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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

**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 and the accompanying form of proxy 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.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.

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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)

**(1) ISSUE OF CONSIDERATION SHARES  
UNDER SPECIFIC MANDATE  
PURSUANT TO ACQUISITION OF  
100% OF THE ISSUED SHARES OF  
TAIWAN TUNG YANG INTERNATIONAL COMPANY LIMITED**

**(2) CONNECTED TRANSACTION  
IN RELATION TO SUBSCRIPTION OF SHARES BY A CONNECTED PERSON  
UNDER SPECIFIC MANDATE**

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

**Nuada Limited**

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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 6 to 26 of this circular. A letter of advice from the Independent Board Committee is set out on page 27 of this circular. A letter of advice from the Independent Financial Adviser containing its opinion and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 28 to 55 of this circular.

A notice convening the SGM to be held at Unit 3302, The Center, 99 Queen’s Road Central, Hong Kong on Tuesday, 31 July 2018 at 11:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

12 July 2018

\* For identification purpose only

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## DEFINITIONS

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

|                              |                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “associate(s)”               | has the meaning ascribed to it under the Listing Rules                                                                                                                                                                                                                                                                                                                   |
| “Accounts Date”              | 31 December 2017                                                                                                                                                                                                                                                                                                                                                         |
| “Acquisition”                | the acquisition of 100% of the issued shares of the Target Company by the Company from the Vendor pursuant to the Acquisition Agreement                                                                                                                                                                                                                                  |
| “Acquisition Agreement”      | the acquisition agreement dated 24 May 2018 entered into among the Vendor, the Company and the Target Company in relation to the Acquisition                                                                                                                                                                                                                             |
| “Board”                      | the board of Directors                                                                                                                                                                                                                                                                                                                                                   |
| “Business Day”               | any day (excluding a Saturday, a Sunday or a public holiday) on which banks are generally open for business in Hong Kong                                                                                                                                                                                                                                                 |
| “China Grand”                | China Grand Enterprises Incorporation (中國遠大集團有限責任公司), a company established in the PRC with limited liability, being a controlling shareholder of the Company which is indirectly interested in approximately 58.5% of the total issued share capital of the Company as at the Latest Practicable Date, and is controlled and ultimately and beneficially owned by Mr Hu |
| “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 and traded on the main board of the Stock Exchange                                                                                                                                        |
| “Completion”                 | the completion of the Acquisition Agreement pursuant to its terms                                                                                                                                                                                                                                                                                                        |
| “Completion Date”            | being the day of Completion                                                                                                                                                                                                                                                                                                                                              |
| “connected person(s)”        | has the meaning ascribed thereto under the Listing Rules                                                                                                                                                                                                                                                                                                                 |
| “controlling shareholder(s)” | has the meaning ascribed thereto under the Listing Rules                                                                                                                                                                                                                                                                                                                 |
| “Consideration”              | the aggregate consideration of RMB1,540 million for the Acquisition                                                                                                                                                                                                                                                                                                      |
| “Consideration Share(s)”     | 181,069,959 new Shares to be issued by the Company to settle part of the Consideration                                                                                                                                                                                                                                                                                   |

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## DEFINITIONS

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|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Consideration Shares Specific Mandate” | a specific mandate to be sought from the Independent Shareholders at the SGM for the allotment and issue of the Consideration Shares                                                                                                                                                                                                                                       |
| “Director(s)”                           | the director(s) of the Company                                                                                                                                                                                                                                                                                                                                             |
| “East Ocean”                            | East Ocean Capital (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability, which is an indirect non-wholly owned subsidiary of China Grand                                                                                                                                                                                                |
| “GAAP”                                  | Generally Accepted Accounting Principles                                                                                                                                                                                                                                                                                                                                   |
| “Group”                                 | the Company and its subsidiaries                                                                                                                                                                                                                                                                                                                                           |
| “Hong Kong”                             | the Hong Kong Special Administrative Region of the PRC                                                                                                                                                                                                                                                                                                                     |
| “Independent Board Committee”           | the independent board committee comprising all the independent non-executive Directors, namely, Ms So Tosi Wan, Winnie and Dr Pei Geng, established for the purpose of advising the Independent Shareholders on the Subscription                                                                                                                                           |
| “Independent Financial Adviser”         | Nuada Limited, 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, being the independent financial adviser appointed to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Subscription |
| “Independent Shareholder(s)”            | Shareholder(s) other than the Interested Shareholders                                                                                                                                                                                                                                                                                                                      |
| “Independent Third Party(ies)”          | any person(s) or company(ies) and their respective ultimate beneficial owner(s) who, to the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, are third party(ies) independent of and not connected with the Company or its connected persons                                                                                |
| “Interested Shareholders”               | Mr Hu, the Vendor, the Subscriber, Outwit, East Ocean and their respective associates and Shareholders who are connected to or otherwise associated with Mr Hu, the Vendor, the Subscriber, Outwit, East Ocean or interested in the Acquisition and the Subscription                                                                                                       |

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## DEFINITIONS

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|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Issue Price”             | the issue price of HK\$4.20 per Consideration Share                                                                                                                                                                                                                                                           |
| “Last Trading Day”        | 24 May 2018, being the last trading day on which the Shares were traded on the Stock Exchange immediately prior to the entering into of the Subscription Agreement, which was signed after trading hours                                                                                                      |
| “Latest Practicable Date” | 6 July 2018, being the latest practicable date prior to the printing of this circular for the purpose of 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                                                                                                                                                                                                                                                        |
| “Outwit”                  | Outwit Investments Limited, a company incorporated in the British Virgin Islands with limited liability, which is a controlling shareholder of the Company holding approximately 56.86% of the total issued Shares as at the Latest Practicable Date                                                          |
| “PRC”                     | the People’s Republic of China, which, for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administration Region of the PRC and Taiwan                                                                                                                                               |
| “SFO”                     | the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time                                                                                                                                                                                                      |
| “SGM”                     | the special general meeting of the Company to be convened to consider and, if thought fit, approve, among others, (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the Specific Mandates for the allotment and issue of the Consideration Shares and Subscription Shares |
| “Shareholder(s)”          | holder(s) of the Share(s)                                                                                                                                                                                                                                                                                     |
| “Share(s)”                | ordinary share(s) of HK\$0.01 each in the share capital of the Company                                                                                                                                                                                                                                        |
| “Specific Mandates”       | collectively, the Consideration Shares Specific Mandate and the Subscription Shares Specific Mandate                                                                                                                                                                                                          |
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited R13.28(7)                                                                                                                                                                                                                                                             |

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## DEFINITIONS

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|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Subscriber”                           | Shanghai China Grand Asset Finance Investment Management Co., Limited (上海遠大產融投資管理有限公司), a company established in the PRC with limited liability, a connected person of the Company                                                              |
| “Subscription”                         | the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement                                                                                                                                            |
| “Subscription Agreement”               | the subscription agreement dated 24 May 2018 entered into among the Company and the Subscriber in connection with the Subscription                                                                                                              |
| “Subscription Price”                   | HK\$5.00 per Subscription Share                                                                                                                                                                                                                 |
| “Subscription Share(s)”                | 228,148,148 new Shares to be issued by the Company to the Subscriber (or its nominee) pursuant to the Subscription Agreement                                                                                                                    |
| “Subscription Shares Specific Mandate” | a specific mandate to be sought from the Independent Shareholders at the SGM for the allotment and issue of the Subscription Shares                                                                                                             |
| “Target Company”                       | Taiwan Tung Yang International Company Limited (台灣東洋國際股份有限公司), a company incorporated in Hong Kong with limited liability and wholly owned by the Vendor as at the Latest Practicable Date                                                      |
| “Target Group”                         | collectively, the Target Company, Xudong Haipu, Jiangsu Zhongyuan Chemistry Co., Limited (江蘇中淵化學品有限公司), Shanghai Xudong Haipu Nantong Medical Co., Limited (上海旭東海普南通藥業有限公司) and Shanghai Xudong Haipu Jiading Pharmaceutical Plant (上海旭東海普嘉定藥廠) |
| “Vendor”                               | GL Saino Investment Limited, a company incorporated in the Cayman Islands with limited liability, holding 100% of the issued shares of the Target Company as at the Latest Practicable Date                                                     |
| “Xudong Haipu”                         | Shanghai Xudong Haipu Pharmaceutical Co., Ltd (上海旭東海普藥業有限公司), a company established in the PRC with limited liability                                                                                                                           |
| “HK\$”                                 | Hong Kong dollars, the lawful currency of Hong Kong                                                                                                                                                                                             |
| “RMB”                                  | Renminbi, the lawful currency of the PRC                                                                                                                                                                                                        |

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## DEFINITIONS

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“USD” United States dollars, the lawful currency of the United States of America

“%” per cent.

*In this circular:*

- (1) the English names of PRC nationals, entities, facilities and localities are unofficial translation or transliteration from their Chinese names and are for identification purposes only; and*
- (2) amounts denominated in RMB have been translated into HK\$ at the rate of RMB0.81 = HK\$1.00 for illustration purpose only.*

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr Liu Chengwei (*Chairman*)

Mr Hu Bo (*Deputy Chairman*)

Dr Shao Yan

Dr Niu Zhanqi

*Registered office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Independent non-executive Directors:*

Ms So Tosi Wan, Winnie

Dr Pei Geng

*Head office and principal place  
of business in Hong Kong:*

Unit 3302, The Center

99 Queen's Road Central

Hong Kong

12 July 2018

*To the Shareholders*

Dear Sir or Madam,

**(1) ISSUE OF CONSIDERATION SHARES  
UNDER SPECIFIC MANDATE  
PURSUANT TO ACQUISITION OF  
100% OF THE ISSUED SHARES OF  
TAIWAN TUNG YANG INTERNATIONAL COMPANY LIMITED**

**(2) CONNECTED TRANSACTION  
IN RELATION TO  
SUBSCRIPTION OF SHARES BY A CONNECTED PERSON  
UNDER SPECIFIC MANDATE**

#### INTRODUCTION

Reference is made to the announcement of the Company dated 24 May 2018. On 24 May 2018, the Company had entered into (i) the Acquisition Agreement with the Vendor and the Target Company regarding the acquisition of 100% of the issued shares of the Target Company which involves the allotment and issue of Consideration Shares by the Company under the Consideration Shares Specific Mandate; and (ii) the Subscription Agreement with the Subscriber regarding the Subscription under the Subscription Shares Specific Mandate which constitutes a connected transaction of the Company.

\* for identification purpose only



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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) further information in relation to the Acquisition and the Consideration Shares Specific Mandate for the allotment and issue of the Consideration Shares; (ii) further information on the Subscription and the Subscription Shares Specific Mandate for the allotment and issue of the Subscription Shares; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Subscription and the grant of the Subscription Shares Specific Mandate; (iv) the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the grant of the Subscription Shares Specific Mandate; and (v) a notice of the SGM and the form of proxy.

### THE ACQUISITION

#### Acquisition Agreement

On 24 May 2018 (after trading hours), the Company, the Vendor and the Target Company entered into the Acquisition Agreement, the principal terms of which are set out as follows:

Date: 24 May 2018

Parties: (i) The Company, as purchaser  
(ii) The Vendor, as vendor  
(iii) The Target Company

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is an investment vehicle owned by GL China Opportunities Fund L.P. of GL Capital, which, through its managed funds, is interested in 100,806,000 Shares (representing approximately 4.37% of the issued share capital of the Company) as at the Latest Practicable Date. Save as aforesaid, the Vendor and its beneficial owners (if applicable) are third parties independent of the Company and its connected persons.

#### Assets to be acquired

Pursuant to the Acquisition Agreement, the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire 100% of the issued shares of the Target Company, which shall be sold free from all encumbrances together with all rights to any dividend or other distribution declared, made or paid after the Accounts Date.

#### Consideration

The aggregate Consideration for the Acquisition is RMB1,540 million (equivalent to approximately HK\$1,901 million).

## LETTER FROM THE BOARD

The Consideration was arrived at after arm's length negotiations between the Vendor and the Company and was negotiated and determined mainly with reference to the price-to-earnings ratios of the Target Group and certain comparable companies being acquired by companies listed in Hong Kong from 1 January 2017 to the date of the Acquisition Agreement as below:

| No. | Stock Code | Listed company (the acquirer)                                | Consideration for the acquisition of interest in the target company<br>(Note 1) | Net profit after tax attributable to the acquired equity interests<br>(Note 2) | PE Ratio |
|-----|------------|--------------------------------------------------------------|---------------------------------------------------------------------------------|--------------------------------------------------------------------------------|----------|
| 1.  | 874        | Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited | RMB1,094,100,000                                                                | RMB75,024,000                                                                  | 14.58    |
| 2.  | 1177       | Sino Biopharmaceutical Limited                               | HK\$9,207,399,000                                                               | HK\$228,939,000                                                                | 40.22    |
| 3.  | 1177       | Sino Biopharmaceutical Limited                               | HK\$3,688,118,000                                                               | HK\$39,343,000                                                                 | 93.74    |
| 4.  | 1498       | PuraPharm Corporation Limited                                | US\$5,400,000                                                                   | US\$521,000                                                                    | 10.36    |
| 5.  | 2607       | Shanghai Pharmaceuticals Holding Co, Ltd                     | RMB275,943,000                                                                  | RMB9,671,000                                                                   | 28.53    |

*Notes:*

1. The above comparables are selected where (i) the listed companies are principally engaged in manufacturing and sales of pharmaceutical and health products; and (ii) there were acquisitions of companies between 1 January 2017 to the date of the Acquisition Agreement.
2. The net profit after tax attributable to the acquired equity interests is calculated based on the latest full year financial results of the target company times the equity interests being acquired in the transaction as disclosed in the relevant announcements.

The price-to-earnings ratio of the Acquisition (calculated based on the Consideration over 55% share of the net profit after tax of the Target Group for the year ended 31 December 2017) is approximately 16.74 times, which is within the range of the above comparables. The Consideration was also determined after taking into account the historical financial performance of the Target Group, the technology-related intangible assets owned by the Target Group and the technologies and know-hows researched and developed by the Target Group.

The Consideration shall be satisfied by the Company in the following manner:

- (1) the Company had paid RMB50 million in cash to the Vendor as prepayment within five Business Days upon the entering into of the Acquisition Agreement (the “**Prepayment**”), which shall be (i) applied in satisfaction of part of the Consideration at Completion; (ii) refunded in full (without interest) to the Company if the Acquisition Agreement is terminated without any breach thereof on the part of the Company; and (iii) applied towards any damages payable by the Company to the Vendor if the Company is in breach of the Acquisition Agreement;

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## LETTER FROM THE BOARD

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- (2) subject to the fulfillment (or waiver, as the case may be) of the conditions precedent set out in the section headed “Conditions precedent” below, on the Completion Date, payments shall be made by the Company to the Vendor as follows (the “**First Payment**”):

- (a) RMB720 million, representing 50% of the Consideration less the Prepayment subject to the deduction of the Withheld Sum (as defined and detailed below) shall be payable by the Company to the Vendor in cash.

The Company is entitled to withhold RMB154 million (the “**Withheld Sum**”) from the cash portion of the First Payment to satisfy the Vendor’s tax obligation arising from the sale of the shares of the Target Company. If the Withheld Sum exceeds the actual amount of tax payable, the Company shall return the surplus to the Vendor. On the other hand, if the Withheld Sum falls short of the actual amount of tax payable, the Vendor shall pay such shortfall to the Company.

The Company has undertaken that, should the Company raise fund to finance the payment of the Consideration by the issue of Shares, the subscribers for the Shares shall be established and well-known investors, and the Shares issued will be subject to a transfer lock-up of six months from the issue date.

- (b) RMB616 million, representing 40% of the Consideration, shall be payable by the Company to the Vendor by the allotment and issue of the Consideration Shares at the Issue Price of HK\$4.20.

The allotment and issue of Consideration Shares is conditional upon the following: (i) the Stock Exchange having granted approval to the listing of and dealing in the Consideration Shares; and (ii) the Company having obtained all other relevant consents or approvals in relation to the allotment and issue of the Consideration Shares, including (if applicable) the passing of the relevant resolutions at the SGM.

- (3) the remaining 10% of the Consideration of approximately RMB154 million (the “**Second Payment**”), shall be paid by cash by the Company to the Vendor within five Business Days after the first anniversary of the Completion Date on the conditions that up to the first anniversary of the Completion Date: (1) there being no material false, inaccurate or incomplete undertakings and warranties made by the Vendor or the Target Company relating to the Target Group; (2) there being no material risk or loss on the part of the Vendor or the Target Group arising from any non-compliance with relevant laws before Completion; and (3) the Vendor and the Target Company having not substantially breached any of their respective obligations, undertakings and warranties under the Acquisition Agreement.

Should any due diligence issue not be resolved, or there be any significant breach by the Vendor or the Target Company of their respective obligations, undertakings or warranties under the Acquisition Agreement, the Second Payment shall be made within five Business Days after such issues or breaches having been resolved or rectified.

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## LETTER FROM THE BOARD

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If any of the aforementioned issues or breaches are not resolved or rectified within 20 Business Days after the first anniversary of the Completion Date, the Company shall be entitled to deduct an amount equal to the actual loss suffered by the Company and the Target Company (which amount shall be agreed by both the Company and the Vendor) from the Second Payment. The Second Payment, after the aforesaid deduction, shall be made on the 30th Business Day after the first anniversary of the Completion Date.

The Company shall make all cash payments of the above in Hong Kong dollars to the Vendor's designated overseas Hong Kong dollars account. The applicable exchange rate between Hong Kong dollars and Renminbi shall be the median of the stipulated exchange rate announced by the People's Bank of China on the day of payment.

### **Conditions precedent**

The Completion is subject to the following conditions precedent:

- (i) the consolidated net profit of Xudong Haipu attributable to its shareholders as shown in the audit report of Xudong Haipu prepared by the accountants engaged by the Company for the year ended 31 December 2017 being not significantly less than RMB200 million, and for the purpose of this provision, "significantly less" shall mean a shortfall of 2% or more;
- (ii) the Vendor and the Target Company not having significantly breached any of their respective representations, warranties, undertakings or obligations under the Acquisition Agreement;
- (iii) the Vendor having obtained all internal approvals in relation to the Acquisition and the transactions contemplated thereunder, where such approvals should remain in full force and effect up to the Completion Date; no proposals, promulgation or enforcement of any legislation, rules, orders, notices or rulings having been made by any relevant authorities that will prohibit the Completion and the transactions under the Acquisition Agreement;
- (iv) the Target Company having obtained all internal approvals in relation to the Acquisition and the transactions contemplated thereunder, where such approvals should remain in full force and effect up to the Completion Date; no proposals, promulgation or enforcement of any legislation, rules, orders, notices or rulings having been made by any relevant authorities that will prohibit, restrict or materially delay the Completion and the transactions under the Acquisition Agreement, or will constitute any material adverse effect on the business operations of the Target Group after Completion;
- (v) the Company having obtained all necessary consents or approvals in relation to the signing of the Acquisition Agreement and the implementation of the transactions contemplated thereunder, including but not limited to the passing of the relevant resolutions by the Shareholders at the SGM to approve the allotment and issue of the Consideration Shares;

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## LETTER FROM THE BOARD

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- (vi) the Listing Committee of the Stock Exchange granting the approval for the listing of, and the permission to deal in, the Consideration Shares (and such listing approval having not been subsequently withdrawn before Completion);
- (vii) no event which will have a material adverse effect on the Target Group's normal continuous operations and no material inconsistency with the relevant descriptions under the Acquisition Agreement has been identified during the due diligence exercise conducted by the Company, which include any event relating to breaches of laws, regulations or policies imposed by the nation or the relevant regulatory authorities in respect of product quality, production technique, safety and environmental protection, product pricing, procurement and usage of raw materials that will have a material adverse effect on the Target Group's normal continuous operations; or if such effect or inconsistency has been identified, the parties to the Acquisition Agreement having resolved the issues amicably and entered into a supplemental agreement in this regard;
- (viii) no pre-emption rights in respect of the shares of any member of the Target Group (if any) have been exercised; and
- (ix) the Subscription Agreement having become unconditional (save for the condition that the Acquisition Agreement having become unconditional).

The Company may at its absolute discretion at any time waive the conditions precedent set out above (except for (v) and (vi)). As at the Latest Practicable Date, the Company has no intention to waive any of the conditions precedent.

In the event that any of the conditions precedent could not be fulfilled (or waived by the Company) on or before the Long Stop Date for reasons that the Vendor, the Target Company and/or Xudong Haipu are responsible, the Company may request and the Vendor shall cause all conditions precedent to be fulfilled within such time as specified by the Company. Should the Vendor fail to fulfill all conditions precedent as requested, the Company may unilaterally terminate the Acquisition Agreement without incurring any liability.

In the event that any of the conditions precedent could not be fulfilled on or before the Long Stop Date for reasons which none of the parties to the Acquisition Agreement is responsible, the Acquisition Agreement may be terminated upon agreement by both the Vendor and the Company.

### **Consideration Shares and specific mandate for the issue of the Consideration Shares**

The Consideration Shares, being in aggregate 181,069,959 new Shares, will be allotted and issued at the Issue Price (i.e., HK\$4.20 per Consideration Shares).

Based on the closing price of HK\$6.34 per Share as quoted on the Stock Exchange on the Last Trading Day, the aggregate market value of the Consideration Shares is approximately HK\$1,148 million.

As at the Latest Practicable Date, the Company has 2,306,984,531 Shares in issue.

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## LETTER FROM THE BOARD

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The Consideration Shares represent:

- (i) approximately 7.85% of the existing issued share capital of the Company as at the Latest Practicable Date;
- (ii) approximately 7.28% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares; and
- (iii) approximately 6.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares and the Subscription Shares,

assuming there will be no other changes in the issued share capital of the Company between the Latest Practicable Date and the completion of the Acquisition and the Subscription.

The Issue Price represents:

- (i) a discount of approximately 17.6% to the closing price of HK\$5.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 33.8% to the closing price of HK\$6.34 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 33.0% to the average closing price of HK\$6.27 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the Last Trading Day;
- (iv) a discount of approximately 28.9% to the average closing price of HK\$5.91 per Share as quoted on the Stock Exchange for the 20 consecutive trading days immediately prior to the Last Trading Day;
- (v) a premium of approximately 1.7% to the average closing price of HK\$4.13 per Share as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to the Last Trading Day; and
- (vi) a premium of approximately 292.5% over the audited consolidated net asset value of approximately HK\$1.07 per Share as at 31 December 2017 (based on the audited consolidated statement of financial position of the Company as at 31 December 2017 and the number of Shares in issue as at the Latest Practicable Date).

The Issue Price was determined on an arm's length basis between the Company and the Vendor with reference to, among other things, the average closing price per Share (HK\$4.13 per Share) as quoted on the Stock Exchange for the 180 consecutive trading days (from 29 August 2017 to 23 May 2018) immediately prior to the date of the Acquisition Agreement and the Vendor's transfer lock-up undertaking described in the paragraph headed "Lock-up of Consideration Shares" below. Since (i) the parties commenced negotiation on the Acquisition in late February 2018 with reference to the price of the Shares around that time (average closing price per Share in January 2018 and February 2018 is HK\$4.37

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## LETTER FROM THE BOARD

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and HK\$4.91 respectively) and (ii) the closing price of the Shares has increased from approximately HK\$2.09 to HK\$6.34 per Share over the year up to the date of the Acquisition Agreement, the parties to the Acquisition Agreement consider it appropriate to determine the Issue Price with reference to the closing prices of the Shares for a longer period. Based on the above, the Directors consider that the Issue Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

The Consideration Shares will be allotted and issued pursuant to the Consideration Shares Specific Mandate to be sought by the Company at the SGM. The Consideration Shares, when allotted and issued, will rank pari passu in all respects with the Shares in issue.

### **Lock-up of Consideration Shares**

The Vendor undertakes that it shall not transfer, nor enter into any agreement to transfer any of the Consideration Shares for a period of 12 months commencing from the date of the allotment and issue of the Consideration Shares.

### **Completion of the Acquisition**

On fulfillment of all conditions precedent, Completion shall take place on the Completion Date in accordance with the terms of the Acquisition Agreement.

Upon Completion, the Company will hold 100% of the issued shares in the Target Company and the Target Company will become a direct wholly-owned subsidiary of the Company. The financial results of the Target Company will be consolidated into the financial statements of the Company. However, Xudong Haipu and its subsidiaries will be classified as associates of the Company after Completion. This is because material decisions of Xudong Haipu (including but not limited to the approval of its annual budget, manufacturing plan and profit distribution policy) are subject to the resolutions of the board of directors of Xudong Haipu which must be passed by at least two-third of its directors in attendance under the articles of association of Xudong Haipu. As the Target Company will be entitled to appoint only four out of the seven directors of Xudong Haipu after Completion, the Target Company will not have control over the operations and financial management of Xudong Haipu for the purpose of the Hong Kong Financial Reporting Standards. Accordingly, the financial results of Xudong Haipu and its subsidiaries will not be consolidated into the Company's financial statements of the Company following Completion.

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## LETTER FROM THE BOARD

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### THE SUBSCRIPTION

#### Subscription Agreement

On 24 May 2018 (after trading hours), the Company and the Subscriber entered into the Subscription Agreement, the principal terms of which are set out as follows:

Date: 24 May 2018

Parties: (i) The Company, as issuer  
(ii) The Subscriber, as subscriber

As at the Latest Practicable Date, the Subscriber is a connected person of the Company. See the paragraph headed “Information of the Subscriber” for further information about the Subscriber.

The Subscriber may nominate its wholly-owned subsidiary or a trust to which it is the settlor or beneficiary to subscribe for the Subscription Shares upon completion of the Subscription.

#### Conditions of the Subscription

Completion of the Subscription is subject to the fulfilment or waiver (as the case may be) of the following conditions:

- (i) 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);
- (ii) the passing of resolution(s) by the Independent Shareholders to approve the Subscription Agreement and the transactions contemplated thereunder (including the granting of the Subscription Shares Specific Mandate).
- (iii) the Company having obtained all necessary consents and approvals in relation to the Subscription, including the approval to be obtained under the Companies law of Bermuda, the Companies Ordinance of Hong Kong, the Listing Rules or any other applicable laws and regulations; and
- (iv) the Acquisition Agreement having become unconditional (save for the condition that the Subscription Agreement having become unconditional).

In the event that the conditions precedent above are not fulfilled by 31 August 2018 (or such later date as may be agreed by the Company and the Subscriber in writing), the Subscription Agreement and all rights and obligations thereunder shall cease and terminate and none of the parties thereto shall have any claim against the other.



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## LETTER FROM THE BOARD

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### Subscription Shares and specific mandate for the issue of the Subscription Shares

Pursuant to the terms of the Subscription Agreement, the Subscriber has agreed to subscribe for 228,148 Subscription Shares, representing:

- (i) approximately 9.89% of the existing issued share capital of the Company as at the Latest Practicable Date;
- (ii) approximately 9.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares only; and
- (iii) approximately 8.40% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Consideration Shares,

assuming there will be no other changes in the issued share capital of the Company between the Latest Practicable Date and the completion of the Acquisition and the Subscription.

Based on the closing price of the Shares of HK\$6.34 per Share on the Last Trading Day, the date of the Subscription Agreement, the Subscription Shares have a market value of approximately HK\$1,446 million and an aggregate nominal value of approximately HK\$2.3 million.

The Subscription Price of HK\$5.00 per Subscription Share represents:

- (i) a discount of approximately 2.0% to the closing price of HK\$5.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) represents a discount of approximately 21.1% to the closing price of HK\$6.34 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) represents a discount of approximately 20.2% to the average closing price of approximately HK\$6.27 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the Last Trading Day;
- (iv) represents a discount of approximately 15.3% to the average closing price of approximately HK\$5.91 per Share as quoted on the Stock Exchange for the 20 consecutive trading days immediately prior to the Last Trading Day; and
- (v) a premium of approximately 367.3% over the audited consolidated net asset value of approximately HK\$1.07 per Share as at 31 December 2017 (based on the audited consolidated statement of financial position of the Company as at 31 December 2017 and the number of Shares in issue as at the Latest Practicable Date).

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## LETTER FROM THE BOARD

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The Subscription Price was determined on an arm's length basis between the Company and the Subscriber with reference to the average closing price per Share (HK\$5.91 per Share) as quoted on the Stock Exchange for the 20 consecutive trading days (from 24 April 2018 to 23 May 2018) immediately prior to the date of the Subscription Agreement. Since the Company and the Subscriber commenced negotiation on the Subscription in late April 2018 with reference to the price of the Shares at that time, the parties consider it appropriate to determine the Subscription Price with reference to the average closing price per Share as quoted on the Stock Exchange for the 20 consecutive trading days immediately prior to the date of the Subscription Agreement. Based on the above, the Directors consider that the Subscription Price is fair and reasonable under the current market conditions and in light of the recent price performance of the Shares and the liquidity of the Shares.

The Subscription Shares will be allotted and issued pursuant to the Subscription Shares Specific Mandate to be sought from the Independent Shareholders at the SGM. The Subscription Shares Specific Mandate, if approved, will be valid until the completion of the Subscription or termination of the Subscription Agreement. The Subscription Shares, when issued and fully paid, will rank *pari passu* among themselves and with all existing Shares presently in issue and at the time of allotment and issue of the Subscription Shares and in particular shall rank in full for all dividends and other distributions declared made or paid hereafter.

### **Lock-up of Subscription Shares**

The Subscriber undertakes that it shall not transfer, nor enter into any agreement to transfer any of the Subscription Shares for a period of six months commencing from the date of the allotment and issue of the Subscription Shares.

### **Completion of the Subscription**

Completion of the Subscription will take place within three Business Days after the date that the conditions of the Subscription Agreement have been fulfilled or waived, as the case may be (or such other date as the Company and the Subscriber may agree in writing).

### **REASONS AND BENEFITS OF THE ACQUISITION**

The Target Company's principal asset is 55% shareholding in Xudong Haipu.

Xudong Haipu is principally engaged in the manufacturing and sales of pharmaceutical injections of various volumes. It is the first injection manufacturing plant in the PRC and has a history over 90 years as an established brand. It also has rich experience in manufacturing products covering the PRC market as well as being distributed to South-East Asia, South America, Africa and Middle East markets.

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## LETTER FROM THE BOARD

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The Target Group is a famous pharmaceutical enterprise in the PRC with capacities in research and development, manufacturing and sales of raw materials as well as pharmaceutical preparations. Its core products include over one hundred different medical products in more than 10 categories, including emergency medications, cerebro-cardiovascular and respiratory medicine. In particular, its emergency medical cedilan injection, cerebral angiospasm, skeletal muscle relaxant succinylcholine chloride (anhydrous) injection, anti-tumor medication fluorouracil injection and poisoning treatment chlorolysis phosphate injection have significant market share advantages in the PRC market and registered rapid growth in revenue and profit in recent years.

The Target Group has an independent research center, equipped with advanced equipment and research staff with high technical competency standards. Its researches focus on new preparation product platforms such as liposome, controlled release preparations, inhaler and prefill. There are nearly 20 products under research which are expected to obtain commercialisation approval in the coming years.

The Directors believe that the Target Group's existing core product line may create synergy with the Group's preparation products, and enrich the Group's core product pool in the areas of emergency medications and cerebro-cardiovascular and respiratory products. It may also strengthen the Group's product quality, market share and brand in those areas. In addition, the Target Group has recorded constant and rapid growth in recent years thanks to its competitive advantages in product quality and market share. The Acquisition is expected to allow the Group to further enrich its high quality product pool as well as enhance its product structure, paving the way for further rapid growth in the revenue and profit of the existing business of the Group.

The Directors (including the independent non-executive Directors) believe that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### REASONS FOR THE SUBSCRIPTION AND USE OF PROCEEDS

The Directors believe the Subscription will enable the Company to raise additional fund to fulfill the cash payment in relation to the Acquisition, improve its financial position, broaden its capital base and support the Group's future growth.

The aggregate gross proceeds from the Subscription are expected to be approximately HK\$1,141 million. After deducting related fees and expenses, the aggregate net proceeds from the Subscription are expected to be approximately HK\$1,140 million.

The net price per Subscription Share after deducting related fees and expenses is approximately HK\$5.00 per Subscription Share.

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## LETTER FROM THE BOARD

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It is expected that all of the net proceeds will be used to cover the Prepayment and to settle the cash payment of the First Payment and the Second Payment of the Acquisition. In the event that there are any remaining net proceeds due to the exchange rate fluctuation, it is expected that the remaining net proceeds will be used as general working capital of the Group for repaying existing bank loans or settling fees of professional advisers.

The Directors (including the independent non-executive Directors) consider that the Subscription is on normal commercial terms, the terms of the Subscription (including the Subscription Price) are fair and reasonable, and the Subscription is in the interests of the Company and the Shareholders as a whole.

### FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST 12 MONTHS

The Company has conducted the following equity fund raising activities in the 12 months immediately prior to the Latest Practicable Date:

| Date of announcement | Fund raising activity                                                                                  | Net proceeds raised (approximate) | Intended use of proceeds                                                                                                                                                                                                                                                                                                | Actual use of the proceeds                             |
|----------------------|--------------------------------------------------------------------------------------------------------|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 10 October 2017      | Issue of 47,750,000 new Shares at the subscription price of HK\$2.24 per Share under general mandate   | HK\$107.0 million                 | Repayment of bank loans: HK\$90.0 million<br><br>Repayment of interest of convertible bonds: HK\$9.9 million<br><br>Salary and wages: HK\$1.7 million<br><br>Office rent: HK\$0.8 million<br><br>Audit fees and other professional expenses: HK\$3.2 million<br><br>Other recurring operating expenses: HK\$1.4 million | Used as intended                                       |
| 24 May 2018          | Issue of 181,069,959 new Shares at the issue price of HK\$4.20 per Share under specific mandate        | HK\$760.5 million (expected)      | As consideration shares for the settlement of part of the consideration for the Acquisition: HK\$760.5 million                                                                                                                                                                                                          | Yet to be completed; subject to shareholders' approval |
| 24 May 2018          | Issue of 228,148,148 new Shares at the subscription price of HK\$5.00 per Share under specific mandate | HK\$1,140 million (expected)      | Settlement of part of the consideration for the Acquisition: HK\$1,140 million                                                                                                                                                                                                                                          | Yet to be completed; subject to shareholders' approval |

## LETTER FROM THE BOARD

| Date of announcement | Fund raising activity                                                                                                         | Net proceeds raised (approximate)      | Intended use of proceeds                                                                                                                        | Actual use of the proceeds                                                        |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| 1 June 2018          | Issue of 237,416,904 new Shares at the subscription price of HK\$5.20 per Share under specific mandate                        | HK\$1,234.6 million (expected)         | Settlement of part of the consideration for an acquisition: HK\$1,234.6 million                                                                 | Yet to be completed; subject to shareholders' approval                            |
| 4 July 2018          | Proposed rights issue of rights shares on the basis of six rights shares for every twenty-five shares held on the record date | Maximum HK\$2,877.1 million (expected) | Settlement for an acquisition: HK\$2,800.0 million<br><br>Settlement for the related transaction cost of the said acquisition: HK\$77.1 million | Yet to be completed; subject to the issuance of the relevant prospectus documents |

Save as disclosed above, the Company has not conducted any equity fund raising activities in the 12 months immediately prior to the Latest Practicable Date.

### CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the change in the shareholding structure of the Company immediately after the allotment and issue of the Subscription Shares and the Consideration Shares:

| Name of shareholders                                               | As at the Latest Practicable Date |                                         | Immediately after allotment and issue of the Consideration Shares only |                                         | Immediately after allotment and issue of the Consideration Shares and the Subscription Shares |                                         |
|--------------------------------------------------------------------|-----------------------------------|-----------------------------------------|------------------------------------------------------------------------|-----------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------|
|                                                                    | Number of Shares                  | Approximate percentage of issued Shares | Number of Shares                                                       | Approximate percentage of issued Shares | Number of Shares                                                                              | Approximate percentage of issued Shares |
|                                                                    |                                   |                                         |                                                                        |                                         |                                                                                               |                                         |
| Outwit (Note 1)                                                    | 1,311,831,572                     | 56.86                                   | 1,311,831,572                                                          | 52.72                                   | 1,311,831,572                                                                                 | 48.29                                   |
| East Ocean (Note 2)                                                | 24,916,943                        | 1.08                                    | 24,916,943                                                             | 1.00                                    | 24,916,943                                                                                    | 0.92                                    |
| The Subscriber                                                     | 13,830,000                        | 0.60                                    | 13,830,000                                                             | 0.56                                    | 241,978,148                                                                                   | 8.91                                    |
| Chau Tung (Note 1)                                                 | 41,020,000                        | 1.78                                    | 41,020,000                                                             | 1.65                                    | 41,020,000                                                                                    | 1.51                                    |
| Tian Wen Hong (Note 3)                                             | 4,790,000                         | 0.21                                    | 4,790,000                                                              | 0.21                                    | 4,790,000                                                                                     | 0.21                                    |
| The Vendor and the affiliated funds managed by GL Capital (Note 4) | –                                 | –                                       | 281,875,959                                                            | 11.33                                   | 281,875,959                                                                                   | 10.38                                   |
| Sub-total                                                          | 1,396,388,515                     | 60.53                                   | 1,678,264,474                                                          | 67.45                                   | 1,906,412,622                                                                                 | 70.19                                   |
| <b>Public Shareholders</b>                                         |                                   |                                         |                                                                        |                                         |                                                                                               |                                         |
| The Vendor and the affiliated funds managed by GL Capital (Note 4) | 100,806,000                       | 4.37                                    | –                                                                      | –                                       | –                                                                                             | –                                       |
| Other public Shareholders                                          | 809,790,016                       | 35.10                                   | 809,790,016                                                            | 32.55                                   | 809,790,016                                                                                   | 29.81                                   |
| Total                                                              | 2,306,984,531                     | 100.00                                  | 2,488,054,490                                                          | 100.00                                  | 2,716,202,638                                                                                 | 100.00                                  |

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## LETTER FROM THE BOARD

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*Notes:*

1. Outwit is the beneficial owner of 1,311,831,572 Shares. Grand (Hongkong) International Investments Holdings Limited (“**Grand Investment**”) held 60% equity interests of Outwit, and Ms Chau Tung (the spouse of Mr Hu) held the remaining 40% equity interests. Grand Investment is wholly-owned by China Grand.
2. The Subscriber is a direct non-wholly owned subsidiary of China Grand, and East Ocean is a wholly owned subsidiary of the Subscriber.
3. Dr Shao Yan, a Director, is the spouse of Ms Tian Wen Hong, who is the holder of the above Shares.
4. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Vendor is an investment vehicle owned by GL China Opportunities Fund L.P. of GL Capital, which, through its managed funds, is interested in 100,806,000 Shares (representing approximately 4.37% of the issued share capital of the Company) as at the Latest Practicable Date.

### INFORMATION OF THE COMPANY AND THE GROUP

The Company is the holding company of the Group which is listed on the main board of the Stock Exchange. 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.

### INFORMATION OF THE SUBSCRIBER

The Subscriber is a company established in the PRC with limited liability. It is principally engaged in investment and asset management.

As at the Latest Practicable Date, China Grand is interested in 1,350,578,515 Shares, representing approximately 58.5% of the total issued share capital of the Company and is thus a controlling shareholder of the Company. The Subscriber is a direct non-wholly owned subsidiary of China Grand, and therefore the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules.

### INFORMATION OF THE VENDOR

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the Vendor is a company incorporated in the Cayman Islands with limited liability, which is an investment vehicle owned by GL China Opportunities Fund L.P. of GL Capital. GL Capital is a leading investor in the PRC healthcare industry. With a deep understanding of the PRC healthcare industry, GL Capital’s mission is to invest wisely, partner with and add value to leaders of the industry.

To the best of the Directors’ knowledge information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

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## LETTER FROM THE BOARD

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### INFORMATION OF THE TARGET GROUP

The Target Company is a company incorporated in Hong Kong with limited liability, and is principally engaged in investment holding. As at the Latest Practicable Date, the Target Company is wholly owned by the Vendor.

Xudong Haipu is a company established in the PRC with limited liability, and is owned as to 55% by the Target Company and 45% by Shanghai Pharmaceutical Industry Corporation Limited (上海醫藥工業有限公司), a third party independent of the Company. Xudong Haipu is principally engaged in the manufacturing and sales of pharmaceutical injections of various volumes. Please refer to the paragraphs headed “Reasons and benefits of the Acquisition” for further details about the Target Group’s business.

Xudong Haipu has three subsidiaries, namely Jiangsu Zhongyuan Chemistry Co., Limited (江蘇中淵化學品有限公司), Shanghai Xudong Haipu Nantong Medical Co., Limited (上海旭東海普南通藥業有限公司) and Shanghai Xudong Haipu Jiading Pharmaceutical Plant (上海旭東海普嘉定藥廠).

Jiangsu Zhongyuan Chemistry Co., Limited is a company established in the PRC with limited liability, and is owned as to 68% by Xudong Haipu. Its principal business includes manufacturing and sale of chemical materials and pharmaceutical intermediates.

Shanghai Xudong Haipu Nantong Medical Co., Limited is a company established in the PRC with limited liability, and is owned as to 68% by Xudong Haipu. Its principal business includes manufacturing and sale of pharmaceutical preparations, pharmaceutical intermediates and raw materials.

Shanghai Xudong Haipu Jiading Pharmaceutical Plant is a joint venture company established in the PRC, and is owned as to 64.4621% by Xudong Haipu. Its principal business includes manufacture and sale of pharmaceutical preparations including tablets, capsules, oral liquids, and raw materials.

Set out below is the unaudited financial information of the Target Company and the unaudited consolidated financial information of Xudong Haipu for the year ended 31 December 2016 and 31 December 2017 respectively:

|                                | <b>For the year ended<br/>31 December 2016</b> | <b>For the year ended<br/>31 December 2017</b> |
|--------------------------------|------------------------------------------------|------------------------------------------------|
|                                | <i>USD’000</i>                                 | <i>USD’000</i>                                 |
|                                | (unaudited)                                    | (unaudited)                                    |
| <b>Target Company (Note 1)</b> |                                                |                                                |
| Net profit before tax          | 5,916                                          | 16,094                                         |
| Net profit after tax           | 5,345                                          | 13,578                                         |
| Total assets                   | 50,717                                         | 64,884                                         |
| Net assets                     | 5,481                                          | 19,587                                         |

## LETTER FROM THE BOARD

| <b>For the year ended<br/>31 December 2016</b> | <b>For the year ended<br/>31 December 2017</b> |
|------------------------------------------------|------------------------------------------------|
| <i>RMB'000</i>                                 | <i>RMB'000</i>                                 |
| (unaudited)                                    | (unaudited)                                    |

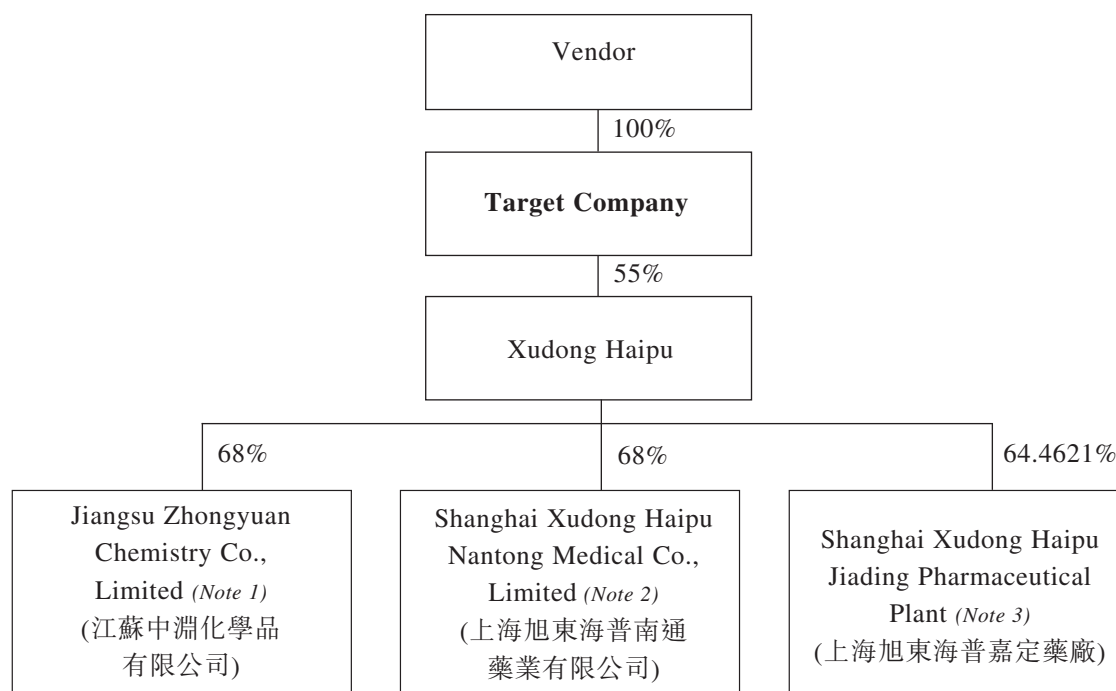
**Xudong Haipu and its subsidiaries**  
**(consolidated) (Note 2)**

|                       |         |         |
|-----------------------|---------|---------|
| Net profit before tax | 71,474  | 197,810 |
| Net profit after tax  | 64,932  | 167,255 |
| Total assets          | 433,327 | 886,220 |
| Net assets            | 375,701 | 552,008 |

*Notes:*

1. Prepared under Hong Kong GAAP.
2. Prepared under PRC GAAP.

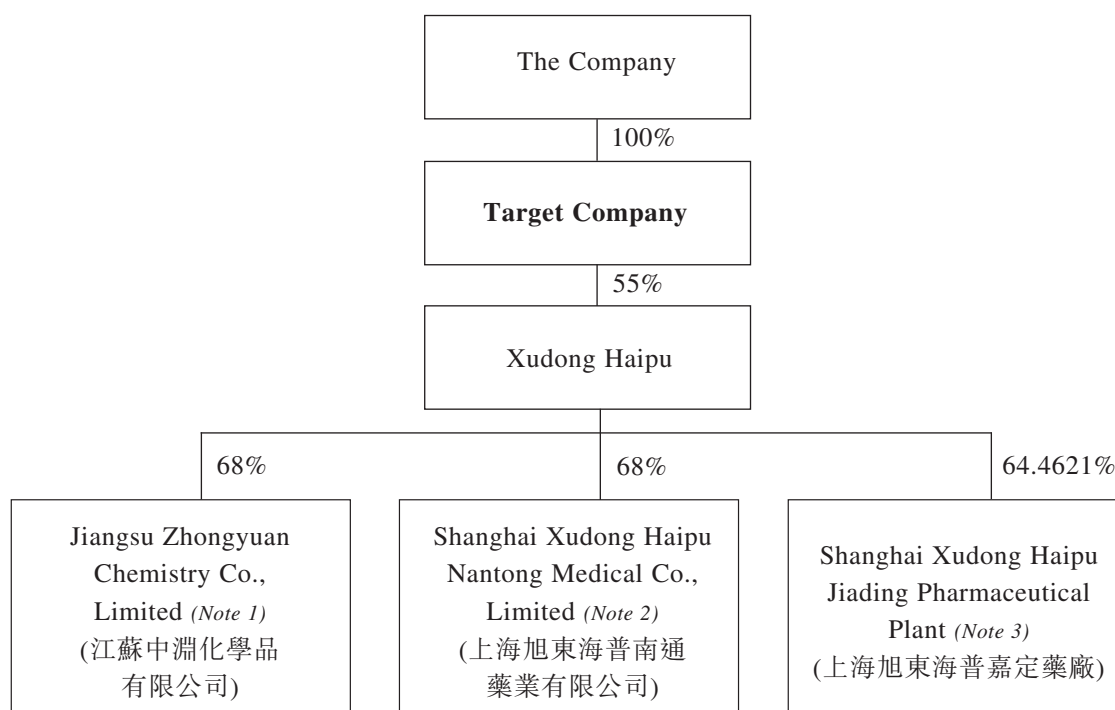
The shareholding structure of the Target Group as at the Latest Practicable Date is set out below:





## LETTER FROM THE BOARD

The shareholding structure of the Target Group immediately after the completion of the Acquisition is set out below:



*Notes:*

1. Fu Aiqing (符愛清), an Independent Third Party, holds the remaining 32% equity interest in Jiangsu Zhongyuan Chemistry Co., Limited.
2. Fu Aiqing (符愛清), an Independent Third Party, holds the remaining 32% equity interest in Shanghai Xudong Haipu Nantong Medical Co., Limited.
3. The remaining equity interest in Shanghai Xudong Haipu Jiading Pharmaceutical Plant is held as to 21.32% by Shanghai Xuxing Asset Operation Co., Limited (上海徐行資產經營有限公司) and 14.22% by Shanghai Pharmaceutical Industry Co., Limited (上海醫藥工業有限公司), both are Independent Third Parties.

### LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are more than 5% but are all less than 25%, the Acquisition constitutes a discloseable transaction on the part of the Company, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, China Grand is interested in 1,350,578,515 Shares, representing approximately 58.5% of the total issued share capital of the Company and is thus a controlling shareholder of the Company. The Subscriber is a direct non-wholly owned subsidiary of China Grand, and therefore the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a non-exempt connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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### APPLICATION FOR LISTING OF THE SUBSCRIPTION SHARES AND THE CONSIDERATION SHARES

Application will be made by the Company to the Stock Exchange for the grant of an approval for the listing of, and permission to deal in, the Subscription Shares and the Consideration Shares.

#### SGM

Set out on pages SGM-1 to SGM-3 of this circular is a notice convening the SGM to be held at Unit 3302, The Center, 99 Queen's Road Central, Hong Kong at which the relevant resolutions will be proposed at the SGM to approve, among other things, (i) the Subscription Agreement and the transactions contemplated thereunder; and (ii) the Specific Mandates for the allotment and issue of the Consideration Shares and Subscription Shares. The resolutions proposed to be approved at the SGM will be taken by poll and an announcement on the results of the SGM will be made by the Company after the SGM.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, there is (i) no voting trust nor other agreement nor arrangement nor understanding entered into or binding upon any Shareholders; and (ii) no obligation nor entitlement of any Shareholder as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

As the completion of each the Acquisition Agreement and the Subscription Agreement is inter-conditional with each other, (i) the Vendor, who has a material interest in the Acquisition, shall be deemed to have a material interest in the Subscription; and (ii) the Subscriber, who has a material interest in the Subscription, shall also be deemed to have a material interest in the Acquisition. In accordance with the Listing Rules, the Interested Shareholders, who in aggregate hold 1,492,404,515 Shares as at the Latest Practicable Date, representing approximately 64.69% of the entire issued share capital of the Company, are required to abstain from voting on the relevant resolutions to approve (i) the Subscription Agreement and the transactions contemplated thereunder; (ii) the grant of the Subscription Shares Specific Mandate; and (iii) the grant of the Consideration Shares Specific Mandate and any vote exercised by the Independent Shareholders at the SGM shall be taken by poll.

Save as disclosed above, no Shareholder has a material interest in the Acquisition nor the Subscription that is required to abstain from voting and being counted towards the quorum on the relevant resolutions at the SGM.

In addition, Mr Hu Bo, an executive Director, is a nephew of Mr Hu (the beneficial owner of Outwit) and is considered to be interested in the Acquisition and the Subscription, and thus has abstained from voting on the relevant board resolutions for approving them. Besides, Mr Liu Chengwei, an executive Director, is a director of China Grand, and Dr Shao Yan is a director of each of Outwit and East Ocean. Both of them had voluntarily abstained from voting on the relevant board resolutions for approving the Acquisition and the Subscription to avoid any potential conflict of interests. Save as aforesaid, the Board confirms that none of the Directors has any material interest in the Acquisition or the Subscription and is required to abstain from voting on the relevant board resolutions for approving them.

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## LETTER FROM THE BOARD

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A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

### INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Ms So Tosi Wan, Winnie and Dr Pei Geng, being all independent non-executive Directors, has been formed to advise the Independent Shareholders as to the fairness and the reasonableness of the terms of the Subscription Agreement and the grant of the Subscription Shares Specific Mandate and as to how to vote at the SGM.

Nuada Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the grant of the Subscription Shares Specific Mandate.

The Independent Board Committee, having taken into account the advice and recommendation of Nuada Limited, consider that the Subscription and the grant of the Subscription Shares Specific Mandate are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. While the Subscription and the grant of the Subscription Shares Specific Mandate are not in the ordinary and usual course of business of the Group, they are in the interests of the Company and the Shareholders as a whole, and accordingly recommends the Independent Shareholders to vote in favour of the ordinary resolutions which will be proposed at the SGM for approving the Subscription and the grant of the Subscription Shares Specific Mandate respectively thereunder.

The text of the letter from the Independent Board Committee is set out on page 27 of this circular, the text of the letter from the Independent Financial Adviser containing its advice is set out on pages 28 to 55 of this circular.

### RECOMMENDATION

The Board (including the independent non-executive Directors), having taken into account of the reasons set out in the paragraphs headed "Reasons for the Subscription and use of proceeds" above and the recommendations of the Independent Board Committee and the Independent Financial Adviser, considers that the Subscription and the grant of the Subscription Shares Specific Mandate are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolutions which will be proposed at the SGM for approving the Subscription and the grant of the Subscription Shares Specific Mandate.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 27 of this circular which contains its views in relation to the Subscription and the grant of the Subscription Shares Specific Mandate; and (ii) the letter from the Independent Financial Adviser set out on pages 28 to 55 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Subscription and the grant of the Subscription Shares Specific Mandate and the principal factors and reasons considered by it in arriving its opinions.

Your attention is also drawn to 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)**

12 July 2018

*To the Independent Shareholders,*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
IN RELATION TO  
SUBSCRIPTION OF SHARES BY A CONNECTED PERSON  
UNDER SPECIFIC MANDATE**

We refer to the circular of the Company dated 12 July 2018 (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 Subscription and the grant of the Subscription Shares Specific Mandate are on normal commercial terms which are fair and reasonable so far as the Independent 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 Independent 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 28 to 55 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 6 to 26 of the Circular and the additional information set out in the appendix of the Circular.

Having considered the terms and conditions of the Subscription Agreement and the principal factors and reasons considered by, and the advice and recommendation of the Independent Financial Adviser, we are of the opinion that the Subscription and the grant of the Subscription Shares Specific Mandate are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription Agreement and the grant of the Subscription Shares Specific Mandate.

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

**So Tosi Wan, Winnie**  
*Independent non-executive Director*

**Pei Geng**  
*Independent non-executive Director*

\* for identification purpose only

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Nuada Limited dated 12 July 2018 prepared for the purpose of inclusion in this circular.*

**Nuada Limited**

Unit 1805-08, 18/F  
OfficePlus @Sheung Wan  
93-103 Wing Lok Street  
Sheung Wan, Hong Kong  
香港上環永樂街93-103號  
協成行上環中心18樓1805-08室

12 July 2018

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

Dear Sirs,

**CONNECTED TRANSACTION  
IN RELATION TO  
SUBSCRIPTION OF SHARES BY A CONNECTED PERSON  
UNDER SPECIFIC MANDATE**

**INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of 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 12 July 2018 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 24 May 2018, the Company, the Vendor and the Target Company entered into the Acquisition Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire 100% of the issued shares of the Target Company at an aggregate consideration of RMB1,540 million (equivalent to approximately HK\$1,901 million), of which (i) 40% of the Consideration at RMB616 million (equivalent to approximately HK\$760 million) will be settled by the allotment and issue of the Consideration Shares, and (ii) 60% of the Consideration at RMB924 million (equivalent to approximately HK\$1,141 million) will be settled by cash.

The Consideration Shares represent (i) approximately 7.85% of the existing issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 7.28% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares; and (iii) approximately 6.67% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Subscription Shares (assuming there will be no other changes in the issued share capital of the Company between the Latest Practicable Date and the completion of the Acquisition and the Subscription).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Also on 24 May 2018, the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue, 228,148,148 Subscription Shares at the Subscription Price of HK\$5.00 per Subscription Share for a cash consideration of approximately HK\$1,446 million. It is expected that the net proceeds from the Subscription will mainly be used as (i) the cash payment in relation to the Acquisition; and (ii) the Group's general working capital.

The Subscription Shares in aggregate represent (i) approximately 9.89% of the existing issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 9.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares only; and (iii) approximately 8.40% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Consideration Shares (assuming there will be no other changes in the issued share capital of the Company between the Latest Practicable Date and the completion of the Acquisition and the Subscription).

The Subscription Shares will be allotted and issued under the Subscription Shares Specific Mandate which is subject to, among others, the Acquisition Agreement having become unconditional and the Independent Shareholders' approval at the SGM.

As at the Latest Practicable Date, China Grand is interested in 1,351,326,515 Shares, representing approximately 58.58% of the total issued share capital of the Company and is thus a controlling shareholder of the Company. The Subscriber is a direct non-wholly owned subsidiary of China Grand, and therefore the Subscriber is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Subscription constitutes a non-exempt connected transaction for the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the completion of each the Acquisition Agreement and the Subscription Agreement is inter-conditional with each other, (i) the Vendor, who has a material interest in the Acquisition, shall be deemed to have a material interest in the Subscription; and (ii) the Subscriber, who has a material interest in the Subscription, shall also be deemed to have a material interest in the Acquisition. In accordance with the Listing Rules, the Interested Shareholders, who in aggregate hold 1,492,404,515 Shares as at the Latest Practicable Date, representing approximately 64.69% of the entire issued share capital of the Company, are required to abstain from voting on the relevant resolutions to approve (i) the Subscription Agreement and the transactions contemplated thereunder; (ii) the grant of the Subscription Shares Specific Mandate; and (iii) the grant of the Consideration Shares Specific Mandate and any vote exercised by the Independent Shareholders at the SGM shall be taken by poll.

In addition, Mr Hu Bo, an executive Director, is a nephew of Mr Hu (the beneficial owner of Outwit) and is considered to be interested in the Acquisition and the Subscription, and thus has abstained from voting on the relevant board resolutions for approving them. Besides, Mr Liu Chengwei, an executive Director, is a director of China Grand, and Dr Shao Yan is a director of each of Outwit and East Ocean. Both of them had voluntarily abstained from voting on the relevant board resolutions for approving the Acquisition and the Subscription to avoid any potential conflict of interests.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In respect of the terms of the Subscription, an Independent Board Committee has been established to advise the Independent Shareholders, and we, Nuada Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent 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 of advice as an independent financial adviser in respect of certain transactions of the Group:

| <b>Transaction types</b>                                                                                                     | <b>Date of our letters</b> |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Continuing connected transactions                                                                                            | 27 November 2017           |
| Connected transaction                                                                                                        | 17 November 2017           |
| Connected transaction and subscription of new shares by controlling shareholder and its related party under specific mandate | 19 August 2016             |

Save for the above engagements and this appointment as the Independent Financial Adviser in respect of 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 its substantial shareholder(s) or connected person(s) as defined under the Listing Rules, and accordingly are considered eligible to give independent advice on the Subscription.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent 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.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 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 2016 (“**FY2016**”) and 31 December 2017 (“**FY2017**”) respectively as extracted from the annual report of the Company for the year ended 31 December 2017 (the “**Annual Report**”).

|                            | <b>For the year<br/>ended<br/>31 December<br/>2017<br/>(audited)<br/>HK\$'000</b> | <b>For the year<br/>ended<br/>31 December<br/>2016<br/>(audited)<br/>HK\$'000</b> |
|----------------------------|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Revenue                    | 4,770,850                                                                         | 3,696,164                                                                         |
| Gross profit               | 2,479,497                                                                         | 1,732,428                                                                         |
| Profit for the period/year | 485,758                                                                           | 269,362                                                                           |

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Group recorded a revenue of approximately HK\$4,770.9 million for FY2017, representing an increase of approximately 29.1% as compared with that of approximately HK\$3,696.2 million for FY2016. As disclosed in the Annual Report and according to the management of the Company, the increment of the revenue is mainly due to (i) the active fine-tuning of the Group's product matrix; (ii) the advanced technology applied to improve product quality and competitiveness; and (iii) the completion of the acquisition of the entire share capital of Xi'an Beilin Pharmaceutical Company Limited (西安碑林藥業股份有限公司) in the fourth quarter of 2017 (details of the aforesaid acquisition are set out in the Company's announcements dated 29 June 2016 and 10 July 2017 respectively) which started contributing revenue and profit to the Group. In addition to the above, the Group also developed specialist products which have higher gross profit margin, which also drove the gross profit margin of the Group from approximately 46.9% in FY2016 to approximately 52.0% in FY2017, representing an increase of approximately 5.1 percent point. Therefore, the Group recorded a growth of profits from approximately HK\$269.4 million in FY2016 to approximately HK\$485.8 million in FY2017, representing an increase of approximately 80.3%.

As stated in the Annual Report, as at 31 December 2017, the total assets of the Group amounted to approximately HK\$8,062.8 million, of which approximately HK\$640.8 million were cash and cash equivalents, while the net assets of the Group amounted to approximately HK\$2,459.6 million.

*(b) Information of the Target Group*

The Target Company is a company incorporated in Hong Kong with limited liability, and is principally engaged in investment holding. As at the Latest Practicable Date, the Target Company is wholly owned by the Vendor.

Xudong Haipu is a company established in the PRC with limited liability, and is owned as to 55% by the Target Company and 45% by Shanghai Pharmaceutical Industry Corporation Limited (上海醫藥工業有限公司), a third party independent of the Company. Xudong Haipu is principally engaged in the manufacturing and sales of pharmaceutical injections of various volumes.

Xudong Haipu has three subsidiaries, namely Jiangsu Zhongyuan Chemistry Co., Limited (江蘇中淵化學品有限公司), Shanghai Xudong Haipu Nantong Medical Co., Limited (上海旭東海普南通藥業有限公司) and Shanghai Xudong Haipu Jiading Pharmaceutical Plant (上海旭東海普嘉定藥廠).

Jiangsu Zhongyuan Chemistry Co., Limited is a company established in the PRC with limited liability, and is owned as to 68% by Xudong Haipu. Its principal business includes manufacturing and sale of chemical materials and pharmaceutical intermediates.

Shanghai Xudong Haipu Nantong Medical Co., Limited is a company established in the PRC with limited liability, and is owned as to 68% by Xudong Haipu. Its principal business includes manufacturing and sale of pharmaceutical preparations, pharmaceutical intermediates and raw materials.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Shanghai Xudong Haipu Jiading Pharmaceutical Plant is a joint venture company established in the PRC, and is owned as to 64.4621% by Xudong Haipu. Its principal business includes manufacture and sale of pharmaceutical preparations including tablets, capsules, oral liquids, and raw materials.

As extracted from the Board Letter, set out below is the unaudited financial information of the Target Company and the unaudited consolidated financial information of Xudong Haipu for the year ended 31 December 2016 and 31 December 2017 respectively:

|                                                                      | <b>For the year<br/>ended<br/>31 December<br/>2016<br/>USD'000<br/>(unaudited)</b> | <b>For the year<br/>ended<br/>31 December<br/>2017<br/>USD'000<br/>(unaudited)</b> |
|----------------------------------------------------------------------|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------|
| <b>Target Company (Note 1)</b>                                       |                                                                                    |                                                                                    |
| Net profit before tax                                                | 5,916                                                                              | 16,094                                                                             |
| Net profit after tax                                                 | 5,345                                                                              | 13,578                                                                             |
| Total assets                                                         | 50,717                                                                             | 64,884                                                                             |
| Net assets                                                           | 5,481                                                                              | 19,587                                                                             |
|                                                                      | <b>For the year<br/>ended<br/>31 December<br/>2016<br/>RMB'000<br/>(unaudited)</b> | <b>For the year<br/>ended<br/>31 December<br/>2017<br/>RMB'000<br/>(unaudited)</b> |
| <b>Xudong Haipu and its subsidiaries (consolidated)<br/>(Note 2)</b> |                                                                                    |                                                                                    |
| Revenue                                                              | 237,821                                                                            | 440,861                                                                            |
| Net profit before tax                                                | 71,474                                                                             | 197,810                                                                            |
| Net profit after tax                                                 | 64,932                                                                             | 167,255                                                                            |
| Total assets                                                         | 433,327                                                                            | 886,220                                                                            |
| Net assets                                                           | 375,701                                                                            | 522,008                                                                            |

*Notes:*

1. Prepared under Hong Kong GAAP.
2. Prepared under PRC GAAP.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We note that both the revenue and the net profit after tax for Xudong Haipu and its subsidiaries increased substantially in FY2017 by approximately 85.4% and 175.7% respectively as compared with FY2016. As discussed with the management of the Company, we understand that such rapid growth was mainly due to the fact that some of the products from Xudong Haipu and its subsidiaries were included in the National Medical Reimbursement List (the “**Reimbursement List**”) of the National Medical Insurance Scheme (the “**Insurance Scheme**”) (國家基本醫療保險藥品目錄) recently updated in February 2017.

As stated in the Board Letter and according to the management of the Company, the Target Company is an investment holdings company and its principal asset is 55% shareholding in Xudong Haipu. Xudong Haipu is principally engaged in the manufacturing and sales of pharmaceutical injections of various volumes. It is the first injection manufacturing plant in the PRC and has a history over 90 years as an established brand. It also has rich experience in manufacturing products covering the PRC market as well as being distributed to South-East Asia, South America, Africa and Middle East markets.

As stated in the Board Letter and according to the management of the Company, the Target Group is a famous pharmaceutical enterprise in the PRC with capacities in research and development, manufacturing and sales of raw materials as well as pharmaceutical preparations. Its core products include over one hundred different medical products in more than 10 categories, including emergency medications, cerebro-cardiovascular and respiratory medicine. In particular, its emergency medical cedilan injection, cerebral angiospasm, skeletal muscle relaxant succinylcholine chloride (anhydrous) injection, anti-tumor medication fluorouracil injection and poisoning treatment chlorolysis phosphate injection have significant market share advantages in the PRC market and registered rapid growth in revenue and profit in recent years.

As stated in the Board Letter and according to the management of the Company, the Target Group has an independent research center, equipped with advanced equipment and research staff with high technical competency standards. Its researches focus on new preparation product platforms such as liposome, controlled release preparations, inhaler and prefill. There are more than 10 products under research which are expected to obtain commercialisation approval in the coming years.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(c) *Market outlook for the Target Group*

In respect of the prospect of the pharmaceutical industry in which the Target Group 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 per year increased continuously from approximately RMB921 in 2013 to approximately RMB1,451 in 2017. This represented a cumulative annual growth rate of approximately 12.0% over the recent four years, reflecting that the general public are spending more on health care related products and services. We also note that the growth rate in terms of revenue of Xudong Haipu and its subsidiaries was substantially higher than the market growth, showing that the Target Group has outstanding financial performance in recent period.

To further understand the market regulation of pharmaceutical products, we have also reviewed the article titled “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 (國務院) of the PRC on 24 January 2017. According to the aforesaid article, 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 aforementioned measures, we note that it is the aim of the PRC government to improve the development of pharmaceutical products in the PRC, which would have positive impact on the development of pharmaceutical industry in the PRC.

We also noted a news report about the press conference on 12 February 2018 by National Health and Family Planning Commission (國家衛生和計畫生育委員會) (“NHFPC”) of the PRC on the web site of the State Council Information Office (國務院新聞辦公室) of the PRC. According to the spokesmen of NHFPC, the number of participants in the Insurance Scheme exceeded 1.35 billion in 2017 (as compared with over 1.3 billion in 2016), representing a participation rate of over 95%. Meanwhile, the Reimbursement List included 375 more medical products and the coverage continued to increase. Participants in the Insurance Scheme are reimbursed for products they use which are included in the Reimbursement List, therefore an inclusion of a product in the Reimbursement List would be beneficial to its sales. Given the large number of participants in the Insurance Scheme and that some of the products of the Target Group are included in the Reimbursement List, we consider that the Target Group would continue to benefit from the increase in the number of participants in the Insurance Scheme.

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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Reasons for and benefits of the Acquisition and use of proceeds

#### (a) Acquisition

As disclosed in the Board Letter, the Directors believe that the Target Group's existing core product line may create synergy with the Group's preparation products, and enrich the Group's core product pool in the areas of emergency medications and cerebro-cardiovascular and respiratory products. It may also strengthen the Group's product quality, market share and brand in those areas. In addition, the Target Group has recorded constant and rapid growth in recent years thanks to its competitive advantages in product quality and market share. The Acquisition is expected to allow the Group to further enrich its high quality product pool (including emergency medications and cerebro-cardiovascular and respiratory medicine) as well as enhance its product structure (inclusion of pharmaceutical injection in addition to other preparation products), paving the way for further rapid growth in the revenue and profit of the existing business of the Group. The Target Group which has an independent research centre with more than 10 products under research is also in line with Company's policy to emphasise on research and development of innovative drugs.

#### (b) Subscription

The Directors believe the Subscription will enable the Company to raise additional fund to fulfill the cash payment in relation to the Acquisition, improve its financial position, broaden its capital base and support the Group's future growth.

The aggregate gross proceeds from the Subscription are expected to be approximately HK\$1,141 million. After deducting related fees and expenses, the aggregate net proceeds from the Subscription are expected to be approximately HK\$1,140 million.

It is expected that all of the net proceeds will be used to cover the Prepayment (as defined below) and to settle the cash payment of the First Payment (as defined below) and the Second Payment (as defined below) of the Acquisition. In the event that there are any remaining net proceeds due to the fluctuation of exchange rate, it is expected that the remaining net proceeds will be used as general working capital of the Group for repaying existing bank loans or settling fees of professional advisers.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered that (i) the financial performance of the Target Group is satisfactory, i.e. in a profit-making position in recent years as stated in the sub-paragraph headed “(b) Information of the Target Group” under the paragraph headed “1. Background information on the Acquisition and the Subscription” 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 Group” under the paragraph headed “1. Background information on the Acquisition and the Subscription” above; (iii) based on the level of cash and cash equivalents of the Group as at 31 December 2017, the Group does not have sufficient internal resources to satisfy the consideration for the Acquisition, and the Subscription and the issue of the Consideration Shares would provide sufficient cash for the Group; (iv) the Subscription and the issue of the Consideration Shares 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 as stated in the paragraph headed “5. Other funding alternatives” below; and (iv) the terms of the Acquisition Agreement and Subscription Agreement are fair and reasonable based on our assessments with comparable analyses detailed in the paragraphs headed “3. Principal terms of the Acquisition Agreement” and “4. Principal terms of the Subscription Agreement” below, we are of the view and concur with the Directors’ view that the Acquisition (including the issue of the Consideration Shares) and the Subscription are in the interests of the Company and the Shareholders as a whole.

### 3. Principal terms of the Acquisition Agreement

#### *(a) Consideration*

The aggregate Consideration for the Acquisition is RMB1,540 million (equivalent to approximately HK\$1,901 million). The Consideration was arrived at after arm’s length negotiations between the Vendor and the Company and was negotiated and determined mainly with reference to the price-to-earnings ratios of the Target Group and certain comparable companies being acquired by companies listed in Hong Kong from 1 January 2017 to the date of the Acquisition Agreement, details of which are set out in the paragraph headed “The Acquisition Consideration” in the Board Letter. The Consideration was also determined after taking into account the historical financial performance of the Target Group, the technology-related intangible assets owned by the Target Group, the technologies and know-hows researched and developed by the Target Group.

The Consideration shall be satisfied by the Company in the following manner:

- (1) within five Business Days upon the entering into of the Acquisition Agreement, the Company shall pay RMB50 million in cash to the Vendor as prepayment (the “**Prepayment**”), which shall be (i) applied in satisfaction of part of the Consideration at Completion; (ii) refunded in full (without interest) to the Company if the Acquisition Agreement is terminated without any breach thereof on the part of the Company; and (iii) applied towards any damages payable by the Company to the Vendor if the Company is in breach of the Acquisition Agreement;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (2) subject to the fulfillment (or waiver, as the case may be) of the conditions precedent set out in the section headed “Conditions precedent” in the Board Letter, on the Completion Date, payments shall be made by the Company to the Vendor as follows (the “**First Payment**”):

- (a) RMB720 million, representing 50% of the Consideration less the Prepayment subject to the deduction of the Withheld Sum (as defined and detailed below) shall be payable by the Company to the Vendor in cash.

The Company is entitled to withhold RMB154 million (the “**Withheld Sum**”) from the cash portion of the First Payment to satisfy the Vendor’s tax obligation arising from the sale of the shares of the Target Company. If the Withheld Sum exceeds the actual amount of tax payable, the Company shall return the surplus to the Vendor. On the other hand, if the Withheld Sum falls short of the actual amount of tax payable, the Vendor shall pay such shortfall to the Company.

The Company has undertaken that, should the Company raise fund to finance the payment of the Consideration by the issue of Shares, the subscribers for the Shares shall be established and well-known investors, and the Shares issued will be subject to a transfer lock-up of six months from the issue date.

- (b) RMB616 million, representing 40% of the Consideration, shall be payable by the Company to the Vendor by the allotment and issue of the Consideration Shares at the Issue Price of HK\$4.20.

The allotment and issue of Consideration Shares is conditional upon the following: (i) the Stock Exchange having granted approval to the listing of and dealing in the Consideration Shares; (ii) the Company having obtained all other relevant consents or approvals in relation to the allotment and issue of the Consideration Shares, including (if applicable) the passing of the relevant resolutions at the SGM.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (3) the remaining 10% of the Consideration of approximately RMB154 million (the “**Second Payment**”), shall be paid by cash by the Company to the Vendor within five Business Days after the first anniversary of the Completion Date on the conditions that up to the first anniversary of the Completion Date: (1) there being no material false, inaccurate or incomplete undertakings and warranties made by the Vendor or the Target Company relating to the Target Group; (2) there being no material risk or loss on the part of the Vendor or the Target Group arising from any non-compliance with relevant laws before Completion; and (3) the Vendor and the Target Company having not substantially breached any of their respective obligations, undertakings and warranties under the Acquisition Agreement.

Should any due diligence issue not be resolved, or there be any significant breach by the Vendor or the Target Company of their respective obligations, undertakings or warranties under the Acquisition Agreement, the Second Payment shall be made within five Business Days after such issues or breaches having been resolved or rectified.

If any of the aforementioned issues or breaches are not resolved or rectified within 20 Business Days after the first anniversary of the Completion Date, the Company shall be entitled to deduct an amount equal to the actual loss suffered by the Company and the Target Company (which amount shall be agreed by both the Company and the Vendor) from the Second Payment. The Second Payment, after the aforesaid deduction, shall be made on the 30th Business Day after the first anniversary of the Completion Date.

*(b) Comparable analysis on the Consideration*

In order to assess the fairness and reasonableness of the Consideration, we attempted to compare the price-to-earnings ratio (“**PE Ratio**”), which is a commonly used benchmark in valuing a company which is profit-making by comparing its profits with its market capitalisation or consideration, with listed companies on the Stock Exchange which are principally engaged in business similar to the Target Group. A relatively lower PE Ratio means that the price of target company is more favourable to the buyer. We also considered the use of price-to-book ratio, another commonly used benchmark in valuing a company by comparing its net assets with its market capitalisation or consideration. However, given that the Target Group is principally engaged in manufacturing and sales of pharmaceutical products and is not asset-intensive, we are of the view that a price-to-book ratio may not be meaningful in reflecting the fairness and reasonableness of the Consideration.

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 in the PRC (excluding those which are only engaged in sales but not manufacturing of such products or the majority of their customers are not in the PRC), which is similar to that of the Target Group; (ii) trading of their shares on the Stock Exchange were not suspended as at the date of the Acquisition Agreement. To the best of our knowledge, we identified an exhaustive list of 34 Business Comparables, details of which are as follows:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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| No. | Stock<br>Code | Company name                                                         | Principal business                                                                                                                                     | Closing<br>price<br>(Note 1) | Earnings<br>per share<br>(Note 2) | PE Ratio<br>(Note 3) |
|-----|---------------|----------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------|----------------------|
| 1.  | 455           | Tianda<br>Pharmaceuticals<br>Limited                                 | Research and development,<br>production and sales of<br>pharmaceutical,<br>biotechnology and<br>healthcare products                                    | HK\$0.300                    | HK\$0.0058                        | 51.72                |
| 2.  | 460           | Sihuan<br>Pharmaceutical<br>Holdings Group<br>Limited                | Research and development,<br>manufacture and sales of<br>pharmaceutical products                                                                       | HK\$2.09                     | RMB0.1530                         | 11.20                |
| 3.  | 503           | Lansen<br>Pharmaceutical<br>Holdings Limited                         | Development, production<br>and sales of specialty<br>pharmaceuticals                                                                                   | HK\$1.39                     | US\$0.0380                        | 21.25                |
| 4.  | 512           | China Grand<br>Pharmaceutical<br>and Healthcare<br>Holdings Limited  | Research and development,<br>manufacture and sales of<br>pharmaceutical products,<br>medical products,<br>chemical products and<br>healthcare products | HK\$6.34                     | HK\$0.2060                        | 30.78                |
| 5.  | 570           | China Traditional<br>Chinese Medicine<br>Holdings Company<br>Limited | Manufacture and sales of<br>traditional Chinese<br>medicine                                                                                            | HK\$7.28                     | RMB0.2641                         | 22.59                |
| 6.  | 719           | Shandong Xinhua<br>Pharmaceutical<br>Company Limited                 | Development, production<br>and distribution of<br>chemical bulk drugs,<br>preparations and medical<br>intermediates                                    | HK\$8.27                     | RMB0.4500                         | 15.06                |
| 7.  | 858           | Extrawell<br>Pharmaceutical<br>Holdings Limited                      | Development, manufacture<br>and sales of<br>pharmaceutical products                                                                                    | HK\$0.171                    | HK\$0.0087                        | 19.66                |
| 8.  | 867           | China Medical<br>System Holdings<br>Limited                          | Manufacture, marketing,<br>promotion and sales of<br>pharmaceutical products                                                                           | HK\$18.04                    | RMB0.6734                         | 21.96                |

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| No. | Stock<br>Code | Company name                                                 | Principal business                                                                                                 | Closing<br>price<br>(Note 1) | Earnings<br>per share<br>(Note 2) | PE Ratio<br>(Note 3) |
|-----|---------------|--------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------|----------------------|
| 9.  | 874           | Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited | Research, development, manufacturing and sales for Chinese and western medicine                                    | HK\$37.70                    | RMB1.2680                         | 24.37                |
| 10. | 950           | Lee's Pharmaceutical Holdings Limited                        | Development, manufacture, marketing and sales of pharmaceutical products                                           | HK\$11.42                    | HK\$0.3938                        | 29.00                |
| 11. | 1011          | China NT Pharma Group Company Limited                        | Research and development, production and sales of pharmaceuticals                                                  | HK\$2.07                     | RMB0.1072                         | 15.83                |
| 12. | 1061          | Essex Bio-Technology Limited                                 | Manufacture and sales of biopharmaceutical products for the treatment and healing of surface wounds and eye wounds | HK\$7.65                     | HK\$0.2975                        | 25.71                |
| 13. | 1093          | CSPC Pharmaceutical Group Limited                            | Manufacture and sales of pharmaceutical products                                                                   | HK\$23.50                    | HK\$0.4548                        | 51.67                |
| 14. | 1177          | Sino Biopharmaceutical Limited                               | Manufacture, sales and distribution of modernized Chinese medicine products and western medicine products          | HK\$18.84                    | HK\$0.2929                        | 64.32                |
| 15. | 1498          | PuraPharm Corporation Limited                                | Production and sales of Chinese medicine granule                                                                   | HK\$2.30                     | HK\$0.0079                        | 291.14<br>(Note 4)   |
| 16. | 1513          | Livzon Pharmaceutical Group Inc.                             | Research and development, production and sales of pharmaceutical products                                          | HK\$60.20                    | RMB8.09                           | 6.10                 |

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| No. | Stock<br>Code | Company name                                            | Principal business                                                                       | Closing<br>price<br><i>(Note 1)</i> | Earnings<br>per share<br><i>(Note 2)</i> | PE Ratio<br><i>(Note 3)</i> |
|-----|---------------|---------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------------|------------------------------------------|-----------------------------|
| 17. | 1558          | YiChang HEC<br>ChangJiang<br>Pharmaceutical<br>Co, Ltd  | Manufacture and sales of<br>pharmaceutical products                                      | HK\$41.80                           | RMB1.43                                  | 23.96                       |
| 18. | 1666          | Tong Ren Tang<br>Technologies<br>Company Limited        | Production and distribution<br>of Chinese medicine in<br>Mainland China and<br>Hong Kong | HK\$13.90                           | RMB0.52                                  | 21.91                       |
| 19. | 1681          | Consun<br>Pharmaceutical<br>Group Limited               | Manufacture and sale of<br>pharmaceuticals                                               | HK\$8.99                            | RMB0.4602                                | 16.01                       |
| 20. | 1889          | Wuyi International<br>Pharmaceutical<br>Company Limited | Development, manufacture,<br>marketing and sale of<br>pharmaceutical products            | HK\$0.32                            | Loss                                     | N/A                         |
| 21. | 2005          | SSY Group Limited                                       | Research, development,<br>manufacture and sale of<br>pharmaceutical products             | HK\$8.80                            | HK\$0.2337                               | 37.66                       |
| 22. | 2186          | Luye Pharma Group<br>Limited                            | Development, production,<br>marketing and sale of<br>pharmaceutical products             | HK\$9.66                            | RMB0.3013                                | 26.28                       |
| 23. | 2196          | Shanghai Fosun<br>Pharmaceutical<br>(Group) Co, Ltd     | Research and development,<br>production and<br>distribution of<br>pharmaceuticals        | HK\$46.35                           | RMB1.27                                  | 29.91                       |
| 24. | 2348          | Dawnrays<br>Pharmaceutical<br>(Holdings)<br>Limited     | Development, manufacture<br>and sale of non-patented<br>pharmaceutical<br>medicines      | HK\$4.60                            | RMB0.3674                                | 10.26                       |
| 25. | 2607          | Shanghai<br>Pharmaceuticals<br>Holding Co, Ltd          | Manufacture and sales of<br>pharmaceuticals                                              | HK\$23.35                           | RMB1.3093                                | 14.62                       |

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| No. | Stock<br>Code | Company name                                                          | Principal business                                                                                                                              | Closing<br>price<br><i>(Note 1)</i> | Earnings<br>per share<br><i>(Note 2)</i> | PE Ratio<br><i>(Note 3)</i> |
|-----|---------------|-----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|------------------------------------------|-----------------------------|
| 26. | 2877          | China Shineway<br>Pharmaceutical<br>Group Limited                     | Research and development,<br>manufacture and trading<br>of modern Chinese<br>medicines                                                          | HK\$18.10                           | RMB0.55                                  | 26.97                       |
| 27. | 3320          | China Resources<br>Pharmaceutical<br>Group Limited                    | Research and development,<br>manufacturing,<br>distribution and retail of<br>pharmaceutical and other<br>healthcare products                    | HK\$11.12                           | HK\$0.55                                 | 20.22                       |
| 28. | 3737          | Zhongzhi<br>Pharmaceutical<br>Holdings Limited                        | Pharmaceutical<br>manufacturing in the<br>PRC and the operation of<br>chain pharmacies in<br>Zhongshan in the<br>Guangdong province, the<br>PRC | HK\$1.56                            | RMB0.0877                                | 14.58                       |
| 29. | 3933          | The United<br>Laboratories<br>International<br>Holdings Limited       | Sales of intermediate<br>products, bulk medicine<br>and finished products                                                                       | HK\$9.21                            | HK\$0.0503                               | 183.10<br><i>(Note 4)</i>   |
| 30. | 6896          | Golden Throat<br>Holdings Group<br>Company Limited                    | Manufacture and sales of<br>pharmaceutical,<br>healthcare food and other<br>products                                                            | HK\$1.52                            | RMB0.083                                 | 15.01                       |
| 31. | 8049          | Jilin Province Huinan<br>Changlong<br>Bio-pharmacy<br>Company Limited | Manufacture and<br>distribution of Chinese<br>medicines and<br>pharmaceutical products                                                          | HK\$1.50                            | RMB0.2577                                | 4.77                        |
| 32. | 8138          | Beijing Tong Ren<br>Tang Chinese<br>Medicine<br>Company Limited       | Manufacturing and sale of<br>Chinese medicine                                                                                                   | HK\$16.94                           | HK\$0.5                                  | 33.88                       |

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| No.                          | Stock<br>Code | Company name                                                        | Principal business                                 | Closing<br>price<br>(Note 1) | Earnings<br>per share<br>(Note 2) | PE Ratio<br>(Note 3) |
|------------------------------|---------------|---------------------------------------------------------------------|----------------------------------------------------|------------------------------|-----------------------------------|----------------------|
| 33.                          | 8197          | Baytacare<br>Pharmaceutical<br>Company, Limited                     | Development, manufacture<br>and sales of medicines | HK\$0.34                     | Loss                              | N/A                  |
| 34.                          | 8329          | Shenzhen Neptunus<br>Interlong Bio-<br>Technique<br>Company Limited | Development, production<br>and sales of medicines  | HK\$0.35                     | RMB0.03                           | 9.56                 |
| <b>Mean (Note 4)</b>         |               |                                                                     |                                                    |                              |                                   | <b>23.89</b>         |
| <b>Median</b>                |               |                                                                     |                                                    |                              |                                   | <b>22.28</b>         |
| <b>Maximum</b>               |               |                                                                     |                                                    |                              |                                   | <b>291.14</b>        |
| <b>Minimum</b>               |               |                                                                     |                                                    |                              |                                   | <b>4.77</b>          |
| <b>Target Group (Note 5)</b> |               |                                                                     |                                                    |                              |                                   | <b>16.74</b>         |

*Notes:*

1. The closing prices of the shares of the Business Comparables are quoted on the Stock Exchange as at the date of the Acquisition Agreement.
2. The earnings per share for the Business Comparables refer to the respective annual reports of the Business Comparables for the respective latest financial year.
3. PE Ratio is calculated as closing price divided by earnings per share.
4. The PE Ratios of PuraPharm Corporation Limited and The United Laboratories International Holdings Limited are substantially higher than the other Business Comparables. Therefore, these two PE Ratios are excluded in computing the mean PE Ratio of the Business Comparables.
5. The PE Ratio of the Target Group implied by the Acquisition (the “**Implied PE Ratio**”) are calculated as Consideration divided by 55% share of the net profit after tax of Xudong Haipu and its subsidiaries for the year ended 31 December 2017, given that the Target Company is principally engaged in investment holdings and the revenue of the Target Group is solely generated by Xudong Haipu and its subsidiaries.
6. In this comparable analysis, conversions of RMB into HK\$ and US\$ into HK\$ are calculated at the approximate exchange rates of RMB1 to HK\$1.22 and US\$1 to HK\$7.85 respectively. These exchange rates are adopted for the purpose of illustration purposes only and do not constitute representations that any amounts have been, could have been, or may be, exchanged at these rate or any other rate at all.

As shown in the above table, the PE Ratios of the Business Comparables range from approximately 4.77 times to 291.14 times, with a mean (excluding the two Business Comparables with substantially higher PE Ratios) and median of approximately 23.89 and 22.28 times respectively. The Implied PE Ratio of approximately 16.74 times is below the corresponding mean and median of the Business Comparables.

Given that a lower PE Ratio reflects that a target company is acquired at a relatively lower price, we consider that the Consideration (representing a lower-than-market Implied PE Ratio) is favourable to the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having taking into account (i) the rapid growth of the Target Group in terms of revenue and profit in recent years; (ii) the positive market outlook for the Target Group as discussed in the sub-paragraph headed “(c) Market outlook for the Target Group” above; and (iii) 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.

*(c) Analysis on the Issue Price*

The Consideration Shares, being in aggregate 181,069,959 new Shares, will be allotted and issued at the Issue Price (i.e., HK\$4.20 per Consideration Shares).

The Issue Price represents:

- (i) a discount of approximately 17.6% to the closing price of HK\$5.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 33.8% to the closing price of HK\$6.34 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a discount of approximately 33.0% to the average closing price of HK\$6.27 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the Last Trading Day;
- (iv) a discount of approximately 28.9% to the average closing price of HK\$5.91 per Share as quoted on the Stock Exchange for the 20 consecutive trading days immediately prior to the Last Trading Day; and
- (v) a premium of approximately 1.7% to the average closing price of HK\$4.13 per Share as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to the Last Trading Day.

The Issue Price was determined on an arm's length basis between the Company and the Vendor with reference to, among other things, the average closing price per Share (HK\$4.13 per Share) as quoted on the Stock Exchange for the 180 consecutive trading days (from 29 August 2017 to 23 May 2018) immediately prior to the date of the Acquisition Agreement and the Vendor's transfer lock-up undertaking described in the paragraph headed “Lock-up of Consideration Shares” in the Board Letter. Since (i) the parties commenced negotiation on the Acquisition in late February 2018 with reference to the price of the Shares around that time (average closing price per Share in January 2018 and February 2018 is HK\$4.37 and HK\$4.91 respectively) and (ii) the closing price of the Shares has increased from approximately HK\$2.09 to HK\$6.34 per Share over the year up to the date of the Acquisition Agreement, the parties to the Acquisition Agreement consider it appropriate to determine the Issue Price with reference to the closing prices of the Shares for a longer period.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In order to assess the fairness and reasonableness of the issue of the Consideration Shares, we carried out a comparable analysis of consideration issue under specific mandates (the “**Consideration Comparable(s)**”) by companies listed on the Stock Exchange, based on the criteria that (i) they were initially announced during the twelve month period from 24 May 2017 to 23 May 2018 (i.e. one day before the date of the Acquisition Agreement); (ii) shares were issued under specific mandates as part of considerations to vendors who are not connected persons of the respective listed companies; and (iii) the consideration shares had an aggregate value (based on the issue prices) in the range of HK\$228 million to HK\$1,293 million, i.e. 30% and 170% of the aggregate value of the Consideration Shares of approximately HK\$760 million. Please refer to the sub-paragraph headed “(b) Comparable analysis on the Subscription Price” in the paragraph headed “4. Principal terms of the Subscription Agreement” below for our reasons for selecting the criteria for the Consideration Comparables.

To the best of our knowledge, based on the aforesaid criteria, we identified an exhaustive list of 13 Consideration Comparables, details of which are set out below:

| No. | Date of initial announcement | Stock code | Company name                                    | Premium/<br>(Discount) of<br>issue price<br>over/(to)<br>closing price<br>on the date of<br>acquisition<br>agreements<br>(%)<br>(Note 1) | Dilution<br>effect<br>(%)<br>(Note 2) |
|-----|------------------------------|------------|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
|     |                              |            |                                                 |                                                                                                                                          |                                       |
| 1.  | 7 July 2017                  | 860        | O Luxe Holdings Limited                         | (19.60)                                                                                                                                  | 21.89                                 |
| 2.  | 28 July 2017                 | 1269       | China First Capital Group Limited               | (8.57)                                                                                                                                   | 5.44                                  |
| 3.  | 28 September 2017            | 1982       | Nameson Holdings Limited                        | 0.00                                                                                                                                     | 9.60                                  |
| 4.  | 4 December 2017              | 1353       | Fujian Nuoqi Co., Ltd.                          | (31.70)                                                                                                                                  | 71.64                                 |
| 5.  | 29 December 2017             | 572        | Future World Financial Holdings Limited         | (59.72)                                                                                                                                  | 13.95                                 |
| 6.  | 19 January 2018              | 943        | eForce Holdings Limited                         | (21.76)                                                                                                                                  | 17.86                                 |
| 7.  | 22 January 2018              | 907        | Elegance Optical International Holdings Limited | 22.60                                                                                                                                    | 19.49                                 |
| 8.  | 31 January 2018              | 6128       | Earthasia International Holdings Limited        | (22.28)                                                                                                                                  | 16.54                                 |



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| No.                                                     | Date of initial announcement | Stock code | Company name                       | Premium/<br>(Discount) of<br>issue price<br>over/(to)<br>closing price<br>on the date of<br>acquisition<br>agreements<br>(%)<br>(Note 1) | Dilution<br>effect<br>(%)<br>(Note 2) |
|---------------------------------------------------------|------------------------------|------------|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 9.                                                      | 12 March 2018                | 697        | Shougang Concord International     | 2.27                                                                                                                                     | 5.53                                  |
| 10.                                                     | 15 April 2018                | 474        | Hao Tian Development Group Limited | 153.57<br>(Note 3)                                                                                                                       | 22.93                                 |
| 11.                                                     | 26 April 2018                | 8057       | Madison Holdings Group Limited     | 0.00                                                                                                                                     | 4.98                                  |
| 12.                                                     | 5 May 2018                   | 8057       | Madison Holdings Group Limited     | 4.65                                                                                                                                     | 11.00                                 |
| 13.                                                     | 9 May 2018                   | 596        | Inspur International Limited       | (2.93)                                                                                                                                   | 16.33                                 |
| <b>Mean discount (Note 3)/<br/>mean dilution effect</b> |                              |            |                                    | <b>(11.42)</b>                                                                                                                           | <b>18.24</b>                          |
| <b>Median discount/<br/>median dilution effect</b>      |                              |            |                                    | <b>(2.93)</b>                                                                                                                            | <b>16.33</b>                          |
| <b>Maximum discount/<br/>maximum dilution effect</b>    |                              |            |                                    | <b>(59.72)</b>                                                                                                                           | <b>71.64</b>                          |
| <b>Maximum premium/<br/>minimum dilution effect</b>     |                              |            |                                    | <b>153.57</b>                                                                                                                            | <b>4.98</b>                           |
| <b>The issue of the<br/>Consideration Shares</b>        |                              |            |                                    | <b>(33.80)</b>                                                                                                                           | <b>15.07</b>                          |

*Note:*

- The premium/discounts refer to the figures as disclosed in the respective announcements.
- The dilution effects are calculated by comparing the percentage changes in the percentage shareholdings by the public shareholders as a results of completion of the relevant Consideration Comparables as disclosed in the respective announcements.
- The issue price of the shares of Hao Tian Development Group Limited represented a very substantial premium over the closing price of shares on the date of the relevant acquisition agreement. Therefore, it is excluded in computing the mean discount of the Consideration Comparables.

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We noted that issue prices of the Consideration Comparables represent from a premium of approximately 153.57% to a discount of approximately 59.72% as compared with the respective closing prices, with a mean (excluding the one with a very substantial premium) and median of approximately 11.42% and approximately 2.93% respectively. The discount of approximately 33.80%, represented by the Issue Price to the closing price of the Shares on the date of the Acquisition Agreement, is higher than the mean and median discounts but falls within the range of discounts represented by the Subscription Comparables.

We note that the Issue Price represents a slightly deeper discount of 33.80% to the closing price of the Shares on the Last Trading Day than that of 21.14% represented by the Subscription Price, and the discount of the Issue Price is above the mean and median of those of the Consideration Comparables. Nevertheless, we consider that the above comparable analysis serves only as a general reference in relation to the discount represented by the issue price in a consideration issue (given that the companies of the Consideration Comparables may be engaged in different businesses and have different financial performances than the Company), and is not the only factor in considering the fairness and reasonableness of the Issue Price.

To arrive at our view on the Issue Price, we also take into account other factors, in particular (i) the parties to the Acquisition Agreement commenced negotiation thereon in late February 2018 with reference to the price of the Shares around that time; (ii) regarding historical closing prices of the Shares, the Issue Price of HK\$4.20 represents premium of approximately 16.02% over the average closing price of HK\$3.62 during the Review Period (as defined and detailed in the sub-paragraph headed “(b) Historical Share price performance” in the paragraph headed “4. Principal terms of the Subscription Agreement” below) and the closing prices of the Shares has increased substantially from HK\$2.02 to HK\$6.34 over the year during the Review Period; (iii) the Issue Price represents premium of approximately 2.82 times over the net assets per Share of approximately HK\$1.10 as at 31 December 2017; (iv) the Vendor undertakes under the Acquisition Agreement that it shall not transfer, nor enter into any agreement to transfer any of the Consideration Shares for a period of 12 months commencing from the date of the allotment and issue of the Consideration Shares, which restrain immediate financial gain of the Vendor through the discount represented by the Issue Price; (v) the Target Company is profit-making with rapid growth and the market outlook remains positive, and the Acquisition is in line with the business strategy of and is beneficial to the Group; and (vi) the Consideration represented a lower Implied PE Ratio than the Business Comparables, which is more favourable to the Group as a purchaser. Although the Issue Price represents a deeper discount than the market based on the above comparable analysis, counterbalanced by the other factors such as the Issue Price being lower than the closing prices of Shares until late January 2018, a transfer lock-up of the Consideration Shares and the favourable Consideration, we consider that the Issue Price with a slightly deeper discount is justifiable.

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*(d) Dilution effect*

With reference to the shareholding table in the paragraph headed “Changes in Shareholding Structure of the Company” of the Board Letter, the shareholding interests of the public Shareholders (excluding Vendor and the affiliated funds managed by GL Capital) would be diluted by approximately 15.07% upon completion of the Acquisition (including the issue of the Consideration Shares) and the Subscription. Such dilution effect is below the mean and median dilution effect represented by the Consideration Comparables of approximately 18.24% and approximately 16.33% respectively. Also taking into account the reasons for and benefits of the Acquisition and the Subscription, we consider that the dilution effect on the shareholding interests of other public Shareholders is justifiable.

*(e) Other terms of the Acquisition Agreement*

We have also reviewed other terms of the Acquisition Agreement including, among others, the conditions under the Acquisition Agreement, and noted that the clauses of the 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\$5.00 per Subscription Share represents:

- (i) a discount of approximately 2.0% to the closing price of HK\$5.10 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 21.1% to the closing price of HK\$6.34 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (iii) a discount of approximately 20.2% to the average closing price of approximately HK\$6.27 per Share as quoted on the Stock Exchange for the five consecutive trading days immediately prior to the Last Trading Date; and
- (iv) a discount of approximately 15.3% to the average closing price of approximately HK\$5.91 per Share as quoted on the Stock Exchange for the 20 consecutive trading days immediately prior to the Last Trading Date.

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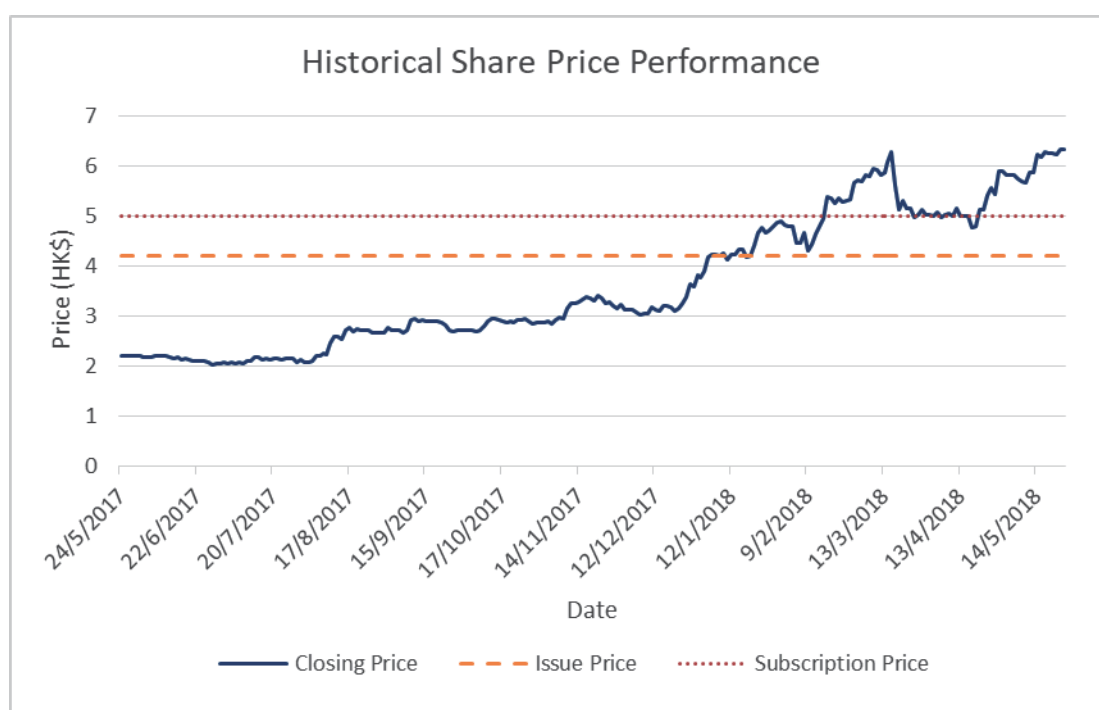
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 the average closing price per Share (HK\$5.91 per Share) as quoted on the Stock Exchange for the 20 consecutive trading days (from 24 April 2018 to 23 May 2018) immediately prior to the date of the Subscription Agreement. Since the Company and the Subscriber commenced negotiation on the Subscription in late April 2018 with reference to the price of the Shares at that time, the parties consider it appropriate to determine the Subscription Price with reference to the average closing price per Share as quoted on the Stock Exchange for the 20 consecutive trading days immediately prior to the date of the Subscription Agreement.

(a) *Historical Share price performance*

The historical closing prices of the Shares for the period from 24 May 2017 to 24 May 2018, being a twelve months period from the date of the Acquisition Agreement and the Subscription Agreement (the “**Review Period**”), are plotted below against the Issue Price and the Subscription Price.



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During the Review Period, we noted that the closing prices of the Shares were relatively stable at around HK\$2 from late May 2017 to mid-August 2017 and then followed a general upward trend afterwards and up to the date of the Subscription Agreement. The closing prices have been generally above the Issue Price since late January 2018 and the Subscription Price since mid-February 2018 and up to the date of the Subscription Agreement. The closing prices of the Shares ranged from HK\$2.02 to HK\$6.34, with an average of approximately HK\$3.62 during the Review Period.

Despite a discount represented by the Issue Price and the Subscription Price to the closing price of Shares on the dates of the Acquisition Agreement and the Subscription Agreement respectively, we note that the Issue Price and the Subscription Price are respectively above the historical closing prices of the Shares for 158 and 190 out of 248 trading days during the Review Period, and represent premium of approximately 16.02% and 38.12% respectively over the average closing price of HK\$3.62 during the Review Period. In addition, we note that the Issue Price of HK\$4.2 and the Subscription Price of HK\$5.00 are higher than the net assets per Share of approximately HK\$1.10 as at 31 December 2017.

*(b) 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 specific mandates (the “**Subscription Comparable(s)**”) by companies listed on the Stock Exchange, based on the criteria that (i) they were initially announced during the twelve month period from 24 May 2017 to 23 May 2018 (i.e. one day before the date of the Subscription Agreement); (ii) shares were issued for subscription by connected persons of the respective companies under specific mandates; and (iii) the fund raising sizes were in the range of HK\$342 million to HK\$1,939 million, i.e. 30% and 170% of the fund raising size of the Subscription of approximately HK\$1,140 million. In determination of the selection criteria for the Consideration Comparables and the Subscription Comparables, we consider that (i) the criteria for two sets of comparables should be similar to provide consistent analyses; and (ii) there should be at least five comparables to be meaningful as a general reference in relation to recent market practice. While we attempted to set a tighter scope for the comparables, namely a period of six months and the consideration or fund raising size within a 50% range as those under the Acquisition or the Subscription respectively, we found that there would only be two Subscription Comparables. As such, we adopted a slightly wider range of twelve months period and a 70% range for the comparable analyses.

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To the best of our knowledge, based on the aforesaid criteria, we identified an exhaustive list of 6 Subscription Comparables, details of which are set out below:

| No.                                                  | Date of initial announcement | Stock code | Company name                                     | Premium/<br>(Discount) of<br>issue price<br>over/(to)<br>closing price<br>on the date of<br>subscription<br>agreement<br>(%)<br>(Note 1) | Dilution<br>effect<br>(%)<br>(Note 2) |
|------------------------------------------------------|------------------------------|------------|--------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| 1.                                                   | 17 August 2017               | 3639       | Yida China Holdings Limited                      | 1.17                                                                                                                                     | 11.60%                                |
| 2.                                                   | 30 August 2017               | 1908       | C&D International<br>Investment Group Limited    | (13.10)                                                                                                                                  | 23.04%                                |
| 2.                                                   | 17 November 2017             | 241        | Alibaba Health Information<br>Technology Limited | (4.31)                                                                                                                                   | 4.52%                                 |
| 4.                                                   | 14 December 2017             | 206        | TSC Group Holdings<br>Limited                    | (30.21)                                                                                                                                  | 51.96                                 |
| 5.                                                   | 24 January 2018              | 371        | Beijing Enterprises<br>Water Group Limited       | (5.80)                                                                                                                                   | 1.89                                  |
| 6.                                                   | 2 March 2018                 | 500        | Frontier Services<br>Group Limited               | (35.00)                                                                                                                                  | 16.72                                 |
| <b>Mean discount/mean<br/>dilution effect</b>        |                              |            |                                                  | <b>(14.54)</b>                                                                                                                           | <b>18.29</b>                          |
| <b>Median discount/median<br/>dilution effect</b>    |                              |            |                                                  | <b>(9.45)</b>                                                                                                                            | <b>14.16</b>                          |
| <b>Maximum discount/<br/>maximum dilution effect</b> |                              |            |                                                  | <b>(35.00)</b>                                                                                                                           | <b>51.96</b>                          |
| <b>Maximum premium/<br/>minimum dilution effect</b>  |                              |            |                                                  | <b>1.17</b>                                                                                                                              | <b>1.89</b>                           |
| <b>The Subscription</b>                              |                              |            |                                                  | <b>(21.14)</b>                                                                                                                           | <b>15.07</b>                          |

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Note:*

1. The premium/discounts refer to the figures as disclosed in the respective announcements.
2. The dilution effects are calculated by comparing the percentage changes in the percentage shareholdings by the public shareholders as a results of completion of the relevant Subscription Comparables and, if any, other subscriptions which are inter-conditional with such Subscription Comparables, as disclosed in the respective announcements.

We noted that subscription prices of (i) 5 out of 6 of the Subscription Comparables represented discounts from approximately 4.31% to approximately 35.00%; and (ii) the remaining one Subscription Comparable represented a premium of approximately 1.17%. The mean and median discount of the Subscription Comparables was approximately 14.54% and approximately 9.45% respectively. The discount of approximately 21.14% represented by the Subscription Price to the closing price of the Shares on the date of the Subscription Agreement, is slightly above the mean and median discount but falls within the range of discounts represented by the Subscription Comparables, particularly two of the Subscription Comparables had deeper discount than the Subscription.

Notwithstanding the fact that the discount of the Subscription Price is slightly above the mean and median of those of the Subscription Comparables, we consider that the above comparable analysis serves only as a general reference in relation to the discount represented by the subscription price in a subscription of shares (given that the companies of the Subscription Comparables may be engaged in different businesses and have different financial performances than the Company), and is not the only factor in considering the fairness and reasonableness of the Subscription Price.

To arrive at our view on the Subscription Price, we also take into account other factors, in particular (i) the Company and the Subscriber commenced negotiation on the Subscription in late April 2018 with reference to the price of the Shares at that time; (ii) regarding historical closing prices of the Shares, the Subscription Price is higher than the historical closing prices of the Shares for 190 out of 248 days and represents premium of approximately 38.12% over the average closing price of HK\$3.62 during the Review Period and the closing prices of the Shares has increased substantially from HK\$2.02 to HK\$6.34 in the over the year during the Review Period; (iii) the Subscription Price represents premium of approximately 3.55 times over the net assets per Share of approximately HK\$1.10 as at 31 December 2017; (iv) 2 out of 6 Subscription Comparables had discounts deeper than that represented by the Subscription Price; (v) the Subscriber undertakes under the Subscription Agreement that it shall not transfer, nor enter into any agreement to transfer any of the Subscription Shares for a period of six months commencing from the date of the allotment and issue of the Subscription Shares, which restrain immediate financial gain of the Subscriber through the discount represented by the Subscription Price; (vi) the Subscription will enable the Group to settle the cash payment in relation to the Acquisition and improve the financial position of the Group; and (vii) the terms of the Acquisition (including the Consideration and the Issue Price) are fair and reasonable as discussed above. Although the Subscription Price represents a slightly higher discount than the market based on the above comparable analysis, counterbalanced by the other factors such as the Subscription Price being lower than the closing prices of Shares until mid-February 2018, a transfer lock-up of the Subscription Shares and the fairness and reasonableness of the Acquisition, we consider that the Subscription Price with a slightly higher discount is justifiable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*(c) Dilution effect*

With reference to the shareholding table in the paragraph headed “Changes in Shareholding Structure of the Company” of the Board Letter, the shareholding interests of the public Shareholders (excluding Vendor and the affiliated funds managed by GL Capital) would be diluted by approximately 15.07% upon completion of the Acquisition (including the issue of the Consideration Shares) and the Subscription. Such dilution effect is below and close to the mean and median dilution effect represented by the Subscription Comparables of approximately 18.29% and 14.16% respectively. Also taking into account the reasons for and benefits of the Acquisition and the Subscription, we consider that the dilution effect on the shareholding interests of other public Shareholders is justifiable.

*(d) Other terms of the Subscription Agreement*

We have also reviewed other terms of the Subscription Agreement including, among others, the conditions precedent, 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 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.

### **5. Other funding alternatives**

As discussed with management of the Company, they have considered other possible financing methods (including bank borrowing, open offer, rights issue and the Subscription) for the cash payment in relation to the Acquisition. After due consideration, the management of the Company 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. In particular, the bank and other borrowings of the Group amounted to approximately HK\$2,444.17 million as at 31 December 2017, resulting in aggregate interest expenses thereunder of approximately HK\$124.24 million for FY2017. Based on the fund raising size of approximately HK\$1,140 million and some preliminary discussions with different banks, if the Company resorts to bank borrowings, the annual interest rate would be around 4% (subject to other conditions including guarantee from the controlling shareholder of the Company) and up to 8%, translating into additional annual interest expenses of around HK\$45.6 million and up to HK\$91.2 million; and (ii) the Company has undertaken to the Vendor that under any fund raising to finance payment of the Consideration by the issue of Shares, such Shares shall be subject to a transfer lock-up of six months from the issue date similar to that to the Consideration Shares. In view of the aforesaid lock-up period, the management of the Company considers that it is not feasible to negotiate such terms with potential commercial underwriters for fund raising by ways of open offer or rights issue, let alone commission incurred thereunder (which usually amounts to around 2% of the total fund raised). In light of the foregoing, we are of the view and concur with the view of the management of the Company that the issue of the Consideration Shares and the Subscription to finance the Acquisition are justifiable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### OPINION

Having considered the aforementioned principal factors and reasons, we are of the view that (i) the Subscription is in the interests of the Company and the Shareholders as a whole; (ii) the transactions contemplated under 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 Subscription Agreement (including the Subscription Price) are fair and reasonable so far as the Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve the Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,  
For and on behalf of  
**Nuada Limited**  
**Po Chan**  
*Executive Director*

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

*The English names of PRC nationals, entities, facilities and localities are unofficial translation or transliteration from their Chinese names and are for identification purposes only.*

## 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 executives 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:

| <b>Name of Director</b> | <b>Name of the company in which the shares was held</b> | <b>Number of the shares held</b> | <b>Nature of interests</b> | <b>Approximate percentage or attributable percentage of shareholding (%)</b> |
|-------------------------|---------------------------------------------------------|----------------------------------|----------------------------|------------------------------------------------------------------------------|
| Shao Yan<br>(Note)      | 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 is a director of China Grand) and Dr Shao Yan (who is 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 ARRANGEMENT**

As at the Latest Practicable Date, none of the Directors, proposed directors and the Independent Financial Adviser has, 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 2017, the date to which the latest published audited financial statements of the Company were made up.

None of the Directors was materially 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:

| <b>Name</b>   | <b>Qualification</b>                                                                                                                         |
|---------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| 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 2017, being the date of which the latest audited financial statement of the Group were made up.

**7. COMPETING INTERESTS**

As at the Latest Practicable Date, despite the fact that Mr Liu Chengwei, the chairman of the Board and an executive Director, is a director of China Grand and a supervisor of Huadong Medicine Company Limited (“**Huadong Medicine**”), which is a company listed on the Shenzhen Stock Exchange (stock code: 000963), and Dr Niu Zhanqi, an executive Director, is a director of Huadong Medicine, taking into account of the difference in products, target customers and principal activities engaged by the Group, Huadong Medicine and China Grand, the management of the Company consider that there is no competition among the business of the Group, Huadong Medicine and China Grand. As such, 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 and the accompanying form of proxy shall prevail over their respective texts in case of inconsistency.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

A copy of the Acquisition Agreement and the Subscription Agreement is available for inspection during normal business hours on any weekday (except for public holidays) at the head office and 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 12 September 2018.

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## NOTICE OF SGM

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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)

## NOTICE OF SGM

**NOTICE IS HEREBY GIVEN** that the Special General Meeting (the “SGM”) of China Grand Pharmaceutical and Healthcare Holdings Limited (the “Company”) will be held at Unit 3302, The Center, 99 Queen’s Road Central, Hong Kong on Tuesday, 31 July 2018 at 11:00 a.m. for the purposes of considering and, if thought fit, passing the following resolutions with or without amendments as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

1. **“THAT** subject to the fulfilment of the terms and conditions set out in the acquisition agreement dated 24 May 2018 entered into between the Company, GL Saino Investment Limited (the “Vendor”) and Taiwan Tung Yang International Company Limited (台灣東洋國際股份有限公司) (the “Target Company”) in relation to the acquisition of 100% of the issued shares of the Target Company by the Company from the Vendor (the “Acquisition Agreement”, a copy of which is marked “A” and initialed by the chairman of the meeting for the purpose of identification):
  - (a) the directors of the Company (the “Director(s)”) be and are hereby granted a specific mandate for the issue and allotment of 181,069,959 new shares of the Company (the “Consideration Shares”) at the issue price of HK\$4.20 per Consideration Share (the “Consideration Shares Specific Mandate”) to satisfy part of the consideration payable by the Company to the Vendor pursuant to the Acquisition Agreement. The Consideration Shares Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and
  - (b) any one of the Directors be and are hereby authorised to execute all documents and to do all such things and take all such other steps which, in his/her opinion, may be necessary, appropriate, desirable or expedient to implement and/or give effect to the Consideration Shares Specific Mandate and/or the issue and allotment of the Consideration Shares and to agree to such variation, amendment or waiver in relation thereto which are, in the opinion of the Directors, in the interest of the Company.”

\* for identification purpose only

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## NOTICE OF SGM

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2. “THAT

- (a) the subscription of 228,148,148 new ordinary shares of HK\$0.01 each in the share capital of the Company (the “**Subscription Shares**”) at the issue price of HK\$5.00 per Subscription Share as contemplated in the subscription agreement (the “**Subscription Agreement**”) dated 24 May 2018 and entered into between the Company and Shanghai China Grand Asset Finance Investment Management Co., Limited (上海遠大產融投資管理有限公司) (a copy of the Subscription Agreement having been produced to the meeting and marked “B” and initialed by the chairman of the meeting for the purpose of identification) be and are hereby approved and confirmed;
- (b) the execution and delivery of the Subscription Agreement by the Company be and is hereby approved, confirmed and ratified;
- (c) the allotment and issue of the Subscription Shares pursuant to the terms of the Subscription Agreement, credited as fully paid, be and are hereby approved and confirmed;
- (d) the Directors be and are hereby granted a specific mandate to allot and issue such number of the Subscription Shares (the “**Subscription Shares Specific Mandate**”) subject to and upon the terms and conditions as set out in the Subscription Agreement. The Subscription Shares Specific Mandate is in addition to, and shall not prejudice nor revoke any general or specific mandate(s) which has/have been granted or may from time to time be granted to the Directors by the shareholders of the Company prior to the passing of this resolution; and
- (e) any one of the Directors be and are hereby authorised to execute all documents and to do all such things and take all such other steps which, in his/her opinion, may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated in and for completion of the Subscription Agreement, including but not limited to the issue and allotment of the Subscription Shares and to agree to such variation, amendment or waiver in relation thereto which are, in the opinion of the Directors, in the interest of the Company.”

By order of the Board

**China Grand Pharmaceutical and Healthcare Holdings Limited**

**Liu Chengwei**

*Chairman*

Hong Kong, 12 July 2018

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## NOTICE OF SGM

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*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM11 Bermuda

*Principal place of business in*

*Hong Kong:*  
Unit 3302, The Center  
99 Queen's Road Central  
Hong Kong

*Notes:*

1. Any member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. The register of members will be closed from Thursday, 26 July 2018 to Tuesday, 31 July 2018, both days inclusive, during which no transfer of shares can be registered. In order to qualify to attend the SGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, 25 July 2018.
3. To be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
4. Where there are joint holders of a share of the Company, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so presents whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
5. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the SGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
6. The ordinary resolutions set out in this notice will be taken by poll.

*As at the date of this notice, the Board comprises four executive Directors, namely Mr Liu Chengwei, Mr Hu Bo, Dr Shao Yan and Dr Niu Zhanqi; and two independent non-executive Directors, namely Ms So Tosi Wan, Winnie and Dr Pei Geng.*