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NANJING SINOLIFE UNITED COMPANY LIMITED*

南京中生聯合股份有限公司

(a joint stock limited liability company incorporated in the People's Republic of China)

(Stock code: 3332)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the annual report of Nanjing Sinolife United Company Limited* (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2018 (the "**2018 Annual Report**"). Unless otherwise stated, terms used in this announcement shall have the same meanings as those defined in the 2018 Annual Report.

As stated in the 2018 Annual Report, the Group recognised an impairment of goodwill of RMB70,050,000 for the year ended 31 December 2018. Such impairment of goodwill is the sum of (i) the impairment for goodwill of GHP of approximately RMB17,691,000; and (ii) the impairment for goodwill of Hejian of approximately RMB52,425,000, minus the foreign exchange realignment of approximately RMB66,000.

Additional information in relation to the basis of the determination of the impairment is set out below:

(i) IMPAIRMENT FOR GOODWILL OF GHP

In May 2015, Shanghai Weiyi Investment & Management Limited Company* (上海惟翊投資管理有限公司), a subsidiary of the Group, acquired 100% equity interest of GHP. At the time of acquisition, the Group was interested in 60% of the shareholding percentage of Shanghai Weiyi Investment & Management Limited Company. In August 2018, the Group made further acquisition of the remaining 40% of the equity interest in Shanghai Weiyi Investment & Management Limited Company. Upon completion of the transaction, the Group wholly holds the equity interest in GHP.

In the determination of the value-in-use of GHP CGU, the Directors use the generally accepted business enterprise appraisal approach, namely the income approach, which estimates the future economic benefits generated by the GHP CGU and discounts these benefits to its present value using a discount rate suitable for the risks associated with realising the benefits. The valuation approach has been consistently applied as at 31 December 2017 and 2018. In view of, among others, the recovery rate of China's economy, the development of new sales channels such as cross-border TV shopping, the difference between the expected and realised effect of the Group's marketing activities, the value-in-use of the GHP CGU was lowered from approximately RMB94,961,000 as

* *For identification purposes only*

at 31 December 2017 to approximately RMB54,310,000 as at 31 December 2018. Taking into account the above factors, an impairment loss of approximately RMB17,691,000 was recognised for the year ended 31 December 2018.

Set out below is an analysis of the changes in key parameters and assumptions adopted for impairment test of GHP CGU as at 31 December 2018:

1. Growth rate of sales revenue

The sales channels of GHP products mainly include local large chain pharmacies, tourism souvenir shops in New Zealand and Australia, exports to China, cross-border TV shopping, and e-commerce channels. Due to a slowing economic growth in China and increased competition in the markets during 2018 which impacted the New Zealand tourism market, e-commerce, the sales exports to China and other sales channels, as a result, sales revenue of GHP in 2018 decreased by approximately 13.70% as compared to that in 2017. Besides, the Group reduced its purchases from GHP in 2018 because the Group made bulk purchases from GHP in 2017 which contributed to large amount of inventory of the Group in 2018.

However, being an important brand of the Group for future development, GHP will continue to receive resources from the Company. In the next five years, it is expected that the export, e-commerce, and TV shopping of GHP products will continue their growth. However, due to saturation caused by gradually maturing markets, the growth rate is expected to decline gradually.

2. Gross profit margin

Currently, GHP products maintain stable selling prices and production costs. Therefore, the gross profit margin may in general remain stable throughout the budget period.

3. Pre-tax discount rate

The Company adopted a pre-tax discount rate of 19.3% for GHP CGU for 31 December 2018. Pre-tax discount rate is determined based on the weighted average cost of capital ("**WACC**"). WACC is the average rate of return a company expects to compensate all its different investors and represents the expected return on all of a company's capital. Each source of capital, such as equity and debt, is assigned with a required rate of return, and then these required rates of return are weighted in proportion to the share of each source of capital contributes to the company's structure. The cost of equity was estimated using the capital asset pricing model based on the betas of identified listed comparable companies which are engaged in similar business with GHP. The pre-tax discount rate for 31 December 2018 decreased from that for 31 December 2017 (being 20%) due to the decrease in expected income tax in New Zealand.

4. **Long-term growth rate**

The long-term growth rate was referenced to the long-term inflation rate of the major markets in New Zealand and China, in which the GHP CGU is expected to mainly derive its revenue from and incur operating expenses.

(ii) IMPAIRMENT FOR GOODWILL OF HEJIAN

In June 2016, the Group acquired 100% equity interest of Hejian.

In the determination of the value-in-use of Hejian CGU, the Directors use the generally accepted business enterprise appraisal approach, namely the income approach, which estimates the future economic benefits generated by the Hejian CGU and discounts these benefits to its present value using a discount rate suitable for the risks associated with realising the benefits. The valuation approach has been consistently applied as at 31 December 2017 and 2018. In view of, among others, the more stringent laws and regulations in relation to the relevant industry and the tightening of enforcement by the relevant PRC government authorities in 2018, the value-in-use of the Hejian CGU was lowered from approximately RMB282,443,000 as at 31 December 2017 to approximately RMB80,397,000 as at 31 December 2018. Taking into account the above factors, an impairment loss of approximately RMB52,425,000 was recognised for the year ended 31 December 2018.

Set out below is an analysis of the changes in key parameters and assumptions adopted for impairment test of Hejian CGU as at 31 December 2018:

1. **Growth rate of sales revenue**

In 2018, certain competitors of the Group violated the relevant PRC regulations during the production and/or marketing and sales of their products. As such, the PRC government enhanced stricter measures and increased monitoring actions in the industry, and the Group allocated more resources to ensure compliance with the relevant PRC regulations which led to pressure on the growth rate of the sales revenue of Hejian products. In addition, the Group shifted its business strategy in recent years to focus more on young and middle-aged market instead of the elderly market, which impacted the sales of Hejian products which largely consisted of products for the elderly market.

Due to the above-mentioned factors including the increasingly tightened government regulation and public criticism in the domestic market during 2018, sales revenue of Hejian saw a decrease by approximately 8% from 2017 to 2018. Besides, during 2018, the management commensurately reduced investments in the sales resources as the management was of the opinion that the above impact would continue in 2019 and anticipated that the revenue would basically level off with that in 2018. The management expected that in 2020, the sales revenue of Hejian would gradually rebound, during which the Company expected that the five Hejian products specifically targeting the young and middle-aged market will be approved by the PRC government for marketing and sales.

2. **Gross profit margin**

As mentioned in the paragraph headed "Growth rate of sales revenue" above, the Group's sales in 2018 were affected by the increasingly tightened government regulation and public criticism in the domestic market. In respect of the gross profit margin of Hejian's products, during 2018, the Group reduced its sales of certain Hejian products with a higher gross profit margin because those products mainly comprised food products which were subject to tightened regulations thereby increasing the legal compliance risk and associated costs faced by the Group. As a result of reducing the sales of these Hejian food products, the overall gross profit margin of the Hejian dropped to approximately 60% from approximately 69% in 2017.

Affected by the industry regulations in the domestic market, the Company expected that it would continue to reduce sales of food products with a higher gross profit margin in 2019.

3. **Pre-tax discount rate**

The Company adopted a pre-tax discount rate of 23.1% as the discount rate for Hejian CGU for 31 December 2018. Pre-tax discount rate is determined based on the WACC. WACC is the average rate of return a company expects to compensate all its different investors and represents the expected return on all of a company's capital. Each source of capital, such as equity and debt, is assigned with a required rate of return, and then these required rates of return are weighted in proportion to the share of each source of capital contributes to the company's structure. The cost of equity was estimated using the capital asset pricing model based on the betas of identified listed comparable companies which are engaged in similar business with Hejian. The pre-tax discount rate for 31 December 2018 was similar to that for 31 December 2017 (being 23.0%).

4. **Long-term growth rate**

The long-term growth rate was referenced to the long-term inflation rate of the major markets in China, in which the Hejian CGU is expected to mainly derive its revenue from and incur operating expenses.

By order of the Board
Nanjing Sinolife United Company Limited*
Gui Pinghu
Chairman

Nanjing, the People's Republic of China, 20 September 2019

As at the date of this announcement, the executive Directors are Mr. Gui Pinghu, Ms. Zhang Yuan, Ms. Xu Li and Ms. Zhu Feifei; the non-executive Director is Ms. Li Fan; and the independent non-executive Directors are Mr. Zhang Jitong, Ms. Cai Tianchen and Mr. Wang Wei.

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