
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, the Share Buy-back or the Whitewash Waiver or as to the action you should take, you should consult your licensed securities dealer or registered institution 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 transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares or other securities in the Company.



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)

**(1) PROPOSED OFF-MARKET SHARE BUY-BACK
AND CONNECTED TRANSACTION;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) PROPOSAL FOR DISTRIBUTION OF SPECIAL DIVIDEND; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to the Company



BNP PARIBAS

BNP Paribas Securities (Asia) Limited

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



TC CAPITAL

A letter of recommendation from the Independent Board Committee to the Disinterested Shareholders and a letter of advice from the IFA to the Independent Board Committee and the Disinterested Shareholders regarding the Share Buy-back Agreement, including the Whitewash Waiver and the Share Buy-back, are set out on pages 17 to 18 and pages 19 to 36 of this circular respectively.

A notice convening the EGM to be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Tuesday, 11 April 2017 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you will be able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

IMPORTANT NOTE

AS COMPLETION OF THE SHARE BUY-BACK IS SUBJECT TO CERTAIN CONDITIONS, THE SHARE BUY-BACK CONTEMPLATED THEREUNDER MAY OR MAY NOT PROCEED. SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES.

THE DISTRIBUTION OF SPECIAL DIVIDEND IS SUBJECT TO THE COMPLETION OF THE SHARE BUY-BACK AGREEMENT. AS SUCH, THE SPECIAL DIVIDEND MAY OR MAY NOT BE PAID. SHAREHOLDERS AND POTENTIAL INVESTORS OF THE COMPANY ARE ADVISED TO EXERCISE CAUTION WHEN DEALING IN THE SHARES.

20 March 2017

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DEFINITIONS

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

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Announcement”	the announcement of the Company dated 6 February 2017 in relation to, among others, the Share Buy-back and the Whitewash Waiver
“Board”	the board of Directors
“Buy-back Price”	the proposed Buy-back price of HK\$3.837 per Buy-back Share
“Buy-back Share(s)”	146,140,200 Share(s), owned by First Kind and to be transferred to the Company at Completion for cancellation pursuant to the terms of the Share Buy-back Agreement
“Buy-backs Code”	the Hong Kong Code on Share Buy-backs
“Companies Law”	Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“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
“Completion”	completion of the Share Buy-back in accordance with the terms and conditions of the Share Buy-back Agreement
“Concert Group”	Mr. AN, Ms. LI and Mr. YOUNG
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Disinterested Shareholders”	Shareholders other than (i) First Kind, Mr. AN, Ms. LI, Mr. YOUNG and their respective concert parties; and (ii) Shareholders who are interested or involved in the Share Buy-back and the Whitewash Waiver

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve by the Disinterested Shareholders, (i) the Share Buy-back Agreement and the transactions contemplated therein, including the Share Buy-back and the Whitewash Waiver; and (ii) the proposal for distribution of the Special Dividend
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegates
“First Kind”	First Kind International Limited, a company incorporated under the laws of the British Virgin Islands, wholly owned by Hony Capital Fund III, L.P. as an investment vehicle holding approximately 19.17% equity interest in the Company
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hony Capital”	collectively, First Kind, Hony Capital Fund III, L.P., Hony Capital Fund III, GP, L.P., Hony Capital Fund III, GP, Limited and Hony Group Management Limited
“Independent Board Committee”	the independent committee of the Board comprising all the non-executive Directors, who have no direct or indirect interest in the Share Buy-back or the Whitewash Waiver, namely Mr. SU Yuanfu, Mr. FENG Zhongshi and Ms. CHENG Xinxin, established for the purpose of advising and giving recommendation to the Disinterested Shareholders on the Share Buy-back, the Whitewash Waiver and the proposal for distribution of the Special Dividend

DEFINITIONS

“Independent Financial Adviser” or “IFA” or “TC Capital”	TC Capital International Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, who has been appointed as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders regarding the Share Buy-back Agreement and the transactions contemplated thereunder, including the Share Buy-back and the Whitewash Waiver
“Last Trading Day”	6 February 2017, being the date of the Announcement
“Latest Practicable Date”	17 March 2017, being the latest practicable date for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 June 2017 (or such other date to be agreed by First Kind and the Company in writing)
“Mr. AN”	Mr. AN Yubao, the chairman and a Substantial Shareholder of the Company
“Mr. YOUNG”	Mr. YOUNG Wai Po, Peter, a former non-executive Director of the Company
“Ms. LI”	Ms. LI Qian, an executive Director, the chief executive officer and a Substantial Shareholder of the Company
“PRC”	People’s Republic of China, but for the purpose of this circular, shall exclude Hong Kong, Macau and Taiwan
“Relevant Period”	the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date
“RMB”	Renminbi, the legal currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

DEFINITIONS

“Share Buy-back”	the proposed buy-back and cancellation of the Buy-back Shares by the Company from First Kind under the Share Buy-back Agreement, which constitutes an off-market share buy-back by the Company pursuant to Rule 2 of the Buy-backs Code
“Share Buy-back Agreement”	the agreement dated 6 February 2017 entered into between the Company and First Kind in relation to the Share Buy-back
“Special Dividend”	a special dividend of HK\$0.1 per Share in the aggregate amount of approximately HK\$82,813,000 (assuming no further changes to the issued Shares from the date of the Announcement to the date when the Special Dividend is paid and excluding the Buy-back Shares)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Whitewash Waiver”	a waiver of the obligation of the Concert Group to make a mandatory offer for all the issued Shares not already owned or agreed to be acquired by the Concert Group which may otherwise arise as a result of the Share Buy-back, application for which has been made to the Executive pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code
“%”	per cent.

For illustration purposes only, exchange rate of RMB1.0000 = HK\$1.1314 has been adopted. No representation is made that any amount in such currency could have been or could be converted at the above rate or at any other rate.

LETTER FROM THE BOARD



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
PO Box 1350
Grand Cayman KY 1-1108
Cayman Islands

Headquarters and principal place of business in the PRC:

71, Dongpeng Avenue
Eastern section, Guangzhou Economic
and Technological Development District
Guangzhou, PRC

20 March 2017

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED OFF-MARKET SHARE BUY-BACK
AND CONNECTED TRANSACTION;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) PROPOSAL FOR DISTRIBUTION OF SPECIAL DIVIDEND; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the Announcement. On 6 February 2017, the Company announced that, on the same date, it entered into the Share Buy-back Agreement with First Kind pursuant to which the Company agreed to acquire and First Kind agreed to dispose 146,140,200 Shares at the total consideration of HK\$560,739,947.40, equivalent to HK\$3.837 per Buy-back Share.

The purpose of this circular is to provide you with, among other things, (i) further information on the Share Buy-back Agreement, including the Whitewash Waiver and the Share Buy-back; (ii) the recommendation of the Independent Board Committee to the Disinterested Shareholders regarding the Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver and the Share Buy-back and the proposal for

LETTER FROM THE BOARD

distribution of the Special Dividend; (iii) the advice from the IFA to the Independent Board Committee and the Disinterested Shareholders regarding the Share Buy-back Agreement and the transactions contemplated thereunder, including the Share Buy-back and the Whitewash Waiver; (iv) other information as required to be disclosed under the the Takeovers Code, the Buy-backs Code and Listing Rules; and (v) notice of the EGM.

THE SHARE BUY-BACK AGREEMENT

Date: 6 February 2017

Parties: (i) the Company

(ii) First Kind

To the best knowledge, information and beliefs of the Directors and after having made all reasonable enquiries, save that (i) First Kind being a Substantial Shareholder of the Company, (ii) Mr. LIN Sheng being a non-executive Director and also a managing director of Hony Capital and (iii) Mr. WANG Shunlong being a former managing director of Hony Capital, First Kind and its ultimate beneficial owner are third parties independent of and not connected with the Company and its connected persons.

Number of the Buy-back Shares

146,140,200 Shares, representing approximately 15.0% of the total number of issued shares of the Company being Shares owned by First Kind and as at the Latest Practicable Date, including all rights to any dividends or other distributions declared, made or paid in respect of the Buy-back Shares on or after the date of Completion.

Consideration

The total consideration for the Share Buy-back is HK\$560,739,947.40, equivalent to HK\$3.837 per Buy-back Share, and is payable in cash. The Buy-back Price was determined following arm's length commercial negotiations between the Company and First Kind, taking into account the movements in the price of the Shares over a period of time and prevailing market conditions.

The Buy-back Price represents:

- (a) a discount of approximately 12.20% to the closing price of HK\$4.370 per share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 1.78% to the closing price of HK\$3.770 per Share as quoted on the Stock Exchange on the Last Trading Day;

LETTER FROM THE BOARD

- (c) a premium of approximately 0.31% to the average closing price of approximately HK\$3.825 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a discount of approximately 5.14% to the average closing price of approximately HK\$4.045 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Day;
- (e) a discount of approximately 8.71% to the average closing price of approximately HK\$4.203 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the Last Trading Day;
- (f) a discount of approximately 11.65% to the average closing price of approximately HK\$4.343 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 360 consecutive trading days immediately prior to and including the Last Trading Day; and
- (g) a premium of approximately 103.12% to the unaudited net asset value per Share attributable to Shareholders as at 30 June 2016 of approximately HK\$1.889 per Share.

The original average purchase cost to First Kind for each Buy-back Share is approximately HK\$1.55.

Highest and lowest Share prices

During the six-month period preceding and including the Last Trading Day and up to the Latest Practicable Date, the highest closing price of the Shares as quoted on the Stock Exchange was HK\$5.00 on 2 September 2016 and the lowest closing price of the Shares as quoted on the Stock Exchange was HK\$3.71 on 2 February 2017.

Conditions to Completion

Completion will be conditional upon the satisfaction of, amongst others, the following conditions:

- (a) the Executive having granted and not having withdrawn (i) the Whitewash Waiver; and (ii) the approval of the Share Buy-back under Rule 2 of the Buy-backs Code;
- (b) the passing of the resolutions at the EGM by at least three-fourths of the Disinterested Shareholders of the votes cast on a poll approving the Share Buy-back;
- (c) the passing of the resolutions at the EGM by a simple majority of the Disinterested Shareholders of the votes cast on a poll approving the Whitewash Waiver; and

LETTER FROM THE BOARD

- (d) the Company having complied with the applicable provisions of the Listing Rules, including those under Chapter 14A, the disclosure requirements and the requirement to obtain Disinterested Shareholders' approval in relation to the Share Buy-back.

None of the conditions above is capable of being waived by First Kind or the Company. If the above conditions precedent are not fulfilled on or before the Long Stop Date, unless otherwise agreed by First Kind and the Company, the Share Buy-back Agreement shall become null and void. As at the Latest Practicable Date, none of the conditions above have been fulfilled.

Completion

Completion will take place on a day before the Long Stop Date as agreed between First Kind and the Company in writing after fulfillment of the conditions precedent under the Share Buy-back Agreement.

Funding of the Share Buy-back

The Company will fund the Share Buy-back from the Company's available cash flow and external financing. Under the Companies Law, any buy-back of Shares by the Company may only be funded out of the Company's profits, a fresh issue of Shares made for the purpose, the Company's share premium account, or if so authorised by its articles of association and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. The Company has sufficient funds available as required under the Companies Law to effect the Share Buy-back.

For the purpose of financing the Share Buy-back, the Company entered into a commitment letter with BNP Paribas (being the parent company of BNP Paribas Securities (Asia) Limited), acting through its Hong Kong Branch (the "**Lender**"), as the mandated lead arranger and bookrunner and facility agent, pursuant to which the Lender conditionally (conditions include but not limited to the signing of formal facility documents) agreed to grant to the Company a three year term loan facility of up to HK\$560,000,000 on 17 March 2017, subject to the terms and conditions thereof, among others:

- (a) Mr. AN and Central Success Developments Limited (which is wholly-owned by Mr. AN) and Ms. LI and Double Grace International Limited (which is wholly-owned by Ms. LI) shall not cease collectively to (i) be the beneficial owners, either directly or indirectly, of at least 30.0% of the issued share capital of the Company or (ii) be the single largest shareholder, either directly or indirectly, of the Company;
- (b) Central Success Developments Limited shall not cease to be wholly-owned by Mr. AN and/or his family; and

LETTER FROM THE BOARD

- (c) Double Grace International Limited shall not cease to be wholly-owned by Ms. LI and/or her family.

REASONS FOR AND BENEFITS OF THE SHARE BUY-BACK

In considering to proceed with the Share Buy-back, the Company has taken into consideration that:

- (i) the Share Buy-back is a good opportunity for the Company to utilise its financial resources with the aim to enhance the earnings per Share;
- (ii) the Buy-back Price is within the range of closing price from HK\$3.71 to HK\$5.00 per Share during the six-month period immediately prior to and including the Last Trading Day and up to the Latest Practicable Date, and close to the lowest closing price of HK\$3.71 per Share as quoted on the Stock Exchange on 2 February 2017 during the same period. The Buy-back Price per Share represents a discount of approximately 8.71% to the average closing price of approximately HK\$4.203 per Share based on the daily closing prices of Shares as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the Last Trading Day; and
- (iii) the average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 1,260,000 Shares per day, representing only approximately 0.13% of the issued Shares as at the Latest Practicable Date. Given the thin trading volume in the Shares and the large volume of the Buy-back Shares, it is a good opportunity for the Company to Buy-back a significant block of Shares without affecting the normal trading of the Shares in terms of price and volume.

In view of the above, the Board (other than members of the Independent Board Committee) is of the view that the Share Buy-back is entered into on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

EFFECTS ON SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon Completion (assuming there are no changes in the shareholdings of the Concert Group and First Kind and the total number of issued Shares of the Company from the Latest Practicable Date to the date of Completion and cancellation of the Buy-back Shares is completed):

	As at the Latest Practicable Date		Immediately upon Completion ⁽¹⁾	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Mr. AN and Central Success Developments Limited	204,765,817	21.02%	204,765,817	24.73%
Ms. LI and Double Grace International Limited	132,097,261	13.55%	132,097,261	15.95%
Guidoz Limited	110,050,000	11.30%	110,050,000	13.29%
Concert Group ⁽²⁾	446,913,078	45.87%	446,913,078	53.97%
First Kind	186,750,000	19.17%	40,609,800	4.90%
Other shareholders	340,604,922	34.96%	340,604,922	41.13%
Total	<u>974,268,000</u>	<u>100.00%</u>	<u>828,127,800</u>	<u>100.00%</u>

Notes:

1. Assuming there are no changes in the shareholdings of the Concert Group and First Kind and the issued share capital of the Company from the Latest Practicable Date to the Completion and cancellation of the Buy-back Shares is completed immediately upon Completion.
2. Among the 446,913,078 Shares held by the Concert Group,
 - (i) 196,200,000 Shares are held by Central Success Developments Limited, a company directly owned by Mr. AN, an executive Director and 8,565,817 Shares are held by Mr. AN directly;
 - (ii) 126,232,000 Shares are held by Double Grace International Limited, a company directly owned by Ms. LI, an executive Director and 5,865,261 Shares are held by Ms. LI directly; and
 - (iii) 110,050,000 Shares are held by Guidoz Limited, a company directly owned by Mr. YOUNG.

As at the Latest Practicable Date, Mr. AN and Ms. LI are holders of respectively 10,000,000 and 10,000,000 share options of the Company (the exercise of which would entitle them to subscribe for 10,000,000 and 10,000,000 Shares respectively). Save as disclosed above, none of the members of the Concert Group nor parties acting in concert with any one of them has owned or had control or direction over any other voting rights or rights over the Shares, options, derivatives, warrants, other securities convertible into Shares, or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code).

LETTER FROM THE BOARD

Assuming there are no changes to the shareholdings of the Concert Group and the total number of issued shares of the Company from the Latest Practicable Date to the date of Completion, upon Completion and cancellation of the Buy-back Shares, the percentage shareholding of the Concert Group will increase to approximately 53.97% of the reduced total number of issued Shares of the Company as a result of the Share Buy-back. Consequently, the Concert Group may increase their percentage shareholding in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

It is the intention of the Company to continue to meet the public float requirements under the Listing Rules immediately upon Completion.

FINANCIAL EFFECTS OF THE SHARE BUY-BACK AND THE SPECIAL DIVIDEND

The unaudited pro forma consolidated financial information of the Group upon Completion and cancellation of the Buy-back Shares illustrating the financial impacts of the Share Buy-back on the net assets per Share as at 30 June 2016 and basic earnings per Share of the Group for the year ended 31 December 2015 are set out in Appendix II of this circular.

(i) Net assets per Share

Based on the unaudited pro forma consolidated financial information of the Group as set out in Appendix II of this circular and assuming that Completion had taken place on 30 June 2016 and the Buy-back Shares have been bought back in full and cancelled, the net assets per Share as at 30 June 2016 would, as a result, have decreased by approximately 18.6% from approximately RMB1.67 per Share to approximately RMB1.36 per Share. The unaudited pro forma adjusted consolidated net assets of the Group of approximately RMB1.36 per Share has not been adjusted for the proposed distribution of Special Dividend in cash which is subject to the Completion. Had the Special Dividend been approved and taken into account, the unaudited pro forma adjusted consolidated net assets per share immediately after the Completion would have been reduced from approximately RMB1.36 per Share to approximately RMB1.27 per Share.

(ii) Basic earnings per Share

Based on the unaudited pro forma consolidated financial information of the Group as set out in Appendix II of this circular and assuming that Completion had taken place on 1 January 2015 and the Buy-back Shares have been bought back in full and cancelled, the basic earnings per Share for the year ended 31 December 2015 would, as a result, have increased by approximately 12.0% from approximately RMB0.25 per Share to approximately RMB0.28 per Share.

(iii) Liabilities

The Share Buy-back will be paid in cash and funded by the Company's available cash flow and external financing. The total liabilities as at 30 June 2016 would increase by approximately 187.5% from approximately RMB264.0 million to approximately RMB759.0 million. The Company expects to repay such increased liabilities by internal resources as they fall due in the future.

LETTER FROM THE BOARD

(iv) Working capital

The working capital (expressed as net current assets) as at 30 June 2016 would decrease by approximately 12.1% from approximately RMB692.7 million to approximately RMB608.6 million (assuming approximately RMB495.0 million cash inflow drawdown of long-term loan less approximately RMB495.6 million cash used for settlement of the Share Buy-back, the estimated expenses of approximately RMB10.3 million directly attributable to the Share Buy-back and the payment of the special dividend of approximately RMB73.2 million).

Based on the above and having considered the manner of funding of the consideration for the Share Buy-back, the Company considers that Completion will have no material adverse effect on the Group's net assets per Share, basic earnings per Share or working capital.

INFORMATION ON THE COMPANY

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.

For the two years ended 31 December 2014 and 2015, the audited consolidated profits of the Group before taxation were approximately RMB264,159,000 and RMB314,782,000 respectively. For the same periods, the audited consolidated profits attributable to equity shareholders of the Company (after taxation) were approximately RMB211,200,000 and RMB249,689,000 respectively.

INFORMATION ON FIRST KIND

First Kind is wholly owned by Hony Capital Fund III, L.P. as an investment vehicle holding approximately 19.17% equity interest in the Company.

As confirmed by First Kind, Hony Capital Fund III, L.P. is an investment fund which is structured as an exempted limited partnership established in the Cayman Islands. Hony Capital Fund III, L.P. is principally engaged in investments across a broad range of sectors including financial services, consumer industry, infrastructure, pharmaceuticals and franchising, as well as both light and heavy industries in the PRC. Hony Capital Fund III, L.P. is wholly owned by its sole general partner, Hony Capital Fund III, GP, L.P. Hony Capital Fund III, GP, L.P. is in turn wholly owned by its sole general partner, Hony Capital Fund III, GP, Limited. Hony Capital Fund III, GP, Limited is controlled by Hony Group Management Limited, which is in turn owned as to 80.0% by Hony Managing Partners Limited (which in turn is wholly owned by Exponential Fortune Group Limited) and as to 20.0% by Right Lane Limited (which is in turn wholly owned by Legend Holdings Corporation (stock code: 3396)). Exponential Fortune Group Limited is owned as to 49% by Mr. John Huan ZHAO and 51% by two individuals equally (each holding 25.5%) who are third parties independent of and not connected with the Company.

LETTER FROM THE BOARD

REGULATORY IMPLICATIONS

Buy-backs Code

The Share Buy-back constitutes an off-market share buy-back by the Company under the Buy-backs Code. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Buy-backs Code. The Executive's approval, if granted, will normally be conditional upon, among other things, the approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders present in person or by proxy at a meeting to be held for such purposes.

As approval of the Executive of the Share Buy-back is a condition of the Share Buy-back Agreement, the Company will not proceed to Completion unless the Executive approves the Share Buy-back pursuant to Rule 2 of the Buy-backs Code. However, there is no assurance that such approval will be granted or that all the conditions precedent to the Share Buy-back Agreement will be fulfilled.

Takeovers Code

Application for the Whitewash Waiver

If a Shareholder's proportionate interest in the voting rights of the Company increases as a result of the Share Buy-back, such increase will be treated as an acquisition of voting rights under Rule 32 of the Takeovers Code. As at the Latest Practicable Date, the Concert Group is interested in 446,913,078 Shares, representing approximately 45.87% of the total number of issued Shares of the Company. Save as the aforesaid, the Concert Group is not interested in any existing holding of voting rights or rights over the Shares. Assuming there are no changes to the shareholdings of the Concert Group and the total number of issued Shares of the Company from the Latest Practicable Date to the date of Completion, upon Completion and cancellation of the Buy-back Shares, the percentage shareholding of the Concert Group will be increased to approximately 53.97% of the reduced total number of issued Shares of the Company as a result of the Share Buy-back. In the circumstances, an obligation on the part of the Concert Group to make a general offer for all the Shares not already owned or agreed to be acquired by the Concert Group may arise as a result of the Share Buy-back. An application has been made to the Executive for the Whitewash Waiver. The Executive has agreed to, subject to the approval of the Disinterested Shareholders at the EGM by way of poll, grant the Whitewash Waiver.

It is one of the conditions of the Share Buy-back Agreement that the Whitewash Waiver be granted by the Executive and approved by the Disinterested Shareholders at the EGM. If the Whitewash Waiver is not granted by the Executive or not approved by the Disinterested Shareholders, the Share Buy-back Agreement will not become unconditional and cannot proceed.

LETTER FROM THE BOARD

Listing Rules

In view of the fact that First Kind, who as at the Latest Practicable Date, is the Substantial Shareholder and a company wholly owned by Hony Capital Fund III, L. P., First Kind is a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Share Buy-back contemplated under the Share Buy-back Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules and is therefore subject to the approval by the Disinterested Shareholders at the EGM under Chapter 14A of the Listing Rules.

(i) Mr. AN and Ms. LI, being members of the Concert Group, (ii) Mr. LIN Sheng, being our non-executive Director and also a managing director of Hony Capital and (iii) Mr. WANG Shunlong, being a former managing director of Hony Capital, have abstained from voting on the resolutions of the Board approving the Share Buy-back Agreement and the proposal for distribution of the Special Dividend. Save as disclosed in this circular, none of the Directors has a material interest in the Share Buy-back Agreement and the proposal for distribution of the Special Dividend.

PROPOSAL FOR DISTRIBUTION OF THE SPECIAL DIVIDEND

Subject to (1) the Disinterested Shareholders approving at the EGM (i) the Share Buy-back Agreement and the transactions contemplated thereunder; (ii) the Whitewash Waiver; and (iii) the proposal for distribution of the Special Dividend; and (2) the completion of the Share Buy-back Agreement, the Board proposes the payment of a special dividend of HK\$0.1 per Share in cash in the aggregate amount of approximately HK\$82,813,000 (equivalent to approximately RMB73,198,000 at the exchange rate of HK\$1.0000 to RMB0.8839, assuming no further changes to the total number of issued Shares from the Latest Practicable Date to the date when the Special Dividend is paid and excluding the Buy-back Shares) as soon as practicable after the Completion.

The proposal for distribution of the Special Dividend, if approved, is expected to be paid on or about Wednesday, 10 May 2017, to the Shareholders whose names appear on the register of members of the Company on Friday, 28 April 2017. To determine Shareholders' entitlement to the proposed Special Dividend, the register of members of the Company shall be closed from Tuesday, 25 April 2017 to Friday, 28 April 2017 (both days inclusive), during which period no share transfer will be registered. In order to qualify for the proposed Special Dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, 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 Monday, 24 April 2017.

As the Board proposes the record date for determining the entitlement of Shareholders to the Special Dividend will be a date after the Completion, First Kind will not be entitled to the Special Dividend in respect of the Buy-back Shares.

LETTER FROM THE BOARD

EGM

A notice convening the EGM to be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Tuesday, 11 April 2017 at 10:00 a.m., is set out on pages EGM-1 to EGM-2 of this circular. The EGM will be held to consider and, if thought fit, approve (i) the Share Buy-back Agreement and the transactions contemplated therein, including the Share Buy-back and the Whitewash Waiver; and (ii) the proposal for distribution of the Special Dividend.

As at the Latest Practicable Date, First Kind is interested in 186,750,000 Shares, representing approximately 19.17% of the total number of issued Shares. The Concert Group together holds 446,913,078 Shares, representing approximately 45.87% of the total number of issued Shares. By reason of the requirements of the Buy-backs Code, the Takeovers Code and the Listing Rules, First Kind and the Concert Group and their respective concert parties will abstain from voting at the EGM. Save for the aforesaid, no other Shareholder has a material interest in the transactions contemplated thereunder and will be required to abstain from voting on the resolution(s) approving (i) the Share Buy-back Agreement and the transactions contemplated thereunder, including the Share Buy-back and the Whitewash Waiver and (ii) the proposal for distribution of the Special Dividend at the EGM.

A form of proxy for use at the EGM is enclosed herewith. Whether or not you will be able to attend the EGM, please complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

RECOMMENDATION AND FURTHER INFORMATION

On the basis of the information set out in this circular, the executive and non-executive Directors consider that the Share Buy-back and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. As such, the executive and non-executive Directors recommend the Disinterested Shareholders to vote in favor of these resolutions as set out in the notice of the EGM. (i) Mr. AN and Ms. LI, being members of the Concert Group, (ii) Mr. LIN Sheng being a non-executive Director and a managing director of Hony Capital and (iii) Mr. WANG Shunlong, being a former managing director of Hony Capital, have material interests in the Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver and the Share Buy-back and the proposal for distribution of the Special Dividend and have therefore abstained from voting on the resolutions of the Board regarding the Share Buy-back Agreement and the Whitewash Waiver.

LETTER FROM THE BOARD

The Independent Board Committee, comprising all of the three independent non-executive Directors, has been established to advise and give recommendation to the Disinterested Shareholders on the Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver, the Share Buy-back and the proposal for distribution of the Special Dividend. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Share Buy-back Agreement or the Whitewash Waiver.

TC Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders on the Share Buy-back Agreement, including the Share Buy-back and the Whitewash Waiver. The Independent Board Committee has approved the appointment of TC Capital. Your attention is drawn to the letters from the Independent Board Committee and the advice from TC Capital as set out in this circular.

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation to the Disinterested Shareholders from the Independent Board Committee regarding the Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver and the Share Buy-back and the proposal for distribution of the Special Dividend for the purpose of incorporation in this circular.



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)

20 March 2017

To the Disinterested Shareholders

Dear Sir or Madam,

**(1) PROPOSED OFF-MARKET SHARE BUY-BACK
AND CONNECTED TRANSACTION;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) PROPOSAL FOR DISTRIBUTION OF SPECIAL DIVIDEND; AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING**

We refer to the circular dated 20 March 2017 issued by the Company (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to advise you as to whether, in our opinion, the Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver and the Share Buy-back and the proposal for distribution of the Special Dividend are fair and reasonable as far as the Disinterested Shareholders are concerned and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. TC Capital has been appointed as the independent financial adviser to advise us and the Disinterested Shareholders in this respect. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 19 to 36 to this Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 16 of the Circular and the additional information set out in the appendices to the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of TC Capital, we consider that the Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver and the Share Buy-back and the proposal for distribution of the Special Dividend are fair and reasonable as far as the Disinterested Shareholders are concerned and are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Disinterested Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver and the Share Buy-back and the proposal for distribution of the Special Dividend.

Yours faithfully,
Independent Board Committee of
Consun Pharmaceutical Group Limited

Mr. SU Yuanfu

Mr. FENG Zhongshi
Independent non-executive Directors

Ms. CHENG Xinxin

LETTER FROM TC CAPITAL

The following is the full text of the letter of advice from TC Capital, independent financial adviser to the Independent Board Committee and the Disinterested Shareholders, which has been prepared for the purpose of incorporation in this circular, setting out its advice to the Independent Board Committee and the Disinterested Shareholders in respect of the Share Buy-back Agreement and the transactions contemplated thereunder, including the Share Buy-back and the Whitewash Waiver.



20 March 2017

The Independent Board Committee and the Disinterested Shareholders of Consun Pharmaceutical Group Limited

Dear Sir/Madam,

**PROPOSED OFF-MARKET SHARE BUY-BACK
AND CONNECTED TRANSACTION
AND
APPLICATION FOR WHITEWASH WAIVER**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Disinterested Shareholders in relation to the Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver and the Share Buy-back, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular of Consun Pharmaceutical Group Limited (the “**Company**”) dated 20 March 2017 issued to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless otherwise specified.

On 6 February 2017, the Company entered into the Share Buy-back Agreement with First Kind pursuant to which the Company agreed to acquire and First Kind agreed to dispose of 146,140,200 Shares at the total consideration of HK\$560,739,947.40, equivalent to HK\$3.837 per Buy-back Share.

In view of the fact that First Kind, who as at the Latest Practicable Date, is the Substantial Shareholder and a company wholly owned by Honky Capital Fund III, L. P., First Kind is a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Share Buy-back contemplated under the Share Buy-back Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules and is therefore subject to the approval by the Disinterested Shareholders at the EGM.

LETTER FROM TC CAPITAL

The Share Buy-back constitutes an off-market share buy-back under the Buy-backs Code. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Buy-backs Code. The Executive's approval, if granted, will normally be conditional upon, among other things, approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders present in person or by proxy at the EGM.

If a Shareholder's proportionate interest in the voting rights of the Company increases as a result of the Share Buy-back, such increase will be treated as an acquisition of voting rights under Rule 32 of the Takeovers Code. As at the Latest Practicable Date, the Concert Group is interested in 446,913,078 Shares, representing approximately 45.87% of the total number of issued Shares of the Company. Save as the aforesaid, the Concert Group is not interested in any existing holding of voting rights or rights over the Shares. Assuming there are no changes to the shareholdings of the Concert Group and the total number of issued Shares of the Company from the Latest Practicable Date to Completion, upon Completion and cancellation of the Buy-back Shares, the percentage shareholding of the Concert Group will be increased to approximately 53.97% of the reduced total number of issued Shares of the Company as a result of the Share Buy-back. In the circumstances, an obligation on the part of the Concert Group to make a general offer for all the Shares not already owned or agreed to be acquired by the Concert Group may arise as a result of the Share Buy-back. An application has been made to the Executive for the Whitewash Waiver. The Executive has agreed to, subject to the approval of the Disinterested Shareholders at the EGM by way of poll, grant the Whitewash Waiver.

As at the Latest Practicable Date, First Kind is interested in 186,750,000 Shares, representing approximately 19.17% of the total number of issued Shares of the Company. The Concert Group together holds 446,913,078 Shares, representing approximately 45.87% of the total number of issued Shares of the Company. By reason of the requirements of the Buy-backs Code, the Takeovers Code and the Listing Rules, First Kind and the Concert Group and their respective concert parties will abstain from voting at the EGM. Save for the aforesaid, no other Shareholder has a material interest in the transactions contemplated thereunder and will be required to abstain from voting on the resolution(s) approving the Share Buy-back Agreement and the transactions contemplated thereunder, including the Share Buy-back and the Whitewash Waiver at the EGM.

The Independent Board Committee, comprising all of the three independent non-executive Directors, has been established to advise and give recommendation to the Disinterested Shareholders on the Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver, the Share Buy-back and the proposal for distribution of the Special Dividend. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Share Buy-back Agreement or the Whitewash Waiver.

LETTER FROM TC CAPITAL

We have been appointed by the Company to advise the Independent Board Committee and the Disinterested Shareholders as to whether the terms of the Share Buy-back Agreement are fair and reasonable, the Share Buy-back is on normal commercial terms and in the ordinary and usual course of business of the Group and the Share Buy-back, as far as the Disinterested Shareholders are concerned, is in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee and Disinterested Shareholders as to whether the Disinterested Shareholders should vote in favour of the Share Buy-back Agreement and the Whitewash Waiver. As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of us.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have considered, among other things, (i) the Circular; (ii) the Share Buy-back Agreement; (iii) the annual reports of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2016 (the “**2016 Interim Report**”); (iv) the unaudited pro forma financial information of the Group set out in Appendix II to the Circular (the “**Pro Forma Statement**”); and (v) relevant market data and information available from public sources and the website of the Stock Exchange. We have also relied on all relevant information and representations supplied, and the opinions expressed, by the Directors and the management of the Company. We have assumed that all such information and representations contained or referred to in the Circular were true and accurate in all material respects as at the date thereof. The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Circular and have also confirmed that, having made all reasonable enquiries and to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no material facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company, and they have confirmed that no material information have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, nor have we conducted an independent investigation into the business affairs, operations, financial position or future prospects of each of the Company, First Kind and any of their respective subsidiaries and associates.

LETTER FROM TC CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

THE SHARE BUY-BACK

I. Background to and reasons for entering into of the Share Buy-back Agreement

(a) *Information on the Company*

As stated in the Letter from the Board, 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 tables below are the financial highlight of the Group for the two years ended 31 December 2015 ("FY2014" and "FY2015", respectively) as extracted from the 2015 Annual Report, and for the six months ended 31 December 2015 and 2016 ("HY2015" and "HY2016", respectively) as extracted from the 2016 Interim Report:

	For the year ended 31 December		For the six months ended 30 June	
	2014	2015	2015	2016
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	730,683	831,108	387,278	451,852
Gross profit	571,767	670,566	310,874	356,804
Gross profit margin	78.3%	80.7	80.3%	79.0%
Profit for the year/period	211,200	249,689	121,190	145,397

	As at 31 December		As at 30 June	
	2014	2015	2015	2016
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
	(audited)	(audited)	(unaudited)	(unaudited)
Cash and cash equivalents	843,669	489,987	455,873	
Total assets	1,662,941	1,917,891	1,896,437	
Total liabilities	229,755	281,136	263,999	
Net assets/Total equity	1,433,186	1,636,755	1,632,438	

Source: the 2016 Interim Report and the 2015 Annual Report

LETTER FROM TC CAPITAL

We note from the table above that the revenue of the Group increased by approximately 13.7% from approximately RMB730.7 million for FY2014 to approximately RMB831.1 million for FY2015 mainly due to the Group's efforts to develop the market segments intensively, to extend its coverage over hospitals and physicians, so as to increase sales of the Group's medicines. The Group's gross profit was approximately RMB670.6 million for FY2015, representing an increase of approximately 17.3% as compared with FY2014. Such increase in gross profit was mainly attributable to the increase in sales. The increase of gross profit margin from approximately 78.3% for FY2014 to approximately 80.7% for FY2015 is mainly attributable to the economy of scale as a result of the increases in production volume, which drive down the average unit production costs. The increase in profit of the Group from approximately RMB211.2 million for FY2014 to approximately RMB249.7 million for FY2015 was mainly due to net effect of increase in gross profit, distribution costs and administrative expenses for FY2015.

The revenue of the Group increased by approximately 16.7% from approximately RMB387.3 million for HY2015 to approximately RMB451.9 million for HY2016 mainly due to the growth in sales as a result of the Group's continued efforts to expand its national sales network by developing the market intensively. The Group's gross profit was approximately RMB356.8 million for HY2016, representing an increase of approximately 14.8% as compared with HY2015. Such increase in gross profit was mainly attributable to the increase in sales. The decrease of gross profit margin from approximately 80.3% for HY2015 to approximately 79.0% for HY2016 is mainly attributable to the increase in prices of certain raw materials. The increase in profit of the Group from approximately RMB121.2 million for HY2015 to approximately RMB145.4 million for HY2016 was mainly due to net effect of an increase in gross profit, offsetting by an increase in distribution costs and a decrease in administrative expenses for HY2015.

The cash and cash equivalents of the Group decreased by approximately 41.9% from approximately RMB843.7 million as at 31 December 2014 to approximately RMB490.0 million as at 31 December 2015 mainly due to the acquisition of 45.27% equity interest in Guangxi Yulin Pharmaceutical Group Co., Ltd ("**Yulin Pharmaceutical**") during the year. It further decreased to RMB455.9 million as at 30 June 2016 mainly due to the payment of dividends and on-market buy back of shares by the Company.

The total assets of the Group increased by approximately 15.3% from approximately RMB1,662.9 million as at 31 December 2014 to approximately RMB1,917.9 million as at 31 December 2015 mainly due to the acquisition of interest in Yulin Pharmaceutical which was funded by the Group's existing cash and cash equivalents and the realization of other investments. The total assets of the Group then decreased by approximately RMB21.5 million to approximately RMB1,896.4 million as at 30 June 2016 mainly due to the decrease in cash and cash equivalent and inventories.

LETTER FROM TC CAPITAL

The total liabilities of the Group increased by approximately 22.4% from approximately RMB229.8 million as at 31 December 2014 to approximately RMB281.1 million as at 31 December 2015 mainly due to the increase of accrued expenses and other payables resulted from the increase in the Group's operational sale. It then decreased by approximately RMB17.1 million to approximately RMB264.0 million as at 30 June 2016 mainly due to the settlement of trade payables. The Group did not have any interest bearing borrowings as at 30 June 2016 and no finance costs was incurred by the Group during the relevant period.

(b) Information on First Kind

First Kind is wholly owned by Hony Capital Fund III, L.P. as an investment vehicle holding approximately 19.17% equity interest in the Company.

As confirmed by First Kind, Hony Capital Fund III, L.P. is an investment fund which is structured as an exempted limited partnership established in the Cayman Islands. Hony Capital Fund III, L.P. is principally engaged in investments across a broad range of sectors including financial services, consumer industry, infrastructure, pharmaceuticals and franchising, as well as both light and heavy industries in the PRC. Hony Capital Fund III, L.P. is wholly owned by its sole general partner, Hony Capital Fund III GP, L.P. Hony Capital Fund III GP, L.P. is in turn wholly owned by its sole general partner, Hony Capital Fund III GP Limited. Hony Capital Fund III GP Limited is controlled by Hony Group Management Limited, which is in turn owned as to 80.0% by Hony Managing Partners Limited (which in turn is wholly owned by Exponential Fortune Group Limited) and as to 20.0% by Right Lane Limited (which is in turn wholly owned by Legend Holdings Corporation (stock code: 3396)). Exponential Fortune Group Limited is owned as to 49% by Mr. John Huan ZHAO and 51% by two individuals equally (each holding 25.5%) who are third parties independent of and not connected with the Company.

(c) Reasons for and benefits of the Share Buy-back

As stated in the Letter from the Board, in considering to proceed with the Share Buy-back, the Company has taken into consideration the below factors:

i) Earnings per Share improvement upon Completion

As stated in the Letter from the Board, the Directors considered that the Share Buy-back is a good opportunity for the Company to utilize its financial resources with aim to enhance the earnings per share. Based on the Pro Forma Statement, assuming that Completion had taken place on 1 January 2015 and the Buy-back Shares have been bought back in full and cancelled, the basic earnings per Share for the year ended 31 December 2015 would, as a result, have increased by approximately 12.0% from approximately RMB0.25 per Share to approximately RMB0.28 per Share. Thus we concur with the Directors' view that the Share Buy-back can improve the basic earnings per Share upon Completion.

LETTER FROM TC CAPITAL

ii) Discount as compare to market price

The Directors considered that the Buy-back Price is within the range of closing share price from HK\$3.71 to HK\$5.00 during the six-month period immediately prior to and including the Last Trading Day and up to the Latest Practicable Date, and close to the lowest closing share price of HK\$3.71 as quoted on 2 February 2017 during the same period.

We have conducted a Buy-back Price analysis to assess the reasonableness of the Buy-back Price as detailed in the section headed “III. Evaluation of the Buy-back Price” below. We noted that the Buy-back Price is within the range of closing share price from HK\$3.71 to HK\$5.00 during the period from 5 February 2016 (the last trading date before the date of 1 year prior to the Last Trading Day) to and including the Latest Practicable Date (the “**Review Period**”), and approximately 3.4% above the lowest closing price during the Review Period. We concur with the Directors’ view that the Share Buy-back offers a buy back of the Shares at a price close to the lowest closing price during the Review Period.

iii) Opportunity to buy back a significant block of Shares

As stated in the Letter from the Board, the Directors considered that the Share Buy-back is a good opportunity for the Company to buy back a significant block of Shares without affecting the normal trading of the Shares in terms of price and volume.

The Company has been striving to maximize the total return on the Shareholders investment in the Company. To enhance the earnings per Share, the Company has been repurchasing Shares through the open market from time to time. The Company’s on-market buy back activities for the Review Period are set out below:

Buy back date	Number of Shares buy back	Total amount (HK\$)	Buy back price per Share ^(Note) (HK\$)	Buy back shares as a % of existing number of issued shares before relevant Share buy back
18-Jan-16	1,265,000	5,438,090	4.30	0.13%
19-Jan-16	600,000	2,636,120	4.39	0.06%
20-Jan-16	1,352,000	5,792,040	4.28	0.14%
21-Jan-16	3,652,000	15,551,820	4.26	0.37%
22-Jan-16	2,632,000	11,224,030	4.26	0.26%
6-Apr-16	3,000,000	12,016,120	4.01	0.30%

LETTER FROM TC CAPITAL

Buy back date	Number of Shares buy back	Total amount (HK\$)	Buy back price per Share ^(Note) (HK\$)	Buy back shares as a % of existing number of issued shares before relevant Share buy back
7-Apr-16	1,472,000	5,906,510	4.01	0.15%
8-Apr-16	80,000	317,220	3.97	0.01%
26-Apr-16	1,139,000	4,422,620	3.88	0.12%
27-Apr-16	780,000	3,011,040	3.86	0.08%
28-Apr-16	440,000	1,701,760	3.87	0.04%
29-Apr-16	650,000	2,506,150	3.86	0.07%
3-May-16	250,000	957,470	3.83	0.03%
4-May-16	827,000	3,184,890	3.85	0.08%
5-May-16	174,000	671,620	3.86	0.02%
9-May-16	238,000	960,250	4.03	0.02%
11-May-16	260,000	1,069,490	4.11	0.03%
12-May-16	480,000	2,000,470	4.17	0.05%
13-May-16	715,000	2,942,970	4.12	0.07%
19-May-16	556,000	2,245,300	4.04	0.06%
20-May-16	340,000	1,364,000	4.01	0.03%
23-May-16	610,000	2,450,900	4.02	0.06%
25-May-16	536,000	2,133,000	3.98	0.05%
26-May-16	710,000	2,753,490	3.88	0.07%
31-May-16	250,000	1,015,170	4.06	0.03%
13-Jun-16	361,000	1,467,350	4.06	0.04%
16-Jun-16	120,000	486,890	4.06	0.01%
Total	<u>23,489,000</u>	<u>96,226,780</u>		<u>2.36%</u>

Average price per share (HK\$) 4.10

Source: The Stock Exchange Website

Note: Buy back price of Share is calculated as dividing the total amount by the number of Shares buy back

LETTER FROM TC CAPITAL

Since 18 January 2016 up to 16 June 2016, the Company has bought back and cancelled approximately 23.5 million Shares through on-market share buy back at an average buy back price of approximately HK\$4.1 per Share, representing a total of approximately 2.36% of the then issued share capital of the Company. In view of the relatively low trading liquidity of the Shares, it is difficult for the Company to conduct an on-market buy back of a significant block of its issued share capital. Moreover, after considering the thin trading volume in the Shares in the Review Period as mentioned in the section headed “IV. Trading volume of the Shares” below, we concur with the Directors’ view that the Share Buy-back is a good opportunity for the Company to buy back a significant block of Shares without affecting the normal trading of the Shares in terms of price and volume.

Therefore, after considering (i) the improvement in the basic earnings per Share upon Completion; (ii) a buy back of the Shares at a price close to the lowest closing price during the Review Period; and (iii) a buy back of a significant block of Shares without affecting the normal trading of the Shares in terms of price and volume, we concur with the Company that, although the Share Buy-back is not in the ordinary and usual course of business of the Group, the Share Buy-back is fair and reasonable and, as far as the Disinterested Shareholders are concerned, is in the interests of the Company and the Shareholders as a whole.

II. Principal terms of the Share Buy-back Agreement

On 6 February 2017, the Company entered into the Share Buy-back Agreement with First Kind pursuant to which the Company agreed to acquire and First Kind agreed to dispose of 146,140,200 Shares at the total consideration of HK\$560,739,947.40, equivalent to HK\$3.837 per Buy-back Share. The principal terms of the Share Buy-back Agreement have been set out in the Letter from the Board and Completion will be conditional upon the satisfaction of, amongst others, the following conditions:

- (a) the Executive having granted and not having withdrawn (i) the Whitewash Waiver; and (ii) the approval of the Share Buy-back under Rule 2 of the Buy-backs Code;
- (b) the passing of the resolutions at the EGM by at least three-fourths of the Disinterested Shareholders of the votes cast on a poll approving the Share Buy-back;
- (c) the passing of the resolutions at the EGM by a simple majority of the Disinterested Shareholders of the votes cast on a poll approving the Whitewash Waiver; and
- (d) the Company having complied with the applicable provisions of the Listing Rules, including those under Chapter 14A, the disclosure requirements and the requirement to obtain Disinterested Shareholders’ approval in relation to the Share Buy-back.

LETTER FROM TC CAPITAL

None of the conditions above is capable of being waived by First Kind or the Company. If the above conditions precedent are not fulfilled on or before the Long Stop Date, unless otherwise agreed by First Kind and the Company, the Share Buy-back Agreement shall become null and void. As at the Latest Practicable Date, none of the conditions above have been fulfilled.

III. Evaluation of the Buy-back Price

As stated in the Letter from the Board, the Buy-back Price of HK\$3.837 per Buy-back Share was determined following arm's length commercial negotiations between the Company and First Kind, taking into account the movements in the price of the Shares over a period of time and prevailing market conditions.

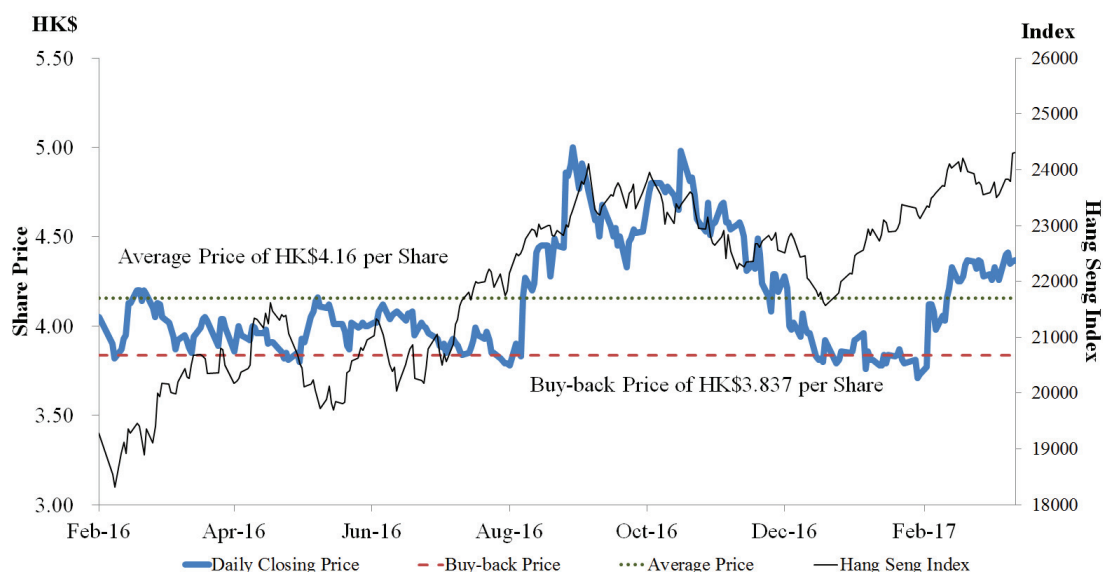
The Buy-back Price of HK\$3.837 per Share represents:

- (a) a discount of approximately 12.2% to the closing price of approximately HK\$4.37 per Shares as quoted on the Stock Exchange as at the Latest Practicable Date.
- (b) a premium of approximately 1.78% to the closing price of HK\$3.770 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a premium of approximately 0.31% to the average closing price of approximately HK\$3.825 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Day;
- (d) a discount of approximately 5.14% to the average closing price of approximately HK\$4.045 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Day;
- (e) a discount of approximately 8.71% to the average closing price of approximately HK\$4.203 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 180 consecutive trading days immediately prior to and including the Last Trading Day;
- (f) a discount of approximately 11.65% to the average closing price of approximately HK\$4.343 per Share based on the daily closing prices of the Shares as quoted on the Stock Exchange for the 360 consecutive trading days immediately prior to and including the Last Trading Day; and
- (g) a premium of approximately 103.12% to the unaudited net asset value per Share attributable to Shareholders as at 30 June 2016 of approximately HK\$1.889 per Share.

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Independent Shareholders should note that the comparison of the Buy-back Price against the net asset value was included as a reference only as the Buy-back Price was agreed with reference to historical market price after arm's length negotiation between the parties to the Share Buy-back Agreement and hence, it is more relevant to compare the Buy-back Price with the price performance of the Shares. In this connection, it should be noted that the Shares have been trading above the net asset value per Share for the Review Period and the Buy-back Price is close to the lowest price of the Shares during the Review Period.

Set out below is a chart showing the movement of the daily closing price of the Shares as quoted on Stock Exchange and Hang Seng Index during the Review Period:



Source: Bloomberg

As shown in the above chart, the daily closing prices of the Shares ranged from HK\$3.71 per Share to HK\$5.00 per Share during the Review Period (the “**Historical Price Range**”). The average daily closing price of the Shares is HK\$4.16 during the Review Period (the “**Average Closing Price**”). Based on the chart above and our discussion with the Directors, we understand the market price of the Share in general followed the fluctuation of Hang Seng Index. As a result, we believe the price of the Shares is affected by the environment of the stock market significantly.

The Directors advised that they considered the then closing prices of the Shares was at its bottom and it is a good opportunity to buy back its Shares. From the above chart, we noted that the Buy-back Price of HK\$3.837 per Share was above the lowest daily closing price of HK\$3.71 per Share during the Review Period of approximately 3.4% only. Moreover, we note that the daily closing price of the Shares has rebounded to HK\$4.37 as at the Latest Practicable Date. As a result, we concur with the Directors that the then closing price of the Shares was at its bottom. We also concur with the Directors it is a good opportunity to buy back such a

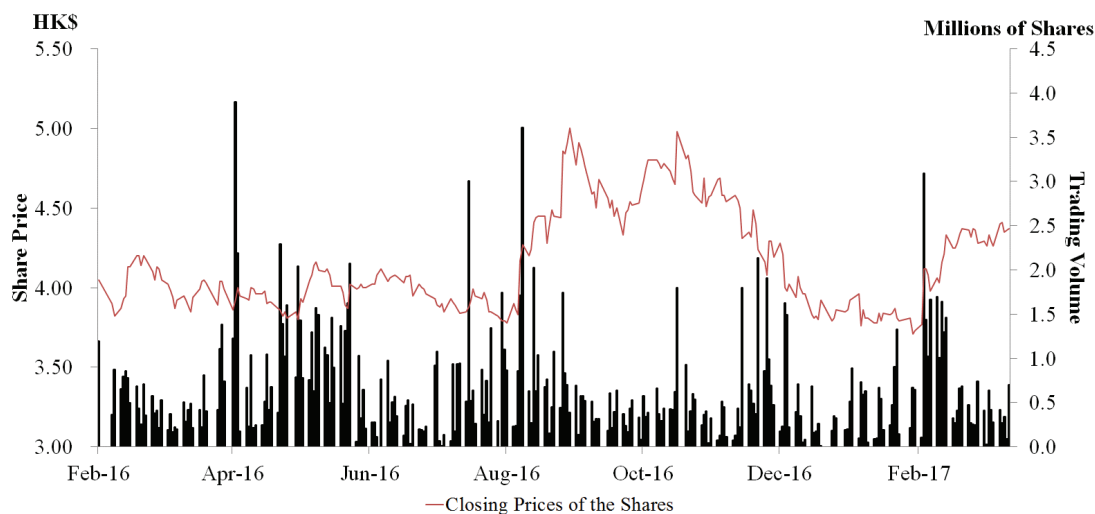
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significant block of Shares at the Buy-back Price as detailed in the section headed “IV. Trading volume of Shares” below and paragraph headed “I. Background to and reasons for entering into of the Share Buy-back Agreement – c) Reasons for and benefits of the Share Buy-back – iii) *Opportunity to buy back a significant block of Shares*” above.

As the Buy-back Price of HK\$3.837 per Share is (i) within the Historical Price Range and below the Average Closing Price; and (ii) close to the lowest price of the Shares during the Review Period, we concur with the Company that the Buy-back Price is fair and reasonable and in the interest of the Shareholders.

IV. Trading volume of the Shares

The following chart illustrates the daily trading volume of the Shares on the Stock Exchange and the closing prices of the Shares during the Review Period:



Source: Bloomberg

The average daily trading volume of the Shares on the Stock Exchange during the Review Period was approximately 650,706 Shares, representing approximately 0.07% and 0.19% of the Company’s total existing issued share capital and public float. The highest daily trading volume during the Review Period was about 3,898,000 Shares on 6 April 2016, representing approximately 0.4% and 1.14% of the Company’s total existing issued share capital and public float. Moreover, if the Company acquired the similar number of Buy-back Shares using the average daily trading volume as standard, it would theoretically require a period of approximately 225 trading days and it will also sustain disturbance to price of the Shares. As a result, we concur with the Company that the Share Buy-back is an opportunity to acquire a significant block of Shares at Buy-back Price without effecting the normal trading of the Shares in terms of both price and volume.

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V. Effects on shareholding structure of the Company

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; and (ii) immediately upon Completion (assuming there are no changes in the shareholdings of the Concert Group and First Kind and the total number of issued Shares of the Company from the Latest Practicable Date to the date of Completion and cancellation of the Buy-back Shares is completed):

	As at the Latest Practicable Date		Immediately upon Completion ⁽¹⁾	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Mr. AN and Central Success Developments Limited	204,765,817	21.02%	204,765,817	24.73%
Ms. LI and Double Grace International Limited	132,097,261	13.55%	132,097,261	15.95%
Guidoz Limited	<u>110,050,000</u>	<u>11.30%</u>	<u>110,050,000</u>	<u>13.29%</u>
Concert Group ⁽²⁾	446,913,078	45.87%	446,913,078	53.97%
First Kind	186,750,000	19.17%	40,609,800	4.90%
Other shareholders	<u>340,604,922</u>	<u>34.96%</u>	<u>340,604,922</u>	<u>41.13%</u>
Total	<u>974,268,000</u>	<u>100.00%</u>	<u>828,127,800</u>	<u>100.00%</u>

Notes:

1. Assuming there are no changes in the shareholdings of the Concert Group and First Kind and the issued share capital of the Company from the Latest Practicable Date to the Completion and cancellation of the Buy-back Shares is completed immediately upon Completion.
2. Among the 446,913,078 Shares held by the Concert Group,
 - (i) 196,200,000 Shares are held by Central Success Developments Limited, a company directly owned by Mr. AN, an executive Director and 8,565,817 Shares are held by Mr. AN directly;
 - (ii) 126,232,000 Shares are held by Double Grace International Limited, a company directly owned by Ms. LI, an executive Director and 5,865,261 Shares are held by Ms. LI directly; and
 - (iii) 110,050,000 Shares are held by Guidoz Limited, a company directly owned by Mr. YOUNG.

Assuming there are no changes to the shareholdings of the public shareholders and the total number of issued Shares of the Company from the Latest Practicable Date to the date of Completion, upon Completion and cancellation of the Buy-back Shares, the interest of the public Shareholders in the Company's total number of issued Shares will increase from approximately 34.96% to approximately 41.13%. As such, if the Disinterested Shareholders approved the Share Buy-back, they will benefit from the increase in their proportionate shareholding in the Company by approximately 17.6% after Completion.

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VI. Effect of the Share Buy-back

(a) Earnings per Share

As stated in the Pro Forma Statement, assuming that Completion had taken place on 1 January 2015 and the Buy-back Shares have been bought back in full and cancelled, the basic earnings per Share for the year ended 31 December 2015 would, as a result, have increased by approximately 12.0% from approximately RMB0.25 per Share to approximately RMB0.28 per Share. We concur with the Directors' view that the Share Buy-back can improve the basic earnings per Share upon Completion.

(b) Net Assets per Share

As stated in the Pro Forma Statement, assuming that Completion had taken place on 30 June 2016 and the Buy-back Shares have been bought back in full and cancelled, the net assets per Share as at 30 June 2016 would, as a result, have decreased by approximately 18.6% from RMB1.67 per Share to approximately RMB1.36 per Share. The unaudited pro forma adjusted consolidated net assets of the Group of approximately RMB1.36 per Share has not been adjusted for the proposed distribution of Special Dividend in cash which is subject to the Completion. Had the Special Dividend been approved and taken into account, the unaudited pro forma adjusted consolidated net assets per share immediately after the Completion would have been reduced from approximately RMB1.36 per Share to approximately RMB1.27 per Share.

Despite the decrease in net assets per Share upon Completion, we concur with the Directors that the dilution effect on net assets per Share is acceptable as (i) it is an opportunity for the Company to buy back a significant block of Shares at a price close to the lowest closing price during the Review Period; and (ii) as discussed with the Company, they generally regard net assets per Share as only a secondary valuation methodology. According to a pharmaceutical industry guides issued by CFA Institute, pharmaceutical operations are not capital-intensive, and the valuation should be primarily based on earnings; and (iii) as stated in the above paragraph, the basic earnings per Share can be improved by approximately 12.0% upon Completion.

(c) Total liabilities

As stated in the Letter from the Board, the Share Buy-back will be paid in cash and funded by the Company's available cash flow and external financing. The total liabilities as at 30 June 2016 would increase by approximately 187.5% from approximately RMB264.0 million to approximately RMB759.0 million. The Company expects to repay such increased liabilities by internal resources as they fall due in the future. After considering the Company have not utilized the external banking facilities in the past and the Share buy-back is a good opportunity for the Company to utilise its available banking facilities as discussed in the paragraph headed "I. Background to and reasons for entering into of the Share Buy-back Agreement – c) Reasons for and benefits of the Share Buy-back" above, we concur with the Directors' view that the increase in total liabilities of the Company upon Completion of the Share Buy-back is acceptable.

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Shareholders should note that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon Completion.

VII. Other Consideration

(a) *Funding*

As stated in the paragraph headed “Funding of the Share Buy-back” in the Letter from the Board, the Company will fund the Share Buy-back from the Company’s available cash flow and external financing.

For the purpose of financing the Share Buy-back, the Company entered into a Commitment Letter (the “**Commitment Letter**”) with BNP Paribas (being the parent company of BNP Paribas Securities (Asia) Limited), acting through its Hong Kong Branch (the “**Lender**”), as the mandated lead arranger and bookrunner and facility agent, pursuant to which the Lender conditionally (conditions include but not limited to the signing of formal facility documents) agreed to grant to the Company a three year term loan facility of up to HK\$560,000,000 on 17 March 2017 with an interest rate of 2.0% per annum over relevant HIBOR, subject to the terms and conditions thereof, among others:

- i. Mr. AN and Central Success Developments Limited (which is wholly-owned by Mr. AN) and Ms. LI and Double Grace International Limited (which is wholly-owned by Ms. LI) shall not cease collectively to (i) be the beneficial owners, either directly or indirectly, of at least 30.0% of the issued share capital of the Company or (ii) be the single largest shareholder, either directly or indirectly, of the Company;
- ii. Central Success Developments Limited shall not cease to be wholly-owned by Mr. AN and/or his family; and
- iii. Double Grace International Limited shall not cease to be wholly-owned by Ms. LI and/or her family.

As at 30 June 2016, the Group has a healthy financial position without any external borrowing. As stated in the 2016 Interim Report, net cash generated from operating activities of the Group was approximately RMB130,254,000 and RMB39,156,000 for the six months ended 30 June 2016 and 30 June 2015 respectively. The increase in net cash generated from operating activities of the Group for the six months ended 30 June 2016 was mainly due to the increase of approximately 20.0% in profit of the Group for the six months ended 30 June 2016 as compared with that for the six months ended 30 June 2015. As stated in the 2015 Annual Report, net cash generated from operating activities of the Group was approximately RMB184,043,000 and RMB294,721,000 for the year ended 31 December 2015 and 31 December 2014 respectively. The decrease in net cash generated from operating activities of the Group for the year ended 31 December 2015 was mainly

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due to increase in trade and other receivables of arising from the increase in customers used bank acceptance bills with longer tenor to settle their purchases while the increase in the profit of the Group for the year ended 31 December 2015 was approximately 18.2% as compared with that for the year ended 31 December 2014. The Directors advised that using the aforesaid three year term loan facility for the payment of the consideration of the Share Buy-back can make the Company better utilized its available banking facilities. Moreover, the earning ability of the Group led to a continuous net cash generated from operating activities, providing the Group the ability to repay the borrowings. As a result, we consider it is reasonable for the Company to borrow funds to finance the Share Buy-back.

Shareholders should note that the ability of the repayment of the Commitment Letter by the Company depends on a number of factor including the following: (i) the future business prospect of the Company; (ii) the sustainability of the earning ability and health financial position of the Company; and (iii) the fluctuation of the interest rate. There is no assurance on the earning ability of the Group and that the ability of the repayment of the Commitment Letter by the Company may be materially and adversely affected.

(b) Special Dividends

The Company paid a final dividend of RMB\$0.075 (HK\$0.08878 equivalent as at the announcement date) per Share for the year ended 31 December 2015 and an interim dividend of RMB\$0.045 (HK\$0.0523 equivalent as at the announcement date) for the six months ended 30 June 2016.

Subject to (1) the Disinterested Shareholders approving at the EGM (i) the Share Buy-back Agreement and the transactions contemplated thereunder; (ii) the Whitewash Waiver; and (iii) the proposal for distribution of the Special Dividend; and (2) the completion of the Share Buy-back Agreement, the Board proposes the payment of a special dividend of HK\$0.1 per Share in cash in the aggregate amount of approximately HK\$82,813,000 (equivalent to approximately RMB73,198,000 at the exchange rate of HK\$1.0000 to RMB0.8839, assuming no further changes to the issued Shares from the Latest Practicable Date to the date when the Special Dividend is paid and excluding the Buy-back Shares) as soon as practicable after the Completion. As the Board proposes the record date for determining the entitlement of Shareholders to the Special Dividend will be a date after Completion, First Kind will not be entitled to the Special Dividend in respect of the Buy-back Shares.

Shareholders should note that if the Share Buy-back Agreement and the transactions contemplated thereunder and the Whitewash Waiver are not approved, the Special Dividend will not be paid.

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THE WHITEWASH WAIVER

If a Shareholder's proportionate interest in the voting rights of the Company increases as a result of the Share Buy-back, such increase will be treated as an acquisition of voting rights under Rule 32 of the Takeovers Code. As at the Latest Practicable Date, the Concert Group is interested in 446,913,078 Shares, representing approximately 45.87% of the total number of issued Shares of the Company. Save as the aforesaid, the Concert Group is not interested in any existing holding of voting rights or rights over the Shares. Assuming there are no changes to the shareholdings of the Concert Group and the total number of issued Shares of the Company from the Latest Practicable Date to Completion, upon Completion and cancellation of the Buy-back Shares, the percentage shareholding of the Concert Group will be increased to approximately 53.97% of the reduced total number of issued Shares of the Company upon Completion as a result of the Share Buy-back. In the circumstances, an obligation on the part of the Concert Group to make a general offer for all the Shares not already owned or agreed to be acquired by the Concert Group may arise as a result of the Share Buy-back. An application has been made to the Executive for the Whitewash Waiver. The Executive has agreed to, subject to, the approval of the Disinterested Shareholders at the EGM by way of poll to grant the Whitewash Waiver.

Based on our analysis of the business and financial performance of the Company, the Buy-back Price, and the effect of the Share Buy-back as set out above, we consider that the Share Buy-back is in the long-term interests of the Company and the Shareholders as a whole and is fair and reasonable as far as the Disinterested Shareholders are concerned. If the Whitewash Waiver is not granted by the Executive or if the Whitewash Waiver is not approved by the Disinterested Shareholders, the Share Buy-back Agreement will be terminated in accordance with its terms and the Company will lose all the benefits that are expected to be brought by the successful completion of the Share Buy-back.

RECOMMENDATION

Despite the net assets per Share will decrease upon Completion and the entering into the Facility Agreement for the payment of the consideration of the Share Buy-back will increase total liabilities of the Group, we have considered the above principal factors and reasons, in particular, the following:

- i. the positive performance and solid financial position of the Company as stated in the paragraph headed "I. Background to and reasons for entering into of the Share Buy-back Agreement – a) Information on the Company" above;
- ii. the Buy-back Price of HK\$3.837 is below the Average Closing Price and close to the lowest price of the Shares during the Review Period. Moreover, it is lower than the average buy back price of approximately HK\$4.1 per Share based on the historical on-market share buy back activities of the Company as stated in the section headed "III. Evaluation of the Buy-back Price" above;

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- iii. it is an opportunity for the Company to acquire a significant block of Shares at Buy-back Price without effecting the normal trading of the Shares in terms of both price and volume as stated in the section headed “IV. Trading volume of Shares” above and the paragraph headed “I. Background to and reasons for entering into of the Share Buy-back Agreement – c) Reasons for and benefits of the Share Buy-back – iii) *Opportunity to buy back a significant block of Shares*” above;
- iv. the Share Buy-back will increase the earnings per Share as stated in section headed “VI. Effect of the Share Buy-back – Earnings per Share” above.

Based on the above, we are of the opinion that, although the Share Buy-back is not in the ordinary and usual course of business of the Group, the terms of the Share Buy-back Agreement are fair and reasonable and the Share Buy-back is on normal commercial terms and, as far as the Disinterested Shareholders are concerned, is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise (i) the Independent Board Committee to recommend the Disinterested Shareholders; and (ii) the Disinterested Shareholders to vote in favour of the resolutions approving Share Buy-back Agreement and the transactions contemplated thereunder, including the Whitewash Waiver and the Share Buy-back at the EGM.

Yours faithfully,
For and on behalf of
TC Capital International Limited
Edward Wu
Chairman

Note: Mr. Edward Wu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2005. He has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

1. FINANCIAL SUMMARY

The following is a summary of the consolidated financial information of the Group for each of the three years ended 31 December 2015, as extracted from the relevant annual reports of the Company.

RESULTS	Year ended 31 December		
	2015	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	<u>831,108</u>	<u>730,683</u>	<u>571,765</u>
Profit before taxation	314,782	264,159	210,462
Income tax	<u>(65,093)</u>	<u>(52,959)</u>	<u>(57,580)</u>
Profit for the year	<u>249,689</u>	<u>211,200</u>	<u>152,882</u>
Profit for the year attributable to equity shareholders of the Company	<u>249,689</u>	<u>211,200</u>	<u>152,882</u>
Basic and diluted earnings per share	<u>RMB0.25</u>	<u>RMB0.21</u>	<u>RMB0.20</u>
Dividends paid			
Interim	–	38,000	–
Final	<u>28,000</u>	<u>–</u>	<u>–</u>
	<u>28,000</u>	<u>38,000</u>	<u>–</u>
Dividends proposed			
Interim	–	38,000	–
Final	<u>28,000</u>	<u>–</u>	<u>–</u>
	<u>28,000</u>	<u>38,000</u>	<u>–</u>
Dividends proposed per share			
Interim	–	RMB0.038	–
Final	<u>RMB0.028</u>	<u>–</u>	<u>–</u>
	<u>RMB0.028</u>	<u>RMB0.038</u>	<u>–</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

ASSETS AND LIABILITIES	Audited as of 31 December		
	2015	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	1,917,891	1,662,941	1,456,945
Total liabilities	<u>(281,136)</u>	<u>(229,755)</u>	<u>(199,581)</u>
Net assets	<u>1,636,755</u>	<u>1,433,186</u>	<u>1,257,364</u>
Total equity	<u>1,636,755</u>	<u>1,433,186</u>	<u>1,257,364</u>

Notes:

1. There were no exceptional items or extraordinary items because of size, nature or incidence during each of the three years ended 31 December 2015.
2. The auditor's reports of the Company for each of the year ended 31 December 2013, 2014 and 2015 do not contain any qualification.

The following financial information is extracted from the Company's interim report for the six months ended 30 June 2016:

RESULTS	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Revenue	<u>451,852</u>	<u>387,278</u>
Profit before taxation	178,138	151,518
Income tax	<u>(32,741)</u>	<u>(30,328)</u>
Profit for the period	<u>145,397</u>	<u>121,190</u>
Profit for the period attributable to equity shareholders of the Company	<u>145,397</u>	<u>121,190</u>
Basic and diluted earnings per share	<u>RMB0.15</u>	<u>RMB0.12</u>
Interim dividends per share	<u>—</u>	<u>RMB0.038</u>

2. FINANCIAL INFORMATION OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2015

Set out below is the full text of the audited financial statements of the Group extracted from the annual report of the Company for the year ended 31 December 2015.

Consolidated Statement of Financial Position

as at 31 December 2015 (Expressed in Renminbi)

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	9	223,773	229,914
Lease prepayments	10	23,574	24,201
Other investments	11	2,600	2,600
Interest in an associate	13	636,659	–
Prepayment for equity investment	14	62,458	–
Deferred tax assets	21	8,639	9,697
Total non-current assets		<u>957,703</u>	<u>266,412</u>
Current assets			
Inventories	15	71,014	53,482
Trade and other receivables	16	399,187	248,478
Other investments	11	–	250,900
Cash and cash equivalents	17	489,987	843,669
Total current assets		<u>960,188</u>	<u>1,396,529</u>
Current liabilities			
Trade and other payables	18	201,235	150,678
Deferred income	19	436	436
Current tax payable	21	27,679	27,133
Total current liabilities		<u>229,350</u>	<u>178,247</u>
Net current assets		<u>730,838</u>	<u>1,218,282</u>
Total assets less current liabilities		<u>1,688,541</u>	<u>1,484,694</u>
Non-current liabilities			
Deferred income	19	11,582	12,018
Deferred tax liabilities	21	40,204	39,490
Total non-current liabilities		<u>51,786</u>	<u>51,508</u>
Net assets		<u>1,636,755</u>	<u>1,433,186</u>
Capital and reserves			
Share capital	22(c)	78,074	78,250
Reserves	22(d)	1,558,681	1,354,936
Total equity		<u>1,636,755</u>	<u>1,433,186</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Statement of Profit or Loss**

for the year ended 31 December 2015 (Expressed in Renminbi)

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Revenue	2	831,108	730,683
Cost of sales		<u>(160,542)</u>	<u>(158,916)</u>
Gross profit		670,566	571,767
Other revenue	3(a)	32,830	37,585
Other net loss	3(b)	(1,501)	(96)
Distribution costs		(259,043)	(230,971)
Administrative expenses		<u>(122,946)</u>	<u>(114,126)</u>
Profit from operation		319,906	264,159
Finance costs	4(a)	(441)	–
Share of loss of an associate	13	<u>(4,683)</u>	<u>–</u>
Profit before taxation	4	314,782	264,159
Income tax	5(a)	<u>(65,093)</u>	<u>(52,959)</u>
Profit for the year attributable to equity shareholders of the Company		<u>249,689</u>	<u>211,200</u>
Earnings per share (RMB yuan)			
– Basic	8(a)	<u>0.25</u>	<u>0.21</u>
– Diluted	8(b)	<u>0.25</u>	<u>0.21</u>
Profit for the year		249,689	211,200
Other comprehensive income for the year that may be reclassified to profit or loss:			
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the “PRC”), net of tax		<u>40</u>	<u>348</u>
Total comprehensive income for the year attributable to equity shareholders of the Company		249,729	211,548

Consolidated Statement of Changes in Equity

for the year ended 31 December 2015 (Expressed in Renminbi)

						Shares held under	PRC			
	Note	Share capital	Share premium	Exchange reserve	Capital reserves	Other reserves	share award scheme	statutory reserve	Retained earnings	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 22	Note 22	Note 22	Note 22	Note 22		Note 22		
		(c)	(d)(i)	(d)(ii)	(d)(iii)	(d)(iv)		(d)(v)		
As at 1 January 2014		78,250	722,601	(181)	–	80,769	–	58,083	317,842	1,257,364
Changes in equity for 2014:										
Profit for the year		–	–	–	–	–	–	–	211,200	211,200
Other comprehensive income		–	–	348	–	–	–	–	–	348
Total comprehensive income		–	–	348	–	–	–	–	211,200	211,548
Appropriations to statutory reserve	22(d)	–	–	–	–	–	–	1,732	(1,732)	–
Interim dividends approved and paid	22(b)	–	(38,000)	–	–	–	–	–	–	(38,000)
Employees' Share Option Scheme	20(a)	–	–	–	47,633	–	–	–	–	47,633
Shares purchased under the Share Award Scheme	20(b)	–	–	–	–	–	(45,359)	–	–	(45,359)
As at 31 December 2014		78,250	684,601	167	47,633	80,769	(45,359)	59,815	527,310	1,433,186
As at 1 January 2015		78,250	684,601	167	47,633	80,769	(45,359)	59,815	527,310	1,433,186
Changes in equity for 2015:										
Profit for the year		–	–	–	–	–	–	–	249,689	249,689
Other comprehensive income		–	–	40	–	–	–	–	–	40
Total comprehensive income		–	–	40	–	–	–	–	249,689	249,729
Cancellation of shares during the year		(176)	(8,664)	–	–	–	–	–	–	(8,840)
Appropriations to statutory reserve	22(d)	–	–	–	–	–	–	613	(613)	–
Dividends approved and paid	22(b)	–	(28,000)	–	–	–	–	–	–	(28,000)
Employees' Share Option Scheme	20(a)	–	–	–	34,762	–	–	–	–	34,762
Shares purchased under the Share Award Scheme	20(b)	–	–	–	–	–	(44,638)	–	–	(44,638)
Shares granted under the Share Award Scheme	4(b)/ 20(b)	–	–	–	556	–	–	–	–	556
As at 31 December 2015		78,074	647,937	207	82,951	80,769	(89,997)	60,428	776,386	1,636,755

Consolidated Cash Flow Statement

for the year ended 31 December 2015 (Expressed in Renminbi)

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Operating activities			
Cash generated from operations	17(b)	246,818	337,346
PRC income tax paid		(62,775)	(42,625)
Net cash generated from operating activities		184,043	294,721
Investing activities			
Interest received		13,849	23,593
Payment for acquisition of an associate		(641,342)	–
Prepayment for equity investment	14	(62,458)	–
Payment for purchase of property, plant and equipment		(17,281)	(20,972)
Proceeds received from disposal of property, plant and equipment		526	–
Changes in available-for-sale financial assets		250,900	(250,900)
Net cash used in investing activities		(455,806)	(248,279)
Financing activities			
Proceeds of loans and borrowings		95,000	20,000
Repayments of loans and borrowings		(95,000)	(20,000)
Listing expenses paid		–	(21,440)
Dividends paid		(28,000)	(38,000)
Interest paid		(441)	–
Payment for purchase of shares under Share Award Scheme		(44,638)	(45,359)
Payment for purchase of shares which were subsequently cancelled		(8,840)	–
Net cash used in financing activities		(81,919)	(104,799)
Net decrease in cash and cash equivalents		(353,682)	(58,357)
Cash and cash equivalents at 1 January		843,669	902,026
Cash and cash equivalents at 31 December		489,987	843,669

Notes to the Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (“the Listing Rules”) on The Stock Exchange of Hong Kong Limited (“the Stock Exchange”). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associate.

The consolidated financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand, which is the functional currency of the subsidiaries carrying out the principal activities of the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 26.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contribution*
- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKAS 19, Employee benefits: Defined benefit plans: Employee contribution

The amendments introduce a relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the Group do not have defined benefit plans.

Annual Improvements to HKFRSs 2010-2012 and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, Related party disclosures has been amended to expand the definition of a “related party” to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group’s related party disclosures as the Group does not obtain key management personnel services from management entities.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company’s statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 1(j)).

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group’s share of the acquisition-date fair values of the investee’s identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group’s share of the investee’s net assets and any impairment loss relating to the investment (see Note 1(j)). Any acquisition-date excess over cost, the Group’s share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group’s share of the post-acquisition post-tax items of the investees’ other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

(f) Other investments

- (i) Investment in equity securities that does not have a quoted market price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (Note 1(j)).
- (ii) Financial assets at fair value through profit or loss are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction cost.

Financial assets at fair value through profit or loss are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any interest earned on these financial assets as these are recognised as it accrues using the effective interest method.

(g) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 1(j)):

- Buildings held for own use which are situated on leasehold land classified as held under operating leases (Note 1(i)); and
- Other items of plant and equipment.

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

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

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion
- Machinery and equipment 10 years
- Motor vehicles 5 years
- Office equipment 5 years

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

(h) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(i) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC government authorities. Land use rights are stated as cost less accumulated amortisation and impairment losses (Note 1(j)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of the rights.

(j) Impairment of assets**(i) Impairment of trade and other receivables**

Investments in trade and other receivables that are stated at cost or 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 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:

- For trade and other receivables carried at amortised cost, 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.
- If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses 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 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.

(ii) Impairment of other assets

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

- property, plant and equipment,
- lease prepayments,
- interest in associates,
- available-for-sale securities, and

- investment in subsidiaries in the Company's statement of financial position

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

- *Calculation of recoverable amount*

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

- *Recognition of impairment losses*

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

- *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 1(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(k) Inventories

Inventories are carried at the lower of cost and net 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.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (Note 1(j)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

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

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits***(i) Short term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Annual contributions to retirement benefit schemes operated by the government in the PRC are recognised in the profit or loss as and when incurred.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial tree model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Income tax

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

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) 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 non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) 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.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the statement 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.

(t) Related parties

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

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

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(u) Segment reporting

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

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the 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 Group's operating profit is entirely derived from activities of manufacturing and sale of pharmaceutical products in the PRC.

2 REVENUE

The principal activities of the Group are manufacturing and sales of pharmaceuticals.

Revenue represents the sales value of goods supplied to customers. Revenue excludes sales taxes and surcharges and is after deduction of any trade discounts. The amount of each significant category of revenue recognised during the year is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Kidney medicines	645,164	580,309
Contrast medium	121,460	107,083
Others	64,484	43,291
	<u>831,108</u>	<u>730,683</u>

Revenue from major customers contributing over 10% of the revenue of the Group, is as follows, including sales to entities which are known to the Group to be under common control with these customers:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Customer A	287,064	225,276
Customer B	N/A	85,739

Revenue from customer B contributed less than 10% of the revenue of the Group for the year ended 31 December 2015.

3 OTHER REVENUE AND OTHER NET LOSS**(a) Other revenue**

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Government grants		
– Unconditional subsidies (i)	509	7,211
– Conditional subsidies (<i>Note 19</i>)	436	1,549
Interest income	27,531	28,791
Others	4,354	34
	<u>32,830</u>	<u>37,585</u>

(i) Government grants represent various forms of incentives and subsidies granted to the Group by the local government authorities in the PRC.

(b) Other net loss

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Loss on disposal of property, plant and equipment	(1,554)	(95)
Others	53	(1)
	<u>(1,501)</u>	<u>(96)</u>

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Interest on bank loans	441	–

(b) Staff costs

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Salaries, wages, bonuses and benefits	114,243	122,917
Contribution to retirement schemes	4,566	4,565
Equity settled share-based payments:		
– Employees' Share Option Scheme (<i>Note 20(a)</i>)	34,762	47,633
– Share Award Scheme (<i>Note 20(b)</i>)	556	–
	<u>154,127</u>	<u>175,115</u>

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in defined contribution retirement benefit schemes (the “Schemes”) organised by the local government authorities whereby the PRC subsidiaries are required to make contributions to the Schemes based on certain percentages of the eligible employee’s salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

(c) **Other items**

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Depreciation	9	18,589	15,230
Amortisation	10	627	627
Auditor’s remuneration			
– audit services		2,100	1,150
– non-audit services		450	450
Impairment losses (reversed)/ recognised for doubtful debts	16(b)	(513)	175
Operating lease charges		970	1,024
Research and development cost [#]		31,287	27,475
Cost of inventories [*]	15	160,542	158,916
Listing expenses		–	420
		<u> </u>	<u> </u>

[#] During the year ended 31 December 2015, research and development cost include RMB6,497,000 (2014: RMB6,448,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 4(b) for each of these types of expenses.

^{*} During the year ended 31 December 2015, cost of inventories include RMB36,809,000 (2014: RMB33,839,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 4(b) for each of these types of expenses.

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) **Taxation in the consolidated statement of profit or loss represents:**

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current tax		
Provision for PRC income tax for the year	61,120	58,507
Under-provision for PRC income tax in respect of prior years	<u>2,201</u>	<u>–</u>
	63,321	58,507
Deferred tax		
Origination and reversal of temporary differences	<u>1,772</u>	<u>(5,548)</u>
	<u>65,093</u>	<u>52,959</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for the years ended 31 December 2014 and 2015.
- (iii) Taxable income for the subsidiaries of the Company in the PRC is subject to PRC income tax rate of 25%, unless otherwise specified.

Consun Pharmaceutical (Inner Mongolia) Co., Ltd. (“Inner Mongolia Consun”) and Guangzhou Consun Pharmaceutical Company Limited (“GZ Consun”) were qualified as an “Advanced and New Technology Enterprise”, Inner Mongolia Consun and GZ Consun are entitled to the preferential income tax rate of 15% from 2015 to 2017 and 2014 to 2016, respectively.

- (iv) According to the relevant tax law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. The Group has adopted the 10% withholding tax rate for PRC withholding tax purposes.

As GZ Consun is wholly owned by the Company, the Company can control the payments of dividends by GZ Consun. According to the Group’s plan and intention of reinvesting its earnings in its PRC business, it will not distribute any earnings of GZ Consun and its PRC subsidiaries generated after 1 January 2014 in the foreseeable future. As at 31 December 2015, the Group has undistributed earnings of the PRC subsidiaries totaling RMB449,328,000 (2014: RMB204,212,000) which will not be distributed in the foreseeable future. Accordingly, the Company has not provided for the related deferred tax liabilities on the undistributed earnings of the PRC subsidiaries totalling RMB44,933,000 as of 31 December 2015 (2014: RMB20,421,000).

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2015 RMB'000	2014 RMB'000
Profit before taxation for the year	314,782	264,159
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	79,491	64,198
Effect of non-deductible expenses	16,915	13,688
Effect of tax concession	(31,324)	(27,117)
Effect of unrecognised tax losses	–	2,190
Recognition of previous year unrecognised tax losses	(2,190)	–
Under-provision in respect of prior years	2,201	–
Actual tax expenses	65,093	52,959

6 DIRECTORS’ REMUNERATION

The details of directors’ remuneration are disclosed as follows:

	Year ended 31 December 2015					
	Directors’ fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contribution	Share-based payment (i)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. AN Yubao	1,300	1,080	4,778	–	8,782	15,940
Ms. LI Qian	1,320	974	4,778	19	8,782	15,873
Mr. ZHU Quan	435	729	–	–	2,157	3,321
Non-executive directors						
Mr. WANG Shunlong	–	–	–	–	–	–

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Year ended 31 December 2015

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contribution	Share-based payment (i)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Independent non-executive directors						
Mr. SU Yuanfu	120	–	–	–	–	120
Mr. FENG Zhongshi	120	–	–	–	–	120
Ms. CHENG Xinxin	120	–	–	–	–	120
	<u>3,415</u>	<u>2,783</u>	<u>9,556</u>	<u>19</u>	<u>19,721</u>	<u>35,494</u>

Year ended 31 December 2014

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contribution	Share-based payment (i)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors						
Mr. AN Yubao	1,300	1,080	3,353	–	8,668	14,401
Ms. LI Qian	1,320	974	3,353	25	8,668	14,340
Mr. ZHU Quan	435	771	–	–	2,645	3,851
Non-executive directors						
Mr. WANG Shunlong	–	–	–	–	–	–
Independent non-executive directors						
Mr. SU Yuanfu	120	–	–	–	–	120
Mr. FENG Zhongshi	120	–	–	–	–	120
Ms. CHENG Xinxin	120	–	–	–	–	120
	<u>3,415</u>	<u>2,825</u>	<u>6,706</u>	<u>25</u>	<u>19,981</u>	<u>32,952</u>

- (i) These represent the estimated value of share options granted to the directors under the Company's Share Option Scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 1(p)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Award Scheme" in the directors' report and Note 20.

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, three (2014: three) are directors of the Company whose emoluments are disclosed in Note 6. The aggregate of the emoluments in respect of the other two (2014: two) individuals are as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Salaries, allowance and benefits in kind	1,309	1,441
Contributions to retirement scheme	15	12
Employee share-based payment	1,654	2,027
	<u>2,978</u>	<u>3,480</u>

The emoluments of the two (2014: two) individuals with the highest emoluments are within the following bands:

	2015 Number of individuals	2014 Number of individuals
HK\$1,500,000 – HK\$2,000,000	1	1
HK\$2,000,000 – HK\$2,500,000	1	1

8 EARNINGS PER SHARE**(a) Basic earnings per share**

The calculation of basic earnings per share for the year ended 31 December 2015 is based on the profit attributable to equity shareholders of the Company of RMB249,689,000 (2014: RMB211,200,000) and the weighted average number of ordinary shares of 981,567,000 shares (2014: 998,519,000 shares) in issue during the year.

	2015 <i>'000 shares</i>	2014 <i>'000 shares</i>
Issued ordinary shares at 1 January	1,000,000	1,000,000
Effect of purchase of shares under Share Award Scheme	(18,147)	(1,481)
Effect of cancellation of shares during the year	(286)	–
	<u>981,567</u>	<u>998,519</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2015 is based on the profit attributable to equity shareholders of the Company of RMB249,689,000 (2014: RMB211,200,000) and the weighted average number of ordinary shares of 981,786,000 shares (2014: 998,519,000 shares).

	2015 <i>'000 shares</i>	2014 <i>'000 shares</i>
Weighted average number of ordinary shares	981,567	998,519
Effect of Awarded Shares under the Share Award Scheme	219	–
	<u>981,786</u>	<u>998,519</u>

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For the years ended 31 December 2015 and 2014, the effect of the Company's Share Option Scheme (see Note 20(a)) was anti-dilutive.

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Motor	Office	Construction	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>vehicles</i>	<i>equipment</i>	<i>in progress</i>	<i>RMB'000</i>
			<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:						
At 1 January 2014	136,029	58,733	8,990	10,348	81,032	295,132
Transfer from CIP	43,957	38,049	–	–	(82,006)	–
Other additions	1,457	1,425	1,545	841	7,701	12,969
Disposals	–	(349)	–	(260)	–	(609)
At 31 December 2014 and 1 January 2015	181,443	97,858	10,535	10,929	6,727	307,492
Transfer from CIP	6,991	523	–	–	(7,514)	–
Other additions	1,437	4,347	2,979	1,055	4,710	14,528
Disposals	(87)	(8,197)	(553)	(921)	–	(9,758)
At 31 December 2015	189,784	94,531	12,961	11,063	3,923	312,262
Accumulated depreciation:						
At 1 January 2014	(28,042)	(23,134)	(7,027)	(4,659)	–	(62,862)
Charge for the year	(6,289)	(7,050)	(499)	(1,392)	–	(15,230)
Written back on disposal	–	287	–	227	–	514
At 31 December 2014 and 1 January 2015	(34,331)	(29,897)	(7,526)	(5,824)	–	(77,578)
Charge for the year	(7,442)	(9,318)	(578)	(1,251)	–	(18,589)
Written back on disposal	49	6,404	498	727	–	7,678
At 31 December 2015	(41,724)	(32,811)	(7,606)	(6,348)	–	(88,489)
Net book value:						
At 31 December 2014	147,112	67,961	3,009	5,105	6,727	229,914
At 31 December 2015	148,060	61,720	5,355	4,715	3,923	223,773

As at 31 December 2015 and up to the date of this report, the Group is in the process of applying for certificates of ownership for certain properties, with carrying value of RMB29,381,000 (31 December 2014: RMB29,534,000). The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

10 LEASE PREPAYMENTS

	2015 RMB'000	2014 RMB'000
Cost:		
As at the beginning and the end of the year	29,808	29,808
Accumulated amortisation:		
As at the beginning of the year	(5,607)	(4,980)
Charge for the year	(627)	(627)
As at the end of the year	(6,234)	(5,607)
Net book value:		
As at the end of the year	23,574	24,201

Lease prepayments represent prepayments for land use rights paid to the PRC authorities. The leasehold lands are located in the PRC, on which the Group's manufacturing plants were built. The Group was granted land used rights for a period of 50 years initially and the remaining period range from 34 to 44 years.

11 OTHER INVESTMENTS

	2015 RMB'000	2014 RMB'000
Non-current assets		
Available-for-sale equity securities-unlisted (i)	2,600	2,600
Current assets		
Financial assets at fair value through profit or loss (ii)	–	250,900

- (i) Other investment of the Group represents an investment in a domestic medicine manufacturer located in Inner Mongolia autonomous region of the PRC. The Group owns a 5% equity interest in the domestic medicine manufacturer. There is not a quoted market price in an active market for the investment. Quoted prices in active market for similar investment or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted other investment is stated at cost less impairment, if any, in the consolidated financial statement.
- (ii) As at 31 December 2014, the Group held investment in certain wealth management products issued by banks in the PRC with principal amount of RMB250,900,000. The wealth management products matured in January and February 2015. Based on the agreements, the minimum and maximum return rate of the wealth management products would be 4.0% and 4.9% per annum respectively, which was subject to the fluctuation of Shanghai Shenzhen CSI 300 Index during the investment period. The principal amounts of the wealth management products were fully paid back upon maturity in 2015.

12 INVESTMENTS IN SUBSIDIARIES

As at 31 December 2015, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of company	Place of incorporation and business	Authorised and fully paid up capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
Brilliant Reach Group Limited	BVI	United States Dollars ("US\$") 50,000/US\$1	100%	–	Investment holding
Immense Value Holdings Limited	BVI	US\$50,000/US\$1	100%	–	Investment holding
Century International Develop Limited	Hong Kong	HK\$10,000/HK\$1	–	100%	Investment holding
Grand Reach Company Limited	Hong Kong	HK\$10,000/HK\$1,000	–	100%	Investment holding
GZ Consun	PRC	RMB300,000,000/ RMB300,000,000	–	100%	Production and sales of pharmaceutical products
Guangzhou Consun Medicine Company Limited	PRC	RMB3,000,000/ RMB3,000,000	–	100%	Trading of pharmaceutical products
Guangzhou Consun Pharmaceutical Research Company Limited	PRC	RMB10,000,000/ RMB10,000,000	–	100%	Research and development of pharmaceutical products
Inner Mongolia Consun	PRC	RMB25,000,000/ RMB25,000,000	–	100%	Production and sales of pharmaceutical products
Inner Mongolia Kangyuan Pharmaceutical Company Limited	PRC	RMB19,161,000/ RMB19,161,000	–	100%	Production and sales of pharmaceutical products

* The official name of the entity is in Chinese. The English translation of the entity's name is for reference only.

13 INTEREST IN AN ASSOCIATE

During the year ended 31 December 2015, the Group acquired 30.91% and 14.36% of equity interests in Guangxi Yulin Pharmaceutical Group Co., Ltd. ("廣西玉林製藥集團有限責任公司") ("Yulin Pharmaceutical") from predecessor shareholders of Yulin Pharmaceutical and an independent third party agent, respectively. The aggregate consideration was RMB641,342,000 and the Group effectively held 45.27% equity interest in Yulin Pharmaceutical as at 31 December 2015.

On 23 November 2015, the Group entered into a conditional equity transfer agreement with an independent third party agent to further acquire 5.76% equity interest in Yulin Pharmaceutical at a consideration of RMB69,361,000. Further details are disclosed in Note 14.

Details of the Group's interest in Yulin Pharmaceutical, which is an unlisted corporate entity whose quoted market price is not available, are as follows:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of registered and paid up capital	Proportion of ownership interest		Principal activity
				Group's effective interest	Held by a subsidiary	
Yulin Pharmaceutical	Limited liability company	The PRC	RMB148,834,102	45.27%	45.27%	Research, Manufacturing and sales of Chinese medicines and natural medicines

The associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of Yulin Pharmaceutical, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	As at 31 December 2015 RMB'000	From date of acquisition to 31 December 2015 RMB'000
Gross amounts of Yulin Pharmaceutical		
Current assets	331,126	
Non-current assets	759,837	
Current liabilities	257,030	
Non-current liabilities	99,831	
Equity	734,102	
Revenue		85,649
Loss for the period		(12,173)
Total comprehensive income for the period		(12,173)
Reconciled to the Group's interests in Yulin Pharmaceutical		
Gross amounts of net assets of the associate		734,102
Group's effective interest		45.27%
Group's share of net assets of the associate		332,328
Goodwill		304,331
Carrying amount in the consolidated financial statements		636,659

14 PREPAYMENT FOR EQUITY INVESTMENT

On 23 November 2015, the Group entered into a conditional equity transfer agreement with an independent third party agent to further acquire 5.76% equity interest in Yulin Pharmaceutical at a consideration of RMB69,361,000 ("Proposed Acquisition").

As at 31 December 2015, the Proposed Acquisition was not yet completed and the advance payment of RMB62,458,000 paid by the Group was recognised as prepayments for equity investment.

15 INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	25,049	16,552
Work in progress	17,197	10,653
Finished goods	28,768	26,277
	<u>71,014</u>	<u>53,482</u>

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

	2015 RMB'000	2014 RMB'000
Cost of inventories sold	160,376	159,078
Write down of inventories	166	–
Reversal of write-down of inventories	–	(162)
	<u>160,542</u>	<u>158,916</u>

16 TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade debtors	120,854	81,929
Bills receivable	242,868	154,538
Less: Allowance for doubtful debtors	(19)	(4,323)
	<u>363,703</u>	<u>232,144</u>
Trade receivables	363,703	232,144
Other receivables	22,756	11,534
Prepayments	12,728	4,800
	<u>399,187</u>	<u>248,478</u>

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	2015 RMB'000	2014 RMB'000
Within 3 months	362,954	231,910
3 to 12 months	749	233
Over 12 months	–	1
	<u>363,703</u>	<u>232,144</u>

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

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the 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 (Note 1(j)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	4,323	4,917
Impairment loss (reversed)/recognised	(513)	175
Uncollectible amounts written off	(3,791)	(769)
	<u>19</u>	<u>4,323</u>
At 31 December	<u><u>19</u></u>	<u><u>4,323</u></u>

As at 31 December 2015, the Group's trade debtors of RMB19,000 (31 December 2014: RMB5,964,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB19,000 (2014: RMB4,323,000) respectively were recognised.

(c) Trade debtors and bills receivable that are not impaired

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Neither past due nor impaired	362,954	230,270
Less than 1 month past due	465	95
1 to 3 months past due	186	71
More than 3 months but less than 12 months past due	98	67
	<u>749</u>	<u>233</u>
	<u><u>363,703</u></u>	<u><u>230,503</u></u>

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.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****17 CASH AND CASH EQUIVALENTS****(a) Cash and cash equivalents comprise:**

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cash at bank and on hand	489,987	843,669

(b) Reconciliation of profit before taxation to cash generated from operations:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Profit before taxation	314,782	264,159
Adjustments for		
Depreciation	18,589	15,230
Amortisation	627	627
Provision (reversed)/recognised for doubtful debts	(513)	175
Interest income	(27,531)	(28,791)
Interest expense	441	–
Loss on disposal of property, plant and equipment	1,554	95
Share-base payment transactions	35,318	47,633
Provision for inventories	166	–
Share of loss of an associate	4,683	–
Adjustments for		
Increase in inventories	(17,698)	(4,516)
Increase in trade and other receivables	(136,548)	(1,779)
Increase in trade and other payables	53,384	42,062
(Decrease)/increase in deferred income	(436)	2,451
Cash generated from operations	246,818	337,346

18 TRADE AND OTHER PAYABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade payables	39,760	36,416
Receipts in advance	1,276	3,666
Accrued expenses	54,635	26,909
Employee benefits payable	40,143	46,381
Other payables	65,421	37,306
	201,235	150,678

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 1 month	29,169	25,665
1 to 12 months	10,591	10,512
Over 12 months	—	239
	<u>39,760</u>	<u>36,416</u>

19 DEFERRED INCOME

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	12,454	10,003
Additions	—	4,000
Credited to profit or loss (<i>Note 3(a)</i>)	(436)	(1,549)
	<u>12,018</u>	<u>12,454</u>
At 31 December	<u>12,018</u>	<u>12,454</u>
Representing:		
Current portion	436	436
Non-current portion	<u>11,582</u>	<u>12,018</u>
	<u>12,018</u>	<u>12,454</u>

As at 31 December 2015 and 2014, deferred income of the Group mainly includes various conditional government grants for research and development projects of new or existing pharmaceutical products and subsidies relating to purchase of land use rights.

Deferred government grants relating to research and development projects will be recognised as income in the same periods in which the expenses for the development project are incurred. Deferred government grants relating to purchase of land use rights will be recognised as income on a straight-line basis over the expected useful life of the relevant land use rights.

20 EQUITY SETTLED SHARE-BASED PAYMENTS

(a) Employees' Share Option Scheme

The Company adopted a share option scheme on 2 December 2013 (the "Share Option Scheme") whereby the board of directors of the Company is authorised, at its discretion, to grant options to the directors and employees of the Group to subscribe for ordinary shares of the Company. The Company can issue options exercisable up to 100,000,000 ordinary shares under the Share Option Scheme.

During the year ended 31 December 2014, the Company granted 60,000,000 share options to certain directors and employees at a consideration of HK\$1 for each grantee. The exercise price of these share options was HK\$6.64 per share, and the aggregate fair value of these share options amounted to RMB138,095,000. The options vest after one year to five years from the date of grant and are then exercisable on or before 23 March 2024.

(i) *The terms and conditions of the grants are as follows:*

Date of grant	Tranche number	Number of options granted	Vesting conditions	Contractual life of options
Options granted to employees:				
28 March 2014	Tranche 1	9,100,000	1 year after the date of grant	10 years
28 March 2014	Tranche 2	9,100,000	2 years after the date of grant	10 years
28 March 2014	Tranche 3	10,800,000	3 years after the date of grant	10 years
28 March 2014	Tranche 4	4,000,000	4 years after the date of grant	10 years
28 March 2014	Tranche 5	4,000,000	5 years after the date of grant	10 years
Options granted to directors:				
28 March 2014	Tranche 1	900,000	1 year after the date of grant	10 years
28 March 2014	Tranche 2	900,000	2 years after the date of grant	10 years
28 March 2014	Tranche 3	1,200,000	3 years after the date of grant	10 years
28 May 2014	Tranche 6	6,000,000	1 year after the date of grant	9.8 years
28 May 2014	Tranche 7	6,000,000	2 years after the date of grant	9.8 years
28 May 2014	Tranche 8	8,000,000	3 years after the date of grant	9.8 years
Total share options granted		60,000,000		

(ii) *The number and weighted average exercise prices of share options are as follows:*

	2015		2014	
	Weighted average exercise price HKD	Number of options '000	Weighted average exercise price HKD	Number of options '000
Outstanding at the beginning of the year	6.64	59,600	—	—
Granted during the year	—	—	6.64	60,000
Forfeit during the year	6.64	(6,754)	6.64	(400)
Outstanding at the end of the year	6.64	52,846	6.64	59,600
Exercisable at the end of the year	6.64	10,866	—	—

The options outstanding at 31 December 2015 had an exercise price of HK\$6.64 and a weighted-average remaining contractual life of 8.3 years.

(iii) *Fair value of share options and assumptions:*

The fair value of services received in return for the share options granted is measured by reference to the fair value of share options granted. The estimated fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share options is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model. Set out below are the fair value of share options and assumptions.

	Tranche number							
	1	2	3	4	5	6	7	8
Fair value at measurement date (HK\$)	2.60	2.83	3.04	3.23	3.39	2.57	2.82	3.05
Share price (HK\$)	5.85	5.85	5.85	5.85	5.85	6.01	6.01	6.01
Exercise price (HK\$)	6.64	6.64	6.64	6.64	6.64	6.64	6.64	6.64
Expected volatility	57.98%	57.98%	57.98%	57.98%	57.98%	57.97%	57.97%	57.97%

	Tranche number							
	1	2	3	4	5	6	7	8
Expected option life	10 years	10 years	10 years	10 years	10 years	9.8 years	9.8 years	9.8 years
Expected dividends	—	—	—	—	—	—	—	—
Risk-free rate	2.26%	2.26%	2.26%	2.26%	2.26%	1.91%	1.91%	1.91%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service conditions. The conditions had not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

(b) Share Award Scheme

On 21 July 2014, the Board of Directors of the Company approved the adoption of a share award scheme (the “Share Award Scheme”) under which shares of the Company (the “Awarded Shares”) may be awarded to selected employees (the “Selected Employees”) in accordance with the provisions of the Share Award Scheme and the nominal value of the shares awarded under the Share Award Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

The purposes of the Share Award Scheme are to recognise the contributions by the Selected Employees and provide them with incentives in order to retain them for the continual operation and development of the Group and attract suitable personnel for the further development of the Group.

Unless terminated earlier by the Board of Directors in accordance with the rules of the Share Award Scheme, the Share Award Scheme will be valid and effective for a term of 10 years commencing on the date of adoption.

(i) Details of the shares held under the Share Award Scheme are set out below:

	Average purchase price HK\$	No. of shares held '000	Value of shares	
			HK\$'000	RMB'000
At 1 January 2015		9,528	57,207	45,359
Shares purchased during the year	5.38	10,472	56,357	44,638
At 31 December 2015		20,000	113,564	89,997

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	Average purchase price HK\$	No. of shares held '000	Value of shares	
			HK\$'000	RMB'000
At 1 January 2014		—	—	—
Shares purchased during the year	5.99	9,528	57,207	45,359
At 31 December 2014		9,528	57,207	45,359

- (ii) During the year ended 31 December 2015, the Company granted 2,192,324 shares to 517 employees of the Group. The fair value of these Awarded Shares amounted to RMB9,852,000. Details are as follows:

Date of grant	Vesting date	Number of Awarded Shares		
		Granted	Forfeited	Unvested
7 May 2015	30 June 2016	1,096,162	939,839	156,323
7 May 2015	31 December 2016	1,096,162	917,345	178,817
Total		2,192,324	1,857,184	335,140

The estimated fair value of the Awarded Shares on the grant date is determined by reference to the market price of the Company's shares.

The Group recognised share award expenses of RMB556,000 during the year ended 31 December 2015 (2014: nil) with a corresponding increase in a capital reserve within equity.

21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

- (a) Current taxation in the consolidated statement of financial position represents:

	2015 RMB'000	2014 RMB'000
At 1 January	27,133	11,251
Provision of PRC income tax for the year	61,120	58,507
Under-provision for PRC income tax in respect of prior years	2,201	—
PRC income tax paid during the year	(62,775)	(42,625)
At 31 December	27,679	27,133

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax assets/ (liabilities) arising from:	Withholding tax on future dividend income from PRC subsidiaries RMB'000	Unused tax losses [#] RMB'000	Provisions and accruals RMB'000	Fair value adjustment from business acquisition RMB'000	Intra group unrealised profits RMB'000	Share of loss of an associate RMB'000	Total RMB'000
At 1 January 2014	(40,850)	1,343	3,215	(2,171)	3,122	–	(35,341)
(Charged)/credited to profit or loss	–	(74)	5,213	128	281	–	5,548
At 31 December 2014 and 1 January 2015	(40,850)	1,269	8,428	(2,043)	3,403	–	(29,793)
(Charged)/credited to profit or loss	–	(781)	(979)	66	(780)	702	(1,772)
At 31 December 2015	(40,850)	488	7,449	(1,977)	2,623	702	(31,565)

Deferred tax assets are recognised on unused tax losses of certain PRC subsidiaries of the Group. They are now progressing to their normal operation stage and are deriving profits. Accordingly, it is considered probable that sufficient taxable profits will be available in the future to utilize their unused tax losses before they expire. As at 31 December 2015, tax losses of RMB446,000, RMB509,000 and RMB998,000 will expire in 2018, 2019 and 2020 respectively.

(c) Reconciliation to the consolidated statement of financial position

	2015 RMB'000	2014 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	8,639	9,697
Net deferred tax liability recognised in the consolidated statement of financial position	(40,204)	(39,490)
	(31,565)	(29,793)

(d) Deferred tax liabilities not recognised:

As at 31 December 2015, temporary differences relating to the undistributed profits of the Group's PRC subsidiaries amounted to RMB449,328,000 (2014: RMB204,212,000). Deferred tax liabilities of RMB44,933,000 (2014: RMB20,421,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of its PRC subsidiaries and the directors have determined that the profits will not be distributed in the foreseeable future.

22 CAPITAL, RESERVE AND DIVIDENDS**(a) Movement in components of equity**

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	The Company						
	Share capital	Share premium	Other reserves	Capital reserves	Shares held under Share Award Scheme	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	78,250	722,601	356,472	–	–	3,596	1,160,919
Interim dividends approved and paid	–	(38,000)	–	–	–	–	(38,000)
Employees' Share Option Scheme	–	–	–	47,633	–	–	47,633
Shares purchased under the Share Award Scheme	–	–	–	–	(45,359)	–	(45,359)
Total comprehensive income for the year	–	–	–	–	–	7,758	7,758
At 31 December 2014 and 1 January 2015	78,250	684,601	356,472	47,633	(45,359)	11,354	1,132,951
Dividends approved and paid	–	(28,000)	–	–	–	–	(28,000)
Employees' Share Option Scheme	–	–	–	34,762	–	–	34,762
Shares purchased under the Share Award Scheme	–	–	–	–	(44,638)	–	(44,638)
Shares granted under the Share Award Scheme	–	–	–	556	–	–	556
Cancellation of shares during the year	(176)	(8,664)	–	–	–	–	(8,840)
Total comprehensive income for the year	–	–	–	–	–	(3,004)	(3,004)
At 31 December 2015	<u>78,074</u>	<u>647,937</u>	<u>356,472</u>	<u>82,951</u>	<u>(89,997)</u>	<u>8,350</u>	<u>1,083,787</u>

(b) Dividends**(i) Dividends payable to equity shareholders of the Company attributable to the year**

	2015 RMB'000	2014 RMB'000
Interim dividend declared and paid of RMB nil per ordinary share (2014: RMB0.038)	–	38,000
Final dividend proposed after the end of the year of RMB0.075 per ordinary share (2014: RMB0.028)	<u>74,119</u>	<u>28,000</u>
	<u>74,119</u>	<u>66,000</u>

The final dividend proposed after the end of the year has not been recognised as liabilities as at the end of the year.

- (ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2015 RMB'000	2014 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.028 per ordinary share (2014: Nil)	28,000	–

(c) **Share capital**

Authorised and issued share capital

	2015 Number of Shares	HK\$'000	2014 Number of Shares	HK\$'000
Authorised				
Ordinary shares of HK\$0.10 each	5,000,000,000	500,000	5,000,000,000	500,000

Ordinary shares, issued and fully paid

	2015 Number of shares '000	Nominal value of fully paid shares HK\$'000	Nominal value of fully paid shares RMB'000	2014 Number of shares '000	Nominal value of fully paid shares HK\$'000	Nominal value of fully paid shares RMB'000
At 1 January	1,000,000	100,000	78,250	1,000,000	100,000	78,250
Cancellation of shares during the year (i)	(2,243)	(224)	(176)	–	–	–
As at 31 December	997,757	99,776	78,074	1,000,000	100,000	78,250

- (i) During the year ended 31 December 2015, 2,243,000 ordinary shares were repurchased at the average purchase price of HK\$4.70 per share by the Company and cancelled.
- (ii) At 31 December 2015, 20,000,000 ordinary shares were held by the Company under the Share Award Scheme (31 December 2014: 9,528,000) (see Note 20(b)).

(d) **Nature and purpose of reserves**

(i) *Share premium*

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial information of operations with functional currency other than RMB.

(iii) *Capital reserve*

The capital reserve represents the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 1(p)(ii).

(iv) *Other reserves*

The other reserves of the Group represent the difference between (a) the nominal value of share capital of GZ Consun; and (b) the nominal value of the shares issued by the Company in exchange under the reorganisation of the Group completed on 24 December 2012.

The other reserves of the Company represent the difference between (a) the consolidated net assets of the subsidiaries acquired; and (b) the nominal value of the shares issued by the Company in exchange under the reorganisation of the Group completed on 24 December 2012.

(v) *PRC statutory reserves*

Pursuant to the articles of association of the Group's PRC subsidiaries now comprising the Group, appropriations to the PRC statutory reserves were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC, until the PRC statutory reserves was equal to 50% of the entity's registered capital. The percentage for this appropriation was decided by the directors of the respective subsidiaries. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

During 2015, GZ Consun transferred 10% of their net profit of RMB613,000 to the PRC statutory reserves. The PRC statutory reserves balances of Inner Mongolia Consun had reached 50% of their registered capital, and no further appropriation was made for the year ended 31 December 2015. Other PRC subsidiaries of the Group had made losses during 2015 or had accumulated losses, no appropriation was made accordingly.

(e) **Distributability of reserves**

The aggregate amount of distributable reserves of the Company as at 31 December 2015 was RMB1,005,713,000 (31 December 2014: RMB1,052,427,000).

(f) **Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and cash equivalents. Adjusted capital comprises all components of equity. The Group did not have adjusted net debt during the year.

During the year, the Group's strategy was to maintain the debt-to-equity ratio at a level considered reasonable by the Group's management from time to time with reference to the prevailing market conditions. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares or raise new debt financing.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) **Credit risk**

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 12 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2014 and 2015, 29% and 28% of the total trade receivables were due from the Group's largest customer and 43% and 45% of the total trade receivables were due from the five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 16.

(b) Liquidity risk

The Group's approach in managing liquidity is to ensure, as far as possible, that the Group maintains sufficient reserves of liquid funds to meet its liabilities when they fall due, under both normal and stressed conditions.

The following are the contractual maturities of financial liabilities (exclude receipts in advance), which are based on contractual undiscounted cash flows (including interest payments computed at contracted rates) and the earliest date the Group can be required to repay:

At 31 December 2015			
Contractual undiscounted cash outflow			
Within 1 year or on demand	More than 1 year but less than 5 years	Total	Carrying amount
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and other payables	199,959	–	199,959
	<u>199,959</u>	<u>–</u>	<u>199,959</u>

At 31 December 2014			
Contractual undiscounted cash outflow			
Within 1 year or on demand	More than 1 year but less than 5 years	Total	Carrying amount
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade and other payables	147,012	–	147,012
	<u>147,012</u>	<u>–</u>	<u>147,012</u>

(c) Fair values

The carrying amounts of all financial assets and liabilities carried at amortised cost approximate their respective fair values as at 31 December 2014 and 2015 due to the short maturities of these instruments.

(d) Interest rate risk

The Group does not have significant exposure to interest rate risk as it does not expect interest rate fluctuation would have any significant impact on the fair value or cash flows of its cash and bank deposits held as at 31 December 2015.

(e) Currency risk

As the Group's principal activities are carried out in the PRC, the Group's transactions are mainly denominated in Renminbi, which is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

The Group is exposed to currency risk primarily from cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Hong Kong dollars.

Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB translated using the spot rate at the period end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in Renminbi)	
	2015	2014
	Hong Kong Dollars	Hong Kong Dollars
	<i>RMB'000</i>	<i>RMB'000</i>
Cash and cash equivalents	2,040	6,982

The Group had no significant foreign exchange exposure as at 31 December 2015, as the cash and cash equivalents held by the Group denominated in the currency other than Renminbi was insignificant.

24 CAPITAL COMMITMENTS

Capital commitments outstanding as at 31 December 2015 not provided for in the consolidated financial statements were as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	3,776	1,809
Authorised but not contracted for	4,320	7,242
Total	8,096	9,051

25 MATERIAL RELATED PARTY TRANSACTIONS**Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 6 and certain of the highest paid employees as disclosed in Note 7, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Salaries and other benefits	19,961	17,776
Retirement scheme of defined contribution	95	100
Equity settled share-based payment expenses	23,100	24,124
	<u>43,156</u>	<u>42,000</u>

Total remuneration is included in "staff costs" (see Note 4(b)).

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

26 ACCOUNTING ESTIMATES AND JUDGEMENTS

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value.

The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expense for future years is adjusted if there are significant changes from previous estimation.

(b) Impairments

- (i) In considering the impairment losses that may be required for certain property, plant and equipment and lease prepayments, recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.
- (ii) Impairment losses for doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer.

An increase or decrease in the above impairment losses would affect the net profit or loss in future years.

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current assets			
Investment in subsidiaries		342,444	342,444
Trade and other receivables		—	6,104
Total non-current assets		342,444	348,548
Current assets			
Trade and other receivables		353,276	281,003
Cash and cash equivalents		401,185	513,293
Total current assets		754,461	794,296
Current liabilities			
Other payables		13,118	9,893
Net current assets		741,343	784,403
Total assets less current liabilities		1,083,787	1,132,951
Capital and reserves			
Share capital	22(c)	78,074	78,250
Reserves		1,005,713	1,054,701
Total equity		1,083,787	1,132,951

28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) After the end of the reporting period, the Company repurchased 9,501,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of HK\$40,642,000 (approximately RMB34,288,000). The shares repurchased by the Company were subsequently cancelled on 26 February 2016.
- (b) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 22(b).

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
<i>Annual Improvements to HKFRSs 2012-2014 Cycle</i>	1 January 2016
Amendments to HKFRS 10 and HKAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	1 January 2016
Amendments to HKAS 1, <i>Disclosure initiative</i>	1 January 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact of the Group's results of operations and financial position.

3. UNAUDITED FINANCIAL STATEMENTS

Set out below is the full text of the unaudited consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, condensed consolidated statement of cash flows and notes to the unaudited interim financial report as extracted from pages 16 to 50 of the interim report of the Group for the six months ended 30 June 2016. References to page number in this section are to the page numbers of such interim report of the Group.

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2016 – unaudited (Expressed in Renminbi)

		For the six months ended 30 June	
	<i>Note</i>	2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	451,852	387,278
Cost of sales		<u>(95,048)</u>	<u>(76,404)</u>
Gross profit		356,804	310,874
Other revenue	6	3,331	17,197
Other net losses	6	(719)	(1,554)
Distribution costs		(136,271)	(116,615)
Administrative expenses		<u>(48,872)</u>	<u>(58,384)</u>
Profit from operation		174,273	151,518
Share of profit of an associate	11	<u>3,865</u>	<u>–</u>
Profit before taxation	7	178,138	151,518
Income tax expenses	8	<u>(32,741)</u>	<u>(30,328)</u>
Profit for the period attributable to equity shareholders of the Company		<u>145,397</u>	<u>121,190</u>
Earnings per share (RMB yuan)			
– Basic	9	<u>0.15</u>	<u>0.12</u>
– Diluted	9	<u>0.15</u>	<u>0.12</u>

The notes on pages 23 to 50 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 17(a).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2016 – unaudited (Expressed in Renminbi)

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	145,397	121,190
Other comprehensive income for the period that may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC"), net of tax	<u>214</u>	<u>60</u>
Total comprehensive income for the period attributable to equity shareholders of the Company	<u><u>145,611</u></u>	<u><u>121,250</u></u>

The notes on pages 23 to 50 form part of this interim financial report.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Consolidated Statement of Financial Position**

at 30 June 2016 – unaudited (Expressed in Renminbi)

	<i>Note</i>	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	10	219,583	223,773
Lease prepayments		23,261	23,574
Other investment		2,600	2,600
Interest in an associate	11	672,136	636,659
Prepayment for equity investment	11	62,458	62,458
Deferred tax assets		10,825	8,639
Total non-current assets		990,863	957,703
Current assets			
Inventories	12	48,217	71,014
Trade and other receivables	13	401,484	399,187
Cash and cash equivalents	14	455,873	489,987
Total current assets		905,574	960,188
Current liabilities			
Trade and other payables	15	184,472	201,235
Deferred income		436	436
Current tax payables		27,945	27,679
Total current liabilities		212,853	229,350
Net current assets		692,721	730,838
Total assets less current liabilities		1,683,584	1,688,541
Non-current liabilities			
Deferred income		11,363	11,582
Deferred tax liabilities		39,783	40,204
Total non-current liabilities		51,146	51,786
Net assets		1,632,438	1,636,755
Capital and reserves			
Share capital	17(b)	76,294	78,074
Reserves		1,556,144	1,558,681
Total equity		1,632,438	1,636,755

Approved and authorised for issue by the board of directors on 30 August 2016.

The notes on pages 23 to 50 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2016 – unaudited (Expressed in Renminbi)

		Share capital	Share premium	Exchange reserve	Capital reserves	Other reserves	Treasury shares held under Share Award Scheme	PRC statutory reserve	Retained earnings	Total
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015		78,250	684,601	167	47,633	80,769	(45,359)	59,815	527,310	1,433,186
Changes in equity for the six months ended 30 June 2015:										
Profit for the period		–	–	–	–	–	–	–	121,190	121,190
Other comprehensive income		–	–	60	–	–	–	–	–	60
Total comprehensive income		–	–	60	–	–	–	–	121,190	121,250
Dividends approved and paid	17(a)	–	(28,000)	–	–	–	–	–	–	(28,000)
Employees' Share Option Scheme	7(a)	–	–	–	17,401	–	–	–	–	17,401
Shares purchased under the Share Award Scheme	16(b)(i)	–	–	–	–	–	(44,638)	–	–	(44,638)
Shares granted under the Share Award Scheme	7(a)/16(b)(ii)	–	–	–	119	–	–	–	–	119
As at 30 June 2015		<u>78,250</u>	<u>656,601</u>	<u>227</u>	<u>65,153</u>	<u>80,769</u>	<u>(89,997)</u>	<u>59,815</u>	<u>648,500</u>	<u>1,499,318</u>

The notes on pages 23 to 50 form part of this interim financial report.

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

		Share capital	Share premium	Exchange reserve	Capital reserves	Other reserves	Treasury Shares held under share award scheme	Other treasury shares	PRC statutory reserve	Retained earnings	Total
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 July 2015		78,250	656,601	227	65,153	80,769	(89,997)	–	59,815	648,500	1,499,318
Changes in equity for the six months ended 31 December 2015:											
Profit for the period		–	–	–	–	–	–	–	–	128,499	128,499
Other comprehensive income		–	–	(20)	–	–	–	–	–	–	(20)
Total comprehensive income		–	–	(20)	–	–	–	–	–	128,499	128,479
Purchase of own shares during the period		–	–	–	–	–	–	(8,840)	–	–	(8,840)
Cancellation of shares during the period		(176)	(8,664)	–	–	–	–	8,840	–	–	–
Appropriations to statutory reserve		–	–	–	–	–	–	–	613	(613)	–
Employees' Share Option Scheme		–	–	–	17,361	–	–	–	–	–	17,361
Shares granted under the Share Award Scheme		–	–	–	437	–	–	–	–	–	437
As at 31 December 2015		<u>78,074</u>	<u>647,937</u>	<u>207</u>	<u>82,951</u>	<u>80,769</u>	<u>(89,997)</u>	<u>–</u>	<u>60,428</u>	<u>776,386</u>	<u>1,636,755</u>
As at 1 January 2016		78,074	647,937	207	82,951	80,769	(89,997)	–	60,428	776,386	1,636,755
Changes in equity for the six months ended 30 June 2016:											
Profit for the period		–	–	–	–	–	–	–	–	145,397	145,397
Other comprehensive income		–	–	214	–	–	–	–	–	–	214
Total comprehensive income		–	–	214	–	–	–	–	–	145,397	145,611
Purchase of own shares during the period	17(b)(i)	–	–	–	–	–	–	(81,132)	–	–	(81,132)
Cancellation of shares during the period	17(b)(i)	(1,780)	(76,828)	–	–	–	–	78,608	–	–	–
Dividends approved and paid	17(a)	–	(71,570)	–	–	–	–	–	–	–	(71,570)
Employees' Share Option Scheme	7(a)	–	–	–	2,170	–	–	–	–	–	2,170
Shares granted under the Share Award Scheme	7(a)/16(b)(ii)	–	–	–	604	–	–	–	–	–	604
Shares vested under the Share Award Scheme	16(b)(i)	–	–	–	(636)	–	636	–	–	–	–
As at 30 June 2016		<u>76,294</u>	<u>499,539</u>	<u>421</u>	<u>85,089</u>	<u>80,769</u>	<u>(89,361)</u>	<u>(2,524)</u>	<u>60,428</u>	<u>921,783</u>	<u>1,632,438</u>

The notes on pages 23 to 50 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2016 – unaudited (Expressed in Renminbi)

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Operating activities		
Cash generated from operations	165,336	84,196
Income tax paid	(35,082)	(45,040)
Net cash generated from operating activities	<u>130,254</u>	<u>39,156</u>
Investing activities		
Payment for interest in an associate	(26,790)	–
Decrease in available-for-sale financial assets	–	250,900
Other cash flows arising from investing activities	<u>15,124</u>	<u>1,693</u>
Net cash (used in)/generated from investing activities	<u>(11,666)</u>	<u>252,593</u>
Financing activities		
Dividends paid	(71,570)	(28,000)
Payment for purchase of shares under the Share Award Scheme	–	(44,638)
Payment for repurchase of shares which were subsequently cancelled or held by the Company	<u>(81,132)</u>	<u>–</u>
Net cash used in financing activities	<u>(152,702)</u>	<u>(72,638)</u>
Net (decrease)/increase in cash and cash equivalents	(34,114)	219,111
Cash and cash equivalents at 1 January	<u>489,987</u>	<u>843,669</u>
Cash and cash equivalents at 30 June	<u><u>455,873</u></u>	<u><u>1,062,780</u></u>

The notes on pages 23 to 50 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 30 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of the changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. It has also been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 51 to 52.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company’s registered office.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim Financial Reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group’s interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

3 SEGMENT REPORTING

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

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

No geographic information is presented as the Group's operating profit is entirely derived from its business activities in the PRC.

4 SEASONALITY OF OPERATION

The Group experiences on average over 50% higher in sales of pharmaceutical products in the fourth quarter as compared with other quarters in the year, because the Group generally makes more sales to distributors in the fourth quarter of the year prior to new year holidays. The Group anticipates this demand by increasing its production to build up inventories during the second half of the year.

For the twelve months ended 30 June 2016, the Group reported revenue of RMB895,682,000 (twelve months ended 30 June 2015: RMB797,739,000), and gross profit of RMB716,496,000 (twelve months ended 30 June 2015: RMB632,862,000).

5 REVENUE

The principal activities of the Group are manufacturing and sales of pharmaceuticals.

The amount of each significant categories of revenue recognised during the period is as follows:

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Kidney medicines	348,611	303,002
Contrast medium	66,694	62,658
Others	36,547	21,618
	<u>451,852</u>	<u>387,278</u>

6 OTHER REVENUE AND OTHER NET LOSSES**(a) Other revenue**

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants		
– Unconditional subsidies	747	362
– Conditional subsidies	218	218
Interest income	1,483	15,685
Others	883	932
	<u>3,331</u>	<u>17,197</u>

(b) Other net losses

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal of property, plant and equipment	(687)	(1,554)
Others	(32)	–
	<u>(719)</u>	<u>(1,554)</u>

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Staff costs:

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages, bonuses and benefits	71,084	50,708
Contribution to retirement schemes	2,387	2,044
Equity settled share-based payments:		
Share Option Scheme (note 16(a))	2,170	17,401
Share Award Scheme (note 16(b)(ii))	604	119
	<u>76,245</u>	<u>70,272</u>

(b) Other items:

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation	8,324	9,256
Amortisation	313	313
Impairment losses recognised/(reversed) for doubtful debts	138	(634)
Operating lease charges	972	302
Research and development costs [#]	5,942	6,897
Cost of inventories [*]	95,048	76,404

[#] During the six months ended 30 June 2016, research and development costs include RMB2,869,000 (six months ended 30 June 2015: RMB2,609,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 7(a) for each of these types of expenses.

^{*} During the six months ended 30 June 2016, cost of inventories include RMB15,865,000 (six months ended 30 June 2015: RMB17,010,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 7(a) for each of these types of expenses.

8 INCOME TAX EXPENSES

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax	35,348	28,218
Deferred tax		
Origination and reversal of temporary differences	(2,607)	2,110
	<u>32,741</u>	<u>30,328</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for six months ended 30 June 2016 (six months ended 30 June 2015: nil).
- (iii) Taxable income for the subsidiaries of the Company in the PRC is subject to PRC income tax rate of 25%, unless otherwise specified.

Consun Pharmaceutical (Inner Mongolia) Co., Ltd. (“**Inner Mongolia Consun**”) and Guangzhou Consun Pharmaceutical Company Limited (“**Guangzhou Consun**”) were qualified as “Advanced and New Technology Enterprise”, thus Inner Mongolia Consun and Guangzhou Consun were entitled to the preferential income tax rate of 15% from 2015 to 2017 and from 2014 to 2016, respectively.

- (iv) According to the relevant tax law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. The Group has adopted withholding tax at 10% for PRC withholding tax purposes.

As Guangzhou Consun is wholly owned by the Company, the Company can control the payments of dividends made from Guangzhou Consun. According to the Group’s plan and intention of reinvesting its earnings in its PRC business, it will not distribute any earnings of Guangzhou Consun and its PRC subsidiaries generated after 1 January 2014 in the foreseeable future. As at 30 June 2016, the Group has undistributed earnings of the PRC subsidiaries totaling RMB605,962,000 (as at 31 December 2015: RMB449,328,000) which will not be distributed in the foreseeable future. Accordingly, the Company has not provided for the related deferred tax liabilities on the undistributed earnings of the PRC subsidiaries totalling RMB60,596,000 as at 30 June 2016 (31 December 2015: RMB44,933,000).

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB145,397,000 (six months ended 30 June 2015: RMB121,190,000) and the weighted average number of 964,652,000 ordinary shares (six months ended 30 June 2015: 983,705,000 shares) in issue during the interim period.

	For the six months ended 30 June	
	2016	2015
	'000 shares	'000 shares
Issued ordinary shares less treasury shares at 1 January	977,757	990,472
Effect of shares repurchased	(13,105)	(6,767)
Weighted average number of ordinary shares	<u>964,652</u>	<u>983,705</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB145,397,000 (six months ended 30 June 2015: RMB121,190,000) and the weighted average number of ordinary shares of 964,964,000 (six months ended 30 June 2015: 983,752,000 shares).

	For the six months ended 30 June	
	2016 '000 shares	2015 '000 shares
Weighted average number of ordinary shares	964,652	983,705
Effect of Awarded Shares under the Share Award Scheme	312	47
Weighted average number of ordinary shares (diluted)	<u>964,964</u>	<u>983,752</u>

For the period ended 30 June 2016 and 2015, the effect of the Company's Share Option Scheme (see note 16(a)) was anti-dilutive.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired items of property, plant and machinery with a cost of RMB4,919,000 (six months ended 30 June 2015: RMB7,395,000).

11 INTEREST IN AN ASSOCIATE AND PREPAYMENT FOR EQUITY INVESTMENT

During the six months ended 30 June 2016, the Group further acquired 3.60% equity interests in Guangxi Yulin Pharmaceutical Group Co., Ltd. ("廣西玉林製藥集團有限責任公司") ("**Yulin Pharmaceutical**") from a predecessor shareholder of Yulin Pharmaceutical. The effective equity interests in Yulin Pharmaceutical held by the Group increased from 45.27% as at 31 December 2015 to 48.87% as at 30 June 2016. Consideration for purchasing the 3.60% equity interests was approximately RMB31,612,000, of which RMB4,822,000 had not been paid as at 30 June 2016.

Interest in an associate is accounted for using the equity method in the consolidated financial statements. During the six months ended 30 June 2016, the amount of the Group's share of profit from the associate in the consolidated financial statements is RMB3,865,000.

On 23 November 2015, the Group entered into a conditional equity transfer agreement with an independent third party agent to further acquire 5.76% equity interest in Yulin Pharmaceutical at a consideration of RMB69,361,000 ("**Proposed Acquisition**"). During 2015, an advance payment of RMB62,458,000 was paid by the Group. As at 30 June 2016, the Proposed Acquisition was not yet completed and the advance payment of RMB62,458,000 made by the Group was recognised as prepayment for equity investment.

In July 2016, the Proposed Acquisition was completed. Upon the completion of the Proposed Acquisition, Yulin Pharmaceutical became a subsidiary of the Group.

In July and August 2016, the Group entered into a series of equity transfer agreements with certain individual shareholders of Yulin Pharmaceutical to further acquire 16.11% equity interest in Yulin Pharmaceutical at the total consideration of approximately RMB140,439,000.

12 INVENTORIES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Raw materials	28,864	25,049
Work in progress	13,546	17,197
Finished goods	5,807	28,768
	<u>48,217</u>	<u>71,014</u>

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

	For the six months ended 30 June 2016 RMB'000	2015 RMB'000
Cost of inventories sold	94,971	75,891
Write-down of inventories	77	513
	<u>95,048</u>	<u>76,404</u>

13 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the aging analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts is as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 3 months	390,313	362,954
3 to 12 months	1,379	749
Trade debtors and bills receivable, net of allowance for doubtful debts	391,692	363,703
Other receivables, prepayments and deposits	9,792	35,484
	<u>401,484</u>	<u>399,187</u>

Trade debtors and bills receivable are generally due within 180 days from the date of billing.

As at 30 June 2016, the Group's trade debtors of RMB35,000 (31 December 2015: RMB19,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts of RMB35,000 (31 December 2015: RMB19,000) was recognised.

As at 30 June 2016, the Group's other receivables of RMB122,000 (31 December 2015: nil) were individually determined to be impaired.

14 CASH AND CASH EQUIVALENTS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Cash at bank and on hand	455,873	489,987

15 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the aging analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 month	6,771	29,169
1 to 12 months	8,186	10,591
Over 12 months	160	–
Total trade payable	15,117	39,760
Receipts in advance	498	1,276
Accrued expenses	59,824	54,635
Employee benefits payable	39,555	40,143
Other payables	69,478	65,421
	184,472	201,235

16 EQUITY SETTLED SHARE-BASED PAYMENTS**(a) Employees' Share Option Scheme**

The Company adopted a share option scheme on 2 December 2013 (the “**Share Option Scheme**”) whereby the board of directors of the Company is authorised, at its discretion, to grant options to the directors and employees of the Group to subscribe for ordinary shares of the Company. The Company can issue options exercisable up to 100,000,000 ordinary shares under the Share Option Scheme.

In 2014, the Company granted 60,000,000 share options to certain directors and employees at a consideration of HK\$1 for each grantee (the “**2014 Grant**”). The exercise price of these share options was HK\$6.64 per share, and the aggregate fair value of these share options amounted to RMB138,095,000. The options vest after one year to five years from the date of grant and are then exercisable on or before 23 March 2024.

During the six months ended 30 June 2016, an aggregate of 24,790,000 unvested share options under the 2014 Grant were cancelled (the “**Cancelled Share Options**”), among which 9,200,000 and 15,590,000 unvested share options were previously granted to directors and employees, respectively, with remaining vesting period ranged from one year to three years.

During the six months ended 30 June 2016, the Company granted 52,000,000 share options to certain directors and employees (the “**2016 Grant**”). The exercise price of these share options was HK\$4.01 per share, and the aggregate fair value of these share options amounted to RMB81,168,000. The options vest after one year to three years from the date of grant and are then exercisable on or before 31 March 2026.

Under the 2016 Grant, 36,440,000 share options (the “**Replacing Share Options**”) were identified as the replacement for 23,650,000 of the Cancelled Share Options (the “**Replaced Share Options**”), while the remaining 15,560,000 new share options were granted to certain employees who previously were not grantees of the 2014 Grant.

The number and weighted average exercise prices of share options cancelled and granted are as follows:

	Six months ended 30 June 2016	
	Weighted average exercise price HKD	Number of options '000
Outstanding at 1 January 2016	6.64	52,846
Forfeited during the period	6.64	(6,013)
Cancelled during the period	6.64	(24,790)
Granted under the 2016 Grant	4.01	52,000
	<hr/>	<hr/>
Outstanding at 30 June 2016	4.79	74,043
	<hr/>	<hr/>
Exercisable at 30 June 2016	6.64	20,623
	<hr/>	<hr/>

The share options outstanding at 30 June 2016 had an exercise price of HK\$6.64 or HK\$4.01 (31 December 2015: HK\$6.64) and a weighted-average remaining contractual life of 9.2 years (31 December 2015: 8.3 years). No options were exercised during the six months ended 30 June 2016 (2015: nil).

The Group recognised share option expenses of RMB2,170,000 during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB17,401,000) in respect of share options cancelled and granted in the current and prior periods.

(i) *The terms and conditions of the 2016 Grant are as follows:*

Date of grant	Tranche number	Number of options granted	Vesting period	Contractual life of options
Options granted to employees:				
1 April 2016	Tranche 1	12,600,000	1 year after the date of grant	10 years
1 April 2016	Tranche 2	12,600,000	2 years after the date of grant	10 years
1 April 2016	Tranche 3	16,800,000	3 years after the date of grant	10 years
Options granted to directors:				
1 April 2016	Tranche 1	600,000	1 year after the date of grant	10 years
1 April 2016	Tranche 2	600,000	2 years after the date of grant	10 years
1 April 2016	Tranche 3	800,000	3 years after the date of grant	10 years
27 May 2016	Tranche 4	2,400,000	1 year after the date of grant	9.8 years
27 May 2016	Tranche 5	2,400,000	2 years after the date of grant	9.8 years
27 May 2016	Tranche 6	3,200,000	3 years after the date of grant	9.8 years
		<hr/>		
Total share options granted		52,000,000		
		<hr/>		

(ii) Fair value of share options under the 2016 Grant and assumptions:

The fair value of services received in return for the share options granted is measured by reference to the fair value of share options granted. The estimated fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share options is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model. Set out below are the fair value of share options and assumptions.

	Tranche number					
	1	2	3	4	5	6
Fair value at measurement date (HK\$)	1.73	1.87	1.98	1.71	1.85	1.97
Share price (HK\$)	3.99	3.99	3.99	4.02	4.02	4.02
Exercise price (HK\$)	4.01	4.01	4.01	4.01	4.01	4.01
Expected volatility	56.71%	56.71%	56.71%	55.99%	55.99%	55.99%
Expected option life	10 years	10 years	10 years	9.8 years	9.8 years	9.8 years
Dividend yield	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%
Risk-free rate	1.61%	1.61%	1.61%	1.72%	1.72%	1.72%

(iii) Fair value of the Replaced Share Options under the 2014 Grant and assumptions:

The fair value of the Replaced Share Options and the incremental fair value of the Replacing Share Options were RMB26,422,000 and RMB30,472,000 respectively. The incremental fair value of the Replacing Share Options was the difference between the fair value of the 36,440,000 share options under the 2016 Grant and the fair value of the Replaced Share Options, both at the respective date of grant of the share options under the 2016 Grant. The fair value of the Replaced Share Options was estimated as at the date of replacement, using a binomial tree model, taking into account the terms and conditions upon which those options were granted. Set out below are the fair value of the Replaced Share Options and assumptions.

Fair value at measurement date (HK\$)	1.32~1.45
Share price (HK\$)	3.99
Exercise price	6.64
Expected volatility	54.68%
Expected option life	8 years
Expected dividend yield	1.23%
Risk-free rate	1.51%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service conditions and non-market performance conditions. These conditions had not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

(b) Employees' Share Award Scheme

On 21 July 2014, the Board of Directors of the Company approved the adoption of a share award scheme (the "Share Award Scheme") under which shares of the Company (the "Awarded Shares") may be awarded to selected employees in accordance with the provisions of the Share Award Scheme and the nominal value of the shares awarded under the Share Award Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Unless terminated earlier by the Board of Directors in accordance with the rules of the Share Award Scheme, the Share Award Scheme will be valid and effective for a term of 10 years starting on 21 July 2014. A trust has been set up and fully funded by the Company for the purpose of purchasing, administering and holding the Company's shares for the Share Award Scheme.

When a Selected Employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the Board of Directors of the Company at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no cost. The selected employee however is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her.

(i) *Details of the treasury shares held under the Share Award Scheme are set out below:*

	Average purchase price HK\$	No. of shares held '000	Value of shares	
			HK\$'000	RMB'000
At 1 January 2015	5.99	9,528	57,207	45,359
Shares repurchased during the year	5.38	10,472	56,357	44,638
At 31 December 2015	5.68	20,000	113,564	89,997
Shares vested during the period	5.68	(142)	(804)	(636)
At 30 June 2016	5.68	19,858	112,760	89,361

(ii) *Details of Awarded Shares are set out below:*

	Number of the Awarded Shares		
	Vesting date on 30 June 2016 '000	Vesting date on 31 December 2016 '000	Total '000
Granted on 7 May 2015	1,096	1,096	2,192
Forfeited during the year	(940)	(917)	(1,857)
Unvested at 31 December 2015	156	179	335
Forfeited during the period	(14)	(9)	(23)
Vested during the period	(142)	–	(142)
Unvested at 30 June 2016	–	170	170

The estimated fair value of the Awarded Shares on the grant date is determined by reference to the market price of the Company's shares.

The Group recognised share award expenses of RMB604,000 during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB119,000).

142,000 shares were vested on 30 June 2016 (six months ended 30 June 2015: nil).

17 CAPITAL, RESERVE AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Interim dividend declared after the interim period of RMB0.045 per share (six months ended 30 June 2015: nil)	42,942	–

The interim dividend had not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Final dividends in respect of the previous financial year, approved and paid during the interim period ended 30 June 2016 of RMB0.075 per share (six months ended 30 June 2015: RMB0.028)	74,119	28,000
Less: Dividends for treasury shares held by the Company	(2,549)	–
	71,570*	28,000

* The Company paid a final dividend of RMB71,570,000 for the year ended 31 December 2015 as adjusted to exclude the dividend for treasury shares held under the Company's Share Award Scheme and other treasury shares held by the Company.

(b) Share capital

Ordinary shares, issued and fully paid

	For the six months ended 30 June 2016			For the year ended 31 December 2015		
	Number of shares '000	Nominal value of fully paid shares HK\$'000	Nominal value of fully paid shares RMB'000	Number of shares '000	Nominal value of fully paid shares HK\$'000	Nominal value of fully paid shares RMB'000
At 1 January	997,757	99,776	78,074	1,000,000	100,000	78,250
Cancellation of shares during the period/year (i)	(22,758)	(2,276)	(1,780)	(2,243)	(224)	(176)
As at the period/year end	974,999	97,500	76,294	997,757	99,776	78,074

- (i) During the period ended 30 June 2016, 23,489,000 ordinary shares (2015: 2,243,000 shares) were repurchased at the average purchase price of HK\$4.10 per share by the Company, among which 22,758,000 ordinary shares (2015: 2,243,000 shares) were cancelled while the remaining 731,000 ordinary shares were held by the Company as at 30 June 2016 (31 December 2015: nil).
- (ii) At 30 June 2016, 20,000,000 ordinary shares were held by the trustee under the Share Award Scheme (31 December 2015: 20,000,000 shares) (see note 16(b)), among which 142,000 shares in respect of the Awarded Shares vested on 30 June 2016 (see note 16(b)) were held on behalf of certain employees (31 December 2015: nil), while the remaining 19,858,000 shares were held on behalf of the Company (31 December 2015: 20,000,000 shares).

18 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2016 not provided for in the interim financial report were as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Contracted for	2,453	3,776
Authorised but not contracted for	4,320	4,320
	<hr/>	<hr/>
Total	6,773	8,096
	<hr/> <hr/>	<hr/> <hr/>

19 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Salaries and other benefits	11,726	9,542
Retirement scheme of defined contribution	46	46
Equity settled share-based payment expenses	4,873	13,219
	<hr/>	<hr/>
	16,645	22,807
	<hr/> <hr/>	<hr/> <hr/>

Total remuneration is included in “staff costs” (see note 7(a)).

4. STATEMENT OF INDEBTEDNESS

Apart from intra-group liabilities, the Group did not have at the close of business on 31 January 2017, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular, any outstanding loan capital, bank overdrafts, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, loans or other similar indebtedness, debt securities, mortgages, charges or guarantees, or other material contingent liabilities.

5. FINANCIAL AND TRADING PROSPECTS

The Group will adhere to its motto of “based on specialties and complemented by generics” as it continues to drive the development of its renal department and diagnostic imaging department and expands the existing product range for women & children, bone fracture, skin, liver & gallbladder and digestion system with an aim to form the “1+6” product structure. The Group endeavours to build an industry-leading enterprise of Chinese medicine with multiple leading specialties and full range of treatment capability in order to be able to provide comprehensive, reliable health management solutions to its customers.

- I. Development of Products for Kidney Disease.** Uremic clearance granules (UCG), the Group’s flagship product, maintained its strong leading position among the oral modern Chinese medicine for kidney disease in China. The market of the kidney repair and edema alleviation granule tends to expand quickly. The results of the evidence-based medical research of uremic clearance granules led by an academician of the Chinese Academy of Engineering, Professor Chen Xiangmei, has announced the final conclusion of the research that UCG “is a safe and effective cure to slow down the renal hypofunction of chronic kidney disease patients”, which is of milestone significance in the field of treatment of chronic kidney disease with traditional Chinese medicine.

Looking ahead, the Group will cover the whole course of chronic kidney disease treatment with “kidney repair and edema alleviation granule, uremic clearance granules, diabetic kidney disease and a dialysis drug for the treatment of hyperphosphatemia”, expand the domain of treatment with drugs for the treatment of nephrotic syndrome, and integrate kidney tonic products such as Renal Supplement and Impotence Cure Oral Solution, Jin-gang Pill, Gejie Dabu Wan (Gecko Nourishing Pill) and Gecko Kidney Nourishing Capsule, so as to constantly strengthen the Company’s leading position in the field of kidney disease treatment.

- II. Development of Imaging Products.** Currently, there are three segments in the medical contrast medium market, namely magnetic resonance imaging (MRI), computer tomography (CT) and ultrasound imaging. The Group will expand its coverage in the imaging domain and consolidate its brand influence while maintaining its leading position in the market of MRI with Gadopentetate dimeglumine injection. As for CT contrast medium, Iopamidol injection has passed the on-site reviews on research and production as well as on-site production inspections, and is pending review by the Centre for Drug Evaluation of the PRC. It is expected to obtain the approval for production by the end of 2017. Company also plans to submit application for drug registration for Iomeprol injection in 2017.

The Group has been leading the market with “high-tech and high-efficiency” products. In May 2016, Consun launched the “Project of Cooperation in Ultrasound Micro-bubble Contrast Medium” with Chongqing University of Medical Science, with their first product “Huashengxian” expected to apply for drug registration in the second half of 2017. Currently, they have completed the writing of registration materials and inspection of raw materials for the reference agent, and are now preparing the testing methods and optimizing the prescription and production process. It is to note that, the main component of ultrasound micro-bubbles is micro-bubbles with a diameter of 2-10um, which is not only suitable for disease diagnosis and therapeutic effect evaluation, but also for disease treatment when loaded with drugs or genes, i.e. precisely targeted treatment with drug-loaded micro-bubbles following confirmed diagnosis to achieve “integration of diagnosis and treatment”. This achievement is expected to open a new era of the development of diagnostics and therapeutics, and the successful development and marketing of this product is expected to turn the Group into a high-tech medical solution provider.

- III. Development of Products for Women and Children.** The market share of the Group’s blockbuster Iron Dextran Oral Solution in the field of iron supplementation for women and children has been growing rapidly, and is expected to reach a record high. In the future, the Group will integrate Zhixueling (blood-stopping) Capsule, Dahuangshuchong Tablet, Fuketiaojing (menstrual period adjusting) Tablet, Yijunfujie (bacteria suppressing) Solution and Tongbaoqixing Tea to forge a series of products covering women and children disease treatment and health care.

- IV. Development of Products for Bone Fracture.** Zheng Gu Shui is an “old brand” and “good product” widely recognized by the Chinese people and has been inducted into the Catalogue of Safe Drugs for the Chinese. The Group has started a product upgrade scheme based on Zheng Gu Shui, aiming to enhance the technological ingredient and efficacy of the Group’s products and emerge with a fresh look. The pharmacology and pharmacodynamics study for the innovative hydrogel patch of Zheng Gu Shui has completed, which is expected to be in the market in 2018. The development project of Shiduqing ointment has also been officially approved.

- V. Development of Products for Liver and Gallbladder Treatment.** Jigucao Capsule is one of the Group's proprietary products, which is a traditional Chinese medicine for the nourishment and protection of liver. In the future, the Group will expand the coverage of its liver and gallbladder series of products and expects them to become a main driver of sales volume.
- VI. Development of Skin Products.** As an oral skin-care medicine, Shiduqing demonstrates a unique concept and significant effect. In the future, the Group will explore the possibility of combined administration with Pidanfen and extend the scope of application of its products while strengthening the effect treatment of noxious dampness indications with Shiduqing.
- VII. Development of Products for Digestive System.** In June 2016, the Group's major innovative product "Palliative & Anti-diarrheal Soft Capsule" commenced production in its production base in Inner Mongolia. As a pure Chinese herbal preparation with registered intellectual property rights, it will form the base of the Group's digestive drugs with Caoxiangweikang Capsule, Hawthorn Chrysanthemum Granule, Anwei Tablet and Shidishui, and as an important participant, the Group will continue penetrating the highly-potential digestive drug market.
- VIII. Integrating with Yulin Pharmaceutical for Further Development.** After completion of acquisition of approximately 70.74% equity interest in Yulin Pharmaceutical, the Group is well-positioned to integrate the resources of both itself and Yulin Pharmaceutical in marketing, innovative R&D, manufacturing and supply chains, so as to complement each other with their respective strengths; on the other hand, leveraging on the rich cultural heritage in the pharmaceutical sector, enriched product mix and solid market foundation of both parties, it is believed that the cooperation would achieve a win-win situation by fully realizing the synergy between the parties, further exploring respective potential and enhancing market competitiveness.
- Yulin Pharmaceutical will continue its transformation based on the marketing model of "Brand & Terminal", strengthen its strategic cooperation with the core chains, enhance its terminal promotion capacity and effectiveness and further consolidate the foundation for its development. It will strive to secure a leading position for its key products in the market and establish the "1+6" product structure with all its efforts, so as to achieve substantial breakthrough in its products for women and children, bone fracture, skin care and liver and gallbladder treatment.
- IX. Progress of the Group in Research and Development.** 2016 is a year of harvest for the Group in pharmaceutical research and development.
1. The application for clinical trial registration for its modern traditional Chinese medicine for the treatment of diabetes and kidney disease, has completed review of the materials at the National Centre for Drug Evaluation (CDE), and the US Food and Drug Administration (FDA) has also officially accepted the application and completed technical communication before the evaluation.

2. The development of hydrogel patch, the innovative form of Yulin Zheng Gu Shui, received for the first time the sponsorship of “Science and Technology Plan Project” of the Guangxi Autonomous Region by virtue of its innovativeness.
3. The “Research Centre of Kidney Diseases with Chinese Medicine” established by donation of the Group in Hong Kong Baptist University received a grant of HK\$2.75 million from the “Innovation and Technology Fund” established by the Innovation and Technology Commission of the Government of the HKSAR for its topic of “Secondary Development of the Kidney Repair and Edema Alleviation Granule”. This is the first time that the Company received support from the Technology Fund of the Hong Kong Government.
4. The Group submitted 9 applications for invention patents and received 3 patent licenses in 2016. As at the end of 2016, the Group has received 22 invention patent licenses, including 11 international patent licenses, among which, the patent for its kidney repair and edema alleviation products received the Excellence Award at 18th China Patent Granting Ceremony in December 2016.

X. General Development Strategy

The Group has been adhering to the product strategy of “based on specialties and complemented by generics” and the marketing strategy of “in-depth distribution, market segmentation and classified management”, and will strive to complement the Company and Yulin Pharmaceutical with their respective strengths. In the future, the Group will continue to expand its territory relying on the industrial chain and strive to become a supplier of comprehensive healthcare solutions. Specifically speaking:

1. Based on specialties and complemented by generics – collaborative development of specialist medicine and general medicine business, making a significant breakthrough in 2016 in developing the general drug market relying on Yulin Pharmaceutical while focusing on the kidney and contrast specialist prescription drug market, in order to further balance the development of specialist drug and general drug business.
2. The brands of “Consun” and “Yulin” endorsing each other and marching ahead side by side. In line with the guideline of parallel development of “Consun” and “Yulin”, the Group will continue to optimise the Consun brand through event propagation and academic promotion while renovating Yulin brand based on the OTC “Brand + Terminal” marketing transformation, so as to enhance the brand recognition.
3. Domestic and foreign trade business taking off side by side. In the future, the Group will accelerate the development of its international business and strive to achieve a balanced development of both foreign trade and domestic sales relying on Yulin Pharmaceutical’s foreign trade platform and customer relationship.

4. Extension and optimisation of the healthcare industry chain. In the future, the Group will continue to seek opportunities for merger and acquisition, expand the territory of medicine, raw materials and healthcare, and spur synergies.

In summary, by completing the above business layout, fostering sales channels, optimising product structure, enhancing research and innovation capacities, strengthening internal management and gradually realising balanced development of prescription and non-prescription drugs, the Group is now on the track of sustainable and healthy development.

6. MATERIAL CHANGE

The Directors confirm that save for (i) further acquisition of approximately 3.60% equity interest in 廣西玉林製藥集團有限責任公司 (Guangxi Yulin Pharmaceutical Group Co., Ltd.) (“**Yulin Pharmaceutical**”) as disclosed in the announcement dated 20 June 2016; (ii) further acquisition of approximately 10.69% equity interest in Yulin Pharmaceutical as disclosed in the announcement dated 11 August 2016; (iii) further acquisition of approximately 5.42% equity interest in Yulin Pharmaceutical as disclosed in the announcement dated 16 August 2016; (iv) the information disclosed under the section headed “Management discussion and analysis” in the interim report of the Group for the six months ended 30 June 2016 as published on 15 September 2016; (v) the proposed increase of registered capital of Yulin Pharmaceutical by RMB300,000,000 as disclosed in the announcement dated 8 November 2016; and (vi) the information disclosed under the paragraph headed “Financial Effects of the Share Buy-back and the Special Dividend” in the section headed “Letter from the Board” and the paragraph headed “Financial and Trading Prospects” in the same section to this circular, there have been no material changes in the financial or trading position or outlook of the Group since 31 December 2015 (being the date to which the last published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

1. Unaudited pro forma adjusted net assets

The following unaudited pro forma adjusted net assets of the Group as at 30 June 2016 is prepared based on the Group's unaudited consolidated statement of financial position as at 30 June 2016 as extracted from the published interim report of the Group for the six months ended 30 June 2016, and adjusted on a pro forma basis to reflect the effects of the proposed buy-back of 146,140,200 shares by the Company from First Kind International Limited at HK\$3.837 per share and the cancellation of the buy-back shares (the "Proposed Share Buy-back"), as if it had taken place on 30 June 2016.

The unaudited pro forma adjusted net assets of the Group has been prepared by the Directors in accordance with Paragraph 4.29 of the Listing Rules for illustrative purposes only. The pro forma adjustment is (i) directly attributable to the Proposed Share Buy-back and not relating to other future events and decisions; and (ii) factually supportable based on the terms of the agreement dated 6 February 2017 entered into between the Company and First Kind International Limited (the "Share Buy-back Agreement").

The unaudited pro forma adjusted net assets of the Group as at 30 June 2016 should be read in conjunction with the historical financial information of the Group as set out in the published interim report of the Group for the six months ended 30 June 2016, and other financial information included elsewhere in this Circular.

	Unaudited consolidated net assets of the Group as at 30 June 2016 RMB'000 (Note 1)	Pro forma adjustment effect of the Proposed Share Buy-back RMB'000 (Note 2)	Unaudited pro forma adjusted consolidated net assets of the Group RMB'000	Unaudited unadjusted consolidated net assets per share as at 30 June 2016 (Note 3)	Unaudited pro forma adjusted consolidated net assets per share immediately after the completion of the Proposed Share Buy-back (Note 4)
The proposed buy-back of 146,140,200 shares at a price of HK\$3.837 per share	1,632,438	(505,921)	1,126,517	RMB1.67	RMB1.36

Notes:

- The amount is extracted from the unaudited consolidated statement of financial position of the Group as at 30 June 2016 as included in the interim report of the Group for the six months ended 30 June 2016.

2. The pro forma adjustment effect of the Proposed Share Buy-back mainly includes:
 - (a) the payment for the shares buy-back of approximately HK\$560,740,000 (approximately RMB495,638,000 at the exchange rate of HK\$1.0000 to RMB0.8839) which is based on the shares buy-back of 146,140,200 shares at a price of HK\$3.837 per share; and
 - (b) the payment for the estimated transaction costs of approximately RMB10,283,000, including legal, accounting and other professional parties, which are directly attributable to the Proposed Share Buy-back;
3. The unaudited unadjusted consolidated net assets per share as at 30 June 2016 is calculated based on the unaudited consolidated net assets of the Group as at 30 June 2016 of RMB1,632,438,000 and 974,899,000 shares in issue as at 30 June 2016.
4. The unaudited pro forma adjusted consolidated net assets per share immediately after the completion of the Proposed Share Buy-back is calculated based on the unaudited pro forma adjusted consolidated net assets of the Group as at 30 June 2016 of approximately RMB1,126,517,000 and 828,758,800 shares in issue following the completion of the Proposed Share Buy-back, which is 974,899,000 shares in issue as at 30 June 2016 as detailed above, reduced by 146,140,200 shares repurchased.
5. No adjustment has been made to the unaudited pro forma adjusted net assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2016. In particular, the unaudited pro forma adjusted consolidated net assets of the Group has not been adjusted for the proposed distribution of special dividend in cash, being subject to the completion of the Proposed Share Buy-back, of approximately HK\$82,813,000 (approximately RMB73,198,000 at the exchange rate of HK\$1.0000 to RMB0.8839) calculated based on HK\$0.1 per share (the "Proposed Special Dividend"). Had the Proposed Special Dividend been approved and taken into account, the unaudited pro forma adjusted consolidated net assets per share immediately after the completion of the Proposed Share Buy-back would have been reduced from approximately RMB1.36 per share to approximately RMB1.27 per share.

2. Unaudited pro forma adjusted basic earnings per share

The following unaudited pro forma adjusted basic earnings per share of the Group for the year ended 31 December 2015 is prepared based on the Group's consolidated statement of profit or loss for the year ended 31 December 2015 as extracted from the published annual report of the Group for the year ended 31 December 2015, and adjusted on a pro forma basis to reflect the effects of the Proposed Share Buy-back, as if it had taken place on 1 January 2015.

The unaudited pro forma adjusted basic earnings per share of the Group has been prepared by the Directors in accordance with Paragraph 4.29 of the Listing Rules for illustrative purposes only. The pro forma adjustment is (i) directly attributable to the Proposed Share Buy-back and not relating to other future events and decisions; and (ii) factually supportable based on the terms of the Share Buy-back Agreement.

The unaudited pro forma adjusted basic earnings per share of the Group for the year ended 31 December 2015 should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 December 2015, and other financial information included elsewhere in this Circular.

	Audited consolidated profit attributable to the equity shareholders of the Company for the year ended 31 December 2015 RMB'000 (Note 1)	Pro forma adjustment effect of the interest expense and loan facility related fees RMB'000 (Note 2)	Unaudited pro forma adjusted consolidated profit attributable to the equity shareholders of the Company RMB'000	Audited unadjusted basic earnings per share for the year ended 31 December 2015 (Note 1)	Unaudited pro forma adjusted basic earnings per share (Note 3)
The proposed buy-back of 146,140,200 shares at a price of HK\$3.837 per share	249,689	(16,537)	233,152	RMB0.25	RMB0.28

Notes:

1. The amounts are extracted from the annual report of the Group for the year ended 31 December 2015. The audited unadjusted basic earnings per share for the year ended 31 December 2015 is calculated based on the audited consolidated profit attributable to equity shareholders of the Company for the year ended 31 December 2015 of RMB249,689,000 and the weighted average number of 981,567,000 shares in issue during the year ended 31 December 2015.
2. The Group will draw down a three year term loan facility of HK\$560,000,000 (approximately RMB494,984,000 at the exchange rate of HK\$1.0000 to RMB0.8839) from a facility agreement with BNP Paribas (being the parent company of BNP Paribas Securities (Asia) Limited), acting through its Hong Kong Branch and fully use for the funding of the Proposed Share Buy-back. The adjustment represents the recognition of interest expense and loan facility related fees of approximately HK\$18,709,000 (approximately RMB16,537,000 at the exchange rate of HK\$1.0000 to RMB0.8839) from the draw down of the loan facility of HK\$560,000,000 (approximately RMB494,984,000 at the exchange rate of HK\$1.0000 to RMB0.8839) to be used for satisfying the Company's cash payment obligation in connection with the Proposed Share Buy-back as if the draw down of the loan facility and the completion of the Proposed Share Buy-back had taken place on 1 January 2015.
3. The unaudited pro forma adjusted basic earnings per share for the year ended 31 December 2015 is calculated based on the unaudited pro forma adjusted consolidated profit attributable to the equity shareholders of the Company of RMB233,152,000 and the adjusted weighted average number of 835,426,800 shares in issue, which is the weighted average number of 981,567,000 shares in issue during the year ended 31 December 2015, reduced by 146,140,200 shares repurchased as if the completion of the Proposed Share Buy-back had taken place on 1 January 2015.
4. The estimated transaction costs of approximately RMB10,283,000, including legal, accounting and other professional parties, which are directly attributable to the Proposed Share Buy-back, are accounted for as deduction from equity in accordance with HKFRSs.
5. No adjustment has been made to the unaudited pro forma adjusted basic earnings per share to reflect any trading results or other transactions of the Group entered into subsequent to 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 Group's unaudited pro forma financial information for the purpose in this circular.



**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF CONSUN PHARMACEUTICAL GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited 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 unaudited pro forma financial information consists of the unaudited pro forma adjusted net assets as at 30 June 2016 and the unaudited pro forma adjusted basic earnings per share for the year ended 31 December 2015 and related notes as set out on pages 1 to 3 of Appendix II to the circular dated 20 March 2017 (the "Circular") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 1 to 3 of Appendix II to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed buy-back of 146,140,200 shares by the Company from First Kind International Limited and the cancellation of the buy-back shares (the "Proposed Share Buy-back") on the Group's net assets as at 30 June 2016 and the Group's basic earnings per share for the year ended 31 December 2015 as if the Proposed Share Buy-back had taken place on 30 June 2016 and 1 January 2015, respectively. As part of this process, information about the Group's net assets as at 30 June 2016 has been extracted by the Directors from the interim report of the Group for the six months ended 30 June 2016, on which a review report has been published. Information about the Group's basic earnings per share for the year ended 31 December 2015 has been extracted by the Directors from the annual report of the Group for the year ended 31 December 2015, on which an audit report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "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 “Quality Control for Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

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

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

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

The purpose of the unaudited pro forma financial information included in 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 30 June 2016 or 1 January 2015 would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group, and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG

Certified Public Accountants

Hong Kong

20 March 2017

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules, the Buy-backs Code and the Takeovers Code for the purpose of giving information with regard to the Group.

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 issuer. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and beliefs, 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.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after Completion will be as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>5,000,000,000</u>	Shares as at the Latest Practicable Date	<u>500,000,000</u>
<i>Issued and fully paid:</i>		
974,268,000	Shares as at the Latest Practicable Date	97,426,800
<u>146,140,200</u>	Shares to be bought back	<u>14,614,020</u>
	Shares upon Completion and	
<u>828,127,800</u>	cancellation of the Buy-back Shares	<u>82,812,780</u>

All of the issued Shares rank *pari passu* with each other in all respects including the rights as to voting, dividends and return of capital.

There was no re-organisation of capital of the Company during the two financial years preceding the date of the Announcement.

During the two years immediately prior to the date of this circular, the Company paid an interim dividend of RMB0.045 per Share for the six months ended 30 June 2016 on 28 September 2016, a final dividend of RMB0.075 per Share for the year ended 31 December 2015 on 16 June 2016 and a final dividend of RMB0.028 per Share for the year ended 31 December 2014 on 22 June 2015.

The Directors are of the view that the ability of the Company to pay dividends will depend on, among other things, the Group's operation and financial performance, cash flows, operating and capital requirements, and the requirements of the applicable laws and regulations. The Company has no plan or intention to alter its present dividend policy.

The Company's share option scheme was approved for adoption on 2 December 2013 (the **"Share Option Scheme"**) for the purpose of providing the Company with a flexible means of giving incentive to rewarding, remunerating, compensating and/or providing benefits to eligible participants and for such other purposes as the Board approve from time to time. Subject to the terms of the Share Option Scheme, the Board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up the options to subscribe for Shares: (a) any employee, supplier/service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any of its subsidiaries, (b) any person who have contributed or may contribute to the Group.

As at the Latest Practicable Date, the number of Shares which remained outstanding under the Share Option Scheme was 70,924,400, representing approximately 7.28% of the Shares in issue at that date. The total number of Shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the Shares in issue at any point in time, without prior approval from the Shareholders. The number of Shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the Shares in issue. Any further grant of options in excess of such limit shall be subject to issuance of a circular by the Company and approval from the Shareholders in accordance with the Listing Rules.

Upon acceptance of the options, the grantee shall pay HK\$1.0 to the Company as consideration of the grant. The acceptance of an offer of the grant of the option must be made within the date specified in the offer letter issued by the Company. Options may be exercised at any time not exceeding a period of 10 years from the date on which the option is granted.

Details of share options, which were granted on 24 March 2014 at an exercise price at HK\$6.64 per Share and on 1 April 2016 at an exercise price at HK\$4.01 per Share, are as follows:

			Number of options outstanding as at the Latest Practicable Date	Exercise period
Category of grantee	Date of grant	Exercise price		
Directors and employees	24 March 2014	6.64	21,694,400	On or before 23 March 2024 after vesting
Directors and employees	1 April 2016	4.01	49,230,000	On or before 31 March 2026 after vesting
			<hr/>	
			70,924,400	

On 21 July 2014, the Board approved the adoption of a share award scheme (the “**Share Award Scheme**”) under which Shares may be awarded to selected employees in accordance with the provisions of the Share Award Scheme (the “**Awarded Shares**”). The Share Award Scheme serves as a means to recognize the contributions by the selected employees and provide them with incentives in order to retain them for the continual operation and development of the Group and attract suitable personnel for the further development of the Group.

As at the Latest Practicable Date, 19,798,281 Awarded Shares were held by the Trustee under the Share Award Scheme. Pursuant to the Share Award Scheme, the trustee of the Company (“**Trustee**”) shall not exercise the voting rights in respect of any of the Awarded Shares.

Pursuant to the Share Award Scheme, the selected employees may be granted during the duration of the Share Award Scheme an award in the form of Awarded Shares. Awarded Shares will be purchased by the trustee of the Company (“**Trustee**”) on the market out of cash contributed by the Company and be held on trust for the selected employees until such shares are vested on them in accordance with the provisions of the Share Award Scheme. The Board shall not make any further award of Awarded Shares which will result in the nominal value of the shares awarded by the Board under the Share Award Scheme exceeding 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a selected employee under the Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time. The Awarded Shares held by the Trustee under the Share Award Scheme shall not exceed 2% of the issued share capital of the Company from time to time.

During the 12 months immediately preceding the date of the Announcement, the Company has repurchased Shares, details of which are set out as follows:

Date of repurchase	Number of shares repurchased	Price per share	
		Highest (HK\$)	Lowest (HK\$)
6 April 2016	3,000,000	4.06	3.87
7 April 2016	1,472,000	4.03	3.95
8 April 2016	80,000	3.97	3.94
26 April 2016	1,139,000	3.90	3.78
27 April 2016	780,000	3.89	3.82
28 April 2016	440,000	3.89	3.81
29 April 2016	650,000	3.90	3.81
3 May 2016	250,000	3.84	3.80
4 May 2016	827,000	3.88	3.81
5 May 2016	174,000	3.87	3.85
9 May 2016	238,000	4.06	4.00
11 May 2016	260,000	4.14	4.08
12 May 2016	480,000	4.19	4.12
13 May 2016	715,000	4.14	4.06
19 May 2016	556,000	4.06	3.99
20 May 2016	340,000	4.05	4.00
23 May 2016	610,000	4.05	3.99
25 May 2016	536,000	4.01	3.90
26 May 2016	710,000	3.90	3.87
31 May 2016	250,000	4.12	4.03
13 June 2016	361,000	4.09	4.01
16 June 2016	120,000	4.09	4.04

Save as disclosed above, during the 12 months immediately preceding the date of the Announcement and up to the Latest Practicable Date, the Company has not repurchased any Shares.

During the two-year period immediately preceding the date of the Announcement and up to the Latest Practicable Date, the Company has not issued any new Shares.

Save as disclosed above, the Company did not have any other options, warrants and other convertible securities or rights affecting the Shares as at the Latest Practicable Date.

3. MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on (i) the last trading day of the Stock Exchange for each calendar month during the Relevant Period before the Latest Practicable Date; (ii) the last business day prior to the date of the Announcement; and (iii) the Latest Practicable Date:

Date	Closing price per Share (HK\$)
31 August 2016	4.84
30 September 2016	4.52
31 October 2016	4.53
30 November 2016	4.29
30 December 2016	3.86
27 January 2017	3.79
3 February 2017 (the last business day prior to the date of the Announcement)	3.73
28 February 2017	4.32
Latest Practicable Date	4.37

The highest and lowest closing prices per Share recorded on the Stock Exchange during the Relevant Period were HK\$5.00 on 2 September 2016 and HK\$3.71 on 2 February 2017 respectively.

4. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange:

Name of Director	Nature of interest and capacity	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding
Mr. AN	Beneficial owner ⁽²⁾	18,565,817 Shares (L)	1.91% (L)
	Interest of controlled corporation ⁽³⁾	196,200,000 Shares (L)	20.14% (L)
Ms. LI	Beneficial owner ⁽²⁾	15,865,261 Shares (L)	1.63% (L)
	Interest of controlled corporation ⁽⁴⁾	126,232,000 Shares (L)	12.96% (L)
ZHU Quan	Beneficial owner ⁽²⁾	3,200,000 Shares (L)	0.33% (L)
CHENG Xinxin	Beneficial owner	1,937,000 Shares (L)	0.20% (L)

Notes:

- (1) The letter "L" denotes the Directors' long position in the Shares 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, Ms. LI and Professor ZHU Quan respectively under the Share Option Scheme.
- (3) The entire issued share capital of Central Success Developments Limited ("**Central Success**") is owned by Mr. AN, therefore, Mr. AN is deemed to be interested in all the Shares held by Central Success under the provisions of SFO.
- (4) The entire issued share capital of Double Grace International Limited ("**Double Grace**") is owned by Ms. LI, therefore, Ms. LI is deemed to be interested in all the Shares held by Double Grace under the provisions of SFO.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

(a) Share options

As at the Latest Practicable Date, save that 10,000,000 share options, 10,000,000 share options and 3,200,000 share options were granted to Mr. AN, Ms. LI and Professor ZHU Quan respectively under the Share Option Scheme, the Company has not granted to any other Directors any share option under the Share Option Scheme.

(b) Service contracts

As at the Latest Practicable Date, there were no existing or proposed service contracts between any of the directors or proposed directors of the Group and any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

As at the Latest Practicable Date, there were no service contracts with the Group or associated companies of the Company in force for Directors (i) which (including both continuous and fixed term contracts) have been entered into or amended within 6 months before the date of the Announcement; (ii) which are continuous contracts with a notice period of 12 months or more; or (iii) which are fixed term contracts with more than 12 months to run irrespective of the notice period.

(c) Interest in assets of the Group

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

(d) Interest in contracts and arrangements

None of the Directors had material interest in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

(e) Interest in competing business

As at the Latest Practicable Date, save that Mr. WANG Shunlong, 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), to the best of the knowledge of the Directors, none of the Directors or their respective associates had any interest in a business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, as far as the Directors are aware, the following persons had a long position or short position in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Division 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)	11.30% (L)
YOUNG Wai Po, Peter ⁽²⁾	Interest of controlled corporation	110,050,000 Shares (L)	11.30% (L)
Central Success ⁽³⁾	Beneficial owner	196,200,000 Shares (L)	20.14% (L)
Double Grace ⁽⁴⁾	Beneficial owner	126,232,000 Shares (L)	12.96% (L)
First Kind ⁽⁵⁾	Beneficial owner	186,750,000 Shares (L)	19.17% (L)
Hony Capital Fund III, L.P. ⁽⁵⁾	Interest of controlled corporation	186,750,000 Shares (L)	19.17% (L)
Hony Capital Fund III, GP, L.P. ⁽⁵⁾	Interest of controlled corporation	186,750,000 Shares (L)	19.17% (L)
Hony Capital Fund III, GP, Limited ⁽⁵⁾	Interest of controlled corporation	186,750,000 Shares (L)	19.17% (L)
Hony Group Management Limited ⁽⁵⁾	Interest of controlled corporation	186,750,000 Shares (L)	19.17% (L)
Hony Managing Partners Limited ⁽⁵⁾	Interest of controlled corporation	186,750,000 Shares (L)	19.17% (L)
Exponential Fortune Group Limited ⁽⁵⁾	Interest of controlled corporation	186,750,000 Shares (L)	19.17% (L)
John Huan ZHAO ⁽⁵⁾	Interest of controlled corporation	186,750,000 Shares (L)	19.17% (L)
Greenwoods Asset Management Limited ⁽⁶⁾	Interest of controlled corporation	59,178,000 Shares (L)	6.07% (L)
Greenwoods Asset Management Holdings Limited ⁽⁶⁾	Interest of controlled corporation	59,178,000 Shares (L)	6.07% (L)
Unique Element Corp ⁽⁶⁾	Interest of controlled corporation	59,178,000 Shares (L)	6.07% (L)
JIANG Jinzhi ⁽⁶⁾	Interest of controlled corporation	59,178,000 Shares (L)	6.07% (L)

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 is legally and beneficially owned by Mr. AN. By virtue of the SFO, Mr. AN is deemed to be interested in all the Shares held by Central Success.
- (4) The entire issued share capital of Double Grace is legally and beneficially owned by Ms. LI. By virtue of the SFO, Ms. LI is deemed to be interested in all the Shares held by Double Grace.
- (5) The entire issued share capital of First Kind is legally and beneficially owned by Hony Capital Fund III, L.P. Hony Capital Fund III, L.P. is wholly owned by its sole general partner, Hony Capital Fund III, GP, L.P. Hony Capital Fund III, GP, L.P. is in turn wholly owned by its sole general partner, Hony Capital Fund III, GP, Limited. Hony Capital Fund III, GP, Limited is controlled by Hony Group Management Limited, which is in turn owned as to 80.0% by Hony Managing Partners Limited (which is in turn wholly owned by Exponential Fortune Group Limited) and as to 20% by Right Lane Limited (which is in turn wholly owned by Legend Holdings Corporation (stock code: 3396)). Exponential Fortune Group Limited is owned as to 49% by Mr. John Huan ZHAO and 51% by two individuals equally (each holding 25.5%) who are third parties independent of and not connected with the Company.

First Kind will cease to be a substantial shareholder of the Company under the SFO upon Completion and cancellation of the Buy-back Shares by virtue of the fact that its shareholding will reduce to approximately 4.9% of the reduced issued share capital of the Company thereupon.

- (6) Greenwoods Asset Management Limited controls 6.07% of the Company’s shares through Golden China Master Fund, Golden China Plus Master Fund and Greenwoods China Alpha Master Fund 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.

Save as disclosed above, none of the Directors is aware of any person (other than Mr. AN and Ms. LI) who, as at the Latest Practicable Date, had a long or short position in the Shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

6. ADDITIONAL DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, there is no irrevocable commitment received by the Concert Group to vote for or against the resolution(s) to be proposed at the EGM in relation to, among others, the Share Buy-back and the Whitewash Waiver.
- (b) As at the Latest Practicable Date, save that each of Mr. AN and Ms. LI holds 10,000,000 share options of the Company (the exercise of which would entitle each of them to subscribe for 10,000,000 Shares), there are no outstanding derivatives in respect of securities in the Company entered into by any member of the Concert Group.

- (c) As at the Latest Practicable Date, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares or the shares of any member of the Concert Group and which might be material to the Share Buy-back or the Whitewash Waiver.
- (d) As at the Latest Practicable Date, there is no other agreement or arrangement to which the Concert Group or any member of the Concert Group is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Share Buy-back Agreement or the Whitewash Waiver.
- (e) As at the Latest Practicable Date, there is no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which any member of the Concert Group has borrowed or lent.
- (f) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Concert Group and other persons in relation to the transfer, charge or pledge of the Shares in relation to the Share Buy-back and/or the Whitewash Waiver.
- (g) Save as disclosed in the sections headed “Directors’ Interests” in this appendix, the Concert Group and the Directors and any person acting in concert with the Directors did not have any shares, convertible securities, warrants, options or other derivatives of the Company as at the Latest Practicable Date and none of the members of the Concert Group and the Directors and any person acting in concert with the Directors had dealt for value in any shares, convertible securities, warrants, options or other derivatives of the Company during the Relevant Period.
- (h) As at the Latest Practicable Date, no person has irrevocably committed themselves to vote for or against the resolutions to be proposed at the EGM.
- (i) As at the Latest Practicable Date, the Concert Group did not have any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person and no person with the arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had dealt for value in any shares, convertible securities, warrants, options or other derivatives of the Company during the Relevant Period.
- (j) Save as disclosed in this appendix, as at the Latest Practicable Date, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of a subsidiary of the Company; and (iii) any advisers to the Company (as specified in class (2) of the definition of “associate” under the Takeovers Code) had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company.
- (k) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Takeovers Code.

- (l) Mr. AN and Ms. LI, each a Director and a member of the Concert Group, are required to abstain from voting at the EGM by reason of the requirements of the Takeovers Code, the Buy-backs Code and the Listing Rules.

The Trustee will also abstain from voting at the EGM in accordance with the Share Award Scheme.

Both Professor ZHU Quan and Ms. CHENG Xinxin were not involved in the discussion or negotiation process with First Kind in respect of the Share Buy-back or any aspect of the Share Buy-back. As at the Latest Practicable Date, Ms. CHENG Xinxin is the beneficial owner of 1,937,000 Shares and Professor ZHU Quan is the beneficial owner of 3,200,000 share options in the Company but holds no Shares.

As at the Latest Practicable Date, none of the other Directors who are interested in the Shares (as disclosed under the section “Directors’ Interests” in this appendix) will abstain from voting at the EGM. Ms. CHENG Xinxin has advised that she intends to vote in favour of the resolutions to be proposed at the EGM in respect of her beneficial shareholdings in the Company.

- (m) During the Relevant Period, there have been no shares, convertible securities, warrants, options or derivatives in the Company which the Company, any Director or any person acting in concert with any Director has borrowed or lent.
- (n) No benefit will be given to any Director as compensation for loss of office in any members of the Group or otherwise in connection with the Share Buy-back Agreement and/or the Whitewash Waiver.
- (o) As at the Latest Practicable Date, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Share Buy-back and/or the Whitewash Waiver or otherwise connected with the Share Buy-back and/or the Whitewash Waiver.
- (p) As at the Latest Practicable Date, there was no material contract entered into by any member of the Concert Group in which any Director had a material personal interest.
- (q) According to an acting in concert agreement dated 1 January 2012 (the “**Acting in Concert Agreement**”) and the acting in concert confirmation dated 11 March 2013 (the “**Acting in Concert Confirmation**”) entered into between the Concert Group, Mr. AN, Ms. LI and Mr. YOUNG had a voting arrangement that Ms. LI and Mr. YOUNG shall exercise their shareholders’ right to vote and will continue to vote pursuant to the opinion of Mr. AN. On 16 December 2016, the Concert Group entered into a deed of termination of the acting-in-concert arrangement to terminate the Acting in Concert Agreement and the Acting in Concert Confirmation. As at the Latest Practicable Date, Mr. AN, Ms. LI and Mr. YOUNG are acting in concert and the Concert Group has not made a submission to obtain confirmation from the Executive that they are no longer acting in concert pursuant to note 3 to the definition of “acting in concert” of the Takeovers Code.

Save as disclosed above, as at the Latest Practicable Date, there was no other agreement, arrangement or understanding (including any compensation arrangement) existed between any member of the Concert Group and any of the Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Share Buy-back and/or the Whitewash Waiver.

- (r) As at the Latest Practicable Date, there were no shares, convertible securities, warrants, options or derivatives in the Company which are managed on a discretionary basis by fund managers connected with the Company.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance or might become a party to any material litigation and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group which are or may be material, have been entered into by the Group after the date two years preceding the date of the Announcement and up to the Latest Practicable Date:

- (a) the Share Buy-back Agreement;
- (b) the Seventh Round Equity Transfer Agreements in respect of the acquisition of approximately 5.42% equity interest in 廣西玉林製藥集團有限責任公司 (Guangxi Yulin Pharmaceutical Group Co., Ltd.*, the “**Target Company**”) at the consideration of approximately RMB47,254,000 by the Company 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, the “**Subsidiary**”) and each of the Seventh Round Vendors on 15 August 2016 and 16 August 2016, having the same meaning as defined in and referred to under the announcement of the Company dated 16 August 2016;
- (c) the Sixth Round Equity Transfer Agreements in respect of the acquisition of approximately 10.69% equity interest in the Target Company at the consideration of approximately RMB93,185,000 by the Company entered into between the Subsidiary and each of the Sixth Round Vendors during the period from 20 July 2016 and 8 August 2016, having the same meaning as defined in and referred to under the announcement of the Company dated 11 August 2016;
- (d) the Fifth Round Equity Transfer Agreement in respect of the acquisition of approximately 3.60% equity interest in the Target Company at the consideration of

approximately RMB31,612,000 by the Company entered into between the Subsidiary and the Fifth Round Vendor on 17 June 2016, having the same meaning as defined in and referred to under the announcement of the Company dated 20 June 2016;

- (e) the Fourth Round Equity Transfer Agreement in respect of the acquisition of approximately 5.76% equity interest in the Target Company at the consideration of approximately RMB69,361,000 by the Company entered into between the Subsidiary and SaiWoTe on 23 November 2015, having the same meaning as defined in and referred to under the announcement of the Company dated 23 November 2015;
- (f) the Second Three-party Agreement in respect of the partial offsetting of approximately RMB44,458,000 of 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, having the same meaning as defined in and referred to under the announcement of the Company dated 23 November 2015;
- (g) the Third 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, having the same meaning as defined in and referred to under the announcement of the Company dated 23 November 2015;
- (h) the First Three-party Agreement in respect of the offsetting of approximately RMB172,957,000 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, having the same meaning as defined in and referred to under the announcement of the Company dated 9 November 2015;
- (i) the Third Round Equity Transfer Agreements in respect of the acquisition of an aggregate approximately 1.06% equity interest in the Target Company at the aggregate consideration of approximately RMB14,232,000 by the Company entered into between the Subsidiary and a total of 19 individuals on 14 September 2015 and the acquisition of approximately 14.36% equity interest in the Target Company by the Company entered into between the Subsidiary and SaiWoTe at the consideration of approximately RMB172,957,000 on 9 November 2015, having the same meaning as defined in and referred to under the announcement of the Company dated 9 November 2015;
- (j) the Second 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, having the same meaning as defined in and referred to under the announcement of the Company dated 1 November 2015;
- (k) 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 announcements of the Company dated 21 October 2015, 22 October 2015 and 1 November 2015;

- (l) the First 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, having the same meaning as defined in and referred to under the announcement of the Company dated 21 October 2015;
- (m) the Second Round Equity Transfer Agreements in respect of the acquisition of approximately 14.85% equity interest in the Target Company at the consideration of approximately RMB198,902,000 by the Company entered into between the Subsidiary and each of the Second Round Vendors on 27 August 2015, having the same meaning as defined in and referred to under the announcement of the Company dated 28 August 2015;
- (n) the Equity Transaction Contract in respect of the acquisition of approximately 15% equity interest in the Target Company at the consideration of approximately RMB255,243,000 by the Company entered into between the Subsidiary and the First Round Vendor on 6 August 2015, having the same meaning as defined in and referred to under the announcement of the Company dated 6 August 2015;
- (o) 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
- (p) 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.

9. EXPERTS AND CONSENTS

- (a) The following are the experts (the “**Experts**”), including their respective qualifications, who have given their opinions or letters which are included in this circular:

Name	Qualification
TC Capital	a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	certified public accountants

- (b) As at the Latest Practicable Date, none of the Experts has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

- (c) As at the Latest Practicable Date, the Experts have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion of their respective opinions or letters and/or the references to their names in the form and context in which they are respectively included.
- (d) As at the Latest Practicable Date, none of the Experts had any direct or indirect interest in any asset which had been acquired or disposed of by, or leased to any member of the Group, or was proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2015, the date to which the latest published audited financial statements of the Group were made up.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) during normal business hours (other than Saturdays, Sundays and public holidays) at the principal office of the Company at 22nd Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong; (ii) on the website of the SFC (www.sfc.hk); and (iii) on the website of the Company (www.chinaconsun.com) from the date of this circular up to and including the date of the EGM:

- (a) the Memorandum of Association and the Articles of Association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2014 and 2015, and interim report of the Company for the six months ended 30 June 2016;
- (c) the letter of recommendation from the Independent Board Committee to the Disinterested Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (d) the letter from TC Capital containing its advice to the Independent Board Committee and the Disinterested Shareholders, the text of which is set out in the section headed “Letter from TC Capital” in this circular;
- (e) the letter from KPMG in respect of the unaudited pro forma financial information of the Group, the text of which is set out in appendix II to this circular;
- (f) the written consents referred to in the paragraph headed “Experts and consents” in this appendix; and
- (g) the material contracts referred to in the paragraph headed “Material contracts” in this appendix.

11. MISCELLANEOUS

- (a) The principal place of business in Hong Kong of the Company is 22nd Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong.
- (b) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

- (c) The registered address of BNP Paribas Securities (Asia) Limited is 59/F to 63/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (d) The registered address of TC Capital is Suite 1903-4, 19/F, Tower 6, The Gateway, Harbour City, 9 Canton Road, Kowloon, Hong Kong.
- (e) The address of the Concert Group is 22nd Floor, World-Wide House, 19 Des Voeux Road Central, Hong Kong.
- (f) In the event of inconsistency, the English texts of this circular and the accompanying form of proxy shall prevail over the Chinese texts.

NOTICE OF EGM



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of Consun Pharmaceutical Group Limited (“**Company**”) will be held at United Conference Centre, 10th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong on Tuesday, 11 April 2017 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as resolutions of the Company:

SPECIAL RESOLUTION

1. **“THAT**

- (a) the share buy-back agreement dated 6 February 2016 (“**Share Buy-back Agreement**”) entered into between First Kind International Limited (“**First Kind**”) and the Company in relation to the proposed buy-back (“**Share Buy-back**”) of 146,140,200 ordinary shares of HK\$0.10 each (“**Buy-back Shares**”) in the issued share capital of the Company by the Company from First Kind at the proposed total consideration of HK\$560,739,947.40 (a copy of which is marked “A” and produced to the EGM and signed by the chairman of the EGM for identification purpose) be and is hereby confirmed, approved and ratified;
- (b) the Share Buy-back and the transactions contemplated under the Share Buy-back Agreement be and are hereby approved; and
- (c) the directors of the Company (“**Directors**”) be and are hereby authorised to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Share Buy-back Agreement and the transactions contemplated thereunder.

ORDINARY RESOLUTIONS

2. **“THAT** the terms of the waiver pursuant to Note 1 to the Notes on the Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers (“**Whitewash Waiver**”) in respect of the obligation of Mr. An Yubao, Ms. Li Qian, Mr. Young Wai Po, Peter and parties acting in concert with each of them (“**Concert Group**”) to make a mandatory general offer for all the shares of the Company not already owned or agreed to be acquired by the Concert Group which would otherwise arise as a result of the Share Buy-back be and are hereby approved and the Directors be and

NOTICE OF EGM

are hereby authorised to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to any matters relating to the same; and

3. Conditional upon the completion of the Share Buy-back Agreement, the Directors be and are authorised to distribute a special dividend of HK\$0.1 per share of the company and to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to any matters relating to the same.”

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

Hong Kong, 20 March 2017

Registered office:

Clifton House
75 Fort Street
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

Principal office in the PRC:

71, Dongpeng Avenue
Eastern section, Guangzhou Economic
and Technological Development District
Guangzhou, PRC

Notes:

1. For the purpose of determining the entitlement of the shareholders of the Company to attend and vote at the EGM, the Register of Members of the Company will be closed from Thursday, 6 April 2017 to Tuesday, 11 April 2017, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 5 April 2017.
2. A member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote in his/her stead. A proxy need not be a member of the Company but must be present in person to represent the member.
3. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notorially certified copy of such power or authority, shall be deposited at the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.
4. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person, or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the EGM or any adjournment thereof, the most senior shall alone be entitled to vote, whether in person or by proxy. For this purpose, seniority shall be determined by the order in which the name stands first in the register of members of the Company in respect of such joint holding.
5. The resolutions set out in the notice will be decided by poll at the EGM.