hong Kong, including but not limited to the wholesale dealer licence under the Pharmacy and Poisons Ordinance (Chapter 138 of the Laws of Hong Kong)
"MOFCOM"	the Ministry of Commerce of the PRC
"Mr. Ieong"	Mr. Ieong Chong Mang, a substantial shareholder of the Company and spouse of Ms. Shum
"Mr. Ng"	Mr. Ng Tit, an executive Director and a substantial shareholder of the Company
"Ms. Shum"	Ms. Shum Ning, a holder of the CPS (via Annie Investment) and spouse of Mr. Ieong
"NT Pharma HK"	NT Pharma (HK) Co., Ltd (泰凌醫藥香港有限公司), a company incorporated in Hong Kong with limited liability and indirectly wholly-owned by the Company
"NT Pharma International"	NT Pharma International Co., Ltd (泰凌醫藥國際有限公司), a company incorporated in Hong Kong with limited liability and wholly-owned by NT Pharma Overseas
"NT Pharma International Shares"	one issued share of NT Pharma International, being the entire allotted and issued share capital of NT Pharma International
"NT Pharma Overseas"	NT Pharma (Overseas) Holding Co., Ltd (泰凌醫藥(海外)控股有限公司), a company incorporated in Hong Kong with limited liability and indirectly wholly-owned by the Company
"NT Pharma Pacific"	NT Pharma Pacific Company Limited (泰凌醫藥(亞洲)有限公司), a company incorporated in Hong Kong with limited liability and indirectly wholly-owned by the Company
"Performance Guarantors"	the Company, NT Pharma Pacific, Suzhou First and Mr. Ng
"Pfenex"	Pfenex Inc., a biotechnology company registered in Delaware, the US

"Pfenex Agreement"	the agreement dated 18 April 2018 entered into between the Company and Pfenex, pursuant to which the Company was granted an exclusive distribution right to distribute PF708 in the PRC, Hong Kong, Thailand, Singapore and Malaysia and any ancillary documents as amended and supplemented from time to time
"Pfenex Consideration"	US$2,500,000.00 (equivalent to approximately RMB17.86 million)
"Pfenex Rights"	the rights and benefits of the Company under the Pfenex Agreement prior to the completion of the Pfenex Transfer
"Pfenex Transfer"	the transfer, assignment and novation by the Company of all its rights and benefits under the Pfenex Agreement to NT Pharma International upon signing of the Pfenex Transfer Agreement
"Pfenex Transfer Agreement"	the assignment and transfer documentations all dated 21 April 2020 entered into between Pfenex, the Company and Kangchen in relation to the Pfenex Transfer
"PRC"	the People's Republic of China, for the purpose of this circular, excluding Taiwan, Macau Special Administrative Region and Hong Kong
"Proposed Acquisition"	the proposed subscription by NT Pharma Pacific for 40% equity interests in Kangchen
"Proposed Disposal"	the proposed disposal of the NT Pharma International Shares by NT Pharma Overseas to Kangchen pursuant to the terms and conditions of the Sale and Purchase Agreement
"Proposed Transactions"	the Proposed Disposal (together with the Pfenex Transfer) and the Proposed Acquisition
"Purchaser Parties"	Beijing Konruns and Kangchen
"Remaining Group"	the Company and its subsidiaries immediately after the Disposal Completion but before the Acquisition Completion
"Re-organisation"	means the re-organisation of the Miacalcic Assets and the Miacalcic Business so that the Miacalcic Assets and the Miacalcic Business will be the assets and business of NT Pharma International upon completion of the re-organisation, respectively
"RMB"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC

"Sale and Purchase Agreement"	the sale and purchase agreement dated 21 April 2020 entered into between Kangchen, the Company, NT Pharma International, and NT Pharma Overseas in relation to the Proposed Transactions
"Second Payment"	has the meaning as defined in paragraph headed "Letter from the Board – Consideration – Payment Terms" of this circular
"Second Payment Conditions"	the conditions set out in paragraph headed "Letter from the Board – Conditions – Second Payment Conditions" of this circular
"Seller Parties"	the Company and NT Pharma Overseas
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong, as amended, supplemented or other modified from time to time
"Share(s)"	ordinary share(s) of US$0.00000008 each in the capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Share Charge"	the share charge dated 9 November 2018 and executed by NT Pharma Overseas in favour of the Lender over the NT Pharma International Shares to secure the liability and obligations of NT Pharma International under the Loan Agreement
"Share Pledge"	the share pledge to be executed by NT Pharma Pacific in favour of Beijing Konruns over the Kangchen Shares upon the Acquisition Completion to secure the performance guarantee and compensation obligations of the Performance Guarantors
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Suzhou First"	Suzhou First Pharmaceutical Co., Ltd.*(蘇州第壹製藥有限公司), a limited liability company established under the laws of the PRC, a wholly-owned subsidiary of the Company, and was previously translated as Diyi Medicine in the Announcement
"Third Payment"	has the meaning as defined under paragraph headed "Letter from the Board – Consideration – Payment Terms" of this circular
"Third Payment Conditions"	the conditions set out under paragraph headed "Letter from the Board – Conditions – Third Payment Conditions" of this circular

"Transaction Documents"	(a) the Pfenex Transfer Agreement;
	(b) the Sale and Purchase Agreement; and
	(c) the asset purchase agreement dated 21 April 2020 entered into between Beijing Konruns, Kangchen, the Company, NT Pharma International, NT Pharma HK and NT Pharma Overseas in relation to the Proposed Transactions
"US"	the United States of America
"US$"	United States dollar(s), the lawful currency of the US
"%"	per cent

* *In this circular, the English names of the PRC entities are translation of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

Unless specified otherwise, conversion of RMB into HK$ is based on the exchange rate of RMB1.00 to HK$1.09 and conversion of RMB into US$ is based on the exchange rate of RMB1.00 to US$0.14. The exchange rates have been used, where applicable, for the purpose of illustration only and do not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

中国泰凌医药集团
CHINA NT PHARMA GROUP

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 01011)

Executive Directors:
Mr. Ng Tit (Chairman and Chief Executive Officer)
Ms. Chin Yu
Mr. Wu Weizhong

Non-executive Director:
Dr. Qian Wei

Independent non-executive Directors:
Mr. Tze Shan Hailson Yu
Mr. Pan Fei
Dr. Zhao Yubiao

Registered office:
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal place of Business in Hong Kong:
28th Floor, The Wellington
198 Wellington Street
Sheung Wan
Hong Kong

5 June 2020

To the Shareholders

Dear Sir/Madam,

(1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED DISPOSAL OF THE ENTIRE ISSUED SHARE CAPITAL OF NT PHARMA INTERNATIONAL; (2) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF 40% EQUITY INTERESTS IN KANGCHEN; AND (3) NOTICE OF EGM

INTRODUCTION

References is made to the Announcement in relation to the Transaction Documents and the transactions contemplated thereunder, including the Proposed Transactions.

On 21 April 2020 (after trading hours), Beijing Konruns, Kangchen, the Company, NT Pharma International, NT Pharma HK, NT Pharma Overseas, NT Pharma Pacific, Suzhou First and Mr. Ng have entered into the Transaction Documents, pursuant to which, among others, (i) the Company shall transfer the Pfenex Rights to Kangchen on the date thereof; (ii) NT Pharma Overseas shall dispose of the entire issued share capital of NT Pharma International to Kangchen upon the Disposal Completion; and (iii) NT Pharma Pacific shall subscribe for 40% equity interests in Kangchen upon the Acquisition Completion.

The purpose of this circular is to provide you with, inter alia, (i) further details on the Transaction Documents and the transactions contemplated thereunder; (ii) the financial information of the Group, NT Pharma International and related Miacalcic Business and pro forma financial information of the Remaining Group and the Enlarged Group; (iii) the valuation report of NT Pharma International; (iv) the valuation report of Kangchen; and (v) a notice convening the EGM as well as other information required to be disclosed under the Listing Rules.

THE TRANSACTION DOCUMENTS

The principal terms of the Transaction Documents are set forth below:

Date : 21 April 2020

Parties :
(a) Beijing Konruns;

(b) Kangchen;

(c) the Company;

(d) NT Pharma International;

(e) NT Pharma HK;

(f) NT Pharma Overseas;

(g) NT Pharma Pacific;

(h) Suzhou First; and

(i) Mr. Ng

(together the "**Parties**")

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, both Beijing Konruns and Kangchen and their respective ultimate beneficial owner(s) are Independent Third Parties.

Assets to be disposed of by NT Pharma Overseas:

NT Pharma Overseas has conditionally agreed to sell and Kangchen has conditionally agreed to purchase, the entire issued share capital of NT Pharma International (together with the Pfenex Rights) at Disposal Completion. Pursuant to the Transaction Documents, the Group is to re-organise its business of sale of Miacalcic products under NT Pharma International for purpose of the Proposed Disposal.

Assets to be acquired by NT Pharma Pacific:

NT Pharma Pacific has conditionally agreed to acquire and Kangchen has conditionally agreed to issue 40% equity interests of Kangchen to NT Pharma Pacific upon Acquisition Completion.

The Board is of the view that the Group shall, in substance, dispose of 60% of its interests in NT Pharma International upon completion of the Proposed Transactions. The Group's interest in Miacalcic Business and Miacalcic Assets (held via its interests in NT Pharma International) shall reduce from 100% before the completion of the Proposed Transactions to 40% immediately after the completion of the Proposed Transactions.

THE PROPOSED TRANSACTION

The Proposed Transactions comprise of the Proposed Disposal (together with the Pfenex Transfer) and the Proposed Acquisition. Under the Proposed Disposal, the Group has to conduct the Re-organisation before the Disposal Completion.

The Re-organisation involves the following steps:

(a) NT Pharma HK and its affiliated parties transferring their rights and obligations under supply chain agreements, sale agreements and business agreements relating to Miacalcic Business to NT Pharma International;

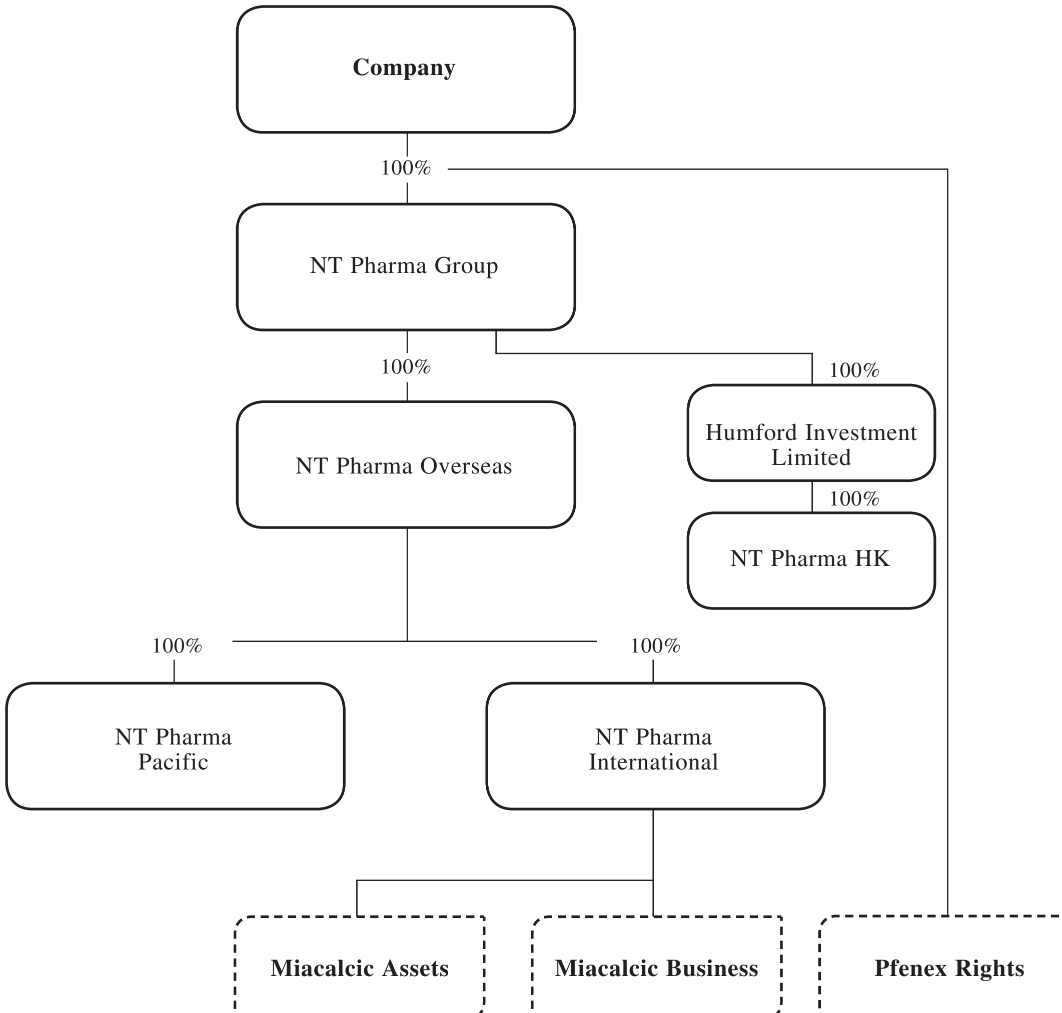
(b) NT Pharma International, Future Health and Five Office having duly executing an agreement to confirm the legality of their business cooperation matters and that there is no dispute between the parties thereto;

(c) NT Pharma HK transferring the employment of its employees outside the PRC relating to Miacalcic Business to NT Pharma International; and

(d) the Seller Parties and NT Pharma International providing the Purchaser Parties with a list of its non-operating debts of NT Pharma International incurred from the Base Date to one month before the date of First Payment and settling of such non-operating debts (if any).

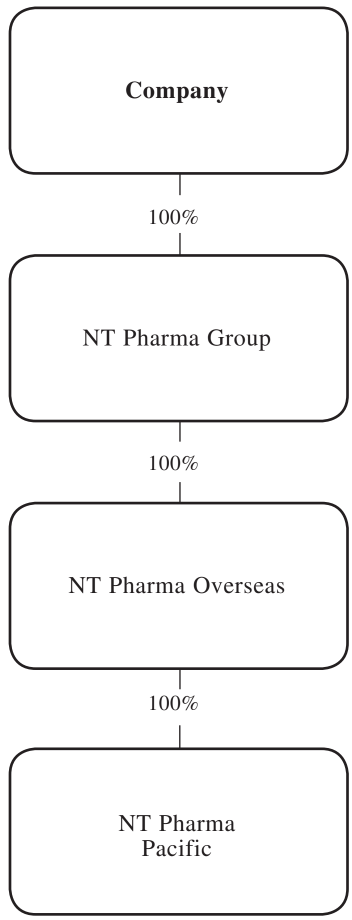
NT Pharma International has an agreement with Future Health whereby Future Health, as the product owner and marketing authorization holder of Miacalcic in Switzerland, is responsible for marketing and distribution of Miacalcic in Switzerland. At the same time, Future Health is outsourcing its operational activities to Five Office. Five Office is also the contact person for NT Pharma International in relation to regulatory compliance, supply chain and other operations of Miacalcic Business in Switzerland.

As at the Latest Practicable Date, the Re-organisation has been completed. Set out below is a chart showing the shareholding relationship between NT Pharma International, the Miacalcic Assets, the Miacalcic Business and the Pfenex Rights as at the Latest Practicable Date:

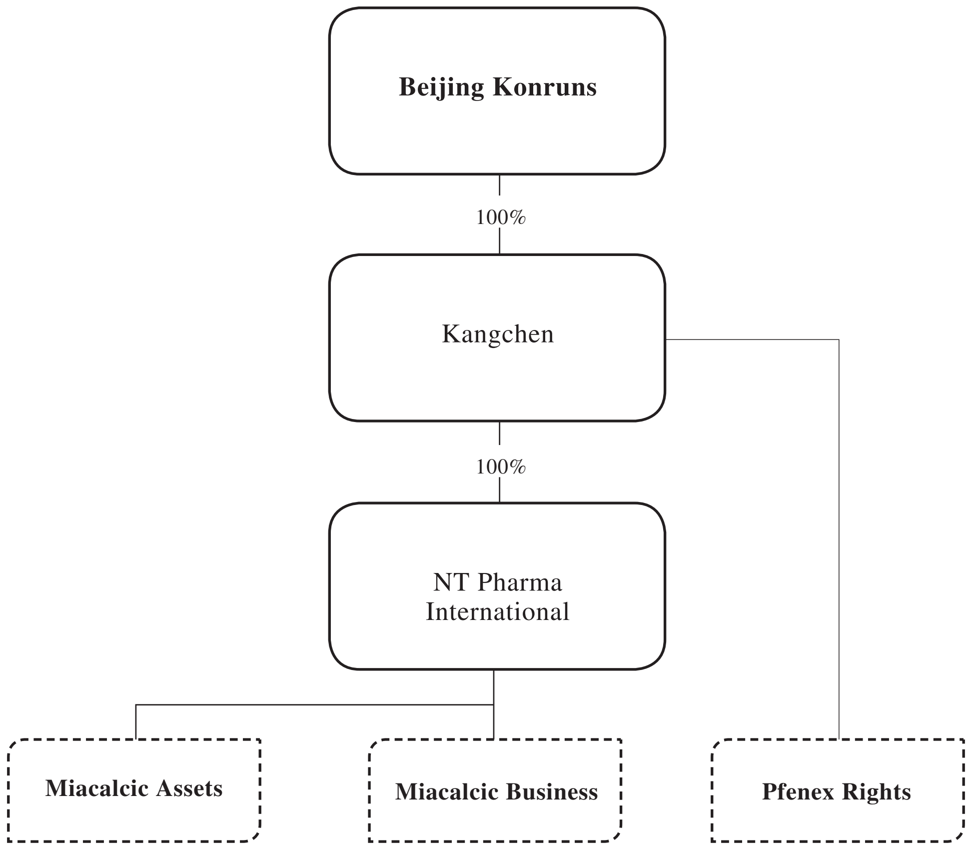


Set out below is a chart showing the shareholding structure of the Company and the Purchaser Parties immediately after the Disposal Completion:

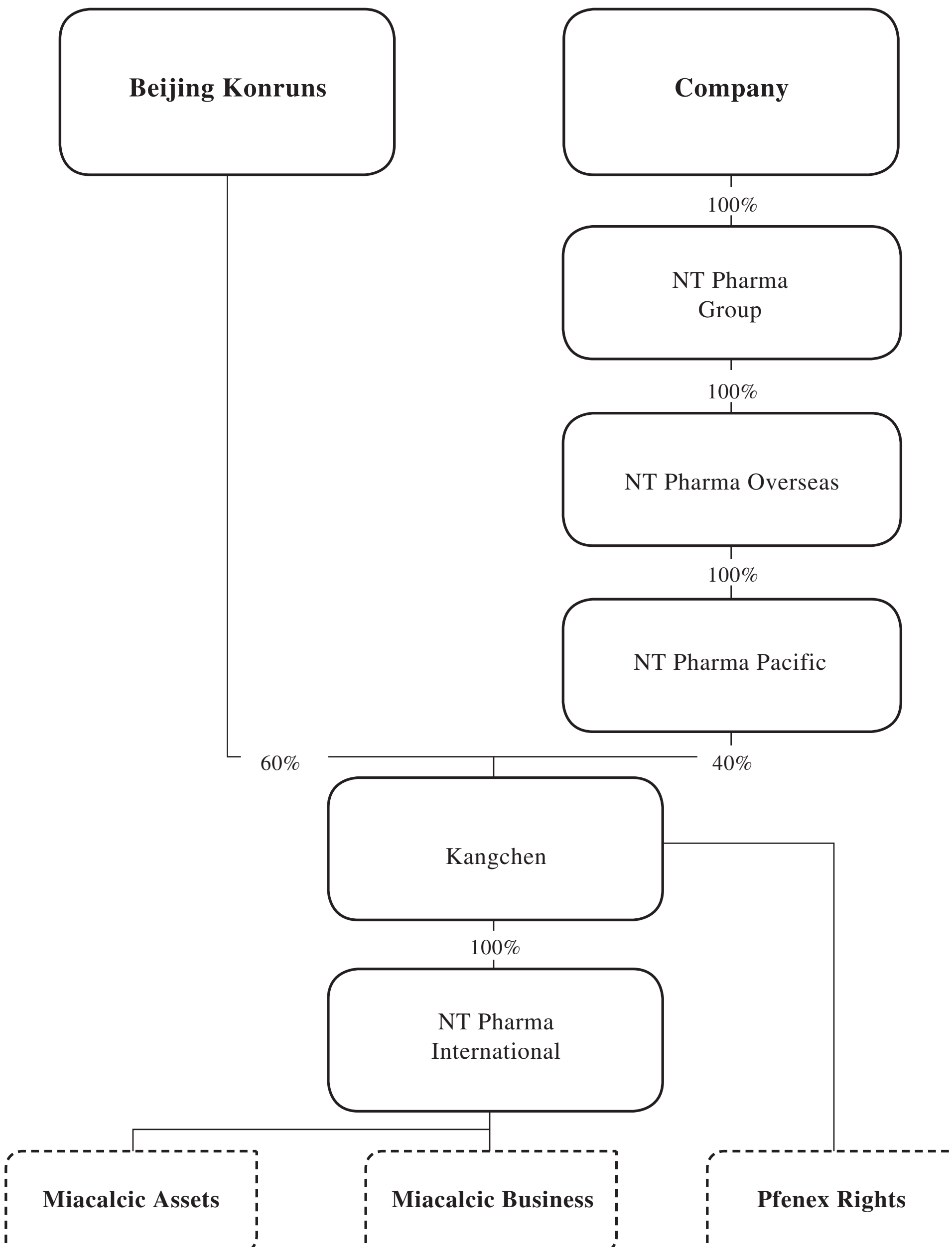
The shareholding structure of the Group immediately after the Disposal Completion



The shareholding structure of the Purchaser Parties immediately after the Disposal Completion



Set out below is a chart showing the shareholding structure of the Company and the Purchaser Parties immediately after the Acquisition Completion:



CONSIDERATION

Disposal Consideration

The consideration for the Proposed Disposal (excluding the Pfenex Transfer) is RMB900.0 million (the "**Disposal Consideration**"), which was determined between the Parties after arm's length negotiations and on normal commercial terms, taking into account historical financial performance, market reputation and brand recognition of NT Pharma International, and a valuation as at 31 March 2020 prepared by the Independent Valuer, details of which are set out in Appendix V(A) to this circular (the "**Valuation**"). The Parties agreed that the Disposal Consideration is subject to adjustment with reference to the Kangchen Valuation Report (which was prepared by the valuer appointed by Kangchen). In the event that the Kangchen Valuation Report deviates more than 10% from the Valuation, the Parties shall negotiate a new consideration. If the Parties fail to agree on the new consideration and enter into a supplemental agreement within 30 days upon issuance of the finalised Kangchen Valuation Report, any of the Parties shall be entitled to terminate the Transaction Documents.

As at the Latest Practicable Date, the Kangchen Valuation Report has been finalised and that the Company and the Purchaser Parties have entered into a supplemental agreement to the Sale and Purchase Agreement to confirm that the Disposal Consideration shall be RMB900 million and there will be no adjustment to the Disposal Consideration or the Acquisition Consideration.

Payment Terms

The Disposal Consideration is payable in tranches in the following manner:

(a) The first payment, being an amount of RMB200.0 million (the "**First Payment**"), is payable by Kangchen to the Company within 10 Business Days upon the satisfaction of the First Payment Conditions (as defined in below), which shall be deposited into the Jointly Managed Account A;

(b) The second payment, being an amount of RMB340.0 million (the "**Second Payment**") is payable by Kangchen to the Company within 5 Business Days upon the satisfaction of all the Second Payment Conditions (as defined in below) and the Disposal Completion having taken place, which shall deposit into the account held by NT Pharma Overseas; and

(c) the third payment, being an amount of RMB360.0 million (the "**Third Payment**") is payable by Kangchen to the Company within 10 Business Days upon the satisfaction of all the Third Payment Conditions (as defined in below), which shall be deposited into the Jointly Managed Account A.

CONDITIONS

First Payment Conditions

The conditions for the First Payment (the "**First Payment Conditions**") (unless waived in writing by the Purchaser Parties) are:

(a) the Purchaser Parties having obtained all necessary approvals and authorisations for the Proposed Transactions (except mergers and acquisitions of domestic enterprises by foreign investors registration with Department of Foreign Investment Administration of MOFCOM and SAFE registration (if necessary));

(b) the Seller Parties, NT Pharma HK and the Performance Guarantors having obtained all necessary approvals and authorisations for the Proposed Transactions and execution of the Transaction Documents;

(c) the Transaction Documents (including the Pfenex Transfer Agreement) and all transfer documents relating to the Proposed Disposal (including the Pfenex Transfer) having been duly executed by the relevant Parties;

(d) the Seller Parties having obtained a written confirmation of the Lender consenting (i) not to enforce the Share Charge within three months from the date of the Transaction Documents; (ii) the Proposed Disposal; and (iii) the release of the Share Charge upon full settlement of the Loan;

(e) completion of the Re-organisation;

(f) Kangchen and NT Pharma Overseas having established the Jointly Managed Account A;

(g) the due diligence on NT Pharma International having been duly completed by the Purchaser Parties;

(h) there being no change or effect which has a material and adverse effect on the financial position, business or prospects or results of operations, of NT Pharma International and the Proposed Transactions as a whole; and

(i) none of the Company, NT Pharma International, NT Pharma HK and NT Pharma Overseas having violated any of the provisions of the Transaction Documents.

Second Payment Conditions

The conditions for the Second Payment (the "**Second Payment Conditions**") (unless waived in writing by the Purchaser Parties) are:

(a) the Share Charge having been discharged and released;

(b) the Disposal Completion having duly taken place;

(c) NT Pharma International having duly obtained the Miacalcic Sale Licenses; and

(d) the chops or seals and books and accounts of NT Pharma International having been passed to the Purchaser Parties.

Within 5 Business Days upon the Disposal Completion, Kangchen shall make the Second Payment to the Company.

Third Payment Conditions

The conditions for the Third Payment (the "**Third Payment Conditions**") (unless waived in writing by the Purchaser Parties) are:

(a) NT Pharma HK having transferred the employment of its employees relating to Miacalcic Business (the list of which is jointly determined by the Seller Parties and the Purchaser Parties) to NT Pharma International; and the Seller Parties, NT Pharma HK and their affiliated parties having settled severance payment and compensation (if any) before 31 May 2020;

(b) the capital increase subscription agreement for the Proposed Acquisition, the Share Pledge and all necessary documents for conversion of Kangchen into a joint venture company (including new articles of association and shareholders agreement) having been duly executed by NT Pharma Pacific and Beijing Konruns;

(c) NT Pharma Pacific having provided the Purchaser Parties all necessary documents for the change in industrial and commercial registration of Kangchen and the registration of the Share Pledge;

(d) NT Pharma Pacific and the Purchaser Parties having established the Jointly Managed Account B;

(e) the mergers and acquisitions of domestic enterprises by foreign investors registration with Department of Foreign Investment Administration of MOFCOM and SAFE registration (if necessary) having been duly completed; and

(f) none of the Company, NT Pharma HK, NT Pharma Overseas and their affiliated parties having violated any of the provisions of the Transaction Documents.

The consideration for the Pfenex Transfer was determined as not no more than US$3.0 million (equivalent to approximately RMB21.2 million) (the "**Pfenex Consideration**") which comprises of an amount of US$2.5 (equivalent to approximately RMB17.86 million) million as down payment made by the Company in respect of the Pfenex Agreement and the related expenses of approximately US$0.5 million (equivalent to RMB3.5 million). As Kangchen requires time to conduct due diligence in relation to the down payment amount and the related expenses spent by the Company, the Pfenex Consideration is payable by Kangchen within 30 Business Days upon satisfaction of such due diligence exercise by Kangchen.

Acquisition Consideration

The consideration for the Proposed Acquisition is RMB360.0 million (the "**Acquisition Consideration**").

The Seller Parties and the Purchaser Parties shall (i) deposit the Acquisition Consideration into the Jointly Managed Account B on the following Business Day upon the receipt of the Third Payment; and (ii) transfer the Acquisition Consideration from the Jointly Managed Account B to the account designated by the Purchaser Parties (the "**Designated Account**") before the following Business Day upon the deposit of Acquisition Consideration into the Designated Account. Acquisition Completion shall take place on the following Business Day thereafter (the "**Acquisition Completion Date**").

COMPLETION

Disposal Completion

The Disposal Completion shall take place on the Disposal Completion Date.

Upon Disposal Completion, NT Pharma International shall no longer be a subsidiary of the Company.

Acquisition Completion

The Acquisition Completion shall take place on the Acquisition Completion Date.

Upon Acquisition Completion, the Company shall indirectly be interested in 40% equity interests in Kangchen, which in turn is interested in the entire equity interests in NT Pharma International and the Group will only have significant influence, but not control, over the operational and financial policies in Kangchen and NT Pharma International. Accordingly, the interests in Kangchen and NT Pharma International shall be accounted for as associates of the Company upon Completion of the Proposed Transactions.

The Board is of the view that the Group shall, in substance, dispose of 60% of its interests in NT Pharma International upon completion of the Proposed Transactions. The Group's interest in Miacalcic Business and Miacalcic Assets (held via its interests in NT Pharma International) shall reduce from 100% before the completion of the Proposed Transactions to 40% immediately after the completion of the Proposed Transactions.

The Proposed Disposal, the Pfenex Transfer and the Proposed Acquisition are inter-conditional to each other. As disclosed under the paragraph headed "Letter from the Board – Conditions – First Payment Conditions" of this circular, the Pfenex Transfer Agreement is a condition for the First Payment of the Proposed Disposal; and the Third Payment of the Proposed Disposal is required to be contributed to the Acquisition Consideration of the Proposed Acquisition and is to be deposited to the Jointly Managed Account A. Should the Company fail to contribute the Acquisition Consideration as per the terms of the Proposed Acquisition, Kangchen will do so on behalf of the Company and transfer the Acquisition Consideration from the Jointly Managed Account A for purpose of the Proposed Acquisition.

BASIS OF CONSIDERATION

The Disposal Consideration (excluding the Pfenex Consideration) was determined after arm's length negotiations between the Parties on normal commercial terms principally with reference to, among others, the net asset value of NT Pharma International as at 31 December 2019, being approximately RMB799.1 million and the Valuation of NT Pharma International as at 31 March 2020, being approximately RMB900.0 million.

The Pfenex Consideration was determined after arm's length negotiation between the Parties on normal commercial terms with reference to the deposit payment of US$2.5 million (equivalent to approximately RMB17.86 million) plus the related expenses of approximately US$0.5 million (equivalent to approximately RMB3.5 million) having been made by the Company.

The Acquisition Consideration was determined after arm's length negotiations between the Parties on normal commercial terms principally with reference to (i) effective interests of the Company in NT Pharma International upon the Acquisition Completion; (ii) the Valuation of NT Pharma International as at 31 March 2020, being approximately RMB900.0 million; and (iii) the net asset value of Kangchen as at 31 December 2019, being approximately RMB17.8 million.

Pursuant to the Transaction Documents, if the Disposal Consideration is to be adjusted upon the issue of the Kangchen Valuation Report (which was prepared by the valuer appointed by Kangchen), then the Acquisition Consideration will also be adjusted accordingly as the Third Payment of the Disposal Consideration, which is to be applied as the Acquisition Consideration will also be adjusted.

As at the Latest Practicable Date, the Kangchen Valuation Report has been finalised and that the Company and the Purchaser Parties have entered into a supplemental agreement to the Sale and Purchase Agreement to confirm that the Disposal Consideration shall be RMB900 million and there will be no adjustment to the Disposal Consideration or the Acquisition Consideration.

A valuation report of Kangchen (made as of Disposal Completion, i.e. with NT Pharma International being a subsidiary of Kangchen) prepared by the Independent Valuer (appointed by the Company) is set out in Appendix V(B) to this circular.

The Directors consider that the consideration involved in the Proposed Transactions are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

THE PROFIT GUARANTEE

Pursuant to the Transaction Documents, the Performance Guarantors undertook that the adjusted net profit before interest, depreciation and amortisations*(Note)* of Miacalcic related business recognised in Kangchen's consolidated financial statements (the "**Adjusted Net Profit of Miacalcic Business**") for the financial years of 2021, 2022 and 2023 (the "**Performance Guarantee Period**") shall be no less than RMB80.0 million, RMB100.0 million and RMB120.0 million (each referred to as the "**Guaranteed Adjusted Net Profit**"), respectively, representing a total of no less than RMB300.0 million (the "**Total Guaranteed Adjusted Net Profit**") upon the Completion.

Note:

Adjusted net profit before interest, depreciation and amortisations is defined as lower of i) profit after tax, excludes any interest due to Loan and impairment losses of intangible assets, and ii) profit after tax, exclude any interests due to Loan, impairment losses of intangible assets, and extraordinary items.

Kangchen shall complete the audit of the Adjusted Net Profit of Miacalcic Business within 4 months from the end of each financial year. Where Kangchen's Adjusted Net Profit of Miacalcic Business for the financial year are less than the Guaranteed Adjusted Net Profit for that year, the Performance Guarantors shall compensate the Purchaser Parties the Compensation Amount (as defined below) which shall be calculated in the following manner:

$$\text{Compensation Amount} = \left(\frac{A - B}{C} \times D\right) - E$$

"A" being the accumulated Guaranteed Adjusted Net Profit of Miacalcic Business of the relevant financial year;

"B" being the accumulated actual Adjusted Net Profit of Miacalcic Business of the relevant financial year;

"C" being the Total Guarantee Adjusted Net Profit, i.e. RMB300.0 million;

"D" being the Disposal Consideration, i.e. RMB900.0 million; and

"E" being any Compensation Amount paid in previous years.

For the avoidance of doubt, in the event that Miacalcic Business generates net loss for each of the Performance Guarantee Period such that the actual Adjusted Net Profit of Miacalcic Business shall be negative, B shall be deemed to be zero and hence the highest possible Compensation Amount that is required to be paid by the Company to the Purchaser Parties would be RMB900.0 million (i.e. the value of Equity Compensation (as defined below) of RMB360.0 million plus the Cash Compensation (as defined below) of RMB540.0 million), being the Disposal Consideration of NT Pharma International.

The Performance Guarantors shall pay the Compensation Amount to the Purchaser Parties by way of the Equity Compensation first; and if the accumulated Compensation Amount exceeds the value of Equity Compensation, the Performance Guarantors shall pay the shortfall by way of Cash Compensation.

(i) Equity Compensation

The Equity Compensation Amount, which is the percentage representing the equity interests in Kangchen held by the Company to be transferred to the Purchaser Parties when the Equity Compensation occurs, where the maximum percentage of equity interests to be transferred is 40%, shall be subject to an upper limit of RMB360.0 million, being the consideration of the Proposed Acquisition.

The formula of calculating the Equity Compensation Amount is as follows:

Equity Compensation Amount (%) = Compensation Amount / F x G x 100

"F" being the Acquisition Consideration, i.e. RMB360.0 million;

"G" being the 40% equity interests in Kangchen held by the Company.

The portion of equity interest in Kangchen held by the Company shall be deducted and transferred to Purchaser Parties in the following manners:

if the remaining equity interest in Kangchen held by the Company is larger than the Equity Compensation Amount, then the Equity Compensation Amount shall be deducted from such portion of equity interest and transfer the same to the Purchaser Parties;

if the remaining equity interest in Kangchen held by the Company is the same as the Equity Compensation Amount, then the Equity Compensation Amount shall be deducted from such portion of equity interest and transfer the same to the Purchaser Parties such that the entire 40% equity interests in Kangchen shall be transferred to the Purchaser Parties eventually; and

if the remaining equity interest in Kangchen held by the Company is less than the Equity Compensation Amount, then the Equity Compensation Amount shall be deducted from such remaining portion and transfer the same to the Purchaser Parties up to and until the entire 40% equity interests in Kangchen shall be transferred to the Purchaser Parties eventually.

The Performance Guarantors shall then pay the remaining Compensation Amount by way of Cash Compensation.

NT Pharma Pacific shall, within 15 Business Days from the date when the Compensation Amount has been determined, transfer the Equity Compensation Amount to Beijing Konruns at nil consideration or at the lowest price permitted by the relevant laws. NT Pharma Pacific shall be responsible for any and all taxes or other costs arising from the Equity Compensation, and shall fully indemnify Beijing Konruns for those paid by Beijing Konruns in advance.

(ii) Cash Compensation

Where the Compensation Amount exceeds the value of Equity Compensation, NT Pharma Pacific shall make up for the shortfall in the Compensation Amount to Beijing Konruns in cash (subject to an upper limit of RMB540.0 million), the amount of which is calculated as follows:

Cash Compensation Amount = Compensation Amount – Equity Compensation

The Company will pledge the Kangchen Shares in favour of Beijing Konruns upon the Acquisition Completion to secure the abovementioned performance guarantee and compensation obligations of the Performance Guarantors.

Set out below are the reconciliation between the reportable results and the Adjusted Net Profit of Miacalcic Business for the two years ended 31 December 2019 and 2018:

	Year ended 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
	(audited)	(audited)
Reportable segment loss	(199,329)	(260,064)
Fair value loss on financial liabilities at fair value through profit or loss (i.e. CPS)	304,907	31,733
Impairment loss of an intangible asset (i.e. Miacalcic Assets)	–	287,107
Impairment loss of trade receivables	–	1,265
Adjusted Net Profit of Miacalcic Business	105,578	60,041

According to the segment results of the Miacalcic Business, the decrease in Adjusted Net Profit of Miacalcic Business in the financial year ended 31 December 2019 was mainly attributable to the negative impact brought to the imported product business caused by a change of business partners (i.e. the distributors engaged by the Group who were responsible for the sales of Miacalcic branded products in the PRC) which the management of the Group believes would only affect the financial year ended 31 December 2019. The management of the Group also expects that such negative impact will be neutralized upon Completion of the Proposed Transactions as the Miacalcic Business will leverage on the extensive business network and reputation of Beijing Konruns in the pharmaceutical industry in the PRC market, in particular, it is expected that, Beijing Konruns will devote more resources in terms of financial support and/or human resources by recruiting additional sales personnel to promote the Miacalcic brand so as to further expand its distribution sales network of Miacalcic branded products in the PRC. In addition, given that Kangchen has obtained the Good Supply Practices for Pharmaceutical Products Certificate ("**GSP Certificate**") issued by the Beijing Drug Administration, Kangchen will be able to distribute the Miacalcic branded products in the PRC by itself instead of engaging with other downstream domestic distributors such that it would allow Kangchen to have more flexibilities in connection with the downstream customers and channels. As at the Latest Practicable Date, the drugs distributed by Kangchen include orthopedics, digestive system, hemostatic and antibiotics drugs and these drugs are sold through hospitals and pharmacies in China's 31 provinces. In light of the above, having considered that Kangchen is selling orthopedic products which is similar to Miacalcic branded products with the area of focusing on orthopedic treatment, the management of the Group is of the view that synergistic effect could be created by Kangchen through integration with its existing orthopedic products and that the Group will also be able to enhance its pharmaceutical product mix through Kangchen upon Completion. Furthermore, as one of the beneficial owners and business partners of Kangchen, the Group will continue to focus on the selling and marketing of Miacalcic branded products in overseas markets. Accordingly, it is expected that the financial performance of Miacalcic Business will be improved going forward, and hence the Adjusted Net Profit of Miacalcic Business for the financial years of 2021, 2022 and 2023 will be able to meet the Total Guaranteed Adjusted Net Profit.

In light of the foregoing, the Directors are of the view that the Guarantee Adjusted Net Profit is fair and reasonable and the profit guarantee pursuant to the Transaction Documents is in the interest of the Shareholders and the Company as a whole.

KEY UNDERTAKINGS

Pursuant to the Sales and Purchase Agreement, the Seller Parties and NT Pharma HK (unless stated otherwise) undertake and guarantee to/that:

(a) procure Kangchen or any third parties recognised by Kangchen to enter into cooperation agreements with distributors in the PRC;

(b) apply to China Trademark Office to transfer trademarks relating to Miacalcic business to Kangchen at the Seller Parties' or NT Phama HK's expense upon 10 Business Days from the payment of the First Payment;

(c) transfer its drug or pharmaceutical product registration certificates relating to Miacalcic business to NT Pharma International at the Seller Parties' or NT Phama HK's expense before 31 December 2020;

(d) complete the transfer of Miacalcic Assets in Core Sales Areas to NT Pharma International at the Seller Parties' or NT Pharma HK's expense and assist NT Pharma International with the re-registration in accordance with the timetable thereto;

(e) NT Pharma International shall obtain the Miacalcic Sale Licenses stated in condition (c) of the Second Payment Conditions as set out in the paragraph headed "Letter from the Board – Conditions – Second Payment Conditions" of this circular by 31 July 2020;

(f) NT Pharma HK shall complete the Re-organisation by 31 July 2020;

(g) the Seller Parties undertake and guarantee that NT Pharma International shall enter into long term supply agreement with Solupharm Pharmazeutische Erzeugnisse GmbH by 31 July 2020; and

(h) the Seller Parties, as the direct or indirect shareholders of Kangchen, undertake and guarantee that without prior written consent of the Purchaser Parties, the Seller Parties and their actual controllers shall not directly or indirectly, alone or in cooperation with others, invest into or engage in business in competition with the business of NT Pharma International.

INFORMATION OF BEIJING KONRUNS AND KANGCHEN

Beijing Konruns is a joint stock company established under the laws of the PRC, the shares of which are listed on the Shanghai Stock Exchange (stock code: 603590). Beijing Konruns is principally engaged in manufacture, research and development, sale and distribution of pharmaceutical products.

Kangchen is a limited liability company established under the laws of the PRC and wholly-owned by Beijing Konruns. Kangchen is principally engaged in research and development, sale and distribution of pharmaceutical products.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Beijing Konruns, Kangchen and their respective ultimate beneficial owner(s) are Independent Third Parties.

Set out below are the audited financial information of Kangchen prepared in accordance with the Hong Kong Financial Reporting Standards for the two financial years ended 31 December 2018 and 2019:

	Year ended 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
	(audited)	(audited)
Revenue	7,070	22,605
Net loss before tax	1,062	1,089
Net loss after tax	1,062	1,089

The audited net asset value of Kangchen as at 31 December 2019 amounted to approximately RMB17.8 million, details of which are set out below:

	As at 31 December 2019
	RMB'000
	(audited)
Non-current assets	49
Current assets	24,927
Current liabilities	(7,129)
Net assets	17,847

INFORMATION OF NT PHARMA INTERNATIONAL

NT Pharma International is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company. NT Pharma International is principally engaged in holding the intellectual property rights, marketing and distribution rights associated with trademarks and brand names relating to commercialization of Miacalcic Injection and Miacalcic Nasal Spray branded drugs for sub-licensing and exploitation.

Miacalcic (generic name: salmon calcitonin), a well-known international orthopedic brand, is mainly used for treatment of bone pain led by osteolysis and lower bone mass, osteoporosis, Paget's disease, hypercalcemia and reflex sympathetic dystrophy syndrome. The Group completed the major transaction on acquisition of Miacalcic injection in respect of China and other regions from Novartis at a total purchase price of US$145.0 million in July 2016. The Group completed a major transaction of acquiring Miacalcic nasal spray at a consideration of US$34.0 million in October 2017. The sales of Miacalcic in the markets of China and other countries and regions is stable and the sale network covers the whole world.

Set out below are the audited financial information of NT Pharma International (excluding the Miacalcic Business) prepared in accordance with the Hong Kong Financial Reporting Standards for the two financial years ended 31 December 2018 and 2019:

	Year ended 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
	(audited)	(audited)
Revenue	–	–
Net loss before tax	3,364	292,242
Net loss after tax	3,364	292,242

The audited net asset value of the NT Pharma International (excluding the Miacalcic Business) as at 31 December 2019 amounted to approximately RMB799.1 million (equivalent to approximately HK$892.1 million), details of which are set out below:

	As at 31 December 2019
	HK$'000
	(audited)
Non-current assets	1,097,901
Current assets	12,569
Current liabilities	(218,411)
Non-current liabilities	–
Net assets	892,059

Set out below are the audited segment results of Miacalcic Business for the two financial years ended 31 December 2018 and 2019:

	Year ended 31 December	
	2018	**2019**
	RMB'000	*RMB'000*
	(audited)	(audited)
Revenue	263,855	212,501
Adjusted EBITDA	105,578	60,041

Immediately prior to the Disposal Completion, NT Pharma International is held as to 100% by the Group. After the Disposal Completion, the entire issued share capital of NT Pharma International will be held by Kangchen and NT Pharma International shall no longer be a subsidiary of the Company.

INFORMATION OF THE GROUP

The Company is a technology-based pharmaceutical company integrated with research and development, manufacturing and sales of its own products, with its products covering therapeutic areas including central nervous system, orthopaedics, oncology and hematology. It has established a sizable sales network in the PRC, with its products adopted by approximately 20,000 doctors and 8,000 hospitals.

REASONS FOR AND BENEFITS OF THE PROPOSED TRANSACTIONS

As disclosed in the annual report of the Company for the year ended 31 December 2019, the Group's cash and cash equivalents amounted to approximately RMB28.2 million as at 31 December 2019 while the current portion of the Group's bank and other borrowings amounted to approximately RMB957.7 million which will be due for repayment within one year. In addition, there are 246,773,500 outstanding CPS as at the Latest Practicable Date which can be converted into ordinary Shares at zero conversion price at anytime upon its issuance on 13 June 2017 in accordance with the terms of the CPS. Since the placing price is HK$1.83 per CPS and that the market price of the Shares is HK$0.13 per Share as quoted on the Stock Exchange on the Latest Practicable Date, it is expected that the holders of the CPS may not exercise the conversion rights but may require the Company to redeem with cash all or any of the outstanding CPS held by them with a redemption price calculated based on the annualised IRR of 5% for the nominal value of such CPS less the corresponding dividends for such CPS paid by the Company on or after the 36th month upon 13 June 2017 by giving 30 Business Days' prior written notice to the Company. In the event that all the existing holders of CPS require the Company to redeem all the outstanding CPS on or before 13 June 2020, being the latest date for the holders to redeem their CPS, it is expected that the amount required for such redemption is approximately RMB453.2 million.

In light of the above, having considered that (i) the Proposed Disposal would provide the Group with an immediate cash inflow and enable the Group to crystallise part of its investment gains in the Miacalcic Business segment, the Directors are of the view that the Proposed Disposal is a good opportunity for the Company to realise a gain on disposal and enable the Group to reallocate the financial resources on any suitable investment opportunities which would enhance Shareholders' value and repayment of bank and other borrowings when it falls due on or before 31 December 2020 as well as the settlement of the redemption of all the outstanding CPS which shall be due on 13 June 2020.

Miacalcic Business contributed revenue of approximately RMB212.5 million to the Company for the year ended 31 December 2019 as compared with approximately RMB263.9 million for the corresponding period in 2018. The decrease in revenue was due to a change in business partner. As a result of change in business partner, Miacalcic Business segment will require further capital resources to develop the market with the new business partner which the Group is currently lacking. The Group is of the view that by entering into the Proposed Transactions, the Group will be able to leverage on the extensive business network and reputation of Beijing Konruns in the pharmaceutical industry in the PRC market, in particular, it is expected that, Beijing Konruns will devote more resources in terms of financial support and/or human resources by recruiting additional sales personnel to promote the Miacalcic brand so as to further expand its distribution sales network of Miacalcic branded products in the PRC. In addition, Kangchen can collaborate with the Group's existing business partners; meanwhile, given that Kangchen has obtained the GSP Certificate issued by the Beijing Drug Administration, Kangchen will also be able to further expand its distribution sales network of Miacalcic branded products in the PRC such that it would allow Kangchen to have more flexibilities in connection with the downstream customers and channels. As at the Latest Practicable Date, the drugs distributed by Kangchen include orthopedics, digestive system, hemostatic and antibiotics drugs which are sold through hospitals and pharmacies in 31 provinces in the PRC. In light of the above, having considered that Kangchen is selling orthopedic products which is similar to Miacalcic branded products with focus on orthopedic treatment, the management of the Group is of the view that synergistic effect could be created and that the Group will also be able to enhance its pharmaceutical product mix through Kangchen upon Completion. Furthermore, as one of the beneficial owners and business partners of Kangchen, the Group will continue to focus on the selling and marketing of Miacalcic branded products in overseas markets.

In 2018, the Group entered into the Pfenex Agreement to develop new products which the Company will have the exclusive right to commercialize a therapeutic equivalent/biosimilar teriparatide injection to the reference drug product Forteo® in Mainland China, Hong Kong, Singapore, Malaysia and Thailand. It is estimated that a further RMB150 million is required on clinical trial for CFDA approval and an additional RMB50 million on marketing and business development to develop Pfenex market. If the Group was to continue to develop Pfenex on its own, it would be a huge financial burden on the Group in the near future. By entering into the Proposed Transactions (in particular the Pfenex Transfer), the Group will have a strong business partner with sufficient financial resources to develop Pfenex together.

Furthermore, the Group considered that the Proposed Acquisition allows the Group to leverage on the extensive business network and reputation of Beijing Konruns to expand the distribution network of the products of NT Pharma International. Beijing Konruns was found in 2003 and headquartered in Beijing. The shares of Beijing Konruns are listed on the Shanghai Stock Exchange with over RMB6,000 million market value. The Directors believed that the Proposed Transactions would introduce a strong business partner who has substantial resources and experience in researches and developments, manufactures and sells pharmaceutical products in the PRC with its distribution network covering 31 provinces through its alliance marketing model.

In light of the foregoing, the Directors (including the independent non-executive Directors) consider that the terms of the Transaction Documents, which are determined after arm's length negotiations between the Parties, are on normal commercial terms which are fair and reasonable, and the entering into of the Transaction Documents is in the interests of the Group and the Shareholders as a whole.

THE INTENDED USE OF PROCEEDS

The gross proceeds and net proceeds (after deduction of the Acquisition Consideration, professional fees and other related expenses including but not limited to stamp duty for the Proposed Disposal) of the Proposal Transaction will be approximately RMB557.0 million and RMB552.0 million, respectively. The Company intends to apply the net proceeds of approximately RMB552.0 million from the Proposed Transaction in the following manner:

(a) an amount of approximately RMB197.0 million for repayment of the Loan to the Lender; and

(b) an amount of approximately RMB355.0 million for partial redemption of the CPS (holders of which includes Annie Investment) which is due on 13 June 2020.

FINANCIAL IMPACT OF THE PROPOSED TRANSACTIONS

The accompanying unaudited pro forma financial information of the Remaining Group and the Enlarged Group set forth in Appendix IV to this circular has been prepared to illustrate the effect of the Proposed Transactions.

Based on the unaudited pro forma financial information of the Remaining Group and the Enlarged Group as set out in Appendix IV to this circular and on the basis of assumptions as stated in Appendix IV, the Proposed Transactions will have the following effect to the Group:

(a) the unaudited pro forma consolidated loss of the Remaining Group and the Enlarged Group for the year ended 31 December 2019 would be approximately RMB734.3 million and RMB828.5 million, respectively;

(b) (i) the unaudited pro forma consolidated total assets of the Remaining Group and the Enlarged Group will be (i) decreased by approximately RMB135.4 million; and (ii) further decreased by RMB496.2 million, respectively, as at 31 December 2019; and

(ii) the unaudited pro forma consolidated total liabilities of the Remaining Group and the Enlarged Group will be (i) decreased by approximately RMB22.6 million; and (ii) further decreased by approximately RMB493.7 million, respectively, as at 31 December 2019.

Assets and Liabilities

As set out in the unaudited pro forma financial information of the Remaining Group and the Enlarged Group as set out in Appendix IV to this circular, as at 31 December 2019, (i) the total assets of the Group after Completion will be decreased from approximately RMB1,798.3 million to approximately RMB1,166.7 million; (ii) the total liabilities of the Group after Completion will be decreased from approximately RMB1,696.4 million to approximately RMB1,180.0 million; and (iii) the net assets of the Group after Completion will be decreased from approximately RMB101.9 million to net liabilities of approximately RMB13.3 million.

Earnings

The Company expects that the Group will realise an estimated gain of approximately RMB79.1 million on the Proposed Disposal (on a standalone basis). The estimated gain on the Proposed Disposal is calculated by comparing the estimated net proceeds (after deduction of professional fees and other relevant expenses but does not take into account of the Acquisition Consideration payable by the Group) of the Proposed Disposal of approximately RMB895.0 million against combined net asset value of NT Pharma International (together with the Miacalcic Business) in aggregate of approximately RMB815.9 million as at 31 March 2020. However, for illustration purpose, if taking into account the bank borrowings of NT Pharma International of approximately RMB196.4 million as at 31 March 2020 which will be settled by the Group and converted into equity loan before Completion, the total liabilities of NT Pharma International will decrease by the corresponding amount of the bank borrowings as at 31 March 2020 and the adjusted combined net asset value will increase to approximately RMB1,012.3 million before Completion.

In addition, the Company expects that there will be no estimated gain or loss arising from the Pfenex Transfer (on a standalone basis), having considered that the carrying value of the Pfenex Rights of US$2.5 million (equivalent to approximately RMB17.86 million) as at 31 March 2020, being the deposit payment paid by the Group to Pfenex upon signing the Pfenex Agreement for the acquisition of Pfenex Rights in 2018 (which is now record under the "prepayment for acquisition of intangible asset" in the non-current assets in the financial statement of the Group, is equal to the Pfenex Consideration (excluding the related expenses) of US$2.5 million (equivalent to approximately RMB17.86 million).

Based on the unaudited pro forma financial information of the Remaining Group and the Enlarged Group set out in Appendix IV to this Circular, after taking into account the combined effect of the Proposed Disposal, it is expected that the Group's earning will be decreased by approximately RMB110.0 million upon Completion, as calculated by the consideration of the Proposed Disposal minus the adjusted net asset value of NT Pharma International as at 31 December 2019 as illustrated in page 5 of the Appendix IV to this Circular, assuming the Completion had taken place on 31 December 2019. At the completion date of the Proposed Acquisition, the excess of the Group's share of 40% of the net assets of Kangchen (after completion of the Proposed Disposal) over the consideration for the Proposed Acquisition, amounting to approximately RMB58.3 million, as calculated by the adjusted net asset value of Kangchen as at 31 December 2019 minus the consideration of the Proposed Acquisition as illustrated in page 7 of the Appendix IV to this Circular, will be deferred and will only be credited to the profit or loss until the Guaranteed Adjusted Profit for each of the three financial years ending 31 December 2021, 2022 and 2023 have been met.

The abovementioned financial effects are shown for illustrative purpose only and the actual gain/loss eventually to be finalised in the consolidated financial statements of the Company, depends on, among other things, the combined net asset value of NT Pharma International (together with the Miacalcic Business segment) on the date of Disposal Completion and the review by the auditors of the Company upon finalization of the consolidated financial statements of the Group.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Company is a technology-based pharmaceutical company integrated with research and development, manufacturing and sales of its own products, with its products covering therapeutic areas including central nervous system, orthopaedics, oncology and hematology. It has established a sizable sales network in the PRC, with its products adopted by approximately 20,000 doctors and 8,000 hospitals.

The Group intends to operate all its existing business after the Completion and has no intention, negotiation, agreement, arrangement and understanding (concluded or otherwise) about any disposal, scaling-down and/or termination of its existing business.

As discussed under section headed “Reasons for and Benefits of the Proposed Transactions”, upon Completion of the Proposed Transactions, as one of the beneficial owners and business partners of Kangchen, the Group will continue to focus on selling and marketing of Miacalcic branded products in overseas markets and developing Pfenex.

Looking forward, the Group shall focus on developing the treatment of psychiatric diseases, enhancing its development capability of innovative drugs and establishing a health diagnosis and treatment platform, thereby facilitating the sustainable development of the Group.

Upon Completion, the Group shall focus on its core business, Suzhou First. Suzhou First is located in Suzhou Industrial Park in the PRC, covering an area of nearly 100 mu., and is dubbed as a “High-tech Enterprise” in Jiangsu Province. The production of Suzhou First is in strict compliance with the production and quality control standards of the Good Manufacturing Practice requirements.

Among the 20 types of current products of Suzhou First, Shusi (generic name: quetiapine fumarate tablets) is a proprietary product of Suzhou First, and a main resort for the therapy of CNS. In December 2013, it was approved by CFDA for the treatment of bipolar affective disorder. Shusi is an atypical antipsychotic drug which has proven safety track records and therapeutic effects on first-time psychiatric patients, elderly patients and adolescent patients. It has developed a strong brand image which is widely recognized by psychiatric clinical practitioners. On 2 January 2020, the Group received a certification of consistency evaluation for Shusi from the National Medical Products Administration, which recognized the quality and therapeutic effect of Shusi and facilitated the inclusion of Shusi into the National Reimbursement Drug List and the National Essential Drug List. It is expected the product shall continue to play an important role in the future growth strategy of the Group. The revenue recorded for the financial years ended 31 December 2018 and 2019 for the Shusi segment is approximately RMB161.9 million and RMB106.1 million, respectively.

In addition, the Group shall increase the coverage and penetration of 2,000 psychiatric hospitals and clinics in the PRC through cooperation with third-party promotion agencies and distributors. Capitalizing on the market potential of psychiatric medications, the Group intends to expand the production scale of Suzhou First. The Group believes that the integrated production and sales business model of Suzhou First shall enhance Shusi's competitive advantage, thereby increasing its sales. The Group's effective production management, cost control capabilities and production capacity also provide strong support for the growth of Shusi in the future. The Group intends to fund the development of Shusi through its internal generated funds.

Furthermore, the Group shall enrich its psychiatric products by expediting the launch of children's ADHD products and the drug for treatment of Parkinson disease co-developed with its partners into the market. At the same time, the Group is actively exploring to establish an online mental health diagnosis and treatment platform, which shall provide patients with instant and high-quality online medical service, enabling the 2,000 psychiatric hospitals and clinic doctors in the PRC to connect with patients, diagnose their mental health conditions and provide online counselling service accordingly. As such, the Group shall be able to provide comprehensive mental health services to the patients, including medical treatment arrangement, health management and treatment management.

The Group also actively pushes forward the development of Xi Di Ke (generic name: uroacitides injection). Xi Di Ke is a national class 1 new drug, which has been approved by the National Medical Products Administration for treatment of non-small cell lung cancer and terminal breast cancer and admitted to the Medical Insurance Reimbursement Drug List of four provinces, including Jiangsu, Anhui, Hubei and Hunan. The Group shall actively push forward the work of clinical trials on Xi Di Ke in new Myelodysplastic Syndrome (the "**MDS**") indications. Meanwhile, in order to facilitate the research and development of Xi Di Ke for treatment of MDS, the Group shall actively identify cooperation partners and introduce funds from local governments and investors, with an aim to expedite the work of clinical trials on Xi Di Ke in MDS indications, thus realizing the commercialization and sales of the product, thereby creating value for the Group and the Shareholders.

LISTING RULES IMPLICATIONS

Pursuant to Rule 14.24 of the Listing Rules, the Stock Exchange will apply the percentage ratios to each of the Proposed Disposal and the Proposed Acquisition. As one or more of the applicable percentage ratios (as defined under the Listing Rules) regarding the Proposed Disposal exceed 75%, the Proposed Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval at the EGM. As one or more of the applicable percentage ratios (as defined under the Listing Rules) regarding the Proposed Acquisition exceed 100%, the Proposed Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval at the EGM.

As part of the net proceeds from the Proposed Transactions is to be utilised to partially redeem the CPS of which Ms. Shum is interested in (via Annie Investment), Ms. Shum (holding 1,700,000 Shares via Annie Investment, representing approximately 0.089% of voting rights) and her associates (including her spouse Mr. Ieong who holds 527,381,500 Shares, representing approximately 27.69% of the voting rights)), in aggregate holding 27.78% of the voting rights, will abstain from the voting at the EGM for the resolutions approving the Proposed Transactions (given the Proposed Transactions may confer upon them a benefit not available to other Shareholders).

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, save as disclosed above, no other Shareholders or any of their respective associates have any material interest in the Transaction Documents. Therefore, save as disclosed above, no Shareholders or any of their respective associates is required to abstain from voting at the EGM in respect of the ordinary resolutions to approve the Transaction Documents and the transactions contemplated thereunder including the Proposed Transactions.

The EGM will be held on Wednesday, 24 June 2020 at 12:00 p.m. at 17th Floor, Tower B, Yi Fang Building, 359 Dongchangzhi Road, Hongkou District, Shanghai, the PRC, for the purpose of considering, and if thought fit, approving the Transaction Documents and the transactions contemplated thereunder, including but not limited to the Proposed Transactions. A notice convening the EGM is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM if you so wish.

RECOMMENDATION

The Directors consider the terms of the Transaction Documents are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and accordingly recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM for approving the Transaction Documents and the transactions contemplated thereunder.

FURTHER INFORMATION

Your attention is also drawn to the additional information as set out in the appendices to this circular.

Yours faithfully,
On behalf of the Board
China NT Pharma Group Company Limited
Ng Tit
Chairman

I. FINANCIAL SUMMARY OF THE GROUP

The financial information of the Group for the years ended 31 December 2017, 2018 and 2019 was disclosed in the annual reports of the Company for the three years ended 31 December 2017, 2018 and 2019, respectively. The aforementioned financial information of the Company have been published on both the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and the website of the Company (http://www.ntpharma.com). Please refer to the hyperlinks as stated below:

(i) Annual report of the Company for the year ended 31 December 2017 (pages 79 to 176): https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltn201804271472.pdf

(ii) Annual report of the Company for the year ended 31 December 2018 (pages 150 to 376): https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn201904291421.pdf

(iii) Annual report of the Company for the year ended 31 December 2019 (pages 161 to 384): https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0514/2020051401727.pdf

II. INDEBTEDNESS

As at the close of business on 30 April 2020, being the latest practicable date for the purpose of this indebtedness statement, the indebtedness of the Group was as follows:

Bank and other borrowings

	RMB'000
Bank borrowings	
– Secured and guaranteed	635,527
– Secured and unguaranteed	19,482
– Unsecured and unguaranteed	116,146
Other borrowings	
– Secured and unguaranteed	168,738
– Unsecured and guaranteed	12,183
– Unsecured and unguaranteed	11,500
Fixed rate bonds	
– HKD2,000,000 8% bonds due 2020	1,789
– HKD13,356,000 5% bonds due 2022	8,632
– HKD20,000,000 6% bonds due 2023	14,707
Fixed rate redeemable convertible preference shares	
– HKD451,596,000 5% due 2020	449,738
	1,438,442

As at 30 April 2020, the bank and other borrowings granted to the Group were secured by pledged bank deposits, trade receivables, three factory buildings and the equity interests in four subsidiaries of the Company.

Fixed rate bonds

As at 30 April 2020, the Group had outstanding fixed rate bonds with aggregate principal amount of RMB35,356,000 and interest accrued of RMB610,000.

Fixed rate redeemable convertible preference shares

The holders of the CPSs shall have the rights to require the Company to redeem ("Put Option") with cash for the outstanding CPSs, with a redemption price calculated based on the annualised IRR of 5% for the nominal value of the outstanding CPSs less the corresponding dividends for such CPSs paid by the Company. The earliest date of maturity of CPSs will be on 13 June 2020 when the CPS holders shall have the rights to exercise the Put Option. As at 30 April 2020, the Group had outstanding fixed rate CPSs with aggregate principal amount of RMB451,596,000 and interest accrued of RMB46,380,000.

Lease liabilities

As at 30 April 2020, the Group had lease liabilities with outstanding principal amount of approximately RMB4,634,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables, at the close of business at 30 April 2020, the Group did not have any material mortgages, charges, debentures, loan capital, debt securities, term loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance (other than normal trade payables) or acceptance credits, guarantee or other material contingent liabilities.

III. WORKING CAPITAL

The Directors are of the opinion that, upon completion and in the absence of unforeseeable circumstances, taking into account the Enlarged Group's financial resources, including internal resources, present banking facilities available and the net proceeds from the Proposed Disposal, the Enlarged Group has sufficient working capital for its present requirements for the next 12 months from the date of this circular.

IV. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, the date to which the latest audited financial statements of the Group were made up.

V. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Company is a technology-based pharmaceutical company integrated with research and development, manufacturing and sales of its own products, with its products covering therapeutic areas including central nervous system, orthopaedics, oncology and hematology.

The Group intends to operate all its existing business after the Completion and has no intention, negotiation, agreement, arrangement and understanding (concluded or otherwise) about any disposal, scaling-down and/or termination of its existing business.

As discussed under section headed "Reasons for and Benefits of the Proposed Transactions", upon Completion of the Proposed Transactions, as one of the beneficial owners and business partners of Kangchen, the Group will continue to focus on selling and marketing of Miacalcic branded products in overseas markets and developing Pfenex.

Looking forward, the Group shall focus on developing the treatment of psychiatric diseases, enhancing its development capability of innovative drugs and establishing a health diagnosis and treatment platform, thereby facilitating the sustainable development of the Group.

Upon Completion, the Group shall focus on its core business, Suzhou First. Suzhou First is located in Suzhou Industrial Park in the PRC, covering an area of nearly 100 mu., and is dubbed as a "High-tech Enterprise" in Jiangsu Province. The production of Suzhou First is in strict compliance with the production and quality control standards of the Good Manufacturing Practice requirements.

Among the 20 types of current products of Suzhou First, Shusi (generic name: quetiapine fumarate tablets) is a proprietary product of Suzhou First, and a main resort for the therapy of CNS. In December 2013, it was approved by CFDA for the treatment of bipolar affective disorder. Shusi is an atypical antipsychotic drug which has proven safety track records and therapeutic effects on first-time psychiatric patients, elderly patients and adolescent patients. It has developed a strong brand image which is widely recognized by psychiatric clinical practitioners. On 2 January 2020, the Group received a certification of consistency evaluation for Shusi from the National Medical Products Administration, which recognized the quality and therapeutic effect of Shusi and facilitated the inclusion of Shusi into the National Reimbursement Drug List and the National Essential Drug List. It is expected the product shall continue to play an important role in the future growth strategy of the Group. The revenue recorded for the financial years ended 31 December 2018 and 2019 for the Shusi segment is approximately RMB161.9 million and RMB106.1 million, respectively.

In addition, the Group shall increase the coverage and penetration of 2,000 psychiatric hospitals and clinics in the PRC through cooperation with third-party promotion agencies and distributors. Capitalizing on the market potential of psychiatric medications, the Group intends to expand the production scale of Suzhou First. The Group believes that the integrated production and sales business model of Suzhou First shall enhance Shusi's competitive advantage, thereby increasing its sales. The Group's effective production management, cost control capabilities and production capacity also provide strong support for the growth of Shusi in the future. The Group intends to fund the development of Shusi through its internal generated funds.

Furthermore, the Group shall enrich its psychiatric products by expediting the launch of children's ADHD products and the drug for treatment of Parkinson disease co-developed with its partners into the market. At the same time, the Group is actively exploring to establish an online mental health diagnosis and treatment platform, which shall provide patients with instant and high-quality online medical service, enabling the 2,000 psychiatric hospitals and clinic doctors in the PRC to connect with patients, diagnose their mental health conditions and provide online counselling service accordingly. As such, the Group shall be able to provide comprehensive mental health services to the patients, including medical treatment arrangement, health management and treatment management.

The Group also actively pushes forward the development of Xi Di Ke (generic name: uroacitides injection). Xi Di Ke is a national class 1 new drug, which has been approved by the National Medical Products Administration for treatment of non-small cell lung cancer and terminal breast cancer and admitted to the Medical Insurance Reimbursement Drug List of four provinces, including Jiangsu, Anhui, Hubei and Hunan. The Group shall actively push forward the work of clinical trials on Xi Di Ke in new Myelodysplastic Syndrome (the "MDS") indications. Meanwhile, in order to facilitate the research and development of Xi Di Ke for treatment of MDS, the Group shall actively identify cooperation partners and introduce funds from local governments and investors, with an aim to expedite the work of clinical trials on Xi Di Ke in MDS indications, thus realizing the commercialization and sales of the product, thereby creating value for the Group and the Shareholders.

Set out below are the historical financial information which comprise the unaudited statements of financial position of NT Pharma International Company Limited ("**NT Pharma International**") and related Miacalcic Business as of 31 December 2017, 2018 and 2019, unaudited statements of comprehensive income, the unaudited statements of changes in equity and the unaudited statements of cash flows of NT Pharma International and related Miacalcic Business for the years ended 31 December 2017, 2018 and 2019 and explanatory notes (the "**Unaudited Financial Information**").

The Unaudited Financial Information has been prepared on the basis as set out Note 2, and has been prepared in accordance with the accounting policies adopted by the China NT Pharma Group Company Limited (the "Company") as set out in the published annual report and interim report of the Company and paragraph 68(2)(a)(i)(A) of Chapter 14 of the Listing Rules.

The Unaudited Financial Information is prepared by the Directors solely for the purpose of inclusion in this Circular in connection with the Proposed Transactions. The Company's reporting accountant, Crowe (HK) Limited was engaged to review the Unaudited Financial Information of NT Pharma International and related Miacalcic Business set out on pages II(A)-2 to II(A)-7 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and with reference to Practice Note 750, "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by HKICPA. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the reporting accountant to obtain assurance that the reporting accountant would become aware of all significant matters that might be identified in an audit. Accordingly, the reporting accountant does not express an audit opinion. The reporting accountant has issued an unmodified review report.

A. UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	232,391	263,855	212,501
Cost of sales	(27,873)	(40,700)	(41,875)
Gross profit	204,518	223,155	170,626
Selling expenses	(11,380)	(41,357)	(45,242)
Impairment loss of intangible assets	–	–	(287,107)
Impairment loss of trade receivables	–	–	(1,265)
Administrative expenses	(36,104)	(76,220)	(65,343)
Profit/(loss) before taxation	157,034	105,578	(228,331)
Income tax	–	–	–
Profit/(loss) for the year	157,034	105,578	(228,331)
Item that will be reclassified to profit or loss:			
Exchange differences on translation of financial statements of entities outside the People's Republic of China ("PRC")	(42,428)	46,886	16,424
Total comprehensive income/(loss) for the year	114,606	152,464	(211,907)

B. UNAUDITED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Intangible assets	1,190,178	1,247,847	983,499
Current assets			
Trade receivables	11,167	21,394	48,866
Cash and cash equivalents	3,572	2,875	514
	14,739	24,269	49,380
Total assets	1,204,917	1,272,116	1,032,879
Current liabilities			
Trade payables	5,822	2,656	13,000
Other payables	213,382	2,562	9,636
Bank borrowings *(note a below)*	223,055	271,734	193,413
	442,259	276,952	216,049
Net assets	762,658	995,164	816,830
Equity			
Share capital	–	–	–
Equity loan from the Company *(note b below)*	601,984	682,026	715,599
Reserves	160,674	313,138	101,231
	762,658	995,164	816,830

Notes:

a) Immediately prior to the Disposal Completion, the Company will fully settle the bank borrowings recorded in NT Pharma International by the proceeds from the Proposed Disposal, and accordingly, the bank borrowings will be converted into equity loan from the Company which will not demand NT Pharma International for repayment.

b) Equity loan from the Company, together with the entire issued share capital of NT Pharma International, will be acquired by and transferred to Purchaser Parties pursuant to the terms and conditions of the Sale and Purchase Agreement upon Disposal Completion.

C. UNAUDITED STATEMENTS OF CHANGES OF EQUITY

	Share capital	Equity loan from the Company	Exchange reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	–	189,380	703	45,365	235,448
Profit for the year	–	–	–	157,034	157,034
Other comprehensive income:					
Exchange differences on translation of financial statements	–	–	(42,428)	–	(42,428)
Equity funding from the Company	–	412,604	–	–	412,604
At 31 December 2017 and 1 January 2018	–	601,984	(41,725)	202,399	762,658
Loss for the year	–	–	–	105,578	105,578
Other comprehensive income:					
Exchange differences on translation of financial statements	–		46,886	–	46,886
Equity funding from the Company	–	80,042	–	–	80,042
At 31 December 2018 and 1 January 2019	–	682,026	5,161	307,977	995,164
Loss for the year	–	–	–	(228,331)	(228,331)
Other comprehensive income:					
Exchange differences on translation of financial statements	–	–	16,424	–	16,424
Equity funding from the Company	–	33,573	–	–	33,573
At 31 December 2019	–	715,599	21,585	79,646	816,830

D. UNAUDITED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Profit/(loss) before taxation	157,034	105,578	(228,331)
Adjustments for:			
Impairment loss of intangible assets	–	–	287,107
Impairment loss of trade receivables	–	–	1,265
	157,034	105,578	60,041
Changes in working capital:			
Increase in trade receivables	(373)	(10,472)	(28,492)
Increase/(decrease) in trade and other payables	3,926	(2,801)	17,173
Net cash generated from operating activities	160,587	92,305	48,722
Investing activities			
Payment for purchase of intangible assets	(334,455)	(210,940)	–
Net cash used in investing activities	(334,455)	(210,940)	–
Financing activities			
Proceeds from new bank borrowings	–	274,953	–
Repayments of bank borrowings	(251,905)	(234,525)	(82,750)
Equity funding from the Company	412,604	80,042	33,573
Net cash generated from financing activities	160,699	120,470	(49,177)
Net (decrease)/increase in cash and cash equivalents	(13,169)	1,835	(455)
Cash and cash equivalents at 1 January	15,081	3,572	2,875
Effect of foreign exchange rate changes	1,660	(2,532)	(1,906)
Cash and cash equivalent at 31 December	3,572	2,875	514

NOTES TO THE UNAUDITED FINANCIAL INFORMATION OF NT PHARMA INTERNATIONAL

1. GENERAL INFORMATION

The Company is an investment holding company and its subsidiaries (together, the "**Group**") are principally engaged in research and development, manufacturing, sales and distribution of pharmaceutical products.

On 21 April 2020, NT Pharma (Overseas) Holding Co., Ltd (the "**Vendor**"), an indirect wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "**Agreement**") for the disposal of the entire equity interest of NT Pharma International at a consideration of RMB900 million (the "**Proposed Disposal**") to an independent third party. Upon the completion of the Proposed Disposal, the entire interest of NT Pharma International will be transferred to the Purchaser.

NT Pharma International, a limited liability company incorporated in Hong Kong, is principally engaged in holding the intellectual property rights, marketing and distribution rights associated with trademarks and brand names relating to commercialisation of Miacalcic Injection and Miacalcic Nasal Spray branded drugs for sub-licensing and exploitation.

The Unaudited Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2. BASIS OF PREPARATION

The Unaudited Financial Information has been prepared in accordance with paragraph 14.68(2)(a)(i)(A) and paragraph 14.67(6)(a)(i) of the Listing Rules and is prepared by the Directors solely for the purpose of inclusion in the Circular to be issued by the Company in connection with the disposal of NT Pharma International to which the Miacalcic Assets (held by NT Pharma International) and Miacalcic Business (carried out by NT Pharma (HK) Limited ("**NT Pharma HK**")) are to be transferred in accordance with the Reorganisation as referred to the letter from the board of the Circular.

Unless otherwise specified, the items in the statements of comprehensive income of NT Pharma International reflect the revenue, cost of sales, selling expenses and administrative expenses, impairment of intangible assets and trade receivables directly in relation to the Miacalcic Assets and Miacalcic Business after taking into consideration of certain adjustments made by the Directors in order to reflect the business performance of Miacalcic Assets of NT Pharma International and Miacalcic Business, as recorded in NT Pharma HK, a fellow subsidiary to which NT Pharma International sub-licensed the Miacalcic Assets for carrying out the Miacalcic Business. The adjustments include (i) the elimination of intercompany balances; (ii) the allocation of financial liabilities at FVPL; and (iii) the allocation of finance costs. The Directors take the sole responsibility on the completeness, appropriateness and accuracy of these adjustments so as to reflect the business performance of Miacalcic Assets and Miacalcic Business.

The Unaudited Financial Information does not contain sufficient information to constitute a complete set of financial statements as described in Hong Kong Accounting Standard 1 "Presentation of Financial Statements" nor a set of condensed financial statements as defined in Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA and should be read in conjunction with the published annual report and interim report of the Company for the year ended 31 December 2019 and period ended 30 June 2019, respectively.

As at 31 December 2017, 2018 and 2019, the current liabilities of NT Pharma International exceeded its current assets by approximately RMB427,520,000, RMB252,683,000 and RMB166,669,000, respectively. The net current liabilities indicated the existence of uncertainties, which may cast significant doubt on the ability of NT Pharma International to discharge its liabilities in normal operations. However, the Company has undertaken to provide continued financial support in the years to enable NT Pharma International to meet its liabilities when they fall due. Accordingly, the Unaudited Financial Information has been prepared by the Directors of the Company on a going concern basis.

The Unaudited Financial Information has been prepared in accordance with the accounting policies adopted by the Company as set out in the published annual report and interim report of the Company for the year ended 31 December 2019 and period ended 30 June 2019, respectively.

The following is the text of a report received from the Company's reporting accountants, Crowe (HK) CPA Limited, for the purpose of inclusion in this circular.

國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF BEIJING KANGCHEN BIOLOGICAL TECHNOLOGY CO., LTD TO THE DIRECTORS OF CHINA NT PHARMA GROUP COMPANY LIMITED

Introduction

We report on the historical financial information of Beijing Kangchen Biological Technology Co., Ltd ("**Kangchen**") set out on pages II(B)-3 to II(B)-34, which comprises the statements of financial position of Kangchen at 31 December 2017, 2018 and 2019, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows, for the period from 22 June 2017 (date of establishment) to 31 December 2017 and the two years ended 31 December 2018 and 2019 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II(B)-3 to II(B)-34 forms an integral part of this report, which has been prepared for inclusion in the circular of China NT Pharma Group Company Limited (the "**Company**") dated 5 June 2020 (the "**Circular**") in connection with the proposed acquisition of 40% equity interest of Kangchen (the "**Proposed Acquisition**").

Director's responsibility for the Historical Financial Information

The sole director of Kangchen is responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the sole director of Kangchen determines is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director of Kangchen, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of Kangchen's financial position as at 31 December 2017, 2018 and 2019 and of the financial performance and cash flows of Kangchen for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II(B)-3 have been made.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong
5 June 2020

Liu Mok Lan, Cliny
Practising Certificate Number P07270

I. HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information of Kangchen which forms an integral part of this accountants' report.

The financial statements of Kangchen prepared by the sole director of Kangchen for the Relevant Periods, on which the Historical Financial Information is based, were audited by Crowe (HK) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Statements of comprehensive income

		Period from 22 June 2017 (date of establishment) to 31 December	Year ended 31 December	
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	4	–	7,070	22,605
Cost of sales		–	(6,997)	(22,244)
Gross profit		–	73	361
Other revenue and income	5	–	660	595
Selling expenses		–	(187)	(356)
(Impairment loss)/reversal of impairment loss on trade receivables	13(b)	–	(231)	80
Administrative expenses		(2)	(1,377)	(1,769)
Loss from operations		(2)	(1,062)	(1,089)
Finance costs		–	–	–
Loss before taxation	6	(2)	(1,062)	(1,089)
Income tax	7(a)	–	–	–
Loss and total comprehensive loss for the period/year		(2)	(1,062)	(1,089)

I. HISTORICAL FINANCIAL INFORMATION (Continued)

Statements of financial position

		As at 31 December		
		2017	**2018**	**2019**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	10	–	15	17
Intangible asset	11	–	42	32
		–	57	49
Current assets				
Inventories	12	–	411	322
Trade receivables	13	–	4,397	5,920
Other receivables	14	–	210	182
Cash and cash equivalents	15	2,998	19,518	18,503
		2,998	24,536	24,927
Current liabilities				
Contract liabilities	16	–	–	132
Trade payables	17	–	2,149	4,780
Other payables	18	–	238	220
Amount due to ultimate holding company	24(c)	–	3,270	1,997
		–	5,657	7,129
Net current assets		2,998	18,879	17,798
Net assets		2,998	18,936	17,847
Equity				
Share capital	20	3,000	20,000	20,000
Accumulated losses		(2)	(1,064)	(2,153)
		2,998	18,936	17,847

I. HISTORICAL FINANCIAL INFORMATION (Continued)

Statements of changes in equity

	Share capital	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
At 22 June 2017 (date of establishment)	–	–	–
Capital contribution from ultimate holding company	3,000	–	3,000
Loss and total comprehensive loss for the period	–	(2)	(2)
At 31 December 2017 and 1 January 2018	3,000	(2)	2,998
Capital contribution from ultimate holding company	17,000	–	17,000
Loss and total comprehensive loss for the year	–	(1,062)	(1,062)
At 31 December 2018 and 1 January 2019	20,000	(1,064)	18,936
Loss and total comprehensive loss for the year	–	(1,089)	(1,089)
At 31 December 2019	20,000	(2,153)	17,847

I. HISTORICAL FINANCIAL INFORMATION (Continued)

Statements of cash flows

	Notes	Period from 22 June 2017 (date of establishment) to 31 December 2017	Year ended 31 December 2018	2019
		RMB'000	*RMB'000*	*RMB'000*
Operating activities				
Loss before taxation		(2)	(1,062)	(1,089)
Adjustments for:				
Depreciation of property, plant and equipment	10	–	1	4
Amortisation of intangible asset	11	–	6	10
Impairment loss/(reversal of impairment loss) of trade receivables	13(b)	–	231	(80)
Interest income	5	–	(660)	(595)
Operating loss before changes in working capital		(2)	(1,484)	(1,750)
(Increase)/decrease in inventories		–	(411)	89
Increase in trade receivables		–	(4,628)	(1,443)
(Increase)/decrease in other receivables		–	(210)	28
Increase in trade payables		–	2,149	2,631
Increase in other payables and contract liabilities		–	238	114
Increase/(decrease) in amount due to ultimate holding company		–	3,270	(1,273)
Net cash used in operating activities		(2)	(1,076)	(1,604)
Investing activities				
Payment for purchase of property, plant and equipment		–	(16)	(6)
Payment for purchase of intangible asset		–	(48)	–
Interest received		–	660	595
Net cash generated from investing activities		–	596	589

I. HISTORICAL FINANCIAL INFORMATION (Continued)

Statements of cash flows (Continued)

	Notes	Period from 22 June 2017 (date of establishment) to 31 December 2017	Year ended 31 December 2018	2019
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Financing activities				
Capital contribution from ultimate holding company	20	3,000	17,000	–
Net cash generated from financing activities		3,000	17,000	–
Increase/(decrease) in cash and cash equivalents		2,998	16,520	(1,015)
Cash and cash equivalents at beginning of period/year		–	2,998	19,518
Cash and cash equivalents at end of period/year		2,998	19,518	18,503

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Beijing Kangchen Biological Technology Co., Ltd. ("**Kangchen**") was established in the PRC on 22 June 2017 as a company with limited liability under the laws of the PRC. Kangchen is a wholly-owned subsidiary of Beijing Konruns Pharmaceutical Co., Ltd., a joint stock company established under the laws of the PRC, the shares of which are listed on the Shanghai Stock Exchange. The principal activity of Kangchen is trading of pharmaceutical products in the PRC.

The Historical Financial Information set out in this report has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term included all applicable individual HKFRSs, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institution of Certified Public Accountants (the "**HKICPA**"). Further details of the significant accounting policies are set out in Note 2.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, Kangchen has adopted all applicable new and revised HKFRSs for the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting periods beginning on 1 January 2020. The revised and new accounting standard and interpretations issued but not yet effective for accounting period beginning on 1 January 2020 are set out in Note 25.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Historical Financial Information is presented in Renminbi ("**RMB**"), rounded to the nearest thousand, which is the functional currency of Kangchen.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

(b) Use of estimates and judgements

The preparation of the Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the Relevant Periods in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods of the revision affects both current and future periods.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, plant and equipment

Property, plant and equipment are stated in statement of financial position at cost less accumulated depreciation and impairment losses (see Note 2(f)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Office equipment	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(d) Intangible assets

Intangible assets represent software. Software are stated at cost less any impairment losses (see Note 2(f)(ii)) and are amortised on the straight-line basis over their estimated useful lives of 5 years.

(e) Investments other than equity investments

Non-equity investments held by the Kangchen are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income (calculated using the effective interest method), and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCL (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Credit loss and impairment of assets

(i) Credit losses on financial assets at amortised costs

Kangchen recognises a loss allowance for expected credit loss (ECL) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to Kangchen in accordance with the contract and the cash flows of Kangchen expects to receive).

The expected loss cash shortfalls are discounted using the following discount rates where the effect of discounting is material for the fixed –rate financial assets and trade and other receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which Kangchen is exposed to credit risk.

In measuring ECLs, Kangchen takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12 month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expect lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the historical credit loss experience of Kangchen, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, Kangchen recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Credit loss and impairment of assets (Continued)

(i) Credit losses on financial assets at amortised costs (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, Kangchen compares the risk of defaulting occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, Kangchen considers that a default event occurs when the borrower is unlikely to pay its credit obligations in full, without recourse by Kangchen to actions such as realising security (if any is held). Kangchen considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external and internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to Kangchen.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grounded based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. Kangchen recognises an impairment gain or loss for those financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Credit loss and impairment of assets (Continued)

(i) Credit losses on financial assets at amortised costs (Continued)

Basis of calculation of interest income

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, Kangchen assesses whether a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter into bankruptcy or other financial reorganisation;

– significant changes in the technology, market, economic or legal environment that have an adverse effect on the debtor; and

– the disappearance of an active market for a security because of financial difficulties of the debtor.

Write-off policy

The gross carrying amount of a financial asset is written (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the management of Kangchen determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Credit loss and impairment of assets (Continued)

(ii) Impairment of other non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– Property, plant and equipment; and

– Intangible asset

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimate used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets

An arrangement, comprising a transaction or a series of transaction, is or contains a lease if Kangchen determines that the arrangement conveys a right to control the use of identified asset for a period of time in exchange for consideration. Such determination is made on an evaluation of the substance of the arrangement, regardless of whether the arrangements take the legal form of a lease.

Leases are initially recognised as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by Kangchen. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of take leased asset and the lease term on a straight-line basis.

Assets by Kangchen and the corresponding liability are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

– fixed payments (including in –substance fixed payments), less any lease incentive receivable;

– variable lease payments that are based on an index or a rate; and

– payments of penalties for terminating the lease, if the lease term reflects Kangchen, as a lessee, exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or Kangchen's incremental borrowing rate. Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liability;

– any lease payments made at or before the commencement date, less any lease incentive received;

– any initial direct costs; and

– restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the statement of profit or loss and other comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise equipment and small items of office furniture.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Inventories

Inventories are carried at the lower of cost and net realisable value as follows:

Cost is calculated using the weight average formula and comprises all costs of purchase, costs of conversion and other assets incurred in bringing the inventories to their present location and condition.

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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in which the reversal occurs.

(i) Contract assets and contract liabilities

A contract asset is recognised when Kangchen recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(f)(i) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before Kangchen recognises the related revenue. A contract liability would also be recognised if Kangchen has an unconditional right to receive consideration before Kangchen recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(j)).

(j) Trade and other receivables

A receivable is recognised when Kangchen has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before Kangchen has an unconditional right to receive consideration, the amount is presented as a contract asset. Receivables are stated at amortised cost using the effective interest method for credit losses (see Note 2(f)(i)).

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy in Note 2(f)(i).

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the accounting policy for borrowing costs.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case, they are stated at cost.

(n) Employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to Kangchen of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values. Obligation for contributions defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if Kangchen has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, Kangchen intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when Kangchen has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue and other income

Income is classified by Kangchen as revenue when it arises from the sale of goods or provision of services in the ordinary course of Kangchen's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which Kangchen is expected to be entitled. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

When the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the interest expense method. Where the contract contains a financing component which provides a significant financing benefit to Kangchen, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. Kangchen takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of revenue and other income of Kangchen recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer obtains control over the pharmaceutical products from Kangchen. This usually occurs when the customer takes possession of and title of the pharmaceutical products.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset. (see Note 2(f)(i)).

(r) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sales are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period in which they are incurred.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which Kangchen initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(t) Related parties

(a) A person or a close member of that person's family, is related to Kangchen if that person:

- (i) has control or joint control over Kangchen;
- (ii) has significant influence over Kangchen; or
- (iii) is a member of key management personnel of Kangchen or Kangchen's parent.

(b) An entity is related to Kangchen if any of the following conditions apply:

- (i) The entity and Kangchen are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of Kangchen or an entity related to Kangchen.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of Kangchen.
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to Kangchen or to the parent of Kangchen.

Close members of the family of a person are those family members who may be expected to influence by, or be influenced by, that person in their dealings with the entity.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

3. ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the accounting policies of Kangchen, management has made the following accounting judgements:

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. These estimates used are based on the current market conditions and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to change in market conditions. Management reassesses these estimates at the end of each reporting period to ensure inventory is shown at the lower of cost and net realisable value.

(b) Impairment of trade receivables

The management of Kangchen makes provision for impairment of trade and other receivables based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of Kangchen were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

4. REVENUE

The principal activity of Kangchen is the sales of pharmaceutical products. All of the revenue of Kangchen is generated in the PRC and all of its assets are located in the PRC. Accordingly, no geographical information is presented.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is as follows:

	Period from 22 June 2017 (date of establishment) to 31 December	Year ended 31 December	
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15:			
Sales of pharmaceutical products	–	7,070	22,605

The timing of revenue recognition of all revenue from contracts with customers is at a point in time when a customer obtains control of goods transferred by Kangchen. All of Kangchen's remaining performance obligations for contracts with customers are for period of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

4. REVENUE (Continued)

During the Relevant Periods, revenue from customers with whom transactions have exceeded 10% of Kangchen's revenue are as follows:

	Period from 22 June 2017 (date of establishment) to 31 December 2017	Year ended 31 December 2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Customer 1	N/A*	6,015	12,002
Customer 2	N/A*	N/A*	4,758

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the total revenue of Kangchen for the Relevant Periods.

5. OTHER REVENUE AND INCOME

	Period from 22 June 2017 (date of establishment) to 31 December 2017	Year ended 31 December 2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	–	660	595

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Period from 22 June 2017 (date of establishment) to 31 December 2017	Year ended 31 December 2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	–	6,997	22,244
Depreciation of property, plant and equipment	–	1	4
Amortisation of intangible asset	–	6	10
Staff costs	–	859	1,709
Operating lease charges in respect of property	–	538	215

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

7. INCOME TAX

(a) Taxation in the statement of profit or loss and other comprehensive income represents:

	Period from 22 June 2017 (date of establishment) to 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
– PRC Corporation Income Tax ("CIT") for the period/year	–	–	–

(b) Reconciliation between income tax expense and accounting loss at applicable tax rates:

	Period from 22 June 2017 (date of establishment) to 31 December 2017	Year ended 31 December 2018	Year ended 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*
Loss before taxation	(2)	(1,062)	(1,089)
Tax at the statutory rate of 25% in the PRC	–	(266)	(272)
Tax effect of non-deductible expenses	–	20	–
Tax effect on non-taxable income	–	–	(2)
Effect of tax losses not recognised	–	246	274
Income tax expense	–	–	–

Note:

(i) Kangchen is subject to the PRC Corporate Income Tax rate of 25% during the Relevant Periods.

(ii) Kangchen has not recognised deferred tax assets on cumulative tax losses of RMB246,000 and RMB520,000 for the years ended 31 December 2018 and 2019, respectively, as it is not probable that future taxable profits against which the tax losses can be utilised will be available.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

8. DIRECTOR'S REMUNERATION

During the Relevant Periods, the sole director of Kangchen, Wang Xi Juan, did not receive any fees or emoluments from Kangchen.

9. INDIVIDUAL WITH HIGHEST EMOLUMENTS

During the Relevant Periods, the aggregate of the five individuals with the highest emoluments are as follows:

	Period from 22 June 2017 (date of establishment) to 31 December	Year ended 31 December	
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other emoluments	–	460	992
Pension scheme contributions	–	85	295
	–	545	1,287

The emoluments of the five individuals with the highest emoluments are within the following bands:

	Period from 22 June 2017 (date of establishment) to 31 December	Year ended 31 December	
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Nil to RMB500,000	–	5	5

None of these employees received any inducements or compensation for loss of office, or waived any emoluments during the Relevant Periods.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

10. PROPERTY, PLANT AND EQUIPMENT

	Office equipment *RMB'000*
Cost	
At 22 June 2017 (date of establishment)	–
Additions	–
At 31 December 2017 and 1 January 2018	–
Additions	16
At 31 December 2018 and 1 January 2019	16
Additions	6
At 31 December 2019	22
Accumulated depreciation and impairment	
At 22 June 2017 (date of establishment)	–
Charge for the period	–
At 31 December 2017 and 1 January 2018	–
Charge for the year	1
At 31 December 2018 and 1 January 2019	1
Charge for the year	4
At 31 December 2019	5
Net carrying amounts	
At 31 December 2017	–
At 31 December 2018	15
At 31 December 2019	17

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

11. INTANGIBLE ASSET

	Software
	RMB'000
Cost	
At 22 June 2017 (date of establishment)	–
Additions	–
At 31 December 2017 and 1 January 2018	–
Additions	48
At 31 December 2018 and 2019	48
Amortisation	
At 22 June 2017 (date of establishment)	–
Charge for the period	–
At 31 December 2017 and 1 January 2018	–
Charge for the year	6
At 31 December 2018 and 1 January 2019	6
Charge for the year	10
At 31 December 2019	16
Net carrying amounts	
At 31 December 2017	–
At 31 December 2018	42
At 31 December 2019	32

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

12. INVENTORIES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Finished goods	–	411	322

The analysis of the amount of inventories recognised as an expense and included in the statement of profit or loss and other comprehensive income is as follows:

	Period from 22 June 2017 (date of establishment) to 31 December	Year ended 31 December	
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	–	6,997	22,244

13. TRADE RECEIVABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	–	4,628	6,071
Less: Loss allowances *(note (b))*	–	(231)	(151)
	–	4,397	5,920

All of the trade receivables are expected to be recovered within one year.

(a) An aging analysis of the trade receivables as at the end of each of the reporting period, based on the invoice date net of allowance for doubtful debts, is as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	–	4,395	3,698
More than 3 months but within 6 months	–	2	2,205
More than 6 months but within 1 year	–	–	17
	–	4,397	5,920

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

13. TRADE RECEIVABLES (Continued)

(b) Impairment of trade receivables

The movements in the allowance for doubtful debts are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of period/year	–	–	231
Impairment loss recognised	–	231	–
Reversal of impairment loss	–	–	(80)
At the end of period/year	–	231	151

Further details on Kangchen's credit policy and credit risk arising from trade receivables are set out in Note 22(a).

14. OTHER RECEIVABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
VAT recoverable	–	39	80
Interest receivables	–	153	84
Prepayment	–	18	18
	–	210	182

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Cash at banks and in hand	2,998	19,518	18,503

All cash and cash equivalents are denominated in RMB.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

16. CONTRACT LIABILITIES

Liabilities related to contracts with customers:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Advances received from customers	–	–	132

17. TRADE PAYABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	–	2,149	4,780

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	–	1,117	1,944
1 to 2 months	–	947	1,267
2 to 3 months	–	–	1,195
Over 3 months	–	85	374
	–	2,149	4,780

18. OTHER PAYABLES

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Accrued staff costs	–	202	201
Other payables	–	36	19
	–	238	220

Notes:

(i) All of the other payables are expected to be settled within one year.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

19. DEFERRED TAXATION

There were no significant deferred tax assets and liabilities at the end of each of the reporting period.

20. SHARE CAPITAL

(a) Share capital

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the period/year	–	3,000	20,000
Capital contribution from ultimate holding company	3,000	17,000	–
At end of the period/year	3,000	20,000	20,000

(b) Capital management

Kangchen's primary objectives when managing capital are to safeguard Kangchen's ability to continue as a going concern, so that it can continue to provide returns and benefits for equity owners, and to maintain an optimal capital structure to reduce the cost of capital.

Kangchen actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity holders' returns and might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Kangchen is not subject to externally imposed capital requirements.

21. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting period are as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets at amortised cost			
Trade receivables	–	4,397	5,920
Other receivables	–	153	84
Cash and bank balances	2,998	19,518	18,503
	2,998	24,068	24,507
Financial liabilities at amortised cost:			
Trade payables	–	2,149	4,780
Other payables	–	238	220
Amount due to ultimate holding company	–	3,270	1,997
	–	5,657	6,997

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and interest rate risks arise in the normal course of Kangchen's business.

Kangchen's exposure to these risks and the financial risk management policies and practices used by Kangchen to manage these risks are described below.

(a) Credit risk

The credit risk on cash and bank balances is limited because the counterparties are banks with good reputation. For trade receivables, management has a credit policy in place and the exposure to this credit risk is monitored on an ongoing basis.

Kangchen measures the loss allowance for trade receivables at an amount equal to lifetime ECLs. To measure the ECLs, the trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECLs on trade receivables is estimated using a provision matrix by reference to past default experience of the debtor, current market conditions in relation to each debtor's exposure. The ECL also incorporated forward looking information with reference to general macroeconomics conditions that may affect the ability of the debtors to settle receivables.

As at 31 December 2018 and 2019, a provision of RMB231,000 and RMB151,000 was made against the gross amounts of Kangchen's trade receivables, respectively.

The following table provides information about Kangchen's exposure to credit risk and ECLs for trade receivables:

	As at 31 December 2018		
	Expected Loss rate	**Gross carrying amount**	**Loss allowance**
		RMB'000	*RMB'000*
Within 3 months	5%	4,626	231
More than 3 months but within 6 months	5%	2	–
More than 6 months but within 1 year	5%	–	–
		4,628	231

	As at 31 December 2019		
	Expected Loss rate	**Gross carrying amount**	**Loss allowance**
		RMB'000	*RMB'000*
Within 3 months	2.5%	3,792	95
More than 3 months but within 6 months	2.5%	2,261	56
More than 6 months but within 1 year	2.5%	18	–
		6,071	151

Expected loss rates are based on actual loss experience over the past three years. These rates are adjusted to reflect differences between economics conditions during the period over which the historic data has been collected, current conditions and the management's view of economic conditions over the expected lives of the receivables.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(b) Liquidity risk

The maturity profile of the financial liabilities of Kangchen as at the end of each reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2017				
	Within 1 year or repayable on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	–	–	–	–	–
Other payables	–	–	–	–	–
Amount due to ultimate holding company	–	–	–	–	–
	–	–	–	–	–

	As at 31 December 2018				
	Within 1 year or repayable on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	2,149	–	–	2,149	2,149
Other payables	238			238	238
Amount due to ultimate holding company	3,270	–	–	3,270	3,270
	5,657	–	–	5,657	5,657

	As at 31 December 2019				
	Within 1 year or repayable on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	4,780	–	–	4,780	4,780
Other payables	220	–	–	220	220
Amount due to ultimate holding company	1,997	–	–	1,997	1,997
	6,997	–	–	6,997	6,997

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) Interest rate risk

As Kangchen has no significant interest-bearing financial assets and liabilities at floating rate, Kangchen's income and operating cash flows are substantially independent from changes in market interest rates.

(d) Fair value

The carrying amounts of all financial assets and liabilities carried at amortised cost approximate their respective fair values as at 31 December 2017, 2018 and 2019.

23. COMMITMENTS

At 31 December 2019, Kangchen had total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	–	–	20

Kangchen is the lessee in respect of a property held under operating leases. The leases typically run for an initial period of one year. None of the leases includes contingent rentals.

24. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Historical Financial Information, the material related party transactions entered into by Kangchen during the Relevant Periods are set out below.

Name of related party	**Relationship**
北京康辰藥業股份有限公司	Ultimate holding company
康辰醫藥股份有限公司	Fellow subsidiary

(a) Transactions with related parties

Name of related party	**Nature of transaction**	**Period from 22 June 2017 (date of establishment) to 31 December 2017**	**Year ended 31 December 2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*
康辰醫藥股份有限公司	Operating lease charges	–	538	–
北京康辰藥業股份有限公司	Operating lease charges	–	–	215
北京康辰藥業股份有限公司	Purchase of finished goods	–	5,118	9,053

The above transactions were conducted at terms mutually agreed by the respective parties.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

24. RELATED PARTY TRANSACTIONS (Continued)

(b) Key management personnel remuneration

Remuneration for key management personnel, including those as disclosed in Notes 8 and 9, is as follows:

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other emoluments	–	141	351
Pension scheme contributions	–	18	101
	–	159	452

The above remuneration to key management personnel of Kangchen is included in "staff costs" (Note 6).

(c) Amount due to ultimate holding companies

	Year ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Trade in nature:			
Amount due to a ultimate holding company	–	3,270	1,997

The amount due to ultimate holding company is unsecured, interest-free and repayable on demand.

25. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON 1 JANUARY 2019

Up to the date of issue of this report, the HKICPA has issued the following amendments and new standards which are not yet effective for the accounting period beginning on 1 January 2019, and which have not been adopted in these Historical Financial Information.

	Effective for accounting period periods beginning on or after
Amendments to HKFRS 3, Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	1 January 2020

Kangchen is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION (Continued)

26. SUBSEQUENT EVENT

COVID-19 may have certain impact on Kangchen's operation, the impact will largely depend on duration of the outbreak and implementation of regulatory policies thereafter. As of the date of this Circular, the sole director considers that there is no material uncertainty as a result of the COVID-19 outbreak that casts a doubt on Kangchen's ability to carry on its business as a going concern in the next twelve months.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Kangchen in respect of any period subsequent to 31 December 2019.

Set out below is the management discussion and analysis of the results of the Group for the three years ended 31 December 2017, 2018 and 2019.

I. FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL RESULTS

The overall revenue of the Group from continuing operations for the year ended 31 December 2019 decreased by approximately RMB205.5 million to approximately RMB366.0 million, as compared with approximately RMB571.5 million for the year ended 31 December 2018. Operating loss from continuing operations for the year ended 31 December 2019 decreased by approximately RMB1.8 million to approximately RMB479.1 million, as compared with an operating loss of approximately RMB480.9 million for the year ended 31 December 2018. The Group recorded a loss of approximately RMB593.2 million for the year ended 31 December 2019, as compared with a loss of approximately RMB963.8 million for the year ended 31 December 2018, representing a decrease of approximately 38.5% on a year-on-year basis.

BUSINESS REVIEW

In 2019, the global economic growth decelerated due to the factors including the China-US trade friction and increasing debt levels. Under an external environment which was extremely complicated, the General Office of the State Council issued the "Key Tasks in 2019 to Deepen the Reform of Medical and Health System"* (深化醫藥衛生體制改革2019重點工作任務), which included 15 policy documents and 21 work arrangements. The policies and tasks in respect of the pharmaceutical industry included the promotion of centralised drug procurement and pilot test locations coordinated by the government. For drugs that are clinically indispensable, shortage-prone or difficult to substitute, measures such as the strengthening of reserve, centralized procurement and targeted production were adopted to secure the supply of drugs. Also, improvements were made to the Medical Insurance Drugs Catalogs* (醫保藥品目錄). In particular, the centralized procurement system of drugs in the "4+7" major cities were further implemented across the nation under the leadership of the National Healthcare Security Administration. While pharmaceutical companies were facing the pressure of price reduction, the pharmaceutical industry became further concentrated, resulting in a more severe and challenging business environment for the small and medium-sized generic drug companies.

Under this tough and adverse business environment, the Group encountered multiple challenges including shortage of resources and high cost of sales. Due to the higher debt level of the Group as a result of previous acquisitions and business expansion, its financial cost continued to increase, which further increased the pressure on its liquidity. In addition, the Group implemented measures to optimise our product mix during the year ended 31 December 2019 by focusing on the areas of central nervous system (the "**CNS**") and Orthopedics as the core and promoting the sales of Shusi and Miacalcic in all aspects.

The revenue of the Group was approximately RMB366.0 million, representing a decrease of approximately 36.0% as compared to approximately RMB571.5 million recorded for the year ended 31 December 2018. The decrease was mainly attributable to (i) the change in industry policies, change in sales model and decrease in price; (ii) the negative impact brought to the imported product business due to a change of business partners; and (iii) a decline in sales volume of Xi Di Ke (generic name: uroacitides injection) and Songzhi Wan due to the lack of ability to intensify the marketing efforts under the context of tight resources.

Area of CNS

Shusi (generic name: quetiapine fumarate tablets) is the Group's major product in the area of CNS. It is the first proprietary product which is developed, manufactured and sold by the Group. Shusi is mainly used for the treatment of schizophrenia and maniacalis insultus as a result of bipolar affective disorder, which is an atypical antipsychotic first-tier drug. Shusi has been in the market for more than 15 years since its debut in 2003. It has developed a strong brand image which is widely recognized by clinical practitioners and the market.

During the year ended 31 December 2019, the Group has completed all the tasks involving consistency evaluations in pharmaceutical development, production transfers and clinical bioequivalence. On 2 January 2020, the Group received a certification of consistency evaluation for the generic drug quetiapine fumarate tablets (Shusi) from the National Medical Products Administration* (國家藥品監督管理局). The completion of the consistency evaluation does not only represent the recognition of Shusi's drug quality and therapeutic effect, but also facilitates the acceptance of Shusi in the field of clinical psychiatry, posing a positive effect on expanding the market share of quetiapine.

Area of Orthopedics

The Group's products in the area of orthopedics consist of Miacalcic (generic name: salmon calcitonin) and teriparatide products.

The two orthopedics formulations, injection and nasal spray, of Miacalcic were acquired by the Group from Novartis. As an internationally well-known orthopedic brand, Miacalcic has been used for clinical purposes for more than 30 years, mainly in the treatment for bone pain resulted from osteolysis and low bone mass, osteoporosis, Paget's disease, hypercalcemia and algoneurodystrophy. During the year ended 31 December 2019, Miacalcic has achieved stable sales performance in 32 provinces and 36 first-tier cities across the nation, as well as 12 overseas countries, laying a solid foundation for the Group's orthopedics business and strategic development focusing on orthopedics.

Teriparatide is an orthopedic product that was jointly developed by the Group and Pfenex Inc. a U.S. biotechnology company, pursuant to a cooperation agreement in April 2018. The Group has a perpetual right to commercialize this product in the PRC, Hong Kong, Thailand, Malaysia and Singapore. Teriparatide, being the only orthopedic product approved by the U.S. Food and Drug Administration ("**FDA**") for the treatment of osteoporosis, can be used to effectively stimulate bone formation, increase bone mass and improve bone quality. The Group believes that, teriparatide products and Miacalcic can create huge complementary advantage in their market deployment, improve the orthopedists' loyalty to the Group's orthopedic products, and at the same time satisfy various needs of patients for the treatment of bone diseases and osteoporosis. Teriparatide, approved by the FDA as a new drug under the 505(b)2 application in October 2019, is suitable for the treatment of osteoporosis of high-risk patients with bone fracture. The Group's partner also completed a comparative study of human factors on the teriparatide products, indicating that teriparatide products were non-inferior to the reference drugs. The study has been submitted to the FDA and it is expected that Teriparatide will obtain the grade "A" certification and become an alternative for similar drugs in many states of the USA.

Area of Oncology and Hematology

The Group's main product in the area of oncology and hematology is Xi Di Ke (generic name: uroacitides injection).

Xi Di Ke, a national class 1 new drug, has been approved by the National Medical Products Administration (國家藥品監督管理局) for the treatment of non-small cell lung cancer and terminal breast cancer. The product has successfully been admitted into the Medical Insurance Reimbursement Drug List of four provinces, including Jiangsu, Anhui, Hubei and Hunan. During the year ended 31 December 2019, the Group pushed forward the work of clinical trials on Xi Di Ke in new Myelodysplastic Syndrome (the "**MDS**") indications. Due to the high pressure on liquidity, the Group was unable to put a lot of resources in marketing promotions and medical forums, and as such the product did not generate a new source of revenue for the Group during the year ended 31 December 2019.

Segmental Information

Revenue

	For the year ended 31 December							
	2019 Sales volume *'000*	**2019 Unit price** *RMB*	**2019 Sales amount** *RMB'000*	**2019 Proportion** *(%)*	2018 Sales volume *'000*	2018 Unit price *RMB*	2018 Sales amount *RMB'000*	2018 Proportion *(%)*
Proprietary products production and sales								
Shusi	**3,692**	**28.7**	**106,133**	**29.0%**	5,314	30.5	161,921	28.3%
Xi Di Ke	**1**	**1,067.0**	**1,067**	**0.3%**	165	457.6	75,710	13.2%
Zhuo'ao	**12,203**	**2.1**	**25,339**	**6.9%**	16,828	2.2	36,502	6.4%
Songzhi Wan	**–**	**–**	**–**	**–**	73	136.4	9,957	1.7%
Others	**15,346**	**1.4**	**20,929**	**5.7%**	15,625	1.5	23,576	4.2%
Subtotal			**153,468**	**41.9%**			307,666	53.8%
Miacalcic								
Miacalcic Injection	**1,139**	**168.2**	**191,628**	**52.4%**	1,288	167.1	215,270	37.7%
Brand licensing fee income of Miacalcic Injection	**110**	**24.8**	**2,733**	**0.7%**	156	36.6	5,705	1.0%
Miacalcic Nasal Spray	**28**	**190.9**	**5,347**	**1.5%**	16	218.9	3,503	0.6%
Brand licensing fee income of Miacalcic Nasal Spray	**86**	**149.2**	**12,793**	**3.5%**	233	169.0	39,377	6.9%
Subtotal			**212,501**	**58.1%**			263,855	46.2%
Total			**365,969**	**100.0%**			571,521	100.0%

The revenue from manufacturing and sales of proprietary products of the Group decreased by approximately RMB154.2 million to approximately RMB153.5 million, accounting for approximately 41.9% of the total revenue for the year ended 31 December 2019, as compared with approximately RMB307.7 million or approximately 53.8% of the Group's revenue in the corresponding period in 2018. The decrease in revenue from manufacturing and sales of proprietary products was due to the negative impact brought by the unit price adjustment of propriety products including Shusi and Zhuo'ao after the shift of sales model to Suzhou First being responsible for sales during the year ended 31 December 2019.

The Company completed the acquisition of Miacalcic Nasal Spray in October 2018, after the completion of the acquisition and settlement in respect of Miacalcic Injection in July 2016. Miacalcic contributed income of approximately RMB212.5 million to the Company for the year ended 31 December 2019 as compared with approximately RMB263.9 million for the corresponding period in 2018.

Cost of Sales

For the year ended 31 December 2019, cost of sales decreased by approximately RMB44.4 million to approximately RMB105.1 million, as compared with approximately RMB149.5 million for the corresponding period in 2018. The decrease in cost of sales was mainly due to the corresponding decrease in revenue of sales of Shusi and Miacalcic during the year ended 31 December 2019.

Gross Profit

	For the year ended 31 December			
Products	**2019 Gross Profit** *RMB'000*	**2019 Gross Profit Margin** *(%)*	2018 Gross Profit *RMB'000*	2018 Gross Profit Margin *(%)*
Proprietary products production and sales				
Shusi	**78,377**	**73.8%**	110,947	68.5%
Xi Di Ke	**966**	**90.5%**	63,484	83.9%
Zhuo'ao	**14,494**	**57.2%**	23,751	65.1%
Songzhi Wan	**–**	**–**	5,084	51.1%
Others	**(3,580)**	**(17.1)%**	(4,419)	(18.8)%
Subtotal	**90,257**	**58.8%**	198,847	64.6%
Miacalcic				
Miacalcic Injection	**152,505**	**79.6%**	175,247	81.4%
Brand licensing fee income of Miacalcic Injection	**2,733**	**100.0%**	5,705	100.0%
Miacalcic Nasal Spray	**2,595**	**48.5%**	2,826	80.7%
Brand licensing fee income of Miacalcic Nasal Spray	**12,793**	**100.0%**	39,377	100.0%
Subtotal	**170,626**	**80.3%**	223,155	84.6%
Total	**260,883**	**71.3%**	422,002	73.8%

The gross profit of the Group decreased by approximately RMB161.1 million to approximately RMB260.9 million for the year ended 31 December 2019, as compared with approximately RMB422.0 million in the corresponding period in 2018. Gross profit margin decreased by 2.5 percentage points to approximately 71.3% for the year ended 31 December 2019, as compared with approximately 73.8% for the corresponding period in 2018. The decrease in gross profit margin was mainly due to the decrease in average selling prices and sales contribution of products with higher gross profit margin such as Shusi and Miacalcic as a result of the change in sales model, price adjustment and change in business partner which resulted in a decrease of revenue of the relevant products with higher gross profit.

Reportable Segments

Operating Profit

The operating expenses of the Group decreased by approximately RMB172.0 million or 20.0% to approximately RMB687.6 million for the year ended 31 December 2019, as compared with approximately RMB859.6 million for the corresponding period in 2018. The Group reported an operating loss of approximately RMB426.8 million for the year ended 31 December 2019, as compared with an operating loss of approximately RMB437.6 million for the corresponding period in 2018. The following table sets forth a breakdown of the Group's operating profit by reportable segments for the year ended 31 December 2019:

	For the year ended 31 December			
	2019	**2019**	2018	2018
	RMB'000	*(%)*	*RMB'000*	*(%)*
Proprietary products production and sales	**17,896**	**11.7%**	27,118	8.81%
Miacalcic	**60,041**	**28.3%**	105,578	40.01%
Total	**77,937**	**21.3%**	132,696	23.22%

PROSPECTS AND OUTLOOK

Going forward, considering the series of pharmaceutical policies that have been issued, we believe that the policies regarding the proportion of medicine sales in the revenue of hospitals will change the mode of medication usage of medical institutions, while the use of adjuvant drugs will be reduced on the one hand, the use of high clinical value and good efficacy drugs towards chronic diseases will be increased on the other. Our Group's Miacalcic and Shusi are both included in the National Drug Reimbursement List and, both are recommended by clinical guidelines; meanwhile, Shusi is also included in the National Essential Drug List. We expect the continuous implementation of rational drug use by Chinese hospitals and reduction in the proportion of medicine sales in the total healthcare revenue in 2020 will bring a positive influence to the sales of the Group's drugs. Moreover, according to the requirements of the Administrative Measures for Prescription* (處方管理辦法), hospitals cannot prescribe dosages of over seven days for prescription drugs. This results in frequent hospital follow-ups and drug collections by chronic disease patients and creates a great demand for outpatient service and resources. According to documents such as Opinion on Speeding Up the High-quality Development of Pharmaceutical Services* (關於加快藥學服務高質量發展的意見), Healthy China 2030 Planning Outline* (「健康中國2030」規劃綱要) and Guiding Opinions of the State Council on Actively Promoting the "Internet Plus" Action* (國務院關於積極推進「互聯網+」行動的指導意見), there is a new direction for the management of long-term prescriptions for chronic illnesses, and we expect that prescription drugs for chronic diseases to be sold in pharmacies and through the internet in the future and will become a new norm. The above policies relating to chronic diseases is favorable to the sales and development of Miacalcic and Shusi. We believe that Shusi and Miacalcic will be sold through hospital, pharmacies and internet after 2020 and their market shares will increase within the next three to five years.

The Group will focus on the treatment of chronic diseases, continue to position psychiatry products as strategic focuses and actively promote the sales of Shusi. Meanwhile, the Group will further optimise its sales and management system, continuously strengthen its marketing efforts and achieve a sustainable development of its products, sales channels and markets. At the same time, the Group will actively identify different options, optimize its business and portfolio to further improve the Group's financial situation on the one hand, and explore any cooperation mode to build a more competitive platform for its products through complementary advantages on the other hand. Moreover, the Group will actively explore business cooperation, while closely following pharmaceutical policies and industry trends, improving the Group's competitiveness, grasping the opportunities of industry adjustment and after the end of the COVID-19 epidemic, and maintaining the momentum for a sustainable development of the Group.

The Group has adopted a more stringent financial management and internal monitoring systems for further improvement of its business operation and financial position.

HUMAN RESOURCES

As at 31 December 2019, the Group had 384 full-time employees (31 December 2018: 665 full-time employees). For the year ended 31 December 2019, the Group's total cost on remuneration, welfare and social security amounted to approximately RMB102.0 million (31 December 2018: approximately RMB171.4 million).

The remuneration structure of the Group is based on employee performance, local consumption levels and prevailing conditions in the human resources market. Directors' remunerations are determined with reference to individual Director's experience, responsibilities and prevailing market standards.

On top of basic salaries, bonuses may be paid according to the Group's performance as well as individual's performance. Other staff benefits include contributions to the Mandatory Provident Fund retirement benefits scheme in Hong Kong and various retirement benefits schemes including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees of the Group pursuant to the PRC rules and regulations and the prevailing regulatory requirements of the PRC.

The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded according to their individual performances within the framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme (the "**Share Option Scheme**") adopted by the Company on 22 September 2014, and a share award scheme (the "**Share Award Scheme**") adopted on 4 September 2015, where options to subscribe for shares and share awards may be granted to the Directors and employees of the Group, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The primary objective of the Group's capital management is to maintain its ability to continue as a going concern so that the Group can constantly provide returns for shareholders of the Company and benefits for other stakeholders by implementing proper product pricing and securing access to financing at reasonable costs. The Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration the changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group closely monitors its debt/assets ratio, which is defined as total borrowings divided by total assets.

Foreign Currency Exposure

The Group is exposed to currency risks primarily through sales made by the Group's Hong Kong and PRC subsidiaries, certain bank deposits and bank loans which are denominated in Hong Kong dollars. The Group recorded a net exchange loss of approximately RMB1.5 million for the year ended 31 December 2019, while the net exchange loss of the Group for the year ended 31 December 2018 was approximately RMB4.3 million. Currently, the Group does not employ any financial instruments to hedge against foreign exchange risk.

Interest Rate Exposure

The Group's interest rate risk arises primarily from bank loans, unsecured debenture and bank balances. Borrowings at variable rates expose the Group to cash flow interest rate risk. Currently, the Group does not employ any financial instruments to hedge against interest rate risk.

Group Debt and Liquidity

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Total debt	**(1,475,667)**	(1,411,632)
Time deposits, pledged bank deposits, cash and cash equivalents	**112,988**	125,793
Net debt	**(1,362,679)**	(1,285,839)

The maturity profile of the Group's borrowings is set out as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Repayable:		
– Within one year	**791,675**	775,786
– After one but within two years	**171,073**	95,070
– After two but within five years	**59,706**	139,694
	1,022,454	1,010,550

The Group's bank borrowings as at 31 December 2019 were approximately RMB791.5 million (31 December 2018: approximately RMB859.3 million), out of which, approximately RMB598.1 million were bank borrowings from banks in the PRC (31 December 2018: approximately RMB587.6 million) with fixed interest rates ranging from 4.3% to 6.3% per annum.

As at 31 December 2019, the Group's bank borrowings from banks in Hong Kong were approximately RMB193.4 million (31 December 2018: approximately RMB271.7 million). Save as disclosed above, as at 31 December 2019, the Group had other borrowings of approximately RMB231.0 million (2018: approximately RMB151.3 million).

Debt-to-Assets Ratio

The Group closely monitors its debt-to-assets ratio to optimize its capital structure so as to ensure solvency and the Group's ability to continue as a going concern.

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Total debt	**1,475,667**	1,411,632
Total assets	**1,798,274**	2,227,162
Debt-to-assets ratio	**82.1%**	63.4%

Charges on the Group's Assets

As at 31 December 2019, the Group's bank deposits of approximately RMB40.0 million (31 December 2018: approximately RMB38.0 million) were pledged to the banks to secure certain bank loans and bills payable. As at 31 December 2019, certain banking facilities of the Group were secured by the Group's fixed assets and trade receivables, which amounted to approximately RMB271.1 million (31 December 2018: approximately RMB277.3 million).

Capital Expenditure

Total capital expenditure spent for the year ended 31 December 2019 decreased by approximately RMB163.0 million or 65.1% to approximately RMB87.2 million, as compared with approximately RMB250.2 million for the corresponding period in 2018, which was mainly used for acquiring property, plant and equipment in Suzhou and intangible assets relating to the work of clinical trials on Xi Di Ke.

Capital Commitments

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contracted but not provided for		
– property, plant and equipment	**–**	190
– investment in an associate	**20,000**	20,000
– intangible assets: Teriparatide	**156,965**	154,422
– intangible assets: computer software	**–**	1,375
	176,965	175,987

As at 31 December 2019, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within one year	**2,877**	11,917
After one year but within five years	**–**	5,281
	2,877	17,198

The Group is the lessee of a number of properties under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

Significant Investments Held

Except for investments in its subsidiaries, the Group did not hold any significant investment in equity interest in any other company for the year ended 31 December 2019.

Material Acquisition and Disposal

Reference is made to the announcement of the Company dated 10 July 2019 in relation to the conditional acquisition agreements dated 25 June 2019 entered into among, among others, the Company and WD Investment Co., Ltd and other parties (the "**Acquisition Agreements**") and the conditional subscription agreements entered into among, among others, the Company and Hong Kong WD Pharmaceutical Co., Limited (the "**Target Company**") and other parties (the "**Subscription Agreements**"), pursuant to which the Company will be interested in approximately 52.0% of the total issued share capital of the Target Company upon completion of the acquisition and subscription and the Target Company will become a non-wholly-owned subsidiary of the Company (the "**Proposed Transactions**"). On 19 November 2019, the Company and the relevant parties entered into a termination agreement to terminate the Acquisition Agreements with immediate effect. On the same day, the Company and the relevant parties entered into a termination agreement to terminate the Subscription Agreements with immediate effect. As a result of the above termination agreements, the Proposed Transactions will not proceed.

The Board considers that the termination of the Acquisition Agreements and the Subscription Agreements will not have any material adverse effect on the operation and financial position of the Group. Please also refer to the announcements of the Company dated 10 July 2019, 30 July 2019, 30 September 2019, 30 October 2019 and 19 November 2019 for further details.

Save as disclosed above, the Group did not have any other material acquisition or disposal for the year ended 31 December 2019.

Future Plans for Material Investments and Capital Assets

The Group did not have other plans for material investments and capital assets for the year ended 31 December 2019.

Contingent Liabilities

As at 31 December 2019, the Group had no material contingent liabilities.

II. FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL RESULTS

The overall revenue of the Group from continuing operations for the year ended 31 December 2018 decreased by approximately RMB33.3 million to approximately RMB571.5 million, as compared with approximately RMB604.8 million for the year ended 31 December 2017. Operating loss from continuing operations for the year ended 31 December 2018 increased by approximately RMB750.5 million to approximately RMB480.9 million, as compared with an operating profit of approximately RMB269.6 million for the year ended 31 December 2017. The Group recorded a net loss of approximately RMB963.8 million for the year ended 31 December 2018, as compared with a net profit of approximately RMB161.6 million for the year ended 31 December 2017, representing a decrease of approximately 696.4% on a year-on-year basis.

BUSINESS REVIEW

2018 was an important year for the reform of pharmaceutical policy in China, during which the pharmaceutical industry and the business environment as a whole were going through adjustments in every aspect. Manufacturing enterprises, at the upstream end of the pharmaceutical industry, have been successively harvesting from key reform results in terms of consistency evaluation and the expedited evaluation and approval of innovative drugs. With the Chinese government's encouragement in research and development innovation and quality improvement, pharmaceutical companies had to upgrade their existing products, and at the same time intensify the development of new drugs to increase their competitiveness. Marketing companies, located at the midstream of the pharmaceutical industry, experienced lower sales profits under a restructured sales model as a result of the implementation of the "Two-Invoice System". For the patients and national medical insurance at the downstream of the pharmaceutical industry, the budget management of the medical insurance fund has been further strengthened with the release of the new version of Medical Insurance Drugs Catalogs and the negotiated results of drugs covered by medical insurance. In response to excessive medical treatments and unreasonable growth of medical expenses, the Medical Insurance Bureau of the PRC has successively put forward various policies including "bulk procurement" and bargaining negotiations on anti-cancer drugs. With further in-depth development in the reform of the national medical system, the pharmaceutical market in China has remained tough and difficult.

During the year ended 31 December 2018, the Group has steadily promoted and implemented different business strategies, and continued to implement and stabilize its development in the orthopedic business. On 18 April 2018, the Group entered into a cooperation agreement with Pfenex to develop new products, which will not only contribute to the Group's revenue, but also enhance the competitiveness of the Group's orthopedic pharmaceutical segment, generating new momentum for the long-term sustainable development of the Group.

For the year ended 31 December 2018, the Group recorded a revenue of approximately RMB571.5 million, representing a decrease of approximately 5.5% as compared to the year ended 31 December 2017, representing a net loss of approximately RMB963.8 million (loss attributable to equity shareholders: approximately RMB957.7 million).

Segment Information

Revenue

	For the year ended 31 December							
	2018 Sales volume *'000*	**2018 Unit price** *RMB*	**2018 Sales amount** *RMB'000*	**2018 Proportion** *(%)*	2017 Sales volume *'000*	2017 Unit price *RMB*	2017 Sales amount *RMB'000*	2017 Proportion *(%)*
Proprietary products production and sales								
Shusi	**5,314**	**30.5**	**161,921**	**28.3%**	7,215	30.0	216,689	35.8%
Xi Di Ke	**165**	**457.6**	**75,710**	**13.2%**	169	485.3	81,824	13.5%
Zhuo'ao	**16,828**	**2.2**	**36,502**	**6.4%**	20,621	1.6	32,603	5.4%
Songzhi Wan	**73**	**136.4**	**9,957**	**1.7%**	98	126.5	12,335	2.0%
Others	**15,625**	**1.5**	**23,576**	**4.2%**	19,975	1.5	29,004	4.8%
Subtotal			**307,666**	**53.8%**			372,455	61.5%
Miacalcic								
Miacalcic Injection	**1,288**	**167.1**	**215,270**	**37.7%**	546	178.1	97,220	16.1%
Brand licensing fee income of Miacalcic Injection	**156**	**36.6**	**5,705**	**1.0%**	1,193	107.0	127,709	21.2%
Miacalcic Nasal Spray	**16**	**218.9**	**3,503**	**0.6%**	–	–	–	–
Brand licensing fee income of Miacalcic Nasal Spray	**233**	**169.0**	**39,377**	**6.9%**	44	169.6	7,462	1.2%
Subtotal			**263,855**	**46.2%**			232,391	38.5%
Total			**571,521**	**100.0%**			604,846	100.0%

The revenue from manufacturing and sales of proprietary products of the Group decreased by approximately RMB64.8 million to approximately RMB307.7 million, accounting for approximately 53.8% of the total revenue for the year ended 31 December 2018, as compared with approximately RMB372.5 million or 61.5% of the Group's revenue in the corresponding period in 2017. The decrease in revenue from manufacturing and sales of proprietary products was due to the negative impact brought by the shift of sales model from distributor to proprietary sales during the year ended 31 December 2018.

The revenue from sales and brand licensing fee income of Miacalcic increased by approximately RMB31.5 million to approximately RMB263.9 million, accounting for approximately 46.2% of total revenue for the year ended 31 December 2018 as compared with approximately RMB232.4 million or 38.5% of the Group's revenue in the corresponding period in 2017. The increase in revenue of Miacalcic was due to the increase of brand licensing fee income and sales of Miacalcic Nasal Spray.

Cost of Sales

For the year ended 31 December 2018, cost of sales increased by approximately RMB28.9 million to approximately RMB149.5 million, as compared with approximately RMB120.6 million for the year ended 31 December 2017. The increase in cost of sales was mainly due to the increase in cost of Shusi and, meanwhile, the increased cost of sales of Miacalcic Injection resulted from its increased sales upon the completion of license transfer in respect of the Miacalcic products.

Gross Profit

	For the year ended 31 December			
	2018	**2018**	2017	2017
Products	**Gross Profit**	**Gross Profit Margin**	Gross Profit	Gross Profit Margin
	RMB'000	***(%)***	*RMB'000*	*(%)*
Proprietary products production and sales				
Shusi	**110,947**	**68.5%**	183,863	84.9%
Xi Di Ke	**63,484**	**83.9%**	70,029	85.6%
Zhuo'ao	**23,751**	**65.1%**	20,785	63.8%
Songzhi Wan	**5,084**	**51.1%**	8,915	72.3%
Others	**(4,419)**	**(18.8)%**	(3,876)	(13.4%)
Subtotal	**198,847**	**64.6%**	279,716	75.1%
Miacalcic				
Miacalcic Injection	**175,247**	**81.4%**	69,348	71.3%
Brand licensing fee income of Miacalcic Injection	**5,705**	**100.0%**	127,709	100.0%
Miacalcic Nasal Spray	**2,826**	**80.7%**	–	–
Brand licensing fee income of Miacalcic Nasal Spray	**39,377**	**100.0%**	7,462	100.0%
Subtotal	**223,155**	**84.6%**	204,519	88.0%
Total	**422,002**	**73.8%**	484,235	80.1%

Gross profit decreased by approximately RMB62.2 million to approximately RMB422.0 million in 2018, as compared with approximately RMB484.2 million in 2017. Gross profit margin decreased by 6.3 percentage points to approximately 73.8% for the year ended 31 December 2018, as compared with approximately 80.1% for the corresponding period in 2017. The decrease in gross profit margin was mainly due to the increased cost of sales of Shusi, the decreased average selling price of Xi Di Ke and the increased cost of sales of Miacalcic Injection.

Reportable Segment Results

The operating expenses of the Group increased by approximately RMB676.1 million or 368.4% to approximately RMB859.6 million for the year ended 31 December 2018, as compared with approximately RMB183.5 million in 2017. The Group reported an operating loss of approximately RMB437.6 million for the year ended 31 December 2018, as compared with an operating profit of approximately RMB300.7 million for the corresponding period in 2017. The following table sets forth a breakdown of the Group's adjusted EBITDA by reportable segment for the year ended 31 December 2018:

	For the year ended 31 December			
	2018	**2018**	2017	2017
	RMB'000	*(%)*	*RMB'000*	*(%)*
Proprietary products production and sales	**27,118**	**8.81%**	171,069	45.93%
Miacalcic	**105,578**	**40.01%**	157,034	67.57%
Total	**132,696**	**23.22%**	328,103	54.25%

PROSPECTS AND OUTLOOK

In recent years, driven by the reform of pharmaceutical policies, the pharmaceutical industry in China has been undergoing significant changes. The Group believes that market volatility and uncertainties will continue in the short term, therefore it will face the challenges arising from various new policies on the control of expenditure out of the national medical insurance fund, including collective tender with "4+7 bulk procurement", the two-invoice system, the lowest prices linkage and lowering drug prices. Nevertheless, as a series of important pharmaceutical policies documents have been issued and relevant rules have been released in recent years, such as the new version of Medical Insurance Drugs Catalogs, consistency evaluation, priority evaluation and innovative drugs, the results of industry reform will gradually emerge, and the Group believes that all these will bring structural opportunities for the pharmaceutical industry. In the context of steady progress in the industry and policy pressures, the layout and business environment of the pharmaceutical industry and enterprises in China are undergoing changes, which will create new opportunities and challenges for the subsequent development of the pharmaceutical industry.

In response to such opportunities and challenges, the Group will implement the following strategies in a prudent and careful manner:

1. Focus on core businesses and enhance brand advantages

   The Group will prudently deploy and accurately position its CNS and orthopedics business in the market. By leveraging on the brand superiority and marketing resources of its existing drug – Miacalcic and Shusi, and through strategies such as external acquisitions and brand extension, the Group will develop key products with excellent clinical efficacy and market value and to optimize its product mix for orthopedic treatments. While paying constant attention to both domestic and international market dynamics, the Group will make elaborate planning for the acquisitions of products and develop a thorough plan to upgrade its business in existing fields for better competitiveness of the NT Pharma products in the market as well as sustainable development for its segment.

2. Optimise distribution network and consolidate regional competitiveness

   By optimizing its sales team and combining its own channels with external distribution model, the Group will accelerate the deployment of its comprehensive distribution network and quickly penetrate gaps in the market to strengthen the coverage of the distribution ends of the pharmaceutical market and consolidate its competitive advantages in well-established regions. The Group will also accelerate the development of distribution business for existing products as well as new orthopedic products in future by improving operational efficiency and quality, thus consolidating its leading position as a bone health provider in the market.

3. Focus on the construction of a marketing system and a professional sales team

   The Group attaches great importance to the construction of a marketing system and has established a professional and high-quality sales team which is academic marketing-oriented with refined channels of network marketing. In the future, the Group will continue to strengthen its effort in the construction of the sales team and ensure the professional competence of the team through internal trainings.

4. Enhance overall competitiveness through expanded international cooperation for access to quality resources and advanced technologies

   The Group will further explore cooperation plans with strategic partners overseas by introducing premium products and advanced technologies from outside to accomplish a mutually beneficial cooperation model for the expansion in the pharmaceutical market in the PRC and further support towards the optimization and upgrades of its product mix and business model. Meanwhile, the Group will proactively select bio-tech partners with products pipelines and achievements, and consider various cooperation schemes to enhance its level of scientific research.

5. The Group will actively improve financial structure, and continue to adopt prudent financial management and cost control policies, strengthen the internal control, and optimise management in every aspect to ensure more effective allocation of resources and improvement of operational efficiencies.

HUMAN RESOURCES

As at 31 December 2018, the Group had 665 full time employees (2017: 803 employees). For the year ended 31 December 2018, the Group's total cost on remuneration, welfare and social security amounted to approximately RMB171.4 million (2017: approximately RMB112.9 million).

The remuneration structure of the Group is based on employee performance, local consumption level and prevailing conditions in the human resources market. Directors' remuneration is determined with reference to each Director's experience, responsibilities and prevailing market standards.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The primary objective of the Group's capital management is to maintain the ability to continue as a going concern so that the Group can continue to provide returns for shareholders of the Company and benefits for other stakeholders by proper product pricing and securing access to financing at a reasonable cost. The Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group closely monitors its debt/assets ratio, which is defined as total borrowings divided by total assets.

Foreign Currency Exposure

The Group is exposed to currency risks primarily through sales made by the Group's Hong Kong and PRC subsidiaries, certain bank deposits and bank loans which are denominated in Hong Kong dollars. The Group recorded a net exchange loss of approximately RMB4.3 million for the year ended 31 December 2018, while the net exchange loss of the Group for the year ended 31 December 2017 was approximately RMB1.9 million. Presently, the Group does not employ any financial instruments for hedging against the foreign exchange exposure.

Interest Rate Exposure

The Group's interest rate risk arises primarily from bank loans, unsecured debenture and bank balances. Borrowings at variable rates expose the Group to cash flow interest rate risk. Presently, the Group does not employ any financial instruments to hedge against the interest rate exposure.

Group Debt and Liquidity

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Total debt	**(1,411,632)**	(787,113)
Pledged bank deposits, cash and cash equivalents	**125,793**	212,038
Net debt	**(1,285,839)**	(575,075)

The maturity profile of the Group's borrowings is set out as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Repayable:		
– Within one year	**775,786**	437,764
– After one but within two year	**95,070**	65,764
– After two but within five years	**139,694**	152,527
	1,010,550	656,055

The Group's bank borrowings of approximately RMB859.3 million as at 31 December 2018 (2017: approximately RMB656.1 million) were bank borrowings of approximately RMB587.6 million (2017: approximately RMB433.0 million) made from banks in the PRC at fixed interest rates ranging from 4.30% to 6.19% per annum. As at 31 December 2018, the Group's bank borrowings of approximately RMB271.7 million (2017: approximately RMB223.1 million) made from banks in Hong Kong.

In addition, as at 31 December 2018, the Group's other borrowings amounted to approximately RMB151.3 million in aggregate (2017: Nil) with fixed interest rate ranging from 5.40% to 14.04% per annum.

Debt-to-Assets Ratio

The Group closely monitors its debt-to-assets ratio to optimize its capital structure so as to ensure solvency and the Group's ability to continue as a going concern.

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Total debt	**1,411,632**	787,113
Total assets	**2,227,162**	2,759,719
Debt-to-assets ratio	**63.4%**	28.5%

As at 31 December 2018, bank deposits of the Group of approximately RMB38.0 million (31 December 2017: approximately RMB65.2 million) were pledged to the banks to secure certain bank borrowings and bills payable (31 December 2017: approximately RMB115.9 million). As at 31 December 2018, certain bank and other borrowings facilities of the Group were also secured by the Group's fixed assets and trade receivables which amounted to approximately RMB277.3 million (31 December 2017: approximately RMB84.9 million).

Charge on the Group's Assets

As at 31 December 2018, the Group's bank deposits of approximately RMB38.0 million (31 December 2017: approximately RMB0.1 million) were pledged to the banks to secure certain bank loans and bills payable. As at 31 December 2018, certain banking facilities of the Group were secured by the Group's fixed assets and trade receivables, which amounted to approximately RMB277.3 million (31 December 2018: approximately RMB84.9 million).

Capital Expenditure

Total capital expenditure increased by approximately RMB13.6 million or 5.7% to approximately RMB250.2 million for the year ended 31 December 2018, as compared to approximately RMB236.6 million for the year ended 31 December 2017. The capital expenditure was mainly used for settlement of the consideration payable of exclusive intellectual property rights and distribution rights relating to Miacalcic products.

Capital Commitments

The following table sets forth our capital commitments provided for but not settled as at 31 December 2018:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contracted but not provided for		
– property, plant and equipment	**190**	484
– investment in an associate	**20,000**	20,000
– intangible assets: Teriparatide	**154,422**	–
– intangible assets: computer software	**1,375**	1,325
– intangible assets: Miacalcic Spray	**–**	–
	175,987	21,809

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within one year	**11,917**	14,349
After one year but within five years	**5,281**	16,852
Over five years	**–**	–
	17,198	31,021

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

Significant Investments Held

Except for investments in subsidiaries, the Group did not hold any significant investment in equity interest in any other company for the year ended 31 December 2018.

Material Acquisition and Disposal

During the year ended 31 December 2018, the Group did not have any material acquisition or disposal.

Future Plans for Material Investments and Capital Assets

The Group did not have other plans for material investments and capital assets for the year ended 31 December 2018.

Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

III. FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL RESULTS

In 2017, the Group substantially dedicated its focus on improving its operating profit margins, expanding its proprietary product portfolio and developing its own research and development capabilities. The overall revenue of the Group for the year ended 31 December 2017 increased by approximately RMB245.2 million to approximately RMB604.8 million, as compared with approximately RMB359.6 million for the previous year. Operating profit for the year ended 31 December 2017 improved significantly to approximately RMB269.6 million, as compared with an operating profit of approximately RMB64.6 million for the previous year. The improvement in operating results during the year ended 31 December 2017 was mainly due to increase of contribution from higher-margin self-developed products, such as Miacalcic, Xi Di Ke and Shusi, lower selling and distribution expenses. As a result of the improved operating results, the Group reported a net profit of approximately RMB165.2 million for the year ended 31 December 2017, as compared with a net profit of approximately RMB116.2 million for the previous year, representing a significant increase of approximately 42.2% on a year-on-year basis.

BUSINESS REVIEW

Production Bases

The Group conducts its production through three of its subsidiaries, Suzhou First, Jiangsu Biopharma and Changsha Pharma.

Production Base of Chemical Drugs

Suzhou First is the Group's production base of chemical drugs, which is dubbed a "Hightech Enterprise" in Jiangsu Province. Suzhou First has renewed its certification of Good Manufacturing Practice ("**GMP**") with a total of 129 Drug Registration Certificates issued by the State Food and Drug Administration ("**SFDA**"). The Company is located in the SinoSingaporean Suzhou Industrial Park, covering an area of 150 acres. Among the 20 types of products currently being produced and sold by Suzhou First, "Shusi" (quetiapine fumarate tablets), as its core product and a high-tech product under a famous brand recognized by Jiangsu Province, is a main resort for the therapy of CNS. Zhuo'ao (ambroxol hydrochloride for injection), another product of Suzhou First, is the main resort for respiratory system therapy.

Production Base of Bio-chemical Drugs

Jiangsu Biopharma is a high-tech pharmaceutical enterprise, with its plant located in the Chinese Medicine City in Taizhou, China, which covers an area of 100 acres and is the Group's production base for bio-chemical drugs, mainly for the production of anticancer drugs with the production lines granted the renewed GMP certification in early March 2017. Jiangsu Biopharma owns a new Class I anticancer drug "Xi Di Ke" (uroacitides injection), which has been approved to be used in treatment of non-small cell lung cancer and breast cancer, with its new indication "myelodysplastic syndrome ("**MDS**")" under phase II clinical research. Xi Di Ke has been admitted into the "Major New Drugs Innovation" projects shortlist of the Ministry of Science and Technology.

Production Base of Traditional Chinese Medicine

Changsha Pharma is the Group's production base for traditional Chinese medicine, which is located in the National Bio-industry Base in Changsha, China, covering an area of 50 acres. Granted the renewed GMP certification. Its production lines commenced operation in June 2016. Changsha Pharma owns a new state-class drug known as Songzhi Wan, which is the only traditional Chinese medicine capable of curing hepatitis Type C globally. The development of Songzhi Wan was subsidized by China's "863" Programme.

Core Products

NT Pharma has 121 product registration certificates as approved by CFDA, among which, over 20 products are being sold and produced.

Miacalcic

Miacalcic (generic name: salmon calcitonin), a well-known international orthopedic brand, is mainly used for treatment of bone pain led by osteolysis and lower bone mass, osteoporosis, Paget's disease, hypercalcemia and reflex sympathetic dystrophy syndrome. The Group completed the major transaction on acquisition of Miacalcic Injection in respect of China and other regions from Novartis at a total purchase price of US$145 million in July 2016. In addition, the Group has completed a major transaction of acquiring Miacalcic Nasal Spray at a consideration of US$34 million in October 2017. The sale of Miacalcic in the markets of China and other countries and regions is generally stable in the long term and the sale network covers the whole world. The Group has strategically established its presence in the area of orthopedic treatment to enrich the Company's product mix in orthopedic area.

Xi Di Ke

Xi Di Ke (generic name: uroacitides injection), a national class 1 new drug, is a proprietary product of Jiangsu Biopharma and is approved by the CFDA for the treatment of non-small cell lung cancer and breast cancer. Xi Di Ke was awarded the new Good Manufacturing Practices ("GMP") certification by the CFDA in March 2017 and was officially commercialized in hospitals starting from April. The first prescription of Xi Di Ke was given in June of the same year. In light of the recognition by more and more prescriptions, Xi Di Ke is expected to generate powerful support for the Group's operation and become a major highlight of the Company's future results. Currently, Xi Di Ke has obtained approval and is under the medical insurance coverage in Hubei and Jiangsu Provinces and it intends to make application in Anhui Province, Hunan Province, Guangdong Province and Chongqing.

Shusi

Shusi (generic name: quetiapine fumarate) is a proprietary product of Suzhou First. In December 2013, it was also approved by the CFDA for the treatment of bipolar affective disorder. Shusi is an atypical antipsychotic drug which has proven safety track records and therapeutic effects on first-time psychiatric patients, elderly patients and adolescent patients. It is expected the product will have tremendous growth potential and continue to play an important role in the future growth strategy of the Group. The consistency appraisal of Shusi is under process which we expect to be completed within the year.

Libod

Libod (generic name: doxorubicin hydrochloride liposome injection) is a product for Level-I application for oncology Chemotherapy produced by FDZH with NT Pharma as the exclusive distributor. Since 2014, the Company has been committed to transformation into a comprehensive pharmaceutical company integrating research and development, production and sales of proprietary products and gradual termination of the business of third-party pharmaceutical distribution and promotion. For the sake of strategic change after transformation, the Company will no long engage in the distribution and promotion of Libod after 31 December 2017.

Zhuo'ao

The generic name of Zhuo'ao is ambroxol hydrochloride for injection, which is a proprietary product of Suzhou First primarily used for acute exacerbations of chronic bronchitis, asthmatic bronchitis and bronchial asthma.

Songzhi Wan

Songzhi Wan is the only traditional Chinese medicine capable of curing hepatitis Type C as approved by SFDA, the development of which was included in the Major Scientific and Technical Breakthrough Program under the "10th Five-Year Plan" and the National High Technology Research and Development Program (863 Program) and was subsidized. During the Stage I-II-III clinical research on Songzhi Wan, its drug efficacy and safety have been carefully verified with modern medicine, for which it was finally approved to enter the market with a certificate of new drug. It was officially commercialized at hospitals in June 2016. In September 2017, NT Pharma launched the "Real World Study on Songzhi Wan" for joint discussion with liver specialists on the treatment strategy and Real World Study of Songzhi Wan to create the first brand of traditional Chinese medicine for treatment of chronic hepatitis Type C. Meanwhile, through co-operation and R&D with the University of Hong Kong, the Company is going to develop a new formula to improve its drug efficacy.

Segment Information

Revenue

	For the year ended 31 December							
	2017 Sales volume *'000*	2017 Unit price *RMB*	2017 Sales amount *RMB'000*	2017 Proportion *(%)*	2016 Sales volume *'000*	2016 Unit price *RMB*	2016 Sales amount *RMB'000*	2016 Proportion *(%)*
Proprietary products production and sales								
Shusi	**7,215**	**30.0**	**216,689**	**35.8%**	7,257	28.4	205,872	57.3%
Xi Di Ke	**169**	**485.3**	**81,824**	**13.5%**	–	–	–	–
Zhuo'ao	**20,621**	**1.6**	**32,603**	**5.4%**	30,507	1.2	37,124	10.3%
Songzhi Wan	**98**	**126.5**	**12,335**	**2.0%**	108	333.0	35,895	10.0%
Others	**19,975**	**1.5**	**29,004**	**4.8%**	19,045	1.8	34,891	9.7%
Subtotal			**372,455**	**61.5%**			313,782	87.3%
Miacalcic								
Miacalcic Injection	**546**	**178.1**	**97,220**	**16.1%**	–	–	–	–
Brand licensing fee income of Miacalcic Injection	**1,193**	**107.0**	**127,709**	**21.2%**	–	N/A	45,827	12.7%
Brand licensing fee income of Miacalcic Nasal Spray	**44**	**169.6**	**7,462**	**1.2%**	–	–	–	–
Subtotal			**232,391**	**38.5%**			45,827	12.7%
Total			**604,846**	**100.0%**			359,609	100.0%

The revenue from proprietary products production and sales increased by approximately RMB58.7 million to approximately RMB372.5 million, accounting for approximately 61.5% of the total revenue in 2017, as compared with approximately RMB313.8 million or 87.3% of the Group's revenue in 2016. The increase in revenue from proprietary products production and sales was due to two reasons. Firstly, Xi Di Ke was launched for sale in the market in April 2017, bringing revenue contribution to the Company of approximately RMB81.8 million for the year ended 31 December 2017. Secondly, Shusi recorded an increase in sales. The increase in revenue of Shusi was primarily due to increased market demand as well as improved management of inventory in the distribution channels which resulted in an increase of RMB1.6 in the average commercial selling price per unit to RMB30.0 for the year ended 31 December 2017 from RMB28.4 for the corresponding period in 2016.

The Company completed the acquisition of Miacalcic Nasal Spray in October 2017, after the completion of the acquisition and settlement in respect of Miacalcic Injection in July 2016, bringing brand licensing fee income contribution to the Company of approximately RMB232.4 million for the year ended 31 December 2017 as compared to approximately RMB45.8 million for 2016.

Cost of Sales

For the year ended 31 December 2017, cost of sales increased by approximately RMB14.8 million to RMB120.6 million, as compared with approximately RMB105.8 million for the year ended 31 December 2016. The increase in cost of sales during the year was mainly due to the increase in sales of Miacalcic and Shusi.

Gross Profit

	For the year ended 31 December			
Products	**2017 Gross Profit** *RMB'000*	**2017 Gross Profit Margin** *(%)*	2016 Gross Profit *RMB'000*	2016 Gross Profit Margin *(%)*
Proprietary products production and sales				
Shusi	**183,863**	**84.9%**	161,868	78.6%
Xi Di Ke	**70,029**	**85.6%**	–	–
Zhuo'ao	**20,785**	**63.8%**	19,292	52.0%
Songzhi Wan	**8,915**	**72.3%**	31,654	88.2%
Others	**(3,876)**	**(13.4%)**	(4,808)	(13.8)%
Subtotal	**279,716**	**75.1%**	208,006	66.3%
Miacalcic				
Miacalcic Injection	**69,348**	**71.3%**	–	–
Brand licensing fee income of Miacalcic Injection	**127,709**	**100.0%**	45,827	100.0%
Brand licensing fee income of Miacalcic Nasal Spray	**7,462**	**100.0%**	–	–
Subtotal	**204,519**	**88.0%**	45,827	100.0%
Total	**484,235**	**80.1%**	253,833	70.6%

The gross profit margin increased by 9.5 percentage point to 80.1% for the year ended 31 December 2017, as compared with 70.6% for the corresponding period in 2016. The increase in gross profit margin was mainly due to higher average selling price and sales contribution of products with higher gross profit margin, including Xi Di Ke, Shusi, and revenue contribution from Miacalcic.

Reportable Segment Operating Profit

The operating expenses of the Group increased by RMB44.0 million or 30.0% to RMB192.5 million for the year ended 31 December 2017, as compared with RMB148.6 million for the corresponding period in 2016. The Group reported an operating profit of RMB291.7 million for the year ended 31 December 2017, as compared with RMB105.3 million for the corresponding period in 2016. The following table sets forth a breakdown of the Group's operating profit by reportable segment for the year ended 31 December 2017:

	For the year ended 31 December			
	2017	**2017**	2016	2016
	Operating Profit	**Operating profit margin**	Operating Profit	Operating profit margin
	RMB'000	***(%)***	*RMB'000*	*(%)*
Proprietary products production and sales	**134,615**	**36.2%**	59,917	19.1%
Miacalcic	**166,084**	**71.5%**	45,365	99.0%
Total	**300,699**	**49.7%**	105,282	29.3%

PROSPECTS AND OUTLOOK

The Chinese government continues to commit resources to and invest in the healthcare sector as part of its long-term healthcare reform plan. Although more stringent regulations may create short-term operating pressures, NT Pharma believes that a better regulated market will ultimately bring opportunities to healthcare companies in China and enable the healthcare industry in China to maintain its growth in the long term. The Group believes that the growth of the healthcare industry in China is supported by a combination of favorable factors, including the size of an increasing ageing population, the Chinese government's commitment to improve access to healthcare services and better affordability from rising disposable income. With the Chinese government's continual reforms on the healthcare sector, NT Pharma has redefined its long-term growth strategies in accordance with the changing landscape of the industry. Going forward, NT Pharma will continue to refine and reinforce its strategies: the Group will actively conduct R&D of innovative drugs for driving the Group's profit growth and fully develop the market potential of brand drugs and generic drugs, achieving the economies of scale for the Group through boosting sales performance of various drugs. The Group will continue to proactively identify opportunities to acquire quality products to enrich its product portfolio, focusing on three main aspects including psychiatry, orthopedics, hematology and oncology. Also, the Group will speed up its external development through vertical strategic acquisition, so as to reach synergistic effect through integration with its existing products and gather the momentum for sustainable development of the Group.

The Group has been in the field of medical and healthcare industry for over 20 years and strived to build the Company to be an excellent medical and healthcare enterprise. In the future, the entire staff of NT Pharma will endeavor to deliver outstanding performance with progressive growth and constant innovation by seizing opportunities presented by various policies under the healthcare reform, upholding the advanced operation philosophies, taking advantage of extensive industry experience and expertise and leveraging our strong marketing network. Looking forward, the management is confident about our capability for creating more value for our customers, shareholders and patients, laying a solid foundation for the sustainable development for the Company.

HUMAN RESOURCES

As at 31 December 2017, the Group had 803 fulltime employees (2016: 582 employees). For the year ended 31 December 2017, the Group's total cost on remuneration, welfare and social security amounted to RMB112.9 million (2016: RMB64.6 million).

The Group is in good relationship with its employees and some policies have been carried out to make sure the employees can acquire competitive remuneration, good welfare and continuous professional training.

The remuneration structure of the Group is based on employee performance, local consumption level and prevailing conditions in the human resources market. Directors' remuneration is determined with reference to each Director's experience, responsibilities and prevailing market standards.

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund retirement benefits scheme in Hong Kong and various retirement benefits schemes including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees of the Group pursuant to the PRC rules and regulations and the prevailing regulatory requirements of the PRC. The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a share option scheme ("New Share Option Scheme") adopted by the Company on 22 September 2014, and a share award scheme ("New Share Award Scheme") adopted on 4 September 2015, where options to subscribe for shares and share awards may be granted to the Directors and employees of the Group.

The Group made considerable efforts in continuing education and training programs for its staff, to continuously enhance their knowledge, skills and team spirit. The Group regularly provided internal and external training courses for relevant staff according to their needs.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The primary objective of the Group's capital management is to maintain the ability to continue as a going concern so that the Group can continue to provide returns for shareholders of the Company and benefits for other stakeholders by proper product pricing and securing access to financing at a reasonable cost. The Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group closely monitors its debt/assets ratio, which is defined as total borrowings divided by total assets.

Foreign Currency Exposure

The Group is exposed to currency risks primarily through sales made by the Group's Hong Kong and PRC subsidiaries, certain bank deposits and bank loans which are denominated in Hong Kong dollars. The Group recorded a net exchange loss of RMB1.9 million for the year ended 31 December 2017, while the net exchange loss of the Group for the year ended 31 December 2016 was RMB0.6 million. Presently, the Group does not employ any financial instruments for hedging against the foreign exchange exposure.

Interest Rate Exposure

The Group's interest rate risk arises primarily from bank loans, unsecured debenture and bank balances. Borrowings at variable rates expose the Group to cash flow interest rate risk. Presently, the Group does not employ any financial instruments to hedge against the interest rate exposure.

Group Debt and Liquidity

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Total debt	**(787,113)**	(892,449)
Pledged bank deposits, cash and cash equivalents	**212,038**	222,624
Net debt	**(575,075)**	(669,825)

The maturity profile of the Group's borrowings is set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Repayable:		
Within 1 year or on demand	**656,055**	892,449

The Group's bank borrowings of approximately RMB656.1 million as at 31 December 2017 (2016: RMB703.5 million) were bank borrowing of approximately RMB433.0 million (2016: RMB272.0 million) made from banks in the PRC at fixed interest rates ranging from 4.3% to 6.5% per annum. As at 31 December 2017, the Group's bank borrowing of approximately RMB223.1 million (2016: RMB420.5 million) made from banks in Hong Kong.

In addition, as at 31 December 2017, the Group had no other loans (2016: RMB189.0 million).

Debt-to-Assets Ratio

The Group closely monitors its debt-to-assets ratio to optimize its capital structure so as to ensure solvency and the Group's ability to continue as a going concern.

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Total debt	**787,113**	892,449
Total assets	**2,759,719**	2,562,739
Debt-to-assets ratio	**28.5%**	34.8%

Charges on the Group's Assets

As at 31 December 2017, bank deposits of the Group of RMB65.2 million (31 December 2016: RMB133.0 million) were pledged to the banks to secure certain bank loans and bills payable amounting to a total of RMB115.9 million (31 December 2016: RMB151.0 million). As at 31 December 2017, certain banking facilities of the Group were also secured by the Group's fixed assets which amounted to RMB84.9 million (31 December 2016: RMB244.9 million).

Capital Expenditure

Total capital expenditure decreased by RMB806.1 million or 77.3% to RMB236.6 million for the year ended 31 December 2017, as compared to RMB1,042.7 million for the year ended 31 December 2016. The capital expenditure was mainly used for acquiring the exclusive intellectual property rights and distribution rights relating to Miacalcic Injectable drug products.

Capital Commitments

The following table sets forth our capital commitments provided for but not settled as at 31 December 2017:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Contracted but not provided for		
– property, plant and equipment	**484**	474
– investment in an associate	**20,000**	28,000
– intangible assets: computer software	**1,325**	2,300
– intangible assets: Miacalcic Spray	**–**	450,905
	21,809	481,679

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**14,349**	14,001
After 1 year but within 5 years	**16,852**	29,963
Over 5 years	**–**	313
	31,021	44,277

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

Significant Investments Held

Except for investments in subsidiaries, the Group did not hold any significant investment in equity interest in any other company for the year ended 31 December 2017.

Material Acquisition and Disposal

In October 2017, NT Pharma International Company Limited, a company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company ("NT Pharma HK") as the purchaser entered into (i) an asset purchase agreement (the "Asset Purchase Agreement") with Novartis AG and Novartis Pharma AG, companies organised under the laws of Switzerland (collective called "Novartis") pursuant to which Novartis agreed to transfer to NT Pharma HK certain pharmaceutical product in the form of a spray that is approved, marketed, distributed and/or sold by Novartis and its affiliates (the "Miacalcic Spray Transferred Assets"); and (ii) the License Agreement with Novartis, pursuant to which Novartis agrees to grant licenses for the respective assets (the "Licensed Asset") in China and other countries and territories. The purchase price for the Miacalcic Spray Transferred Assets and provision of licenses for the Licensed Assets would be US$34 million (equivalent to approximately RMB225.5 million).

Future Plans for Material Investments and Capital Assets

The Group did not have other plans for material investments and capital assets for the year ended 31 December 2017.

Contingent Liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

Set out below is the management discussion and analysis of Kangchen for the three years ended 31 December 2017, 2018 and 2019 (the "**Track Record Period**"), which is based on the accountants' report of Kangchen as set out in Appendix II(B) to this circular.

BUSINESS REVIEW

Kangchen was established in June 2017 by Beijing Konruns. It is a domestic pharmaceutical commercial distribution company located in Beijing, China. Kangchen has obtained the Good Supply Practices for Pharmaceutical Products Certificate (GSP Certificate, Certificate No. A-BJ19-N0001, valid until 6 January 2024) issued by the Beijing Drug Administration (formerly known as the State Food and Drug Administration), and it is engaged in pharmaceutical wholesale business. As at today, the drugs distributed by Kangchen include orthopaedics, digestive system, hemostatic and antibiotics drugs.

FINANCIAL REVIEW

Revenue

During the Track Record Period, the revenue of Kangchen was generated from the sales of pharmaceutical products. For the years ended 31 December 2017, 2018 and 2019, the revenue of Kangchen was approximately RMB0.0 million, RMB7.1 million and RMB22.6 million, respectively. The overall growth of Kangchen's revenue was mainly attributable to (i) the increasing varieties and growth of pharmaceutical products sold by Kangchen during the Track Record Period and (ii) the increasing number of downstream customers and channels.

Cost of Sales

For the years ended 31 December 2017, 2018 and 2019, the costs of sales of Kangchen were approximately RMB0.0 million, RMB7.0 million and RMB22.2 million, respectively. The overall increase in the cost of sales of Kangchen was primarily attributed to the expansion of its business scale, which was in line with the increase in its revenue during the Track Record Period.

Gross Profit

For the years ended 31 December 2017, 2018 and 2019, the gross profits of Kangchen were approximately RMB0.0 million, RMB0.1 million and RMB0.4 million, respectively. Kangchen's gross profit was relatively low due to the relatively low gross profit margin of commercial distribution of pharmaceutical products industry. Meanwhile, Kangchen is at its initial stage of establishment, as such, profitability is not a priority.

Selling and Marketing Expenses

For the years ended 31 December 2017, 2018 and 2019, the gross selling and marketing expenses of Kangchen were approximately RMB0.0 million, RMB0.2 million and RMB0.4 million, respectively, which were mainly warehousing and logistics expenses incurred in business and salaries for sales personnel.

Administrative Expenses

For the years ended 31 December 2017, 2018 and 2019, the administrative expenses of Kangchen amounted to approximately RMB0.0 million, RMB1.4 million and RMB1.8 million, respectively, which were mainly staff salaries and office premises rental expenses.

Other Income and Net Gains

For the years ended 31 December 2017, 2018 and 2019, the other income and net gains amounted to approximately RMB0.0 million.

Net Finance Income/(Costs)

For the years ended 31 December 2017, 2018 and 2019, the financing incomes of Kangchen were approximately RMB0.0 million, RMB0.7 million and RMB0.6 million, respectively, which were mainly income from wealth management products of banks.

For the years ended 31 December 2017, 2018 and 2019, the finance costs of Kangchen were approximately RMB0.0 million.

Income Tax Expense

The income tax expenses of Kangchen were PRC enterprise income tax (net of deferred tax). For the years ended 31 December 2017, 2018 and 2019, Kangchen's income tax expenses were approximately RMB0.0 million. As a new enterprise established in 2017, Kangchen was not profitable and hence not subject to income tax.

Profit for the Year Attributable to Owners of Kangchen

For the years ended 31 December 2017, 2018 and 2019, the losses for the years attributable to owners of Kangchen were approximately RMB0.0 million, RMB1.1 million, and RMB1.1 million, respectively. As a new enterprise established in 2017, Kangchen was not been profitable.

Account Receivable/Account Payable

The receivables and payables of Kangchen were mainly receivables from customers and payables to suppliers during the course of operation in commercial distribution of pharmaceutical products.

As at 31 December 2017, 2018 and 2019, account receivables of Kangchen amounted to approximately RMB0.0 million, RMB4.4 million and RMB5.9 million respectively and account payables amounted to approximately RMB0.0, RMB2.1 million, RMB4.8 million, respectively.

The increase in Kangchen's account receivables and account payables arising from operation was in line with the increase in the revenue of Kangchen during the Track Record Period.

Liquidity and Financial Resources

During the Track Record Period, the cash and cash equivalents of Kangchen were mainly contributed by Beijing Konruns and as at 31 December 2017, 2018 and 2019, the cash and cash equivalents of Kangchen were approximately RMB3.0 million, RMB19.5 million and RMB18.5 million, respectively. Kangchen expects that cash flow from operations will become the main source of liquidity.

Debts, Charges on Assets and Debt-to-Asset Ratio

During the Track Record Period, Kangchen did not have any borrowings and did not pledge any of its assets. As at 31 December 2017, 2018 and 2019, the debt-to-asset ratio of Kangchen was 0%.

Significant Investments and Material Acquisitions and Disposals

During the Track Record Period, Kangchen did not have any material investment, acquisition or disposal.

Future Plans for Material Investments and Capital Assets

As at 31 March 2020, Kangchen did not have any future plans for major investments and major capital asset acquisitions.

Contingent Liabilities

As at 31 December 2017, 2018 and 2019, Kangchen did not have any material contingent liabilities.

Foreign Exchange Risks

During the Track Record Period, the business of Kangchen was conducted in the PRC with its income and expenses denominated in RMB. In view of this, Kangchen did not have significant risks associated with exchange rate fluctuations, nor did it enter into any contracts to hedge foreign currency risks.

Employees and Remuneration Policy

The remuneration policies adopted by Kangchen are similar to those of peers in the industry and are reviewed periodically. Salaries paid to the employees are determined by referring to the responsibilities and prevailing market rates in the region. To reward the employees' contributions, Kangchen grants discretionary bonuses based on annual performance evaluations. Kangchen also complies with the statutory requirements applicable to the PRC and local governments by enrolling its employees in various social welfare schemes.

As at 31 December 2017, 2018 and 2019, Kangchen had 236, 263 and 286 employees, respectively. For the years ended 31 December 2017, 2018 and 2019, total remunerations (including contributions to pension, social insurance and other employee benefits) of Kangchen were approximately RMB0.0 million, RMB0.9 million and RMB1.7 million, respectively.

Set out below is the management discussion and analysis of the Remaining Group for the three years ended 31 December 2017, 2018 and 2019.

I. FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL RESULTS

The overall revenue of the Remaining Group from continuing operations for the year ended 31 December 2019 decreased by approximately RMB154.2 million to approximately RMB153.5 million, as compared with approximately RMB307.7 million for the year ended 31 December 2018. Operating loss from continuing operations for the year ended 31 December 2019 increased by approximately RMB335.7 million to approximately RMB250.8 million, as compared with an operating loss of approximately RMB586.5 million for the year ended 31 December 2018. The Remaining Group recorded a loss of approximately RMB364.9 million for the year ended 31 December 2019, as compared with a loss of approximately RMB1,069.3 million for the year ended 31 December 2018, representing a decrease of approximately 65.9% on a year-on-year basis.

BUSINESS REVIEW

In 2019, the global economic growth decelerated due to the factors including the China-US trade friction and increasing debt levels. Under an external environment which was extremely complicated, the General Office of the State Council issued the "Key Tasks in 2019 to Deepen the Reform of Medical and Health System"* (深化醫藥衛生體制改革2019重點工作任務), which included 15 policy documents and 21 work arrangements. The policies and tasks in respect of the pharmaceutical industry included the promotion of centralised drug procurement and pilot test locations coordinated by the government. For drugs that are clinically indispensable, shortage-prone or difficult to substitute, measures such as the strengthening of reserve, centralized procurement and targeted production were adopted to secure the supply of drugs. Also, improvements were made to the Medical Insurance Drugs Catalogs* (醫保藥品目錄). In particular, the centralized procurement system of drugs in the "4+7" major cities were further implemented across the nation under the leadership of the National Healthcare Security Administration. While pharmaceutical companies were facing the pressure of price reduction, the pharmaceutical industry became further concentrated, resulting in a more severe and challenging business environment for the small and medium-sized generic drug companies.

Under this tough and adverse business environment, the Group encountered multiple challenges including shortage of resources and high cost of sales. Due to the higher debt level of the Group as a result of previous acquisitions and business expansion, its financial cost continued to increase, which further increased the pressure on its liquidity. In addition, the Group implemented measures to optimise our product mix during the year ended 31 December 2019 by focusing on the areas of central nervous system (the "**CNS**") as the core and promoting the sales of Shusi.

The revenue of the Remaining Group was approximately RMB153.5 million, representing a decrease of approximately 50.1% as compared to approximately RMB307.7 million recorded for the year ended 31 December 2018. The decrease was mainly attributable to (i) the change in industry policies, change in sales model and decrease in price; (ii) a decline in sales volume of Xi Di Ke (generic name: uroacitides injection) and Songzhi Wan due to the lack of ability to intensify the marketing efforts under the context of tight resources.

CNS

Shusi (generic name: quetiapine fumarate tablets) is the Remaining Group's major product in the area of CNS. It is the first proprietary product which is developed, manufactured and sold by the Remaining Group. Shusi is mainly used for the treatment of schizophrenia and maniacalis insultus as a result of bipolar affective disorder, which is an atypical antipsychotic first-tier drug. Shusi has been in the market for more than 15 years since its debut in 2003. It has developed a strong brand image which is widely recognized by clinical practitioners and the market.

During the year ended 31 December 2019, the Remaining Group has completed all the tasks involving consistency evaluations in pharmaceutical development, production transfers and clinical bioequivalence. On 2 January 2020, the Remaining Group received a certification of consistency evaluation for the generic drug quetiapine fumarate tablets (Shusi) from the National Medical Products Administration (國家藥品監督管理局). The completion of the consistency evaluation does not only represent the recognition of Shusi's drug quality and therapeutic effect, but also facilitates the acceptance of Shusi in the field of clinical psychiatry, posing a positive effect on expanding the market share of quetiapine.

Oncology and Hematology

The Remaining Group's main product in the area of oncology and hematology is Xi Di Ke.

Xi Di Ke, a national class 1 new drug, has been approved by the National Medical Products Administration* (國家藥品監督管理局) for the treatment of non-small cell lung cancer and terminal breast cancer. The product has successfully been admitted into the Medical Insurance Reimbursement Drug List of four provinces, including Jiangsu, Anhui, Hubei and Hunan. During the year ended 31 December 2019, the Remaining Group pushed forward the work of clinical trials on Xi Di Ke in new Myelodysplastic Syndrome (the "**MDS**") indications. Due to the high pressure on liquidity, the Remaining Group was unable to put a lot of resources in marketing promotions and medical forums, and as such the product did not generate a new source of revenue for the Remaining Group during the year ended 31 December 2019.

Revenue

	For the year ended 31 December							
	2019 Sales volume	**2019 Unit price**	**2019 Sales amount**	**2019 Proportion**	2018 Sales volume	2018 Unit price	2018 Sales amount	2018 Proportion
	'000	***RMB***	***RMB'000***	***(%)***	*'000*	*RMB*	*RMB'000*	*(%)*
Proprietary products production and sales								
Shusi	**3,692**	**28.7**	**106,133**	**69.2%**	5,314	30.5	161,921	52.6%
Xi Di Ke	**1**	**1,067.0**	**1,067**	**0.7%**	165	457.6	75,710	24.6%
Zhuo'ao	**12,203**	**2.1**	**25,339**	**16.5%**	16,828	2.2	36,502	11.9%
Songzhi Wan	**–**	**–**	**–**	**–**	73	136.4	9,957	3.2%
Others	**15,346**	**1.4**	**20,939**	**13.6%**	15,625	1.5	23,576	7.7%
Total			**153,468**	**100%**			307,666	100%

The revenue from manufacturing and sales of proprietary products of the Remaining Group decreased by approximately RMB154.2 million to approximately RMB153.5 million, as compared with approximately RMB307.7 million in the corresponding period in 2018. The decrease in revenue from manufacturing and sales of proprietary products was due to the negative impact brought by the unit price adjustment of propriety products including Shusi and Zhuo'ao after the shift of sales model to Suzhou First being responsible for sales during the year ended 31 December 2019.

Cost of Sales

For the year ended 31 December 2019, cost of sales decreased by approximately RMB45.6 million to approximately RMB63.2 million, as compared with approximately RMB108.8 million for the corresponding period in 2018. The decrease in cost of sales was mainly due to the corresponding decrease in revenue of sales of Shusi and Xi Di Ke during the year ended 31 December 2019.

Gross Profit

	For the year ended 31 December			
	2019 Gross Profit *RMB'000*	**2019 Gross Profit Margin** *(%)*	2018 Gross Profit *RMB'000*	2018 Gross Profit Margin *(%)*
Proprietary products production and sales				
Shusi	**78,377**	**73.8%**	110,947	68.5%
Xi Di Ke	**966**	**90.5%**	63,484	83.9%
Zhuo'ao	**14,494**	**57.2%**	23,751	65.1%
Songzhi Wan	**–**	**–**	5,084	51.1%
Others	**(3,580)**	**(17.1%)**	(4,419)	(18.8%)
Total	**90,257**	**58.8%**	198,847	64.6%

The gross profit of the Remaining Group decreased by approximately RMB108.5 million to approximately RMB90.3 million for the year ended 31 December 2019, as compared with approximately RMB198.8 million in the corresponding period in 2018. Gross profit margin decreased by 5.8 percentage points to approximately 58.8% for the year ended 31 December 2019, as compared with approximately 64.6% for the corresponding period in 2018. The decrease in gross profit margin was mainly due to the decrease in average selling prices and sales contribution of products with higher gross profit margin such as Shusi as a result of the change in sales model, price adjustment and change in business partner which resulted in a decrease of revenue of the relevant products with higher gross profit.

Reportable Segments

Operating Profit

The operating expenses of the Remaining Group decreased by approximately RMB180.1 million or 41.2% to approximately RMB257.0 million for the year ended 31 December 2019, as compared with approximately RMB437.1 million for the corresponding period in 2018. The Remaining Group reported an operating loss of approximately RMB166.7 million for the year ended 31 December 2019, as compared with an operating loss of approximately RMB238.3 million for the corresponding period in 2018.

PROSPECTS AND OUTLOOK

Going forward, considering the series of pharmaceutical policies that have been issued, the Remaining Group believe that the policies regarding the proportion of medicine sales in the revenue of hospitals will change the mode of medication usage of medical institutions, while the use of adjuvant drugs will be reduced on the one hand, the use of high clinical value and good efficacy drugs towards chronic diseases will be increased on the other. The Remaining Group's Shusi are included in the National Drug Reimbursement List and, is recommended by clinical guidelines; meanwhile, Shusi is also included in the National Essential Drug List. The management expects the continuous implementation of rational drug use by Chinese hospitals and reduction in the proportion of medicine sales in the total healthcare revenue in 2020 will bring a positive influence to the sales of the Remaining Group's drugs. Moreover, according to the requirements of the Administrative Measures for Prescription* (處方管理辦法), hospitals cannot prescribe dosages of over seven days for prescription drugs. This results in frequent hospital follow-ups and drug collections by chronic disease patients and creates a great demand for outpatient service and resources. According to documents such as Opinion on Speeding Up the High-quality Development of Pharmaceutical Services* (關於加快藥學服務高質量發展的意見), Healthy China 2030 Planning Outline* (「健康中國2030」規劃綱要) and Guiding Opinions of the State Council on Actively Promoting the "Internet Plus" Action* (國務院關於積極推進「互聯網+」行動的指導意見), there is a new direction for the management of long-term prescriptions for chronic illnesses, and we expect that prescription drugs for chronic diseases to be sold in pharmacies and through the internet in the future and will become a new norm. The above policies relating to chronic diseases is favorable to the sales and development of Shusi. The management believe that Shusi will be sold through hospital, pharmacies and internet after 2020 and their market shares will increase within the next three to five years.

The Remaining Group will focus on the treatment of chronic diseases, continue to position psychiatry products as strategic focuses and actively promote the sales of Shusi. Meanwhile, the Remaining Group will further optimise its sales and management system, continuously strengthen its marketing efforts and achieve a sustainable development of its products, sales channels and markets. At the same time, the Remaining Group will actively identify different options, optimize its business and portfolio to further improve the Remaining Group's financial situation on the one hand, and explore any cooperation mode to build a more competitive platform for its products through complementary advantages on the other hand. Moreover, the Remaining Group will actively explore business cooperation, while closely following pharmaceutical policies and industry trends, improving the Remaining Group's competitiveness, grasping the opportunities of industry adjustment and after the end of the COVID-19 epidemic, and maintaining the momentum for a sustainable development of the Remaining Group.

The Remaining Group has adopted a more stringent financial management and internal monitoring systems for further improvement of its business operation and financial position.

HUMAN RESOURCES

As at 31 December 2019, the Remaining Group had 275 full-time employees (31 December 2018: 496 full-time employees). For the year ended 31 December 2019, the Remaining Group's total cost on remuneration, welfare and social security amounted to approximately RMB56.9 million (31 December 2018: approximately RMB107.6 million).

The remuneration structure of the Remaining Group is based on employee performance, local consumption levels and prevailing conditions in the human resources market. Directors' remunerations are determined with reference to individual Director's experience, responsibilities and prevailing market standards.

On top of basic salaries, bonuses may be paid according to the Remaining Group's performance as well as individual's performance. Other staff benefits include contributions to the Mandatory Provident Fund retirement benefits scheme in Hong Kong and various retirement benefits schemes including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees of the Remaining Group pursuant to the PRC rules and regulations and the prevailing regulatory requirements of the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The primary objective of the Remaining Group's capital management is to maintain its ability to continue as a going concern so that the Remaining Group can constantly provide returns for shareholders of the Company and benefits for other stakeholders by implementing proper product pricing and securing access to financing at reasonable costs. The Remaining Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration the changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Remaining Group closely monitors its debt/assets ratio, which is defined as total borrowings divided by total assets.

Foreign Currency Exposure

The Remaining Group is exposed to currency risks primarily through sales made by the Remaining Group's Hong Kong and PRC subsidiaries, certain bank deposits and bank loans which are denominated in Hong Kong dollars. The Remaining Group recorded a net exchange loss of approximately RMB2,000 for the year ended 31 December 2019, while the net exchange loss of the Group for the year ended 31 December 2018 was approximately RMB150,000. Currently, the Remaining Group does not employ any financial instruments to hedge against foreign exchange risk.

Interest Rate Exposure

The Remaining Group's interest rate risk arises primarily from bank loans, unsecured debenture and bank balances. Borrowings at variable rates expose the Remaining Group to cash flow interest rate risk. Currently, the Remaining Group does not employ any financial instruments to hedge against interest rate risk.

Group Debt and Liquidity

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Total debt	**(1,282,254)**	(1,139,898)
Time deposits, pledged bank deposits, cash and cash equivalents	**112,474**	122,918
Net debt	**(1,169,780)**	(1,016,980)

The maturity profile of the Remaining Group's borrowings is set out as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Repayable:		
– Within one year	**733,335**	694,266
– After one but within two years	**36,000**	13,550
– After two but within five years	**59,706**	31,000
Net debt	**829,041**	738,816

The Remaining Group's bank borrowings as at 31 December 2019 were approximately RMB598.1 million (31 December 2018: approximately RMB587.6 million) with fixed interest rates ranging from 4.3% to 6.3% per annum.

Debt-to-Assets Ratio

The Remaining Group closely monitors its debt-to-assets ratio to optimize its capital structure so as to ensure solvency and the Remaining Group's ability to continue as a going concern.

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Total debt	**1,259,618**	1,134,680
Total assets	**765,395**	955,046
Debt-to-assets ratio	**164.6%**	118.8%

Charges on the Remaining Group's Assets

As at 31 December 2019, the Remaining Group's bank deposits of approximately RMB40.0 million (31 December 2018: approximately RMB38.0 million) were pledged to the banks to secure certain bank loans and bills payable. As at 31 December 2019, certain banking facilities of the Remaining Group were secured by the Remaining Group's fixed assets and trade receivables, which amounted to approximately RMB271.1 million (31 December 2018: approximately RMB277.3 million).

Capital Expenditure

Total capital expenditure spent for the year ended 31 December 2019 increased by approximately RMB57.3 million or 191.6% to approximately RMB87.2 million, as compared with approximately RMB29.9 million for the corresponding period in 2018, which was mainly used for acquiring property, plant and equipment in Suzhou and intangible assets relating to the work of clinical trials on Xi Di Ke.

Capital Commitments

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Contracted but not provided for		
– property, plant and equipment	**–**	190
– investment in an associate	**20,000**	20,000
– intangible assets: computer software	**–**	1,375
	20,000	21,565

As at 31 December 2019, the Remaining Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within one year	**2,877**	11,917
After one year but within five years	**–**	5,281
	2,877	17,198

The Remaining Group is the lessee of a number of properties under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

Significant Investments Held

Except for investments in its subsidiaries, the Remaining Group did not hold any significant investment in equity interest in any other company for the year ended 31 December 2019.

Material Acquisition and Disposal

Reference is made to the announcement of the Company dated 10 July 2019 in relation to the conditional acquisition agreements dated 25 June 2019 entered into among, among others, the Company and WD Investment Co., Ltd and other parties (the "**Acquisition Agreements**") and the conditional subscription agreements entered into among, among others, the Company and Hong Kong WD Pharmaceutical Co., Limited (the "**Target Company**") and other parties (the "**Subscription Agreements**"), pursuant to which the Company will be interested in approximately 52.0% of the total issued share capital of the Target Company upon completion of the acquisition and subscription and the Target Company will become a non-wholly-owned subsidiary of the Company (the "**Proposed Transactions**"). On 19 November 2019, the Company and the relevant parties entered into a termination agreement to terminate the Acquisition Agreements with immediate effect. On the same day, the Company and the relevant parties entered into a termination agreement to terminate the Subscription Agreements with immediate effect. As a result of the above termination agreements, the Proposed Transactions will not proceed.

The Board considers that the termination of the Acquisition Agreements and the Subscription Agreements will not have any material adverse effect on the operation and financial position of the Group. Please also refer to the announcements of the Company dated 10 July 2019, 30 July 2019, 30 September 2019, 30 October 2019 and 19 November 2019 for further details. Save as disclosed above, the Remaining Group did not have any other material acquisition or disposal for the year ended 31 December 2019.

Future Plans for Material Investments and Capital Assets

The Remaining Group did not have other plans for material investments and capital assets for the year ended 31 December 2019.

Contingent Liabilities

As at 31 December 2019, the Remaining Group had no material contingent liabilities.

II. FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL RESULTS

The overall revenue of the Remaining Group from continuing operations for the year ended 31 December 2018 decreased by approximately RMB64.8 million to approximately RMB307.7 million, as compared with approximately RMB372.5 million for the year ended 31 December 2017. Operating loss from continuing operations for the year ended 31 December 2018 decreased by approximately RMB699.0 million to approximately RMB586.5 million, as compared with an operating profit of approximately RMB112.5 million for the year ended 31 December 2017. The Remaining Group recorded a net loss of approximately RMB1,069.3 million for the year ended 31 December 2018, as compared with a net profit of approximately RMB4.6 million for the year ended 31 December 2017.

BUSINESS REVIEW

2018 was an important year for the reform of pharmaceutical policy in China, during which the pharmaceutical industry and the business environment as a whole were going through adjustments in every aspect. Manufacturing enterprises, at the upstream end of the pharmaceutical industry, have been successively harvesting from key reform results in terms of consistency evaluation and the expedited evaluation and approval of innovative drugs. With the Chinese government's encouragement in research and development innovation and quality improvement, pharmaceutical companies had to upgrade their existing products, and at the same time intensify the development of new drugs to increase their competitiveness. Marketing companies, located at the midstream of the pharmaceutical industry, experienced lower sales profits under a restructured sales model as a result of the implementation of the "Two-Invoice System". For the patients and national medical insurance at the downstream of the pharmaceutical industry, the budget management of the medical insurance fund has been further strengthened with the release of the new version of Medical Insurance Drugs Catalogs and the negotiated results of drugs covered by medical insurance. In response to excessive medical treatments and unreasonable growth of medical expenses, the Medical Insurance Bureau of the PRC has successively put forward various policies including "bulk procurement" and bargaining negotiations on anti-cancer drugs. With further in-depth development in the reform of the national medical system, the pharmaceutical market in China has remained tough and difficult.

During the year ended 31 December 2018, the Remaining Group has steadily promoted and implemented different business strategies, and continued to implement and stabilize its development in the orthopedic business. On 18 April 2018, the Remaining Group entered into a cooperation agreement with Pfenex to develop new products, which will not only contribute to the Remaining Group's revenue, but also enhance the competitiveness of the Remaining Group's orthopedic pharmaceutical segment, generating new momentum for the long-term sustainable development of the Remaining Group.

For the year ended 31 December 2018, the Remaining Group recorded a revenue of approximately RMB307.7 million, representing a decrease of approximately 17.4% as compared to the year ended 31 December 2017, representing a net loss of approximately RMB1,069.3 million (loss attributable to equity shareholders: approximately RMB1,063.2 million).

Segment Information

Revenue

	For the year ended 31 December							
	2018 Sales volume	**2018 Unit price**	**2018 Sales amount**	**2018 Proportion**	2017 Sales volume	2017 Unit price	2017 Sales amount	2017 Proportion
	'000	*RMB*	*RMB'000*	*(%)*	*'000*	*RMB*	*RMB'000*	*(%)*
Proprietary products production and sales								
Shusi	**5,314**	**30.5**	**161,921**	**52.6%**	7,215	30.0	216,689	58.2%
Xi Di Ke	**165**	**457.6**	**75,710**	**24.6%**	169	485.3	81,824	22.0%
Zhuo'ao	**16,828**	**2.2**	**36,502**	**11.9%**	20,621	1.6	32,603	8.7%
Songzhi Wan	**73**	**136.4**	**9,957**	**3.2%**	98	126.5	12,335	3.3%
Others	**15,625**	**1.5**	**23,576**	**7.7%**	19,975	1.5	29,004	7.8%
Total			**307,666**	**100%**			372,455	100%

The revenue from manufacturing and sales of proprietary products of the Remaining Group decreased by approximately RMB64.8 million to approximately RMB307.7 million for the year ended 31 December 2018, as compared with approximately RMB372.5 million or 61.5% of the Remaining Group's revenue in the corresponding period in 2017. The decrease in revenue from manufacturing and sales of proprietary products was due to the negative impact brought by the shift of sales model from distributor to proprietary sales during the year ended 31 December 2018.

Cost of Sales

For the year ended 31 December 2018, cost of sales increased by approximately RMB15.1 million to approximately RMB108.8 million, as compared with approximately RMB92.7 million for the year ended 31 December 2017. The increase in cost of sales was mainly due to the increase in cost of Shusi.

Gross profit

	For the year ended 31 December			
	2018	**2018**	2017	2017
Products	**Gross Profit** *RMB'000*	**Gross Profit Margin** *(%)*	Gross Profit *RMB'000*	Gross Profit Margin *(%)*
Proprietary products production and sales				
Shusi	**110,947**	**68.5%**	183,863	84.9%
Xi Di Ke	**63,484**	**83.9%**	70,029	85.6%
Zhuo'ao	**23,751**	**65.1%**	20,785	63.8%
Songzhi Wan	**5,084**	**51.1%**	8,915	72.3%
Others	**(4,419)**	**(18.8)%**	(3,876)	(13.4%)
Total	**198,847**	**64.6%**	279,716	75.1%

Gross profit decreased by approximately RMB80.9 million to approximately RMB198.8 million in 2018, as compared with approximately RMB279.7 million in 2017. Gross profit margin decreased by 10.5 percentage points to approximately 64.6% for the year ended 31 December 2018, as compared with approximately 75.1% for the corresponding period in 2017. The decrease in gross profit margin was mainly due to the increased cost of sales of Shusi and the decreased average selling price of Xi Di Ke.

Reportable Segment Results

The operating expenses of the Remaining Group increased by approximately RMB292.0 million or 201.2% to approximately RMB437.1 million for the year ended 31 December 2018, as compared with approximately RMB145.1 million in 2017. The Remaining Group reported an operating loss of approximately RMB231.3 million for the year ended 31 December 2018, as compared with an operating profit of approximately RMB134.6 million for the corresponding period in 2017. The following table sets forth a breakdown of the Remaining Group's adjusted EBITDA by reportable segment for the year ended 31 December 2018:

	For the year ended 31 December			
	2018	**2018**	2017	2017
	RMB'000	***(%)***	*RMB'000*	*(%)*
Proprietary products production and sales	**27,118**	**8.81%**	171,069	45.93%

PROSPECTS AND OUTLOOK

In recent years, driven by the reform of pharmaceutical policies, the pharmaceutical industry in China has been undergoing significant changes. The Remaining Group believes that market volatility and uncertainties will continue in the short term, therefore it will face the challenges arising from various new policies on the control of expenditure out of the national medical insurance fund, including collective tender with "4+7 bulk procurement", the two-invoice system, the lowest prices linkage and lowering drug prices. Nevertheless, as a series of important pharmaceutical policies documents have been issued and relevant rules have been released in recent years, such as the new version of Medical Insurance Drugs Catalogs, consistency evaluation, priority evaluation and innovative drugs, the results of industry reform will gradually emerge, and the Remaining Group believes that all these will bring structural opportunities for the pharmaceutical industry. In the context of steady progress in the industry and policy pressures, the layout and business environment of the pharmaceutical industry and enterprises in China are undergoing changes, which will create new opportunities and challenges for the subsequent development of the pharmaceutical industry.

In response to such opportunities and challenges, the Remaining Group will implement the following strategies in a prudent and careful manner:

1. Focus on core businesses and enhance brand advantages

The Remaining Group will prudently deploy and accurately position its CNS and orthopedics business in the market. By leveraging on the brand superiority and marketing resources of its existing drug – Miacalcic and Shusi, and through strategies such as external acquisitions and brand extension, the Remaining Group will develop key products with excellent clinical efficacy and market value and to optimize its product mix for orthopedic treatments. While paying constant attention to both domestic and international market dynamics, the Remaining Group will make elaborate planning for the acquisitions of products and develop a thorough plan to upgrade its business in existing fields for better competitiveness of the NT Pharma products in the market as well as sustainable development for its segment.

2. Optimise distribution network and consolidate regional competitiveness

By optimizing its sales team and combining its own channels with external distribution model, the Remaining Group will accelerate the deployment of its comprehensive distribution network and quickly penetrate gaps in the market to strengthen the coverage of the distribution ends of the pharmaceutical market and consolidate its competitive advantages in well-established regions. The Remaining Group will also accelerate the development of distribution business for existing products as well as new orthopedic products in future by improving operational efficiency and quality, thus consolidating its leading position as a bone health provider in the market.

3. Focus on the construction of a marketing system and a professional sales team

The Remaining Group attaches great importance to the construction of a marketing system and has established a professional and high-quality sales team which is academic marketing-oriented with refined channels of network marketing. In the future, the Remaining Group will continue to strengthen its effort in the construction of the sales team and ensure the professional competence of the team through internal trainings.

4. Enhance overall competitiveness through expanded international cooperation for access to quality resources and advanced technologies

The Remaining Group will further explore cooperation plans with strategic partners overseas by introducing premium products and advanced technologies from outside to accomplish a mutually beneficial cooperation model for the expansion in the pharmaceutical market in the PRC and further support towards the optimization and upgrades of its product mix and business model. Meanwhile, the Remaining Group will proactively select bio-tech partners with products pipelines and achievements, and consider various cooperation schemes to enhance its level of scientific research.

5. The Remaining Group will actively improve financial structure, and continue to adopt prudent financial management and cost control policies, strengthen the internal control, and optimise management in every aspect to ensure more effective allocation of resources and improvement of operational efficiencies.

HUMAN RESOURCES

As at 31 December 2018, the Remaining Group had 496 full time employees (2017: 673 employees). For the year ended 31 December 2018, the Remaining Group's total cost on remuneration, welfare and social security amounted to approximately RMB107.6 million (2017: approximately RMB61.2 million).

The remuneration structure of the Remaining Group is based on employee performance, local consumption level and prevailing conditions in the human resources market. Directors' remuneration is determined with reference to each Director's experience, responsibilities and prevailing market standards.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The primary objective of the Remaining Group's capital management is to maintain the ability to continue as a going concern so that the Remaining Group can continue to provide returns for shareholders of the Company and benefits for other stakeholders by proper product pricing and securing access to financing at a reasonable cost. The Remaining Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Remaining Group closely monitors its debt/assets ratio, which is defined as total borrowings divided by total assets.

Foreign Currency Exposure

The Remaining Group is exposed to currency risks primarily through sales made by the Remaining Group's Hong Kong and PRC subsidiaries, certain bank deposits and bank loans which are denominated in Hong Kong dollars. The Remaining Group recorded a net exchange loss of approximately RMB150,000 for the year ended 31 December 2018, while the net exchange loss of the Remaining Group for the year ended 31 December 2017 was approximately RMB7,000. Presently, the Remaining Group does not employ any financial instruments for hedging against the foreign exchange exposure.

Interest Rate Exposure

The Remaining Group's interest rate risk arises primarily from bank loans, unsecured debenture and bank balances. Borrowings at variable rates expose the Remaining Group to cash flow interest rate risk.

Presently, the Remaining Group does not employ any financial instruments to hedge against the interest rate exposure.

Group Debt and Liquidity

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Total debt	**(1,139,898)**	(564,058)
Pledged bank deposits, cash and cash equivalents	**122,918**	208,466
Net debt	**(1,016,980)**	(355,592)

The maturity profile of the Remaining Group's borrowings is set out as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Repayable:		
– Within one year	**694,266**	382,000
– After one but within two year	**13,550**	10,000
– After two but within five years	**31,000**	41,000
	738,816	433,000

The Remaining Group's bank borrowings of approximately RMB587.6 million as at 31 December 2018 (2017: approximately RMB433.0 million) were bank borrowings made from banks in the PRC at fixed interest rates ranging from 4.30% to 6.19% per annum.

In addition, as at 31 December 2018, the Remaining Group's other borrowings amounted to approximately RMB151.3 million in aggregate (2017: Nil) with fixed interest rate ranging from 5.40% to 14.04% per annum.

Debt-to-Assets Ratio

The Remaining Group closely monitors its debt-to-assets ratio to optimize its capital structure so as to ensure solvency and the Remaining Group's ability to continue as a going concern.

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Total debt	**1,139,898**	564,058
Total assets	**955,046**	1,554,802
Debt-to-assets ratio	**119.4%**	36.3%

As at 31 December 2018, bank deposits of the Remaining Group of approximately RMB38.0 million (31 December 2017: approximately RMB65.2 million) were pledged to the banks to secure certain bank borrowings and bills payable (31 December 2017: approximately RMB115.9 million). As at 31 December 2018, certain bank and other borrowings facilities of the Remaining Group were also secured by the Remaining Group's fixed assets and trade receivables which amounted to approximately RMB277.3 million (31 December 2017: approximately RMB84.9 million).

Charge on the Remaining Group's Assets

As at 31 December 2018, the Remaining Group's bank deposits of approximately RMB38.0 million (31 December 2017: approximately RMB0.1 million) were pledged to the banks to secure certain bank loans and bills payable. As at 31 December 2018, certain banking facilities of the Remaining Group were secured by the Remaining Group's fixed assets and trade receivables, which amounted to approximately RMB277.3 million (31 December 2018: approximately RMB84.9 million).

Capital Expenditure

Total capital expenditure increased by approximately RMB17.7 million or 145.1% to approximately RMB29.9 million for the year ended 31 December 2018, as compared to approximately RMB12.2 million for the year ended 31 December 2017. The capital expenditure was mainly used for acquiring property, plant and equipment in Suzhou and payment for purchase of Teriparatide.

Capital Commitments

The following table sets forth our capital commitments provided for but not settled as at 31 December 2018:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Contracted but not provided for		
– property, plant and equipment	**190**	484
– investment in an associate	**20,000**	20,000
– intangible assets: computer software	**1,375**	1,325
	21,565	21,809

At 31 December 2018, the Remaining Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within one year	**11,917**	14,349
After one year but within five years	**5,281**	16,852
Over five years	**–**	–
	17,198	31,021

The Remaining Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

Significant Investments Held

Except for investments in subsidiaries, the Remaining Group did not hold any significant investment in equity interest in any other company for the year ended 31 December 2018.

Material Acquisition and Disposal

During FY2018, the Remaining Group did not have any material acquisition or disposal.

Future Plans for Material Investments and Capital Assets

The Remaining Group did not have other plans for material investments and capital assets for the year ended 31 December 2018.

Contingent Liabilities

As at 31 December 2018, the Remaining Group had no material contingent liabilities.

III. FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL RESULTS

In 2017, the Remaining Group substantially dedicated its focus on improving its operating profit margins, expanding its proprietary product portfolio and developing its own research and development capabilities. The overall revenue of the Remaining Group for the year ended 31 December 2017 increased by approximately RMB58.7 million to approximately RMB372.5 million, as compared with approximately RMB313.8 million for the previous year. Operating profit for the year ended 31 December 2017 improved significantly to approximately RMB112.5 million, as compared with an operating profit of approximately RMB19.2 million for the previous year. The improvement in operating results during the year ended 31 December 2017 was mainly due to increase of contribution from higher-margin self-developed products, such as Xi Di Ke and Shusi, lower selling and distribution expenses. As a result, the Remaining Group reported a net profit of approximately RMB4.6 million for the year ended 31 December 2017, as compared with a net profit of approximately RMB70.8 million for the previous year, representing a decrease of approximately 76.0% on a year-on-year basis.

Production Bases

The Remaining Group conducts its production through three of its subsidiaries, Suzhou First, Jiangsu Biopharma and Changsha Pharma.

Production Base of Chemical Drugs

Suzhou First is the Remaining Group's production base of chemical drugs, which is dubbed a "Hightech Enterprise" in Jiangsu Province. Suzhou First has renewed its certification of Good Manufacturing Practice ("**GMP**") with a total of 129 Drug Registration Certificates issued by the State Food and Drug Administration ("**SFDA**"). The Company is located in the SinoSingaporean Suzhou Industrial Park, covering an area of 150 acres. Among the 20 types of products currently being produced and sold by Suzhou First, "Shusi" (quetiapine fumarate tablets), as its core product and a high-tech product under a famous brand recognized by Jiangsu Province, is a main resort for the therapy of CNS. Zhuo'ao (ambroxol hydrochloride for injection), another product of Suzhou First, is the main resort for respiratory system therapy.

Production Base of Bio-chemical Drugs

Jiangsu Biopharma is a high-tech pharmaceutical enterprise, with its plant located in the Chinese Medicine City in Taizhou, China, which covers an area of 100 acres and is the Remaining Group's production base for bio-chemical drugs, mainly for the production of anticancer drugs with the production lines granted the renewed GMP certification in early March 2017. Jiangsu Biopharma owns a new Class I anticancer drug "Xi Di Ke" (uroacitides injection), which has been approved to be used in treatment of non-small cell lung cancer and breast cancer, with its new indication "myelodysplastic syndrome ("MDS")" under phase II clinical research. Xi Di Ke has been admitted into the "Major New Drugs Innovation" projects shortlist of the Ministry of Science and Technology.

Production Base of Traditional Chinese Medicine

Changsha Pharma is the Remaining Group's production base for traditional Chinese medicine, which is located in the National Bio-industry Base in Changsha, China, covering an area of 50 acres. Its production times were granted the renewed GMP certification and commenced operation in June 2016. Changsha Pharma owns a new state-class drug known as Songzhi Wan, which is the only traditional Chinese medicine capable of curing hepatitis Type C globally. The development of Songzhi Wan was subsidized by China's "863" Programme.

Core Products

NT Pharma has 129 product registration certificates as approved by SFDA, among which, over 20 products are being sold and produced.

Xi Di Ke

Xi Di Ke (generic name: uroacitides injection), a national class 1.1 new drug, is a proprietary product of Jiangsu Biopharma and is approved by the CFDA for the treatment of non-small cell lung cancer and breast cancer. Xi Di Ke was awarded the new Good Manufacturing Practices ("GMP") certification by the CFDA in March 2017 and was officially commercialized in hospitals starting from April. The first prescription of Xi Di Ke was given in June of the same year. In light of the recognition by more and more prescriptions, Xi Di Ke is expected to generate powerful support for the Remaining Group's operation and become a major highlight of the Company's future results. Currently, Xi Di Ke has obtained approval and is under the medical insurance coverage in Hubei Province while its application in Jiangsu Province is also under the stage of announcement.

Shusi

Shusi (generic name: quetiapine fumarate) is a proprietary product of Suzhou First. In December 2013, it was also approved by the CFDA for the treatment of bipolar affective disorder. Shusi is an atypical antipsychotic drug which has proven safety track records and therapeutic effects on first-time psychiatric patients, elderly patients and adolescent patients. It is expected the product will have tremendous growth potential and continue to play an important role in the future growth strategy of the Remaining Group. The consistency appraisal of Shusi is under process which we expect to be completed within the year.

Libod

Libod (generic name: doxorubicin hydrochloride liposome injection) is a product for Level-I application for oncology Chemotherapy produced by FDZH with NT Pharma as the exclusive distributor. Since 2014, the Company has been committed to transformation into a comprehensive pharmaceutical company integrating research and development, production and sales of proprietary products and gradual termination of the business of third-party pharmaceutical distribution and promotion. For the sake of strategic change after transformation, the Company will no long engage in the distribution and promotion of Libod after 31 December 2017.

Zhuo'ao

The generic name of Zhuo'ao is ambroxol hydrochloride for injection, which is a proprietary product of Suzhou First primarily used for acute exacerbations of chronic bronchitis, asthmatic bronchitis and bronchial asthma.

Songzhi Wan

Songzhi Wan is the only traditional Chinese medicine capable of curing hepatitis Type C as approved by SFDA, the development of which was included in the Major Scientific and Technical Breakthrough Program under the "10th Five-Year Plan" and the National High Technology Research and Development Program (863 Program) and was subsidized. During the Stage I-II-III clinical research on Songzhi Wan, its drug efficacy and safety have been carefully verified with modern medicine, for which it was finally approved to enter the market with a certificate of new drug. It was officially commercialized at hospitals in June 2016. In September 2017, NT Pharma launched the "Real World Study on Songzhi Wan" for joint discussion with liver specialists on the treatment strategy and Real World Study of Songzhi Wan to create the first brand of traditional Chinese medicine for treatment of chronic hepatitis Type C. Meanwhile, through co-operation and R&D with the University of Hong Kong, the Company is going to develop a new formula to improve its drug efficacy.

Segment Information

Revenue

	For the year ended 31 December							
	2017 Sales volume	**2017 Unit price**	**2017 Sales amount**	**2017 Proportion**	2016 Sales volume	2016 Unit price	2016 Sales amount	2016 Proportion
	'000	***RMB***	***RMB'000***	***(%)***	*'000*	*RMB*	*RMB'000*	*(%)*
Proprietary products production and sales								
Shusi	**7,215**	**30.0**	**216,689**	**58.2%**	7,257	28.4	205,872	65.6%
Xi Di Ke	**169**	**485.3**	**81,824**	**22.0%**	–	–	–	–
Zhuo'ao	**20,621**	**1.6**	**32,603**	**8.7%**	30,507	1.2	37,124	11.8%
Songzhi Wan	**98**	**126.5**	**12,335**	**3.3%**	108	333.0	35,895	11.4%
Others	**19,975**	**1.5**	**29,004**	**7.8%**	19,045	1.8	34,891	11.1%
Total			**372,455**	**100%**			313,782	100%

The revenue from proprietary products production and sales increased by approximately RMB58.7 million to approximately RMB372.5 million, as compared with approximately RMB313.8 million in 2016. The increase in revenue from proprietary products production and sales was due to two reasons. Firstly, Xi Di Ke was launched for sale in the market in April 2017, bringing revenue contribution to the Company of approximately RMB81.8 million for the year ended 31 December 2017. Secondly, Shusi recorded an increase in sales. The increase in revenue of Shusi was primarily due to increased market demand as well as improved management of inventory in the distribution channels which resulted in an increase of RMB1.6 in the average commercial selling price per unit to RMB30.0 for the year ended 31 December 2017 from RMB28.4 for the corresponding period in 2016.

Cost of Sales

For the year ended 31 December 2017, cost of sales decreased by approximately RMB13.1 million to approximately RMB92.7 million, as compared with approximately RMB105.8 million for the year ended 31 December 2016. The decrease in cost of sales during the year was mainly due to the decrease in unit cost of Shusi.

Gross Profit

	For the year ended 31 December			
	2017	**2017**	2016	2016
Products	**Gross Profit**	**Gross Profit Margin**	Gross Profit	Gross Profit Margin
	RMB'000	***(%)***	*RMB'000*	*(%)*
Proprietary products production and sales				
Shusi	**183,863**	**84.9%**	161,868	78.6%
Xi Di Ke	**70,029**	**85.6%**	–	–
Zhuo'ao	**20,785**	**63.8%**	19,292	52.0%
Songzhi Wan	**8,915**	**72.3%**	31,654	88.2%
Others	**(3,876)**	**(13.4%)**	(4,808)	(13.8)%
Total	**279,716**	**75.1%**	208,006	66.3%

The gross profit margin increased by 8.8 percentage point to approximately 75.1% for the year ended 31 December 2017, as compared with approximately 66.3% for the corresponding period in 2016. The increase in gross profit margin was mainly due to higher average selling price and sales contribution of products with higher gross profit margin, including Xi Di Ke and Shusi.

Reportable Segment Operating Profit

The operating expenses of the Remaining Group decreased by approximately RMB3.0 million or 2.0% to approximately RMB145.1 million for the year ended 31 December 2017, as compared with approximately RMB148.1 million for the corresponding period in 2016. The Remaining Group reported an operating profit of approximately RMB134.6 million for the year ended 31 December 2017, as compared with approximately RMB59.9 million for the corresponding period in 2016. The following table sets forth a breakdown of the Remaining Group's operating profit by reportable segment for the year ended 31 December 2017:

	For the year ended 31 December			
	2017	**2017**	2016	2016
	Operating Profit	**Operating profit margin**	Operating Profit	Operating profit margin
	RMB'000	***(%)***	*RMB'000*	*(%)*
Proprietary products production and sales	**134,615**	**36.2%**	59,917	19.1%

PROSPECTS AND OUTLOOK

The Chinese government continues to commit resources to and invest in the healthcare sector as part of its long-term healthcare reform plan. Although more stringent regulations may create short-term operating pressures, NT Pharma believes that a better regulated market will ultimately bring opportunities to healthcare companies in China and enable the healthcare industry in China to maintain its growth in the long term. The Remaining Group believes that the growth of the healthcare industry in China is supported by a combination of favorable factors, including the size of an increasing ageing population, the Chinese government's commitment to improve access to healthcare services and better affordability from rising disposable income. With the Chinese government's continual reforms on the healthcare sector, NT Pharma has redefined its long-term growth strategies in accordance with the changing landscape of the industry. Going forward, NT Pharma will continue to refine and reinforce its strategies: the Remaining Group will actively conduct R&D of innovative drugs for driving the Remaining Group's profit growth and fully develop the market potential of brand drugs and generic drugs, achieving the economies of scale for the Remaining Group through boosting sales performance of various drugs. The Remaining Group will continue to proactively identify opportunities to acquire quality products to enrich its product portfolio, focusing on three main aspects including psychiatry, hematology and oncology. Also, the Remaining Group will speed up its external development through vertical strategic acquisition, so as to reach synergistic effect through integration with its existing products and gather the momentum for sustainable development of the Remaining Group.

We have been in the field of medical and healthcare industry for over 20 years and strived to build our Company to be an excellent medical and healthcare enterprise. In the future, the entire staff of NT Pharma will endeavor to deliver outstanding performance with progressive growth and constant innovation by seizing opportunities presented by various policies under the healthcare reform, upholding the advanced operation philosophies, taking advantage of extensive industry experience and expertise and leveraging our strong marketing network. Looking forward, we are confident about our capability for creating more value for our customers, shareholders and patients, embracing a new chapter for the Company.

HUMAN RESOURCES

As at 31 December 2017, the Remaining Group had 673 fulltime employees (2016: 492 employees). For the year ended 31 December 2017, the Remaining Group's total cost on remuneration, welfare and social security amounted to RMB61.2 million (2016: RMB64.6 million).

The remuneration structure of the Remaining Group is based on employee performance, local consumption level and prevailing conditions in the human resources market. Directors' remuneration is determined with reference to each Director's experience, responsibilities and prevailing market standards.

On top of basic salaries, bonuses may be paid by reference to the Remaining Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund retirement benefits scheme in Hong Kong and various retirement benefits schemes including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees of the Remaining Group pursuant to the PRC rules and regulations and the prevailing regulatory requirements of the PRC. The salaries and benefits of the Remaining Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Remaining Group's salary and bonus system, which is reviewed annually. The Remaining Group also operates a share option scheme ("**New Share Option Scheme**") adopted by the Company on 22 September 2014, and a share award scheme ("**New Share Award Scheme**") adopted on 4 September 2015, where options to subscribe for shares and share awards may be granted to the Directors and employees of the Remaining Group.

The Remaining Group made considerable efforts in continuing education and training programs for its staff, to continuously enhance their knowledge, skills and team spirit. The Remaining Group regularly provided internal and external training courses for relevant staff according to their needs.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The primary objective of the Remaining Group's capital management is to maintain the ability to continue as a going concern so that the Remaining Group can continue to provide returns for shareholders of the Company and benefits for other stakeholders by proper product pricing and securing access to financing at a reasonable cost. The Remaining Group actively and regularly reviews and manages its capital structure and makes adjustments by taking into consideration changes in economic conditions, its future capital requirements, prevailing and projected profitability and operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Remaining Group closely monitors its debt/assets ratio, which is defined as total borrowings divided by total assets.

Foreign Currency Exposure

The Remaining Group is exposed to currency risks primarily through sales made by the Remaining Group's Hong Kong and PRC subsidiaries, certain bank deposits and bank loans which are denominated in Hong Kong dollars. The Remaining Group recorded a net exchange loss of approximately RMB7,000 for the year ended 31 December 2017, while the net exchange loss of the Remaining Group for the year ended 31 December 2016 was approximately RMB7,000. Presently, the Remaining Group does not employ any financial instruments for hedging against the foreign exchange exposure.

Interest Rate Exposure

The Remaining Group's interest rate risk arises primarily from bank loans, unsecured debenture and bank balances. Borrowings at variable rates expose the Remaining Group to cash flow interest rate risk. Presently, the Remaining Group does not employ any financial instruments to hedge against the interest rate exposure.

Group Debt and Liquidity

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Total debt	**(564,058)**	(394,057)
Pledged bank deposits, cash and cash equivalents	**208,466**	222,624
Net debt	**(355,592)**	(171,433)

The maturity profile of the Remaining Group's borrowings is set out as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Repayable:		
– Within one year	**382,000**	326,877
– After one but within two years	**10,000**	6,910
– After two but within five years	**41,000**	53,940
– Over five years	**–**	6,330
	433,000	394,057

The Remaining Group's bank borrowings of approximately RMB433.0 million as at 31 December 2017 (2016: approximately RMB294.1 million) were bank borrowing of approximately RMB433.0 million (2016: approximately RMB272.0 million) made from banks in the PRC at fixed interest rates ranging from 4.3% to 6.5% per annum.

Debt-to-Assets Ratio

The Remaining Group closely monitors its debt-to-assets ratio to optimize its capital structure so as to ensure solvency and the Remaining Group's ability to continue as a going concern.

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Total debt	**564,058**	394,057
Total assets	**1,554,802**	1,506,039
Debt-to-assets ratio	**36.3%**	26.2%

Charges on the Remaining Group's Assets

As at 31 December 2017, bank deposits of the Remaining Group of approximately RMB65.2 million (31 December 2016: approximately RMB133.0 million) were pledged to the banks to secure certain bank loans and bills payable amounting to a total of approximately RMB115.9 million (31 December 2016: approximately RMB151.0 million). As at 31 December 2017, certain banking facilities of the Remaining Group were also secured by the Remaining Group's fixed assets which amounted to approximately RMB84.9 million (31 December 2016: approximately RMB244.9 million).

Capital Expenditure

Total capital expenditure decreased by approximately RMB0.1 million or 0.9% to approximately RMB12.2 million for the year ended 31 December 2017, as compared to approximately RMB12.1 million for the year ended 31 December 2016. The capital expenditure was mainly used for acquiring property, plant and equipment for Xi Di Ke in Taizhou.

Capital Commitments

The following table sets forth our capital commitments provided for but not settled as at 31 December 2017:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Contracted but not provided for		
– property, plant and equipment	**484**	474
– investment in an associate	**20,000**	28,000
– intangible assets: computer software	**1,325**	2,300
	21,809	30,774

At 31 December 2017, the Remaining Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**14,349**	14,001
After 1 year but within 5 years	**16,852**	29,963
Over 5 years	**–**	313
	31,201	44,277

The Remaining Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to three years. None of the leases includes contingent rentals.

Significant Investments Held

Except for investments in subsidiaries, the Remaining Group did not hold any significant investment in equity interest in any other company for the year ended 31 December 2017.

Material Acquisition and Disposal

During FY2017, the Remaining Group did not have any material acquisition or disposal.

Future Plans for Material Investments and Capital Assets

The Remaining Group did not have other plans for material investments and capital assets for the year ended 31 December 2017.

Contingent Liabilities

As at 31 December 2017, the Remaining Group had no material contingent liabilities.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared based on the unaudited pro forma consolidated statement of financial position of the Remaining Group as at 31 December 2019 in the column headed "Unaudited pro forma consolidated statement of financial position of the Remaining Group after the Proposed Disposal" of the section (1) of the appendix attached, after giving effect to the pro forma adjustments as explained in the notes in section (1) of the appendix attached, for the purpose of illustrating the effect of the Proposed Acquisition on the financial position of the Remaining Group as if the Proposed Acquisition had taken place on 31 December 2019.

The unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group is prepared based on the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows, respectively, of the Remaining Group as shown in the columns headed "Unaudited pro forma consolidated of comprehensive income of the Remaining Group after the Proposed Disposal" of the section (2) and "Unaudited pro forma consolidated statement of cash flows of the Remaining Group after the Proposed Disposal" of the section (3), respectively, of the appendix attached, after giving the effect of the pro forma adjustments as explained in the notes in sections (2) and (3), respectively, of the appendix attached, for the purpose of illustrating the effect of the Proposed Acquisition on the results and cash flows of the Remaining Group as if the Proposed Acquisition had taken place on 1 January 2019. These pro forma adjustments are (i) directly attributable to the Proposed Acquisition and not relating to other future events and decisions; (ii) factually supportable; and (iii) considered to be integral to the Proposed Acquisition.

The unaudited pro forma financial information of the Enlarged Group has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed on 31 December 2019 for the financial position, or 1 January 2019 for the financial results and cash flows or at any future date.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with other financial information included elsewhere in this Circular.

(1) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Audited consolidated statement of financial position of the Group as at 31 December 2019	Pro forma adjustments			Unaudited pro forma consolidated statement of financial position of the Remaining Group after the Proposed Disposal	Pro forma adjustments			Unaudited pro forma consolidated statement of financial position of the Enlarged Group after the Proposed Acquisition
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 3)*	*(Note 4)*	*(Note 5)*		*(Note 8)*	*(Note 9)*	*(Note 10)*	
Non-current assets									
Property, plant and equipment	265,412				265,412				265,412
Interests in leasehold land held for own use	40,003				40,003				40,003
Intangible assets	1,148,477	(983,499)	(17,600)		147,378				147,378
Goodwill	–				–				–
Interest in an associate, net	16,891				16,891	418,276			435,167
Prepayment for acquisition of an intangible asset	17,576				17,576				17,576
Financial asset at fair value through profit or loss	571				571				571
Total non-current assets	1,488,930				487,831				906,107
Current assets									
Inventories	34,461				34,461				34,461
Trade and other receivables	161,895	(48,866)			113,029				113,029
Pledged bank deposits	40,000				40,000				40,000
Time deposits	44,790				44,790				44,790
Cash and cash equivalents	28,198	899,486	17,600	(2,500)	942,784	(360,000)	(2,500)	(552,000)	28,284
Total current assets	309,344				1,175,064				260,564
Current liabilities									
Contract liabilities	16,022				16,022				16,022
Trade and other payables	183,583	(22,636)			160,947				160,947
Bank and other borrowings	957,748				957,748			(193,413)	764,335
Lease liabilities	1,866				1,866				1,866
Financial liabilities at fair value through profit or loss	445,219				445,219			(358,587)	86,632
Current taxation	21,079				21,079				21,079
Total current liabilities	1,625,517				1,602,881				1,050,881
Net current liabilities	(1,316,173)				(427,817)				(790,317)
Total assets less current liabilities	172,757				60,014				115,790

	Audited consolidated statement of financial position of the Group as at 31 December 2019	Pro forma adjustments			Unaudited pro forma consolidated statement of financial position of the Remaining Group after the Proposed Disposal	Pro forma adjustments			Unaudited pro forma consolidated statement of financial position of the Enlarged Group after the Proposed Acquisition
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 3)*	*(Note 4)*	*(Note 5)*		*(Note 8)*	*(Note 9)*	*(Note 10)*	
Non-current liabilities									
Bank and other borrowings	64,706				64,706				64,706
Lease liabilities	3,286				3,286				3,286
Financial liabilities at fair value through profit or loss	2,842				2,842				2,842
Deferred income	–				–	58,276			58,276
Total non-current liabilities	70,834				70,834				129,110
Net assets/(liabilities)	101,923				(10,820)				(13,320)
Capital and reserves									
Share capital	1				1				1
Reserves	105,257	(110,243)		(2,500)	(7,486)		(2,500)		(9,986)
Equity attributable to equity shareholders of the Company	105,258				(7,485)				(9,985)
Non-controlling interests	(3,335)				(3,335)				(3,335)
	101,923				(10,820)				(13,320)

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2019 as set out in the published annual report of the Group for the year ended 31 December 2019.

2. Pursuant to the Sale and Purchase Agreement dated 21 April 2020, the Group has conditionally agreed to dispose the entire issued share capital of NT Pharma International to Kangchen for a consideration of RMB900 million. The first payment of RMB200 million is payable within 10 business days upon the satisfaction of all the First Payment Conditions as set out in the Circular; the second payment of RMB340 million is payable within 5 business days upon the satisfaction of all the Second Payment Conditions as set out in the Circular and the third payment of RMB360 million is payable within 10 business days upon the satisfaction of all the Third Payment Conditions as set out in the Circular.

   The completion of the disposal is dependent on the fulfillment of a number of conditions as mentioned above, among others, the Group is to conduct the Re-organisation.

   The Re-organisation involves the followings:

   – NT Pharma HK and its affiliated parties transferring their rights and obligations under supply chain agreements, sale agreements and business agreements relating to Miacalcic Business to NT Pharma International;

   – NT Pharma International and Future Health and Five Office having duly executing an agreement to confirm the legality of their business cooperation matters and that there is no dispute between the parties thereto;

   – NT Pharma HK transferring the employment of its employees outside the PRC relating to Miacalcic Business to NT Pharma International; and

   – NT Pharma International providing the Kangchen with a list of its non-operating debts of NT Pharma International incurred from 31 December 2019 to one month before the date of First Payment and settling of such non-operating debts (if any).

3. The adjustments represent (a) the de-consolidation of assets and liabilities of China NT International as at 31 December 2019, which were extracted from the unaudited statement of financial position of China NT Pharma International as set out in Appendix II (A) to this Circular, and (b) the estimated net loss on the Proposed Disposal as if the Proposed Disposal had taken place on 31 December 2019, which is calculated as follows:

	RMB'000	*RMB'000*
Consideration for the Proposed Disposal		900,000
Contingent consideration arrangement *(Note)*		–
Less: Total assets and liabilities of NT Pharma International as at 31 December 2019		
Intangible assets	(983,499)	
Trade receivables	(48,866)	
Cash and cash equivalents	(514)	
Trade and other payables	22,636	
Bank borrowings	193,413	
	(816,830)	
Less: Repayment of bank borrowings by the Group before completion of the Proposed Disposal, which will be converted into equity loan from the Company to be transferred to the Purchaser Parties upon Disposal Completion	(193,413)	(1,010,243)
Estimated net loss on the Proposed Disposal, before expenses		(110,243)

Note:

The contingent consideration arrangement represents the profit guarantee made pursuant to the Sale and Purchase Agreement. For the purpose of this Unaudited Pro Forma Financial Information, the Directors assumed that the Adjusted Net Profit (as defined in page 20 of this Circular) of NT Pharma International for the Performance Guarantee Period (as defined in page 20 of this Circular) would not be less than the total guaranteed Adjusted Net Profit.

The actual amount of net loss on the Proposed Disposal may be different from the amount described above and would be subject to carrying amounts of net assets of China NT Pharma International on the date of the completion of the Proposed Disposal.

4. The adjustment represents the transfer, assignment and novation by the Company of all its rights and benefits under the Pfenex Agreement to Kangchen at a consideration of US$2.5 million (equivalent to RMB17.6 million), being the deposit paid by the Group to Pfenex upon signing the Pfenex Agreement for the acquisition of Pfenex Rights in 2018, there will be no gain or loss arising from the Pfenex Transfer, as if the proposed transfer had taken place on 31 December 2019.

5. The adjustment represents professional expenses directly attributable to the Proposed Disposal which would be recognised in the Remaining Group's consolidated statement of financial position upon completion of the Proposed Disposal. The adjustment is not expected to have a continuing effect on the Remaining Group.

6. Pursuant to the Asset Purchase Agreement dated 21 April 2020, the Group has conditionally agreed to purchase 40% equity interests in Kangchen at a consideration of RMB360 million, is to be contributed from the third payment of the Proposed Disposal as referred to Note 2 above.

7. The net assets value of Kangchen is extracted from the statement of financial position of Kangchen as at 31 December 2019 as set out in the accountants' report of Kangchen in Appendix II (B) to this Circular.

8. The adjustment represents the fair value adjustment on Kangchen's net assets value upon the Proposed Acquisition as if it had taken place on 31 December 2019, which is calculated as follows:

	RMB'000	*RMB'000*
Consideration for the Proposed Acquisition		360,000
Less: Net assets value of Kangchen as at 31 December 2019	(17,847)	
Less: Increase in net assets value upon transfer of Pfenex Rights	(17,600)	
Less: Increase in net assets value upon acquisition of NT Pharma International *(Note 3)*	(1,010,243)	
	(1,045,690)	
40% of the net assets value being acquired		(418,276)
Deferred income *(Note)*		58,276

Note:

Pursuant to the profit guarantee clause as stipulated in the Transaction Documents, the Group has undertaken that Guaranteed Adjusted Profit of Miacalcic related business in Kangchen's consolidated financial statements for the three financial years ending 31 December 2021, 2022 and 2023 to be not less than RMB80 million, RMB100 million and RMB120 million, respectively. At the completion date of the Proposed Acquisition, the excess of the Group's share of 40% of the net assets of Kangchen over the consideration for the Proposed Acquisition upon completion the Proposed Acquisition will be deferred and will only be credited to the profit or loss until the Guaranteed Adjusted Profit for each of the three financial years ending 31 December 2021, 2022 and 2023 have been met. In the event that the Guaranteed Adjusted Net Profit has not been achieved, the deferred income will be applied to set off any of the contingent consideration payable.

9. The adjustment represents professional expenses directly attributable to the Proposed Acquisition which would be recognised in the Enlarged Group's consolidated statement of financial position upon completion of the Proposed Acquisition. The adjustment is not expected to have a continuing effect on the Enlarged Group.

10. The adjustment represents the payment of bank borrowings and partial redemption of financial liabilities at FVPL, as set out in the letter from the board.

11. The Proposed Disposal, the Pfenex Transfer and the Proposed Acquisition are inter-conditional to each other.

(2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2019	Pro forma adjustments			Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group after the Proposed Disposal	Pro forma adjustments			Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group after the Proposed Acquisition
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 6)*	*(Note 7)*	
Continuing operations									
Revenue	365,969	(212,501)			153,468				153,468
Cost of sales	(105,086)	41,875			(63,211)				(63,211)
Gross profit	260,883				90,257				90,257
Other income and gains	6,629				6,629				6,629
Other net loss	(4,275)				(4,275)				(4,275)
Share of loss of associates	(27)				(27)	(436)	(91,332)		(91,795)
Loss on disposal of subsidiary			(366,898)	(2,500)	(369,398)				(369,398)
Impairment loss of an intangible asset	(287,107)	287,107			–				–
Impairment loss of property, plant and equipment	(10,980)				(10,980)				(10,980)
Impairment loss of trade receivables, net	(134,337)	1,265			(133,072)				(133,072)
Impairment loss of other receivables	(23,187)				(23,187)				(23,187)
Fair value change on financial liabilities at FVPL	(29,853)				(29,853)				(29,853)
Selling expenses	(93,023)	45,242			(47,781)				(47,781)
Administrative expenses	(163,820)	65,343			(98,477)			(2,500)	(100,977)
Finance costs	(104,375)				(104,375)				(104,375)
Loss before taxation	(583,472)				(724,539)				(818,807)
Income tax	(9,730)				(9,730)				(9,730)
Loss for the year from continuing operations	(593,202)				(734,269)				(828,537)

	Audited consolidated statement of comprehensive income of the Group for the year ended 31 December 2019	Pro forma adjustments			Unaudited pro forma consolidated statement of comprehensive income of the Remaining Group after the Proposed Disposal	Pro forma adjustments			Unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group after the Proposed Acquisition
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*		*(Note 5)*	*(Note 6)*	*(Note 7)*	
Attributable to:									
Equity shareholders of the Company	(587,590)	228,331	(366,898)	(2,500)	(728,657)	(436)	(91,332)	(2,500)	(822,925)
Non-controlling interests	(5,612)				(5,612)				(5,612)
Loss for the year	(593,202)				(734,269)				(828,537)
Item that will be reclassified to profit or loss:									
Exchange differences on translation of financial statements of entities outside the PRC	369	(16,424)			(16,055)		6,570		(9,485)
Total comprehensive loss for the year	(592,833)	211,907	(366,898)	(2,500)	(750,324)				(838,022)
Attributable to:									
Equity shareholders of the Company	(587,221)	211,907	(366,898)	(2,500)	(744,712)	(436)	(84,762)	(2,500)	(832,410)
Non-controlling interests	(5,612)				(5,612)				(5,612)
	(592,833)				(750,324)				(838,022)

1. The amounts are extracted from the audited consolidated statement of profit or loss and comprehensive income of the Group for the year ended 31 December 2019 as set out in the published annual report of the Company for the year ended 31 December 2019.

2. These adjustments represent the de-consolidation of the results of NT Pharma International for the year ended 31 December 2019, which were extracted from the unaudited statement of comprehensive income of NT Pharma International for the year ended 31 December 2019 as set out in Appendix II (A) to this Circular, as if the Proposed Disposal had taken place on 1 January 2019.

3. The adjustment represents the estimated net loss on the Proposed Disposal as if it had taken place on 1 January 2019, which is calculated as follows:

	RMB'000
Consideration for the Proposed Disposal	900,000
Less: Net assets of NT Pharma International as at 1 January 2019	(995,164)
Less: Bank borrowings to be paid before completion of the Proposed Disposal, which will be converted into equity loan from the Company to be transferred to the Purchaser Parties upon Disposal Completion	(271,734)
Estimated net loss on the Proposed Disposal, before expenses	(366,898)

The actual amount of loss on the Proposed Disposal may be different from the amount described above and would be subject to carrying amounts of net assets of NT Pharma International on the date of completion of the Proposed Disposal.

4. It represents professional expenses directly attributable to the Proposed Disposal which would be recognised in the Remaining Group's consolidated statement of comprehensive income upon completion of the Proposed Disposal. The adjustment is not expected to have a continuing effect on the Remaining Group.

5. The adjustment represents the share of loss of Kangchen of RMB436,000, being 40% of RMB1,089,000 for the year ended 31 December 2019, as set out in the accountants' report of Kangchen in Appendix II (B) to the Circular, as if the Proposed Acquisition had taken place on 1 January 2019.

6. The adjustment represents the share of loss of NT Pharma International of RMB91,332,000 being 40% of RMB228,331,000 for the year ended 31 December 2019, as set out in the Unaudited Financial Information of NT Pharma International in Appendix II (B) to the Circular, as if the Proposed Disposal had taken place on 1 January 2019.

7. The adjustment represents professional expenses directly attributable to the Proposed Acquisition which would be recognised in the Enlarged Group's consolidated statement of profit or loss upon completion of the Proposed Acquisition. The adjustment is not expected to have a continuing effect on the Enlarged Group.

(3) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

	Audited consolidated statement of cash flows of the Group as at 31 December 2019		Pro forma adjustments			Unaudited pro forma consolidated statement of cash flows of the Remaining Group after the Proposed Disposal		Pro forma adjustments			Unaudited pro forma consolidated statement of cash flows of the Enlarged Group after the Proposed Acquisition
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*		*(Note 6)*	*(Note 7)*	*(Note 8)*	*(Note 9)*	
Operating activities											
Loss before taxation from continuing operations	(583,472)	228,331	(366,898)	(2,500)		(724,539)		(91,768)	(2,500)		(818,807)
Adjustments for:											
Depreciation of property, plant and equipment	22,521					22,521					22,521
Depreciation of right-of-use assets	939					939					939
Amortisation of lease payments	991					991					991
Amortisation of intangible assets	6,680					6,680					6,680
Write-down of inventories	2,361					2,361					2,361
Impairment of property, plant and equipment	10,980					10,980					10,980
Impairment loss of trade receivables	134,337	(1,265)				133,072					133,072
Impairment loss of other receivables	23,187					23,187					23,187
Impairment of an intangible asset	287,107	(287,107)				–					–
Finance costs	104,375					104,375					104,375
Interest income	(1,884)					(1,884)					(1,884)
Net loss on disposal of property, plant and equipment	635					635					635
Equity-settled share-based payment expenses	7,462					7,462					7,462
Share of losses of associates	27					27		91,768			91,795
Fair value change on financial liabilities at FVPL	29,853					29,853					29,853
Loss on disposal of subsidiary	–		366,898			366,898					366,898
Changes in working capital:											
Decrease in inventories	8,140					8,140					8,140
Increase in trade and other receivables	2,749	28,492				31,241					31,241
Decrease in trade and other payables and contract liabilities	(8,015)	(17,173)				(25,188)					(25,188)
Cash generated from/(used in) operations	48,973					(2,249)					(4,749)
PRC income tax paid	(1,208)					(1,208)					(1,208)
Net cash generated from/(used in) operating activities	47,765					(3,457)					(5,957)

	Audited consolidated statement of cash flows of the Group as at 31 December 2019	Pro forma adjustments				Unaudited pro forma consolidated statement of cash flows of the Remaining Group after the Proposed Disposal	Pro forma adjustments				Unaudited pro forma consolidated statement of cash flows of the Enlarged Group after the Proposed Acquisition
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*		*(Note 6)*	*(Note 7)*	*(Note 8)*	*(Note 9)*	
Investing activities											
Payment for consideration balance in relation to the acquisition of a subsidiary in prior year	(4,772)					(4,772)					(4,772)
Payment for purchase of property, plant and equipment	(36,034)					(36,034)					(36,034)
Payment for purchase of intangible assets	(51,167)					(51,167)					(51,167)
Proceeds from disposal of property, plant and equipment	4					4					4
Refund of deposit for proposed disposal of a subsidiary	(70,000)					(70,000)					(70,000)
Interest received	1,884					1,884					1,884
Placement of pledged bank deposits	(40,000)					(40,000)					(40,000)
Release of pledged bank deposits	38,000					38,000					38,000
Placement of bank deposits	(44,790)					(44,790)					(44,790)
Proceeds from disposal of an intangible asset	–				17,600	17,600					17,600
Payment for Proposed Acquisition of an associate	–					–	(360,000)				(360,000)
Proceeds from Proposed Disposal	–		900,000			900,000					900,000
Net cash (used in)/generated from investing activities	(206,875)					710,725					350,725

	Audited consolidated statement of cash flows of the Group as at 31 December 2019		Pro forma adjustments			Unaudited pro forma consolidated statement of cash flows of the Remaining Group after the Proposed Disposal		Pro forma adjustments			Unaudited pro forma consolidated statement of cash flows of the Enlarged Group after the Proposed Acquisition
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*		*(Note 6)*	*(Note 7)*	*(Note 8)*	*(Note 9)*	
Financing activities											
Proceeds from new bank borrowings	606,632					606,632					606,632
Repayment of bank borrowings	(678,798)	82,750				(596,048)				(193,413)	(789,461)
Proceeds from new other borrowings	416,987					416,987					416,987
Repayment of other borrowings	(368,595)					(368,595)					(368,595)
Interest paid	(94,131)					(94,131)					(94,131)
Proceeds from issue of convertible bonds	200,067					200,067					200,067
Payment of cost of issuing convertible bonds	(341)					(341)					(341)
Proceeds from issue of corporate bonds	46,937					46,937					46,937
Payment of issuing corporate bonds	(4,747)					(4,747)					(4,747)
Repayment of corporate bonds	(21,007)					(21,007)					(21,007)
Repayment of lease liabilities	(585)					(585)					(585)
Repayment of financial liabilities at FVPL	–					–				(358,587)	(358,587)
Payment of shares purchased for share award scheme	(1,046)					(1,046)					(1,046)
Equity funding from ultimate holding company	–	(33,573)				(33,573)					(33,573)
Net cash generated from/(used in) financing activities	101,373					150,550					(401,450)
Net (decrease)/increase in cash and cash equivalents	(57,737)					857,818					(56,682)
Cash and cash equivalents at 1 January	87,793	(2,875)				84,918					84,918
Effect of foreign exchange rate changes	(1,858)	1,906				48					48
Cash and cash equivalents at 31 December	28,198	(514)	900,000	(2,500)	17,600	942,784	(360,000)	–	(2,500)	(552,000)	28,284

1. The amounts are extracted from the audited consolidated statement of cash flows of the Group for the year ended 31 December 2019 as set out in the published annual report of the Company for the year ended 31 December 2019.

2. These adjustments represent the de-consolidation of the statement of cash flows of NT Pharma International for the year ended 31 December 2019, which were extracted from the unaudited statement of cash flows of NT Pharma International for the year ended 31 December 2019 as set out in Appendix II (A) to this Circular, as if the Proposed Disposal had taken place on 1 January 2019.

3. The adjustment represents the disposal of NT Pharma International at a consideration of RMB900 million and the estimated net loss before expenses of RMB366,898,000 on the Proposed Disposal as if it had taken place on 1 January 2019, as refer to in Note 3 of section 2 above.

4. The adjustment represents professional expenses directly attributable to the Proposed Disposal which would be recognised in the Remaining Group's consolidated statement of cash flows upon completion of the Proposed Disposal. The adjustment is not expected to have a continuing effect on the Remaining Group.

5. The adjustment represents the proceeds from the transfer of rights and benefits of Pfenex Agreement to Kangchen for RMB17.6 million, as if the transfer had taken place on 1 January 2019.

6. The adjustment represents the payment of consideration of RMB360 million for the Proposed Acquisition of 40% equity interest in Kangchen pursuant to the Asset Purchase Agreement, as if the Proposed Acquisition had taken place on 1 January 2019.

7. The adjustment represents the share of loss of NT Pharma International of RMB91,332,000, and Kangchen of RMB436,000, being 40% of RMB228,331,000 in NT Pharma International and RMB1,089,000 in Kangchen for the year ended 31 December 2019, as set out in Appendix II (A) and Appendix II (B) to the Circular, respectively, as if the Proposed Transactions had taken place on 1 January 2019.

8. The adjustment represents professional expenses directly attributable to the Proposed Acquisition which would be recognised in the Enlarged Group's consolidated statement of profit or loss upon completion of the Proposed Acquisition. The adjustment is not expected to have a continuing effect on the Enlarged Group.

9. The adjustment represents the payment of bank borrowings and partial redemption of financial liabilities at FVPL.

The following is the text of a report received from the reporting accountants, Crowe (HK) CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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To the Directors of China NT Pharma Group Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China NT Pharma Group Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2019, the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2019, and related notes as set out on pages IV-1 to IV-14 in the Appendix IV to the circular dated 5 June 2020, issued by the Company (the "**Circular**") (the "**Unaudited Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page IV-1 in the Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of (i) the proposed disposal of the entire issued share capital of NT Pharma International Company Limited (the "**Proposed Disposal**") and (ii) the proposed acquisition of 40% equity interest of Beijing Kangchen Biological Technology Co., Ltd. (the "**Proposed Acquisition**") (collectively, the "**Proposed Transactions**" which are inter-conditional) on (i) the Group's consolidated financial position as at 31 December 2019 as if the Proposed Disposal and the Proposed Acquisition had taken place on 31 December 2019 and (ii) the Group's consolidated financial performance and cash flows for the year ended 31 December 2019 as if the Proposed Disposal and the Proposed Acquisition had taken place on 1 January 2019. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's annual report for the year ended 31 December 2019, on which an auditor's report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 ("**AG7**") "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of Proposed Transactions on unadjusted financial information of the Group as if the Proposed Transactions had been undertaken at an earlier dates selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Transactions would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Transactions, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the Proposed Transactions in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed in pursuant to paragraph 4.29(1) of the Listing Rules.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong
5 June 2020

Liu Mok Lan, Cliny
Practising Certificate Number P07270

仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
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tel +852 2846 5000 fax +852 2169 6001
Company Licence No.: C-030171

5 June 2020

The Board of Directors
China NT Pharma Group Company Limited
28th Floor, the Wellington
198 Wellington Street
Sheung Wan, Hong Kong

Dear Sirs,

In accordance with the instructions from China NT Pharma Group Company Limited (the "**Company**", together with its subsidiaries, the "**Group**"), Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**" or we) has undertaken a valuation exercise to express an independent opinion on the market value of 100% equity interest in NT Pharma International Co., Ltd (the "**Target Company**") as at 31 March 2020 (the "**Valuation Date**").

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

Our valuation was carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

BACKGROUND OF THE TARGET COMPANY

The Target Company is incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in holding the intellectual property rights, marketing and distribution rights associated with the trademarks and brand names related to the commercialization of Miacalcic Injection and Miacalcic Nasal Spray branded drugs for sub-licensing and exploitation.

Pursuant to the transaction documents, NT Pharma (Overseas) Holding Co., Ltd ("**NT Pharma Overseas**"), a subsidiary of the Company, has conditionally agreed to sell and Beijing Kangchen Biological Technology Co., Ltd ("**Kangchen**") has conditionally agreed to purchase, the entire issued share capital of the Target Company. Pursuant to the transaction documents, the Group is to re-organise the business of sale of Miacalcic products under the Target Company for purpose of the proposed disposal.

Upon the completion of the re-organisation, the business carried on by and on behalf of the Company as at the date hereof in relation to Miacalcic (the "**Miacalcic Business**"), as well as all rights and benefits of the contracts relating to the Miacalcic Business (including the employment contracts of employees relating to the Miacalcic Business), all books and records relating to the Miacalcic Business will be the business and assets of the Target Company. Assets and liabilities in relation to the Miacalcic Business, but owned by NT Pharma (HK) Co., Ltd ("**NT Pharma HK**"), will not be included in the scope of the disposal.

SOURCES OF INFORMATION

In conducting our valuation of the market value of 100% equity interest in the Target Company, we have reviewed information from several sources, including, but not limited to:

- Background of the Target Company and relevant corporate information;
- Historical financial information of the Target Company;
- Business licenses of the Target Company; and
- Other operation and market information in relation to Target Company's business.

We have held discussions with management of the Company and conducted market research from public sources to assess the reasonableness and fairness of information provided. We assumed such information to be reliable and legitimate; and we have relied to a considerable extent on the information provided in arriving at our conclusion of value.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council ("**IVSC**"). The valuation procedures employed include a review of legal status and economic condition of the Target Company and an assessment of key assumptions, estimates and representations made by the proprietor or the operator of the Target Company. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of the Target Company;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business;
- Consideration and analysis on the micro and macro economy affecting the subject assets; and
- Assessment of the liquidity of the subject assets.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Target Company.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

In our opinion, the income approach and cost approach are inappropriate for valuing the Target Company. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the Valuation Date. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, we have adopted the market approach for the valuation. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

In this valuation exercise, the market value of 100% equity interest in the Target Company was principally developed through the application of the market approach known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of 100% interest in the Miacalcic Business. It is considered that the suitable multiple in this valuation is the current enterprise value to EBIT ratio (the "**EV/EBIT Ratio**"), which is defined as the current enterprise value to the normalized earnings before interest and tax of the Target Company's business, up to the Valuation Date. It allows us to compare the Miacalcic Business, against the comparable companies without considering how each comparable company finances its operations. Assets and liabilities in relation to the Miacalcic Business, but owned by NT Pharma HK, will be excluded. At the same time, assets and liabilities not related to the Miacalcic Business, but owned by the Target Company, will be added to come up with the market value of 100% equity interest in the Target Company.

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value.

The following key assumptions in determining the market value of the equity interest have been made:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company;
- The operational and contractual terms stipulated in the relevant contracts and agreements will be honoured;
- The facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge;
- The operating licenses and incorporation documents of the Target Company provided to us are assumed to be reliable and legitimate;
- The financial and operational information provided to us by the Company are assumed to be accurate;
- There are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value; and
- The Group will complete the re-organisation of the Miacalcic Business under the Target Company, pursuant to the transaction documents.

MARKET MULTIPLE

In determining the price multiple, a list of comparable companies was identified. The selection criteria include the followings:

1. The comparable companies derive most, if not all, of their revenues from distribution of pharmaceutical and healthcare products and/or related business;

2. The comparable companies principally operate in the PRC;

3. The comparable companies have a market capitalisation of less than RMB5 billion, which is considered to be similar to the target business;

4. The comparable companies are searchable in Bloomberg;

5. The comparable companies are publicly listed in a major exchange; and

6. Sufficient data, including the EV/EBIT Ratios as at the Valuation Date, on the comparable companies are available.

As sourced from Bloomberg, an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis. The details of the comparable companies are listed below:

Bloomberg Ticker	Company Name	Company Description	EV/EBIT Ratio
002758 CH Equity	Zhejiang Huatong Pharmaceutical Co., Ltd.	Zhejiang Huatong Pharmaceutical Co., Ltd. is principally engaged in the wholesale and chain retail of medicine. Its drugs include traditional Chinese medicine, Chinese patent medicine, antibiotic preparations, narcotic preparations, medical apparatus and instruments and cosmetics, among others.	42.0
002788 CH Equity	Luyan Pharma Co., Ltd.	Luyan Pharma Co., Ltd. is a medical distributor. It principally engages in the distribution and pharmaceutical retail chain business of medicine, Chinese herbal medicine, medical instrument and the second type vaccine.	11.7
600713 CH Equity	Nanjing Pharmaceutical Company Limited	Nanjing Pharmaceutical Company Limited operates medicine supply chain businesses. The company provides medicine wholesale, retailing, e-commerce and drug logistics services.	10.1

Bloomberg Ticker	Company Name	Company Description	EV/EBIT Ratio
600829 CH Equity	HPGC Renmintongtai Pharmaceutical Corporation	HPGC Renmintongtai Pharmaceutical Corporation operates as a pharmaceutical distribution company. It wholesales and retails Chinese and Western medicines, Chinese herbal medicines, expensive medicinal materials, health products, daily necessities, glass instruments, chemical reagents and other products.	14.1
1110 HK Equity	Kingworld Medicines Group Limited	Kingworld Medicines Group Limited distributes branded imported pharmaceutical and healthcare products in the PRC. It distributes pharmaceuticals that include cough and phlegm relieving, gastrointestinal, vitamin, orthopedics, cardiovascular, influenza and others.	9.3
1345 HK Equity	China Pioneer Pharma Holdings Limited	China Pioneer Pharma Holdings Limited is a marketing, promotion and channel management service provider dedicated to imported pharmaceutical products and medical devices in the PRC.	2.4
2289 HK Equity	Charmacy Pharmaceutical Co., Ltd.	Charmacy Pharmaceutical Co., Ltd. wholesales and distributes pharmaceutical drugs. It distributes healthcare medicine, traditional Chinese drinking tablets, traditional Chinese medicine and other related products. It also distributes medical apparatus and instruments and cosmetic products.	26.1
6833 HK Equity	Sinco Pharmaceuticals Holdings Limited	Sinco Pharmaceuticals Holdings Limited is a provider of marketing, promotion and channel management in the PRC pharmaceutical industry. It also provides plasma-based pharmaceuticals.	6.8
Average			**15.3**

The average of the market multiples is calculated at 15.3 and adopted as the EV/EBIT Ratio for the Miacalcic's business.

ADDITIONAL CONSIDERATION

Discount for Lack of Marketability ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

With reference to the relevant database sourced from Bloomberg, we have applied the European put option to estimate the discount. DLOM at 17.6% was applied to the value calculated from the comparable companies, in estimating the market value of 100% equity interest in the Miacalcic business as at the Valuation Date.

Control Premium

Control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise that reflects the power of a control. It recognizes that control owners have rights that minority owners do not and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and to the extent of economic benefits they bring, cause a differential in the per-share value of a control ownership block versus a minority ownership block.

In this valuation exercise, we adopted a control premium of 20.4% which was estimated with reference to the control premium study published by FactSet Mergerstat, LLC.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account two factors, including the DLOM and control premium. The calculation of the market value of 100% equity interest in the Target Company as at the Valuation Date is as follows:

	As at 31 March 2020 *(RMB Million)*
Normalised EBIT	60.0
Adopted EV/EBIT Ratio	15.3 x
Enterprise Value	**917.6**
Add: Cash	0.1
Less: Bank borrowings	(196.4)
Equity Value before adjustment	**721.2**
Less: DLOM	(127.2)
Add: Control Premium	120.9
Equity Value of the Miacalcic Business	**715.0**
Add: Bank borrowing	196.4
Enterprise Value of the Miacalcic Business	**911.4**
Adjustment for assets and liabilities in relation to the Miacalcic Business, but owned by NT Pharma HK	
Less: Accounts receivable	(27.7)
Less: Inventory	(1.9)
Add: Trade payable	11.6
Add: Other payable	9.8
Adjustment for assets and liabilities not related to the Miacalcic Business, but owned by the Target Company	
Add: Other receivables	6.3
Add: Amount due to supplier	5.5
Add: Amount due from group company	0.0
Less: Sundry creditors and accrued expenses	(2.1)
Less: Amount due to group company	(12.5)
Less: Bank borrowing (Note 1)	Nil
Market Value of 100% Equity Interest in the Target Company (Rounded)	**900.0**

Notes:

1. The Target Company shall settle such bank borrowing before the disposal completion, pursuant to the transaction documents.

2. Throughout the report, the total may not correspond with the sum of the separate figures due to rounding.

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company, the Company and JLL.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, it has come to our attention that since the Valuation Date, the outbreak of Novel Coronavirus disease (COVID-19) has caused significant disruption to economic activities around the world. This disruption has increased the risk of the financial assumptions not being achieved. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the report date, it is uncertain how long the disruption will last and to what extent it will affect the economy. As a result, it has caused volatility and uncertainty that values may change significantly and unexpectedly even over short periods. The period required to negotiate a transaction may also extend considerably beyond the normally expected period, which would also reflect the nature and size of the asset. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this report.

This report is issued subject to our Limiting Conditions as attached.

INDEPENDENCE DECLARATION

We confirm that to the best of our knowledge and belief, we are independent of the Company and the Target Company, and have not contravened any independence requirements stipulated as per our professional memberships. Our fee is not contingent upon our conclusion of value.

CONCLUSION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 100% equity interest in the Target Company as at the Valuation Date is reasonably stated at the amount of **RMB900 million**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

Notes: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS) where he now serves on their North Asia Valuation Practice Group. He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of this report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/Target Company and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our report was used as part of the analysis of the Company/Target Company in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the valuation subject rests solely with the Company.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The board of directors and the management of Company/Target Company have reviewed this report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. JLL shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of the agreement and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the valuation subject.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Company/Target Company because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not be liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the Company and the calculation of values expressed herein is valid only for the purpose stated in the agreement as at the Valuation Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by parties interested in the valuation subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. The Company/Target Company agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Company/Target Company and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

15. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/Target Company and other sources. Actual transactions involving the valuation subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time.

16. The board of directors, management, staff, and representatives of the Company/Target Company have confirmed to us that they are independent to JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Company/Target Company and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

仲量聯行

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tel +852 2846 5000 fax +852 2169 6001
Company Licence No.: C-030171

5 June 2020

The Board of Directors
China NT Pharma Group Company Limited
28th Floor, the Wellington
198 Wellington Street
Sheung Wan, Hong Kong

Dear Sirs,

In accordance with the instructions from China NT Pharma Group Company Limited (the "**Company**", together with its subsidiaries, the "**Group**"), Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**", or we) has undertaken a valuation exercise which requires us to express an independent opinion on the market value of 40% equity interest in Beijing Kangchen Biological Technology Co., Ltd. (the "**Target Company**") as at 31 March 2020 (the "**Valuation Date**").

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

Our valuation was carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

BACKGROUND OF THE TARGET COMPANY

The Target Company is a limited liability company established under the laws of the PRC. Pursuant to the sale and purchase agreement dated 21 April 2020, the Target Company has conditionally agreed to purchase the entire issued share capital of NT Pharma International Co., Ltd ("**NT Pharma International**"), together with the rights and benefits of the Company under the agreement(s) dated 18 April 2018 entered into between the Company and Pfenex Inc. ("**Pfenex Rights**").

As at the Valuation Date, the total assets and net assets of the Target Company amounted to approximately RMB22.8 million and RMB17.6 million, respectively. Details is as below:

	As at 31 March 2020
	(RMB Million)
ASSETS	
Non-current assets	
Fixed assets	0.0
Intangible assets	0.0
	0.0
Current assets	
Cash and cash equivalents	18.3
Trade receivables	3.4
Prepayments	0.0
Inventory	0.8
Other current assets	0.1
	22.7
Current liabilities	
Trade payables	5.1
Deposit received	0.0
Accrued wages	0.1
Tax payable	0.0
	5.2
Non-current liabilities	
Deferred tax liabilities	0.0
	0.0
Net assets	**17.6**

Note: Throughout the report, the total may not correspond with the sum of the separate figures due to rounding.

SOURCES OF INFORMATION

In conducting our valuation of the market value of 40% equity interest in the Target Company, we have reviewed information from several sources, including, but not limited to:

- Background of the Target Company and relevant corporate information;
- Historical financial information of the Target Company;
- Business licenses of the Target Company; and
- Other operation and market information in relation to Target Company's business.

We have held discussions with management of the Company and conducted market research from public sources to assess the reasonableness and fairness of information provided. We assumed such information to be reliable and legitimate; and we have relied to a considerable extent on the information provided in arriving at our conclusion of value.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council ("**IVSC**"). The valuation procedures employed include a review of legal status and economic condition of the Target Company and an assessment of key assumptions, estimates and representations made by the proprietor or the operator of the Target Company. All matters we consider essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of the Target Company;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business;
- Consideration and analysis on the micro and macro economy affecting the subject assets; and
- Assessment of the liquidity of the subject assets.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Target Company.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Given the unique characteristics of the Target Company, there are substantial limitations for the income approach and the market approach for valuing the underlying asset. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive and detailed operational information and long-term financial projections are also needed to arrive at an indication of value. Secondly, the market approach relies generally on deriving value through a measure of the values of market comparables or transactions. Considering the unique characteristics of Target Company, there was a lack of market comparables or transactions available as at the Valuation Date to derive an indicative value with a sufficient level of accuracy.

Under the cost approach, the summation method is typically adopted for a valuation subject when its value is primarily a factor of the value of the valuation subject's holding assets and liabilities. The table below lists out the adopted valuation approach for each identifiable asset and liability of the Target Company.

Item	Valuation Methodology
Investment in NT Pharma International	Developed through the market approach
Prepayment for acquisition of Pfenex Rights	Developed through the cost approach
Other assets and liabilities	Developed through the cost approach

MAJOR ASSUMPTIONS

Assumptions considered to have significant sensitivity effects in this valuation have been evaluated in order to provide a more accurate and reasonable basis for arriving at our assessed value. The following key assumptions in determining the market value of the equity interest have been made:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company;
- The operational and contractual terms stipulated in the relevant contracts and agreements will be honoured;
- The facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge;
- The operating licenses and incorporation documents of the Target Company provided to us are assumed to be reliable and legitimate;
- The financial and operational information provided to us by the Company are assumed to be accurate;
- There are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value, and
- The Target Company will complete the acquisition of the entire issued share capital of NT Pharma International together with the Pfenex Right, pursuant to the transaction documents.

SUMMARY OF THE SUMMATION METHOD

In arriving at our opinion of the market value of 40% equity interest in the Target Company, we have adopted the following approached in the valuation of various categories of assets and liabilities:

Investment in NT Pharma International

Investment in NT Pharma International represents the entire issued share capital of NT Pharma International (excluding the Pfenex Right). Please refer to the valuation report in Appendix V(A) for details.

Prepayment for acquisition of Pfenex Rights

The prepayment for the acquisition of Pfenex Rights refers to the deposit payment paid by the Group to Pfenex Inc. upon signing an agreement for the acquisition of Pfenex Rights in 2018, which is now recorded under the "prepayment for acquisition of intangible asset" in the non-current assets in the financial statements of the Group as at 31 December 2019. We considered its carrying value has already reflected the replacement cost in the market.

Others assets and liabilities

Others assets and liabilities represent items other than investment in an associate and investment in a joint venture, which include, among others, account receivable, dividend receivables and accrued liabilities. We adopted the cost approach in assessing the value of these items by their respective replacement cost. We considered the value of these items in the financial statements on the Target Company has already reflected the replacement cost in the market.

ADDITIONAL CONSIDERATION

Discount for Lack of Control ("DLOC")

DLOC is an amount by which the pro rata value of a minority interest is less than the pro rata value of a controlling interest in a business enterprise reflecting the lack of control. It recognizes that control owners have rights that minority owners do not and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and the extent of economic benefits they bring, cause a differential in the per-share value of a control ownership block versus a minority ownership block.

In this valuation exercise, we adopted a DLOC of 3.5% which is estimated with reference to the premium of a list of comparable transactions involving similar level of equity interest, as sourced from Bloomberg.

CALCULATION OF VALUATION RESULT

The calculation of the market value of 40% equity interest in the Target Company as at the Valuation Date under the summation method is as follow:

	As at 31 March 2020
	(RMB Million)
ASSETS	
Non-current assets	
Fixed assets	0.0
Intangible assets	0.0
Investment in NT Pharma International	900.0
	900.1
Current assets	
Cash and cash equivalents	18.3
Trade receivables	3.4
Prepayments for acquisition of Pfenex Rights	17.7
Inventory	0.8
Other current assets	0.1
	40.4
Current liabilities	
Trade payables	5.1
Deposit received	0.0
Accrued wages	0.1
Tax payable	0.1
	5.2
Non-current liabilities	
Deferred tax liabilities	0.0
	0.0
Net assets	**935.3**
40% Equity Value in the Target Company	**374.1**
Less: DLOC	(13.1)
Market Value of 40% Equity Interest in the Target Company (Rounded)	**361.0**

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Target Company, the Company and JLL.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, it has come to our attention that since the Valuation Date, the outbreak of Novel Coronavirus disease (COVID-19) has caused significant disruption to economic activities around the world. This disruption has increased the risk of the financial assumptions, not being achieved. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the report date, it is uncertain how long the disruption will last and to what extent it will affect the economy. As a result, it has caused volatility and uncertainty that values may change significantly and unexpectedly even over short periods. The period required to negotiate a transaction may also extend considerably beyond the normally expected period, which would also reflect the nature and size of the asset. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this report.

This report is issued subject to our Limiting Conditions as attached.

INDEPENDENCE DECLARATION

We confirm that to the best of our knowledge and belief, we are independent of the Company and the Target Company, and have not contravened any independence requirements stipulated as per our professional memberships. Our fee is not contingent upon our conclusion of value.

CONCLUSION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 40% equity interest in Target Company as at the Valuation Date are reasonably stated at the amount of **RMB361 million**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

Note: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS) where he now serves on their North Asia Valuation Practice Group. He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of this report, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/Target Company and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our report was used as part of the analysis of the Company/Target Company in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the valuation subject rests solely with the Company.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The board of directors and the management of Company/Target Company have reviewed this report and agreed and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. JLL shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of the agreement and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the valuation subject.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Company/Target Company because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any third party without our prior written consent. Even with our prior written consent for such, we are not be liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the Company and the calculation of values expressed herein is valid only for the purpose stated in the agreement as at the Valuation Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by parties interested in the valuation subject, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. The Company/Target Company agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Company/Target Company and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

15. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/Target Company and other sources. Actual transactions involving the valuation subject might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the knowledge and motivation of the buyers and sellers at that time.

16. The board of directors, management, staff, and representatives of the Company/Target Company have confirmed to us that they are independent to JLL in this Valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independence in our work, the Company/Target Company and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Number of shares of the Company			
Name of Director	**Personal interests**	**Family interests**	**Corporate interests**	**Approximate percentage of interest in the Company** *(Note 4)*
Mr. Ng	500,000 *(Note 1)*	4,000,000 *(Note 1)*	402,892,000 *(Note 2)*	21.39%
Chin Yu	4,500,000 *(Note 1)*	–	402,892,000 *(Note 2)*	21.39%
Wu Weizhong	3,866,904 *(Note 3)*	–	–	0.20%
Yu Tze Shan Hailson	150,000	–	–	0.01%

Notes:

(1) Mr. Ng and his spouse, Ms. Chin Yu jointly own 500,000 Shares. 4,000,000 share options were granted to Ms. Chin Yu on 15 January 2015 under the share option scheme of the Company adopted on 22 September 2014.

(2) An aggregate of 402,892,000 Shares are beneficially owned by Golden Base Investment Limited ("**Golden Base**"). Mr. Ng and Ms. Chin Yu are the controlling shareholders of Golden Base.

(3) 1,500,000 and 1,300,046 share options were granted to Mr. Wu Weizhong on 18 September 2009 and 28 January 2010, respectively, under the pre-IPO share option scheme adopted on 7 April 2011.

(4) As at the Latest Practicable Date, the total number of issued shares of the Company are 1,904,635,472 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO to be entered into the register referred to therein; or (c) pursuant to the Model Code of Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO:

	Number of shares of the Company				
Name	**Beneficial owner**	**Interests of controlled corporation**	**Family interests**	**Other interests**	**Approximate percentage of interest in the Company** *(Note 4)*
Golden Base	402,892,000	–	–	–	21.15%
Annie Investment *(Note 1)*	220,279,000	–	–	–	11.57%
Ms. Shum *(Notes 2 & 3)*	–	220,279,000	527,381,500	–	39.25%
Mr. Ieong *(Note 4)*	527,381,500	–	220,279,000	–	39.25%

Notes:

(1) These Shares are held by Annie Investment, which is held as to 100% by Ms. Shum.

(2) Ms. Shum is the spouse of Mr. Ieong. Under the SFO, Ms. Shum is deemed to be interested in all the Shares in which Mr. Ieong is interested.

(3) Mr. Ieong is the spouse of Ms. Shum. Under the SFO, Mr. Ieong is deemed to be interested in all the Shares in which Ms. Shum is interested.

(4) As at the Latest Practicable Date, the total number of issued shares of the Company are 1,904,635,472 Shares.

Save as disclosed above, as at the Latest Practicable Date, there was no other person (other than a Director or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular and are or may be material:

(a) the placing agreement dated 25 January 2019 entered into between the Company, as the issuer, Head & Shoulders Securities Limited ("**Head & Shoulders**"), as the placing agent and Mr. Ng, as the guarantor, in which Head & Shoulders would procure, on a best efforts basis, placees to subscribe for bonds in an aggregate principal amount of up to HK$100,000,000 issued by the Company. Such bonds would mature at the date falling on the first anniversary of their relevant issue date and carry 8% interest per annum;

(b) the placing agreement dated 1 April 2019 entered into between the Company, as the issuer and Head & Shoulders, as the placing agent, in which Head & Shoulders would procure, on a best efforts basis, placees to subscribe for convertible bonds in an aggregate principal amount of up to HK$192,775,556 issued by the Company;

(c) the supplemental placing agreement dated 2 April 2019 entered into between the Company and Head & Shoulders to revise the aggregate principal amount of the convertible bonds to up to HK$235,077,021, the conversion price and the long stop date under the placing agreement dated 1 April 2019;

(d) the second supplemental placing agreement dated 15 April 2019 entered into between the Company and Head & Shoulders to revise the placing agreement dated 1 April 2019 to the effect that the holders of those convertible bonds may not exercise their conversion rights if the issue of Shares pursuant to conversion would result in: exceeding the limit under the general mandate; the holder of such convertible bonds and parties acting in concert with it (within the meaning of the Code on Takeovers and Mergers), taken together, directly or indirectly controlling or being interested in 30% or more of the entire issued voting share capital of the Company as at the date of conversion; or the Company not meeting the requirement under Listing Rules 8.08(1)(a) that not less than 25% of the Shares shall be held by the public immediately after the conversion;

(e) the settlement agreement dated 1 April 2019 entered into between the Company and one of the holders of the convertible preference shares, in which the Company would conditionally early redeem 218,579,000 convertible preference shares owned by the said holder. The settlement agreement was subsequently terminated on 15 April 2019 pursuant to the mutual agreement of the Company and relevant holder of the convertible preference shares. As such, the maturity date of the relevant convertible preference shares remains to be 30 June 2020;

(f) the acquisition agreement dated 25 June 2019 supplemented by the supplemental acquisition agreement dated 10 July 2019 entered into between the Company, as the purchaser, WD Investment Co., Ltd (the "**Vendor**"), as the vendor, Mr. Ng, Dr. Dong Liang Chang, Dr. Wei Xiaoxiong and Wong Pui (the "**Guarantors**"), as the guarantors, in which the Company would purchase, and the Vendor would sell the 40% of the issued share capital of Hong Kong WD Pharmaceutical Co., Limited (the "**Target Company**") at maximum acquisition consideration of HK$374,400,000, which shall be settled by way of the issue and allotment of 427,397,000 Shares, as the initiation consideration shares, and 85,479,500 Shares, as the additional consideration shares if any one of the targets stated thereto is satisfied (the "**Acquisition Agreement**");

(g) the subscription agreement dated 25 June 2019 supplemented by the supplemental subscription agreement dated 10 July 2019 entered into between the Company, the Target Company and the Guarantors, in which the Company would subscribe, and the Target Company would issue new shares and non-interest bearing and unsecured convertible bonds in the aggregate principal amount of US$5,000,000 due 2022 (the "**Subscription Agreement**");

(h) the termination agreement dated 19 November 2019 entered into between the Company, the Vendor and the Guarantors to terminate the Acquisition Agreement;

(i) the termination agreement dated 19 November 2019 entered into between the Company, the Target Company and the Guarantors to terminate the Subscription Agreement; and

(j) the Transaction Documents.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

None of the Directors had any direct or indirect interest in any assets which have, since 31 December 2019 (being the date to which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting which was significant in relation to the business of the Group.

6. LITIGATION

No member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

7. COMPETING INTERESTS OF DIRECTORS AND THEIR ASSOCIATES

As at the Latest Practicable Date, none of the Directors or any of their respective associates has any interest in business which competes or are likely to compete, either directly or indirectly, with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

8. EXPERTS

The following are the qualifications of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Royal Institute of Chartered Surveyor Regulated Firm
Crowe (HK) CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, each of the experts named above did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, each of the above experts was not interested beneficially or non-beneficially in any Shares or any of its subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and/or reference to its name in the form and context in which it respectively appears.

9. MISCELLANEOUS

(a) There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Enlarged Group.

(b) As at the Latest Practicable Date, no Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2019, the date to which the latest published audited consolidated financial statements of the Group were made up.

(c) The headquarters of the Company is located at 11/F, Building S2, Bund Finance Centre, 600 Zhongshan Dong Er Road, Huangpu District, Shanghai, PRC.

(d) The registered office of the Company is located at Cricket Square Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(e) The share registrar of the Company in Hong Kong is Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(f) The company secretary of the Company is Ms. Lai Siu Kuen, who is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

(g) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

10. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 28th Floor, The Wellington, 198 Wellington Street, Sheung Wan, Hong Kong during normal business hours on any business day for a period of 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in paragraph headed "Material Contracts" in this Appendix;

(c) the written consents of experts referred to in the paragraph headed "Experts" in this Appendix;

(d) the unaudited financial information of NT Pharma International and related Miacalcic Business, the text of which is set out in Appendix II(A) to this circular;

(e) the accountants' report of Kangchen, the text of which is set out in Appendix II(B) to this circular;

(f) the unaudited pro forma financial information of the Remaining Group and the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(g) the valuation report of NT Pharma International, the text of which is set out in Appendix V(A) to this circular;

(h) the valuation report of Kangchen, the text of which is set out in Appendix V(B) to this circular;

(i) the annual reports of the Company for each of the two financial years ended 31 December 2018 and 31 December 2019; and

(j) this circular.

中国泰凌医药集团
CHINA NT PHARMA GROUP

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01011)

PRECAUTIONARY MEASURES FOR THE EGM

The following precautionary measures will be implemented by the Company at the EGM to prevent the spreading of the COVID-19:

(1) Compulsory body temperature checks
(2) Submission of health declaration form
(3) Wearing of surgical face mask
(4) No refreshments will be provided and no corporate gifts will be distributed

Attendees who do not comply with the precautionary measures (1) to (3) above may be denied entry to the EGM venue, at the absolute discretion of the Company, as permitted by law.

The Company encourages Shareholders to consider appointing the chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM as an alternative to attending the EGM in person.

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of China NT Pharma Group Company Limited (the "**Company**") will be held at 17th Floor, Tower B, Yi Fang Building, 359 Dongchangzhi Road, Hongkou District, Shanghai, the PRC on Wednesday, 24 June 2020 at 12:00 p.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the following transaction documents (the "**Transaction Documents**"):

(i) the assignment and transfer documentations all dated 21 April 2020 entered into between Pfenex Inc. ("**Pfenex**"), the Company and Beijing Kangchen Biological Technology Co., Ltd. ("**Kangchen**") (a copy of which has been produced to the EGM and marked "A" and initialled by the chairman of the EGM for the purpose of identification) in relation to the transfer, assignment and novation by the Company of all its rights and benefits under the agreement(s) dated 18 April 2018 entered into between the Company and Pfenex (the "**Pfenex Transfer**") to NT Pharma International Co., Ltd ("**NT Pharma International**");

(ii) the sale and purchase agreement dated 21 April 2020 entered into between Kangchen, the Company, NT Pharma International, and NT Pharma (Overseas) Holding Co., Ltd ("**NT Pharma Overseas**") (a copy of which has been produced to the EGM and marked "B" and initialled by the chairman of the EGM for the purpose of identification) in relation to the proposed disposal of the entire issued share capital of NT Pharma International by NT Pharma Overseas to Kangchen (together with the Pfenex Transfer) and the proposed subscription by NT Pharma Pacific for 40% equity interests in Kangchen (the "**Proposed Transactions**"); and

(iii) the asset purchase agreement dated 21 April 2020 (a copy of which has been produced to the EGM and marked "C" and initialled by the chairman of the EGM for the purpose of identification) entered into between Beijing Konruns Pharmaceutical Co., Ltd., Kangchen, the Company, NT Pharma International, NT Pharma (HK) Co., Ltd and NT Pharma Overseas in relation to the Proposed Transactions;

and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) any one or more director(s) of the Company (the "**Director(s)**") be and is/are hereby authorised for and on behalf of the Company to execute all such documents (including under seal, where applicable), to do all other acts and things deemed by him/them to be incidental to, ancillary to or in connection with the matter contemplated in and completion of the Transaction Documents, and take such action as may in the opinion of the Director(s) be necessary, desirable or expedient to implement and give effect to or in connection with the Transaction Documents and any other transactions contemplated under Transaction Documents, and to agree to such variation, amendments or waiver or matters relating thereto (including any variation, amendments or waiver of such documents or any terms thereof) as is/are, in the opinion of such Director(s) or the duly authorised committee of the board of Directors, in the interest of the Company and its shareholders as a whole."

By order of the Board
China NT Pharma Group Company Limited
Ng Tit
Chairman

Hong Kong, 5 June 2020

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.

2. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority shall be delivered to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for holding the EGM at which the person named in the instrument proposes to vote or any adjourned thereof (as the case may be).

3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the EGM or any adjournment thereof, should he/she so wish, and in such event, the form of proxy shall be deemed to be revoked.

4. The transfer books and register of members will be closed from Friday, 19 June 2020 to Wednesday, 24 June 2020, both days inclusive, for the purpose of ascertaining shareholder's entitlement to attend and vote at the above meeting, during which period no share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 18 June 2020.

5. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.