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If you have sold or transferred all your shares in China Grand Pharmaceutical and Healthcare Holdings Limited (the “**Company**”), you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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China Grand Pharmaceutical and Healthcare Holdings Limited

遠大醫藥健康控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00512)

CONNECTED TRANSACTIONS

- (1) ACQUISITION OF MINORITY INTEREST IN A NON-WHOLLY OWNED SUBSIDIARY; AND**
(2) ISSUE OF NEW SHARES BY THE COMPANY

**Independent Financial Adviser to
the Independent Board Committee and the Shareholders**

Nuada Limited

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” of this circular.

A letter from the Board is set out on pages 4 to 14 of this circular. A letter of advice from the Independent Board Committee is set out on pages 15 to 16 to this circular. A letter of advice of the Independent Financial Adviser containing its opinion and advice to the Independent Board Committee and the Shareholders is set out on pages 17 to 33 of this circular.

* For identification purpose only

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DEFINITIONS

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

“Acquisition”	the conditional acquisition by the Purchaser of approximately 22.8% of the share capital from the Vendor in the Target Company pursuant to the Beilin Acquisition Agreement
“Acquisition Conditions”	the conditions precedent in relation to the Acquisition as set out in the Beilin Acquisition Agreement
“Announcement”	the announcement of the Company dated 10 October 2017 in respect of the Acquisition and the Subscription
“Beilin Acquisition Agreement”	the agreement dated 9 October 2017 and entered into among the Purchaser, the Vendor and the Target Company in relation to the Acquisition, the major terms of which are set out in the section headed “The Beilin Acquisition Agreement” in this circular
“Board”	the board of Directors
“Company”	China Grand Pharmaceutical and Healthcare Holdings Limited (遠大醫藥健康控股有限公司), a company incorporated in Bermuda with limited liability, and the issued Shares of which are listed on the main board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 9 June 2017, pursuant to which a maximum of 447,402,461 new Shares might fall to be allotted and issued as at the Latest Practicable Date
“Group”	collectively, the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors to advise the Shareholders as to whether the Acquisition and the Subscription are on normal commercial terms which are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, taking into consideration of the advice to be given by the Independent Financial Adviser

DEFINITIONS

“Last Trading Day”	9 October 2017, being the last trading day for the Shares before the signing of the Subscription Agreement
“Latest Practicable Date”	14 November 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr Hu”	Mr Hu Kaijun, a substantial shareholder of the Company
“Nuada Limited” or “Independent Financial Adviser”	a corporation licensed under the Securities and Futures Ordinance to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, and the Independent Financial Adviser appointed to advise the Independent Board Committee and the Shareholders in respect of the Acquisition and the Subscription
“PRC”	the People’s Republic of China, which, for the purposes of this circular only, excludes Hong Kong, the Macau Special Administration Region of the People’s Republic of China and Taiwan
“PRC Business Day”	any day(s) (excluding Saturday(s), Sunday(s) and statutory holiday(s) in the PRC
“Purchaser”	Grand Pharmaceutical (China) Co., Ltd. (遠大醫藥(中國)有限公司), a company established in the PRC with limited liability and a subsidiary of the Company established in the PRC
“Sale Shares”	6,334,700 shares of the Target Company, representing approximately 22.8% of the share capital in the Target Company
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	the share(s) with a nominal value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Subscription”	the conditional issue and allotment of the Subscription Shares by the Company to the Vendor at the Subscription Price, details of which are set out in the paragraph headed “The Subscription Agreement” in this circular
“Subscription Agreement”	the agreement dated 9 October 2017 entered into between the Company and the Vendor in respect of the Subscription
“Subscription Conditions”	the conditions precedent in relation to the Subscription as set out in the Subscription Agreement
“Subscription Price”	the subscription price of the Subscription Shares, details of which are set out in the paragraph headed “The Subscription Agreement” in this circular
“Subscription Share(s)”	47,750,000 new Shares
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Target Company”	Xian Beilin Pharmaceutical Company Limited* (西安碑林藥業股份有限公司), a company incorporated in the PRC which was a non-wholly owned subsidiary of the Company and was owned as to approximately 77.2% by the Purchaser (indirectly through its non-wholly owned subsidiaries) and 22.8% by the Vendor as at the Latest Practicable Date
“Vendor”	Mr Huang Xiaohua (黃小華), who was the owner of the Sale Shares as at the Latest Practicable Date, a connected person of the Company by virtue of being a substantial shareholder of the Target Company
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent

The English transliteration of the Chinese name(s) in this circular, where indicated (), is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

LETTER FROM THE BOARD



China Grand Pharmaceutical and Healthcare Holdings Limited

遠大醫藥健康控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00512)

Executive Directors:

Mr Liu Chengwei (*Chairman*)

Mr Hu Bo (*Deputy Chairman*)

Dr Shao Yan (*Chief Executive Officer*)

Dr Niu Zhanqi

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Independent non-executive Directors:

Ms So Tosi Wan, Winnie

Mr Lo Kai Lawrence

Dr Pei Geng

Head office and principal place

of business in Hong Kong:

Unit 3302, The Center

99 Queen's Road Central

Hong Kong

17 November 2017

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS

(1) ACQUISITION OF MINORITY INTEREST IN A NON-WHOLLY OWNED SUBSIDIARY; AND

(2) ISSUE OF NEW SHARES BY THE COMPANY

INTRODUCTION

On 10 October 2017, the Board announced that: (i) the Purchaser, the Vendor and the Target Company had entered into the Beilin Acquisition Agreement regarding the Acquisition; and (ii) the Company and the Vendor had entered into the Subscription Agreement regarding the Subscription. The Acquisition and the Subscription, but for Rule 14A.37 of the Listing Rules, are subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

* For identification purpose only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information on the Acquisition and the Subscription; (ii) the advice from the Independent Board Committee to the Shareholders; and (iii) the advice from the Independent Financial Adviser to the Independent Board Committee and the Shareholders.

THE BEILIN ACQUISITION AGREEMENT

Date

9 October 2017

Parties

- (1) The Purchaser, as the purchaser of the Sale Shares
- (2) The Vendor, as the vendor of the Sale Shares
- (3) The Target Company

The Target Company was a non-wholly owned subsidiary of the Company which was owned as to approximately 22.8% by the Vendor and approximately 77.2% by the Purchaser (indirectly through its subsidiary) as at the Latest Practicable Date.

Asset to be acquired

The Sale Shares, being 6,334,700 shares in the Target Company, representing approximately 22.8% of the share capital in the Target Company as at the Latest Practicable Date.

Consideration

The consideration for the Acquisition shall be RMB131,512,000 (the “**Consideration**”), which shall be paid in cash. The Consideration was arrived at after arm’s length negotiations among the Company, the Purchaser and the Vendor with reference to, among other things, the net profit and net assets value of the Target Company for the year ended 31 December 2016, and its current operation conditions. The Consideration will be financed by internal resources of the Group including but not limited to the Group’s cash and bank balances and the positive cash flow from its operating activities.

The Board has decided to pay the Consideration in cash instead of by issuing consideration shares to expedite the transaction. If the Consideration was to be satisfied by the issue of consideration shares by the Company, the Acquisition will then be subject to approval by both the State Administration for Industry and Commerce of the PRC (“**SAIC**”) (for the transfer of ownership of the Target Company under the Acquisition) and the State Administration of Foreign Exchange of the PRC (for the subscriptions of shares in a foreign company by a PRC entity). Under the current arrangement, the Acquisition is only subject to the approval by one authority, namely the SAIC. The Directors believe that this can simplify and expedite the approval process and the Acquisition could be completed in a timely manner.

LETTER FROM THE BOARD

Conditions precedent

Completion is conditional upon the satisfaction (or waiver, as the case may be) of the following Acquisition Conditions:

- (a) the Vendor having not breached any of his obligations and undertakings given under the acquisition agreement entered into on 29 June 2016 (see the announcement of the Company dated 29 June 2016 for further details) between, among others, the Purchaser, the Vendor and other vendors in relation to the purchase of the shares in the Target Company by the Purchaser, and have performed all his major obligations thereunder (and those undertakings and any unperformed obligations are still valid);
- (b) the Sale Shares being free of any encumbrances or potential disputes so that the Purchaser would be able to acquire the Sale Shares through the Acquisition;
- (c) the Vendor not having breached any of his obligations, promises or undertakings in the Beilin Acquisition Agreement;
- (d) the Beilin Acquisition Agreement and the transactions contemplated thereunder having been approved by the board and/or the shareholders' meeting of the Company, the Purchaser and the Target Company (as the case may be subject to the requirements of their respective constitutional documents); and
- (e) approval having been obtained from the Shareholders at a special general meeting of the Company, or the granting of the waiver by the Stock Exchange pursuant to Rule 14A.37 of the Listing Rules.

The Purchaser may waive the Acquisition Conditions referred to in paragraphs (a), (b) and (c) above at any time before 31 March 2018 (or such later date as may be agreed between the Vendor and the Purchaser) (the “**Long Stop Date**”) by notice in writing to the Vendor. Save as aforesaid, none of the other Acquisition Conditions above is capable of being waived.

If any of the above Acquisition Conditions have not been fulfilled or waived on or before the Long Stop Date, the Beilin Acquisition Agreement shall lapse and no party shall have any claim against each other save for any antecedent breaches thereof.

Completion

Within 10 PRC Business Days after the satisfaction or waiver of the Acquisition Conditions, the Purchaser and the Vendor shall file the necessary applications to the relevant administration for industry and commerce in the PRC in relation to the change in holders of share capital in the Target Company and complete other administration procedures, registrations and filings necessary for the completion of the Acquisition.

LETTER FROM THE BOARD

Within 10 PRC Business Days after the completion of the aforesaid administrative procedures for the transfer of the shares of the Target Company, the Purchaser shall deposit the amount equivalent to the Consideration into the bank account designated by the Vendor.

Upon completion of the Acquisition, the Target Company will continue to be a non-wholly owned subsidiary of the Company and its financial results will continue to be consolidated into the financial results of the Group.

THE SUBSCRIPTION AGREEMENT

Date

9 October 2017

Parties

- (1) The Company, as the issuer of the Subscription Shares
- (2) The Vendor, as the subscriber of the Subscription Shares

Prior to the entering into the Subscription Agreement, the Vendor was not interested in any Shares.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, the Vendor owned approximately 22.8% of the Target Company, which is a non-wholly owned subsidiary of the Company. Hence the Vendor is a connected person of the Company by virtue of being a substantial shareholder of the Target Company. Save as aforesaid, the Vendor is a third party independent of and not connected with the Company and its connected persons.

Neither the Vendor nor his associates will become a substantial shareholder of the Company as a result of the completion of the Subscription.

The Subscription

Pursuant to the Subscription Agreement, the Vendor has conditionally agreed to subscribe for (or procure a trust of which the Vendor is the settlor and/or beneficiary to subscribe for) the Subscription Shares at the Subscription Price.

Upon signing of the Subscription Agreement, the Vendor shall procure the establishment of a trust and arrange a Hong Kong security account to be opened in its name. The trust shall become the holder of the Subscription Shares.

LETTER FROM THE BOARD

Subscription Shares

The Subscription Shares, being 47,750,000 Shares with an aggregate nominal value of approximately HK\$477,500, represent (i) approximately 2.13% of the issued share capital of the Company as at the date of the Subscription Agreement; and (ii) approximately 2.09% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The Subscription Shares will be issued as fully paid and will rank *pari passu* in all respects with the Shares in issue as at the completion date of the Subscription.

General Mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued under the General Mandate. Under the General Mandate, the Directors were allowed to allot and issue up to 447,402,461 Shares. As at the Latest Practicable Date, no Shares had been allotted and issued pursuant to the General Mandate.

The Subscription Price

The Subscription Price of HK\$2.24 per Subscription Share represents:

- (a) a discount of approximately 17.34% to the closing price of the Shares of HK\$2.710 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (b) a discount of approximately 17.10% to the average of the closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the Last Trading Day of approximately HK\$2.702 per Share;
- (c) a discount of approximately 10.93% to the average of the closing price of the Shares as quoted on the Stock Exchange for the 3-month period immediately preceding the Last Trading Day of approximately HK\$2.515 per Share.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Vendor with reference to (i) the closing prices of the Shares (including the average closing price of the Shares) for the 3-month period prior to the date of the Subscription Agreement; (ii) the degree of discount to the closing prices of shares in other recent subscriptions of shares in public listed companies in Hong Kong; and (iii) and the business prospects of the Group.

Having considered (i) the degree of discount to the recent closing prices of the Shares is comparable to and in line with other recent subscriptions of shares in public listed companies in Hong Kong; and (ii) the Subscription Price represents premium of approximately 148.9% above the net asset value per Share of approximately HK\$0.90 as at 30 June 2017, the Directors consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Conditions of the Subscription

Completion is conditional upon the satisfaction (or waiver, as the case may be) of the following conditions:

- (1) the completion of the Acquisition;
- (2) the Stock Exchange granting or agreeing to grant (subject to allotment and/or despatch of certificates for the Subscription Shares) the listing of, and permission to deal in, the Subscription Shares (and such listing and permission not subsequently revoked prior to the completion of the Subscription); and
- (3) the obtaining of all approvals and consents for the Subscription, including the approval from the Shareholders at a special general meeting of the Company, or the granting of the waiver by the Stock Exchange pursuant to Rule 14A.37 of the Listing Rules.

If any of the above conditions is not fulfilled on or before 31 March 2018 (or such later date as may be agreed between the Vendor and the Company), the Subscription Agreement shall lapse and become null and void and the parties to the Subscription Agreement shall be released from all obligations thereunder, save for liabilities for any antecedent breaches thereof.

Completion

Completion of the Subscription shall take place within one Hong Kong Business Day after the fulfillment of the Subscription Conditions (or such other date as the Company and the Vendor may agree).

Application for Listing

Application has been made to the Stock Exchange for the listing of and permission to deal in the Subscription Shares to be issued and allotted under the Subscription Agreement.

INFORMATION ON THE PARTIES AND THE TARGET COMPANY

The Company is the holding company of the Group which is listed on the main board of the Stock Exchange. The Group is principally engaged in the research and development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialised pharmaceutical raw materials and healthcare products.

The Purchaser is a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company. It is principally engaged in the manufacture and sales of pharmaceutical products in the PRC.

The Target Company is a company incorporated in the PRC. As at the Latest Practicable Date, it was a non-wholly owned subsidiary of the Company which was owned as to approximately 22.8% by the Vendor and approximately 77.2% by the Purchaser (indirectly through its non-wholly owned subsidiary).

LETTER FROM THE BOARD

The Target Company is principally engaged in the manufacture and sale of Chinese medicine and also the pre-processing and extraction of Chinese medicine in the PRC.

The Target Company has investments in three entities. The chart below illustrates the shareholding structure of the Target Company and its invested entities:



Financial Information of the Target Company

Based on the unaudited consolidated management accounts of the Target Company prepared by PRC generally accepted accounting practice, the unaudited consolidated net asset value of the Target Company as of 30 June 2017 amounted to approximately RMB257.8 million.

Set out below is the audited consolidated financial information of the Target Company prepared by PRC generally accepted accounting practice for the year ended 31 December 2015 and 31 December 2016 respectively:

	For the year ended 31 December 2016 (Audited) RMB'000	For the year ended 31 December 2015 (Audited) RMB'000
Net profit before tax	40,307	36,271
Net profit after tax	34,287	30,233

REASONS FOR AND BENEFITS OF THE TRANSACTIONS CONTEMPLATED UNDER THE BEILIN ACQUISITION AGREEMENT AND SUBSCRIPTION AGREEMENT

The Group is principally engaged in the research and development, manufacture and sale of pharmaceutical preparations, pharmaceutical intermediates, specialised pharmaceutical raw materials and healthcare products.

LETTER FROM THE BOARD

The Target Company is a modern pharmaceutical enterprise with research and development, manufacture and sale capacity which is principally engaged in the manufacture and sale of pharmaceutical products, pre-processing and extraction of Chinese medicine in the PRC. The Target Company has a modern good manufacturing practice (“GMP”) manufacturing plant with eight production lines for five types of formulations, such as tablets, capsules, granules, powders and pills. Its core products include two series of ophthalmologic and laryngological Chinese medicine which have good reputation and market share in the PRC. The ophthalmic cataract Chinese medicine produced by the Target Company is an exclusive product under the National Medical Insurance Scheme, and the ophthalmic fundus Chinese medicine produced by the Target Company is a market leader in such area.

The existing and developing products of the Target Company will strengthen the Group’s leading position in the ear, nose and throat (“ENT”) sector. In particular, the exclusive products of the Target Company conform to the Group’s unique and rich ENT product portfolio.

In July 2016, the Group completed the acquisition of approximately 77.2% equity interests of the Target Company from five vendors for an aggregate consideration of RMB386,066,500 (the “**2016 Acquisition**”). The five vendors included the Committee of the Workers’ Union of the Target Company and four PRC residents who were employees of the Target Company, one of which being the Vendor (see the announcement of the Company dated 29 June 2016 for further details of the 2016 Acquisition). Since then, the Target Company has brought significant contribution to the growth of the Group’s revenue and profit. The Directors consider that acquiring a further stake in the Target Company will increase the Company’s effective interest in the Target Company and maximise the profit contribution of the Target Company to the Group. The Acquisition will also enable the Company to have better control and allocation of resources in the Target Company, and therefore enhancing the efficiency of the Target Company’s strategy development and decision making.

In the course of negotiating for the Acquisition, the Vendor indicated his interest in subscribing Shares. The net proceeds of the Subscription will be approximately HK\$107.0 million. The Directors intend to apply the net proceeds from the Subscription as to approximately HK\$90.0 million for repayment of bank loans; approximately HK\$9.9 million for repayment of interest of convertible bonds; approximately HK\$1.7 million for salary and wages; approximately HK\$0.8 million for office rent; approximately HK\$3.2 million for audit fees and other professional expenses; and approximately HK\$1.4 million for other recurring operating expenses. The Directors believe that the Subscription will enable the Group to improve its financial position and provide additional cash flow for its operations.

The net subscription price of the Subscription Shares is approximately HK\$2.24. The Directors have considered other possible financing methods (including bank borrowing, open offer, rights issue and the Subscription) to replenish the cash used for the Acquisition. After due consideration, the Directors have concluded that the Subscription is more cost-effective and preferable given that (i) bank borrowings would result in the Company being subject to additional interest expenses, further increase the gearing ratio and likely require the Group to provide collateral or pledge of assets; and (ii) fund raising by ways of open offer or rights issue would require lengthy discussion with potential commercial underwriters and inevitably incur commission.

Taking into account the above factors, the Directors (excluding the members of the Independent Board Committee, the opinion of which is included in the “Letter from the Independent Board Committee” of this circular) believe that the transactions contemplated under the Beilin Acquisition Agreement and the Subscription Agreement are in the interest of the Group and the Shareholders as a whole.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors has a material interest in the Acquisition and the Subscription, therefore none of the Directors have abstained from voting on the board resolutions approving the Acquisition and the Subscription.

FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company has not conducted any equity fund raising activities in the 12 months immediately prior to 10 October 2017, being the date of the announcement of the Subscription.

Effect on Shareholding Structure

	As at the Latest Practicable Date		Immediately after completion of the Subscription	
	Number of Shares held	Approximate percentage of total issued share capital	Number of Shares held	Approximate percentage of total issued share capital
Outwit Investments Limited ("Outwit") (Note 1)	1,311,831,572	58.64%	1,311,831,572	57.42%
East Ocean Capital (Hong Kong) Company Limited ("East Ocean") (Note 2)	24,916,943	1.11%	24,916,943	1.09%
Shanghai Grand Financial Investment Co., Ltd. ("Shanghai Financial") (Note 2)	11,922,000	0.54%	11,922,000	0.52%
Shao Yan (Note 3)	4,790,000	0.21%	4,790,000	0.21%
Sub-total	1,353,460,515	60.50%	1,353,460,515	59.24%
<i>Public Shareholders</i>				
Vendor	–	–	47,750,000	2.09%
Other public Shareholders	883,551,794	39.50%	883,551,794	38.67%
Total	2,237,012,309	100.00%	2,284,762,309	100.00%

LETTER FROM THE BOARD

Notes:

- (1) Outwit is the beneficial owner of 1,311,831,572 Shares. Grand (Hongkong) International Investments Holdings Limited (“**Grand Investment**”) holds 60% equity interests of Outwit, and Ms Chau Tung (the spouse of Mr Hu) holds the remaining 40% equity interests. Grand Investment is wholly-owned by China Grand Enterprises Incorporation (“**China Grand**”), which in turn is controlled and ultimately and beneficially owned by Mr Hu.
- (2) Shanghai Financial is a direct non-wholly owned subsidiary of China Grand, and East Ocean is a wholly owned subsidiary of Shanghai Financial.
- (3) Dr Shao Yan, a Director, is the spouse of Ms Tian Wen Hong, who is the holder of the above shares.

LISTING RULES IMPLICATIONS

As at the date of the Beilin Acquisition Agreement and the Subscription Agreement, the Vendor held approximately 22.8% of the share capital in the Target Company thereby being a substantial shareholder of the Target Company (being a subsidiary of the Company) and a connected person of the Company pursuant to Rule 14A.07(1) of the Listing Rules. Hence, both of the Acquisition and the Subscription constitute connected transactions for the Company.

The Acquisition and the Subscription, but for Rule 14A.37 of the Listing Rules, are subject to the announcement, reporting and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Company has applied for, and the Stock Exchange has granted, a waiver from the requirement for the Company to convene a general meeting under Rule 14A.37 of the Listing Rules on the basis that: (i) to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, no Shareholder had a material interest in the Acquisition and the Subscription, and no Shareholder would be required to abstain from voting if the general meeting of the Company was convened to approve the Acquisition and the Subscription; and (ii) a written approval by Outwit Investments Limited which held 1,311,831,572 Shares, representing approximately 58.64% of the total issued share capital of the Company as at the Latest Practicable Date, had been obtained by the Company for implementing the Acquisition and the Subscription in lieu of convening a general meeting.

Since the Stock Exchange has granted the said waiver, no extraordinary general meeting of the Company will be convened for the purposes of considering and approving the Acquisition and the Subscription.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been formed to give advice to the Shareholders as to whether the Acquisition and the Subscription are on normal commercial terms which are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, taking into consideration of the advice to be given by the Independent Financial Adviser.

Nuada Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this regard.

LETTER FROM THE BOARD

RECOMMENDATIONS

The Directors (excluding the members of the Independent Board Committee, the opinion of which is included in the “Letter from the Independent Board Committee” of this circular) are of the view that the Acquisition and the Subscription are on normal commercial terms which are fair and reasonable so far as the Shareholders are concerned and are in the interest of the Group and the Shareholders as a whole.

Accordingly, had the Acquisition and the Subscription been required to be put forward for consideration and approval at a general meeting of the Company, the Directors (excluding the members of the Independent Board Committee) would recommend the Shareholders to approve them.

GENERAL

Shareholders and potential investors of the Shares should note that the Acquisition and the Subscription are subject to the fulfillment of condition(s) and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

Your attention is also drawn to the letter from the Independent Board Committee set out on pages 15 to 16 of this circular, and the letter from the Independent Financial Adviser in respect set out on pages 17 to 33 of this circular, and other additional information as set out in the appendix to this circular.

Yours faithfully,

For and on behalf of the Board

China Grand Pharmaceutical and Healthcare Holdings Limited

Liu Chengwei

Chairman



China Grand Pharmaceutical and Healthcare Holdings Limited

遠大醫藥健康控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00512)

17 November 2017

To the Shareholders,

Dear Sir or Madam,

CONNECTED TRANSACTIONS

**(1) ACQUISITION OF MINORITY INTEREST IN A NON-WHOLLY
OWNED SUBSIDIARY; AND
(2) ISSUE OF NEW SHARES BY THE COMPANY**

We refer to the circular of the Company dated 17 November 2017 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members to form the Independent Board Committee and to advise you as to whether, in our opinion, the Acquisition and the Subscription are on normal commercial terms which are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Nuada Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in these respects. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such advice, are set out on pages 17 to 33 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 14 of the Circular and the additional information set out in the appendix of the Circular.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms and conditions of the Beilin Acquisition Agreement, the Subscription Agreement, and the principal factors and reasons considered by, and the advice of the Independent Financial Adviser, we are of the opinion that the Acquisition and the Subscription are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Yours faithfully,
Independent Board Committee of
China Grand Pharmaceutical and Healthcare Holdings Limited

So Tosi Wan, Winnie
Independent non-executive Director

Lo Kai Lawrence
Independent non-executive Director

Pei Geng
Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice to the Independent Board Committee and the Shareholders from Nuada Limited dated 17 November 2017 prepared for the purpose of inclusion in this circular.

Nuada Limited

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17 November 2017

*To the Independent Board Committee and the Shareholders of
China Grand Pharmaceutical and Healthcare Holdings Limited*

Dear Sirs,

CONNECTED TRANSACTIONS

(1) ACQUISITION OF MINORITY INTEREST IN A NON-WHOLLY OWNED SUBSIDIARY; AND (2) ISSUE OF NEW SHARES BY THE COMPANY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Acquisition and the Subscription, details of which are set out in the section headed “Letter from the Board” (the “**Board Letter**”) in the Company’s circular dated 17 November 2017 to the Shareholders, of which this letter forms part. Our appointment as the Independent Financial Adviser has been approved by the Independent Board Committee. Terms used in this letter shall have the same meanings as defined in this circular unless the context requires otherwise.

On 9 October 2017 (after trading hours), (i) the Purchaser, the Vendor and the Target Company entered into the Beilin Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell approximately 22.8% of the share capital in the Target Company at a consideration of RMB131,512,000 to be satisfied in cash; and (ii) the Company and the Vendor entered into the Subscription Agreement, pursuant to which the Vendor has conditionally agreed to subscribe for (or procure a trust of which the Vendor is the settlor and/or beneficiary to subscribe for) the Subscription Shares at the Subscription Price.

The Subscription is conditional on the completion of the Acquisition. However, the Acquisition is not condition upon the Subscription.

The Subscription Shares will be allotted and issued under the General Mandate.

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As at the date of the Announcement and the Latest Practicable Date, the Vendor holds approximately 22.8% of the share capital in the Target Company thereby being a substantial shareholder of the Target Company (a subsidiary of the Company) and a connected person of the Company pursuant to Rule 14A.07(1) of the Listing Rules. Hence, both of the Acquisition and the Subscription constitute connected transactions for the Company.

The Independent Board Committee comprising all the independent non-executive Directors has been formed to give advice to the Shareholders in relation to the Acquisition and the Subscription taking into consideration of the advice to be given by the independent financial adviser. We, Nuada Limited, has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Shareholders in this regard.

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we have issued the following letters advice as an independent financial adviser in respect of certain transactions of the Group:

Transaction types	Date of our letters
Continuing connected transactions	13 November 2015
Connected transaction: subscription of new Shares under specific mandate	19 August 2016

Save for the above engagements and this appointment as the Independent Financial Adviser in respect of the Acquisition and the Subscription, there were no other engagements between the Group and Nuada Limited during the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser. Apart from normal professional fees for our services to the Company in connection the aforementioned engagements and this appointment as the Independent Financial Adviser, no other arrangement exists whereby we have received/will receive any fees and/or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we are independent from, and are not associated with the Company or their respective substantial shareholder(s) or connected person(s) as defined under the Listing Rules, and accordingly are considered eligible to give independent advice on the Acquisition and the Subscription.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in this circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information or representation relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in this circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date and should there be any material changes after the despatch of this circular, the Shareholders would be notified as soon as possible.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in this circular and have confirmed in this circular, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this circular misleading.

We consider that we have reviewed sufficient information, including relevant information and documents provided by the Company and the Directors and the information published by the Company, to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in this circular to provide a reasonable basis for our opinions and advice. We have not, however, carried out any independent verification of the information provided by the Company and the Directors, nor have we conducted an independent in-depth investigation into the business and affairs, financial condition and future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our advice in respect of the Acquisition and the Subscription, we have taken into consideration the following principal factors and reasons:

1. Background information on the Acquisition and the Subscription

(a) Information of the Group

The Group is mainly engaged in the research and development, manufacturing and sales of pharmaceutical preparations, pharmaceutical intermediates, specialised pharmaceutical raw materials and healthcare products.

The table below summarises the financial results of the Group for the two years ended 31 December 2015 (“**FY2015**”) and 31 December 2016 (“**FY2016**”) respectively as extracted from the annual report of the Company for the year ended 31 December 2016 (the “**Annual Report**”), and the financial results of the Group for the two six-month period ended 30 June 2016 (“**Interim 2016**”) and 30 June 2017 (“**Interim 2017**”) respectively as extracted from the interim report of the Company for the six-month period ended 30 June 2017 (the “**Interim Report**”).

	For the six months ended 30 June 2017 (unaudited) HK\$'000	For the six months ended 30 June 2016 (unaudited) HK\$'000	For the year ended 31 December 2016 (audited) HK\$'000	For the year ended 31 December 2015 (audited) HK\$'000
Revenue	2,275,005	1,781,300	3,696,164	3,245,546
Gross profit	1,154,087	761,571	1,732,428	1,350,484
Profit for the period/year	224,401	106,900	269,362	200,407

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Annual results of the Group

The Group recorded a revenue of approximately HK\$3,696.2 million for FY2016, representing an increase of approximately 13.9% as compared with that of approximately HK\$3,245.6 million for FY2015. As disclosed in the Annual Report and according to the management of the Company, the increment of the revenue is mainly due to the active fine-tuning of the Group's product matrix and the completion of the acquisition of the controlling stake in the share capital of the Target Company in July 2016 (details of the aforesaid acquisition are set out in the Company's announcement dated 29 June 2016) which started contributing revenue and profit to the Group. The aforesaid strategy of optimising product matrix increase the portion of turnover by the pharmaceutical preparations and medical devices sector substantially, which also drove the gross profit margin of the Group from approximately 41.6% in FY2015 to approximately 46.9% in FY2016, representing an increase of approximately 5.3 percent point. Therefore, the Group recorded a growth of profit from approximately HK\$200.4 million in FY2015 to approximately HK\$269.4 million in FY2016, representing an increase of approximately 34.4%.

Interim results of the Group

The Group continued to enhance the financial performance during the first half of 2017. The revenue of the Group rose from approximately HK\$1,781.3 million for Interim 2016 to approximately HK\$2,275.0 million for Interim 2017, representing an increase of approximately 27.7%. According to the Interim Report and the management of the Company, the growth of revenue was mainly attributable to the fact that (i) more than 203 products of the Group are listed in the "National Drug List for Basic Medical Reimbursement, Work-Related Injury Reimbursement and Maternity Reimbursement (2017 Version)*" (國家基本醫療保險、工傷保險和生育藥品目錄(2017年版)) published by the Ministry of Human Resources and Social Security of the PRC in February 2017, thus the Group's products were used by more hospital resulting in sales improvement; (ii) market price of bio-technology products and nutrition products increased due to technological improvement and quality enhancement; and (iii) the revenue generated from the Target Company (which was acquired by the Group in July of 2016) was recognised in Interim 2017. As advised by the management of the Company and according to the Interim Report, mainly due to the advanced development and market potential of ear, nose & throat ("ENT") treatment and cerebro-cardiovascular emergency products, the gross profit margin of the Group also rose from approximately 42.8% in Interim 2016 to approximately 50.7% in Interim 2017, representing an increase of approximately 7.9 percent point. As such, the profit of the Group grew from approximately HK\$106.9 million to approximately HK\$224.4 million, representing an increase of approximately 109.9%.

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(b) Information of the Target Company

The Target Company is a company incorporated in the PRC. It is a non-wholly owned subsidiary of the Company which is owned as to approximately 22.8% by the Vendor and approximately 77.2% by the Purchaser (indirectly through its non-wholly owned subsidiary) as at the Latest Practicable Date.

As stated in the Board Letter and according to the management of the Company, the Target Company is principally engaged in the manufacturing and sale of Chinese medicine and also the pre-processing and extraction of Chinese medicine in the PRC. The Target Company has investments in three entities. According to the management of the Company, the Target Company has a modern good manufacturing practice (“GMP”) manufacturing plant with eight production lines for five types of formulations, such as tablets, capsules, granules, powders and pills. Its core products include two series of ophthalmologic and laryngological Chinese medicine. The ophthalmic cataract Chinese medicine produced by the Target Company is an exclusive product under the National Medical Insurance Scheme.

According to Board Letter, the unaudited consolidated management accounts of the Target Company prepared pursuant to PRC generally accepted accounting practice, the unaudited consolidated net asset value of the Target Company as of 30 June 2017 amounted to approximately RMB257.8 million and set out below is the audited consolidated financial information of the Target Company prepared pursuant to PRC generally accepted accounting practice for the year ended 31 December 2015 and 31 December 2016 respectively:

	For the year ended	
	31 December 2016	31 December 2015
	(Audited)	(Audited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit before tax	40,307	36,271
Net profit after tax	34,287	30,233

(c) Market outlook for the Target Company

In respect of the prospect of the pharmaceutical industry in which the Target Company is principally engaged, we have reviewed relevant statistics released by the National Bureau of Statistics of the PRC. It is noted that the per capita health care expenditure increased from approximately RMB1,044.8 in 2014 to approximately RMB1,164.5 in 2015, and further increased to approximately RMB1,307.0 in 2016. This cumulative growth of approximately 25.1% over the recent two years reflects that the public are spending more on health care related products and services.

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To further understand the market regulation of pharmaceutical products, we have also reviewed the publication named “Opinion on Reforming Policy regarding the Production, Distribution and Consumption of Pharmaceutical Products*” (關於進一步改革完善藥品生產流通使用政策的若干意見) issued by the State Council of the PRC on 24 January 2017, and found that the PRC government intends to increase quality, promote circulation and regulate usage of pharmaceutical products in the PRC. In those regards, the PRC government would implement measures including (i) improving the listing approval of new products on a strict and consistent basis; (ii) strengthening products inspection so as to safeguard quality; (iii) increasing the transparency of purchases by hospitals by supporting provincial central purchase platforms; (iv) encouraging e-commerce trading in order to increase circulation and lower the transaction costs; and (v) combating various problems in the industry, such as illegal sales and pricing monopoly. Based on the aforesaid, we note that it is the aim of the PRC government to improve the development of pharmaceutical product in the PRC, which would have positive impact on the development of pharmaceutical industry in the PRC.

Taking into consideration the increasing trend on health expenditure in the PRC and the government policies in supporting the pharmaceutical industry, we are of the view and concur with the view of the management of the Company that the outlook of the pharmaceutical industry in the PRC will remain positive.

2. Reasons for and benefits of the Acquisition and the Subscription

As disclosed in the Board Letter, the existing and developing products of the Target Company will strengthen the Group’s leading position in the ENT sector. In particular, the exclusive products of the Target Company conform to the Group’s unique and rich ENT product portfolio.

In July 2016, the Group completed the acquisition of approximately 77.2% equity interests of the Target Company from five vendors for an aggregate consideration of RMB386,066,500 (the “**2016 Acquisition**”). The five vendors included the Committee of the Workers’ Union of the Target Company and four PRC residents who were employees of the Target Company, one of which being the Vendor (please refer to the announcement of the Company dated 29 June 2016 for further details of the 2016 Acquisition). Since then, the Target Company has brought significant contribution to the growth of the Group’s revenue and profit. The Directors considered that acquiring a further stake in the Target Company will increase the Company’s effective interest in the Target Company and maximise the profit contribution from the Target Company to the Group. The Acquisition will also enable the Company to have better control and allocation of resources in the Target Company, and therefore enhancing the efficiency of the Target Company’s strategy development and decision making.

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According to the management of the Company, in the course of negotiating for the Acquisition, the Vendor has indicated his interest in subscribing Shares. The net proceeds of the Subscription will be approximately HK\$107.0 million. The Directors intend to apply the net proceeds from the Subscription as to approximately HK\$90.0 million for repayment of bank loans; approximately HK\$9.9 million for repayment of interest of convertible bonds; approximately HK\$1.7 million for salary and wages; approximately HK\$0.8 million for office rent; approximately HK\$3.2 million for audit fees and other professional expenses; and approximately HK\$1.4 million for other recurring operating expenses. The Directors believe that the Subscription will enable the Group to improve its financial position and provide additional cash flow for its operations.

The Directors have considered other possible financing methods (including bank borrowing, open offer, rights issue and the Subscription) to replenish the cash used for the Acquisition. After due consideration, the Directors have concluded that the Subscription is more cost-effective and preferable given that (i) bank borrowings would result in the Company being subject to additional interest expenses, further increase the gearing ratio and likely require the Group to provide collateral or pledge of assets; and (ii) fund raising by ways of open offer or rights issue would require lengthy discussion with potential commercial underwriters and inevitably incur commission.

As discussed with the management of the Company, we understand that if the consideration for the Acquisition is satisfied by the issue of consideration shares, the transaction will be subject to approvals by both the State Administration for Industry and Commerce of the PRC (“SAIC”) (for the transfer of ownership of the Target Company under the Acquisition) and the State Administration of Foreign Exchange of the PRC (“SAFE”) (for the subscriptions of shares in a foreign company by a PRC entity). On the other hand, under the current arrangement, the Acquisition is only subject to the approval by one authority, namely SAIC. The Directors believe that this can simplify and shorten the approval process and the Acquisition could be completed in a timely manner. Notwithstanding the possibility that the Subscription may not be complete on or before 31 March 2018 (being the long stop date of the Subscription), given the cash and bank balance of the Group of approximately HK\$457.1 million (equivalent to approximately RMB387.4 million) as at 30 June 2017 and positive cashflow from operating activities for the year ended 31 December 2016 and for the six months ended 30 June 2017, we are of the view and concur with the view of the management of the Company that the Company will have sufficient internal resources for working capital after paying the consideration of RMB131,512,000 by cash.

Having considered that (i) the financial performance of the Target Company is satisfactory, i.e. the profit-making position in recent years as stated in above; (ii) the outlook of the pharmaceutical industry in the PRC is positive as detailed in the sub-paragraph headed “(c) Market outlook for the Target Company” above; (iii) the Subscription allows the Group to improve its financial position and provide additional cash flow for its operations; (iv) the Subscription would not result in interest burden on the Group as opposed to bank borrowing nor incur commission fee as opposed to open offer or rights issue; and (v) the terms of the Beilin Acquisition Agreement and Subscription Agreement are fair and reasonable based on our assessments with comparable analyses in the paragraphs headed “3. Principal terms of the Beilin Acquisition Agreement” and “4. Principal terms of the Subscription Agreement” below respectively, we are of the view and concur with the Directors’ view that the Acquisition and the Subscription are in the interests of the Company and the Shareholders as a whole.

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3. Principal terms of the Beilin Acquisition Agreement

(a) Consideration

The consideration for the Acquisition shall be RMB131,512,000 (the “**Consideration**”), which shall be paid in cash. The Consideration was arrived at after arm’s length negotiations among the Company, the Purchaser and the Vendor with reference to, among other things, the net profit and net assets value of the Target Company for the year ended 31 December 2016, and its current operation conditions. The Consideration will be financed by internal resources of the Group including but not limited to the Group’s cash and bank balances and the positive cash from its operating activities.

In order to assess the fairness and reasonableness of the Consideration, we attempted to compare the price-to-earnings ratio (“**PE Ratio**”) and price-to-book ratio (“**PB Ratio**”), which are two commonly used benchmarks in valuing a company, with listed companies on the Stock Exchange which are principally engaged in business similar to the Target Company. A relatively lower PE Ratio/PB Ratio means that the price of a target company is more favourable to the buyer.

For such comparable analysis, we have searched for listed companies on the Stock Exchange (the “**Business Comparables**”) where (i) they are principally engaged in manufacturing and sales of pharmaceutical and health products; and (ii) trading of their shares on the Stock Exchange were not suspended as at the date of the Beilin Acquisition Agreement. Based on the criteria, we identified, to the best of our knowledge, an exhaustive list of 44 Business Comparables and the details of which are as follows:

No.	Stock Code	Company Name	Closing Price (Note 1)	Earnings per share (Note 2)	Net asset value per share (Note 3)	PE Ratio (Note 4)	PB Ratio (Note 5)
1.	239	Pak Fah Yeow International Ltd.	HK\$3.35	HK\$0.20	HK\$2.23	17.06	1.50
2.	329	OCI International Holdings Ltd.	HK\$1.34	Loss	HK\$0.36	N/A	3.74
3.	455	Tianda Pharmaceuticals Ltd.	HK\$0.34	HK\$0.01	HK\$0.38	58.62	0.90
4.	460	Sihuan Pharmaceutical Holdings Group Ltd.	HK\$2.86	RMB0.17	RMB1.13	14.38	2.15
5.	503	Lansen Pharmaceutical Holdings Ltd.	HK\$1.46	US\$0.01	US\$0.26	20.35	0.73
6.	512	China Grand Pharmaceutical and Healthcare Holdings Ltd.	HK\$2.71	HK\$0.13	HK\$0.90	20.75	3.00
7.	570	China Traditional Chinese Medicine Holdings Co. Ltd.	HK\$4.31	RMB0.22	RMB2.99	16.81	1.22
8.	719	Shandong Xinhua Pharmaceutical Co. Ltd.	HK\$7.60	RMB0.27	RMB4.64	24.09	1.39
9.	858	Extrawell Pharmaceutical Holdings Ltd.	HK\$0.18	HK\$0.01	HK\$0.31	21.15	0.59

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No.	Stock Code	Company Name	Closing Price (Note 1)	Earnings per share (Note 2)	Net asset value per share (Note 3)	PE Ratio (Note 4)	PB Ratio (Note 5)
10.	867	China Medical System Holdings Ltd.	HK\$14.40	RMB0.55	RMB2.73	22.06	4.48
11.	874	Guangzhou Baiyunshan Pharmaceutical Holdings Co. Ltd.	HK\$21.10	RMB1.08	RMB9.71	16.63	1.84
12.	950	Lee's Pharmaceutical Holdings Ltd.	HK\$6.22	HK\$0.43	HK\$2.83	14.54	2.20
13.	963	Bloomage BioTechnology Corporation Ltd.	HK\$15.86	RMB0.63	RMB4.51	21.33	2.98
14.	1011	China NT Pharma Group Co. Ltd.	HK\$2.10	RMB0.07	RMB0.91	23.86	1.96
15.	1061	Essex Bio-Technology Ltd.	HK\$4.98	HK\$0.24	HK\$1.09	20.47	4.59
16.	1093	CSPC Pharmaceutical Group Ltd.	HK\$13.50	HK\$0.35	HK\$1.84	38.30	7.34
17.	1099	Sinopharm Group Co. Ltd.	HK\$35.10	RMB1.68	RMB17.30	17.66	1.72
18.	1177	Sino Biopharmaceutical Ltd.	HK\$8.69	HK\$0.26	HK\$1.47	33.67	5.90
19.	1345	China Pioneer Pharma Holdings Ltd.	HK\$2.73	RMB0.18	RMB0.87	12.62	2.67
20.	1498	PuraPharm Corporation Ltd.	HK\$3.40	HK\$0.14	HK\$2.36	23.63	1.44
21.	1513	Livzon Pharmaceutical Group Inc.	HK\$47.40	RMB1.52	RMB17.28	26.37	2.32
22.	1558	YiChang HEC ChangJiang Pharmaceutical Co., Ltd.	HK\$19.78	RMB0.84	RMB6.44	19.86	2.60
23.	1666	Tong Ren Tang Technologies Co. Ltd.	HK\$9.90	RMB0.47	RMB4.78	18.04	1.75
24.	1681	Consun Pharmaceutical Group Ltd.	HK\$6.30	RMB0.32	RMB1.84	16.66	2.91
25.	1889	Wuyi International Pharmaceutical Co. Ltd.	HK\$0.30	Loss	HK\$0.34	N/A	0.89
26.	2005	SSY Group Ltd.	HK\$3.47	HK\$0.17	HK\$1.04	20.06	3.35
27.	2186	Luye Pharma Group Ltd.	HK\$4.71	RMB0.27	RMB2.00	14.87	1.99
28.	2196	Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	HK\$35.55	RMB1.21	RMB11.30	24.99	2.67
29.	2211	Universal Health International Group Holding Ltd.	HK\$0.19	Loss	HK\$1.13	N/A	0.16
30.	2348	Dawnrays Pharmaceutical (Holdings) Ltd.	HK\$4.50	RMB0.33	RMB2.13	11.51	1.79
31.	2607	Shanghai Pharmaceuticals Holding Co., Ltd.	HK\$19.70	RMB1.19	RMB14.08	14.04	1.19
32.	2633	Jacobson Pharma Corporation Ltd.	HK\$2.17	HK\$0.11	HK\$1.13	19.05	1.93

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No.	Stock Code	Company Name	Closing Price (Note 1)	Earnings per share (Note 2)	Net asset value per share (Note 3)	PE Ratio (Note 4)	PB Ratio (Note 5)
33.	2877	China Shineway Pharmaceutical Group Ltd.	HK\$6.87	RMB0.71	RMB6.82	8.17	0.85
34.	3320	China Resources Pharmaceutical Group Ltd.	HK\$9.40	HK\$0.57	HK\$9.37	16.37	1.00
35.	3737	Zhongzhi Pharmaceutical Holdings Ltd.	HK\$1.80	RMB0.07	RMB0.75	22.47	2.03
36.	3933	United Laboratories International Holdings Ltd., The	HK\$6.48	Loss	HK\$2.98	N/A	2.18
37.	6833	Sinco Pharmaceuticals Holdings Ltd.	HK\$0.51	RMB0.01	RMB0.26	34.30	1.64
38.	6896	Golden Throat Holdings Group Co. Ltd.	HK\$2.07	RMB0.14	RMB1.30	12.74	1.35
39.	8026	Prosten Health Holdings Ltd.	HK\$0.24	Loss	HK\$0.066	N/A	3.60
40.	8049	Jilin Province Huinan Changlong Bio-pharmacy Co. Ltd.	HK\$1.53	RMB0.25	RMB1.65	5.09	0.79
41.	8138	Beijing Tong Ren Tang Chinese Medicine Co. Ltd.	HK\$10.20	HK\$0.50	HK\$2.83	20.31	3.61
42.	8197	Baytacare Pharmaceutical Co., Ltd.	HK\$0.55	RMB0.00	RMB0.21	1,553.67	2.24
43.	8225	China Health Group Inc.	HK\$0.14	RMB0.00	Net liabilities	51.58	N/A
44.	8329	Shenzhen Neptunus Interlong Bio-Technique Co. Ltd.	HK\$0.35	RMB0.04	RMB0.43	7.93	0.69
Mean						21.12	2.23
Maximum						58.62	7.34
Minimum						5.09	0.16
Company						16.82	2.24

Notes:

1. The closing prices of the shares of the Business Comparables are quoted on the Stock Exchange as at the date of the Beilin Acquisition Agreement.
2. The earnings per share for the Business Comparables are respectively referenced to the annual reports of the Business Comparables for the respective latest financial year.
3. The net asset values per share for the Business Comparables are respectively referenced to the latest annual reports or interim reports of the Business Comparables for the respective latest financial year or interim period.
4. PE Ratio is calculated as closing price divided by earnings per share.

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5. PB Ratio is calculated as closing price divided by net asset value per share.
6. The PE Ratio implied by the Acquisition (the “**Implied PE Ratio**”) are calculated as Consideration divided by 22.8% of the profits attributable to owners of the Target Company.
7. The PB Ratio implied by the Acquisition (the “**Implied PB Ratio**”) is calculated as Consideration divided by 22.8% of the net assets of the Target Company.
8. In this comparable analysis, conversion of RMB into HK\$ and US\$ into HK\$ calculated at the approximate exchange rates of RMB1 to HK\$1.18 and US\$1 to HK\$7.8 respectively. These exchange rates are adopted for the purpose of illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rate at all.

As shown in the above table, the PE Ratios of the Business Comparables range from approximately 5.09 times to 58.62 times with an average of approximately 21.12 times, while the PB ratios range from approximately 0.16 times to 7.34 times with an average of approximately 2.23 times. The Implied PE Ratio and the Implied PB Ratio of approximately 16.82 times and 2.24 times respectively are respectively below and almost the same as the corresponding averages of the Business Comparables. Given that a lower PE Ratio or PB Ratio reflects that a target company is acquired at a relatively lower price, we consider that the Consideration (representing an Implied PE Ratio lower than market average and an Implied PB Ratio close to market average) is favourable to the Company.

Having taking into account (i) the positive market outlook for the Target Company as discussed in the sub-paragraph headed “(c) Market outlook for the Target Company” above; and (ii) our analysis on the Business Comparables above, we are of the view and concur with the view of the management of the Company that the Consideration is fair and reasonable.

(b) Other terms of the Beilin Acquisition Agreement

We have also reviewed other terms of the Beilin Acquisition Agreement including, among others, the Acquisition Conditions, and noted that the clauses of the Beilin Acquisition Agreement are normal commercial terms. Taking into account our analysis of the Consideration above, we are of the view that the Acquisition is on normal commercial terms and the terms of the Acquisition are fair and reasonable.

4. Principal terms of the Subscription Agreement

(a) Subscription Price

The Subscription Price of HK\$2.24 per Subscription Share represents:

- (i) a discount of approximately 17.34% to the closing price of the Shares of HK\$2.710 per Share as quoted on the Stock Exchange on the Last Trading Day;

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- (ii) a discount of approximately 17.10% to the average of the closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the Last Trading Day of approximately HK\$2.702 per Share; and
- (iii) a discount of approximately 10.93% to the average of the closing price of the Shares as quoted on the Stock Exchange for the 3-month period immediately preceding the Last Trading Day of approximately HK\$2.515 per Share.

As stated in the Board Letter and according to the management of the Company, the Subscription Price was arrived at after arm's length negotiations between the Company and the Vendor with reference to (i) the closing prices of the Shares (including the average closing price of the Shares) for the 3-month period prior to the date of the Subscription Agreement; (ii) the degree of discount to the closing prices of shares in other recent subscriptions by public listed companies in Hong Kong; and (iii) the business prospects of the Group. The Directors consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

(b) Historical Share price performance

The historical closing prices of the Shares for the period from 3 October 2016 to 9 October 2017, being a twelve months period from the date of the Subscription Agreement (the "**Review Period**"), are plotted below against the Subscription Price.



During the period under review, we noted the closing prices of the Shares fluctuated around HK\$1.5 from October 2016 to mid-February 2017. The closing prices then followed a general upward trend afterwards and up to the date of the Subscription Agreement, with a sudden spike on 10 August 2017. Other than a positive profit alert published by the

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Company on 3 August 2017, in which the Board announced an expected increase of unaudited consolidated net profit attributable to owners of the Company for Interim 2017 of not less than 50% as compared to that for Interim 2016, we are not aware of any announcement made by the Company that may be relevant to such upsurge. Subsequently, the closing prices of the Shares stay above the Subscription Price. The closing prices of the Shares range from HK\$1.43 to HK\$2.93, with an average of HK\$1.96 during the Review Period. Despite a discount represented by the Subscription Price to the closing price of Shares on the date of the Subscription Agreement, we note that the Subscription Price is above the historical closing price of the Shares for 207 out of 250 days and represent a premium of approximately 14.3% over the average closing price of HK\$1.96 during the Review Period. In addition, we note that the Subscription Price of HK\$2.24 is above the net asset value per Share of approximately HK\$0.90 as at 30 June 2017.

(c) Comparable analysis on the Subscription Price

In assessing whether the Subscription Price is fair and reasonable, we carried out a comparable analysis of issue of new shares under general mandate (the “**Subscription Comparable(s)**”) by companies listed on the Stock Exchange, based on the criteria that (i) they were initially announced during the three month period from 10 July 2017 to 9 October 2017 (i.e. the date of the Subscription Agreement); and (ii) shares were issued for subscription of shares by specific person(s) (as opposed to placing) under general mandate. To the best of our knowledge, we identified an exhaustive list of 24 Subscription Comparables, details of which are set out below:

				Premium/ (Discount) of issue price to closing price on the date of subscription agreement (%) (Note)
No.	Date of initial announcement	Stock code	Company name	
1.	3 October 2017	1094	China Public Procurement Limited	(19.66)
2.	28 September 2017	959	Amax International Holdings Limited	(4.00)
3.	24 September 2017	777	NetDragon Websoft Holdings Limited	(7.13)
4.	20 September 2017	727	Crown International Corporation Limited	(14.29)
5.	15 September 2017	2668	Pak Tak International Limited	(16.36)
6.	14 September 2017	1266	Xiwang Special Steel Company Limited	(18.38)
7.	7 September 2017	30	Ban Loong Holdings Limited	(16.98)
8.	7 September 2017	1628	Yuzhou Properties Company Limited	(1.95)
9.	6 September 2017	959	Amax International Holdings Limited	(13.58)
10.	1 September 2017	1966	China See Property Holdings Limited	(9.00)
11.	30 August 2017	1079	Pine Technology Holdings Limited	(4.76)
12.	11 August 2017	982	iOne Holdings Limited	(19.25)
13.	8 August 2017	115	Grand Field Group Holdings Limited	0.00

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No.	Date of initial announcement	Stock code	Company name	Premium/ (Discount) of issue price to closing price on the date of subscription agreement (%)
				(Note)
14.	31 July 2017	1468	UKF (Holdings) Limited	(15.66)
15.	28 July 2017	884	CIFI Holdings (Group) Co. Ltd.	(4.98)
16.	27 July 2017	884	CIFI Holdings (Group) Co. Ltd.	(12.94)
17.	25 July 2017	1918	Sunac China Holdings Limited	(8.81)
18.	21 July 2017	580	Sun.King Power Electronics Group Limited	(5.49)
19.	21 July 2017	712	Comtec Solar Systems Group Limited	(12.28)
20.	19 July 2017	8325	China Smartpay Group Holdings Limited	20.19
21.	17 July 2017	39	China Beidahuang Industry Group Holdings Limited	18.31
22.	17 July 2017	605	China Financial Services Holdings Limited	(5.60)
23.	17 July 2017	852	Strong Petrochemical Holdings Limited	(11.10)
24.	13 July 2017	712	Comtec Solar Systems Group Limited	(9.50)
Mean discount				(8.05)
Maximum discount				(19.66)
Maximum premium				20.19
Company				(17.79)

Note: The premium/discounts are referenced to the figures as disclosed in the respective announcements.

We noted that the subscription prices of the Subscription Comparables severally represents from premium of approximately 20.19% to discount of approximately 19.66%, with an average discount of approximately 8.05%. The discount of approximately 17.34%, represented by the Subscription Price to the closing price of the Shares on the date of the Agreement, is below the average discount and falls within the range of discounts represented by the Subscription Comparables.

While the Subscription Shares are not issued under the Beilin Acquisition Agreement to directly settle the Consideration and the Group's cash used for the Acquisition may not be replenished if the Subscription does not proceed, the Subscription is conditional upon completion of the Acquisition and is therefore similar to a consideration issue in nature in that shares are issued in connection with a transaction to retain cash of the Company by means of issue of shares. As such, we also carried out a comparable analysis of issue of new shares under general mandate (the "Issue Comparable(s)") by companies listed on the Stock Exchange for consideration issue, based on the criteria that (i) they were initially announced during the three month period from 10 July 2017 to 9 October 2017 (i.e. the date

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of the Subscription Agreement); and (ii) shares were issued under general mandate as considerations for or in connection with transactions of the respective listed companies. To the best of our knowledge, we identified an exhaustive list of 15 Issue Comparables, details of which are set out below:

No.	Date of initial announcement	Stock code	Company name	Premium/ (Discount) of issue price to closing price on the date of relevant sales and purchase agreement (%)
				(Note)
1.	18 July 2017	8337	Directel Holdings Limited	0.15
2.	19 July 2017	3669	China Yongda Automobiles Services Holdings Limited	(14.52)
3.	11 August 2017	223	Elife Holdings Limited	1.17
4.	11 August 2017	164	China Baoli Technologies Holdings Limited	1.70
5.	15 August 2017	309	Xinhua News Media Holdings Limited	0.97
6.	27 August 2017	8135	ZMFY Automobile Glass Services Limited	(13.13)
7.	7 September 2017	139	China Soft Power Technology Holdings Limited	(15.00)
8.	8 September 2017	3313	Artgo Holdings Limited	(19.79)
9.	15 September 2017	1106	Sino Haijing Holdings Limited	(19.59)
10.	17 September 2017	526	Lisi Group (Holdings) Limited	(13.04)
11.	21 September 2017	1253	China Greenland Broad Greenstate Group Company Limited	6.75
12.	28 September 2017	1982	Nameson Holdings Limited	0.00
13.	29 September 2017	893	China Vanadium Titano-Magnetite Mining Company Limited	10.34
14.	6 October 2017	1192	Titan Petrochemicals Group Limited	0.42
15.	9 October 2017	574	Pa Shun International Holdings Limited	(1.23)
Mean discount				(4.99)
Maximum discount				(19.79)
Maximum premium				10.34
Company				(17.79)

We noted that the subscription prices of the Issue Comparables severally represents from premium of approximately 10.34% to discount of approximately 19.79%, with an average discount of approximately 4.99%. The discount of approximately 17.34%, represented by the Subscription Price to the closing price of the Shares on the date of the Agreement, is below the average discount and falls within the range of discounts representing by the Issue Comparables.

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Notwithstanding the fact that the discount of the Subscription Price is below the average of that of the Subscription Comparables and the average of that of the Issue Comparable, having consider that (i) the Subscription Price is above the historical closing prices of the Shares for 207 out of 250 days and represent premium of approximately 14.3% over the average closing price of HK\$1.96 during the Review Period; (ii) the Subscription Price represents a premium of approximately 148.9% over the net asset value per Share of approximately HK\$0.90 as at 30 June 2017; (iii) the discount represented by the Subscription Price is within the range of discounts represented by the Subscription Comparables and the Issue Comparables; (iv) 3 out of 24 Subscription Comparables and 2 out of 15 of the Issue Comparables have discounts deeper than that represented by the Subscription Price; and (v) the Subscription will enable the Group to improve its financial position and provide additional cash flow for its operations, we consider that the Subscription Price is justifiable.

(d) Dilution effect

With reference to the shareholding table in the paragraph headed “Effect on Shareholding Structure” of the Board Letter, the shareholding interests of the public Shareholders would be diluted by approximately 0.83 percent point upon completion of the Subscription. Taking into account the reasons for and benefits of the Acquisition and the Subscription, we consider that the minimal dilution impact on the shareholding interests of public Shareholders as a result of the Subscription is acceptable.

(e) Other terms of the Subscription Agreement

We have also reviewed other terms of the Subscription Agreement including, among others, the Subscription Conditions, and noted that they are normal commercial terms. Notwithstanding the dilution effect upon completion of the Subscription, taking into account the reasons for and benefits of the Acquisition and the Subscription as stated above, and our analysis of the Subscription Price, we are of the view that the Subscription Agreement is on normal commercial terms and the terms of the Subscription are fair and reasonable.

OPINION

As disclosed in the Board Letter, a written approval by Outwit Investments Limited which held 1,311,831,572 Shares, representing approximately 58.64% of the total issued share capital of the Company as at the Latest Practicable Date, had been obtained by the Company for implementing the Acquisition and the Subscription, and no extraordinary general meeting of the Company will be convened for the purposes of considering and approving the Acquisition and the Subscription.

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Having considered the aforementioned principal factors and reasons, we are of the view that (i) the Acquisition and the Subscription are in the interests of the Company and the Shareholders as a whole; (ii) the transactions contemplated under the Beilin Acquisition Agreement and the Subscription Agreement are on normal commercial terms but not in the ordinary and usual course of business of the Group; and (iii) the terms of the Beilin Acquisition Agreement (including the Consideration) and the Subscription Agreement (including the Subscription Price) are fair and reasonable so far as the Shareholders are concerned.

Yours faithfully,
For and on behalf of
Nuada Limited

Po Chan
Executive Director

Kevin Wong
Vice President

Ms. Po Chan is a person licensed under the SFO to carry out type 6 (advising on corporate finance) regulated activity under the SFO and regarded as a responsible officer of Nuada Limited and has over 15 years of experience in corporate finance industry.

Mr. Kevin Wong is a person licensed to carry out type 1 (dealing in securities) regulated activity and type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Nuada Limited who has over 13 years of experience in corporate finance industry.

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

Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 provision of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, were as follows:

Name of Director	Name of the company in which the shares was held	Number of the shares held	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Shao Yan (<i>Note</i>)	The Company	4,790,000 (L)	Interest in spouse	0.21

(L) denotes long position

Note: Dr Shao Yan is the spouse of Ms Tian Wen Hong who is the holder of the above Shares. By virtue of the SFO, Dr Shao Yan is deemed to be interested in such 4,790,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

Directors' positions in other companies

As at the Latest Practicable Date, save for Mr Liu Chengwei (who was a director of China Grand, a controlling shareholder of the Company) and Dr Shao Yan (who was a director of Outwit, a controlling shareholder of the Company), none of the Directors was also a director or employee of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Division 2 and 3 of Part XV of SFO.

3. 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)).

4. INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors or the Independent Financial Adviser had, or had had, any direct or indirect interest in any assets which had been or are proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2016, the date to which the latest published audited financial statements of the Company were made up.

As disclosed in the Company's announcement dated 23 October 2015 and the circular dated 13 November 2015, on 23 October 2015 the Group entered into (i) the agreement with Huadong Medicine Co., Ltd. in respect of the supply of pharmaceutical preparations and raw materials to Huadong Medicine Co., Ltd.; (ii) the agreement with Jiangsu Grand Xin Yi Pharmaceutical Co., Ltd* in respect of the purchase of raw materials for steroid hormones and intermediates from Jiangsu Grand Xin Yi Pharmaceutical Co., Ltd*; and (iii) the agreement with Grand Group Corporation Limited* in respect of the purchase of raw materials for steroid hormones and intermediates from Grand Group Corporation Limited*, all of which constituted continuing connected transactions of the Company. Each of these companies is an associate of China Grand. Mr Hu Bo, an executive Director, is a nephew of Mr Hu Kaijun (who controls and ultimately and beneficially owns China Grand). Mr Liu Chengwei, an executive Director, is a director of China Grand. Dr Niu Zhanqi, an executive Director, is a director of Huadong Medicine Co., Ltd.. As such, Mr Hu Bo, Mr Liu Chengwei and Dr Niu Zhanqi are considered to be interested in these agreements.

Save as disclosed above, none of the Directors was interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

5. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
Nuada Limited	Licensed corporation under the SFO to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

Nuada Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and report and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Nuada Limited did not have any shareholding in any member of the Group 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.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financial or trading position of the Group since 31 December 2016, being the date of which the latest audited financial statement of the Company were made up.

7. COMPETING INTERESTS

As at the Latest Practicable Date, Mr Liu Chengwei, the chairman of the Board and an executive Director, is a director of some pharmaceutical companies in the PRC (including China Grand) and Dr Niu Zhanqi, an executive Director, is an executive president of the pharmaceutical management headquarters of China Grand and a director of Huadong Medicine Co., Ltd., a pharmaceutical company listed on the Shenzhen Stock Exchange (stock code: 000963), and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Save as aforesaid, so far as the Directors are aware of, no Directors or their associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Beilin Acquisition Agreement and the Subscription Agreement are available for inspection (i) during normal business hours on any weekday (except for public holidays) at the principal place of business of the Company in Hong Kong at Unit 3302, The Center, 99 Queen's Road Central, Hong Kong from the date of this circular up to and including 1 December 2017.