THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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 **Consun Pharmaceutical Group Limited**, 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 or transfer was effected for transmission to the purchaser(s) or the transferee(s).

CONSUN 康臣

康臣葯業集團有限公司
CONSUN PHARMACEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1681)

MAJOR TRANSACTION FURTHER ACQUISITION OF APPROXIMATELY 5.76% EQUITY INTEREST IN GUANGXI YULIN PHARMACEUTICAL GROUP CO., LTD.* AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening an extraordinary general meeting (the "**EGM**") of the Company to be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Hong Kong on 19 July 2016 (Tuesday) at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish and in such event, the proxy shall be deemed to be revoked.

* *For identification purposes only*

30 June 2016

CONTENTS

In this circular, the following expressions shall have the same meanings set out below unless the context requires otherwise:

"Agent"	Mr. WEI Xiaodong* (魏小東), an individual professional investor and a Chinese citizen, having the same meaning as defined in and referred to under the Cooperative Announcements;
"Announcement"	the announcement of the Company dated 23 November 2015 in relation to Fourth Round Acquisition of approximately 5.76% equity interest in the Target Company;
"Board"	the board of Directors;
"Business Day(s)"	any day (not being Saturday, Sunday or public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours;
"Company"	Consun Pharmaceutical Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange;
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules;
"Cooperative Agreement"	The cooperative agreement entered into between the Subsidiary and the Agent on 20 October 2015, having the same meaning as defined in and referred to under the our Cooperative Announcements;
"Cooperative Announcements"	collectively our announcements dated 21 October 2015, 22 October 2015 and 1 November 2015;
"Director(s)"	the director(s) of the Company;
"EGM"	the extraordinary general meeting of the Company to be convened and held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Hong Kong on 19 July 2016 (Tuesday) 2016 at 10:00 a.m. for the Shareholders to consider and, if thought fit, approve the the Fourth Round Equity Transfer Agreement and the transaction contemplated thereunder;

"Enlarged Group"	the Group as enlarged by the Three Previous Acquisitions and the Fourth Round Acquisition upon completion of the Fourth Round Acquisition;
"Equity Exchange"	廣西北部灣產權交易所 (Guangxi BeiBu Gulf Equity Exchange Co., Ltd*);
"Equity Transaction Contract"	the contract for equity transaction in respect of the First Round Acquisition entered into between the First Round Vendor and the Subsidiary on 6 August 2015;
"Fifth Round Acquisition"	the acquisition of an aggregate approximately 3.60% equity interest in the Target Company from the Fifth Round Vendors by the Company pursuant to the Fifth Round Equity Transfer Agreement;
"Fifth Round Equity Transfer Agreement"	the equity transfer agreement in respect of the Fifth Round Acquisition entered into between the Subsidiary and the Fifth Round Vendor on 17 June 2016;
"Fifth Round Vendor"	one individual, who is a citizen of PRC;
"First Loan Agreement"	The loan agreement entered into between the Subsidiary and the Agent on 20 October 2015, pursuant to which the Subsidiary granted a loan of approximately RMB118,000,000 to the Agent;
"First Round Acquisition"	the acquisition of approximately 15% equity interest in the Target Company from the First Round Vendor under the open bid (listing-for-sale) process;
"First Round Vendor"	玉林市玉鑫資產經營有限責任公司 (Yulin Yuxin Assets Management Co., Ltd.*), a company established in the PRC;
"First Three-party Agreement"	the agreement for offsetting the consideration of equity transfer in respect of the Third Round Acquisition entered into between the Subsidiary, SaiWoTe and the Agent on 9 November 2015;
"Fourth Round Acquisition"	the acquisition of approximately 5.76% equity interest in the Target Company from SaiWoTe by the Company pursuant to the Fourth Round Equity Transfer Agreement and the Second Three-party Agreement;

"Fourth Round Equity Transfer Agreement"	the equity transfer agreement in respect of the Fourth Round Acquisition entered into between the Subsidiary and SaiWoTe on 23 November 2015;
"Group"	the Company and its Subsidiaries;
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong;
"HKFRS"	Hong Kong Financial Reporting Standards;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Latest Practicable Date"	22 June 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Listing Committee"	the listing sub-committee of the board of the Stock Exchange;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange;
"Nov Acquisition"	the acquisition of approximately 14.36% equity interest in the Target Company from SaiWoTe by the Company pursuant to the Nov Equity Transfer Agreement;
"Nov Equity Transfer Agreement"	the equity transfer agreement in respect of the Nov Acquisition entered into between the Subsidiary and SaiWoTe on 9 November 2015;
"PRC"	the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular;
"Prospectus"	the prospectus of the Company dated 9 December 2013;
"RMB"	Renminbi, the legal currency of the PRC;
"SaiWoTe"	賽沃特(北京)科技有限公司深圳分公司 (Shenzhen Branch of SaiWoTe (Beijing) Technology Company Limited*), a limited company incorporated in the PRC, where the Agent is the general manager;

"Second Loan Agreement"	the loan agreement entered into between the Subsidiary and the Agent on 30 October 2015, pursuant to which the Subsidiary granted a loan of approximately RMB71,000,000 to the Agent;
"Second Round Acquisition"	the acquisition of approximately 14.85% equity interest in the Target Company from the Second Round Vendors by the Company pursuant to the Second Round Equity Transfer Agreements;
"Second Round Equity Transfer Agreements"	the equity transfer agreements in respect of the Second Round Acquisition entered into between the Subsidiary and each of the Second Round Vendors on 27 August 2015;
"Second Round Vendors"	a total of 27 individuals, all of whom are citizens of PRC;
"Second Three-party Agreement"	the agreement for offsetting the consideration of equity transfer in respect of the Fourth Round Acquisition entered into between the Subsidiary, SaiWoTe and the Agent on 23 November 2015;
"Sep Acquisition"	the acquisition of an aggregate approximately 1.06% equity interest in the Target Company from a total of 19 individuals by the Company pursuant to the Sep Equity Transfer Agreements;
"Sep Equity Transfer Agreements"	the equity transfer agreements in respect of the Sep Acquisition entered into between the Subsidiary and a total of 19 individuals on 14 September 2015;
"Share(s)"	ordinary share(s) of HK$0.1 each in the capital of the Company;
"Shareholder(s)"	holder(s) of the Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subsidiary"	廣州康臣藥業有限公司 (Guangzhou Consun Pharmaceutical Company Limited*), a wholly-owned subsidiary of the Company established in the PRC;

"Target Company"	廣西玉林製藥集團有限責任公司 (Guangxi Yulin Pharmaceutical Group Co., Ltd.*), a company established in the PRC;
"Third Loan Agreement"	the loan agreement entered into between the Subsidiary and the Agent on 10 November 2015, pursuant to which the Subsidiary granted a loan of approximately RMB28,415,000 to the Agent;
"Third Round Acquisition"	the acquisition of an aggregate approximately 15.42% equity interest in the Target Company from the Third Round Vendors by the Company pursuant to the Third Round Equity Transfer Agreements;
"Third Round Equity Transfer Agreements"	collectively the Sep Equity Transfer Agreements and the Nov Equity Transfer Agreement;
"Third Round Vendors"	collectively, a total of 19 individuals, all of whom are citizens of the People's Republic of China, and SaiWoTe, a limited company incorporated in the PRC;
"Three Previous Acquisitions"	collectively, the First Round Acquisition, the Second Round Acquisition and the Third Round Acquisition;
"%"	per cent.

康臣藥業集團有限公司
CONSUN PHARMACEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1681)

Executive Directors
Mr. AN Yubao *(Chairman)*
Ms. LI Qian *(Chief Executive Officer)*
Professor ZHU Quan

Non-executive Directors
Mr. WANG Shunlong
Mr. LIN Sheng

Independent non-executive Directors
Mr. SU Yuanfu
Mr. FENG Zhongshi
Ms. CHENG Xinxin

Registered office:
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Head office and principal place of business in the PRC:
71, Dongpeng Avenue
Eastern section, Guangzhou Economic
and Technological Development District
Guangzhou, PRC

30 June 2016

To the Shareholders

Dear Sirs or Madam,

MAJOR TRANSACTION
FURTHER ACQUISITION OF
APPROXIMATELY 5.76% EQUITY INTEREST IN
GUANGXI YULIN PHARMACEUTICAL GROUP CO., LTD.*

INTRODUCTION

On 23 November 2015, the Subsidiary (a wholly-owned subsidiary of the Company) entered into the Fourth Round Equity Transfer Agreement with SaiWoTe (a limited company incorporated in the PRC where the Agent is the general manager) to further acquire approximately 5.76% equity interest in the Target Company at the consideration of approximately RMB69,361,000.

* *For identification purposes only*

Upon completion of the Fourth Round Acquisition (including the Fifth Round Acquisition), the Subsidiary will hold an aggregate of approximately 54.63% equity interest in the Target Company and the Target Company will become a subsidiary of the Company.

The purpose of this circular is to provide the Shareholders with, among other things, (i) further details of the Fourth Round Acquisition; (ii) the financial information of the Target Company; (iii) the unaudited pro forma financial information of the Enlarged Group; and (iv) other information as required under the Listing Rules together with notice of the EGM and a form of proxy.

THE ACQUISITION

First Round Acquisition

Reference is made to the announcement of the Company dated 6 August 2015 in relation to the First Round Acquisition of approximately 15% equity interest in the Target Company by the Subsidiary.

Following the successful bid for approximately 15% equity interest in the Target Company through an open bid (listing-for-sale) organized by the Equity Exchange, the Subsidiary and the First Round Vendor entered into the Equity Transaction Contract in relation to the acquisition of approximately 15% equity interest in the Target Company at the aggregate consideration of approximately RMB255,243,000. For details, please refer to the announcement of the Company dated 6 August 2015.

Second Round Acquisition

Reference is made to the announcement of the Company dated 28 August 2015 in relation to the Second Round Acquisition of a further approximately 14.85% equity interest in the Target Company by the Subsidiary. The Subsidiary entered into Second Round Equity Transfer Agreements with Second Round Vendors to acquire approximately 14.85% equity interest in the Target Company at the aggregate consideration of approximately RMB198,902,000. For details, please refer to the announcement of the Company dated 28 August 2015.

Third Round Acquisition

Reference is made to the announcement of the Company dated 9 November 2015 in relation to the Third Round Acquisition of a further approximately 15.42% equity interest in the Target Company by the Subsidiary. The Subsidiary entered into Third Round Equity Transfer Agreements with Third Round Vendors to acquire approximately 15.42% equity interest in the Target Company at the aggregate consideration of approximately RMB187,189,000. For details, please refer to the announcement of the Company dated 9 November 2015.

Fourth Round Acquisition

Reference is made to the Announcement in relation to the Fourth Round Acquisition of approximately 5.76% equity interest in the Target Company by the Subsidiary. Pursuant to the Fourth Round Equity Transfer Agreement, the Subsidiary agreed to purchase and SaiWoTe agreed to sell approximately 5.76% equity interest in the Target Company at the consideration of approximately RMB69,361,000, subject to and upon the terms and conditions of the Fourth Round Equity Transfer Agreement.

Fifth Round Acquisition

Reference is made to the announcement of the Company dated 20 June 2016 in relation to the Fifth Round Acquisition of a further approximately 3.60% equity interest in the Target Company by the Subsidiary. The Subsidiary entered into the Fifth Round Equity Transfer Agreement with the Fifth Round Vendor to acquire approximately 3.60% equity interest in the Target Company at the consideration of approximately RMB31,612,000. Upon completion of the Fifth Round Acquisition (excluding the Fourth Round Acquisition), the Subsidiary held in aggregate approximately 48.87% equity interest in the Target Company. For details, please refer to the announcement of the Company dated 20 June 2016.

PARTICULARS OF THE FOURTH ROUND ACQUISITION

Parties to the Fourth Round Acquisition

Purchaser:	Guangzhou Consun Pharmaceutical Company Limited* (the "**Subsidiary**", a wholly-owned subsidiary of the Company).
Vendor:	SaiWoTe, a limited company incorporated in the PRC.

SaiWoTe is a company primarily engaged in the business of management and investment consulting, and the Agent is the general manager of SaiWoTe.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the First Round Vendor, the Equity Exchange, the Second Round Vendors, the Third Round Vendors, SaiWoTe and their respective ultimate beneficial owners (as the case may be) is independent of and not connected with the Company and its connected persons.

Consideration

The consideration for the Fourth Round Acquisition is approximately RMB69,361,000.

In accordance with the Third Loan Agreement dated 10 November 2015 in pursuant to the Cooperative Agreement, the Subsidiary granted a further loan of approximately RMB28,415,000 to the Agent. Taking into account also the loan balance of approximately RMB16,043,000 arising from the First Loan Agreement and the Second Loan Agreement after set-off against the amount according to the First Three-party Agreement, as at 10 November 2015, the Agent is indebted to the Subsidiary for the aggregate sum of approximately RMB44,458,000 (the "**Outstanding Loan**"). Pursuant to the Second Three-party Agreement dated 23 November 2015 entered into between the Subsidiary, SaiWoTe and the Agent, the consideration will be partially settled by set-off against the Outstanding Loan. The remaining balance of the consideration in the sum of approximately RMB24,903,000 after set-off will be paid out of the internal resources of the Group. Upon settlement, the Agent will be deemed to have fully settled the Outstanding Loan and the Subsidiary will be deemed to have fully settled the consideration of the Fourth Acquisition.

Subsequent to 11 November 2015 and up to the Latest Practical Date, the Group made further payments of approximately RMB18,000,000 to accounts designated by the Agent as prepayments for the Fourth Round Acquisition. If the Fourth Round Acquisition is approved by the Shareholders, such prepayments will be used to settle part of the remaining balance of the consideration. Otherwise, the prepayments will be returned to the Group.

Prior to the First Round Acquisition, the ownership of the Target Company was highly dispersed with a total of 28 shareholders including the First Round Vendor which was the largest shareholder. The Board believes that the past performance of the Target Group did not reveal the full potential of the Target Group and a more concentrated ownership and effective management of the Target Company will have a positive effect to the business of the Target Group.

The aggregate consideration for the First Round Acquisition arrived at after an open bid organized by the Equity Exchange was approximately RMB255,243,000, representing a per unit consideration of approximately RMB17,016,000 per 1% equity interest of the Target Company. The per unit consideration for the Second Round Acquisition, the Third Round Acquisition and the Fourth Round Acquisition was approximately RMB13,394,000, RMB12,139,000 and RMB12,042,000 per 1% equity interest of the Target Company, respectively, representing a decrease of approximately 21.29%, 9.36% and 0.80% from their previous acquisition, respectively, which was mainly attributable to the effort made by the Company in negotiation with each round vendors.

In view of the above, and taking into account also factors including the existing capacity of the Target Company, the financial performance and position of the Target Company as well as the expected synergies with the Group's existing business arising from the Fourth Round Acquisition, the consideration for the Fourth Round Acquisition was arrived at after arms' length negotiations and is fair and reasonable.

Conditions Precedent

Completion of the Fourth Round Acquisition is conditional upon the fulfillment (or waiver granted by the Subsidiary in writing, where applicable) of the following conditions:

(a) pursuant to the requirements under the Listing Rules, the passing by the shareholders at the EGM of the Company to be convened and held of an ordinary resolution to approve the Fourth Round Equity Transfer Agreement, the Second Three-party Agreement and the transactions contemplated thereunder;

(b) all necessary internal consents, approvals and authorisations required to be obtained on the part of the Subsidiary in respect of the Fourth Round Equity Transfer Agreement and the transactions contemplated thereunder having been obtained;

(c) The warranties under the Fourth Round Equity Transfer Agreement on the part of SaiWoTe having remained true, complete and accurate in all material respects;

(d) the obtaining of all necessary consent(s), approval(s) and authorisation(s) from the relevant government departments or regulatory authorities (including but not limited to government departments or regulatory authorities of the PRC), shareholders of the Target Company or any third parties, whichever applicable, and the completion of all necessary filing(s) and recordal(s) in respect of the Fourth Round Equity Transfer Agreement and the transactions contemplated thereunder by the Target Company.

Completion

Completion shall take place on a date as the parties of the Fourth Round Equity Transfer Agreement may agree in writing after the last of the conditions precedent as set out in the Fourth Round Equity Transfer Agreement has been fulfilled or waived in writing (as the case may be). Upon completion, the Target Company will become a subsidiary of the Company.

Information on the Group

The Group is principally engaged in the research, manufacturing and sales of modern Chinese medicines and medical contrast medium in the PRC.

Information on the Target Company

The Target Company is a limited liability company established in the PRC and its business scope covers the manufacture of tablets, hard capsules, granules, syrups, tinctures (including the external use), ointments, liniments, mixtures and decoction agents; manufacture of Chinese herbal medicine (including toxic slices, purifying agents, cutting agents, frying agents, roasting agents, streaming agents, etc.); manufacture of beverages (tea drinks and other types of beverages); manufacture and sale of "Yulin Fuyanjie Antibacterial Lotion"; operation of export businesses of self-produced products and related technologies of the corporation; operation of import businesses of commodities and related technologies, including raw and supplementary materials, mechanic equipment, instruments and meters, and spare parts required in the manufacturing and scientific researches of the corporation.

Financial Information of the Target Company

The following set forth the selected audited financial information of the Target Company for the financial years ended 31 December 2014 and 31 December 2015 respectively prepared by Linkers CPA Limited under HKFRS:

	Year ended 31 December	
	2014	**2015**
	(audited)	**(audited)**
	RMB	*RMB*
Revenue	382,185,000	372,177,000
Net profit before tax	44,848,000	36,037,000
Net profit after tax	37,983,000	30,600,000
Total assets	395,091,000	488,341,000
Total liabilities	202,154,000	264,804,000
Net assets	192,937,000	223,537,000

For further information, please refer to Appendix II of this Circular.

Reasons for the Acquisition

The Group is an integrated pharmaceutical group principally engaged in the research, manufacturing and marketing of modern Chinese medicines and medical contrast medium in the PRC. Upholding a product strategy based on specialties and complemented by generics, the Group's uremic clearance granule and gadopentetate dimeglumine injection have already become the leaders of chronic kidney diseases sector and MRI medical contrast medium sub-sector in the field of specialist medicines.

The Target Company is a Chinese medicine manufacturing enterprise principally engaged in the research and development, production and sales of Chinese medicines and natural medicines. The Target Company is one of the first batch of enterprises recognized as "Chinese Time-honored Brands (中華老字號)" by the Ministry of Commerce in 2006 and one of the first batch (seven in total) of research and development bases for ethnic medicines in Guangxi. In 2007, "Yulin Brand" trademark was accredited "Chinese Well-known Trademark (中國馳名商標)", and the Target Company has also been conferred the status of Guangxi High and New Technology Enterprise (高新技術企業) since 2009.

The Target Company currently owns over 70 types of medicines in nine dosage forms. Among these medicines, over 30 types have been listed in the National Over-the-Counter Medicine Catalogue, Medical Insurance Drugs Catalogue and New Rural Cooperative Medicine Catalogue, and over 10 types are exported to more than 30 countries and regions.

The Company is of the view that the Fourth Round Acquisition will consolidate the influence of the Company on the Target Company and improve the expected synergies with the Group's existing business. The Directors (including the independent non-executive Directors) are of the view that the transaction is conducted in ordinary and usual course of business of the Group, and is entered into on normal commercial terms which are fair and reasonable and are in the interests of the Company and shareholders as a whole.

For the avoidance of doubt, the Agent may, through SaiWoTe or other third party, further facilitate the acquisition of equity interests in target companies which meet the development needs of the Group (including but not limited to the Target Company), pursuant to the Cooperative Agreement signed between the Subsidiary and the Agent on 20 October 2015. For details, please refer to the Cooperative Announcements.

The Company will make disclosure pursuant to the requirements of the Listing Rules should the Company further acquire the equity interest in the Target Company in the future.

FINANCIAL EFFECTS OF THE TRANSACTION

Upon completion of the Fourth Round Acquisition, the Target Company will become indirectly owned subsidiary of the Company and its results will be consolidated into the Group's consolidated financial statements. The unaudited pro forma financial information of the Enlarged Group illustrating the financial effects of the Transaction on the assets, earnings and liabilities of the Group is set out in Appendix IV to this circular.

Assets

As at 31 December 2015, the audited consolidated total assets of the Group amounted to approximately RMB1,917,891,000. If the Fourth Round Acquisition had been completed on 31 December 2015, the unaudited consolidated total assets of the Enlarged Group would have been increased to approximately RMB2,290,951,000.

Income

Given that the Target Company has generated revenue of approximately RMB372,177,000 for the year ended 31 December 2015, it is expected that the revenue of the Enlarged Group will be strengthened upon completion of the Fourth Round Acquisition.

Liabilities

As at 31 December 2015, the audited consolidated total liabilities of the Group amounted to approximately RMB281,136,000. If the Fourth Round Acquisition had been completed on 31 December 2015, the unaudited consolidated total liabilities of the Enlarged Group would have been increased to approximately RMB545,940,000.

It should be noted that the above financial effects of the Fourth Round Acquisition are for illustration purpose only. The exact financial effects are dependent on the consolidated net assets value of the Target Company on the date of completion of the Fourth Round Acquisition, and are subject to the review by the Company's auditors.

IMPLICATIONS UNDER THE LISTING RULES

Reference is made to the five announcements of the Company dated 6 August 2015, 28 August 2015, 9 November 2015, 23 November 2015 and 20 June 2016 in relation to Three Previous Acquisitions (namely the First Round Acquisition of approximately 15% equity interest, the Second Round Acquisition of approximately 14.85% and the Third Round Acquisition of approximately 15.42% equity interest in the Target Company by the Subsidiary), the Fourth Round Acquisition of approximately 5.76% equity interest and the Fifth Round Acquisition of approximately 3.60% equity interest in the Target Company by the Subsidiary. The Three Previous Acquisitions and the Fifth Round Acquisition of the aggregate approximately 48.87% equity interest in the Target Company and the Fourth Round Acquisition form a series of transactions which should be treated as if they were one transaction under Rule 14.22 of the Listing Rules. Upon aggregation, one of the applicable percentage ratios (as defined in the Listing Rules) for the Three Previous Acquisitions, the Fifth Round Acquisition and the Fourth Round Acquisition is more than 25% but all of them are less than 100%, hence the Fourth Round Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and Shareholders' approval requirements of the Listing Rules.

The voting in relation to the Fourth Round Acquisition and the transaction contemplated thereunder at the EGM will be conducted by poll whereby any Shareholders and their close associates (as defined under the Listing Rules) who have a material interest in the Fourth Round Acquisition and the transaction contemplated thereunder shall abstain from voting on the resolutions to be proposed at the EGM. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, as at the date of this circular, no Shareholder is required to abstain from voting on the resolution(s) in respect of the Fourth Round Acquisition at the EGM.

As disclosed in the Prospectus, Mr. Young Wai Po, Peter, a former non-executive Director, Mr. An Yubao, the chairman of the Company, and Ms. Li Qian, an executive Director have a voting arrangement that Mr. Young and Ms. Li shall, pursuant to the acting in concert agreement dated 1 January 2002 and the acting in concert confirmation dated 11 March 2013, exercise their Shareholders' rights to vote and will continue to vote pursuant to the opinion of Mr. An.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, save as disclosed above, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or 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.

EGM

The Directors have resolved to convene the EGM to consider and, if thought fit, to approve the Fourth Round Acquisition and the transaction contemplated thereunder by the Shareholders.

The EGM will be held for considering and, if thought fit, passing the ordinary resolution to approve the Fourth Round Acquisition and the transaction contemplated thereunder. A notice convening the EGM of the Company to be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Hong Kong on 19 July 2016 (Tuesday) at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish and in such event, the proxy shall be deemed to be revoked.

RECOMMENDATION

The Directors consider that the Fourth Round Acquisition and the transaction contemplated thereunder is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution as set out in the notice of the EGM.

ADDITIONAL INFORMATION

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

WARNING NOTICE

As completion of the Fourth Round Equity Transfer Agreement is subject to certain conditions, the Fourth Round Acquisition contemplated thereunder may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

Yours faithfully,
By order of the Board
Consun Pharmaceutical Group Limited
AN Yubao
Chairman

FINANCIAL INFORMATION INCORPORATED BY REFERENCE

Financial information and management discussion and analysis of the Group for each of the three years ended 31 December 2013, 2014 and 2015 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.chinaconsun.com).

The audited consolidated financial statements, including the notes thereto, and the management discussion and analysis of the Group for the year ended 31 December 2015 have been set out in pages 75 to 159 and pages 14 to 22 respectively of the annual report 2015 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2015:

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0427/LTN20160427041.pdf

The audited consolidated financial statements, including the notes thereto, and the management discussion and analysis of the Group for the year ended 31 December 2014 have been set out in pages 66 to 147 and pages 10 to 17 respectively of the annual report 2014 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2014:

http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0422/LTN20150422005.pdf

The audited consolidated financial statements, including the notes thereto, and the management discussion and analysis of the Group for the year ended 31 December 2013 have been set out in pages 71 to 155 and pages 10 to 17 respectively of the annual report 2013 of the Company which are incorporated by reference into this circular and are available on the Stock Exchange's website (http://www.hkexnews.hk). Please also see below quick link to the annual report 2013:

http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0425/LTN20140425025.pdf

STATEMENT OF INDEBTEDNESS

Borrowings

At the close of business on 30 April 2016, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding bank loans of RMB130,000,000. As at 30 April 2016, bank loans amounting to approximately RMB130,000,000 were neither secured nor guaranteed.

Contingent liabilities

At the close of business on 30 April 2016, the Enlarged Group did not have any material contingent liabilities.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, at the close of business on 30 April 2016, the Enlarged Group had no other outstanding mortgages, charges, debentures or other loan capital or bank overdrafts or loans or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, debt securities, guarantees or other contingent liabilities.

Save as aforesaid, the Directors confirmed that there had been no material change to the indebtedness and contingent liabilities of the Enlarged Group since 30 April 2016 and up to the Latest Practicable Date.

WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Enlarged Group including the internally generated funds, the Enlarged Group will have sufficient working capital for at least 12 months from the date of this circular.

MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Enlarged Group since 31 December 2015, being the date to which the latest published audited consolidated accounts of the Group were made up.

INTEREST IN THE SHARE CAPITAL OF A COMPANY ACQUIRED AFTER 31 DECEMBER 2015, BEING THE DATE TO WHICH THE LATEST PUBLISHED AUDITED CONSOLIDATED ACCOUNTS OF THE GROUP WERE MADE UP

Save for the Three Previous Acquisitions, the Fourth Round Acquisition and the Fifth Round Acquisition, the Group has not acquired any interest in the share capital of any company after 31 December 2015.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Riding on the robust growth trend, the Group will continue to cultivate the market for existing products intensively. Meanwhile, by increasing our R&D effort, the launch of new medicines will accelerate in order to amplify the Group's medicinal products reserves. Besides, we will seek for merger and acquisition targets that will complement the Group's business. As of the Latest Practicable Date, the Company has not identified other suitable acquisition targets other than the Target Company. We will continue to stride towards the goal of being the leader in oral modern Chinese medicines for kidney diseases and medical contrast medium segments. As always, our ultimate aim is to provide stable and profitable returns to the Company's shareholders while contributing to the society.

The Group will continue to uphold the Group's advantages in oral modern Chinese medicines for kidney diseases in PRC market and medical contrast medium segments, and with the support of national macroeconomic policies, make efforts to allow more patients to be able to use our products, and contribute to the health of mankind.

Linkers 連城 / CPA

30 June 2016

The Directors

Consun Pharmaceutical Group Company Limited

Dear Sirs,

We report on the financial information of 廣西玉林製藥集團有限責任公司 (the "Target Company") and its subsidiaries (together, the "Target Group"), which comprises the consolidated and company balance sheets of the Target as at 31 December 2013, 2014 and 2015, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Target Company for each of the years ended 31 December 2013, 2014 and 2015 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of Consun Pharmaceutical Group Company Limited (the "Company") and is set out in Sections I to III below for inclusion in Appendix II to the circular of the Company dated 30 June 2016 (the "Circular") in connection with the proposed acquisition of the Target Company by the Company.

The Target Company was incorporated in the People's Republic of China (the "PRC") on 21 December 2001 with limited liability under the Company Law of the PRC.

As at the date of this report, the Target Company has direct and indirect interests in the subsidiaries as set out in Note 1.2 of Section II below.

The Target Company and its subsidiaries have adopted 31 December as their financial year end date. The audited financial statements of the companies now comprising the Target Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in the PRC. The details of the statutory auditors of these companies are set out in Note 1.2 of Section I of this report.

The directors of the Target Company are responsible for the preparation of the consolidated financial statements of the Target Company for the Relevant Periods that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"), and for such internal control as the directors determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA pursuant to separate terms of engagement.

The financial information has been prepared based on the Underlying Financial Statements of the Target Company with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs and accounting policies adopted by the Company and its subsidiaries (together, the "Group") as set out in the annual report of the Company for the year ended 31 December 2015.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Company and of the Target Group as at 31 December 2013, 2014 and 2015 and of the Target Group's results and cash flows for the Relevant Periods then ended.

I FINANCIAL INFORMATION OF THE TARGET COMPANY

The following is the financial information of the Target Company prepared by the directors of the Target Company as at 31 December 2013, 2014 and 2015 and for each of the years ended 31 December 2013, 2014 and 2015 (the "Financial Information"), presented on the basis set out in Note 2.1 of Section II below:

Consolidated Statement of Comprehensive Income

		Year ended 31 December		
	Note	**2013**	**2014**	**2015**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*5*	393,492	382,185	372,177
Cost of sales		(177,857)	(183,641)	(173,706)
Gross profit		215,635	198,544	198,471
Other income	*6*	6,159	5,453	3,927
Other gains/(losses)	*7*	(159)	(69)	44
Selling expenses		(128,694)	(117,653)	(133,039)
Administrative and other operating expenses		(41,242)	(38,678)	(30,741)
Operating profit		51,699	47,597	38,662
Finance income		147	120	354
Finance costs		(2,950)	(2,869)	(2,979)
Finance costs – net	*10*	(2,803)	(2,749)	(2,625)
Profit before income tax	*8*	48,896	44,848	36,037
Income tax expense	*11(a)*	(7,604)	(6,865)	(5,437)
Profit for the year and attributable to owners of the Target Company		41,292	37,983	30,600
Profit for the year		41,292	37,983	30,600
Other comprehensive income for the year		–	–	–
Total Comprehensive income for the year and attributable to owners of the Target Company		41,292	37,983	30,600
Dividend	*24*	29,767	32,744	–

Consolidated Balance Sheet

	Note	2013 RMB'000	As at 31 December 2014 RMB'000	2015 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	*12*	62,015	67,036	125,156
Investment properties	*13*	2,371	2,157	1,944
Lease prepayments	*14*	29,167	28,442	27,717
Trade and other receivables – non current	*17*	4,935	6,393	1,521
Deferred income tax assets	*11(b)*	491	1,372	1,284
		98,979	105,400	157,622
Current assets				
Inventories	*16*	112,410	123,427	129,250
Trade and other receivables	*17*	118,053	126,958	97,395
Current income tax assets		2,241	1,395	909
Cash and cash equivalents	*18*	35,837	37,911	103,165
		268,541	289,691	330,719
Total assets		367,520	395,091	488,341
EQUITY				
Capital and reserve attributable to owners of the Target Company				
Share capital	*19*	148,834	148,834	148,834
Capital reserve	*20(a)*	1,055	1,055	1,055
Statutory reserve	*20(b)*	45,772	55,605	57,701
Retained earnings/Accumulated losses		(7,963)	(12,557)	15,947
Total equity		187,698	192,937	223,537
LIABILITIES				
Non-current liabilities				
Deferred income	21	7,100	6,390	5,680
Trade and other payables – non current	22	3,931	3,779	3,430
		11,031	10,169	9,110
Current liabilities				
Trade and other payables	22	68,656	68,995	105,059
Deferred income	21	368	246	635
Dividend payable		29,767	32,744	–
Bank borrowings	23	70,000	90,000	150,000
		168,791	191,985	255,694
Total liabilities		179,822	202,154	264,804
Total equity and liabilities		**367,520**	**395,091**	**488,341**
Net current assets		**99,750**	**97,706**	**75,025**
Total assets less current liabilities		**198,729**	**203,106**	**232,647**

Balance Sheet

	Note	As at 31 December 2013 RMB'000	2014 RMB'000	2015 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment		59,662	63,984	122,857
Investment properties		2,371	2,157	1,944
Lease prepayments		29,167	28,442	27,717
Trade and other receivables – non current	*17*	4,935	6,393	1,521
Deferred income tax assets	*11(b)*	491	1,372	1,284
Investment in subsidiaries	*15*	5,550	8,250	6,350
		102,176	110,598	161,673
Current assets				
Inventories		108,481	120,018	128,890
Trade and other receivables	*17*	118,724	127,798	99,942
Current income tax assets		2,658	2,159	1,792
Cash and cash equivalents		32,592	31,339	97,330
		262,455	281,314	327,954
Total assets		364,631	391,912	489,627
EQUITY				
Capital and reserve attributable to owners of the Target Company				
Share capital	*19*	148,834	148,834	148,834
Capital reserve	*20(a)*	1,055	1,055	1,055
Statutory reserve	*20(b)*	29,279	37,271	37,271
Retained earnings		(5,216)	(9,882)	10,814
Total equity		173,952	177,278	197,974
LIABILITIES				
Non-current liabilities				
Deferred income		7,100	6,390	5,680
Trade and other payables – non current	*22*	3,931	3,779	3,430
		11,031	10,169	9,110
Current liabilities				
Trade and other payables	*22*	79,513	81,475	132,000
Deferred income		368	246	543
Dividend payable		29,767	32,744	–
Bank borrowings		70,000	90,000	150,000
		179,648	204,465	282,543
Total liabilities		**190,679**	**214,634**	**291,653**
Total equity and liabilities		**364,631**	**391,912**	**489,627**
Net current assets		**82,807**	**76,849**	**45,411**
Total assets less current liabilities		**184,983**	**187,447**	**207,084**

Consolidated Statement of Changes in Equity

	Attributable to owners of the Target Company				
	Share capital	**Capital reserve**	**Statutory reserve**	**Retained earnings/ Accumulated losses**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2013	148,834	1,055	38,033	(11,749)	176,173
Comprehensive income – Profit for the year	–	–	–	41,292	41,292
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	–	41,292	41,292
Transactions with owners					
Appropriations to reserves	–	–	7,739	(7,739)	–
Dividends distributed to owners	–	–	–	(29,767)	(29,767)
	–	–	7,739	(37,506)	(29,767)
Balance at 31 December 2013	**148,834**	**1,055**	**45,772**	**(7,963)**	**187,698**
Balance at 1 January 2014	**148,834**	**1,055**	**45,772**	**(7,963)**	**187,698**
Comprehensive income – Profit for the year	–	–	–	37,983	37,983
Other comprehensive income	–	–	–	–	–
Total comprehensive income	**–**	**–**	**–**	**37,983**	**37,983**
Transactions with owners					
Appropriations to reserves	–	–	9,833	(9,833)	–
Dividends distributed to owners	–	–	–	(32,744)	(32,744)
	–	–	9,833	(42,577)	(32,744)
Balance at 31 December 2014	**148,834**	**1,055**	**55,605**	**(12,557)**	**192,937**

	Attributable to owners of the Target Company				
	Share capital	**Capital reserve**	**Statutory reserve**	**Retained earnings/ Accumulated losses**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2015	**148,834**	**1,055**	**55,605**	**(12,557)**	**192,937**
Comprehensive income – Profit for the year	–	–	–	30,600	30,600
Other comprehensive income	–	–	–	–	–
Total comprehensive income	**–**	**–**	**–**	**30,600**	**30,600**
Transfer within reserve upon deregistration of a subsidiary	–	–	(26)	26	–
Transactions with owners					
Appropriations to reserves	–	–	2,122	(2,122)	–
Balance at 31 December 2015	**148,834**	**1,055**	**57,701**	**15,947**	**223,537**

Consolidated statement of cash flows

	Note	2013	2014	2015
		Year ended 31 December		
		RMB'000	*RMB'000*	*RMB'000*
Cash flows from operating activities				
Net cash generated from operations	*25*	35,290	32,927	111,225
Interest paid		(2,819)	(2,701)	(2,924)
Income tax paid		(3,887)	(6,900)	(4,863)
Net cash generated from operating activities		28,584	23,326	103,438
Cash flows from investing activities				
Purchases of property, plant and equipment		(7,675)	(11,611)	(65,785)
Proceeds from disposal of property, plant and equipment		80	6	98
Interest received		147	120	247
Net cash used in investing activities		(7,448)	(11,485)	(65,440)
Cash flows from financing activities				
Proceeds from bank borrowings		70,000	90,000	150,000
Repayment of bank borrowings		(100,000)	(70,000)	(90,000)
Dividend paid to owners of the Target Company		(29,767)	(29,767)	(32,744)
Net cash generated from/(used in) financing activities		(59,767)	(9,767)	27,256
Net increase/(decrease) in cash and cash equivalents		**(38,631)**	**2,074**	**65,254**
Cash and cash equivalents at beginning of the year		74,468	35,837	37,911
Cash and cash equivalents at end of the year	*18*	35,837	37,911	103,165

II NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

1.1 General information

廣西玉林製藥集團有限責任公司 (the "Target Company") was incorporated on 21 December 2001. The address of its registered office is 廣西玉林市城站路1號, the People's Republic of China (the "PRC").

The Target Company and its subsidiaries (hereinafter collectively referred to as the "Target Group") are principally engaged in Production and sales of pharmaceutical products in the PRC (the "Major Business").

1.2 As at 31 December 2015, the Target Company had interests in the following subsidiaries:

Company name	Place and date of incorporation	Registered/Issued and paid up capital	Equity interest held as at the date of this report	Principal activities/place of operation
廣西玉林玉藥膠囊有限公司	PRC/24 April 2002	RMB1,340,000	Directly: 90% Indirectly: 10%	Production and sales of pharmaceutical products/PRC
廣西玉林市宏升貿易有限責任公司	PRC/15 January 2004	RMB500,000	Directly: 80% Indirectly: 20%	Trading of pharmaceutical products/PRC
廣西玉林雲香置業有限公司	PRC/7 March 2014	RMB3,000,000	Directly: 90% Indirectly : 10%	Property investment/PRC
廣西玉藥集團玉銘中藥有限責任公司	PRC/2 November 2011	RMB2,000,000	Directly: 95% Indirectly: 5%	Sales of pharmaceutical products/PRC
廣西玉藥集團永綠中藥產業有限公司	PRC/19 April 2013	RMB1,000,000	Directly: 90% Indirectly: 10%	Plant and sales of herbal medicine products/PRC

Inter-company transactions, balances and recognizes gains/losses on transactions between the group companies are eliminated on consolidation. The financial year end of these subsidiaries is 31 December. The statutory auditors of these subsidiaries and the Target Company are shown as below:

Company name	Statutory auditors
廣西玉林玉藥膠囊有限公司	Zhong Zhongyi (GuangXi) Certified Public Accountants Co., Limited
廣西玉林市宏升貿易有限責任公司	Zhong Zhongyi (GuangXi) Certified Public Accountants Co., Limited
廣西玉林雲香置業有限公司	Zhong Zhongyi (GuangXi) Certified Public Accountants Co., Limited
廣西玉藥集團玉銘中藥有限責任公司	Zhong Zhongyi (GuangXi) Certified Public Accountants Co., Limited
廣西玉藥集團永綠中藥產業有限公司	Zhong Zhongyi (GuangXi) Certified Public Accountants Co., Limited

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Target Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Target Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Accounting policies

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Target Group has adopted HKFRS, which are effective for the accounting periods beginning on or before 1 January 2015 and consistently apply throughout the Relevant Periods.

The following new standards, amendments to existing standards and interpretation have been issued but are not effective for the financial year beginning 1 January 2015 that are relevant to the Target Group but have not been early adopted:

- Amendment to HKFRS 5, 'Non-current assets held for sale and discontinued operations', clarifies that when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. It also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not classified as 'held for sale'. An entity shall apply the amendment to HKFRS 5 prospectively for annual periods beginning on or after 1 January 2016. Earlier application is permitted.

- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

  Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

- HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted.

- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

  The amendment to HKAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:

  i. where the intangible asset is expressed as a measure of revenue; or

  ii. where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

  Amendments to HKAS 16 and HKAS 38 are effective for an entity's annual HKFRS financial statements for a period beginning on or after 1 January 2016, with earlier application permitted.

- Amendment to HKAS 27 on equity method in separate financial statements. The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is effective for annual periods beginning on or after 1 January 2016.

- Amendments to HKFRS 10 and HKAS 28 on sale or contribution of assets between an investor and its associate. The amendments address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016.

- Annual improvements 2014 – These annual improvements address certain issues in the 2012-2014 reporting cycle, primarily with a view to removing inconsistencies and clarifying wording. They include changes to the following standards which are relevant to the Target Group's operations. These annual improvements are effective for annual periods beginning on or after 1 January 2016.

- Amendment to HKFRS 7: Financial Instruments: Disclosure

- Amendment to HKAS 19: Employee Benefits

The Target Group is in the process of assessing the impact of these standards, amendments to the existing standards and interpretation on the Financial Information of the Target Group. The adoption of the above is not expected to have a significant impact on the Financial Information of the Target Group.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Target Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Target Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Target Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Target Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Target Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Target Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Target Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Target Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Target Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Target Company's functional and the Target Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within 'finance cost-net'. All other foreign exchange gains and losses are presented in profit or loss within 'other (losses)/gains – net'.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values at a range of 0% – 5% of the cost over their estimated useful lives, as follows:

– Buildings	6 – 20 years
– Plant and machinery	1 – 20 years
– Motor vehicles	8 – 12 years
– Office equipment	3 – 12 years

The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other (losses)/gains – net" in profit or loss.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings, capitalised borrowing costs and costs of plant and machinery. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.6 Investment property

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are accounted for as property, plant and equipment as Note 2.5 above.

2.7 Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights. Lease prepayments are stated at costs and are amortised on a straight-line basis over the remaining period of the land use rights, net of any impairment losses. The amortisation is charged within "administrative expenses" in profit or loss.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 Impairment of financial assets carried at amortised cost

Investments in financial assets carried at amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

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

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

If any such evidence exists, any impairment loss is determined and recognised as follows:

– the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

Impairment losses are written off against the corresponding assets directly, except for impairment loss recognised in respect of trade and other receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2.12 Inventories

Inventories are carried at the lower of cost and realisable value.

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 Provisions and contingent liabilities

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

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

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the locations where the Target Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax liabilities, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Target Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Target Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Target Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates, only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits – Pension obligations and other benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Target Group participate in various defined contribution retirement benefit, housing fund, medical insurance and unemployment fund plans organised by the relevant municipal and provincial governments in the PRC under which the Target Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The Target Group has no further payment obligations once the contributions have been paid. The contributions are recognised in profit or loss as employee benefit expense when they are incurred.

2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Target Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of assets are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.22 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Target Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Target Group's activities, as described below. The Target Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(b) Government grants

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset by way of reduced depreciation expense.

(c) Sundry income

Sundry income is recognised on an accrual basis.

2.23 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Target Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.24 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.25 Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Target Group's and the Target Company's financial information in the period in which the dividends are approved by the Target Company's shareholders.

2.26 Segment reporting

The Target Group's management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Target Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Target Group assesses the performance and allocates the resources of the Target Group as a whole, as all of the Target Group's activities are considered to be primarily dependent on the performance on sales of pharmaceutical products. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8, Operating Segments. In this regard, no segment information is presented for the years.

No geographic information is shown as the Target Group's operating profit is entirely derived from activities of manufacturing and sale of pharmaceutical products in the PRC.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Target Group's financial performance.

Risk management is carried out by finance department under the guidance of the Board of Directors.

(a) Market risk

Cash flow and fair value interest rate risk

As the Target Group has no significant interest-bearing assets other than cash and cash equivalents, the Target Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Target Group's interest-rate risk arises from borrowings. Borrowings borrowed at variable rates expose the Target Group to cash flow interest rate risk. During the Relevant Periods, the Target Group's borrowings bore interest at variable rates. The Target Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk.

For the years ended 31 December 2013, 2014 and 2015, if interest rates on borrowings had been 0.5% higher/lower of existing interest rates with all other variables held constant, the Target Group's profit for the year would have been approximately RMB298,000, RMB382,500 and RMB637,500 lower/higher, respectively, mainly as a result of higher/lower interest expense on variable rates borrowings.

(b) Credit risk

The Target Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents and trade and other receivables shown on the consolidated balance sheets.

As at 31 December 2013, 2014 and 2015, all of the Target Group's bank deposits are deposited in major financial institutions located in the PRC, which management believes are of high credit quality without significant credit risk.

The Target Group categorises its cash at banks into the following:

Group 1: Top 4 banks in the PRC (China Construction Bank, Bank of China, Agricultural Bank of China and Industrial and Commercial Bank of China)

Group 2: Other major state-owned banks in the PRC

	At 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Group 1	35,572	37,720	103,002
Group 2	153	48	48
	35,725	37,768	103,050

Other than those disclosed in note 17(f), the Target Group does not have significant concentration of credit risk in relation to trade and other receivables. The Target Group generally requests advances from customers. In circumstances of credit sales, to manage the credit risk in respect of trade and other receivables, the Target Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Target Group performs periodic credit evaluations of its customers, and generally does not require collateral from the customers on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Target Group has no significant credit risk in respect of its trade and other receivables as at 31 December 2013, 2014 and 2015.

(c) Liquidity risk

To manage the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The Target Group expects to fund its future cash flow needs mainly through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Target Group's and Target Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	At 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Target Group			
Less than one year			
Trade and other payables	68,656	68,995	105,059
Dividend payable	29,767	32,744	–
Bank borrowings	70,000	90,000	150,000
	168,423	191,739	255,059
More than one year			
Trade and other payables	3,931	3,779	3,430
Target Company			
Less than one year			
Trade and other payables	79,513	81,475	132,000
Dividend payable	29,767	32,744	–
Bank borrowings	70,000	90,000	150,000
	179,280	204,219	282,000
More than one year			
Trade and other payables	3,931	3,779	3,430

3.2 Capital management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Target Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Target Group monitors capital risk on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheets) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheets plus net debt. The Target Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios as at 31 December 2013, 2014 and 2015 were as follows:

	At 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Total borrowings	70,000	90,000	150,000
Less: cash and cash equivalents	(35,837)	(37,911)	(103,165)
Net debt	34,163	52,089	46,835
Total equity	187,698	192,937	223,537
Total capital	221,861	245,026	270,372
Gearing ratio	15%	21%	17%

3.3 Fair value estimation

Fair value measurement by level of hierarchy is not disclosed as the Target Group has no financial instruments measured at fair value in the balance sheet as at 31 December 2013, 2014 and 2015.

The carrying values less impairment provision of receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Target Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Income taxes

The Target Company's and its subsidiaries that operate in the PRC are subject to corporate income tax in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Target Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 REVENUE

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Sales of goods			
– Chinese medicines	323,851	360,755	338,952
– Others	69,641	21,430	33,225
	393,492	382,185	372,177

During the Relevant Periods, there are no customers contributing over 10% of the turnover of the Group (including sales to entities which are known to the Group to be under common control with these customers.

6 OTHER INCOME

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Other income	1,228	2,162	1,686
Rental income	1,289	1,253	1,447
Government Grant			
– Conditional subsidies *(Note 21)*	3,176	1,878	754
– Unconditional subsidies	466	160	40
	6,159	5,453	3,927

7 OTHER GAINS/(LOSSES)

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Gains/(losses) on disposal of property, plant and equipment	(159)	(69)	44

8 PROFIT BEFORE INCOME TAX

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales *(Note a)*	177,857	183,641	173,706
Depreciation of property, plant and equipment *(Note 12)*	6,687	6,515	7,611
Depreciation of investment properties *(Note 13)*	213	214	213
Amortisation of lease prepayment *(Note 14)*	724	725	725
Staff costs *(Note 9)*	51,417	47,207	39,655
Auditors' remuneration for statutory audit	60	55	9
Advertising expenses	55,111	61,791	70,490
Other taxes	1,139	1,382	1,319
Promotion expenses	56,074	39,783	50,424
Research and development cost *(Note b)*	13,835	13,343	8,522

Note a: During the years ended 31 December 2013, 2014 and 2015, cost of sales included RMB20,038,000, RMB21,877,000 and RMB23,792,000 relating to staff costs and depreciation, which were also included in the respective total amounts disclosed separately above or in the Notes 9 and 12 for each of these type of expenses.

Note b: During the years ended 31 December 2013, 2014 and 2015, research and development cost included RMB3,041,000, RMB3,636,000 and RMB3,183,000 relating to staff costs and depreciation expenses which were also included in the respective total amounts disclosed separately above or in the Note 9 for each of these types of expenses.

9 STAFF COSTS

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Wages and salaries	37,537	37,397	32,114
Pension costs – defined contribution plans	4,441	2,583	1,926
Social security benefits costs	4,391	2,643	3,596
Others	5,048	4,584	2,019
	51,417	47,207	39,655

(a) Directors' emoluments

During the Relevant Periods, the directors' fee or other emoluments in respect of their services to the Target Group:

	Year ended 31 December 2013			
	Basic salaries and allowances	Contribution to pension plans	Bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
馬聲宏	249	9	38	296
梁寧	250	9	38	297
王曉明	249	9	36	294
馬嘉	391	9	40	440
鍾技	141	9	36	186
梁海	160	9	36	205
陳廣榮	6	–	–	6
	1,446	54	224	1,724

	Year ended 31 December 2014			
	Basic salaries and allowances	Contribution to pension plans	Bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
馬聲宏	87	5	–	92
梁寧	252	10	43	305
王曉明	87	5	–	92
馬嘉	391	10	45	446
鍾技	98	9	–	107
梁海	148	10	40	198
陳廣榮	6	–	–	6
	1,069	39	128	1,246

	Year ended 31 December 2015			
	Basic salaries and allowances	Contribution to pension plans	Bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
馬聲宏	66	–	–	66
梁寧	152	28	71	251
王曉明	49	–	–	49
馬嘉	38	28	70	136
鍾技	49	–	–	49
梁海	45	25	41	111
陳廣榮	7	–	–	7
安郁寶	17	–	–	17
黎倩	–	–	–	–
肖梓道	46	4	–	50
	469	85	182	736

During the Relevant Periods, some of the directors had resigned for personal reasons.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Target Group include 3, 2 and 2 directors for the years ended 31 December 2013, 2014 and 2015 respectively. The emoluments to the remaining 2, 3 and 3 individual for the years ended 31 December 2013, 2014 and 2015 are as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries and allowances	499	671	306
Pension costs – defined contribution plans	18	30	82
Discretionary bonus	76	129	183
	593	830	571

The emoluments of the above individual fell within the following bands:

	Year ended 31 December		
	2013	2014	2015
	Number of individuals	*Number of individuals*	*Number of individuals*
Nil to HK$1,000,000	5	5	5

During the three years ended 31 December 2013, 2014 and 2015, no senior management of the Target Group waived any emoluments and no emoluments were paid by the Target Group to any one of the directors or senior management as an inducement to join or upon joining the Target Group or as compensation for loss of offices.

10 FINANCE COST – NET

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
Interest income derived from bank deposits	147	120	247
Others	–	–	107
	147	120	354
Finance costs			
Interest on bank borrowings	(2,819)	(2,701)	(2,924)
Others	(131)	(168)	(55)
	(2,950)	(2,869)	(2,979)
Finance cost – net	(2,803)	(2,749)	(2,625)

11 INCOME TAX

(a) Income tax expenses

All the group companies are subject to PRC corporate income tax (the "PRC CIT"), which has been provided based on the statutory income tax rate of the assessable income of each group entity during the years ended 31 December 2013, 2014 and 2015, as determined in accordance with the relevant PRC income tax rules and regulations.

For the years ended 31 December 2013, 2014 and 2015, all group entities are subject to PRC CIT rate ranging from 15% to 25%.

The amount of income tax expense charged to profit or loss are as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Current tax on profits for the year	7,715	7,746	5,349
Origination and reversal of temporary differences *(Note (b))*	(111)	(881)	88
Income tax expense	7,604	6,865	5,437

The difference between the actual income tax charge in profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	48,896	44,848	36,037
Tax calculated at statutory tax rates applicable to each group entity	8,649	7,957	5,468
Income not subject to tax	(1,103)	(1,278)	(65)
Expenses not deductible for tax purposes	47	56	41
Others	11	130	(7)
Income tax expense	7,604	6,865	5,437

(b) Deferred income tax assets

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the years ended 31 December 2013, 2014 and 2015 are as follows:

	Deferred government grants	Others	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2013	–	380	380
Credited to profit and loss *(Note (a))*	–	111	111
At 31 December 2013	–	491	491
(Charged)/credited to profit and loss *(Note (a))*	959	(78)	881
At 31 December 2014	959	413	1,372
(Charged)/credited to profit and loss *(Note (a))*	(106)	18	(88)
At 31 December 2015	853	431	1,284

12 PROPERTY, PLANT AND EQUIPMENT – TARGET GROUP

	Buildings	Machinery	Motor vehicles	Office equipment	CIP	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 January 2013						
Cost	73,681	43,044	5,021	2,744	971	125,461
Accumulated depreciation	(30,869)	(28,602)	(3,018)	(1,706)	–	(64,195)
Net book amount	42,812	14,442	2,003	1,038	971	61,266
Year ended 31 December 2013						
Opening net book amount	42,812	14,442	2,003	1,038	971	61,266
Additions	68	1,012	50	74	6,471	7,675
Transfer from CIP	1,070	176	84	167	(1,497)	–
Disposals						
– Cost	(185)	(830)	–	(284)	–	(1,299)
– Accumulated depreciation	180	649	–	231	–	1,060
Depreciation	(3,313)	(2,701)	(329)	(344)	–	(6,687)
Closing net book amount	40,632	12,748	1,808	882	5,945	62,015

	Buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	CIP *RMB'000*	Total *RMB'000*
At 31 December 2013						
Cost	74,634	43,402	5,155	2,701	5,945	131,837
Accumulated depreciation	(34,002)	(30,654)	(3,347)	(1,819)	–	(69,822)
Net book amount	40,632	12,748	1,808	882	5,945	62,015
Year ended 31 December 2014						
Opening net book amount	40,632	12,748	1,808	882	5,945	62,015
Additions	437	1,813	154	113	9,094	11,611
Transfer from CIP	3,296	9,910	–	157	(13,363)	–
Disposals						
– Cost	(324)	(1,160)	(435)	(18)	–	(1,937)
– Accumulated depreciation	301	1,128	422	11	–	1,862
Depreciation	(3,252)	(2,602)	(353)	(308)	–	(6,515)
Closing net book amount	41,090	21,837	1,596	837	1,676	67,036
At 31 December 2014						
Cost	78,043	53,965	4,874	2,953	1,676	141,511
Accumulated depreciation	(36,953)	(32,128)	(3,278)	(2,116)	–	(74,475)
Net book amount	41,090	21,837	1,596	837	1,676	67,036
Year ended 31 December 2015						
Opening net book amount	41,090	21,837	1,596	837	1,676	67,036
Additions	–	482	–	241	65,062	65,785
Transfer from CIP	166	1,674	–	15	(1,855)	–
Disposals						
– Cost	–	(147)	–	–	–	(147)
– Accumulated depreciation	–	93	–	–	–	93
Depreciation	(3,358)	(3,588)	(363)	(302)	–	(7,611)
Closing net book amount	37,898	20,351	1,233	791	64,883	125,156
At 31 December 2015						
Cost	78,209	55,974	4,874	3,209	64,883	207,149
Accumulated depreciation	(40,311)	(35,623)	(3,641)	(2,418)	–	(81,993)
Net book amount	37,898	20,351	1,233	791	64,883	125,156

Depreciation of the property, plant and equipment has been charged to profit or loss as follows:

	Year ended 31 December		
	2013 *RMB'000*	**2014** *RMB'000*	**2015** *RMB'000*
Cost of sales	2,559	2,479	3,514
Administrative and other operating expenses	4,128	4,036	4,097
	6,687	6,515	7,611

13 INVESTMENT PROPERTIES – TARGET GROUP

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year			
Cost	5,341	5,341	5,341
Accumulated depreciation	(2,757)	(2,970)	(3,184)
Net book amount	2,584	2,371	2,157
For the year ended			
Opening net book amounts	2,584	2,371	2,157
Charge for the year	(213)	(214)	(213)
Closing net book amounts	2,371	2,157	1,944
At end of the year			
Cost	5,341	5,341	5,341
Accumulated depreciation	(2,970)	(3,184)	(3,397)
	2,371	2,157	1,944

Depreciation of the investment properties have been charged to administrative and other operating expenses.

The fair value of the investment properties as at 31 December 2015 as estimated by the directors was approximately RMB17,000,000.

14 LEASE PREPAYMENT – TARGET GROUP

The Target Group's interests in land use rights represent prepaid operating lease payments for land located in the PRC, the net book values of which are analysed as follows:

	As at 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Outside Hong Kong			
– Lease within 50 years	29,167	28,442	27,717

	Year ended 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year			
Cost	36,241	36,241	36,241
Accumulated amortisation	(6,350)	(7,074)	(7,799)
Net book amount	29,891	29,167	28,442
For the year ended			
Opening net book amounts	29,891	29,167	28,442
Amortisation	(724)	(725)	(725)
Closing net book amounts	29,167	28,442	27,717
At end of the year			
Cost	36,241	36,241	36,241
Accumulated amortisation	(7,074)	(7,799)	(8,524)
	29,167	28,442	27,717

All the amortisation of the Target Group's land use rights was charged to administrative and other operating expenses.

15 INVESTMENTS IN SUBSIDIARIES – TARGET COMPANY

	As at 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Investments at costs:			
Unlisted shares	5,550	8,250	6,350

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid.

As at 31 December 2015, the particulars of the Target Group's principle subsidiaries are set out in Note 1.2.

16 INVENTORIES – TARGET GROUP

	As at 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Raw materials and consumables	52,196	65,692	57,118
Work-in-progress	49,601	48,845	57,221
Finished goods	10,613	8,890	14,911
	112,410	123,427	129,250

The cost of inventories recognised as expense and included in "cost of sales" amounted to approximately RMB177,857,000, RMB183,641,000 and RMB173,706,000 for the years ended 31 December 2013, 2014 and 2015, respectively.

The inventories did not have any write-down.

17 TRADE AND OTHER RECEIVABLES – TARGET GROUP AND TARGET COMPANY

Target Group

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables *(a)*	56,836	51,809	46,783
Bill receivables *(a)*	47,534	63,520	46,667
Less: provision for trade receivables	–	–	–
Trade and bills receivables, net	104,370	115,329	93,450
Trade deposits paid	3,170	814	61
Prepayments *(b)*	4,935	6,393	1,521
Other receivables	10,513	10,815	3,884
	122,988	133,351	98,916
Less: Long-term prepayments *(b)*	(4,935)	(6,393)	(1,521)
	118,053	126,958	97,395

Target Company

	2013	2014	2015
Trade receivables *(a)*	56,113	51,190	46,180
Bill receivables *(a)*	44,813	63,020	44,596
Less: provision for trade receivables	–	–	–
Trade and bills receivables, net	100,926	114,210	90,776
Trade deposits paid	2,288	425	–
Prepayments *(b)*	4,935	6,393	1,521
Amounts due from subsidiaries *(g)*	2,833	1,307	3,882
Other receivables	12,677	11,856	5,284
	123,659	134,191	101,463
Less: Long-term prepayments *(b)*	(4,935)	(6,393)	(1,521)
	118,724	127,798	99,942

(a) As of 31 December 2013, 2014 and 2015, the ageing analysis of trade debtors and bills receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Target Group			
Within 3 months	87,306	80,888	60,905
3 to 12 months	16,602	32,584	32,545
Over 12 months	462	1,857	–
	104,370	115,329	93,450
Target Company			
Within 3 months	83,862	80,160	58,295
3 to 12 months	16,602	32,193	32,481
Over 12 months	462	1,857	–
	100,926	114,210	90,776

Trade receivables are generally due within 90 days from the date of billing.

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Target Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

The movement in the allowance for doubtful debts during the years ended 31 December 2013, 2014 and 2015, including both specific and collective loss components, is as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Target Group and Target Company			
At beginning of the year	–	–	–
Impairment loss recognised	–	580	–
Uncollectible amounts written-off	–	(580)	–
At end of the year	–	–	–

As at December 2013, 2014 and 2015, the Target Group's and Target Company's trade and bills receivables of approximately Nil, RMB580,000, and Nil respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none of these receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of the full amount for the Target Group and the Target Company, respectively were provided for.

The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Target Group			
Neither past due nor impaired	87,306	80,888	71,794
Past due by:			
Up to 3 months	13,562	22,057	12,080
3 to 12 months	3,040	10,527	9,576
Over 12 months	462	1,857	–
	104,370	115,329	93,450
Target Company			
Neither past due nor impaired	83,862	80,159	69,183
Past due by:			
Up to 3 months	13,562	21,901	12,059
3 to 12 months	3,040	10,293	9,534
Over 12 months	462	1,857	–
	100,926	114,210	90,776

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(b) As at 31 December 2013, 2014 and 2015, prepayments mainly represent prepayments of approximately RMB4,935,000, RMB6,393,000 and RMB1,521,000 arising from prepayments for CIP or acquisition of property, plant and equipments, which are classified as non-current assets.

(c) As at 31 December 2013, 2014 and 2015, all trade and other receivables were denominated in RMB.

(d) As at 31 December 2013, 2014 and 2015, the Target Group's maximum exposure to credit risk was the carrying value of each class of receivables mentioned above. The Target Group does not hold any collateral as security.

(e) Except for those within trade and bills receivables, there were no impaired assets contained in trade and other receivables.

(f) Trade receivables mainly include receivables from third party customers. There was concentration risk in terms of receivables from customer as at 31 December 2013, 2014 and 2015. The customer accounted for over 10% of the total trade receivables as at 31 December 2013, 2014 and 2015 are summarised in the table below:

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Target Group			
Customer A	6,320	7,445	–
Target Company			
Customer A	6,320	7,445	–

(g) The amounts due from subsidiaries are non-interest bearing, unsecured and repayable on demand.

18 CASH AND CASH EQUIVALENTS – TARGET GROUP

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Cash at banks	35,725	37,768	103,050
Cash on hands	112	143	115
	35,837	37,911	103,165

The cash and cash equivalents are all denominated in RMB as at 31 December 2013, 2014 and 2015.

19 SHARE CAPITAL – TARGET GROUP AND TARGET COMPANY

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Share capital	148,834	148,834	148,834

20 RESERVES – TARGET GROUP AND TARGET COMPANY

(a) Capital reserve

The aggregate amount of capital reserve of the Target Group and Target Company as at 31 December 2013, 2014 and 2015 was RMB1,055,000.

(b) Statutory reserve

In accordance with the relevant laws and regulations in the PRC and Articles of Association of the group entities, it is required to appropriate at least 10% of the annual statutory net profits of the group entities, after offsetting any prior years' losses as determined under the PRC accounting standards, to the statutory surplus reserves fund before distributing the net profit. When the balance of the statutory surplus reserves fund reaches 50% of the registered capital of the group entities, any further appropriation is at the discretion of shareholders. The statutory surplus reserves fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholding, provided that the remaining balance of the statutory surplus reserves fund after such issue is not less than 25% of registered capital. For the years ended 31 December 2013, 2014 and 2015, approximately RMB7,739,000, RMB9,833,000 and RMB2,122,000 were appropriated to the statutory surplus reserve funds from net profits, respectively.

21 DEFERRED INCOME – TARGET GROUP

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
At beginning of the year	9,240	7,468	6,636
Additions	1,404	1,046	433
Credited to profit or loss *(Note 6)*	(3,176)	(1,878)	(754)
At end of the year	7,468	6,636	6,315
Representing:			
Current portion	368	246	635
Non-current portion	7,100	6,390	5,680
	7,468	6,636	6,315

As at 31 December 2013, 2014 and 2015, deferred income of the Target Group mainly includes various conditional government grants and subsidies.

Deferred government grants will be recognised as income in the same periods in which the expenses that intended to compensate are incurred.

22 TRADE AND OTHER PAYABLES – TARGET GROUP AND TARGET COMPANY

	As at 31 December		
	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*
Target Group			
Trade payables *(a and b)*	29,612	31,385	29,859
Receipt in advance	3,126	5,534	3,687
Other taxes payables	3,202	2,151	281
Accruals and other payables *(a)*	26,471	24,843	67,487
Amount due to a related company *(a)* *(Note 28(a))*	5,610	4,405	3,015
Provision for retirement benefits	4,566	4,456	4,160
	72,587	72,774	108,489
Less: non-current provision for retirement benefits	(3,931)	(3,779)	(3,430)
	68,656	68,995	105,059
Target Company			
Trade payables *(a and b)*	28,455	30,617	29,500
Receipt in advance	3,100	4,636	3,425
Other taxes payables	3,022	2,064	241
Accruals and other payables *(a)*	26,331	24,697	67,283
Amounts due to subsidiaries *(a)*	12,360	14,379	27,806
Amount due to a related company *(a)* *(Note 28(a))*	5,610	4,405	3,015
Provision for retirement benefits	4,566	4,456	4,160
	83,444	85,254	135,430
Less: non-current provision for retirement benefits	(3,931)	(3,779)	(3,430)
	79,513	81,475	132,000

(a) As at 31 December 2013, 2014 and 2015, the trade payables, amounts due to subsidiaries/related company and other payables of the Target Group and Target Company were non-interest bearing, unsecured and the fair value approximated their carrying amounts due to their short maturities.

(b) The ageing analysis of the trade payables was as follows:

	At 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Target Group			
Within 3 months	29,482	30,911	29,768
3 to 12 months	130	474	91
	29,612	31,385	29,859

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Target Company			
Within 3 months	28,427	30,587	29,456
3 to 12 months	28	30	44
	28,455	30,617	29,500

The credit terms generally granted by the suppliers ranged from 30 to 90 days.

(c) The carrying amount of trade and other payables were denominated in RMB.

23 BORROWINGS – TARGET GROUP

	As at 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings			
Unsecured	70,000	90,000	150,000

(a) All borrowings will be matured within one year from the end of the respective reporting period.

(b) As at 31 December 2013, 2014 and 2015, the Target Group's borrowings were denominated in RMB.

(c) The carrying amount of the borrowings approximated their fair values, as the impact of discounting was not significant.

(d) The effective interest rates of the Target Group's borrowings at the end of each reporting date are set out as follows:

	At 31 December		
	2013	**2014**	**2015**
Bank borrowings	6%	6%	4.6%–6%

24 DIVIDENDS

For the years ended 31 December 2013, 2014 and 2015, the Board of Directors declared dividend of approximately RMB29,767,000, RMB32,744,000 and Nil respectively to the shareholders.

25 CASH GENERATED FROM OPERATIONS – TARGET GROUP

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	48,896	44,848	36,037
Adjustments for:			
– Depreciation of property, plant and equipment	6,687	6,515	7,611
– Depreciation of investment properties	213	214	213
– Amortisation of lease prepayments	724	725	725
– Bank interest income	(147)	(120)	(247)
– Interest expenses on bank borrowings	2,819	2,701	2,924
– (Gain)/loss on disposals of property, plant and equipment	159	69	(44)
	59,351	54,952	47,219
Changes in working capital:			
– Inventories	2,310	(11,017)	(5,823)
– Trade and other receivables	(44,398)	(10,363)	34,435
– Trade and other payables	19,798	187	35,715
– Deferred income	(1,771)	(832)	(321)
	(24,061)	(22,025)	64,006
Cash generated from operations	35,290	32,927	111,225

(b) Proceeds from disposal of property, plant and equipment and intangible assets

In the consolidated statements of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Net book amount	239	75	54
Gains/(losses) on disposal	(159)	(69)	44
Proceeds from disposal	80	6	98

26 CONTINGENT LIABILITIES

As at 31 December 2013, 2014 and 2015, the Target Group did not have any material contingent liabilities.

27 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of each reporting period, but not yet incurred is as follows:

	At 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	874	32,404	28,490

(b) Operating lease arrangements

The future aggregate minimum lease receivables under non-cancellable operating leases are as follows:

	At 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
No later than one year	1,347	1,413	1,507
Later than one and no later than five years	5,149	4,008	2,912
Later than five years	988	716	430
	7,484	6,137	4,849

28 RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Other than disclosed elsewhere in the financial statements, during the years ended 31 December 2013, 2014 and 2015, the Target Group had the following material transactions with related parties in its normal course of business.

(a) Transactions with a related company

The directors, 梁海 and 周海 of the Target Group are also the shareholders of the related company, 廣西玉藥包裝材料有限公司.

Transactions with the related company are as follows:

	At 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Other income	718	721	651
Purchase of goods	(11,094)	(10,774)	(8,254)

(b) Key management personnel compensation

Key management includes directors, supervisors and other senior managers of the Target Group. The compensation paid or payables to key management for employee services is shown below:

	Year ended 31 December		
	2013	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*
Basic salaries and allowances	1,945	1,921	775
Contribution to pension plans	72	71	168
Discretionary bonuses	301	258	365
	2,318	2,250	1,308

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 December 2015 up to the date of this report. Save as disclosed in this report, no dividend or distribution has been declared or made by the Target Company or any of its subsidiaries in respect of any period subsequent to 31 December 2015.

Yours faithfully,
LINKERS CPA LIMITED
Certified Public Accountants
Engagement Director: LEUNG WAI YUNG
Practising Certificate Number: P05194
Hong Kong

Set out below is the management discussion and analysis on the Target Company for the three years ended 31 December 2013, 2014 and 2015 (the "**Reporting Period**"). Reference should be made to the Accountants' Report of the Target Company set out in Appendix II to this circular when reading this section.

Unless stated otherwise, terms used herein shall have the same meanings as those defined in the circular

Business and Financial Review

The Target Company is a limited liability company established in the PRC. The business scope of the Target Company and its subsidiaries (collectively the "**Target Group**") covers the manufacture of tablets, hard capsules, granules, syrups, tinctures (including the external use), ointments, liniments, mixtures and decoction agents; manufacture of Chinese herbal medicine (including toxic slices, purifying agents, cutting agents, frying agents, roasting agents, streaming agents, etc.); manufacture of beverages (tea drinks and other types of beverages); manufacture and sale of "Yulin Fuyanjie Antibacterial Lotion"; operation of export businesses of self-produced products and related technologies of the corporation; operation of import businesses of commodities and related technologies, including raw and supplementary materials, mechanic equipment, instruments and meters, and spare parts required in the manufacturing and scientific researches of the corporation.

For the three years ended 31 December 2013, 2014 and 2015, the Target Group recorded revenue of approximately RMB393,492,000, RMB382,185,000 and RMB372,177,000 respectively, which was derived from the Target Company's manufacturing and sales of pharmaceutical products business. The revenue of the Target Group during the reporting period remained stable generally, and the sales in 2014 slightly decreased by approximately 2.9% as compared to that in 2013 and the sales for 2015 decreased by approximately 2.6% as compared to that in 2014, which was mainly attributable to changes in the national health policy, resulting in the Target Group facing greater downward pressure on prices. During the reporting period, the gross profit margin of the Target Group decreased to approximately 51.9% for 2014 from approximately 54.8% for 2013 which was mainly due to the downward pressure on prices resulting from the national health policy. The gross profit margin of the Target Group slightly increased to approximately 53.3% for 2015.

For the three years ended 31 December 2013, 2014 and 2015, the selling expenses of the Target Group were approximately RMB128,694,000, RMB117,653,000 and RMB133,039,000 respectively, accounting for 32.7%, 30.8% and 35.7% of the total sales revenue respectively. During the reporting period, the decrease in selling expenses for 2014 from 2013 was mainly attributable to the decrease in promotion and advertising expenses in 2014 with the objective to save costs. For 2015, the Target Group increased its promotion and advertising activities to cope with the downward pressure on prices and the ratio of the selling expenses increased to 35.7%. The administrative and other operating expenses of the Target Company were approximately RMB41,242,000, RMB38,678,000 and RMB30,741,000 respectively for the three years ended 31 December 2013, 2014 and 2015. The decrease in administrative and other operating expenses during the Reporting Period was attributable to the decrease in the costs of administrative and other operating staff. During the reporting period, some personnel with longer years of service and higher wages retired or resigned, while new recruits had lower wages.

The finance costs of the Target Group were approximately RMB2,950,000, RMB2,869,000 and RMB2,979,000 respectively for the three years ended 31 December 2013, 2014 and 2015.

The Target Group recorded profit for the year of approximately RMB41,292,000, RMB37,983,000 and RMB30,600,000 respectively for the three years ended 31 December 2013, 2014 and 2015. Profit for the year of the Target Group remained relatively stable for the years 2013, 2014 and 2015, accounting for 8.2% to 10.5% of revenue.

Liquidity and financial resources

As at 31 December 2013, 2014 and 2015, the Target Group recorded current assets of RMB268,541,000, RMB289,691,000 and RMB330,719,000 (current liabilities as at 31 December 2013, 2014 and 2015 were RMB168,791,000, RMB191,985,000 and RMB255,694,000 respectively). The current ratio (being current assets over current liabilities) as at 31 December 2013, 2014 and 2015 were approximately 1.59 times, 1.51 times and 1.29 times respectively. The current ratio remained at a relatively stable level.

As at 31 December 2013, 2014 and 2015, the Target Group recorded net assets of approximately RMB187,698,000, RMB192,937,000 and RMB223,537,000 respectively. The gearing ratio (being total liabilities over total assets) as at 31 December 2013, 2014 and 2015 were approximately 48.9%, 51.2% and 54.2% respectively. During the reporting period, the gearing ratio of the Target Group increased to 54.2% as at 31 December 2015 from 48.9% as at 31 December 2013, which was mainly due to the increase in bank borrowings to support the acquisition of plant and machinery.

As at 31 December 2013, 2014 and 2015, the Target Group's cash and cash equivalents amounted to RMB35,837,000, RMB37,911,000 and RMB103,165,000 respectively.

Borrowings and capital structure

The Target Group had outstanding bank borrowings of RMB70,000,000, RMB90,000,000 and RMB150,000,000 respectively as at 31 December 2013, 2014 and 2015, all of which are unpledged and were payable on demand or within one year. The bank borrowings carried interests at the benchmark interest rate of the People Bank of China. The effective interest rates as at 31 December 2013, 2014 and 2015 were 6%, 6% and 4.6% to 6% respectively.

During the Reporting Period, the Target Group had an authorised share capital of RMB148,834,102, divided into 148,834,102 shares of RMB1.0 each, of which 148,834,102 shares of RMB1.0 were issued and fully paid. For the three years ended 31 December 2013, 2014 and 2015, the Target Company declared dividend of approximately RMB29,767,000, RMB32,744,000 and nil respectviely.

Capital commitment

The Target Company had capital commitments for property, plant and equipment amounted to approximately RMB874,000, RMB32,404,000 and RMB28,490,000 as at 31 December 2013, 2014 and 2015, respectively.

Pledge of assets

The Target Company did not pledge its properties to secure the granted bank borrowings during the Reporting Period.

Significant investment held

Save for investment properties and investments in subsidiaries which details are set out in note 15 of the Accountant's Report of the Target Company in Appendix II to this circular, respectively, the Target Company did not hold any significant investments as at 31 December 2013, 2014 and 2015.

Material acquisitions and disposals

The Target Company did not have any material acquisitions and disposals of subsidiaries and associated companies during the Reporting Period.

Employees and remuneration policy

As at 31 December 2013, 2014 and 2015, the Target Company had 620, 610 and 753 employees (including directors) respectively. The employees' remuneration paid for the three years ended 31 December 2013, 2014 and 2015 were approximately RMB51,417,000, RMB47,207,000, and RMB39,655,000, respectively.

Gearing ratio

As at 31 December 2013, 2014 and 2015, the Target Company's gearing ratios (being ratio of total liabilities over total assets) were approximately 48.9%, 51.2% and 54.2% respectively.

Treasury policies

During the Reporting Period, the company primarily financed its working capital through internal funds and bank borrowings. To manage liquidity risk, the management of the Target Company closely monitored the liquidity position to ensure that the liquidity structure of the Target Company's assets, liabilities and other commitments can meet its funding requirements.

Foreign exchange exposure

The Target Company has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB. The Target Company currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Target Company will monitor its foreign currency and will consider hedging significant foreign currency exposure should the need arise.

Contingent liabilities

The Target Company had no material contingent liabilities as at 31 December 2015.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Enlarged Group's pro forma financial information for the purpose of inclusion in this Circular.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

30 June 2016

Independent reporting accountants' assurance report on the compilation of pro forma financial information

To the Directors of Consun Pharmaceutical Group Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Consun Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2015 and related notes as set out on pages 4 to 7 of Appendix IV to the circular dated 30 June 2016 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages 4 to 7 of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 5.76% equity interest in Guangxi Yulin Pharmaceutical Group Co., Ltd. (the "Target Company") and its subsidiaries (together the "Target Group") (the "Proposed Acquisition") on the Group's assets and liabilities as at 31 December 2015 as if the Proposed Acquisition had taken place at 31 December 2015. As part of this process, information about the Group's assets and liabilities as at 31 December 2015 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

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

Our Independence and Quality Control

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

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

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

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

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

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

1. INTRODUCTION

The unaudited pro forma financial information of the Enlarged Group comprising the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2015 has been prepared to illustrate the effects of the proposed acquisition of 5.76% equity interest in Guangxi Yulin Pharmaceutical Group Co., Ltd. (the "Target Company") and its subsidiaries (together the "Target Group") by the Company (the "Proposed Acquisition") as if this acquisition had taken place on 31 December 2015. The Group had entered into certain equity acquisition agreements as announced by the Company on 6 August 2015, 28 August 2015 and 9 November 2015 and acquired 15%, 14.85% and 15.42% equity interest in the Target Group, respectively ("Three Previous Acquisitions"). Details of the Three Previous Acquisitions and the Proposed Acquisition are set out in the section headed "Letter from the Board" contained in this Circular.

The unaudited pro forma financial information of the Enlarged Group has been prepared by the Directors in accordance with Paragraph 4.29 of the Listing Rules for illustrative purposes only.

The unaudited pro forma financial information of the Enlarged Group is prepared based upon the Group's consolidated statement of assets and liabilities as at 31 December 2015 as extracted from the published annual report of the Group for the year ended 31 December 2015, the Target Group's consolidated statement of assets and liabilities as at 31 December 2015 as extracted from the accountant's report set out in Appendix II to this Circular, and adjusted on a pro forma basis to reflect the effects of the Proposed Acquisition. These pro forma adjustments are (i) directly attributable to the Proposed Acquisition and not relating to other future events and decision; and (ii) factually supportable based on the terms of the agreement dated 23 November 2015 entered into between a subsidiary of the Company and the Vendor (the "Fourth Round Equity Transfer Agreement").

The financial information of the Group and the Target Group as mentioned above have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA. No material adjustment is required to be made to conform the accounting policies of the Target Group to those of the Group. In addition, the relevant balances extracted from the Target Group's financial information have been reclassified to conform with the presentation format adopted by the Group.

The unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Proposed Acquisition been completed on 31 December 2015 or any future date. The unaudited pro forma financial information of the Enlarged Group does not purport to predict the future financial position of the Enlarged Group.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group and the financial information of the Target Group as set out in Appendix II to this Circular, and other financial information included elsewhere in this Circular.

2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	Consolidated statement of assets and liabilities of the Group as at 31 December 2015 (Audited) *RMB'000*	Consolidated statement of assets and liabilities of the Target Group as at 31 December 2015 (Audited) *RMB'000*	Pro forma adjustments (Unaudited) *RMB'000* *Note 3a*	Pro forma adjustments (Unaudited) *RMB'000* *Note 3b*	Pro forma consolidated statement of assets and liabilities of the Enlarged Group (Unaudited) *RMB'000*
Non-current assets					
Investment properties	–	1,944			1,944
Property, plant and equipment	223,773	125,156			348,929
Leased prepayments	23,574	27,717			51,291
Other investment	2,600	–			2,600
Investment in an associate	636,659	–	(636,659)		–
Prepayment for equity investment	62,458	–	(62,458)		–
Goodwill	–	–	591,949		591,949
Trade and other receivables	–	1,521			1,521
Deferred tax assets	8,639	1,284			9,923
	957,703	157,622			1,008,157
Current assets					
Inventories	71,014	129,250			200,264
Trade and other receivables	399,187	97,395			496,582
Cash and cash equivalents	489,987	103,165	(6,903)	(1,210)	585,039
Current tax recoverable	–	909			909
	960,188	330,719			1,282,794
Current liabilities					
Trade and other payables	201,235	105,059			306,294
Loans and borrowings	–	150,000			150,000
Deferred income	436	635			1,071
Current tax payables	27,679	–			27,679
	229,350	255,694			485,044
Net current assets	730,838	75,025			797,750
Total assets less current liabilities	1,688,541	232,647			1,805,907
Non-current liabilities					
Trade and other payables	–	3,430			3,430
Deferred income	11,582	5,680			17,262
Deferred tax liabilities	40,204	–			40,204
	51,786	9,110			60,896
Net Assets	1,636,755	223,537			1,745,011

3. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

a. Pursuant to the terms of the Fourth Round Equity Transfer Agreement, the consideration for the Proposed Acquisition is RMB69,361,000 through cash payment. As at 31 December 2015, RMB62,458,000 has been paid by the Group as advance payment to the vendor and recognised as prepayments for equity investment. The remaining consideration of RMB6,903,000 is payable upon completion of the Proposed Acquisition.

Goodwill represents the excess of the aggregate fair value of the consideration transferred over the net fair value of the Target Group's identifiable assets and liabilities measured at the date of acquisition. The identifiable assets and liabilities of the Target Group will be accounted for under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" ("HKFRS 3") issued by the HKICPA.

For the purposes of the unaudited pro forma financial information, the allocation of the purchase price is determined based on the carrying amount of the Target Group's net assets as at 31 December 2015.

Goodwill is estimated as follows:

	RMB'000
Consideration Transferred:	
Cash consideration	6,903
Prepayment for equity investment	62,458
Carrying amount of the investment in an associate	636,659
	706,020(A)
Less:	
Carrying amount of the Target Group's net assets as at 31 December 2015	223,537
Net identifiable assets of the Target Group attributable to the non-controlling interests of 48.97%	109,466
Total net identified assets acquired and liabilities assumed	114,071(B)
Goodwill (A-B)	591,949

The Proposed Acquisition is accounted for as a business combination achieved in stages. In accordance with HKFRS 3 issued by the HKICPA, the acquirer should re-measure its previously held equity interest in the Target Group at its acquisition-date fair value and recognise the resulting gain or loss in profit and loss. For the purpose of the unaudited pro forma financial information, the carrying amount of the investment in an associate as at 31 December 2015 is taken as the fair value of the Group's previously held interests in the Target Group as at the acquisition date.

The amount of goodwill of the Target Group and the fair value of the identifiable assets and liabilities are subject to change upon the completion of (i) the valuation of the fair value of the identifiable assets and liabilities of the Target Group; and (ii) the financial position of the Target Group on the date of completion. In addition, intangible assets of the Target Group which were not otherwise recognise in the historical financial information may be recognised at their fair value upon completion of the Proposed Acquisition. Therefore, the amounts of goodwill and other assets and liabilities of the Target Group may be different from the estimates used in the preparation of the pro forma financial information presented above.

For the purpose of this pro forma financial information, the Directors have assessed whether there is any indication of impairment in respect of goodwill of the Target Group with reference to the principles in Hong Kong Accounting Standard 36, "Impairment of Assets". Based on the Directors' assessment, the Directors consider that there is no indication of impairment on the goodwill set out above.

b. The adjustment represents estimated transaction costs of approximately RMB1,210,000, including legal, accounting and other professional parties, which are directly attributed to the Proposed Acquisition.

c. No adjustment has been made to the unaudited pro forma financial information to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 December 2015.

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. SHARE CAPITAL

Authorised:		*HK$*
5,000,000,000	Shares of HK$0.1 each	HK$500,000,000
Issued (and paid up) as at the Latest Practicable Date:		*HK$*
974,999,000	Shares of HK$0.1 each	HK$97,499,900

3. DISCLOSURE OF INTERESTS

(i) Directors' interests

As at the Latest Practicable Date, the interests or short positions of each Director and chief executive of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which were required 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 he or she was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of Interest and Capacity	Number and Class of Securities(1)	Approximate Percentage of Shareholding
AN Yubao(2)	Beneficial Owner	18,565,817 Shares (L)	1.90%
AN Yubao(3)	Interest of controlled corporation	196,200,000 Shares (L)	20.12%
LI Qian(2)	Beneficial Owner	15,865,261 Shares (L)	1.63%
LI Qian(4)	Interest of controlled corporation	123,737,000 Shares (L)	12.69%
ZHU Quan(2)	Beneficial Owner	3,200,000 Shares (L)	0.33%
CHENG XinXin	Beneficial Owner	300,000 Shares (L)	0.03%

Notes:

(1) The letter "L" denotes the Directors' long position in the shares of the Company or the relevant associated corporation.

(2) Including shares in relation to 10,000,000 share options, 10,000,000 share options and 3,200,000 share options granted to Mr. AN Yubao, Ms. LI Qian and Prof. ZHU Quan respectively under the Share Option Scheme adopted on 2 December 2013.

(3) The entire issued share capital of Central Success Developments Limited is owned by Mr. AN Yubao, therefore, Mr. AN Yubao is deemed to be interested in all the Shares held by Central Success Developments Limited under the provisions of SFO.

(4) The entire issued share capital of Double Grace International Limited is owned by Ms. LI Qian, therefore, Ms. LI Qian is deemed to be interested in all the Shares held by Double Grace International Limited under the provisions of SFO.

Save as disclosed above, as at Latest Practicable Date, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its group members or its associated corporations (within the meaning of Part XV of the SFO) which were 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 which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules.

(ii) Substantial Shareholders' interest

As at the Latest Practicable Date, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholder	Nature of Interest and Capacity	Number and Class of Securities[1]	Approximate Percentage of Shareholding
Guidoz Limited[2]	Beneficial owner	110,050,000 Shares(L)	11.29%
YOUNG Wai Po, Peter[2]	Interest of controlled corporation	110,050,000 Shares(L)	11.29%
Central Success Developments Limited [3]	Beneficial owner	196,200,000 Shares(L)	20.12%
Double Grace International Limited [4]	Beneficial owner	123,737,000 Shares(L)	12.69%

Name of Shareholder	Nature of Interest and Capacity	Number and Class of Securities[1]	Approximate Percentage of Shareholding
First Kind International Limited[5]	Beneficial owner	186,750,000 Shares(L)	19.15%
Hony Capital Fund III, L.P.[5]	Interest of controlled corporation	186,750,000 Shares(L)	19.15%
Hony Capital Fund III G.P., L.P.[5]	Interest of controlled corporation	186,750,000 Shares(L)	19.15%
Hony Capital Fund III G.P. Limited[5]	Interest of controlled corporation	186,750,000 Shares(L)	19.15%
Hony Capital Management Limited[5]	Interest of controlled corporation	186,750,000 Shares(L)	19.15%
Hony Managing Partners Limited[5]	Interest of controlled corporation	186,750,000 Shares(L)	19.15%
John Huan ZHAO[5]	Interest of controlled corporation	186,750,000 Shares(L)	19.15%
Greenwoods Asset Management Limited[6]&[7]	Investment manager	63,442,000 shares(L)	6.51%
Greenwoods Asset Management Holdings Limited[6]&[7]	Interest of controlled corporation	63,442,000 shares(L)	6.51%
Unique Element Corp.[6]&[7]	Interest of controlled corporation	63,442,000 shares(L)	6.51%
JIANG Jinzhi[6]&[7]	Interest of controlled corporation	63,442,000 shares(L)	6.51%

Notes:

(1) The letter "L" denotes the person's long position in the shares of the Company or the relevant Group member. The letter "S" denotes the person's short position in the shares of the Company or the relevant Group member.

(2) The entire issued share capital of Guidoz Limited is legally and beneficially owned by Mr. YOUNG. By virtue of the SFO, Mr. YOUNG is deemed to be interested in all the Shares held by Guidoz Limited.

(3) The entire issued share capital of Central Success Developments Limited is legally and beneficially owned by Mr. AN Yubao. By virtue of the SFO, Mr. AN Yubao is deemed to be interested in all the Shares held by Central Success Developments Limited.

(4) The entire issued share capital of Double Grace International Limited is legally and beneficially owned by Ms. LI Qian. By virtue of the SFO, Ms. LI Qian is deemed to be interested in all the Shares held by Double Grace International Limited.

(5) The entire issued share capital of First Kind International Limited is legally and beneficially owned by Hony Capital Fund III, L.P.. Hony Capital Fund III, L.P. is controlled by its sole general partner, Hony Capital Fund III G.P., L.P.. Hony Capital Fund III G.P., L.P. is in turn controlled by its sole general partner, Hony Capital Fund III G.P. Limited. Hony Capital Fund III G.P. Limited is wholly owned by Hony Capital Management Limited, which is in turn owned as to 80.0% by Mr. ZHAO John Huan (through Hony Managing Partners Limited, a company wholly owned by him).

(6) Greenwoods Asset Management Limited controls 6.88% of the Company's shares through Golden China Master Fund, Greenwoods China Alpha Master Fund, Golden China Plus Master Fund Ltd and in the capacity of Manager of the funds. The entire issued share capital of Greenwoods Asset Management Limited is legally and beneficially owned by Greenwoods Asset Management Holdings Limited. Greenwoods Asset Management Holdings Limited is ultimately owned as to 81% by Unique Element Corp. which is controlled by Mr. JIANG Jinzhi.

(7) The Company has been informed by Greenwoods Asset Management Limited that it acquired a net total of 2,862,000 Shares from the market for funds and accounts under its management during the period from 18 February 2014 to 31 December 2015. The entire issued share capital of Greenwoods Asset Management Limited is legally and beneficially owned by Greenwoods Asset Management Holdings Limited. Greenwoods Asset Management Holdings Limited is ultimately owned as to 81% by Unique Element Corp. which is controlled by Mr. JIANG Jinzhi.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons/entities (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company, its group members or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or a proposed Director is a director or employee of a company which had, or was deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

None of the Directors had entered or been proposed to enter into any service contract with the Company or any other member of the Group excluding contract expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation) as at the Latest Practicable Date.

5. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2015, the date to which the latest published audited financial statements of the Group were made up.

(b) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, Mr. Wang Shunlong (王順龍), one of our non-executive Directors, currently serves as an executive director of CSPC Pharmaceutical Group Limited (石藥集團有限公司) which is mainly engaged in pharmaceutical product development, production and sale and listed on the Stock Exchange (stock code: 1093).

Save as disclosed above, none of the Directors and proposed Directors and their respective associates were considered to have an interest in a business which competes or is likely to compete or have any other conflict of interest, either directly or indirectly, with the business of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

(a) the Fifth Round Equity Transfer Agreement;

(b) the Fourth Round Equity Transfer Agreement;

(c) the Second Three-party Agreement;

(d) the Third Loan Agreement;

(e) the First Three-party Agreement;

(f) the Third Round Equity Transfer Agreements;

(g) the Second Loan Agreement;

(h) the Cooperative Agreement;

(i) the First Loan Agreement;

(j) the Second Round Equity Transfer Agreements;

(k) the Equity Transaction Contract;

(l) the series of subscription agreements in relation to subscription of RMB structural deposit product entered into between the Company and China Merchants Bank during the period from 6 August 2014 to 13 March 2015; and

(m) the agreement in relation to the granting of sponsorship of HK$5,000,000 to the School of Chinese Medicine of Hong Kong Baptist University for the set-up of Consun Chinese Medicines Research Centre for Renal Diseases entered into between the Group and Hong Kong Baptist University on 5 February 2015.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Enlarged Group was engaged in any litigation or claims of material importance and, so far as the Directors are aware, there is no litigation or claims of material importance pending or threatened against any member of the Enlarged Group.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their opinions or advice for inclusion in this circular:

Name	Qualification
KPMG	Certified Public Accountants
Linkers CPA Limited	Certified Public Accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which it appears as at the Latest Practicable Date. As at the Latest Practicable Date, each of the above experts did not have any shareholding, directly or indirectly, in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have any direct or indirect interests in any assets which had been since 31 December 2015, the date of which the latest published audited consolidated financial statements of the Group were made up, acquired or disposed of by, or leased to, or proposed to be acquired or disposed of by, or leased to, any members of the Group.

10. GENERAL

(a) The registered office of the Company is situated at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(b) The head office and principal place of business of the Company in the PRC is situated at 71, Dongpeng Avenue, Eastern section, Guangzhou Economic and Technological Development District, Guangzhou, PRC.

(c) The share registrar of the Company is Computershare Hong Kong Investor Services Limited situated at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretaries of the Company are Mr. Yau Chi Ming (丘志明) and Mr. Gao Haien (高海恩). Mr. Yau has been the joint company secretary of the Company since he joined our Group in March 2013. Mr. Yau has over 20 years of experience in finance and accounting and is a certified public accountant (Practising) and is a fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Gao has been the joint company secretary of the Company since 15 April 2014. Mr. Gao joined our Group in August 2007 as the board secretary of Guangzhou Consun Pharmaceutical Company Limited and has been the legal representative of Guangzhou Consun Pharmaceutical Company Limited, Consun Pharmaceutical (Inner Mongolia) Company Limited and Inner Mongolia Kangyuan Pharmaceutical Company Limited since March 2013.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text thereof.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong at 22nd Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong during normal business hours on any weekday other than public holidays, from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the three financial years ended 31 December 2013, 31 December 2014 and 31 December 2015 respectively;

(c) the accountants' report of the Target Company, the text of which is set out in Appendix II of this circular;

(d) the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;

(e) the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

(f) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(g) this circular.

康臣葯業集團有限公司
CONSUN PHARMACEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1681)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Consun Pharmaceutical Group Limited (the "**Company**") will be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Hong Kong on 19 July 2016 at 10:00 a.m. to consider and, if thought fit, pass with or without modification the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(i) the equity transfer agreement dated 23 November 2015 (the "**Fourth Round Equity Transfer Agreement**") (a copy of which has been produced at the Meeting and marked "A" and initialed by the chairman of the Meeting for the purpose of identification) entered into between 廣州康臣藥業有限公司(Guangzhou Consun Pharmaceutical Company Limited*), a wholly-owned subsidiary of the Company established in the PRC (the "**Subsidiary**"), as purchaser and Shenzhen Branch of 賽沃特(北京)科技有限公司深圳分公司 (SaiWoTe (Beijing) Technology Company Limited*), a limited company incorporated in the PRC ("**SaiWoTe**"), as vendor, in respect of the acquisition of approximately 5.76% equity interest in 廣西玉林製藥集團有限責任公司(Guangxi Yulin Pharmaceutical Group Co., Ltd.*) from SaiWoTe by the Subsidiary (the "**Fourth Round Acquisition**") at a consideration of RMB69,361,000 be settled in accordance with the terms under the Fourth Round Equity Transfer Agreement; (ii) the agreement dated 23 November 2015 (the "**Second Three-party Agreement**") (a copy of which has been produced at the Meeting and marked "B" and initialed by the chairman of the Meeting for the purpose of identification) entered into between the Subsidiary, SaiWoTe and the Agent, in respect of the offsetting of the consideration of equity transfer in respect of the Fourth Round Acquisition; (iii) the transactions contemplated under the Fourth Round Equity Transfer Agreement and the Second Three-party Agreement be and are hereby approved, confirmed and ratified; and (iv) any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents, including affixing the Company's seal, where applicable, which in his/their opinion may be necessary or expedient to give effect to the terms of the Fourth Round Equity Transfer Agreement or any of the transactions contemplated under the Fourth Round Equity Transfer Agreement."

Yours faithfully,
By order of the Board
Consun Pharmaceutical Group Limited
AN Yubao
Chairman

Hong Kong
30 June 2016

Registered office:
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Head office and principal place of business in the PRC:
71, Dongpeng Avenue
Eastern section, Guangzhou Economic and Technological Development District
Guangzhou, PRC

Notes:

1 A member entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and, on a poll, vote in his stead. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and, on a poll, vote on his behalf. A proxy need not be a member of the Company.

2 In order to be valid, a proxy form together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.

3 In order to ascertain the entitlement of members of the Company to attend and vote at the EGM, the register of members of the Company will be closed from 14 July 2016 (Thursday) to 19 July 2016 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to determine the identity of the shareholders who are entitled to attend and vote at the EGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 13 July 2016 (Wednesday).

4 According to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at general meeting of the Company must be taken by poll. Therefore, all proposed resolutions put to the vote at the EGM will be taken by way of poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

As at the date hereof, the Board comprises Mr. AN Yubao, Ms. LI Qian and Professor ZHU Quan as executive Directors; Mr. WANG Shunlong and Mr. LIN Sheng as non-executive Directors; Mr. SU Yuanfu, Mr. FENG Zhongshi and Ms. CHENG Xinxin as independent non-executive Directors.

* *For identification purposes only*