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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in Consun Pharmaceutical Group Limited, you should at once hand this circular 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 the transferee.

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

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

**MAJOR TRANSACTION IN RELATION TO  
COOPERATIVE DEVELOPMENT OF THE SITE LOCATED  
AT YULIN CITY, GUANGXI PROVINCE**

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 31 May 2019 in relation to the Cooperative Development Agreement
“Board”	the board of Directors
“Company”	Consun Pharmaceutical Group Limited, a company incorporated under the laws of the Cayman Islands with limited liability with its Shares listed on the Stock Exchange (stock code: 1681)
“Cooperative Development Agreement”	collectively, the Principal Agreement and the Supplemental Agreement
“Development Project”	a commercial and residential property development project using the Project Land
“Directors”	the directors of the Company
“Disposal-1”	the sale of 5% of the Target Interest as contemplated under the Principal Agreement
“Disposal-2”	the sale of 62.79% of the Target Interest as contemplated under the Supplemental Agreement
“Disposal-3”	the sale of 32.21% of the Target Interest as contemplated under the Supplemental Agreement
“Disposals”	collectively, Disposal-1, Disposal-2 and Disposal-3
“Group”	the Company and its subsidiaries
“Guangxi Huafa”	Guangxi Huafa Real Estate Development Co., Ltd.* (廣西華發房地產開發集團有限公司), a company established in the PRC with limited liability
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and are not connected persons (as defined under the Listing Rules) of the Company

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## DEFINITIONS

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“JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer
“Latest Practicable Date”	20 October 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parcel-1”	a parcel of land for industrial use with the total site area of approximately 83,670 sq.m. to be developed in the Development Project, which is owned by Yulin Pharmaceutical and a part of the Project Land
“Parcel-2”	a parcel of land for residential use with the total site area of approximately 26,302 sq.m. to be developed in the Development Project, which is owned by an Independent Third Party and a part of the Project Land
“Parcel-3”	a parcel of land for agricultural use with the total site area of approximately 13,448 sq.m. to be developed in the Development Project, which is collectively-owned by the Independent Third Parties living in the village thereon and a part of the Project Land
“PRC”	the People’s Republic of China
“Principal Agreement”	a principal cooperative development agreement dated 13 May 2019 entered into among Yulin Pharmaceutical, Guangxi Huafa, Yulin Shunlang and Yulin Yunxiang, which sets out the parties’ intent and broad terms in relation to the development and reconstruction project of the old plant site of Yulin Pharmaceutical
“Project Land”	a piece of land consisting of Parcel-1, Parcel-2 and Parcel-3, located at No. 3, Jiangnan Road, Yulin City, Guangxi Province, the PRC

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## DEFINITIONS

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“Repurchase Properties”	the properties located at the Project Land with the aggregate area of 9,100 sq.m. mainly for office, commercial and car parking uses, which Yulin Pharmaceutical shall be entitled to repurchase from Guangxi Huafa, Yulin Shunlang and/or the Project Company at the cost of construction to be agreed upon among the parties
“Reserved Building”	the building located at the Project Land with the total area of 1,061 sq.m. for industrial purpose, which Yulin Pharmaceutical shall be entitled to retain and/or repurchase from Guangxi Huafa, Yulin Shunlang and/or the Project Company at nil consideration
“RMB”	Renminbi, the lawful currency of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	the share(s) of the Company
“Shareholder(s)”	holder(s) of the Shares
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	a supplemental agreement dated 31 May 2019 entered into among Yulin Pharmaceutical, Guangxi Huafa, Yulin Shunlang and Yulin Yunxiang, in relation to, among others, the intended disposals of the Target Interest by Yulin Pharmaceutical to Guangxi Huafa and Yulin Shunlang at the Total Investment Return After Tax of RMB700,000,000 payable to Yulin Pharmaceutical
“Supplemental Announcement”	the announcement of the Company dated 12 July 2019 for supplementing and clarifying certain information in the Announcement
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target Interest”	the entire equity interests in Yulin Yunxiang

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## DEFINITIONS

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“Total Investment Return After Tax”	the total investment return after tax of RMB700,000,000 payable by Guangxi Huafa and Yulin Shunlang to Yulin Pharmaceutical under the Cooperative Development Agreement
“Yulin Municipal Government”	Yulin Municipal Government of Guangxi Zhuang Autonomous Region of the PRC
“Yulin Pharmaceutical”	Guangxi Yulin Pharmaceutical Group Co., Ltd.* (廣西玉林製藥集團有限責任公司), a company established in the PRC with limited liability and is an indirect non-wholly-owned subsidiary of the Company as at the Latest Practicable Date
“Yulin Shunlang”	Yulin City Shunlang Real Estate Investment Co., Ltd.* (玉林市順浪置業投資有限公司), a company established in the PRC with limited liability
“Yulin Yunxiang” or “Project Company”	Guangxi Yulin Yunxiang Real Estate Co., Ltd.* (廣西玉林雲香置業有限公司), a company established in the PRC with limited liability and is directly wholly-owned by Yulin Pharmaceutical as at the Latest Practicable Date
“%”	per cent

\* *In this circular, translated English names of Chinese entities for which no official English translation exists are unofficial translation for identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese name prevails.*

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## LETTER FROM THE BOARD

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**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 (*Vice Chairlady, Chief  
Executive Officer*)

Professor ZHU Quan

Mr. TANG Ning

*Registered office:*

Clifton House

75 Fort Street

P.O. Box 1350

Grand Cayman KY1-1108

Cayman Islands

*Independent Non-executive Directors:*

Mr. SU Yuanfu

Mr. FENG Zhongshi

Ms. CHEN Yujun

*Head office and principal place of  
business in the PRC:*

71, Dongpeng Avenue

Eastern section, Guangzhou Economic  
and Technological Development District  
Guangzhou, PRC

23 October 2019

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO  
COOPERATIVE DEVELOPMENT OF THE SITE LOCATED  
AT YULIN CITY, GUANGXI PROVINCE**

**INTRODUCTION**

Reference is made to the Announcement and the Supplemental Announcement in relation to the Cooperative Development Agreement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Cooperative Development Agreement; (ii) the property valuation report of Parcel-1; and (iii) other information as required under the Listing Rules.

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## LETTER FROM THE BOARD

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### COOPERATIVE DEVELOPMENT AGREEMENT

On 13 May 2019, Yulin Pharmaceutical (an indirect non wholly-owned subsidiary of the Company), Guangxi Huafa, Yulin Shunlang and Yulin Yunxiang (a direct wholly-owned subsidiary of Yulin Pharmaceutical and as the Project Company) entered into the Principal Agreement which sets out the parties' intent and broad terms in relation to the Development Project. On 31 May 2019, the parties to the Principal Agreement further entered into the Supplemental Agreement in relation to, among others, the intended disposals of the Target Interest by Yulin Pharmaceutical to Guangxi Huafa and Yulin Shunlang at the Total Investment Return After Tax of RMB700,000,000 payable to Yulin Pharmaceutical. Pursuant to the Cooperative Development Agreement, Yulin Yunxiang shall be principally engaged in the development and operation of the Project Land, which will be utilised in the Development Project.

The Development Project, which involves the development of Parcel-1, Parcel-2 and Parcel-3, is in accordance with the existing urban planning of the Yulin Municipal Government, under which Parcel-1, Parcel-2 and Parcel-3 should be viewed as a whole and shall be developed integrally. As at the Latest Practicable Date, the Yulin Municipal Government and Yulin Pharmaceutical had established a joint office to work on the relocation and demolition of the existing residential units on Parcel-2. It is expected that both Parcel-2 and Parcel-3 will be subject to land expropriation by the Yulin Municipal Government and be sold through the governmental procedure of bidding, auction and quotation regulated by applicable PRC laws and regulations.

The expected timeline of the relocation and demolition of the Project Land interweaves with the expected timeline of the Disposals. It is expected that Disposal-1 will be completed in around December 2019. The transfer registration of Parcel-1 from Yulin Pharmaceutical to the Project Company with the approval for the change of land use is expected to take place in about the first half of 2020, while the demolition of the existing old plants and the vacant possession delivery of Parcel-1 to the Project Company are expected to take place in about mid-2021, subject to the commencement of production in the northern part of the new plant area. Disposal-2 will be completed within five days from the completion of the said vacant possession delivery of Parcel-1 pursuant to the Supplemental Agreement. Disposal-3 will be completed within five days from the completion of the transfer registration of and the vacant possession delivery of Parcel-2 and Parcel-3 to the Project Company pursuant to the Supplemental Agreement, which is expected to take place in around 2023.

Currently, the Development Project is in the initial planning stage. The Project Company has initiated the application for its real estate development qualification, which is expected to be completed in around November 2019. At the same time, the Project Company is setting up its operation and management structure, as well as selecting appropriate staff for certain key positions such as chief engineer, deputy general manager of engineering, marketing director and financial director. An agent (the “**Design Agent**”) has been engaged for the preliminary design and planning of the Development Project and such Design Agent has initially devised a conceptual plan (the “**Conceptual Plan**”). All the costs incurred in the course of the said



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## LETTER FROM THE BOARD

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application for the real estate development qualification, the said staff recruitment and engagement of the Design Agent shall be borne by Guangxi Huafa and Yulin Shunlang. The Conceptual Plan will be submitted to the Yulin Municipal Government for approval, which is expected to be approved in about February 2020. Following approval of the Conceptual Plan, the Development Project shall progress accordingly. It is expected that the Development Project will be completed step by step until around the end of 2026, taking into consideration the expected timeline of the relocation and demolition of the Project Land. The said expected timelines in respect of the Development Project, the relocation and demolition of the Project Land and the Disposals are subject to changes depending on the actual progress.

The major terms of the Cooperative Development Agreement are set out as follows:

### PRINCIPAL AGREEMENT

**Date** : 13 May 2019

**Parties** : (1) Yulin Pharmaceutical;  
(2) Guangxi Huafa;  
(3) Yulin Shunlang; and  
(4) Yulin Yunxiang

To the best knowledge, information and belief of the Board after making all reasonable enquiries, each of Guangxi Huafa, Yulin Shunlang and their respective ultimate beneficial owner(s) are Independent Third Parties.

**Project Land** : The Project Land is located at No.3, Jiangnan Road, Yulin City, Guangxi Province, the PRC.

**Cooperation manner** : The parties to the Cooperative Development Agreement agreed that:

- (a) Yulin Pharmaceutical (as the owner of part of the Project Land) agreed to provide the land development right of the Project Land to the Project Company, be responsible for organising the demolition and relocation thereon, and procuring the Project Company to acquire the Project Land in accordance with the laws;
- (b) Guangxi Huafa and Yulin Shunlang shall be responsible for the provision of funds required and all the necessary technical support services to the Project Company for the development and construction in the Development Project; and

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## LETTER FROM THE BOARD

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- (c) Yulin Yunxiang (as the project company) shall be principally engaged in the development and operation of the Project Land, which will be utilised in the Development Project.

**Security Deposit** : Within ten business days from the date of the Cooperative Development Agreement, Guangxi Huafa and Yulin Shunlang shall pay RMB50,000,000 in cash to Yulin Pharmaceutical as security deposit (the “**Security Deposit**”). As at the Latest Practicable Date, Yulin Pharmaceutical had received the Security Deposit in full.

The Security Deposit will not form part of the Total Investment Return After Tax. Within five business days from the full payment of the Total Investment Return After Tax and the completion of the demolition and relocation on the Project Land, Yulin Pharmaceutical shall return part of the Security Deposit in the amount of RMB30,000,000 without interest; and within five business days from the completion of the delivery of the possession of the Repurchase Properties and the Reserved Building, Yulin Pharmaceutical shall return the remaining part of the Security Deposit in the amount of RMB20,000,000 without interest.

Further, as disclosed in the terms regarding termination of the cooperation on the Development Project on page 13 of this circular, if the Project Company fails to obtain the land use rights of Parcel-1 within twelve months from the date of the Supplemental Agreement for any reason other than those attributable to Yulin Pharmaceutical, Guangxi Huafa and/or Yulin Shunlang, then the said parties have the right to terminate the cooperation on the Development Project and in such event Yulin Pharmaceutical shall return the Security Deposit without interest.

**Disposal-1** : After the payment of the Security Deposit and the consideration of RMB2,000,000, Yulin Pharmaceutical shall transfer 5% of the Target Interest to Guangxi Huafa and Yulin Shunlang (i.e. Disposal-1).

**Potential further transfer(s)** : The parties may further negotiate on whether and how Yulin Pharmaceutical would transfer part or all of the remaining Target Interest held by it to Guangxi Huafa and/or Yulin Shunlang by stages at the time that the parties consider to be appropriate and at the consideration to be determined by the parties.

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## LETTER FROM THE BOARD

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### SUPPLEMENTAL AGREEMENT

**Date** : 31 May 2019

**Parties** : (1) Yulin Pharmaceutical;  
(2) Guangxi Huafa;  
(3) Yulin Shunlang; and  
(4) Yulin Yunxiang

**Basic information** : The Project Land consists of:

**of the Project  
Land**

- (1) Parcel-1<sup>(Note 1)</sup>: a parcel of land for industrial use with the total site area of approximately 83,670 sq.m. to be developed in the Development Project, which is owned by Yulin Pharmaceutical;
- (2) Parcel-2: a parcel of land for residential use with the total site area of approximately 26,302 sq.m. to be developed in the Development Project, which is owned by an Independent Third Party; and
- (3) Parcel-3: a parcel of land for agricultural use with the total site area of approximately 13,448 sq.m. to be developed in the Development Project, which is collectively-owned by a group of people living in the village thereon. To the best knowledge, information and belief of the Board after making all reasonable enquiries, the owners of Parcel-3 are the Independent Third Parties.

**The Disposals** : Pursuant to the Cooperative Development Agreement, Yulin Pharmaceutical shall transfer the Target Interest to Guangxi Huafa and Yulin Shunlang at the Total Investment Return After Tax of RMB700,000,000 in the following manner:

- (1) before the completion of the change of land use of Parcel-1 and the transfer of Parcel-1 from Yulin Pharmaceutical to the Project Company, Yulin Pharmaceutical shall transfer 5% of the Target Interest to Guangxi Huafa and Yulin Shunlang at the consideration of RMB2,000,000 (i.e. Disposal-1);

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## LETTER FROM THE BOARD

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- (2) within five days from the completion of the change of land use of Parcel-1, the transfer registration of and the vacant possession delivery of Parcel-1 from Yulin Pharmaceutical to the Project Company, Guangxi Huafa and Yulin Shunlang shall pay an investment return after tax of RMB474,530,000 (against which the consideration of RMB2,000,000 received from Disposal-1 shall be set off) to Yulin Pharmaceutical; upon receipt of which, Yulin Pharmaceutical shall transfer 62.79% of the Target Interest to Guangxi Huafa and Yulin Shunlang (i.e. Disposal-2); and
- (3) within five days from the completion of the transfer registration of and the vacant possession delivery of Parcel-2 and Parcel-3 to the Project Company, Guangxi Huafa and Yulin Shunlang shall pay an investment return after tax of RMB225,470,000 to Yulin Pharmaceutical; upon receipt of which, Yulin Pharmaceutical shall first transfer 27.21% of the Target Interest to Guangxi Huafa and Yulin Shunlang, and then transfer the remaining 5% of the Target Interest when the possession of the Repurchase Properties and the Reserved Building has been delivered to Yulin Pharmaceutical (i.e. Disposal-3)<sup>(Note 2)</sup>.

The additional payment for the higher land price arising from the transfer of Parcel-1 with the land use changed from industrial use to commercial and residential use, all the taxes arising from the process of transferring the land use rights of the Project Land to the Project Company and all the taxes arising from the transfers of the equity interests in the Project Company shall be borne solely by Guangxi Huafa and Yulin Shunlang. Unless otherwise agreed by the parties, all the taxes and expenses payable in connection with the Development Project shall be borne by the Project Company, Guangxi Huafa and Yulin Shunlang.

Guangxi Huafa and Yulin Shunlang shall not sell, transfer or otherwise dispose of, charge or pledge any of the Target Interest to secure any borrowing before completion of the Disposals.

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## LETTER FROM THE BOARD

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The Total Investment Return After Tax to be paid by Guangxi Huafa and Yulin Shunlang was agreed after arm's length negotiations among the parties with reference to the Group's main costs under the Development Project, which mainly include the book value of the major assets of Yulin Yunxiang of approximately RMB1,366,000 as at 31 December 2018 and the preliminary valuation of Parcel-1 of approximately RMB109,800,000 as at 31 May 2019, conducted by JLL, an independent valuer. The full text of the relevant valuation report is set out in Appendix II to this circular. In determining the Total Investment Return After Tax, the Board also considered the efforts that the Group has to make under the Development Project, mainly (i) providing the land development right of the Project Land to the Project Company; (ii) organising the demolition and relocation thereon; and (iii) procuring the Project Company to acquire the Project Land in accordance with the laws, where such efforts are difficult to be quantified in terms of money. Pursuant to the Cooperative Development Agreement, all the costs incurred in the course of effecting the change of land use, obtaining and transferring the land development right of the Project Land, organising the demolition and relocation work and procuring the Project Company to acquire the Project Land shall be borne by Guangxi Huafa and Yulin Shunlang and such costs are therefore irrelevant in determining the Total Investment Return After Tax.

On the grounds that (i) despite the difficulty in quantifying the efforts that the Group has to make in terms of money, the Total Investment Return After Tax of RMB700,000,000 is considerably higher than the Group's main costs under the Development Project that should be able to cover the land cost and the Group's efforts; (ii) the funds required and all the necessary technical support services to the Project Company for the development and construction in the Development Project, which include the acquisition cost of Parcel-2 and Parcel-3, shall be borne by Guangxi Huafa and Yulin Shunlang; and (iii) the expertise to develop and operate the Project Land is attribute to Guangxi Huafa and Yulin Shunlang, the Board is of the view that the Total Investment Return After Tax of RMB700,000,000 is of an amount enabling the Group to capture a favorable return from the Development Project, which is in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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**Repurchase right of Yulin Pharmaceutical** : Yulin Pharmaceutical shall be entitled to repurchase from Guangxi Huafa, Yulin Shunlang and/or the Project Company the Repurchase Properties at the cost of construction to be agreed among the parties and the Reserved Building at nil consideration after completion of the construction.

When Yulin Pharmaceutical exercises its right to repurchase the Repurchase Properties and the Reserved Building, the Company will comply with all the applicable Listing Rules, including but not limited to the relevant requirements under Chapter 14, as and when appropriate.

**Entitlement of Guangxi Huafa and Yulin Shunlang** : Guangxi Huafa and Yulin Shunlang shall be entitled to the remaining investment return under the Development Project (in additional to the Total Investment Return After Tax) and the ownership of the constructed units at the Project Land other than the Repurchase Properties and the Reserved Building.

**Management of the Project Company** : Prior to the completion of the Disposals, the Project Company shall have only one director who shall be designated by Yulin Pharmaceutical and such director shall also act as the legal representative of the Project Company. The general manager of the Project Company shall be designated by Guangxi Huafa and Yulin Shunlang while the management team of the Project Company shall be jointly established by Yulin Pharmaceutical, Guangxi Huafa and Yulin Shunlang, which should be responsible for the negotiation and determination of the acquisition prices of Parcel-2 and Parcel-3.

Prior to the completion of the change of land use of Parcel-1 and the transfer of Parcel-1 from Yulin Pharmaceutical to the Project Company, the financial manager of the Project Company shall be designated by Yulin Pharmaceutical and the vice financial manager of the Project Company shall be designated by Guangxi Huafa and Yulin Shunlang. All the external payments using the capital of the Project Company shall be subject to the approval of Yulin Pharmaceutical. After the change in control of the Project Company, the vice financial manager of the Project Company shall be designated by Yulin Pharmaceutical instead. Yulin Pharmaceutical shall retain the right to know in relation to the operations and management of the Project Company and also the right of financial supervision.

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## LETTER FROM THE BOARD

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**Termination of the cooperation on the Development Project** : In the event that the Project Company fails to obtain the land use rights of Parcel-1 within twelve months from the date of the Supplemental Agreement for any reason other than those attributable to Yulin Pharmaceutical, Guangxi Huafa and/or Yulin Shunlang, then Yulin Pharmaceutical, Guangxi Huafa and Yulin Shunlang shall have the right to terminate the cooperation on the Development Project. In such event, Yulin Pharmaceutical shall return the Security Deposit and the consideration of RMB2,000,000 for the 5% of the Target Interest without interest to Guangxi Huafa and Yulin Shunlang, and Guangxi Huafa and Yulin Shunlang shall transfer all the vested Target Interest back to Yulin Pharmaceutical. Any loss caused to the parties due to the cooperation termination shall be borne by themselves.

In the event that (i) the Development Project fails to be completed on time due to reasons attributable to Guangxi Huafa and/or Yulin Shunlang; or (ii) Guangxi Huafa and/or Yulin Shunlang terminate(s) the Cooperative Development Agreement unilaterally before the completion of the Development Project; or (iii) Guangxi Huafa and Yulin Shunlang fail to provide sufficient funds resulting in a failure to make the relevant payment in the process of land acquisition for more than 60 consecutive days; or (iv) Guangxi Huafa and Yulin Shunlang fail to fulfil their project construction and development obligations, resulting in the continuous suspension of the Development Project for more than 60 days, Guangxi Huafa and Yulin Shunlang shall be deemed to be in breach of the Cooperative Development Agreement. In such event, Guangxi Huafa and Yulin Shunlang shall not recover the Security Deposit nor any investment they have made, and shall unconditionally withdraw from the Development Project and return the Target Interest together with the land and any buildings thereon registered in the name of the Project Company to Yulin Pharmaceutical.

If the Cooperative Development Agreement terminates and any plan of the Group on the land use rights of Parcel-1/the Project Land leads to the Company's disclosure obligation under the Listing Rules, the Company will make further announcement(s) and comply with the applicable Listing Rules as and when appropriate.

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## LETTER FROM THE BOARD

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*Notes:*

1. According to the valuation report of Parcel-1 as set out in Appendix II to this circular, the total site area of Parcel-1 (including the area which is intended to be used in constructing public road instead of being developed in the Development Project) is approximately 85,549.59 sq.m., on which 21 industrial buildings with a total gross floor area of approximately 50,299.99 sq.m. and various structures (including plant area roads, boundary walls and landscaped facilities) erected. Amongst the aforementioned properties, portions of two buildings with a total gross floor area of approximately 1,660.00 sq.m. (the “**Rented Properties**”) and portion of the land parcel with a site area of approximately 4,446.20 sq.m. were rented to the Independent Third Parties for commercial purposes, while the remaining portion of Parcel-1 and buildings were occupied by Yulin Pharmaceutical for its own use for production, office and storage purposes. Pursuant to the lease agreements of the Rented Properties, the lease agreements will terminate when the Rented Properties are being expropriated for the purpose of town planning or construction. In such circumstances, the termination of the lease agreements will not be considered as a breach of such lease agreements and has no adverse effect to the Group.

As for the accounting treatment, (i) as at 31 December 2018 and (ii) as at the date of the Latest Practicable Date, the land use rights of Parcel-1 were treated as lease prepayments of the non-current assets, the Rented Properties were treated as investment property of the non-current assets, while the remaining buildings were treated as other property, plant and equipment of the non-current assets.

2. In the event that the Project Company fails to obtain the land use rights of Parcel-2 and Parcel-3, Disposal-3 will not materialise pursuant to the Cooperative Development Agreement, as a result of which Yulin Pharmaceutical will continue to hold approximately 32.21% of the entire equity interest in the Project Company while Guangxi Huafa and Yulin Shunlang will together hold approximately 67.79% of the entire equity interest in the Project Company, and the investment return after tax to be received by Yulin Pharmaceutical will be those of Disposal-1 and Disposal-2 only (i.e. RMB474,530,000). When such circumstance arises, the parties will further negotiate and enter into supplemental agreement(s) to the Cooperative Development Agreement where appropriate; and the Company will make further announcement(s) and comply with the applicable Listing Rules as and when appropriate.

### INFORMATION ABOUT THE GROUP, YULIN PHARMACEUTICAL AND YULIN YUNXIANG

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.

Yulin Pharmaceutical is a company established in the PRC with limited liability and is principally engaged in the research and development, manufacturing and sales of Chinese medicines and natural medicines under the brand of “Yulin” in the PRC, which mainly covers the manufacture of traditional Chinese medicine capsules, granules and tinctures (including the external use), ointments and liniments, the manufacture of Chinese herbal medicines (including toxic slices purifying agents, cutting agents, frying agents, roasting agents and streaming agents, etc.) and also the manufacture of beverages (such as tea drinks).

Yulin Yunxiang is a company established in the PRC with limited liability and a direct wholly-owned subsidiary of Yulin Pharmaceutical. As at the Latest Practicable Date, it was principally engaged in property development.



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## LETTER FROM THE BOARD

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The unaudited net profit (or loss) before and after tax and extraordinary items of Yulin Yunxiang for the two years ended 31 December 2017 and 2018 respectively were as follows:

	<b>Year ended 31 December</b>	
	<b>2017</b>	<b>2018</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit (loss) before tax and extraordinary items	(1,314)	(1,478)
Net profit (loss) after tax and extraordinary items	(1,314)	(1,478)

The unaudited net asset value of Yulin Yunxiang as at 31 December 2018 was approximately RMB204,000.

### INFORMATION ABOUT GUANGXI HUAFA AND YULIN SHUNLANG

Guangxi Huafa is a company established in the PRC with limited liability, which is principally engaged in property development. As at the Latest Practicable Date, Guangxi Huafa is owned as to 80% by Zhu Ming (朱明), an Independent Third Party, and 20% by Zhu Yanhung (朱豔紅), an Independent Third Party.

Yulin Shunlang is a company established in the PRC with limited liability, which is principally engaged in real estate investment. As at the Latest Practicable Date, Yulin Shunlang is owned as to 60% by Li Kunying (李琨英), an Independent Third Party, and 40% by Wu Xiangjun (吳享軍), an Independent Third Party.

### FINANCIAL EFFECT OF THE DISPOSALS

As at the Latest Practicable Date, Yulin Yunxiang was an indirect non wholly-owned subsidiary of the Company. Upon completion of the Disposals, Yulin Yunxiang will be wholly-owned by Guangxi Huafa and Yulin Shunlang and will cease to be a subsidiary of the Company, thus its results will no longer be consolidated into the financial results of the Group.

It is anticipated that the Group will record a disposal gain of approximately RMB663 million, which is determined by reference to the difference between (i) the Total Investment Return After Tax to be received by Yulin Pharmaceutical under the Cooperative Development Agreement; and (ii) the aggregate of (aa) the net book value of Parcel-1 as at 31 December 2018 in the amount of approximately RMB34.5 million and (bb) the carrying value of Yulin Pharmaceutical's 100% equity interest in Yulin Yunxiang as at 31 December 2018 in the amount of RMB3 million<sup>(Note 1)</sup>; while the amount of the said gain attributable to the Company will be approximately RMB482 million taking into account the Group's 72.69% equity interest in Yulin Pharmaceutical.

*Note 1:* The following sets out the reconciliation between the carrying value of Yulin Pharmaceutical's 100% equity interest in Yulin Yunxiang as at 31 December 2018 and the unaudited net asset value of Yulin Yunxiang as at 31 December 2018:

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## LETTER FROM THE BOARD

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RMB'000

Carrying value of Yulin Pharmaceutical's 100% equity interest in Yulin Yunxiang as at 31 December 2018	3,000
Less: Retained Earnings (Accumulated Losses)	(2,796)

Net asset value of Yulin Yunxiang as at 31 December 2018 (unaudited)	204
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Based on the Total Investment Return After Tax and the audited consolidated financial statements of the Group for the year ended 31 December 2018, it is anticipated that as a result of the Disposals, the consolidated total assets of the Group will be increased by approximately RMB661 million to approximately RMB3,895 million and the consolidated total liabilities of the Group will be decreased by approximately RMB1.16 million to approximately RMB1,399 million.

Shareholders and potential investors should note that the above expectations are for illustrative purpose only and subject to audit. The actual accounting gain or loss in connection with the Disposals may be different from the above and will be determined based on the net book value of Parcel-1 and the carrying value of Yulin Pharmaceutical's equity interest in Yulin Yunxiang as at the respective completion dates of the Disposals.

### PROPERTY VALUATION OF PARCEL-1

JLL, an independent valuer, has valued the property interest of Parcel-1 (the “**Property Interest**”) as at 31 August 2019. The full text of the valuation report of Parcel-1 is included in Appendix II to this circular.

The statement below sets out the reconciliation between the net book value of the Property Interest as at 31 December 2018 (being the date to which the latest published audited financial statements of the Group were made up) and the valuation of the Property Interest as at 31 August 2019 as set out in Appendix II to this circular:

RMB'000

Net book value as at 31 December 2018 (audited)	34,486
Less: Amortization of land use right	(555)

Net book value as at 31 August 2019 (unaudited)	33,931
Valuation surplus, before tax	76,069

Valuation as at 31 August 2019 as set out in the property valuation report in Appendix II	110,000
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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFIT OF THE COOPERATIVE DEVELOPMENT AGREEMENT

In line with “Relocation of Industries from City Urban Area to Industrial Parks (退城入園)” implementation plan initiated by the Yulin Municipal Government, Yulin Pharmaceutical has gradually relocated the production lines in the existing old plants at the Project Land to the new plant area located in the Healthcare Industrial Park (健康產業園區) in Yulin City. Currently, the existing old plants are not yet demolished and the production lines in the existing old plants are still in normal operation. It is expected that the existing old plants (save for the Reserved Building which will remain on Parcel-1) will be demolished after the change of land use of Parcel-1 is completed. The new plant area is divided into the southern part and the northern part. Workshops in the southern part of the new plant area are already in operation and the medicine ingredient warehouse therein has also been completed. It is expected that the construction work of the northern part of the new plant area will be completed in around December 2019, the Good Manufacturing Practice Certification thereof will be obtained and the production therein will start in around June 2021. The Board is of the view that the relocation of the production lines will not adversely affect the business operation/production of the Group since (i) the relocation is carried out gradually and the production lines of different drugs in the new plant area are separately built, whereby the relocation of a specific production line will progress only after the construction of the relevant production line is completed in the new plant area; and (ii) the production capacity of each production line in the new plant area will be significantly increased and much more efficient than the existing old plants. With the said relocation, the Project Land can therefore be utilised in the Development Project. After preliminary analyses and test calculations, it is expected the Development Project may generate considerable return to Yulin Pharmaceutical, providing a solid source of funds for Yulin Pharmaceutical to satisfy the fund needed to construct facilities in the new plant area and upgrade existing products.

In light of the estimated gain that will be recorded by the Group as shown above and given that the nature of the Development Project is property development which is not in line with the principal businesses and long-term development of the Group, the Disposals, if materialises, represents a good opportunity for realisation of the Group’s investment in the Development Project. It is intended to apply the proceeds of the Total Investment Return After Tax in the following manner:

- (i) approximately RMB595 million (representing 85% of the proceeds of the Total Investment Return After Tax) will be applied for the construction of the new plant area (including but not limited to the erection and renovation of 15 buildings with a total gross floor area of approximately 300,000 sq.m., the establishment of automatic control system, the pipeline construction, the purchase and installation of facilities and equipment); and
- (ii) the remaining proceeds in the amount of approximately RMB105 million (representing 15% of the proceeds of the Total Investment Return After Tax) will be applied for the development, upgrading and clinical trial of Yulin Pharmaceutical’s products (including but not limited to the external dosage form (hydrogel cataplasm) of “Zheng Gu Shui” (「正骨水」外用劑型(水凝膠巴布劑)) and the external dosage form (ointment) of “Shiduqing Capsule” (「濕毒清膠囊」外用劑型(軟膏)).

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## LETTER FROM THE BOARD

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The terms of the Cooperative Development Agreement were determined after arm's length negotiations between the parties thereto and the Directors are of the view that the terms of the Cooperative Development Agreement and the transactions contemplated thereunder on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### LISTING RULES IMPLICATIONS

Given that the Principal Agreement mainly outlines the parties' intent and broad terms of the Development Project and contains no specific terms regarding the Disposals save and except the payment of the Security Deposit and Disposal-1, the transactions contemplated under the Principal Agreement do not constitute any discloseable transaction for the Company as all the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) are less than 5%.

Following the entering into of the Supplemental Agreement setting out the specific terms regarding the Disposals, as one or more than one of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) exceed 25% but are less than 75%, the Disposals contemplated under the Cooperative Development Agreement constitute major transaction for the Company, and are therefore subject to the reporting, announcement and shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

As it is intended that Parcel-2 and Parcel-3 will be acquired by the Project Company after Disposal-2, the Board is of the view that the acquisitions of Parcel-2 and Parcel-3 by the Project Company would not constitute a notifiable transaction and/or connected transaction under Chapters 14 and 14A of the Listing Rules given that Yulin Pharmaceutical will retain approximately 32.21% of the entire equity interests in the Project Company by then and the Project Company will thus cease to be a subsidiary of the Company. If there is any change of circumstance where a disclosure obligation arises under the Listing Rules, the Company will make further announcement(s) and comply with the applicable Listing Rules as and when appropriate.

To the best knowledge, information and belief of the Directors, after having made all reasonable enquiries, no Shareholder has a material interest in the Disposals and no Shareholder would be required to abstain from voting if the Company were to convene a general meeting to approve the Disposals. Pursuant to Rule 14.44 of the Listing Rules, a written shareholders' approval may be accepted in lieu of holding a general meeting. The Relevant Shareholders, being a closely allied group of the Shareholders holding in aggregate 450,623,078 Shares (representing approximately 52.05% of the total issued Shares having the right to attend and vote at a general meeting of the Company to approve the Disposals), have given written approval to the Disposals. Accordingly, no general meeting of the Company will be convened for the purpose of approving the Disposals.

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## LETTER FROM THE BOARD

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The Relevant Shareholders are as follows:

	Number of Shares held	Approximate percentage shareholding (Note 1)
Mr. An Yubao (“ <b>Mr. An</b> ”) (Note 2)	9,805,817	1.13%
Central Success Developments Limited (“ <b>Central Success</b> ”) (Note 3)	197,324,000	22.79%
Ms. Li Qian (“ <b>Ms. Li</b> ”) (Note 2)	6,395,261	0.74%
Double Grace International Limited (“ <b>Double Grace</b> ”) (Note 4)	127,048,000	14.68%
Guidoz Limited (“ <b>Guidoz</b> ”) (Note 5)	110,050,000	12.71%
Total	<u>450,623,078</u>	<u>52.05%</u>

*Notes:*

1. The percentage was calculated based on 865,732,280 issued Shares as at the Latest Practicable Date.
2. They are Directors.
3. Central Success beneficially owns 197,324,000 Shares. The entire issued share capital of Central Success is owned by Aali Resources Limited, which is held by BOS Trustee Limited as a trustee of a discretionary trust, of which Mr. An is the founder.
4. Double Grace is wholly owned by Ms. Li.
5. Guidoz beneficially owns 110,050,000 Shares. The entire issued share capital of Guidoz Limited is legally and beneficially owned by Mr. Young Wai Po, Peter (“**Mr. Young**”).

Mr. An, Ms. Li and Mr. Young had acted in concert with each other in controlling the management and operation of the principal operating subsidiary of the Group since 1 January 2002 before the listing of the shares in the Company on the Main Board of the Stock Exchange (the “**Listing**”) by virtue of an acting in concert agreement dated 1 January 2002 (the “**Acting in Concert Agreement**”). On 11 March 2013, in preparation of the Listing, Mr. An, Ms. Li and Mr. Young further executed an acting in concert confirmation (the “**Acting in Concert Confirmation**”), whereby they confirmed their acting-in-concert arrangement in the past, as well as their intention to continue with such arrangement to consolidate their control of the Group until such agreement is terminated otherwise. Accordingly, Mr. An, Ms. Li and Mr. Young together with Central Success, Double Grace and Guidoz have been a group of controlling shareholders of the Group since the Listing on 19 December 2013. Although Mr. An, Ms. Li and Mr. Young entered into a deed of termination (the “**Termination Deed**”) on 16 December 2016 to terminate the acting-in-concert arrangement under the Acting in Concert Agreement and the Acting in Concert Confirmation in hope of allowing themselves more discretion in exercising their respective Shareholders’ rights, they decided not to proceed with the submission to obtain confirmation from the SFC that they are no longer acting in concert

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## LETTER FROM THE BOARD

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pursuant to note 3 to the definition of “acting in concert” of the Takeovers Code and therefore Mr. An, Ms. Li and Mr. Young together with Central Success, Double Grace and GuidoZ are still taken to be a concert party group for the purposes of the Takeovers Code. Despite the execution of the Termination Deed, the Relevant Shareholders had voted unanimously on shareholders’ resolutions in which the Relevant Shareholders were not required to abstain from voting by the shares that they had exercised their respective shareholders’ right to vote. Based on the above, the Relevant Shareholders constitute a closely allied group of the Shareholders.

### RECOMMENDATION

Although no general meeting will be convened for approving the Cooperative Development Agreement, the Directors (including the independent non-executive Directors) believe that the terms of the Cooperative Development Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and are in the best interests of the Company and the Shareholders as a whole. Accordingly, if a general meeting were to be convened by the Company, the Directors would have recommended the Shareholders to vote in favour of the entering into of the Cooperative Development Agreement and the transactions contemplated thereunder.

### GENERAL

**As the completion of the Disposals is subject to the fulfillment of the terms of the Cooperative Development Agreement, the Disposals may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.**

### ADDITIONAL INFORMATION

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

Yours faithfully,  
By Order of the Board  
**Consun Pharmaceutical Group Limited**  
**AN Yubao**  
*Chairman and Executive Director*

**1. FINANCIAL INFORMATION OF THE GROUP**

The financial information of the Group for each of the three years ended 31 December 2016, 2017 and 2018 are disclosed in the following documents which have been published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)):

- Annual report of the Company for the year ended 31 December 2016 published on 28 April 2017 (pages 89 to 207)

(<http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0428/LTN20170428107.pdf>)

- Annual report of the Company for the year ended 31 December 2017 published on 27 April 2018 (pages 86 to 207)

(<http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN20180427067.pdf>)

- Annual report of the Company for the year ended 31 December 2018 published on 30 April 2019 (pages 84 to 223)

(<http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0430/LTN20190430147.pdf>)

**2. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 August 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the indebtedness of the Group are as follows:

**Borrowings**

At the close of business on 31 August 2019, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this Circular, the Group had outstanding bank loans of approximately RMB537,207,000, which were neither secured nor guaranteed.

**Contingent liabilities**

At the close of business on 31 August 2019, the Group did not have any material contingent liabilities.

**Disclaimer**

Save as disclosed above, and apart from intra-group liabilities, the Group did not have debt securities issued and outstanding, and authorised or otherwise created but unissued, other term loans, outstanding borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits

or hire purchase commitments, which were either guaranteed, unguaranteed, secured or unsecured, lease liabilities, mortgages and charges, or other contingent liabilities or guarantees at the close of business on 31 August 2019.

### **3. SUFFICIENCY OF WORKING CAPITAL**

After due and carefully enquiry, the Directors are of the opinion that, after taking into account the financial resources available to the Group, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular in the absence of unforeseeable circumstances.

### **4. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

### **5. FINANCIAL AND TRADING PROSPECTS**

The Group is a modern pharmaceutical group principally engaged in the research, manufacturing and sales of modern Chinese medicines and medical contrast medium. The medical products produced and sold by the Group are mainly used in treatment of diseases such as kidney disease, skin disease, bone fracture as well as liver, gallbladder and digestive system problems, and imaging diagnosis.

The management of the Group has made strenuous efforts in maintaining the selling prices and controlling the production cost for the Group's products and strived to expand its product markets and develop its sales network across China on a continuous basis. The Group has maintained stable performance growth with a sound financial condition. Looking forward, the Group will continue to steadily promote the development in breadth and depth of its cornerstone business with a focus on the Chinese medicine and healthcare industry, in other words, strengthening and expanding its core, fundamental business. Moreover, the Group will expand into the OTC market and push ahead with the transformation towards the sales model of "Brand + End-user" with a view to optimizing the distribution channels, penetrating into end-user markets, and establishing a professional and strong marketing team. Meanwhile, it will accelerate the research and development of new medicines and technological innovation, extensively promote the in-depth integration of corporate culture and the development of brand planning, and actively response to the complicated and changing market environment with an open and inclusive attitude by leveraging its innovative corporate development model, striving to establish "a top class medicine enterprise specializing in kidney disease with multiple leading specialties".



*The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 August 2019 of the property interest held by the Group.*



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited  
7/F One Taikoo Place 979 King's Road Hong Kong  
tel +852 2846 5000 fax +852 2169 6001  
Licence No.: C-030171

23 October 2019

The Board of Directors  
**Consun Pharmaceutical Group Limited**  
22nd Floor  
World-Wide House  
19 Des Voeux Road Central  
Hong Kong

Dear Sirs,

In accordance with your instructions to value a property interest held by Guangxi Yulin Pharmaceutical Group Co., Ltd. ("Yulin Pharmaceutical"), an indirect non wholly-owned subsidiary of Consun Pharmaceutical Group Limited (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interest as at 31 August 2019 (the "valuation date").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We have valued the property by the income approach by taking into account the rental income of the property derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the market value at an appropriate capitalization rate.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificate, Building Ownership Certificates and other official plans relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Group's PRC legal advisers – Guangdong Kingbridge Law Firm, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the property was carried out in June 2019 by Mr. Legend Zhan, Mr. Devon Yan and Mr. Ross Tan. They have more than 3 years' experience in the valuation of properties in the PRC and possess academic background in subjects relating to real estate valuation.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is attached below for your attention.

Yours faithfully,  
For and on behalf of  
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**  
**Eddie T. W. Yiu**  
*MRICS MHKIS RPS (GP)*  
*Senior Director*

*Notes: Eddie T.W. Yiu is a Chartered Surveyor who has 25 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.*

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2019 RMB															
A parcel of land, 21 industrial buildings and various structures No. 3 Jiangnan Road Yulin City Guangxi Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 85,549.59 sq.m and 21 buildings and various structures erected thereon which were completed in various stages between 1985 and 2005.</p> <p>The buildings have a total gross floor area of approximately 50,299.99 sq.m. and the details are set out as follows:</p> <table> <tr> <th>Usage</th> <th>No. of Item</th> <th>Gross floor Area (sq.m.)</th> </tr> <tr> <td>Production</td> <td>10</td> <td>29,831.70</td> </tr> <tr> <td>Office</td> <td>8</td> <td>6,940.14</td> </tr> <tr> <td>Storage</td> <td>3</td> <td>13,528.15</td> </tr> <tr> <td><b>Total</b></td> <td><b>21</b></td> <td><b>50,299.99</b></td> </tr> </table> <p>The structures mainly include plant area roads, boundary walls and landscaped facilities.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 18 April 2053 for industrial use.</p>	Usage	No. of Item	Gross floor Area (sq.m.)	Production	10	29,831.70	Office	8	6,940.14	Storage	3	13,528.15	<b>Total</b>	<b>21</b>	<b>50,299.99</b>	As at the valuation date, portions of the property with a total gross floor area of approximately 1,660.00 sq.m. and portion of the land parcel with a site area of approximately 4,446.20 sq.m were rented to third parties and the remaining portion of the property was occupied by the Group for production, office and storage purposes.	110,000,000
Usage	No. of Item	Gross floor Area (sq.m.)																
Production	10	29,831.70																
Office	8	6,940.14																
Storage	3	13,528.15																
<b>Total</b>	<b>21</b>	<b>50,299.99</b>																

## Notes:

- Pursuant to a State-owned Land Use Rights Certificate – Yu Guo Yong (2011) Di No. 0100107, the land use rights of a parcel of land with a site area of approximately 85,549.59 sq.m. have been granted to Yulin Pharmaceutical for a term of 50 years expiring on 18 April 2053 for industrial use.
- Pursuant to 21 Building Ownership Certificates, 21 buildings with a total gross floor area of approximately 50,449.37 sq.m. are owned by Yulin Pharmaceutical. The details are set out as follows:

No.	Building Ownership Certificate No.	Issue Date	Gross Floor Area (sq.m.)
(1)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358864	19 December 2003	1,037.44
(2)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 345968	19 December 2003	4,290.83
(3)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358865	19 December 2003	2,643.93
(4)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358863	19 December 2003	230.84
(5)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358870	19 December 2003	855.00
(6)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358868	19 December 2003	390.58
(7)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 345965	19 December 2003	314.64
(8)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358869	19 December 2003	406.49

No.	Building Ownership Certificate No.	Issue Date	Gross Floor Area (sq.m.)
(9)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 345967	27 November 2003	451.30
(10)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 550126	25 October 2005	3,280.25
(11)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358871	19 December 2003	3,251.90
(12)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358872	19 December 2003	3,179.52
(13)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358867	19 December 2003	7,096.73
(14)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00345642	19 December 2003	2,666.41
(15)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 345969	13 June 2002	2,123.75
(16)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358866	19 December 2003	6,713.23
(17)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 345964	19 December 2003	1,775.89
(18)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 00358873	27 November 2003	1,930.63
(19)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 550100	19 December 2003	4,694.34
(20)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 99010423	27 June 1999	1,744.22
(21)	Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di No. 345966	27 November 2003	1,371.45
<b>Total:</b>			<b><u>50,449.37</u></b>

3. As advised by the Group, portions of 2 buildings with a total gross floor area of approximately 149.38 sq.m. (under Yu Lin Shi Fang Quan Zheng Yu Fang Zi Di Nos. 00358868 and 99010423) had been demolished as at the valuation date. Therefore, we had not included such portions in our valuation.
4. According to 4 tenancy agreements, portions of the property with a total gross floor area of approximately 1,660.00 sq.m. and portion of the land parcel with a site area of approximately 4,446.20 sq.m were rented to third parties with the latest tenancy expiring on 31 December 2019. The total monthly rent as at the valuation date was RMB102,152, exclusive of management fees, water and electricity charges and other outgoings.
5. Our valuation has been made on the following basis and analysis:
  - a. In undertaking our valuation, we have considered the actual rents in the existing tenancy agreements and also compared with similar developments which are located in the similar areas as the industrial properties of the subject property, for the calculation of market rent in considering (1) the reversionary rental income after the expiry of the existing leases for the leased area mentioned in note 4, and (2) the rental income of remaining area;
  - b. The unit rent of these comparable industrial properties range from RMB0.33 to RMB0.47 per sq.m. per day; and
  - c. Based on our research on industrial market in the surrounding area of the property, for industrial portion, the stabilized market yield ranged from 6.0% to 7.0% as at the valuation date. Considering the location, risks and characteristics of the property, we have applied a market yield of 6.5% as the capitalization rate in the valuation.
6. We have been provided with a legal opinion regarding the property interest by the Group's PRC legal advisers, which contains, *inter alia*, the following:
  - a. Yulin Pharmaceutical is legally and validly in possession of the land use rights and the building ownership rights of the property; and
  - b. The property is free from mortgage and seizure.

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**2. DISCLOSURE OF INTERESTS****(a) Directors and chief executive's interest and short positions in Shares, underlying Shares and debentures of the Company or its Associated Corporations**

Save as disclosed below, as at the Latest Practicable Date, no Directors and the chief executive of the Company had or was deemed to have interests and short positions in Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange:

***Long position in the Shares***

<b>Name of Director</b>	<b>Capacity and nature of interest</b>	<b>Number of Shares held/ interest in</b>	<b>Approximate percentage of interests<sup>(Note 1)</sup></b>
An Yubao	Beneficial owner <sup>(Note 2)</sup>	28,555,817	3.30%
	Founder of a discretionary trust <sup>(Note 3)</sup>	197,324,000	22.79%
Li Qian	Beneficial owner <sup>(Note 2)</sup>	25,145,261	2.90%
	Interest of controlled corporation <sup>(Note 4)</sup>	127,048,000	14.68%
Zhu Quan	Beneficial owner <sup>(Note 2)</sup>	3,287,700	0.38%
Tang Ning	Beneficial owner <sup>(Note 2)</sup>	2,589,600	0.30%

*Notes:*

1. The percentage was calculated based on 865,732,280 issued Shares as at the Latest Practicable Date.

2. Including shares in relation to 18,750,000 share options, 18,750,000 share options, 3,287,700 share options and 2,589,600 share options granted to Mr. An Yubao, Ms. Li Qian, Professor Zhu Quan and Mr. Tang Ning respectively under the share option scheme of the Company adopted on 2 December 2013.
3. The entire issued share capital of Central Success Developments Limited (“**Central Success**”) is owned by Aali Resources Limited (“**Aali Resources**”). Aali Resources is held in the name of BOS Trustee Limited as a trustee of a discretionary trust, of which Mr. An Yubao is the founder. Therefore, Mr. An is also deemed to be interested in all the Shares held by Central Success under the provisions of the SFO.
4. The entire issued share capital of Double Grace International Limited (“**Double Grace**”) is owned by Ms. Li Qian. Therefore, Ms. Li is deemed to be interested in all the Shares held by Double Grace under the provisions of the SFO.

**(b) Substantial Shareholders’ interest in Shares and underlying Shares**

So far as was known to the Directors, as at the Latest Practicable Date, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of substantial Shareholder	Capacity and nature of interest	Number of Shares held/ interest in	Approximate percentage of interests <sup>(Note 1)</sup>
Guidoz Limited <sup>(Note 2)</sup>	Beneficial owner	110,050,000	12.71%
Young Wai Po, Peter <sup>(Note 2)</sup>	Interest of controlled corporation	110,050,000	12.71%
BOS Trustee Limited <sup>(Note 3)</sup>	Trustee	197,324,000	22.79%
Aali Resources <sup>(Note 3)</sup>	Interest of controlled corporation	197,324,000	22.79%
Central Success <sup>(Note 3)</sup>	Beneficial owner	197,324,000	22.79%
Double Grace <sup>(Note 4)</sup>	Beneficial owner	127,048,000	14.68%
Lazard Asset Management LLC	Investment manager	43,978,000	5.08%

*Notes:*

1. The percentage was calculated based on 865,732,280 issued Shares as at the Latest Practicable Date.
2. The entire issued share capital of Guidoz Limited is legally and beneficially owned by Mr. Young Wai Po, Peter. 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 owned by Aali Resources. Aali Resources is held in the name of BOS Trustee Limited as a trustee of a discretionary trust, of which Mr. An Yubao is the founder.
4. The entire issued share capital of Double Grace is owned by Ms. Li Qian.

### 3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which does not expire or is not determinable by the Company or any member of the Group within one year without payment of compensation (other than statutory compensation).

### 5. INTERESTS IN CONTRACTS OR ARRANGEMENT

#### (a) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which, since 31 December 2018 (being the date to which the latest published audited financial statements of the Group were made up), had been or were proposed to be acquired or disposed of by or leased to any member of the Group.

#### (b) Interest in contracts

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group where was subsisting and which was significant in relation to the business of the Group.

### 6. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

### 7. QUALIFICATION AND CONSENT OF EXPERT

The following sets out the qualification of the experts who have given opinions or advice included in this circular (collectively, the “**Experts**”):

<b>Name</b>	<b>Qualifications</b>
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent property valuer
Guangdong Kingbridge Law Firm	PRC Legal adviser to the Company

Each of the letter, valuation certificate and opinion of the Experts is given as of the date of this circular for incorporation herein.



Each of the Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, valuation certificate and opinion (as the case maybe) and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the Experts (i) had any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; or (ii) had any interest, direct or indirect, in any assets which since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up) had been or were proposed to be, acquired or disposed of by or leased to any member of the Group.

## **8. MATERIAL CONTRACTS**

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

- (a) the Cooperative Development Agreement (consisting of the Principal Agreement and the Supplemental Agreement)

## **9. GENERAL**

- (a) The secretary of the Company is Mr. Yau Chi Ming, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is situated at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and the principal place of business of the Company in Hong Kong is 22/F, World-Wide House, 19 Des Voeux Road Central, Hong Kong.
- (c) The Company's share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) In the event of any inconsistency, the English texts of the circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at 22/F, World-Wide House, 19 Des Voeux Road Central, Hong Kong during normal business hours for the period of 14 days commencing from the date of this circular:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the years ended 31 December 2017 and 2018 respectively;
- (c) the written consent referred to in the paragraph headed “7. Qualification and Consent of Expert” in this appendix;
- (d) the letter and valuation certificate relating to the property interest held by the Group prepared by JLL, the text of which are set out in Appendix II to this circular;
- (e) the legal opinion issued by Guangdong Kingbridge Law Firm in respect of Parcel-1;
- (f) the material contracts referred to in the paragraph headed “8. Material Contracts” in this appendix; and
- (g) this circular.