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If you have sold or transferred all your shares in Luye Pharma Group Ltd., you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 02186)

**MAJOR TRANSACTION
ACQUISITION OF EQUITY INTEREST IN
BEIJING JIALIN PHARMACEUTICAL CO., LTD.**

A letter from the Board is set out on pages 6 to 41 of this circular. A notice convening the Special General Meeting to be held at Executive Ballroom, Shanghai Marriott Hotel Hongqiao, No. 2270 Hongqiao Road, Shanghai, PR China on Friday, 16 January 2015 at 1:00 p.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use by the Shareholders at the Special General Meeting is enclosed. Whether or not you intend to attend and vote at the Special General Meeting in person, you are encouraged to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as practicable but in any event not later than 48 hours before the time for holding the Special General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjournment thereof should you so wish and in such event, the relevant form of proxy shall be deemed to be revoked.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	6
Appendix I — Financial Information of the Group	I-1
Appendix II — Accountants' Report on the Target Group	II-1
Appendix III — Management Discussion and Analysis of the Target Group	III-1
Appendix IV — Unaudited Pro Forma Financial Information of the Enlarged Group	IV-1
Appendix V — General Information	V-1
Notice of Special General Meeting	SGM-1

DEFINITIONS

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

“Acquisitions”	the First Tranche Acquisition, the Second Tranche Acquisition, the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions in respect of the acquisition by the Purchaser of an aggregate of 100% equity interest in the Target
“Agreements”	the First Tranche Agreement, the Second Tranche Agreement, the Third Tranche Agreement and the Remaining Equity Interest Agreements
“Announcements”	the announcements of the Company dated 27 August 2014, 24 October 2014, 1 December 2014, 15 December 2014 and 30 December 2014 in relation to the Acquisitions
“associate”	has the meaning ascribed to it under the Listing Rules
“Beijing CITIC”	北京中信投資中心(有限合夥) (Beijing CITIC Investment Centre (Limited Partnership)), a limited partnership established in the PRC
“Board”	the board of Directors
“CAGR”	compound annual growth rate
“CFDA”	the China Food and Drug Administration (中華人民共和國國家食品藥品監督管理局)
“CITIC Equity Pledge”	has the meaning given to it in the paragraph headed “The Agreements — Assets to be acquired” in the Letter from the Board in this circular
“close associate”	has the meaning ascribed to it under the Listing Rules
“Company”	Luye Pharma Group Ltd., a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisitions in accordance with the respective terms of the Agreements
“Directors”	the directors of the Company
“Enlarged Group”	the Group as enlarged by the Acquisitions

DEFINITIONS

“Equity Interest”	the First Tranche Equity Interest, the Second Tranche Equity Interest, the Third Tranche Equity Interest and the Remaining Equity Interest
“First Tranche Acquisition”	the acquisition of the First Tranche Equity Interest by the Purchaser from Mylin Holdings pursuant to the terms of the First Tranche Agreement
“First Tranche Agreement”	the conditional equity transfer agreement dated 25 August 2014 entered into among the Purchaser, the Target and Mylin Holdings in relation to the First Tranche Acquisition as amended by supplemental agreements dated 6 October 2014, 5 November 2014 and 30 December 2014 and the Supplemental Agreement
“First Tranche Equity Interest”	31.81% equity interest in the Target
“Global Offering”	the global offering of 999,640,000 Shares (comprising 667,540,000 new Shares and 332,100,000 existing Shares, and subject to the over-allotment option) as described in further details in the Prospectus
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRSs”	International Financial Reporting Standards
“Latest Practicable Date”	29 December 2014, being the latest practicable date prior to the publication of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long-stop Date”	31 January 2015 (or such later date as the Purchaser and Mylin Holdings may mutually agree)

DEFINITIONS

“Mylin Holdings”	美林控股集團有限公司 (Mylin Holdings Group Co., Ltd.), a company incorporated in the PRC with limited liability, which, as of the Latest Practicable Date, owned 47.72% of the equity interest in the Target comprising the First Tranche Equity Interest and the Second Tranche Equity Interest
“PRC” or “China”	the People’s Republic of China and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Prospectus”	the prospectus of the Company dated 26 June 2014
“Purchase Price”	the aggregate consideration in the amount of RMB6,100,020,000 payable by the Purchaser for the Acquisitions in accordance with the terms of the Agreements
“Purchaser” or “Shandong Luye”	山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co., Ltd.), a one-person company with limited liability established in the PRC, and a wholly-owned subsidiary of the Company
“Remaining Equity Interest”	an aggregate of 42.02% equity interest in the Target
“Remaining Equity Interest Acquisitions”	the acquisitions of the Remaining Equity Interest
“Remaining Equity Interest Agreements”	the conditional equity transfer agreements dated 24 October 2014 entered into among the Purchaser, the Target and the respective sellers in relation to the Remaining Equity Interest Acquisitions as amended by the respective Remaining Equity Interest Supplemental Agreements (where applicable)
“Remaining Equity Interest Supplemental Agreements”	the supplemental agreements dated 12 December 2014 entered into among the Purchaser, the Target and the respective Sellers (other than Mylin Holdings, Beijing CITIC and 曹樂生 (Cao Lesheng)) in relation to the Remaining Equity Interest Acquisitions
“RMB”	Renminbi, the lawful currency of the PRC
“Second Tranche Acquisition”	the acquisition of the Second Tranche Equity Interest by the Purchaser from Mylin Holdings pursuant to the terms of the Second Tranche Agreement

DEFINITIONS

“Second Tranche Agreement”	the conditional equity transfer agreement dated 25 August 2014 entered into among the Purchaser, the Target and Mylin Holdings in relation to the Second Tranche Acquisition as amended by the Supplemental Agreement
“Second Tranche Equity Interest”	15.91% equity interest in the Target
“Sellers”	the sellers as set out in the paragraph headed “The Agreements — Date and parties” in the Letter from the Board in this circular
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of US\$0.02 each in the issued share capital of the Company
“Special General Meeting”	the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Agreements and the transactions contemplated thereunder
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement dated 1 December 2014 entered into among the Purchaser, Mylin Holdings and the Target in relation to the First Tranche Acquisition and the Second Tranche Acquisition
“Target”	北京嘉林藥業股份有限公司 (Beijing Jialin Pharmaceutical Co., Ltd.), a company established in the PRC with limited liability
“Target Group”	the Target and its subsidiaries
“Third Tranche Acquisition”	the acquisition of the Third Tranche Equity Interest by the Purchaser from Beijing CITIC pursuant to the terms of the Third Tranche Agreement
“Third Tranche Agreement”	the conditional equity transfer agreement dated 25 August 2014 entered into among the Purchaser, the Target and Beijing CITIC in relation to the Third Tranche Acquisition as amended by the Third Tranche Supplemental Agreement
“Third Tranche Equity Interest”	10.26% equity interest in the Target

DEFINITIONS

“Third Tranche Supplemental Agreement”	the supplemental agreement dated 12 December 2014 entered into among the Purchaser, Beijing CITIC and the Target in relation to the Third Tranche Acquisition
“Wuhu Luye”	蕪湖綠葉製藥有限公司 (Wuhu Luye Pharmaceutical Co., Ltd.), a company with limited liability established in the PRC

For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB0.796 to HK\$1.00. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or RMB have been, could have been or may be converted at such or any other rate or at all.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

LETTER FROM THE BOARD



LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 02186)

Executive Directors:

Mr. LIU Dian Bo (*Executive Chairman*)
Mr. YUAN Hui Xian
Mr. YANG Rong Bing
Ms. ZHU Yuan Yuan

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Non-executive Directors:

Mr. PAN Jian
Mr. LIU Dong
Ms. WANG Xin

Principal Office in Hong Kong:

8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Independent Non-executive Directors:

Mr. ZHANG Hua Qiao
Professor LO Yuk Lam
Mr. LEUNG Man Kit
Mr. CHOY Sze Chung Jojo

31 December 2014

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
ACQUISITION OF EQUITY INTEREST IN
BEIJING JIALIN PHARMACEUTICAL CO., LTD.**

INTRODUCTION

Reference is made to the announcements of the Company dated 27 August 2014, 6 October 2014, 24 October 2014, 5 November 2014, 20 November 2014, 1 December 2014, 15 December 2014 and 30 December 2014 in which the Company announced that on 25 August 2014 and 24 October 2014, the Company entered into the Agreements pursuant to which the Purchaser has conditionally agreed to purchase and the Sellers have conditionally agreed to sell the Equity Interest, representing an aggregate of 100% equity interest in the Target. Reference is also made to

LETTER FROM THE BOARD

the announcements of the Company dated 6 October 2014, 5 November 2014, 1 December 2014, 15 December 2014 and 30 December 2014 in which the Company announced that the Company entered into supplemental agreements.

The purpose of this circular is, among other things, to provide you with further information in relation to the Acquisitions and the notice of the Special General Meeting.

THE AGREEMENTS

Date and parties

	Date	The Purchaser	The Sellers	The Target	Assets to be acquired	Purchase price (in RMB)	Purchase price per one percentage interest (in RMB)
First Tranche Agreement:	25 August 2014 (as amended on 6 October 2014, 5 November 2014, 1 December 2014 and 30 December 2014)	山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co., Ltd.), a wholly-owned subsidiary of the Company	美林控股集團有限公司 (Mylin Holdings Group Co., Ltd.)	北京嘉林藥業股份有限公司 (Beijing Jialin Pharmaceutical Co., Ltd.)	31.81% equity interest in the Target	1,829,075,000	57,500,000
Second Tranche Agreement:	25 August 2014 (as amended on 1 December 2014)	Same as above	Same as above	Same as above	15.91% equity interest in the Target	1,264,845,000	79,500,000
Third Tranche Agreement:	25 August 2014 (as amended on 12 December 2014)	Same as above	北京中信投資中心(有限合夥) (Beijing CITIC Investment Centre (Limited Partnership))	Same as above	10.26% equity interest in the Target	589,950,000	57,500,000
The Remaining Equity Interest Agreements:	24 October 2014 (as amended on 12 December 2014)	Same as above	新疆梧桐樹股權投資有限公司 (Xinjiang Plane Trees Equity Investment Co., Ltd.)	Same as above	14.02% equity interest in the Target	806,150,000	57,500,000
	Same as above	Same as above	北京中關村國盛創業投資中心(有限合夥) (Beijing Zhongguancun Guosheng Venture Capital Center (Limited Partnership))	Same as above	8.80% equity interest in the Target	506,000,000	57,500,000
	Same as above	Same as above	北京華誠宏泰有限公司 (Beijing Huacheng Hongtai Co., Ltd.)	Same as above	3.00% equity interest in the Target	172,500,000	57,500,000

LETTER FROM THE BOARD

Date	The Purchaser	The Sellers	The Target	Assets to be acquired	Purchase price (in RMB)	Purchase price per one percentage interest (in RMB)
Same as above	Same as above	深圳市珠峰基石股權投資合夥企業(有限合夥) (Shenzhen Everest Cornerstone Equity Investment Partnership (Limited Partnership))	Same as above	2.20% equity interest in the Target	126,500,000	57,500,000
Same as above	Same as above	西藏矽谷天使創業投資有限公司 (Tibet Silicon Valley Angel Venture Capital Co., Ltd.)	Same as above	2.00% equity interest in the Target	115,000,000	57,500,000
Same as above	Same as above	寧波成潤投資管理中心(有限合夥) (Ningbo Chengrun Investment Management Centre (Limited Partnership))	Same as above	1.80% equity interest in the Target	103,500,000	57,500,000
Same as above	Same as above	蘇州藍郡創業投資中心(有限合夥) (Suzhou Blue County Venture Capital Center (Limited Partnership))	Same as above	1.80% equity interest in the Target	103,500,000	57,500,000
Same as above	Same as above	達孜縣中融泰山優選基金(有限合夥) (Dazi County Zhongrong Tarzan Preferred Fund (Limited Partnership))	Same as above	1.49% equity interest in the Target	85,590,164	57,443,063
Same as above	Same as above	權威 (Quan Wei)	Same as above	1.31% equity interest in the Target	75,409,836	57,564,760
Same as above	Same as above	浙江康恩貝製藥股份有限公司 (Zhejiang Conba Pharmaceutical Co., Ltd.)	Same as above	1.10% equity interest in the Target	63,250,000	57,500,000
Same as above	Same as above	青島海洋基石創業投資企業(有限合夥) (Qingdao Ocean Foundation Venture Capital Co., Ltd. (Limited Partnership))	Same as above	1.10% equity interest in the Target	63,250,000	57,500,000

LETTER FROM THE BOARD

Date	The Purchaser	The Sellers	The Target	Assets to be acquired	Purchase price (in RMB)	Purchase price per one percentage interest (in RMB)
Same as above	Same as above	深圳市中歐基石股權投資合夥企業(有限合伙) (Shenzhen Central Cornerstone Equity Investment Partnership (Limited Partnership))	Same as above	0.60% equity interest in the Target	34,500,000	57,500,000
24 October 2014	Same as above	曹樂生 (Cao Lesheng)	Same as above	2.80% equity interest in the Target	161,000,000	57,500,000

The Company (through its executive chairman and chief executive officer, Mr. Liu Dian Bo) was first engaged in discussions on the Acquisitions on 20 July 2014, after its Global Offering and commencement of the listing of the Shares on the Stock Exchange on 9 July 2014.

The Company is still in negotiations with 曹樂生 (Cao Lesheng) in relation to the entering into of a supplemental agreement. In the event that a supplemental agreement is entered into between the parties before the Completion of the acquisition from 曹樂生 (Cao Lesheng), the Company will reseek shareholders' approval, where required, in compliance with Listing Rules.

The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, the Sellers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Assets to be acquired

First Tranche Acquisition: 31.81% equity interest in the Target

Second Tranche Acquisition: 15.91% equity interest in the Target

Third Tranche Acquisition: 10.26% equity interest in the Target

Remaining Equity Interest

Acquisitions: an aggregate of 42.02% equity interest in the Target

Shareholders please also refer to the table under the paragraph headed "The Agreements — Date and parties" above for further details of the assets to be acquired from each Seller under the Remaining Equity Interest Acquisitions.

The assets to be acquired under the Acquisitions comprise the First Tranche Equity Interest, the Second Tranche Equity Interest, the Third Tranche Equity Interest and the Remaining Equity Interest, representing an aggregate of the entire equity interest in the Target. As advised by Mylin Holdings, part of the Second Tranche Equity Interest representing 15% of the equity interest in the

LETTER FROM THE BOARD

Target has been pledged in favour of Beijing CITIC as security for certain of its payment obligations (“**CITIC Equity Pledge**”). Under the terms of the Second Tranche Agreement, the release of the CITIC Equity Pledge is a condition precedent to the completion of the Second Tranche Acquisition.

As contemplated under the First Tranche Agreement, Mylin Holdings has undertaken that it will use its best endeavours to procure all other shareholders of the Target excluding Mylin Holdings and Beijing CITIC to sell the Remaining Equity Interest to the Purchaser at a price no higher than the price (calculated on a pro-rated basis) payable by the Purchaser to Mylin Holdings for the First Tranche Acquisition. The parties entered into the Remaining Equity Interest Agreements on 24 October 2014 and subsequently entered into the Remaining Equity Interest Supplemental Agreements on 12 December 2014.

Upon completion of Acquisitions, the Purchaser will hold the entire equity interest in the Target; the Target will become a wholly-owned subsidiary of the Company and its results will be consolidated into the accounts of the Group.

Purchase price

First Tranche Acquisition:	RMB1,829,075,000
Second Tranche Acquisition:	RMB1,264,845,000
Third Tranche Acquisition:	RMB589,950,000
Remaining Equity Interest Acquisitions:	RMB2,416,150,000

Shareholders please also refer to the table under the paragraph headed “The Agreements — Date and parties” for further details on the purchase price payable to each Seller under the Remaining Equity Interest Acquisitions.

The purchase price for each of the Acquisitions is payable in cash and shall be satisfied in the following manner:

First Tranche Acquisition

- (a) upon completion of all the business registration documents and online registration at the State Administration for Industry and Commerce of the PRC with respect to the pledge over the 6% equity interest in the Target to be given by Mylin Holdings in favour of Shandong Luye as more particularly described below (the “**First Share Pledge**”) by 2 December 2014, Shandong Luye shall pay a refundable deposit of RMB200,000,000 (the “**First Deposit**”) to Mylin Holdings;

LETTER FROM THE BOARD

- (b) RMB1,200,000,000 of the purchase price (the “**First Payment**”) is payable within five business days from the date that the conditions precedent to the completion of the First Tranche Acquisition have been fulfilled or waived, pursuant to which the First Deposit shall be converted as part of the First Payment and the entire share pledge under the Supplemental Agreement shall be released; and
- (c) the balance of the purchase price (the “**Second Payment**”) is payable no later than 30 June 2015 on the condition that the First Tranche Agreement has not been terminated in accordance with the terms thereof by then. The Company expects to make the Second Payment on 30 June 2015 provided that the First Tranche Agreement has not been terminated.

As security for the First Deposit, Mylin Holdings is required to provide the First Share Pledge to Shandong Luye and complete the business registration thereof within 10 business days from the date of payment of the First Deposit by Shandong Luye. The First Deposit was paid on 2 December 2014 and the business registration of the First Share Pledge was completed on 17 December 2014. In the event that the First Tranche Agreement is terminated in accordance with the terms thereof prior to the completion of the First Tranche Acquisition, Shandong Luye shall facilitate the release of the entire share pledge under the Supplemental Agreement within five business days from the date on which Mylin Holdings refunds 50% of the First Deposit (and, the Second Deposit (as defined below), if any) and Mylin Holdings shall refund the remaining 50% of the First Deposit (and, the Second Deposit, if any) on the next business day from the date on which the share pledge is released. Shandong Luye paid a second deposit on 30 December 2014. As at 17 December 2014, Mylin Holdings has also completed the business registration at the State Administration for Industry and Commerce of the PRC with respect to the pledge over an additional 15% equity interest in the Target in favour of Shandong Luye. Please refer to the section headed “The Agreement — Termination — First Tranche Acquisition” of this Letter from the Board for further details.

Second Tranche Acquisition

The purchase price is payable no later than 30 June 2015 on the condition that the First Tranche Agreement has not been terminated in accordance with the terms thereof by then.

Third Tranche Acquisition

- (a) 50% of the purchase price is payable within five business days from the date that the conditions precedent to completion of the Third Tranche Acquisition have been fulfilled or waived and the Second Payment for the First Tranche Acquisition has been paid by Shandong Luye to Mylin Holdings; and
- (b) the balance, being 50% of the purchase price, is payable within five business days from the date of completion of the Third Tranche Acquisition.

LETTER FROM THE BOARD

Remaining Equity Interest Acquisition

For the Acquisitions from the relevant Sellers other than 曹樂生 (Cao Lesheng)

- (a) 50% of the purchase price is payable within five business days from the date that the conditions precedent to completion of the Remaining Equity Interest Acquisition have been fulfilled or waived and the Second Payment for the First Tranche Acquisition has been paid by Shandong Luye to Mylin Holdings; and
- (b) the balance, being 50% of the purchase price, is payable within five business days from the date of completion of the respective Remaining Equity Interest Acquisition.

For the Acquisition from 曹樂生 (Cao Lesheng)

- (a) 50% of the purchase price is payable (i) within five business days from the date that the conditions precedent to completion of the Remaining Equity Interest Acquisition have been fulfilled or waived, or (ii) by 20 January 2015, whichever is later; and
- (b) the balance, being 50% of the purchase price, is payable (i) within five business days from the date of completion of the Remaining Equity Interest Acquisition, or (ii) by 20 February 2015, whichever is later.

The purchase price for the Acquisitions was determined after arm's length negotiations between the respective Sellers and the Purchaser taking into account various factors, including but not limited to the following:

- (a) the Target Group's ability to generate sustainable and profitable growth, as well as the performance guarantees for 2014 and 2015 provided by Mylin Holdings as disclosed in the paragraph headed "Performance guarantees" below;
- (b) the asset value of the Target Group — based on the management accounts of the Target, the unaudited net asset value of the Target as of 31 December 2013 was approximately RMB711,418,000. The net asset value primarily consisted of non-current assets (including, among other things, production facilities, construction in progress and intangible assets) and current assets (including, among other things, cash, inventory, account receivables, note receivables and other receivables);
- (c) the historical financial information regarding the performance of the Target Group based on the management accounts of the Target, the net profits before taxation and extraordinary items of the Target for the two years ended 31 December 2012 and 2013 were RMB231,365,000 and RMB296,660,000, respectively; and the unaudited net profits after taxation and extraordinary items of the Target for the two years ended 31 December 2012 and 2013 were RMB195,890,000 and RMB251,577,000, respectively. For further details of the Target Group's historical financial information, please see the audited financial statements of the Target Group for the three years ended 31 December 2013

LETTER FROM THE BOARD

and the six months ended 30 June 2014 contained in Appendix II to this circular and the management discussion and analysis of the Target Group set out in Appendix III to this circular; and

- (d) the reasons for the Acquisitions. The Company believes that the Acquisitions will supplement the Group's already existing product portfolio, help drive the Group's market share, significantly increase its strategic competitiveness, and considerably strengthen the Group's competitive advantage in the key strategic areas of the PRC cardiovascular system market. The combined offering of the products of the Enlarged Group will produce considerable synergies. For further details, please see the paragraph headed "Reasons for and benefits of the Acquisitions" below.

In addition, the purchase price for each tranche of the Acquisitions was determined, among other things, with reference to a price-earnings multiple of around 16 times the performance guarantee for 2014 and 2015. Specifically, the purchase price for the First Tranche Acquisition, the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions was determined, among other things, with reference to the performance guarantee of the Target Group for the financial year ending 31 December 2014 (being RMB350 million), whereas the purchase price for the Second Tranche Acquisition was determined, among other things, with reference to the profit guarantee of the Target Group for the financial year ending 31 December 2015 (being RMB500 million).

Mylin Holdings, the Seller under the First Tranche Acquisition and the Second Tranche Acquisition, is the controlling shareholder of the Target who has actual control of the Target's business operation and management. In line with the general market practice for mergers and acquisitions in the PRC pharmaceutical industry, as the controlling shareholder, Mylin Holdings has undertaken more obligations and liabilities than other Sellers. For example, Mylin Holdings has provided a guarantee and undertaking in relation to the performance level of the Target for 2014 and 2015. It has also made representations, warranties and undertakings in the relevant Agreement to the effect that, prior to the completion of the Acquisitions, the Target Group will be operating in its ordinary and usual course of business and its existing relationship with clients, suppliers and various governmental departments will be maintained, and it would not cause any matters which would lead to significant adverse effect to the Target Group. Furthermore, under the First Tranche Agreement, Mylin Holdings warrants that the business of the Target Group has been operated in compliance with the applicable laws, rules and regulations with all necessary licences and permits and no investigations or penalties have been initiated or imposed by any relevant government authorities. In the event that there is any material breach of any of the above, Mylin Holdings is required to compensate all losses suffered by the Company under the relevant Agreement. The Target has confirmed the contents of the warranties given by Mylin Holdings under the First Tranche Agreement.

For the above reasons, the total purchase price to be paid to Mylin Holdings under the First Tranche Acquisition and the Second Tranche Acquisition is proportionally higher than that payable to other Sellers under the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions. Taking into account the original expected time of completion of each tranche of the

LETTER FROM THE BOARD

Acquisitions and the Remaining Equity Interest Acquisitions namely in December 2014 (or shortly after that) for the First Tranche Acquisition, the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions, and the first half of 2015 for the Second Tranche Acquisition, the purchase price for the First Tranche Acquisition was determined, among other things, with reference to the profit guarantee for 2014, while the purchase price for the Second Tranche Acquisition was determined, among other things, with reference to the profit guarantee for 2015 (instead of 2014).

Despite that the completion of the Second Tranche Acquisition has been brought forward under the Supplemental Agreement to take place at the same time of completion of the First Tranche Acquisition, i.e. within five working days from which Shandong Luye pays the First Payment to Mylin Holdings, which is expected to be no later than 31 January 2015, Shandong Luye is not expected to be obliged to pay the entire purchase price for the Second Tranche Acquisition (together with the balance of the purchase price for the First Tranche Acquisition in the amount of RMB629,075,000) until 30 June 2015.

The Directors are of the view that the above commercial arrangement to pay a proportionally higher purchase price at a later stage for the Second Tranche Acquisition is in fact in the interest of the Company. As Mylin Holdings will only be entitled to the full (and hence higher) purchase price after a few months after completion of the First Tranche Acquisition and the Second Tranche Acquisition, by which the Company expects that Mylin Holdings will take a more proactive approach in attending to the Completion generally and assisting in the integration and re-alignment of the sales model of the Target Group with the sales and distribution channel of the Group (as more particularly described in the section headed “Future Re-alignment and Integration Plan” in this Letter from the Board). Further, despite that the completion of the Third Tranche Acquisition is expected to be postponed to shortly after 30 June 2015 and the completion of the Remaining Equity Interest Acquisitions is expected to be postponed to shortly after 30 June 2015 (with the exception of the acquisition from 曹樂生 (Cao Lesheng), which is expected to be postponed to no later than 31 March 2015), the Directors are of the view that it may not be in the interests of the Company and its Shareholders to adjust the purchase price by referring to a high amount of guaranteed profit for 2015. On the basis of the above, despite that the purchase price for the Second Tranche Acquisition is proportionally higher than that for the First Tranche Acquisition, the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions, the Directors consider that the difference in the purchase price is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Company intends to apply HK\$2,154,000,000 (equivalent to RMB1,713,593,160) representing approximately 60% of the net proceeds it received from the Global Offering to fund part of the purchase price for the Acquisitions. As disclosed in the Prospectus, the Company plans to use its net proceeds received from the Global Offering as to, among others, approximately 20% to expand the Group’s product portfolio, approximately 20% for investments in research and development, and approximately 20% for selective acquisitions. As explained in the paragraph headed “Reasons for and benefits of the Acquisitions” below, the Acquisitions will enable to Group to tap into the Target Group’s market leading lipid regulator, A LE (阿樂) (atorvastatin calcium tablets), and hence expanding the Group’s portfolio of cardiovascular system products. The

LETTER FROM THE BOARD

Acquisitions will further enhance the Group's research and development capability. The use of the proceeds of the Global Offering for the Acquisitions is consistent with the planned use of proceeds as disclosed in the Prospectus.

The Company is considering different alternatives to satisfy the balance of the purchase price which may include using its internal resources, external financing, third party funding or such other means as the Company considers appropriate. The Company is planning to use 60% of the proceeds from the Global Offering and its internal resources, in the amount of approximately US\$120,000,000, to satisfy the purchase price for the First Tranche Acquisition and Third Tranche Acquisition. The Company has also been in discussions with various banks in obtaining external resources for satisfying the purchase price for the Second Tranche Acquisition and the Remaining Equity Interest Acquisition. The Company envisaged entering into financing agreements by May 2015 so as to obtain funding in June 2015.

As of the Latest Practicable Date, the Group has utilised HK\$665 million, representing 18.5% of the net proceeds received by the Company from the Global Offering. Set out below a summary of the latest utilisation of the net proceeds by different usage:

Use of proceeds	Amount	Balance as of the Latest Practicable Date	Proposed to be utilised as purchase price for the Acquisitions	Balance after Completion
To expand the Group's portfolio of pharmaceutical products	20%/ HK\$718 million	20%/ HK\$718 million	20%/ HK\$718 million	Nil
For research and development	20%/ HK\$718 million	20%/ HK\$718 million	20%/ HK\$718 million	Nil
For selective acquisitions of domestic or international pharmaceutical companies	20%/ HK\$718 million	20%/ HK\$718 million	20%/ HK\$718 million	Nil
To fund capital expenditure projects to increase production capabilities	20%/ HK\$718 million	10%/ HK\$359 million	N/A	10%/ HK\$359 million
To expand sales and marketing network	5%/ HK\$180 million	3.5%/ HK\$126 million	N/A	3.5%/ HK\$126 million
To partially repay borrowings under our U.S. dollar secured loans	5%/ HK\$180 million	Nil	N/A	Nil
For working capital and general corporate purposes	10%/ HK\$360 million	8%/ HK\$288 million	N/A	8%/ HK\$288 million

The Directors are of the view that there has not been any change in the use of proceeds by the Company from the Global Offering as disclosed in the Prospectus.

LETTER FROM THE BOARD

Performance guarantees

Under the terms of the First Tranche Agreement and the Second Tranche Agreement, Mylin Holdings has provided the following performance guarantees to the Purchaser:

	First Tranche Agreement	Second Tranche Agreement
Net profit after taxation and extraordinary items of the Target prepared based on IFRSs in respect of the financial year ending:	31 December 2014 will not be less than RMB350 million	31 December 2015 will not be less than RMB500 million

In the event that the actual amount falls below the guaranteed amount or the Target suffers a loss, Mylin Holdings undertakes to pay such shortfall amount, which, in case of a loss suffered by the Target, shall be the amount to compensate the loss plus the guaranteed amount, to the Purchaser within 30 days from the date that the audited accounts are finalised, which is expected to be within three months after the respective financial year end dates.

The performance guarantee was determined primarily as a result of the commercial negotiations between the parties on an arm's length basis taking into account the historical growth of Chinese pharmaceutical market, the Target Group's historical financial performance and the expected growth rate of its net profit, and the Company's in-depth knowledge of the pharmaceutical industry in the PRC. In terms of the industry, according to Espicom Business Intelligence, the Chinese pharmaceutical market grew from US\$34.5 billion in 2008 to US\$69.7 billion in 2012, representing a CAGR of 19.2%. In terms of the Target, based on the management accounts of the Target Group, revenue of the Target Group increased from approximately RMB822 million for 2012 to RMB1,120 million for 2013, representing a growth rate of approximately 36.3%. Net profit of the Target Group increased from approximately RMB196 million for 2012 to RMB252 million for 2013, representing a growth rate of approximately 28.6%. The Company also conducted a series of due diligence exercise and analysis on the Target Group's financial performance for the first half of 2014, including face to face discussions with the management of the Target discussing the operation and performance of the Target, conducting site visits at the Target, requesting and reviewing documents including management accounts of the Target for the first six months of 2014 so to enable the Company to make its own assessment on the performance of the Target, etc. The Company also engaged its PRC legal adviser to conduct legal due diligence on the Target covering difference aspects, including sales, production, quality control, R&D and intellectual property. Professional accountants have also been engaged to conduct financial due diligence and to prepare an audit report on the Target's financial results for the three years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2014. The Company has also formed a designated team for the Acquisitions and to provide recommendations to the Directors on the findings from the above due diligence exercise. After such due diligence exercise and analysis, the Directors believe that revenue of the Target Group will be able to maintain a high level of growth. Furthermore, based on

LETTER FROM THE BOARD

the Company's in-depth knowledge of the pharmaceutical industry in the PRC, and in particular, the market of cardiovascular system therapeutic area, the Directors expect that the net profit of the Target after taxation and extraordinary items prepared based on IFRSs would be able to reach RMB350 million for 2014 and RMB500 million for 2015. Mylin Holdings, as the single largest shareholder in the Target holding 47.72% equity interest in the Target who has a thorough understanding of the business operation and financial prospects of the Target, is also confident that the targeted profit level under the performance guarantee can be achieved. On the basis of the above, the Directors are of the view that the performance guarantee represents a genuine estimate of the performance of the Target for 2014 and 2015.

As previously disclosed, the purchase price for each tranche of the Acquisitions and the Remaining Equity Interest Acquisitions was determined, among other things, with reference to a price-earnings multiple of around 16 times the performance guarantee for 2014 and 2015. Therefore, the Directors consider that it is fair for Mylin Holdings to top up any shortfall between the guaranteed amount and the actual amount (and hence the topped-up amount would support the purchase price based on the aforesaid price-earnings multiples), instead of to pay the entire amount based on the shortfall amount multiplied by the aforesaid price-earnings multiples. The Directors believe that such term is not unique in transactions of a similar nature. In any event, the Directors take the view that such term cannot be reviewed on a stand-alone basis as it is part of the whole transaction, and Shareholders are advised to read the whole circular for full and detailed information about the Acquisitions.

In view of the basis stated above, the Directors believe that the performance guarantee is a fair representation.

As set out above, the purchase price for each tranche of the Acquisitions was determined, among other things, with reference to the performance guarantees for 2014 and 2015. However, the performance guarantees are only provided in the First Tranche Agreement and the Second Tranche Agreement, and in the event that the actual amount falls below the performance guaranteed amount, only Mylin Holdings undertakes to pay such shortfall amount. The Board is of the view that the absence of the performance guarantee and the undertaking from other Sellers per se would not render the purchase price for each of the Acquisitions unfair or unreasonable or not in the interest of the Company as a whole on the basis of the following:

- (a) as set out above, the performance guarantee was determined primarily as a result of the commercial negotiations between the parties on an arm's length basis taking into account the historical growth of Chinese pharmaceutical market, the Target Group's historical financial performance and the expected growth rate of its net profit, and the Company's in-depth knowledge of the pharmaceutical industry in the PRC, and therefore is a fair representation. The Company expects that the Target will be able to meet the targeted profit level as contemplated under the performance guarantee and has therefore taken this into account in determining the purchase price for each of the Acquisitions. The Board considers that the undertaking from Mylin Holdings provides additional comfort to the Company in entering into the Acquisitions;

LETTER FROM THE BOARD

- (b) Mylin Holdings, as the single largest shareholder in the Target holding 47.72% equity interest in the Target, has the actual control of the Target's business operation and management and therefore is willing to provide such a performance guarantee and an undertaking to pay the shortfall if the performance guarantee amount is not met; while the other Sellers are mainly investors in nature without substantial involvement or at all in the daily operation and management of the Target, therefore the Directors consider that it is reasonable that they do not provide any such guarantee and undertaking; the Directors believe that it is also consistent with the general market practice for the controlling shareholder (instead of the minority or passive investors) to provide such a guarantee and undertaking;
- (c) this is also driven by the Group's desire to acquire 100% of the Target in order to gain full control of the Target in terms of business operation and management, and to enjoy 100% of the financial results of the Target and maximise the synergies with the Group's existing business and therefore this is a commercial decision of the Group to acquire the equity interest in the Target from other Sellers under the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions on a purchase price which was determined with reference to the performance guarantee; and
- (d) the Company also believes that Mylin Holdings will be motivated by its undertakings and obligations under the performance guarantee to maintain the high growth rate of the Target Group by providing full support in the integration and development of the Target Group after completion to ensure the targeted profit levels can be achieved.

The Company understands that Mylin Holdings which was founded in 1998, is a diversified multinational group with a registered capital of RMB100 million, and operates a wide range of businesses in different sectors, including real estate, pharmaceutical, mineral resources, tourism and environment protection. In view of the reputation and financial resources of Mylin Holdings, as well as the amount of the purchase price to be paid to Mylin Holdings in an aggregate amount of RMB3,093.9 million, the Company believes that Mylin Holdings will be able to fulfill its contractual obligations.

In line with general commercial practice, in the event Mylin Holdings fails to pay the shortfall amount to the Purchaser within the agreed date, the Company will negotiate with Mylin Holdings and, if required, take legal actions against Mylin Holdings to enforce the relevant agreement(s).

The Company will keep the Shareholders informed on the updated status of the performance guarantee from time to time, including (a) whether the targeted profit level under the performance guarantee has been met; (b) if required, whether and how Mylin Holdings has fulfilled its obligations under the terms of the Agreements where such targeted profit level has not been met; and (c) if required, any further re-negotiated terms with Mylin Holdings. The Company will keep the Shareholders informed by way of announcement(s) after the results of the Target are finalised.

LETTER FROM THE BOARD

Before entering into the Agreements, the Directors considered the key terms of the Agreements, including but not limited to the purchase price, the payment term, the conditions precedent to completion, the performance guarantee given by Mylin Holdings to pay the shortfall amount between the targeted profit level under the performance guarantee and the actual amount, and assessed the risks associated with and the consequential impact on the Group from the possibility that the targeted profit level could not be achieved, or Mylin Holdings fails to honour its undertaking to pay under the performance guarantee. Having considered all relevant factors, the Directors take the view that the terms of the Agreements are arrived after arm's length negotiations as a result of commercial decisions and are fair and reasonable. The entering into of the Agreements based on such terms is in the interests of the Company and the Shareholders as a whole (which is, for proper purpose and in the interests of the Company as a whole under Rule 3.08 of the Listing Rules).

Conditions precedent

First Tranche Acquisition

Completion of the First Tranche Acquisition is conditional upon the fulfilment or waiver (as the case may be) of certain conditions, the principal of which are set out below:

- (a) the approval from the Ministry of Commerce of the PRC (or the authorised local authority) in respect of the First Tranche Acquisition, the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions having been obtained;
- (b) the Purchaser, the Company, Mylin Holdings and the Target having obtained all the necessary approvals required for the First Tranche Acquisition, the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions including but not limited to their respective board and shareholders' approval;
- (c) an audit report in respect of the accounts of the Target Group for the financial years ended 31 December 2011, 2012 and 2013, and the six months ended 30 June 2014 having been issued;
- (d) the Supreme People's Court of the PRC having rendered its final judgment in favour of the Target Group in respect of certain intellectual property rights issues; and
- (e) the Target having terminated the distributorship agreement entered into with 海南康寧藥業有限公司 (Kangning Pharmaceutical Co., Ltd.) ("**Kangning**") dated 27 September 2013.

We set out below further information in relation to the intellectual property rights dispute referred to in condition (d) above for Shareholders' information.

LETTER FROM THE BOARD

On 16 May 2008, the Target filed an application to the Patent Reexamination Board of the State Intellectual Property Office of China (the “**Patent Reexamination Board**”) to seek for a declaration of a patent related to the Target Group’s key product A LE (patent number: ZL96195564.3) (the “**Disputed Patent**”) held by Warner-Lambert Company LLC (“**Warner-Lambert**”) invalid. The Disputed Patent has a validity period of 20 years and will expire on 7 July 2016. The Patent Reexamination Board issued a review decision on 17 June 2009 and declared that the Disputed Patent was invalid. On 24 September 2009, Warner-Lambert appealed against the decision of the Patent Reexamination Board and filed an administrative proceeding with the Beijing First Intermediate People’s Court, which affirmed the Patent Reexamination Board’s decision in an administrative written judgment on 14 May 2010. On 2 July 2010, Warner-Lambert appealed to the Beijing High People’s Court, which reversed both the decisions made by the Patent Reexamination Board and the Beijing First Intermediate People’s Court on 15 May 2012 in an administrative written judgment. In the first half of 2013, the Patent Reexamination Board and the Target appealed against the decision of the Beijing High People’s Court to the Supreme People’s Court for a retrial. The Supreme People’s Court ruled in an administrative written judgment that the case would be brought to the Supreme People’s Court and the implementation of the original judgment was suspended during the retrial process.

As of the Latest Practicable Date, so far as the Directors are aware, no final judgment had been rendered in respect of the intellectual property rights dispute.

We set out below further information in relation to the distributorship agreement entered into with Kangning dated 27 September 2013 referred to in condition (e) above for Shareholders’ information.

The Target changed its sales and promotion model for A LE in October 2013, whereby the Target Group started to utilise predominantly third party distributors for its promotional activities of A LE. For more details of the change in the sales and promotion model, please refer to the section headed “Management Discussion and Analysis” as set out in Appendix III to this circular. For this purpose, the Target entered into a distributorship agreement with Kangning on 27 September 2013, pursuant to which Kangning will be a distributor of the Target for A LE for a period of 10 years from the date of the distributorship agreement. For the six months ended 30 June 2014, sales through Kangning amounted to RMB306 million, where 98% was attributed by the sales of A LE, representing 88.2% of the Target’s total sales for the same period. As more particularly described in the section headed “Future Re-alignment and Integration Plan” in this Letter from the Board, the Group expects to gradually re-align the sales model of the Target Group with the sales and distribution channel of the Group following completion of the First Tranche Acquisition, which the Group believes that would facilitate the revenue contribution of the Target Group to the Group and therefore be in the best interests of the Company. As such, Shandong Luye has asked Mylin Holdings to approach Kangning and to terminate the distributorship agreement and to set the same as a condition precedent to the First Tranche Acquisition.

As of the Latest Practicable Date, the distributorship agreement with Kangning has not been terminated.

LETTER FROM THE BOARD

Second Tranche Acquisition

Completion of the Second Tranche Acquisition is conditional upon the fulfilment or waiver (as the case may be) of certain conditions, the principal of which are set out below:

- (a) the First Tranche Acquisition having been completed;
- (b) the approval from the Ministry of Commerce of the PRC (or the authorised local authority) in respect of the Second Tranche Acquisition having been obtained;
- (c) the Purchaser, the Company, Mylin Holdings and the Target having obtained all the necessary approvals required for the Second Tranche Acquisition including but not limited to their respective board and shareholders' approval; and
- (d) the CITIC Equity Pledge having been released.

Third Tranche Acquisition

Completion of the Third Tranche Acquisition is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

- (a) the Purchaser, Beijing CITIC, the Target and the Company having obtained all the necessary approvals required for the Third Tranche Acquisition including but not limited to approval by their respective board and shareholders, and the Stock Exchange (if required); and
- (b) the conditions precedent to the completion of the First Tranche Acquisition having been fulfilled or waived (as the case may be).

Remaining Equity Interest Acquisitions

Completion of the Remaining Equity Interest Acquisitions is conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

- (a) the Purchaser, the relevant Sellers (other than Mylin Holdings and Beijing CITIC), the Target and the Company having obtained all the necessary approvals required for the relevant Remaining Equity Interest Acquisition including but not limited to approval by their respective board and shareholders, and the Stock Exchange (if required); and
- (b) the conditions precedent to the completion of the First Tranche Acquisition having been fulfilled or waived (as the case may be).

Since the completion of each of the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions is conditional upon, among others, the fulfilment or waiver of the conditions precedent to the completion of the First Tranche Acquisition; and the completion of Second Tranche Acquisition is conditional upon the First Tranche Acquisition having been completed, all

LETTER FROM THE BOARD

the Second Tranche Acquisition, the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions are implicitly subject to the conditions precedent for the First Tranche Acquisition. In addition, since that (a) the most material and important conditions have been set out in the First Tranche Agreement, and (b) Shandong Luye is entitled to terminate the First Tranche Acquisition and the Second Tranche Acquisition if certain events have occurred before 30 June 2015, in which case, each of the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions (except for acquisition from 曹樂生 (Cao Lesheng)) shall also be deemed to have been terminated, it is unlikely that the Company will only be able to complete the First Tranche Acquisition without completing the others, notwithstanding the First Tranche Acquisition is not conditional upon the completion of other tranches of the Acquisitions.

All of the above conditions precedent under the Agreements could be waived by the mutual consent of the Purchaser and the relevant Seller. As of the Latest Practicable Date, the Directors currently did not intend to waive any conditions precedent. In the event conditions (d) and (e) for the First Tranche Acquisition cannot be fulfilled by the Long-stop Date, the Directors may consider waiving conditions (d) and (e) for the First Tranche Acquisition.

In determining whether to waive any conditions, the Directors will consider various factors including the significance of the condition, and materiality of the impact to the Group or the Enlarged Group without such condition being satisfied. In the event that any of the conditions cannot, or is unlikely to be, fulfilled, the Company will explore feasible alternatives with the Sellers and, if required, re-negotiate the terms of the Acquisitions with the Sellers. In the event that the re-negotiated terms of the Acquisitions constitute material changes to the Agreements, the Company will reseek shareholders' approval, where required, in compliance with Listing Rules. Taking into account the aforesaid and the prevailing circumstances at the relevant time, the Board will consider and decide whether waiving any particular condition would be in the best interest of the Company and its Shareholders as a whole. In particular, prior to making any decisions in waiving any of the conditions precedent under the Agreements, the Directors will fulfil their fiduciary duties and duties of skill, care and diligence by taking into account, among other things:

- (a) whether there will be any material impact on the business operation and financial conditions of the Target Group and the Group without such conditions being fulfilled;
- (b) whether there are any legal and financial risks involved and the materiality and remoteness thereof;
- (c) the PRC legal advice on any legal impact;
- (d) whether the relevant Seller is willing to provide an indemnity for any loss, expenses and costs that may be suffered by the Group and/or the Target Group without such condition being fulfilled; and
- (e) whether, taking into account all the circumstances the interest of the Company and the Shareholders as a whole would be protected without such condition being fulfilled.

LETTER FROM THE BOARD

As of the Latest Practicable Date, the Directors did not intend to waive any of the conditions precedent under the Agreements. In the event that condition (d) cannot be fulfilled by the Long-stop Date, the Directors may consider waiving or amending the condition given that Mylin Holdings has agreed in the Supplemental Agreement to be responsible for the damages arising out of such intellectual property rights issues prior to the completion of the First Tranche Acquisition if the Supreme People's Court of the PRC makes a final judgment against the Target before 1 January 2018 with respect to the underlying intellectual property rights issues. As informed by the Target, the Target is advised by its attorney at law engaged in the patent dispute that, the possibility for a final judgment to be rendered against the Target is extremely low. As advised by the Company's PRC legal adviser, in the event that the Supreme People's Court of the PRC renders its final judgment against the Target Group, the dispute will be sent back to the Patent Reexamination Board for re-consideration to determine the validity of the Disputed Patent. If the Patent Reexamination Board decides that the Disputed Patent is valid, the Target Group may face claim from Warner-Lambert for intellectual property infringement. In the event that a judgment is rendered against the Target, the Target may be required to cease the infringement action (including to suspend the production of A LE) during the validity period of the Disputed Patent, and to pay compensation for any losses or damages as demanded by Warner-Lambert and fines imposed by the relevant government authorities. The Target's revenue generated from the infringement action may also be confiscated. For risks involved in waiving condition (d), please refer to "Risk Factors — The Target is currently involved in outstanding dispute with an third party for a patent related to the Target Group's key product A LE held by such third party. If such dispute is determined against the Target, its business, financial conditions, results of operations, prospects and reputation may be adversely affected" and "Risk Factors — The Target depends on the sale of A LE for substantially all of its revenue. If the production of A LE is disrupted or suspended, the Target's business, revenues and profitability could be materially adversely affected" for further details.

In the event that condition (e) cannot be fulfilled by the Long-stop Date, the Directors will consider to waive this condition for the following reason. After the First Tranche Agreement was signed in late August 2014, and also as a result of the appointment of Mr. Liu Dian Bo and Mr. Yang Rong Bing to the board of directors of the Target as mentioned below, the Company has gained more understanding of the Target's business operation and its financial performance for 2014. For example, the sales volume of the Target Group's products, mainly attributed by the sales volume of A LE, increased by approximately 45% for the six months ended 30 June 2014 as compared to that of the corresponding period in 2013. Through the process, the Company realised that the continuation of the distributorship agreement for the first 12 months after Completion may help facilitate a smooth transition period and maintain the steady growth of the sales of A LE after Completion, and therefore it is in the interests of the Company and the Target to do so. The Company plans to discuss with Kangning directly after Completion and will consider to terminate the distributorship agreement or to continue for another longer period, whichever is best to the interests of the Company and the Shareholders as a whole under the prevailing circumstances then. The Company considers that in a short term, there may not have any adverse effects on the sales of and the profitability generated by A LE as a result of this condition being waived. In this case, the Company is currently targeting to gradually re-align the sales model of the Target Group with the sales and distribution channel of the Group at an appropriate time in the interests of the Company

LETTER FROM THE BOARD

and the Shareholders as a whole under the prevailing circumstances then. For risks involved in waiving condition (e), please refer to “Risk Factors — The Target has entered into a long term distributorship agreement with Kangning. In the event that the distributorship agreement cannot be terminated, the Company may not be able to implement its re-alignment and integration plan as currently anticipated or at all”.

Completion

Completion of each Acquisition shall take place after all of its respective conditions precedent have been fulfilled or waived (as the case may be) and on the date that the business licence of the Target reflecting the change in the equity holding of the Target is obtained from the Beijing Administration and Industry and Commerce. As of the Latest Practicable Date, all of the above conditions precedent were subject to fulfilment and the Purchaser had not waived any of such conditions precedent.

As stipulated under the Supplemental Agreement, completion of the First Tranche Acquisition and the Second Tranche Acquisition (representing, in aggregate, 47.72% of the equity interest in the Target) shall take place within five working days from which Shandong Luye pays the First Payment to Mylin Holdings, which is expected to be no later than 31 January 2015, with the Second Payment for the First Tranche Acquisition in the amount of RMB629,075,000 and the entire purchase price for the Second Tranche Acquisition in the amount of RMB1,264,845,000 expected to be paid at a later stage by 30 June 2015. As stipulated under the Third Tranche Supplemental Agreement and the Remaining Equity Interest Supplemental Agreements, the Directors currently expect that completion of the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions from the relevant Sellers other than 曹樂生 (Cao Lesheng) will take place shortly after 30 June 2015. The Completion of the acquisition from 曹樂生 (Cao Lesheng) is expected to take place no later than 31 March 2015. There will not be any change to the Board composition upon Completion as a result of the consumption of the transactions contemplated under the Agreements.

Termination

First Tranche Acquisition

The First Tranche Agreement shall be terminated automatically if Shandong Luye has not paid the entire First Payment on or before 31 December 2014, which shall be extended to 31 January 2015 if Shandong Luye has already paid an additional deposit of RMB500,000,000 (the “**Second Deposit**”) to Mylin Holdings. If Shandong Luye pays the Second Deposit to Mylin Holdings, Mylin Holdings shall pledge an additional 15% equity interest in the Target in favour of Shandong Luye and shall complete the business registration thereof within 10 business days from the date of payment of the Second Deposit. Shandong Luye paid the Second Deposit on 30 December 2014. As at 17 December 2014, Mylin Holdings has completed the business registration at the State Administration for Industry and Commerce of the PRC with respect to an additional 15% equity interest in the Target in favour of Shandong Luye.

LETTER FROM THE BOARD

In addition, the First Tranche Agreement may be terminated if:

- (a) completion of the First Tranche Acquisition has not occurred by the Long-stop Date, and the Purchaser and Mylin Holdings fail to reach an agreement to extend the Long-stop Date;
- (b) there exists any material adverse event, which in the opinion of the Purchaser, affects the business of the Target Group;
- (c) the Supreme People's Court of the PRC has rendered its final judgment against the Target Group in respect of certain intellectual property rights issues;
- (d) the Purchaser is late in the payment of the purchase price; or
- (e) the parties mutually agree to terminate the agreement.

Second Tranche Acquisition

The Second Tranche Agreement may be terminated if the First Tranche Agreement is terminated in accordance with its terms, or the parties mutually agree to terminate the agreement.

Further ground of termination under the First Tranche Acquisition and Second Tranche Acquisition

Shandong Luye may, subsequent to the completion of the First Tranche Acquisition and the Second Tranche Acquisition and before 30 June 2015, terminate the First Tranche Agreement and the Second Tranche Agreement if, prior to the completion of the First Tranche Acquisition and the Second Tranche Acquisition, the Target fails to produce its key products in accordance with the prescriptions and procedures as approved by CFDA and such products have been classified as counterfeit or substandard pharmaceutical products pursuant to which penalties have been imposed in writing on the Target in suspending or discontinuing the production of the Target's key products, or in revoking or terminating the GMP certificate, the approvals or permits for the production of the Target's key products. The Directors are of the view that since Mr. Liu Dian Bo and Mr. Yang Rong Bing have been appointed to the board of directors of the Target as mentioned below, it is unlikely that Shandong Luye will be unaware of any events of termination occurred on a timely basis. In the event that such event of termination occurs after 30 June 2015, when the First Tranche Acquisition and the Second Tranche Acquisition have been completed, Shandong Luye would not be able to terminate the First Tranche Acquisition and the Second Tranche Acquisition, regardless of whether or not the incident relevant to such event of termination has occurred on or before 30 June 2015.

If Shandong Luye terminates the First Tranche Acquisition and the Second Tranche Acquisition under this further ground of termination, the parties shall unwind the First Tranche Acquisition and the Second Tranche Acquisition within 60 days thereof pursuant to which: (a) Shandong Luye shall transfer the First Tranche Equity Interest and the Second Tranche Equity Interest (representing 47.72% of the shares of the Target) to Mylin Holdings upon the refund of 50% of the purchase price that has been paid by Shandong Luye; (b) Mylin Holdings shall refund

LETTER FROM THE BOARD

the remaining 50% of such purchase price on the next business day from which the Target obtains the new business registration licence; and (c) Shandong Luye and Mylin Holdings shall be responsible for the corporate tax previously paid by Mylin Holdings (if any) on the transfer of the 47.72% equity interest in the Target to Shandong Luye, which is not refundable from the relevant government authorities in case the First Tranche Acquisition and the Second Tranche Acquisition are unwinded, on an equal basis.

The Directors are of the view that it is fair and reasonable and therefore in the interests of the Company and its Shareholders as a whole for Shandong Luye to be responsible for 50% of the corporate tax paid by Mylin Holdings in the event that the parties are to unwind the transactions, on the above arrangement was determined as a result of commercial negotiations between the Company and Mylin Holdings on an arm's length basis taking into account that:

- (a) Shandong Luye will become a substantial shareholder of the Target, holding approximately 47.72% equity interest of the Target, with the Second Payment and the purchase price of the Second Tranche Acquisition unpaid to Mylin Holdings until a few months later;
- (b) an additional ground of termination of the First Tranche Acquisition and Second Tranche Acquisition was agreed between the parties under the Supplemental Agreement as a result of which Shandong Luye has the right to terminate the First Tranche Acquisition and the Second Tranche Acquisition in the event that certain event of termination occurs before 30 June 2015. For further details, please refer to "Termination — Further ground of termination under the First Tranche Acquisition and Second Tranche Acquisition" and "Previous Suspension in Production". The Company is of the view that it has taken a prudent approach in negotiating the terms of the Supplemental Agreement, in particular, the additional termination right and the share of corporate tax in case Shandong Luye is to terminate the First Tranche Acquisition and Second Tranche Acquisition, in view of the suspension incident and it is in the interests of the Company to be able to terminate the transaction (other than the acquisition from 曹樂生 (Cao Lesheng)) notwithstanding that it has to bear 50% of the corporate tax;
- (c) in order to manage the Company's risk exposure to corporate tax payable for the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions, Shandong Luye, the Target and all the Sellers under the Third Tranche Acquisition and the Remaining Equity Interest Acquisitions (apart from 曹樂生 (Cao Lesheng)) have entered into supplemental agreements, so that the completion of the relevant Acquisitions will only take place if the First Tranche Acquisition and the Second Tranche Acquisition have not been terminated by 30 June 2015, and hence no such corporate tax issue will be involved; and
- (d) Shandong Luye is not expected to be required to pay any corporate tax as there is not expected to be any gain to Shandong Luye in case the parties are to unwind the transaction and the 47.72% equity interest is to be transferred back to Mylin Holdings, and the corporate tax paid by Mylin Holdings is not refundable by the relevant government authorities.

LETTER FROM THE BOARD

Other than set out above in this paragraph, each of Shandong Luye and Mylin Holdings will bear its own fees and costs incurred in relation to transactions contemplated under the First Tranche Agreement and the Second Tranche Agreement. It is currently expected the maximum amount of the corporate tax to be borne by the Company for the First Tranche Acquisition and Second Tranche Acquisition is RMB375 million and the fees and costs incurred and to be incurred in relation to all the Acquisitions is around RMB7.8 million. The Company expects to make the Second Payment on 30 June 2015 provided that the First Tranche Acquisition and the Second Tranche Acquisition has not been terminated before such date.

Further, in the event that the First Tranche Acquisition and the Second Tranche Acquisition are terminated, in which case Shandong Luye would not be obliged to pay the Second Payment for the First Tranche Acquisition to Mylin Holdings, and therefore Shandong Luye would not be obliged to make any payment for the Third Tranche Acquisition or the Remaining Equity Interest Acquisitions (except for the acquisition from 曹樂生 (Cao Lesheng)) pursuant to the Third Tranche Agreement and the Remaining Equity Interest Agreements, as the case may be. In any event, pursuant to each of the Third Tranche Agreement and the Remaining Equity Interest Agreements, such agreement should be automatically terminated if the First Tranche Agreement has been terminated before the completion of the relevant Acquisitions of the Third Tranche Agreement and the Remaining Equity Interest Agreements. As advised by the PRC legal adviser, each of the Third Tranche Acquisitions and the Remaining Equity Interest Acquisitions (except for the acquisition from 曹樂生 (Cao Lesheng)) shall be deemed to have been terminated.

As the Company currently expects that the acquisition from 曹樂生 (Cao Lesheng) will be completed no later than 31 March 2015, the Company is unable to terminate or unwind the acquisition from 曹樂生 (Cao Lesheng) in the event that the First Tranche Acquisition and the Second Tranche Acquisition are terminated after completion of acquisition from 曹樂生 (Cao Lesheng). Under the very extreme scenario, it is possible that the Company may only be able to complete the acquisition from 曹樂生 (Cao Lesheng) and therefore become a minority shareholder of the Target holding 2.80% equity interest in the Target.

Third Tranche Acquisition

The Third Tranche Agreement may be terminated if the First Tranche Agreement is terminated in accordance with its terms, the Purchaser is late in the payment of the purchase price, or the parties mutually agree to terminate the agreement.

Remaining Equity Interest Acquisitions

Each of The Remaining Equity Interest Agreements may be terminated if the First Tranche Agreement is terminated in accordance with its terms, the Purchaser is late in the payment of the purchase price, or the parties mutually agree to terminate the agreement.

LETTER FROM THE BOARD

In the event an Agreement is terminated, the relevant Seller agrees to return all monies paid (if any) under the such agreement to the Purchaser (plus interest based on the prevailing bank lending interest rate). The Purchaser agrees to return the relevant Equity Interest to the Seller if such Equity Interest has been transferred.

Upon termination of an Agreement unilaterally by a party without cause, the defaulting party shall compensate the other non-defaulting parties in damages of an amount representing 3% of the purchase price for the relevant Equity Interest and other necessary damages. In respect of any late payment of the purchase price, the Purchaser will be under an obligation to pay the relevant Seller late payment interest of 0.05% per day on the amount of purchase price that remains outstanding. The amount of compensation and the late payment interest were determined after arm's length negotiations between the respective Sellers and the Purchaser taking into account various factors, such as the estimated loss to be suffered by the non-default party (including legal fees and other expenses incurred, time cost, etc.).

INFORMATION ON THE SELLERS

The following table sets out certain basic information of the Sellers:

The Sellers	Equity Interest in the Target to be sold	Place of Establishment (where applicable)	Principal scope of business (where applicable)
Mylin Holdings	47.72%	PRC	Investment in non-listed companies, holding shares in listed companies acquired through private issues or private transfers, etc.
Beijing CITIC	10.26%	PRC	Venture capital, venture capital management and venture capital consultancy
新疆梧桐樹股權投資有限公司 (Xinjiang Plane Trees Equity Investment Co., Ltd.)	14.02%	PRC	Investment in non-listed companies, holding shares in listed companies acquired through private issues or private transfers, etc.
北京中關村國盛創業投資中心(有限合夥) (Beijing Zhongguancun Guosheng Venture Capital Center (Limited Partnership))	8.80%	PRC	Venture capital, venture capital management and venture capital consultancy

LETTER FROM THE BOARD

The Sellers	Equity Interest in the Target to be sold	Place of Establishment (where applicable)	Principal scope of business (where applicable)
北京華誠宏泰有限公司 (Beijing Huacheng Hongtai Co., Ltd.)	3.00%	PRC	Project investment and investment management, investment consultancy, technology development, transfer, training and consultancy, information consultancy, organising culture and art exchange activities, exhibition contractors, and sale of chemical products, communication equipment, office equipment, machinery and electrical equipment, textiles, general merchandise, soil products
曹樂生 (Cao Lesheng)	2.80%	N/A	N/A
深圳市珠峰基石股權投資 合夥企業(有限合夥) (Shenzhen Everest Cornerstone Equity Investment Partnership (Limited Partnership))	2.20%	PRC	Equity investment
西藏矽谷天使創業投資 有限公司 (Tibet Silicon Valley Angel Venture Capital Co., Ltd.)	2.00%	PRC	Project investment, investment management, investment consultancy, and import and export of goods and technology
寧波成潤投資管理中心 (有限合夥) (Ningbo Chengrun Investment Management Centre (Limited Partnership))	1.80%	PRC	Industrial investment, investment management, enterprise management consultancy, real estate consultancy, investment consultancy, medical technology consultancy, market information consultancy and research
蘇州藍郡創業投資中心 (有限合夥) (Suzhou Blue County Venture Capital Center (Limited Partnership))	1.80%	PRC	Industrial investment and asset management, investment consultancy, corporate management consultancy

LETTER FROM THE BOARD

The Sellers	Equity Interest in the Target to be sold	Place of Establishment (where applicable)	Principal scope of business (where applicable)
達孜縣中融泰山優選基金(有限合夥) (Dazi County Zhongrong Tarzan Preferred Fund (Limited Partnership))	1.49%	PRC	Venture investment business, agent for other venture capital companies or individuals in handling venture capital business, venture investment consultancy business, participating in the establishment of venture capital companies and venture capital management consultancy entities
權葳 (Quan Wei)	1.31%	N/A	N/A
浙江康恩貝製藥股份有限公司 (Zhejiang Conba Pharmaceutical Co., Ltd.)	1.10%	PRC	Herbs planting and research and development, production and sale of pharmaceutical products
青島海洋基石創業投資企業(有限合夥) (Qingdao Ocean Foundation Venture Capital Co., Ltd. (Limited Partnership))	1.10%	PRC	Venture investment business, agent for other venture capital companies or individuals in handling venture capital business, venture investment consultancy business, business management services for start-ups, participating in the establishment of venture capital companies and venture capital management consultancy entities
深圳市中歐基石股權投資合夥企業(有限合夥) (Shenzhen Central Cornerstone Equity Investment Partnership (Limited Partnership))	0.60%	PRC	Equity investment
Total	<u>100%</u>		

INFORMATION ON THE GROUP AND THE PURCHASER

The Group is a pharmaceutical company based in the PRC which focuses on the development, production, marketing and selling of innovative products in oncology, cardiovascular system, and alimentary tract and metabolism.

The Purchaser is a one-person company with limited liability established in the PRC, and is an indirect wholly-owned subsidiary of the Company. The Purchaser is principally engaged in the business of research and development, manufacture and sale of pharmaceutical products.

LETTER FROM THE BOARD

INFORMATION ON THE TARGET GROUP

The Target Group is a leading player in the PRC pharmaceutical sector principally engaged in the business of developing, manufacturing, marketing and selling pharmaceutical products in cardiovascular system and oncology. Some of its notable innovative products include A LE (阿樂) which is used for the reduction and treatment of high cholesterol, and trimetazidine hydrochloride capsules which treat cardiovascular symptoms including angina.

Based on the information set out in Appendix II to this circular, the net asset value of the Target Group as of 31 December 2013 was approximately RMB601,493,000.

Based on the information set out in Appendix II to this circular, the revenue, net profits before and after taxation and extraordinary items of the Target for the two years ended 31 December 2012 and 2013 are set out below:

	For the year ended	
	31 December	
	2012	2013
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	805,897	1,102,378
Net profit before taxation and extraordinary items	191,643	247,761
Net profit after taxation and extraordinary items	160,054	219,371

While the revenue of the Target increased by 36.8% from RMB805,897,000 in 2012 to RMB1,102,378,000 in 2013, the Company estimates that the Target's sales volume over the two-year period increased by approximately 50%. The higher increase in the sales volume compared to the increase in revenue is due to a change in the sales model of the Target Group introduced in October 2013, whereby the Target Group started to utilise predominantly third party distributors for its promotional activities. Following completion of the First Tranche Acquisition, the Group expects to gradually re-align the sales model of the Target Group with the sales and distribution channel of the Group (as more particularly described in the section headed "Future Re-alignment and Integration Plan" in this Letter from the Board), which the Group believes would facilitate the revenue contribution of the Target Group to the Group and therefore be in the best interest of the Company. The Group will take a prudent approach in evaluating the business operations of the Target Group, including conducting any necessary feasibility studies, before adopting any such approach.

As of the Latest Practicable Date, the Target had nine directors, comprising 張湧 (Zhang Yong), 張磊 (Zhang Lei), 韓文建 (Han Wenjian), 王啟文 (Wang Qiwen), 劉偉 (Liu Wei), 曾志強 (Zeng Zhiqiang), 周騁 (Zhou Cheng), Mr. Liu Dian Bo and Mr. Yang Rong Bing. In order to further understand the management and the business operation of the Target and also to facilitate a smooth transition period from now on till after Completion, each of Mr. Liu Dian Bo and Mr. Yang Rong Bing became a director of the Target on 18 November 2014.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITIONS

The Group focuses on the development, production, marketing and sale of innovative pharmaceutical products in oncology, cardiovascular system, and alimentary tract and metabolism in China. Among such therapeutic areas, cardiovascular system is one of the key development strategies of the Group. The Target's business focuses on, among other areas, cardiovascular system, and has a well-recognised brand in the cardiovascular system market and a key product, A LE (阿樂), which is a leading lipid regulator in the PRC market. In addition, the Target Group has a portfolio of other cardiovascular system products which complements the Group's key development strategies.

According to China Medical and Pharmaceutical Economic Information Network (MENET), cardiovascular system was the third largest overall therapeutic area for pharmaceutical products in China in 2013 in terms of revenue, accounting for 14.4% of the market. The Group's key cardiovascular system products include:

- (i) Xuezhikang, which is listed in the National List of Essential Drugs and enjoys exclusivity in China — according to the CFDA, the Group is the only manufacturer of Xuezhikang in the PRC. According to IMS Health Incorporated, Xuezhikang is the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2013; and
- (ii) Maitongna, the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013, according to IMS Health Incorporated.

The Target Group's portfolio of cardiovascular system products includes A LE (阿樂), the best-selling domestically produced statins, which is also listed in the National Medical Insurance Catalogue. A LE has received a number of recognitions as a pharmaceutical product in China since 2000, namely the "PRC National Key New Product Certificate" (國家重點新產品證書) in June 2000, the "Assured Award of Safety Medication" (第八屆百姓安全用藥 — 放心獎) honoured by the Health News Publication (健康報社) under the National Health and Family Planning Commission of the PRC (中華人民共和國衛生部) in February 2012, and "2013 Cardiovascular and Cerebrovascular Outstanding Product Brand in the PRC Chemical Pharmaceutical Industry" (2013年中國化學製藥行業心血腦血管類優秀產品品牌) in November 2013. According to IMS data, A LE is the best-selling domestically manufactured atorvastatin calcium products in the PRC market in 2013, representing a market share of over 65% among the domestically manufactured atorvastatin calcium products and over 20% of among all the atorvastatin calcium products in the PRC. The Company believes that the Acquisitions will supplement the Group's already existing cardiovascular system product portfolio, help drive the Group's market share, significantly increase its strategic competitiveness in the cardiovascular system market, especially in the area of lipid regulators, and considerably strengthen the Group's competitive advantage in the key strategic areas of the PRC cardiovascular system market. Furthermore, the Group is the only manufacturer of acarbose in capsules form in China according to the CFDA. The combined offering of Beixi (貝希) (acarbose capsules used in the treatment of type 2 diabetes mellitus), Xuezhikang and A LE (阿樂) is a complementary product portfolio, that will produce considerable synergies.

LETTER FROM THE BOARD

The Group has a well-established nationwide sales and distribution network comprising more than 50 sales offices, with sales covering over 8,000 hospitals across 30 provinces, municipalities and autonomous regions in China. The Target Group has also established a wide-coverage sales network through which it sells its products across China. Through the Acquisitions, the Group can further enhance its sales and marketing coverage and synergies, and take advantages of the multiple channels offered by the combined network.

The Group develops innovative products on the back of its strong research and development capability, and believes that this will form the basis of the Group's long-term competitiveness and serve as the drivers for the Group's future growth and development. The Target has been a High and New Technology Enterprise subject to renewal and the Target Group has strong research and development capability. The Acquisitions will further enhance the Group's research and development capability and provide valuable support to the Group's pipeline R&D projects and other product development. The combination of the Group and the Target Group will produce considerable synergies.

In addition, the acquisition of the remaining 42.02% equity interest in the Target enables the Group to have a full control of the Target in terms of business operation and management, and to enjoy 100% of the financial results of the Target and maximize the synergies with the Group's existing business.

FUTURE RE-ALIGNMENT AND INTEGRATION PLAN

The Group expects to gradually re-align the sales model of the Target Group with the sales and distribution channel of the Group following completion of the First Tranche Acquisition, with an aim to facilitate the revenue contribution of the Target Group to the Group and enhance sales efficiency of the Enlarged Group.

The Directors will consider various factors, such as the business operation of the Target Group and the Group, the prevailing market conditions, etc., in carrying out the re-alignment and integration plan with the priority in maintaining and maximising the profitability of each of the Target Group and the Group. It is currently expected that the Group will stipulate a concrete plan for re-alignment and integration by mid-2015, when the Group should have a more thorough understanding of and control over the business operation of the Target, and to start to implement the plan in the fourth quarter of 2015. Under the current implementation timetable, the Group does not expect the re-alignment or integration would have any impact on the financial results of the Target Group for the year ended 31 December 2014, and there is expected to be limited impact on the financial results of the Target Group for the year ended 31 December 2015 given that, based on the Company's knowledge and experience in the industry, any such re-alignment and integration plan will normally have a limited impact on the financial results of the Target Group for a period of less than three months. It is expected that material impact from the re-alignment and integration will emerge in 2016. In any event, the Company will have control over the Target Group to ensure that any re-alignment and integration (which will only be conducted gradually as and when

LETTER FROM THE BOARD

appropriate) would not be carried out to the extent that the financial results of the Target Group for the year ending 31 December 2014 and 2015 would be substantially affected or could otherwise not be prepared on substantially the same scope and basis as before Completion.

Pursuant to the Supplemental Agreement, Shandong Luye has the right to terminate the First Tranche Acquisition and the Second Tranche Acquisition subsequent to the completion thereof and before 30 June 2015 upon the occurrence of certain triggering events. In addition, each of Mr. Liu Dian Bo and Mr. Yang Rong Bing has also been appointed as director of the Target, as a result of which Shandong Luye is able to exercise more influence over the business operation of the Target. As such, parties agreed that Mylin Holdings shall have the right to appoint two independent directors to the board of directors of the Target to make sure that there will be no material adverse change to the business operation of the Target after signing of the Agreements and before Completion of the Acquisitions. As advised by the Company's PRC legal adviser, upon Completion of the Acquisitions, Shandong Luye, as the major shareholder of the Target, has legal power to remove such directors appointed by Mylin Holdings.

Shareholders are also advised to refer to "Risk Factors — The Target has entered into a long term distributorship agreement with Kangning. In the event that the distributorship agreement cannot be terminated, the Company may not be able to implement its re-alignment and integration plan as currently anticipated or at all" for the risk involved in the re-alignment and integration plan.

PREVIOUS SUSPENSION IN PRODUCTION

The Company was informed by the management of the Target in mid-October 2014 that the local Food and Drug Administration verbally requested the Target to suspend its production of A LE in August 2014 following which the Target suspended the production of A LE in late August 2014 for the reason that the Target changed the composition of excipients of A LE. As informed by the Target, it changed the composition of one of its excipients from Crospovidone (PVPP) to Croscarmellose Sodium (CCNA) with an aim to enhance the quality in terms of better stability and controllability of A LE. At the same time, in mid-October 2014, the Company was also informed that the Target was to resume production of A LE very soon. The production of A LE was suspended for approximately two months. The Company understands from the management of the Target that the suspension had not materially affected the Target's business as the Target had sufficient inventory of A LE prior to the suspension to satisfy the demand during such suspension. The Company was also subsequently informed by the management of the Target that the production of A LE has resumed its normal operation since 20 October 2014 using the former composition of excipients of A LE.

The Company was informed by the Target that the Target conducted a trial production on the change of composition of excipients pursuant to the GMP regulations (《藥品生產質量管理規範(2010年修訂)》). The trial production result indicated that the change of composition of excipients would enhance the stability and controllability of A LE. The Target derived from the trial production result that it is not necessary to obtain an approval from the Food and Drug Administration in relation to such change of composition of excipients. In or around August 2013,

LETTER FROM THE BOARD

it applied to the CFDA for an approval on new specifications of A LE. In the same application, they also applied for the change of composition of excipients as a prudent approach despite that they do not think they are required to do so. The Target then commenced the production of A LE using the new composition of excipients. Subsequently, in August 2014, the Target was informed by the Beijing Food and Drug Administration pursuant to The Measures for the Administration of Drug Registration 《藥品註冊管理辦法》, the change of composition of excipients requires the approval from CFDA. In late November 2014, the Target received an administrative admonition issued by the local Food and Drug Administration informing the Target that the change of the composition of excipients of A LE would require the Target to obtain an approval from the CFDA. The Target has confirmed that it has duly provided all the relevant materials required by the local Food and Drug Administration and duly responded to the inquiries raised by the local Food and Drug Administration according to the factual situations; further, it has duly rectified the alleged non-compliance by re-adopting the former composition of excipients of A LE. As advised by the Company's PRC legal adviser, such administrative admonition is only an administrative guidance in nature and does not have any administrative punitive effect. Given that the Target has now resumed production with the former composition of excipients approved by the CFDA, the Target does not reasonably expect that local Food and Drug Administration will take any further action following the administrative admonition. The Company's PRC legal adviser also concurs with the view of the Target. On the basis of the above, such administrative admonition did not have and is not expected to have any material effect on the business of the Target.

Based on the industry knowledge and experience of the Target and the Company, any such verbal request by the local Food and Drug Administration would not carry any legally binding effect as a matter of PRC laws and regulations. As confirmed by the Target, the local Food and Drug Administration had not issued any formal administrative notice subsequent to the verbal request. Taking into account the aforesaid, coupled with the fact that the Target has resumed its normal operation for the production of A LE, the Company considers that the risk that the Target being required to suspend its production without the support of any formal administrative order or notice from the local Food and Drug Administration would be low.

A LE is a key product of the Target for over 15 years. The Target has been manufacturing A LE in compliance with the regulations of the GMP. A LE has received a number of recognitions as a pharmaceutical product in China since 2000, namely the "PRC National Key New Product Certificate" (國家重點新產品證書) in June 2000, the "Assured Award of Safety Medication" (第八屆百姓安全用藥 — 放心獎) honoured by the Health News Publication (健康報社) under the National Health and Family Planning Commission of the PRC (中華人民共和國衛生部) in February 2012; and "2013 Cardiovascular and Cerebrovascular Outstanding Product Brand in the PRC Chemical Pharmaceutical Industry" (2013年中國化學製藥行業心血腦血管類優秀產品品牌) in November 2013. According to IMS data, A LE is the best-selling domestically manufactured atorvastatin calcium products in the PRC market in 2013, representing a market share of over 65% among the domestically manufactured atorvastatin calcium products and over 20% of among all the atorvastatin calcium products in the PRC. With the steady increase in the sales volume of A LE during the past three years, the Company expects that A LE will continue to gain market share and generate revenue for the Company. With all of the above reasons, given that the Target is

LETTER FROM THE BOARD

manufacturing A LE with the former prescription, the Company considers that it is fair and reasonable and in the interests of the Company and its shareholders as a whole to proceed with the Acquisitions.

Before entering into the Agreements, the Company engaged its PRC legal adviser to conduct legal due diligence on the Target. The Company's PRC legal adviser confirmed that, to its best knowledge, there has not been violations of relevant PRC rules or regulations in any material aspects that may result in or resulted in imposition of penalty to the Target since 2011. After reviewing all the documents in relation to the licences provided by the management of the Target, as advised by the Company's PRC legal adviser, the Target has obtained all the necessary licences in conducting its principal business. The Company confirms that, to the best of the directors' knowledge, information and belief having made all reasonable enquiry, that there has not been violations of the relevant rules or regulations in any material aspects since 2011.

As an additional comfort, the Company also sought an indemnity from Mylin Holdings under the First Tranche Agreement to indemnify all losses suffered by the Company and/or the Target as a result of any breach of the First Tranche Agreement, including breach of warranties provided by Mylin Holdings, such as the Target Group has complied with rules and regulations related to the registration of the past and present pharmaceutical products of the Target Group; and the Target has not been investigated or penalised by the relevant government authorities. Furthermore, the First Tranche Agreement may be terminated if there exists any material adverse event, which in the opinion of the Purchaser, affects the business of the Target Group. While the material adverse event provision is not included in the conditions precedent, the directors believe that the inclusion of the material adverse event provision in the termination clause gives adequate protection to the Company and its Shareholders because the First Tranche Agreement can be terminated if there exists any material adverse event. In addition, the Supplemental Agreement also provides additional ground for the Purchaser to terminate the First Tranche Acquisition and the Second Tranche Acquisition subsequent to the completion thereof and before 30 June 2015 upon the occurrence of certain triggering events pursuant to which the First Tranche Acquisition and the Second Tranche Acquisition shall be unwinded and the Purchaser shall be entitled to receive any purchase price that has been paid. Based on its experience, the Company considers that it is more appropriate to include such provisions under the termination clause rather than to include it as a condition precedent.

RISK FACTORS

The Target depends on the sale of A LE for substantially all of its revenue. If the production of A LE is disrupted or suspended, the Target's business, revenues and profitability could be materially adversely affected.

Substantially all of the revenue of the Target Group is generated from the sale of A LE. For the three financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, sales of A LE amounted to RMB512.8 million, RMB791.8 million, RMB997.0 million

LETTER FROM THE BOARD

and RMB339.3 million, representing 98.8%, 98.3%, 90.4% and 90.6% of the total revenue for the same periods. The Company expects that the business of the Target will continue to depend on the sale of A LE.

Despite that the Directors consider the risks for the Target to be suspended in the future without a formal administrative order or notice from the local Food and Drug Administration is low, the due diligence exercise performed by the Company may not reveal all the issues and risks involved in the operation of the Target. If the production of A LE is substantially disrupted or suspended after Completion for any reason, the Target may not be able to continue its production in a legal, timely and cost-effective manner or at all. In addition, notwithstanding that Shandong Luye has the right to terminate the First Tranche Acquisition and the Second Tranche Acquisition upon occurrence of certain event of termination on or before 30 June 2015, Shandong Luye is not able to terminate the First Tranche Acquisition and the Second Tranche Acquisition if such event of termination (such as a production suspension) occurred after 30 June 2015. In such case, as advised by the Company's PRC legal adviser, Shandong Luye would be left with no other effective mechanisms to safeguard and to protect its interest whether under the PRC laws or under the Agreements. There is no assurance that Mylin Holdings is willing to, or has sufficient assets to, honour its indemnity given under the First Tranche Agreement in case the Company or the Target suffers any losses as a result of any breach by the Target of the rules and regulations relevant to the registration of the past and present pharmaceutical products of the Target Group or any breach by Mylin Holdings of its warranties that the Target has not been investigated or penalised by any relevant government authorities. Moreover, despite that the Company believes that Mylin Holdings will be able to fulfill its contractual obligations, there is no assurance that Mylin Holdings will in fact honour its obligation to unwind the First Tranche Acquisition and the Second Tranche Acquisition pursuant to the Supplemental Agreement. In addition, neither the Company nor the Target maintains any business interruption insurance to cover losses in the event of a disruption or suspension of the production of A LE. As a result of disruption to, or suspension of, any of its facilities, the Target may not be able to fulfil its contractual obligations or to meet market demand for its products, and the Target's business, revenue and profitability could be materially adversely affected.

The Target is currently involved in outstanding dispute with an third party for a patent related to the Target Group's key product A LE held by such third party. If such dispute is determined against the Target, its business, financial conditions, results of operations, prospects and reputation may be adversely affected.

The Target is currently involved in outstanding dispute with Warner-Lambert for a patent related to the Target Group's key product A LE held by Warner-Lambert. Please refer to the section headed "The Agreements — Conditions precedent" of this Letter from the Board for further details of this dispute. As of the Latest Practicable Date, so far as the Directors are aware, no final judgment had been rendered in respect of the intellectual property rights dispute.

LETTER FROM THE BOARD

There is no guarantee that the outstanding dispute with Warner-Lambert will be resolved in favour of the Target. In the event that the Supreme People's Court of the PRC renders its final judgment against the Target Group, the dispute will be sent back to the Patent Reexamination Board for re-consideration to determine the validity of the Disputed Patent. If the Patent Reexamination Board decides that the Disputed Patent is valid, the Target Group may face claim from Warner-Lambert for intellectual property infringement. In the event that a judgment is rendered against the Target, the Target may be required to cease the infringement action (including to suspend the production of A LE) during the validity period of the Disputed Patent, and to pay compensation for any losses or damages as demanded by Warner-Lambert and fines imposed by the relevant government authorities. The Target's revenue generated from the infringement action may also be confiscated. As a result of the above, the Target's business, financial conditions, operations, prospects and reputation may be materially adversely affected.

There is a significant unaudited pro forma adjustment of goodwill of the Enlarged Group upon Completion; if the Company determines the goodwill to be impaired, it would adversely affect our results of operations.

As illustrated in Appendix IV — Unaudited Pro Forma Financial Information of the Enlarged Group to this circular, the unaudited pro forma goodwill of the Enlarged Group as of 30 June 2014 is RMB5,706,399,000 with an unaudited adjustment of RMB5,359,043,000, which represents approximately 87.9% of total purchase price of RMB6,100,020,000.

The current goodwill in the pro forma financial information of the Enlarged Group is calculated under the assumption that the carrying amount of the identifiable assets and liabilities of the Target Group equals to its fair value. The Company will need to assess the fair value of the identifiable assets and liabilities of the Target Group at the date of Completion and then re-calculate the goodwill amount. It is expected the fair value of the identifiable assets and liabilities, especially intangible assets that are not originally recognised on the Target Group's financial statements, will be higher than its respective historical carrying amount. As such, the goodwill amount eventually recognised at Completion is likely to be lower than the current amount as stated in the pro forma financial statement.

After Completion, in order to determine whether the goodwill is impaired, the Directors are required to estimate, among other things, the expected future cash flows that the Company will derive from the relevant group of assets, which includes an estimation of the expected growth rate in sales of the relevant product, namely, A LE, as well as its future gross margins and related operating expenses. In the event that the estimate of the Group's future cash flows from any of these groups of assets decreases from the Company's estimate in prior periods, the Company could be required to recognise an impairment loss in its consolidated statement of comprehensive income for the relevant period in an amount equal to its estimate of the reduction in value of the relevant group of assets.

Further, the Company's estimates of the future cash flows from the relevant assets may be susceptible to downward revision as result of factors adversely affecting the PRC pharmaceutical industry generally, including general decreases in growth rates and margins, as well as factors

LETTER FROM THE BOARD

specific to its business' growth rates, margins and operating expenses. Moreover, since such goodwill related primarily to a single key product, namely A LE, the Company is particularly susceptible to goodwill impairment resulting from adverse changes affecting A LE. Such adverse changes could require the Company to record an impairment loss for all or a substantial portion of the goodwill in respect of the group of assets relating to A LE. If the Company records an impairment loss as a result of these or other factors, it would adversely affect our results of operations for the relevant period.

The Target has entered into a long term distributorship agreement with Kangning. In the event that the distributorship agreement cannot be terminated, the Company may not be able to implement its re-alignment and integration plan as currently anticipated or at all.

The Target entered into a distributorship agreement with Kangning on 27 September 2013, pursuant to which Kangning will be a distributor of the Target for A LE for a period of 10 years from the date of the distributorship agreement. Please refer to the section headed “The Agreements — Conditions precedent” of this Letter from the Board for further details of the distributorship agreement.

The termination of the distributorship agreement is a condition precedent under the First Tranche Acquisition. In the event that condition (e) cannot be fulfilled by the Long-stop Date, the Directors will consider to waive this condition for the reason more particularly described in the section headed “The Agreements — Conditions precedent” of this Letter from the Board. The Company plans to discuss with Kangning directly after Completion and will consider to terminate the distributorship agreement or to continue for another longer period, whichever is best to the interests of the Company and the Shareholders as a whole under the prevailing circumstances then. However, there is no assurance that Kangning will agree to terminate the distributorship agreement on reasonable terms or at all. In the event that the distributorship agreement cannot be terminated, the Company may not be able to implement its re-alignment and integration plan as currently anticipated or at all.

CFDA ANNOUNCEMENT

The Company noticed that CFDA published an announcement “the Directory of the First Excessively Repeated Pharmaceutical Products” (《第一批過度重複藥品品種目錄的公告》) on atorvastatin calcium products in September 2014 (the “CFDA Announcement”), in which CFDA notified the potential atorvastatin calcium applicants that there had been more than 50 applications regarding products which contain atorvastatin calcium as an active ingredient in the oral route of administration submitted to the CFDA for review and reminded the potential applicants to understand the current saturated market condition, to evaluate the R&D risk associated and to exercise caution in making further investment in products listed on the CFDA Announcement. The CFDA Announcement also mentions that CFDA will strengthen the review process for the products listed on the CFDA Announcement.

LETTER FROM THE BOARD

A LE is one of the atorvastatin calcium products sold in the PRC market. According to IMS data, A LE is the best-selling domestically manufactured atorvastatin calcium products in the PRC market in 2013, representing a market share of over 65% among the domestically manufactured atorvastatin calcium products and over 20% of among all the atorvastatin calcium products in the PRC. Based on the Company's in-depth industry knowledge and proven track record in strategic growth, the Company is very confident that A LE would continue making a substantial revenue contribution to the Target (and hence the Group) after the completion of the Acquisitions. On the basis of the above, and also taking into account the factor that the CFDA Announcement would alert further potential competitors the competition in this market, the Company considers that CFDA Announcement would not have any negative impact on the Target's business.

LISTING RULES IMPLICATIONS

As the Acquisitions are expected to be completed within 12 months from each other, each and all of the Acquisitions will be aggregated and treated as if they were one transaction pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios in respect of the transactions contemplated under the Agreements, as calculated under Rule 14.07 of the Listing Rules, is greater than 25%, and all the applicable percentage ratios are less than 100%, the entering into of the Agreements constitutes a major transaction for the Company under the Listing Rules subject to the Shareholders' approval.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Director has a material interest in the Agreements and is required to abstain from voting at the meeting of the Board approving the Agreements and the transactions contemplated thereunder. Mr. Liu Dong, being one of the non-executive Directors, is a senior management member of CITIC Private Equity Funds Management Co. Limited ("**CITIC PE**"), and he learned that a subsidiary of CITIC PE entered into a financial advisory agreement with the Sellers whereby the Sellers agreed to pay such subsidiary, subject to the consummation of the proposed acquisition, an advisory fee in an amount equal to 1% of the purchase price received by the Sellers. As confirmed by Mr. Liu Dong, he was not aware of any payment of the advisory fee being made to the subsidiary of CITIC PE. Therefore, Mr. Liu Dong confirmed that he does not have any material interest in the Acquisitions, since he does not act as an advisor to any party to the Acquisitions, nor does he receive any advisory fee in connection with the proposed acquisition.

As of the Latest Practicable Date, CPE Greenery Ltd., which is wholly owned by CPE China Fund, L.P., held 196,561,695 Shares, representing approximately 5.92% of the issued share capital of the Company carrying voting power. The sole general partner of CPE China Fund, L.P. and the sole general partner of Beijing CITIC are separate legal entities with separate and independent decision making bodies. In any event, CPE Greenery Ltd. and its close associates will abstain from voting on the resolution approving the Agreements at the Special General Meeting. To the best of the knowledge, information and belief of the Directors, after having made all reasonable enquiries, other than CPE Greenery Ltd., no other Shareholder has any material interest in the Acquisitions and accordingly, no Shareholder, other than CPE Greenery Ltd., is required to abstain from voting on the ordinary resolution approving the Acquisitions at the Special General Meeting.

LETTER FROM THE BOARD

Shareholders and potential investors should note that Completion is subject to conditions precedent to be fulfilled. The Acquisitions may or may not proceed as contemplated or at all. Shareholders and potential investors should also note that there are risks associated with the Acquisitions and they should consider and assess all the risks carefully. Shareholders and potential investors are reminded to exercise extreme caution when dealing in the Shares and other securities of the Company.

SPECIAL GENERAL MEETING

Set out in this circular is a notice convening the Special General Meeting which will be held at Executive Ballroom, Shanghai Marriott Hotel Hongqiao, No. 2270 Hongqiao Road, Shanghai, PR China on Friday, 16 January 2015 at 1:00 p.m. at which a resolution will be proposed to approve the Agreements and the transactions contemplated thereunder. The form of proxy for use at the Special General Meeting is enclosed with this circular. Whether or not you intend to attend the meeting, you are encouraged to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716 at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as practicable but in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjournment thereof should you so wish and in such event, the relevant form of proxy shall be deemed to be revoked.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the Agreements have been made on normal commercial terms and that their terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the Agreements and the transactions contemplated thereunder.

FURTHER INFORMATION

Your attention is drawn to other parts of this circular, which contain further information on the Group, the Target Group and other information required to be disclosed under the Listing Rules.

Your faithfully,
By Order of the Board
LUYE PHARMA GROUP LTD.
Liu Dian Bo
Chairman

THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the three years ended 31 December 2013 and the six months ended 30 June 2014 can be found in Appendix I to the Prospectus and the Company's interim report for 2014, respectively.

The Prospectus and the Company's interim report for 2014 are posted on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.luye.cn. Please visit these websites for more details.

INDEBTEDNESS OF THE ENLARGED GROUP**The Group**

As of 30 November 2014, being the latest practicable date for the purpose of this indebtedness statement, the Group had aggregate bank loans of RMB351.0 million, consisting of RMB350.2 million of secured short-term borrowings, and RMB0.8 million of finance lease payables.

Secured short-term borrowings

As of 30 November 2014, the Group had an aggregate of RMB350.2 million in general secured short-term borrowings. For the eleven months ended 30 November 2014, these borrowings bore a weighted average effective interest rate of 3.46% per annum. Certain of the Group's short-term borrowings are secured by pledged notes receivable of RMB312.6 million and guaranteed by the a subsidiary of the Company.

U.S. dollar secured loans

As of 30 November 2014, the Group had an aggregate amount equivalent to RMB245.4 million outstanding under a U.S. dollar secured loan. For the eleven months ended 30 November 2014, the U.S. dollar secured loan bores a weighted average effective interest rate of 2.54% per annum. The purpose of the U.S. dollar secured loan was to meet the demand for working capital. The U.S. dollar loan matures on 29 June 2015 and is secured by a letter of guarantee of RMB260.5 million.

The Target Group

As of 30 November 2014, being the latest practicable date for the purpose of this indebtedness statement, the Target Group had aggregate secured banks loans of RMB50.0 million, and secured bonds payable of RMB139.6 million. Details of the pledge of the Target Group's assets for the bank loans and bonds are set out in Note 27 of Appendix II to this circular and the management discussion and analysis of the Target Group set out in Appendix III to this circular.

Except as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have, as of 30 November 2014, any other outstanding loan issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

WORKING CAPITAL SUFFICIENCY OF THE ENLARGED GROUP

Taking into account cash from operating activities, borrowings available to the Enlarged Group, the net proceeds from the Global Offering and the effect of the Acquisitions, the Directors are of the opinion that the Enlarged Group will have sufficient funds to meet its working capital requirements and financial requirements for capital expenditure for at least the next 12 months from the date of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The historical growth of the Group has been supported by a series of successful and selective strategic acquisitions. The Group believes its proven track record in effective integration and consolidation will enable the Enlarged Group to expand its scale of operations and enhance its overall competitiveness.

Product offering

The product portfolio of the Target Group is expected to complement the Group's existing key products and enhance the overall product offering of the Enlarged Group. The Group's key cardiovascular system products include:

- (i) Xuezhikang, which is listed in the National List of Essential Drugs and enjoys exclusivity in China — according to the CFDA, the Group is the only manufacturer of Xuezhikang in the PRC. According to IMS Health Incorporated, Xuezhikang is the most popular Chinese medicine for the treatment of hypercholesterolaemia in China in 2013; and
- (ii) Maitongna, the best-selling domestically manufactured vasoprotective pharmaceutical product in China in 2013, according to IMS Health Incorporated.

The Target Group's portfolio of cardiovascular system products includes A LE (阿樂) (atorvastatin calcium tablets), a leading lipid regulator in the PRC market and the best-selling domestically produced statins, which is also listed in the National Medical Insurance Catalogue. The Company believes that the combined product offering will help drive the Enlarged Group's market share, significantly increase its strategic competitiveness in the cardiovascular system market, especially in the area of lipid regulators, and considerably strengthen its competitive advantage in the key strategic areas of the PRC cardiovascular system market. Furthermore, the Group is the only manufacturer of acarbose in capsules form in China according to the CFDA. The

combined offering of Beixi (貝希) (acarbose capsules used in the treatment of type 2 diabetes mellitus), Xuezhikang and A LE (阿樂) is a complementary product portfolio that will produce considerable synergies.

Sales and distribution

The Group has a well-established nationwide sales and distribution network comprising more than 50 sales offices, with sales covering over 8,000 hospitals across 30 provinces, municipalities and autonomous regions in China. The Target Group has also established a wide-coverage sales network through which it sells its products across China. Following Completion, the Group expects to re-align the sales model of the Target Group with the sales and distribution channel of the Group, which the Group believes should result in improvements of the revenue contribution of the Target Group to the Group and enhance sales efficiency of the Enlarged Group.

Research and development

The Group develops innovative products on the back of its strong research and development capability, and believes that this will form the basis of the Group's long-term competitiveness and serve as the drivers for the Group's future growth and development. The Target has been a High and New Technology Enterprise subject to renewal and the Target Group has strong research and development capability. The combination of the Group and the Target Group will produce considerable synergies in the research and development capability of the Enlarged Group and provide valuable support to the development of product candidates and other research projects.

Impairment of goodwill

The Company expects to adopt consistent accounting policies and principal assumptions to assess the impairment of the Enlarged Group's goodwill in future.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generated units, or groups of cash-generated units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Upon the completion of the Acquisitions, the Directors will assess the fair value of the identifiable assets and liabilities of the Target Group at the completion date and recognise goodwill accordingly. Based on current assessment, the Directors are of the opinion that there are no indicators for the impairment of goodwill.

NO MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors confirmed that there had been no material adverse change in the financial or trading position of the Group since 31 December 2013 (being the date to which the latest published audited financial statements of the Group were made up).

EFFECT OF THE ACQUISITION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE GROUP

As of 30 June 2014, the published unaudited consolidated total assets and total liabilities of the Group amounted to approximately RMB3,464.5 million and approximately RMB1,808.8 million, respectively. As set out in Appendix IV to this circular, assuming Completion had taken place on 30 June 2014, the unaudited pro forma consolidated total assets of the Enlarged Group would be increased to approximately RMB9,900.0 million. As set out in Appendix IV to this circular, assuming Completion had taken place on 30 June 2014, the unaudited pro forma consolidated total liabilities of the Enlarged Group would increase to approximately RMB8,244.4 million. Upon Completion, the financial results of the Target will be consolidated with those of the Group and the Directors expect that the performance of the Target Group will contribute positively to the financial results of the Enlarged Group in view of the Target Group's profit growth for the three financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014. Further details of the financial effect of the Acquisitions on the earnings and the assets and liabilities of the Group together with the bases in preparing the unaudited pro forma financial information are set out in Appendix IV to this circular.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

31 December 2014

The Directors
Luye Pharma Group Ltd.

Dear Sirs,

We set out below our report on the financial information of Beijing Jialin Pharmaceutical Co., Ltd. (the “Target Company”) and its subsidiaries (hereinafter collectively referred to as the “Target Group”) comprising the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Target Group for each of the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 (the “Relevant Periods”), and the consolidated statements of financial position of the Target Group and the Target Company as at 31 December 2011, 2012 and 2013 and 30 June 2014, together with the notes thereto (the “Financial Information”), and the comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Target Group for the six months ended 30 June 2013 (the “Interim Comparative Information”), prepared on the basis of preparation in note 2.1 of Section II below, for inclusion in the circular of Luye Pharma Group Ltd. (the “Company”) dated 31 December 2014 (the “Circular”) in connection with the proposed acquisition of the Target Company (the “Acquisition”) by the Company.

The Target Company was incorporated in the People’s Republic of China (the “PRC”) as a company with limited liability on 26 December 1998.

The statutory financial statements of the Target Company for the years ended 31 December 2011, 2012 and 2013 have been prepared by the Target Company in accordance with generally accepted accounting principles of the People’s Republic of China (“PRC GAAP”) and were audited by Shine Wing Certified Public Accountants (“信永中和會計師事務所”) registered in the PRC.

As at the date of this report, the Target Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Target Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Target Group were prepared in accordance with PRC GAAP. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Target Company (the “Directors”) have prepared the consolidated financial statements of the Target Group (the “Underlying Financial Statements”) for each of the Relevant Periods in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”). The Underlying Financial Statements for each of the Relevant Periods were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “IAASB”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements, and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

We have also performed a review of the Interim Comparative Information 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. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the Interim Comparative Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report and on the basis of preparation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Target Group and the Target Company as at 31 December 2011, 2012 and 2013 and 30 June 2014, and of the consolidated results and cash flows of the Target Group during the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE INTERIM COMPARATIVE INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

Consolidated statements of profit or loss and other comprehensive income

	Notes	Year ended 31 December			Six months ended 30 June	
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
REVENUE	5	518,880	805,897	1,102,378	617,054	374,331
Cost of sales		<u>(47,219)</u>	<u>(76,497)</u>	<u>(119,115)</u>	<u>(59,036)</u>	<u>(69,985)</u>
Gross profit		471,661	729,400	983,263	558,018	304,346
Other income and gains	5	3,191	8,720	5,434	1,434	4,995
Selling and distribution expenses		(259,853)	(468,836)	(626,623)	(390,573)	(69,563)
Administrative expenses		(40,959)	(46,239)	(59,460)	(30,404)	(32,125)
Other expenses		(21,948)	(23,230)	(36,097)	(6,488)	(5,833)
Finance costs	7	(5,344)	(8,172)	(18,756)	(7,161)	(11,125)
Share of losses of associates		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(417)</u>
Profit before tax	6	146,748	191,643	247,761	124,826	190,278
Income tax expense	10	<u>(22,294)</u>	<u>(31,589)</u>	<u>(28,390)</u>	<u>(20,707)</u>	<u>(54,116)</u>
Profit for the year	11	<u>124,454</u>	<u>160,054</u>	<u>219,371</u>	<u>104,119</u>	<u>136,162</u>
Other comprehensive income to be reclassified to profit or loss in subsequent periods:						
Available-for-sale investments:						
Changes in fair value		—	—	7,125	—	7,650
Reclassification adjustments for gains included in the profit or loss	5	—	—	—	—	(3,220)
Income tax effect	28	<u>—</u>	<u>—</u>	<u>(1,781)</u>	<u>—</u>	<u>(1,108)</u>
Other comprehensive income for the year, net of tax		—	—	5,344	—	3,322
Total comprehensive income for the year		<u>124,454</u>	<u>160,054</u>	<u>224,715</u>	<u>104,119</u>	<u>139,484</u>
Earnings per share						
Basic and diluted (RMB)	13	<u>4.08</u>	<u>5.25</u>	<u>7.19</u>	<u>3.41</u>	<u>4.46</u>

Details of the dividends for the Relevant Periods are disclosed in note 12 to the Financial Information.

Consolidated statements of financial position

	Notes	As at 31 December			As at
		2011	2012	2013	30 June
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	14	46,837	83,557	138,601	194,350
Prepaid land lease payments	15	2,223	32,282	31,599	31,257
Intangible assets	16	27,000	43,216	38,217	35,655
Investment in an associate	18	—	—	—	9,583
Available-for-sale investments	19	1,893	1,893	74,443	1,893
Other non-current assets	20	—	—	—	8,978
Deferred tax assets	28	11,297	15,190	32,509	17,678
Total non-current assets		<u>89,250</u>	<u>176,138</u>	<u>315,369</u>	<u>299,394</u>
CURRENT ASSETS					
Inventories	21	20,729	34,852	64,872	62,161
Trade and bill receivables	22	205,811	281,541	431,128	426,955
Prepayments, deposits and other receivables	23	10,801	17,140	56,411	18,129
Due from a related party	33(b)(i)	—	—	—	13,513
Available-for-sale investment	19	—	—	104,575	181,555
Cash and cash equivalents	24	152,199	114,788	74,518	74,810
Total current assets		<u>389,540</u>	<u>448,321</u>	<u>731,504</u>	<u>777,123</u>
CURRENT LIABILITIES					
Trade payables	25	7,193	7,238	26,908	5,554
Other payables and accruals	26	83,994	112,253	126,348	88,366
Interest-bearing bank and other borrowings	27	110,000	110,000	264,374	189,365
Government grants		184	356	1,264	1,598
Tax payable		11,318	13,348	14,546	37,575
Due to related parties	33(b)(ii)	3,273	3,143	3,143	3,143
Total current liabilities		<u>215,962</u>	<u>246,338</u>	<u>436,583</u>	<u>325,601</u>
NET CURRENT ASSETS		<u>173,578</u>	<u>201,983</u>	<u>294,921</u>	<u>451,522</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>262,828</u>	<u>378,121</u>	<u>610,290</u>	<u>750,916</u>

	<i>Notes</i>	As at 31 December			As at
		2011	2012	2013	30 June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES					
Government grants		1,104	1,343	7,016	7,050
Deferred tax liabilities	28	<u>—</u>	<u>—</u>	<u>1,781</u>	<u>2,889</u>
Total non-current liabilities		<u>1,104</u>	<u>1,343</u>	<u>8,797</u>	<u>9,939</u>
Net assets		<u>261,724</u>	<u>376,778</u>	<u>601,493</u>	<u>740,977</u>
EQUITY					
Issued capital	29	30,500	30,500	30,500	30,500
Reserves	30	<u>231,224</u>	<u>346,278</u>	<u>570,993</u>	<u>710,477</u>
Total equity		<u>261,724</u>	<u>376,778</u>	<u>601,493</u>	<u>740,977</u>

Consolidated statements of changes in equity

	Issued capital <i>RMB'000</i>	Share Premium <i>RMB'000</i>	Statutory surplus reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Available- for-sale investment revaluation reserve <i>RMB'000</i>	Total Equity <i>RMB'000</i>
At 1 January 2011	30,500	3,200	26,652	76,918	—	137,270
Profit for the year	—	—	—	124,454	—	124,454
Total comprehensive income for the year	—	—	—	124,454	—	124,454
At 31 December 2011	<u>30,500</u>	<u>3,200*</u>	<u>26,652*</u>	<u>201,372*</u>	<u>—</u>	<u>261,724</u>
Profit for the year	—	—	—	160,054	—	160,054
Total comprehensive income for the year	—	—	—	160,054	—	160,054
Dividends declared	—	—	—	(45,000)	—	(45,000)
At 31 December 2012	<u>30,500</u>	<u>3,200*</u>	<u>26,652*</u>	<u>316,426*</u>	<u>—</u>	<u>376,778</u>
Profit for the year	—	—	—	219,371	—	219,371
Fair value change on available-for-sale investments	—	—	—	—	5,344	5,344
Total comprehensive income for the year	—	—	—	219,371	5,344	224,715
At 31 December 2013	<u>30,500</u>	<u>3,200*</u>	<u>26,652*</u>	<u>535,797*</u>	<u>5,344*</u>	<u>601,493</u>

	Issued capital <i>RMB'000</i>	Share Premium <i>RMB'000</i>	Statutory surplus reserves <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Available- for-sale investment revaluation reserve <i>RMB'000</i>	Total Equity <i>RMB'000</i>
Profit for the period	—	—	—	136,162	—	136,162
Fair value change on available-for-sale investments	—	—	—	—	3,322	3,322
Total comprehensive income for the period	—	—	—	136,162	3,322	139,484
At 30 June 2014	<u>30,500</u>	<u>3,200*</u>	<u>26,652*</u>	<u>671,959*</u>	<u>8,666*</u>	<u>740,977</u>
At 31 December 2012	<u>30,500</u>	<u>3,200*</u>	<u>26,652*</u>	<u>316,426*</u>	—	<u>376,778</u>
Profit for the period	—	—	—	104,119	—	104,119
Total comprehensive income for the period	—	—	—	104,119	—	104,119
At 30 June 2013 (unaudited)	<u>30,500</u>	<u>3,200*</u>	<u>26,652*</u>	<u>420,545*</u>	—	<u>480,897</u>

* These reserve accounts comprise the consolidated reserves of RMB231,224,000, RMB346,278,000, RMB570,993,000, RMB450,397,000 and RMB710,477,000 in the consolidated statements of financial position as at 31 December 2011, 2012 and 2013, 30 June 2013 and 2014, respectively.

Consolidated statements of cash flows

	Notes	Year ended 31 December			Six months ended 30 June	
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		146,748	191,643	247,761	124,826	190,278
Adjustments for:						
Depreciation of items of property, plant and equipment	14	3,621	4,725	7,297	2,896	5,232
Amortisation of intangible assets	16	3,082	4,254	5,122	2,562	2,562
Amortisation of prepaid land lease payment	15	59	527	683	342	342
Amortisation of long-term deferred expenditure		1,280	—	—	—	—
Government grants released		(184)	(559)	(1,419)	(1,070)	(1,632)
Loss on disposal of items of property, plant and equipment	6	258	155	248	142	64
Share of loss of an associate	18	—	—	—	—	417
Interest income	5	(481)	(486)	(614)	(173)	(98)
Fair value gains of available-for-sale investments reclassified to profit or loss	5	—	—	—	—	(3,220)
Interest expense	7	5,344	8,172	18,756	7,161	11,125
		159,727	208,431	277,834	136,686	205,070
(Increase)/decrease in trade and bill receivables		(143,305)	(75,730)	(149,587)	(168,044)	4,173
(Increase)/decrease in prepayments, deposits and other receivables		(7,764)	(5,715)	(39,271)	(14,743)	38,282
Decrease/(increase) in amount due from a related party		107	—	—	—	(13,513)
(Increase)/decrease in inventories		(2,705)	(14,123)	(30,020)	(8,762)	2,711
Increase/(decrease) in trade payables		412	45	19,670	9,674	(21,354)
Increase/(decrease) in other payables and accruals		49,628	28,108	10,856	66,527	(43,442)
Increase in amounts due to related parties		1,539	—	—	—	—
Cash generated from operations		57,639	141,016	89,482	21,338	171,927
Interest paid		(5,344)	(8,172)	(14,938)	(7,161)	(12,241)
Income tax paid		(28,383)	(33,452)	(44,511)	(18,688)	(16,256)
Net cash flows from/(used in) operating activities		23,912	99,392	30,033	(4,511)	143,430

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2013 <i>RMB'000</i> (unaudited)	2014 <i>RMB'000</i>
Net cash flows from operating activities		<u>23,912</u>	<u>99,392</u>	<u>30,033</u>	<u>(4,511)</u>	<u>143,430</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment and construction in progress		(11,662)	(42,492)	(63,536)	(24,315)	(53,606)
Prepayment of land lease payment	15	—	(31,210)	—	—	—
Purchases of intangible assets	16	(200)	(20,470)	(123)	—	—
Purchases of available-for-sale investments	19	—	—	(170,000)	—	—
Proceeds from gains received from available-for-sale investments	19	—	—	—	—	3,220
Proceeds from disposal of items of property, plant and equipment		257	913	950	622	128
Prepayment for acquisition of a subsidiary		—	—	—	—	(8,978)
Investment in an associate	18	—	—	—	—	(10,000)
Receipt of government grants		—	970	8,000	8,000	2,000
Interest received	5	<u>481</u>	<u>486</u>	<u>614</u>	<u>173</u>	<u>98</u>
Net cash flows used in investing activities		<u>(11,124)</u>	<u>(91,803)</u>	<u>(224,095)</u>	<u>(15,520)</u>	<u>(67,138)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from bank loans		110,000	170,000	66,000	64,968	50,000
Repayment of bank loans		(50,000)	(170,000)	(110,000)	(110,000)	(66,000)
Proceeds from issue of a bond		—	—	197,792	197,792	—
Redemption of a bond		—	—	—	—	(60,000)
Dividends paid to shareholders		<u>(71,000)</u>	<u>(45,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash flows from/(used in) financing activities		<u>(11,000)</u>	<u>(45,000)</u>	<u>153,792</u>	<u>152,760</u>	<u>(76,000)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of year	24	<u>150,411</u>	<u>152,199</u>	<u>114,788</u>	<u>114,788</u>	<u>74,518</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	<u><u>152,199</u></u>	<u><u>114,788</u></u>	<u><u>74,518</u></u>	<u><u>247,517</u></u>	<u><u>74,810</u></u>

Statements of financial position

	Notes	As at 31 December			As at
		2011	2012	2013	30 June
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	14	46,608	79,093	103,278	105,045
Prepaid land lease payments	15	2,223	2,164	2,105	2,075
Intangible assets	16	27,000	43,216	38,095	35,539
Investment in subsidiaries	17	100,000	150,000	150,000	150,000
Investment in an associate	18	—	—	—	9,583
Available-for-sale investments	19	1,893	1,893	74,443	1,893
Other non-current assets	20	—	—	—	8,978
Deferred tax assets	28	11,297	15,865	33,634	18,803
Total non-current assets		189,021	292,231	401,555	331,916
CURRENT ASSETS					
Inventories	21	20,729	31,267	54,511	50,766
Trade and bill receivables	22	205,811	277,781	418,702	399,477
Prepayments, deposits and other receivables	23	10,525	6,968	40,608	3,803
Due from a related party	33(b)(i)	—	—	—	13,513
Due from subsidiaries		—	23,434	79,921	122,321
Available-for-sale investments	19	—	—	104,575	181,555
Cash and cash equivalents	24	102,620	16,385	58,462	67,251
Total current assets		339,685	355,835	756,779	838,686
CURRENT LIABILITIES					
Trade payables	25	7,193	5,858	26,797	5,489
Other payables and accruals	26	83,994	110,400	124,432	72,759
Interest-bearing bank and other borrowings	27	110,000	110,000	264,374	189,365
Government grants		184	356	1,264	1,598
Tax payable		11,318	13,348	14,537	37,575
Due to subsidiaries		49,767	16,000	75,670	54,670
Due to related parties	33(b)(ii)	3,273	3,143	3,143	3,143
Total current liabilities		265,729	259,105	510,217	364,599
NET CURRENT ASSETS		73,956	96,730	246,562	474,087
TOTAL ASSETS LESS CURRENT LIABILITIES		262,977	388,961	648,117	806,003

		As at 31 December			As at
		2011	2012	2013	30 June
	Notes	RMB'000	RMB'000	RMB'000	2014
					RMB'000
NON-CURRENT LIABILITIES					
Government grants		1,104	1,343	7,016	7,050
Deferred tax liabilities	28	<u>—</u>	<u>—</u>	<u>1,781</u>	<u>2,889</u>
Total non-current liabilities		<u>1,104</u>	<u>1,343</u>	<u>8,797</u>	<u>9,939</u>
Net assets		<u>261,873</u>	<u>387,618</u>	<u>639,320</u>	<u>796,064</u>
EQUITY					
Issued capital	29	30,500	30,500	30,500	30,500
Reserves	30	<u>231,373</u>	<u>357,118</u>	<u>608,820</u>	<u>765,564</u>
Total equity		<u>261,873</u>	<u>387,618</u>	<u>639,320</u>	<u>796,064</u>

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Beijing Jialin Pharmaceutical Co., Ltd. (the “Target Company”) was incorporated on 26 December 1998 as a company with limited liability in the People’s Republic of China (the “PRC”). The registered office of the Target Company is located at East of Shuangqiao East Road, Chaoyang District, Beijing, the PRC.

The Target Company and its subsidiaries (hereinafter collectively referred to as the “Target Group”) are principally engaged in the development, production, marketing and sale of pharmaceutical products.

In the opinion of the directors, the ultimate and immediate holding company of the Target Company is Mylin Holding Group., which is incorporated in the PRC.

As at the date of this report, the Target Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company	Place and date of registration and business	Nominal value of issued shares/paid-up capital	Percentage of equity interest attributable to the Target Company		Principal activities
			Direct %	Indirect %	
Tianjin Jialin Pharmaceutical Co. Ltd. (“Tianjin Jialin”)	PRC 7 September 2011	RMB100 million	100	—	Production of pharmaceutical products
Jialin Pharmaceutical Co. Ltd. (“Jialin Pharmaceutical”)	PRC 22 February 2012	RMB50 million	100	—	Production of pharmaceutical products
Beijing Jialin Huikang Pharmaceutical Co., Ltd. (“Jialin Huikang”)	PRC 12 April 2001	RMB3 million	100	—	Sale of pharmaceutical products

No statutory audited financial statements have been prepared for these subsidiaries since their respective dates of incorporation/registration.

2.1 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2014 have been early adopted in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared on a historical cost convention except for available-for-sale investment, which has been measured at fair value. The Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

This consolidated Financial Information incorporates the financial statements of the Target Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting period as the Target Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Target Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Target Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Target Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Target Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information.

IFRS 9, IFRS 7 and IAS 39 Amendments	<i>Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39</i> ⁴
IFRS 11 Amendments	Amendments to IFRS 11 <i>Joint Arrangements — Accounting for Acquisitions of Interests in Joint Operations</i> ²
IFRS 14	<i>Regulatory Deferral Accounts</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ³
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits — Defined Benefit Plans: Employee Contributions</i> ¹
IAS 16 and IAS 38 Amendments	Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets — Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
IAS 16 and IAS 41 Amendments	Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 41 <i>Agriculture — Agriculture: Bearer Plants</i> ²
<i>Annual Improvements 2010–2012 Cycle</i>	Amendments to a number of IFRSs issued in December 2013 ¹
<i>Annual Improvements 2011–2013 Cycle</i>	Amendments to a number of IFRSs issued in December 2013 ¹

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Effective for annual periods beginning on or after 1 January 2018

The Target Company is in the progress of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the directors of the Target Company anticipate that the application of the new and revised IFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Financial Information.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company and/or its other subsidiaries. Control is achieved when the Target Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Group the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Target Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Target Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable. The Target Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Investment in an associate

An associate is an entity, in which the Target Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Target Group's investment in an associate is stated in the consolidated statements of financial position at the Target Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Target Group's share of the post-acquisition results and other comprehensive income of the associate is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Target Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Target Group and its associate are eliminated to the extent of the Target Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of the associate is included as part of the Target Group's investment in the associate.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Target Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combination and goodwill

Business combination is accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Target Group, liabilities assumed by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. For each business combination, the Target Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Target Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date through fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Target Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Target Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Target Group's cash-generated units, or groups of cash-generated units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Target Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Target Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Target Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

Taxes

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the regions in which the Target Group operates.

Deferred income tax

Deferred income tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred income tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Retirement benefits

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to the statement of profit or loss as incurred.

The Target Company and its subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investment, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Investments and other financial assets

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate method. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognized in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" above.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Target Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Target Group is unable to trade these financial assets due to inactive markets, the Target Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Target Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Group has retained.

Impairment of financial assets

The Target Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the Target Group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For available-for-sale financial investments, the Target Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Target Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Target Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Target Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Target Group's financial liabilities include trade and other payables, amounts due to related parties and interest-bearing banks and other borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated and company statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	10–24 years
Machinery and equipment	5–10 years
Motor vehicles	4–10 years
Computer and office equipment	3–8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents plants under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Target Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Target Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Sales network	10 years
Patents and technology know-how	5–10 years
Software	5 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Target Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Prepaid land lease payments

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Related parties

A party is considered to be related to the Target Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Target Group;
 - (ii) has significant influence over the Target Group; or
 - (iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Target Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Target Group 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 Target Group or an entity related to the Target Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (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).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Target Group's financial information requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Target Group's accounting policies.

Estimation and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Target Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to tax losses were recognized at 31 December 2011, 2012, 2013 and 30 June 2014. The amount of unrecognized tax losses at 31 December 2011, 2012, 2013 and 30 June 2014 were RMB148,000, RMB8,884,000, RMB35,340,000 and RMB51,344,000, respectively. Further details are contained in note 28 to the Financial Information.

Income tax

The Target Group is subject to income taxes in various regions. As a result, certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the corporate income tax and tax provisions over the period in which the differences are realised.

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade receivables amounted to RMB1,453,000, RMB2,121,000, RMB2,578,000 and RMB3,455,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively.

Useful lives of property, plant and equipment

The Target Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or management will write off or write down technically obsolete or non-strategic assets that have been abandoned.

4. OPERATING SEGMENT INFORMATION

The Target Group currently operates in one business segment, namely, the manufacture and sale of pharmaceutical products. A single management team reports to the chief operating decision-maker who comprehensively manages the entire business. Accordingly, the Target Group does not have separate reportable segments.

Geographical information

- (a) Revenue from external customers was all derived from Mainland China.
- (b) Non-current assets excluding financial instruments and deferred tax assets were all located in Mainland China.

Information about a major customer

Revenue of approximately RMB306,112,000 for the six months ended 30 June 2014 was derived from the sales to a single customer. No revenue from the Target Group's sales to a single customer amounted to 10% or more of the Target Group's revenue during the years ended 31 December 2011, 2012 and 2013.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Target Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the reporting period.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue:					
Sale of drugs	528,289	821,894	1,122,881	628,282	381,170
Less: Business tax and government surcharges	(9,409)	(15,997)	(20,503)	(11,228)	(6,839)
	<u>518,880</u>	<u>805,897</u>	<u>1,102,378</u>	<u>617,054</u>	<u>374,331</u>
Other income and gains					
Interest income	481	486	614	173	98
Fair value gains of available-for-sale investments (reclassified from equity upon receipt)	—	—	—	—	3,220
Government grants	2,665	7,895	4,542	1,131	1,632
Others	45	339	278	130	45
	<u>3,191</u>	<u>8,720</u>	<u>5,434</u>	<u>1,434</u>	<u>4,995</u>

6. PROFIT BEFORE TAX

The Target Group's profit before tax is arrived at after charging:

	Notes	Year ended 31 December			Six months ended 30 June	
		2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
Cost of inventories sold*		43,739	71,942	113,681	56,293	69,985
Depreciation	14	3,621	4,725	7,297	2,896	5,232
Amortisation of intangible assets**	16	3,082	4,254	5,122	2,562	2,562
Amortisation of prepaid land lease payments***	15	59	527	683	342	342
Provision for impairment of trade receivables	22	1,060	1,004	506	1,458	877
Operating lease expenses		2,063	366	450	209	258
Auditors' remuneration		350	447	446	446	417
Employee benefit expense (excluding directors' remuneration):						
Wages and salaries		33,940	55,358	66,038	32,254	24,308
Pension		5,158	10,530	14,465	6,747	5,078
Staff welfare expenses		5,660	10,502	7,174	2,842	2,771
		<u>44,758</u>	<u>76,390</u>	<u>87,677</u>	<u>41,843</u>	<u>32,157</u>
Research and development cost		21,690	17,500	35,849	6,346	5,769
Loss on disposal of property, plant and equipment		<u>258</u>	<u>155</u>	<u>248</u>	<u>142</u>	<u>64</u>

* The write-down of inventories to net realisable value of nil, RMB1,858,000, RMB3,646,000, RMB2,883,000 and nil for years ended 31 December 2011, 2012, and 2013, and six months ended 30 June 2013 and 2014, respectively, is included in "Cost of sales" on the face of the consolidated statements of profit or loss and comprehensive income.

** The amortization of sales network for the Relevant Periods is included in "selling and distribution expenses", on the face of the consolidated statement of profit or loss and comprehensive income.

The amortisation of patents and technology know-how and software for the Relevant Periods is included in "research and development costs of other expense" on the face of the consolidated statements of profit or loss and comprehensive income.

*** The amortisation of prepaid land lease payments for the Relevant Periods is included in "Administrative expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Interest on bank loans	5,344	8,172	4,947	2,782	1,713
Interest of bill receivables discount	—	—	850	289	1,968
Interest on bonds	—	—	12,959	4,090	7,444
	<u>5,344</u>	<u>8,172</u>	<u>18,756</u>	<u>7,161</u>	<u>11,125</u>

8. DIRECTORS' REMUNERATION

Directors' remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Fees	250	300	300	300	350
Other emoluments:					
Salaries, allowances and benefits in kind	966	1,053	1,256	528	529
Pension scheme contributions	137	144	162	76	84
	<u>1,103</u>	<u>1,197</u>	<u>1,418</u>	<u>604</u>	<u>613</u>
	<u>1,353</u>	<u>1,497</u>	<u>1,718</u>	<u>904</u>	<u>963</u>

Executive directors and non-executive directors

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
Year ended 31 December 2011:				
Executive directors:				
Liu Wei	50	447	108	605
Han Wenjian	50	519	29	598
Zhang Yong	50	—	—	50
Wang Qiwen	50	—	—	50
Zhang Jian	50	—	—	50
	<u>250</u>	<u>966</u>	<u>137</u>	<u>1,353</u>

Executive directors and non-executive directors

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
Year ended 31 December 2012:				
Executive directors:				
Liu Wei	50	486	72	608
Han Wenjian	50	567	72	689
Zhang Yong	50	—	—	50
Wang Qiwen	50	—	—	50
Zhang Lei	50	—	—	50
Zhang Jian	50	—	—	50
	<u>300</u>	<u>1,053</u>	<u>144</u>	<u>1,497</u>

Year ended 31 December 2013:

Executive directors:				
Liu Wei	50	582	81	713
Han Wenjian	50	674	81	805
Zhang Yong	50	—	—	50
Wang Qiwen	50	—	—	50
Zhang Lei	50	—	—	50
Zeng Zhiqiang	50	—	—	50
	<u>300</u>	<u>1,256</u>	<u>162</u>	<u>1,718</u>

	Fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
Six months ended 30 June 2013				
(unaudited):				
Executive directors:				
Liu Wei	50	244	38	332
Han Wenjian	50	284	38	372
Zhang Yong	50	—	—	50
Wang Qiwen	50	—	—	50
Zhang Lei	50	—	—	50
Zeng Zhiqiang	50	—	—	50
	<u>300</u>	<u>528</u>	<u>76</u>	<u>904</u>
Six months ended 30 June 2014:				
Executive directors:				
Liu Wei	50	244	42	336
Han Wenjian	50	285	42	377
Zhang Yong	50	—	—	50
Wang Qiwen	50	—	—	50
Zhang Lei	50	—	—	50
Zeng Zhiqiang	50	—	—	50
Zhou Cheng	50	—	—	50
	<u>350</u>	<u>529</u>	<u>84</u>	<u>963</u>

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Target Group during the Relevant Periods included 2, 2, 2, 2 and 2 directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 3, 3, 3, 3 and 3 highest paid employees who are neither a director nor chief executive of the Target Group, during the Relevant Periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries, allowances and benefits in kind	1,166	1,282	1,517	643	645
Pension scheme contributions	<u>187</u>	<u>203</u>	<u>242</u>	<u>113</u>	<u>125</u>
	<u>1,353</u>	<u>1,485</u>	<u>1,759</u>	<u>756</u>	<u>770</u>

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees				
	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
				(unaudited)	
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

10. INCOME TAX EXPENSE

The Target Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Target Group are domiciled and operate.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Target Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

The Target Company was qualified as High and New Technology Enterprises and was subject to a preferential income tax rate of 15% from 2011 to 2013.

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax	29,432	35,482	45,709	30,564	39,285
Deferred tax (note 28)	<u>(7,138)</u>	<u>(3,893)</u>	<u>(17,319)</u>	<u>(9,857)</u>	<u>14,831</u>
Total tax charge for the year/period	<u>22,294</u>	<u>31,589</u>	<u>28,390</u>	<u>20,707</u>	<u>54,116</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Target Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Year ended 31 December			Six months ended 30 June	
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2013 RMB'000 (unaudited)	2014 RMB'000
Profit before tax	<u>146,748</u>	<u>191,643</u>	<u>247,761</u>	<u>124,826</u>	<u>190,278</u>
At the PRC's statutory income tax rate of 25%	36,687	47,911	61,941	31,207	47,570
Preferential income tax rates applicable to subsidiaries	(14,690)	(20,616)	(26,980)	(13,849)	—
Additional deductible allowance for research and development expenses	(545)	(665)	(845)	(438)	(523)
Expense not deductible for tax	805	2,775	1,114	372	2,964
Effect on deferred tax balances due to change in income tax rate from 15% to 25%	—	—	(13,454)	—	—
Share of loss of an associate	—	—	—	—	104
Tax losses not recognised	<u>37</u>	<u>2,184</u>	<u>6,614</u>	<u>3,415</u>	<u>4,001</u>
Tax charge at the Target Group's effective rate	<u>22,294</u>	<u>31,589</u>	<u>28,390</u>	<u>20,707</u>	<u>54,116</u>

The effective tax rates of the Target Group were 15.2%, 16.5%, 11.5%, 16.6% and 28.4% in 2011, 2012, and 2013 and six months ended 30 June 2013 and 2014, respectively.

11. PROFIT FOR THE YEAR/PERIOD

The profit for the years ended 31 December 2011, 2012 and 2013 and six months ended 30 June 2013 and 2014 includes a profit of RMB124,603,000, RMB170,745,000, RMB246,358,000, RMB117,780,000 and RMB153,422,000, respectively, which have been dealt with in the financial statements of the Target Company (note 30).

12. DIVIDEND

The Target Company declared and paid dividend of RMB45,000,000 to the shareholders in 2012. No other dividends were declared during the Relevant Periods.

13. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Target Group is based on the following data:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Earnings					
Earnings used in the calculation of basic earnings per share	<u>124,454</u>	<u>160,054</u>	<u>219,371</u>	<u>104,119</u>	<u>136,162</u>
				(unaudited)	
	Number of shares				
	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>30,500</u>	<u>30,500</u>	<u>30,500</u>	<u>30,500</u>	<u>30,500</u>
				(unaudited)	

No diluted earnings per share have been presented during the Relevant Periods as there were no potential ordinary shares in issue.

14. PROPERTY, PLANT AND EQUIPMENT

Target Group

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 1 January 2011:						
Cost	28,242	19,448	4,234	2,908	111	54,943
Accumulated depreciation	(5,377)	(9,031)	(1,067)	(1,625)	—	(17,100)
Net carrying amount	<u>22,865</u>	<u>10,417</u>	<u>3,167</u>	<u>1,283</u>	<u>111</u>	<u>37,843</u>
At 1 January 2011,						
net of accumulated depreciation	22,865	10,417	3,167	1,283	111	37,843
Additions	—	2,534	2,670	880	7,046	13,130
Disposals	(33)	(453)	—	(29)	—	(515)
Depreciation provided during the year	(1,443)	(1,414)	(388)	(376)	—	(3,621)
Transfers	6,104	492	—	—	(6,596)	—
At 31 December 2011, net of accumulated depreciation	<u>27,493</u>	<u>11,576</u>	<u>5,449</u>	<u>1,758</u>	<u>561</u>	<u>46,837</u>
At 31 December 2011:						
Cost	34,078	20,805	6,900	3,671	561	66,015
Accumulated depreciation	(6,585)	(9,229)	(1,451)	(1,913)	—	(19,178)
Net carrying amount	<u>27,493</u>	<u>11,576</u>	<u>5,449</u>	<u>1,758</u>	<u>561</u>	<u>46,837</u>
31 December 2012						
At 31 December 2011 and at 1 January 2012,						
Cost	34,078	20,805	6,900	3,671	561	66,015
Accumulated depreciation	(6,585)	(9,229)	(1,451)	(1,913)	—	(19,178)
Net carrying amount	<u>27,493</u>	<u>11,576</u>	<u>5,449</u>	<u>1,758</u>	<u>561</u>	<u>46,837</u>
At 1 January 2012,						
net of accumulated depreciation	27,493	11,576	5,449	1,758	561	46,837
Additions	236	5,035	2,247	2,171	32,824	42,513
Disposals	(2)	(57)	(921)	(88)	—	(1,068)
Depreciation provided during the year	(1,647)	(1,638)	(824)	(616)	—	(4,725)
Transfers	3,277	—	—	—	(3,277)	—
At 31 December 2012, net of accumulated depreciation	<u>29,357</u>	<u>14,916</u>	<u>5,951</u>	<u>3,225</u>	<u>30,108</u>	<u>83,557</u>

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Computer and office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2012,						
Cost	36,530	24,905	7,497	5,208	30,108	104,248
Accumulated depreciation	<u>(7,173)</u>	<u>(9,989)</u>	<u>(1,546)</u>	<u>(1,983)</u>	<u>—</u>	<u>(20,691)</u>
Net carrying amount	<u>29,357</u>	<u>14,916</u>	<u>5,951</u>	<u>3,225</u>	<u>30,108</u>	<u>83,557</u>
31 December 2013						
At 31 December 2012 and at 1 January 2013,						
Cost	36,530	24,905	7,497	5,208	30,108	104,248
Accumulated depreciation	<u>(7,173)</u>	<u>(9,989)</u>	<u>(1,546)</u>	<u>(1,983)</u>	<u>—</u>	<u>(20,691)</u>
Net carrying amount	<u>29,357</u>	<u>14,916</u>	<u>5,951</u>	<u>3,225</u>	<u>30,108</u>	<u>83,557</u>
At 1 January 2013, net of accumulated depreciation						
	29,357	14,916	5,951	3,225	30,108	83,557
Additions	475	8,398	2,109	1,028	51,529	63,539
Disposals	—	(68)	(699)	(431)	—	(1,198)
Depreciation provided during the year	(1,810)	(3,248)	(1,269)	(970)	—	(7,297)
Transfers	<u>6,290</u>	<u>32,857</u>	<u>—</u>	<u>—</u>	<u>(39,147)</u>	<u>—</u>
At 31 December 2013, net of accumulated depreciation	<u>34,312</u>	<u>52,855</u>	<u>6,092</u>	<u>2,852</u>	<u>42,490</u>	<u>138,601</u>
At 31 December 2013,						
Cost	42,811	64,661	8,677	5,676	42,490	164,315
Accumulated depreciation	<u>(8,499)</u>	<u>(11,806)</u>	<u>(2,585)</u>	<u>(2,824)</u>	<u>—</u>	<u>(25,714)</u>
Net carrying amount	<u>34,312</u>	<u>52,855</u>	<u>6,092</u>	<u>2,852</u>	<u>42,490</u>	<u>138,601</u>

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Computer and office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
30 June 2014						
At 31 December 2013 and at 1 January 2014:						
Cost	42,811	64,661	8,677	5,676	42,490	164,315
Accumulated depreciation	<u>(8,499)</u>	<u>(11,806)</u>	<u>(2,585)</u>	<u>(2,824)</u>	—	<u>(25,714)</u>
Net carrying amount	<u>34,312</u>	<u>52,855</u>	<u>6,092</u>	<u>2,852</u>	<u>42,490</u>	<u>138,601</u>
At 1 January 2014,						
net of accumulated depreciation	34,312	52,855	6,092	2,852	42,490	138,601
Additions	—	806	—	354	60,013	61,173
Disposals	—	(191)	—	(1)	—	(192)
Depreciation provided during the period	<u>(1,045)</u>	<u>(2,938)</u>	<u>(765)</u>	<u>(484)</u>	—	<u>(5,232)</u>
At 30 June 2014,						
net of accumulated depreciation	<u>33,267</u>	<u>50,532</u>	<u>5,327</u>	<u>2,721</u>	<u>102,503</u>	<u>194,350</u>
At 30 June 2014:						
Cost	42,811	64,698	8,677	6,024	102,503	224,713
Accumulated depreciation	<u>(9,544)</u>	<u>(14,166)</u>	<u>(3,350)</u>	<u>(3,303)</u>	—	<u>(30,363)</u>
Net carrying amount	<u>33,267</u>	<u>50,532</u>	<u>5,327</u>	<u>2,721</u>	<u>102,503</u>	<u>194,350</u>

Target Company

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Computer and office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2011						
At 1 January 2011:						
Cost	28,242	19,448	4,234	2,908	111	54,943
Accumulated depreciation	<u>(5,377)</u>	<u>(9,031)</u>	<u>(1,067)</u>	<u>(1,625)</u>	—	<u>(17,100)</u>
Net carrying amount	<u>22,865</u>	<u>10,417</u>	<u>3,167</u>	<u>1,283</u>	<u>111</u>	<u>37,843</u>
At 1 January 2011,						
net of accumulated depreciation	22,865	10,417	3,167	1,283	111	37,843
Additions	—	2,533	2,439	880	7,046	12,898
Disposals	(33)	(453)	—	(29)	—	(515)
Depreciation provided during the year	(1,443)	(1,414)	(385)	(376)	—	(3,618)
Transfers	<u>6,104</u>	<u>492</u>	<u>—</u>	<u>—</u>	<u>(6,596)</u>	<u>—</u>
At 31 December 2011,						
net of accumulated depreciation	<u>27,493</u>	<u>11,575</u>	<u>5,221</u>	<u>1,758</u>	<u>561</u>	<u>46,608</u>
At 31 December 2011:						
Cost	34,078	20,804	6,669	3,671	561	65,783
Accumulated depreciation	<u>(6,585)</u>	<u>(9,229)</u>	<u>(1,448)</u>	<u>(1,913)</u>	—	<u>(19,175)</u>
Net carrying amount	<u>27,493</u>	<u>11,575</u>	<u>5,221</u>	<u>1,758</u>	<u>561</u>	<u>46,608</u>
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	34,078	20,804	6,669	3,671	561	65,783
Accumulated depreciation	<u>(6,585)</u>	<u>(9,229)</u>	<u>(1,448)</u>	<u>(1,913)</u>	—	<u>(19,175)</u>
Net carrying amount	<u>27,493</u>	<u>11,575</u>	<u>5,221</u>	<u>1,758</u>	<u>561</u>	<u>46,608</u>
At 1 January 2012,						
net of accumulated depreciation	27,493	11,575	5,221	1,758	561	46,608
Additions	236	5,036	2,247	2,147	28,547	38,213
Disposals	(2)	(57)	(921)	(88)	—	(1,068)
Depreciation provided during the year	(1,630)	(1,638)	(781)	(611)	—	(4,660)
Transfers	<u>1,533</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,533)</u>	<u>—</u>
At 31 December 2012,						
net of accumulated depreciation	<u>27,630</u>	<u>14,916</u>	<u>5,766</u>	<u>3,206</u>	<u>27,575</u>	<u>79,093</u>

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Computer and office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2012:						
Cost	34,786	24,905	7,266	5,162	27,575	99,694
Accumulated depreciation	<u>(7,156)</u>	<u>(9,989)</u>	<u>(1,500)</u>	<u>(1,956)</u>	—	<u>(20,601)</u>
Net carrying amount	<u>27,630</u>	<u>14,916</u>	<u>5,766</u>	<u>3,206</u>	<u>27,575</u>	<u>79,093</u>
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	34,786	24,905	7,266	5,162	27,575	99,694
Accumulated depreciation	<u>(7,156)</u>	<u>(9,989)</u>	<u>(1,500)</u>	<u>(1,956)</u>	—	<u>(20,601)</u>
Net carrying amount	<u>27,630</u>	<u>14,916</u>	<u>5,766</u>	<u>3,206</u>	<u>27,575</u>	<u>79,093</u>
At 1 January 2013, net of accumulated depreciation						
	27,630	14,916	5,766	3,206	27,575	79,093
Additions	475	8,398	1,780	915	20,964	32,532
Disposals	—	(68)	(699)	(431)	—	(1,198)
Depreciation provided during the year	(1,726)	(3,248)	(1,225)	(950)	—	(7,149)
Transfers	<u>6,290</u>	<u>32,857</u>	—	—	<u>(39,147)</u>	—
At 31 December 2013, net of accumulated depreciation	<u>32,669</u>	<u>52,855</u>	<u>5,622</u>	<u>2,740</u>	<u>9,392</u>	<u>103,278</u>
At 31 December 2013:						
Cost	41,067	64,661	8,115	5,519	48,539	167,901
Accumulated depreciation	<u>(8,398)</u>	<u>(11,806)</u>	<u>(2,493)</u>	<u>(2,779)</u>	<u>(39,147)</u>	<u>(64,623)</u>
Net carrying amount	<u>32,669</u>	<u>52,855</u>	<u>5,622</u>	<u>2,740</u>	<u>9,392</u>	<u>103,278</u>

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Computer and office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
30 June 2014						
At 31 December 2013 and at 1 January 2014:						
Cost	41,067	64,661	8,115	5,519	48,539	167,901
Accumulated depreciation	<u>(8,398)</u>	<u>(11,806)</u>	<u>(2,493)</u>	<u>(2,779)</u>	<u>(39,147)</u>	<u>(64,623)</u>
Net carrying amount	<u>32,669</u>	<u>52,855</u>	<u>5,622</u>	<u>2,740</u>	<u>9,392</u>	<u>103,278</u>
At 1 January 2014, net of accumulated depreciation						
Additions	—	806	—	279	6,002	7,087
Disposals	—	(190)	—	—	—	(190)
Depreciation provided during the period	<u>(1,003)</u>	<u>(2,938)</u>	<u>(706)</u>	<u>(483)</u>	<u>—</u>	<u>(5,130)</u>
At 30 June 2014, net of accumulated depreciation	<u>31,666</u>	<u>50,533</u>	<u>4,916</u>	<u>2,536</u>	<u>15,394</u>	<u>105,045</u>
At 30 June 2014:						
Cost	41,067	64,699	8,113	5,794	54,541	174,214
Accumulated depreciation	<u>(9,401)</u>	<u>(14,166)</u>	<u>(3,197)</u>	<u>(3,258)</u>	<u>(39,147)</u>	<u>(69,169)</u>
Net carrying amount	<u>31,666</u>	<u>50,533</u>	<u>4,916</u>	<u>2,536</u>	<u>15,394</u>	<u>105,045</u>

The Target Group has not obtained building ownership certificates for buildings with net book values of RMB8,458,000, RMB6,424,000, RMB5,718,000 and RMB5,571,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. The Target Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

The Target Group mortgaged buildings of RMB13,529,000 and RMB15,916,000 to secure interest-bearing bank loans amounting to RMB50,000,000 and RMB50,000,000 as at 31 December 2011, and 30 June 2014 (note 27), respectively.

15. PREPAID LAND LEASE PAYMENTS

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Carrying amount at beginning	2,341	2,282	32,965	32,282
Additions	—	31,210	—	—
Recognised	<u>(59)</u>	<u>(527)</u>	<u>(683)</u>	<u>(342)</u>
Carrying amount at ending	2,282	32,965	32,282	31,940
Current portion included in prepayments, deposits and other receivables	<u>(59)</u>	<u>(683)</u>	<u>(683)</u>	<u>(683)</u>
Non-current portion	<u>2,223</u>	<u>32,282</u>	<u>31,599</u>	<u>31,257</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Carrying amount at beginning	2,341	2,282	2,223	2,164
Additions	—	—	—	—
Recognised	<u>(59)</u>	<u>(59)</u>	<u>(59)</u>	<u>(30)</u>
Carrying amount at ending	2,282	2,223	2,164	2,134
Current portion included in prepayments, deposits and other receivables	<u>(59)</u>	<u>(59)</u>	<u>(59)</u>	<u>(59)</u>
Non-current portion	<u>2,223</u>	<u>2,164</u>	<u>2,105</u>	<u>2,075</u>

The leasehold land is situated in Mainland China and is held under a long term lease. Certain of prepaid land lease payment of RMB30,119,000 and RMB29,807,000 were pledged to secure bond payables as at 31 December 2013 and 30 June 2014, respectively (note 27).

16. INTANGIBLE ASSETS

Target Group

	Sales networks RMB'000	Patents and technology know-how RMB'000	Software RMB'000	Total RMB'000
31 December 2011				
At 1 January 2011:				
Cost	30,000	360	—	30,360
Accumulated amortisation	<u>(250)</u>	<u>(228)</u>	<u>—</u>	<u>(478)</u>
Net carrying amount	<u>29,750</u>	<u>132</u>	<u>—</u>	<u>29,882</u>
Cost at 1 January 2011, net of accumulated amortisation	29,750	132	—	29,882
Additions	—	200	—	200
Amortisation provided during the year	<u>(3,000)</u>	<u>(82)</u>	<u>—</u>	<u>(3,082)</u>
At 31 December 2011	<u>26,750</u>	<u>250</u>	<u>—</u>	<u>27,000</u>
At 31 December 2011 and 1 January 2012:				
Cost	30,000	560	—	30,560
Accumulated amortisation	<u>(3,250)</u>	<u>(310)</u>	<u>—</u>	<u>(3,560)</u>
Net carrying amount	<u>26,750</u>	<u>250</u>	<u>—</u>	<u>27,000</u>
31 December 2012				
Cost at 1 January 2012, net of accumulated amortisation	26,750	250	—	27,000
Additions	20,000	—	470	20,470
Amortisation provided during the year	<u>(4,167)</u>	<u>(80)</u>	<u>(7)</u>	<u>(4,254)</u>
At 31 December 2012	<u>42,583</u>	<u>170</u>	<u>463</u>	<u>43,216</u>
At 31 December 2012 and 1 January 2013:				
Cost	50,000	560	470	51,030
Accumulated amortisation	<u>(7,417)</u>	<u>(390)</u>	<u>(7)</u>	<u>(7,814)</u>
Net carrying amount	<u>42,583</u>	<u>170</u>	<u>463</u>	<u>43,216</u>

	Sales networks <i>RMB'000</i>	Patents and technology know-how <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2013				
Cost at 1 January 2013, net of accumulated amortisation	42,583	170	463	43,216
Additions	—	—	123	123
Amortisation provided during the year	<u>(5,000)</u>	<u>(20)</u>	<u>(102)</u>	<u>(5,122)</u>
At 31 December 2013	<u>37,583</u>	<u>150</u>	<u>484</u>	<u>38,217</u>
At 31 December 2013:				
Cost	50,000	560	593	51,153
Accumulated amortisation	<u>(12,417)</u>	<u>(410)</u>	<u>(109)</u>	<u>(12,936)</u>
Net carrying amount	<u>37,583</u>	<u>150</u>	<u>484</u>	<u>38,217</u>
30 June 2014				
Cost at 1 January 2014, net of accumulated amortisation	37,583	150	484	38,217
Amortisation provided during the period	<u>(2,500)</u>	<u>(10)</u>	<u>(52)</u>	<u>(2,562)</u>
At 30 June 2014	<u>35,083</u>	<u>140</u>	<u>432</u>	<u>35,655</u>
At 30 June 2014:				
Cost	50,000	560	593	51,153
Accumulated amortisation	<u>(14,917)</u>	<u>(420)</u>	<u>(161)</u>	<u>(15,498)</u>
Net carrying amount	<u>35,083</u>	<u>140</u>	<u>432</u>	<u>35,655</u>

Target Company

	Sales networks <i>RMB'000</i>	Patents and technology know-how <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2011				
At 1 January 2011:				
Cost	30,000	360	—	30,360
Accumulated amortisation	<u>(250)</u>	<u>(228)</u>	<u>—</u>	<u>(478)</u>
Net carrying amount	<u>29,750</u>	<u>132</u>	<u>—</u>	<u>29,882</u>
Cost at 1 January 2011, net of accumulated amortisation				
	29,750	132	—	29,882
Additions	—	200	—	200
Amortisation provided during the year	<u>(3,000)</u>	<u>(82)</u>	<u>—</u>	<u>(3,082)</u>
At 31 December 2011	<u>26,750</u>	<u>250</u>	<u>—</u>	<u>27,000</u>
At 31 December 2011 and 1 January 2012:				
Cost	30,000	560	—	30,560
Accumulated amortisation	<u>(3,250)</u>	<u>(310)</u>	<u>—</u>	<u>(3,560)</u>
Net carrying amount	<u>26,750</u>	<u>250</u>	<u>—</u>	<u>27,000</u>
31 December 2012				
Cost at 1 January 2012, net of accumulated amortisation				
	26,750	250	—	27,000
Additions	20,000	—	470	20,470
Amortisation provided during the year	<u>(4,167)</u>	<u>(80)</u>	<u>(7)</u>	<u>(4,254)</u>
At 31 December 2012	<u>42,583</u>	<u>170</u>	<u>463</u>	<u>43,216</u>

	Sales networks <i>RMB'000</i>	Patents and technology know-how <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2012 and 1 January 2013:				
Cost	50,000	560	470	51,030
Accumulated amortisation	<u>(7,417)</u>	<u>(390)</u>	<u>(7)</u>	<u>(7,814)</u>
Net carrying amount	<u>42,583</u>	<u>170</u>	<u>463</u>	<u>43,216</u>
31 December 2013				
Cost at 1 January 2013,				
net of accumulated amortisation	42,583	170	463	43,216
Amortisation provided during the year	<u>(5,000)</u>	<u>(20)</u>	<u>(101)</u>	<u>(5,121)</u>
At 31 December 2013	<u>37,583</u>	<u>150</u>	<u>362</u>	<u>38,095</u>
At 31 December 2013:				
Cost	50,000	560	470	51,030
Accumulated amortisation	<u>(12,417)</u>	<u>(410)</u>	<u>(108)</u>	<u>(12,935)</u>
Net carrying amount	<u>37,583</u>	<u>150</u>	<u>362</u>	<u>38,095</u>
30 June 2014				
Cost at 1 January 2014,				
net of accumulated amortisation	37,583	150	362	38,095
Amortisation provided during the period	<u>(2,500)</u>	<u>(10)</u>	<u>(46)</u>	<u>(2,556)</u>
At 30 June 2014	<u>35,083</u>	<u>140</u>	<u>316</u>	<u>35,539</u>
At 30 June 2014:				
Cost	50,000	560	470	51,030
Accumulated amortisation	<u>(14,917)</u>	<u>(420)</u>	<u>(154)</u>	<u>(15,491)</u>
Net carrying amount	<u>35,083</u>	<u>140</u>	<u>316</u>	<u>35,539</u>

The sales networks represent customer relationship purchased in 2010 and 2012 for distribution networks in Beijing, Shanghai, Henan, Anhui, Hebei, Jiangxi and Zhejiang areas.

17. INVESTMENTS IN SUBSIDIARIES

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Unlisted shares, at cost:	100,000	150,000	150,000	150,000

The amounts due from subsidiaries included in the Company's current assets of nil, RMB23,434,000, RMB79,921,000 and RMB122,321,000 and the amounts due to subsidiaries included in the Company's current liabilities of RMB49,767,000, RMB16,000,000, RMB75,670,000 and RMB54,670,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, were unsecured, interest-free and have no fixed terms of repayment.

18. INVESTMENT IN AN ASSOCIATE

Target Group and Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Unlisted shares, at cost	—	—	—	10,000
Share of loss	—	—	—	(417)
	—	—	—	9,583

Particulars of the associate as at 30 June 2014 are as follows:

Company	Place of incorporation	Nominal value of issued shares/ paid-up capital	Percentage of interest attributable to the Target Group	Principal activity
Beijing Colin Spey Technology Co., Ltd.* ("Colin Spey")	PRC	RMB10,000,000	20%	Manufacture of medical equipment

* Not audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network.

The Target Company has significant influence over the associate and applies equity method to account for the investment in an associate. The following table illustrates the summarised financial information of the associate extracted from its management accounts or financial statements:

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Total assets	—	—	—	17,533
Total liabilities	—	—	—	5,546
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	—	—	—	418
Loss	—	—	—	(2,084)

19. AVAILABLE-FOR-SALE INVESTMENTS

Target Group and Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Current				
Investment in structured financial products, at fair value	—	—	104,575	181,555
Non-Current				
Unlisted equity investment, at cost	1,893	1,893	1,893	1,893
Investment in structured financial products, at fair value	—	—	72,550	—
	1,893	1,893	74,443	1,893

As at 31 December 2011 and 2012, the Target Company held 10.42% equity interest in an unlisted company, Tianjin Berkgen Biopharmaceutical Co., Ltd. (天津伯克生物科技有限公司), in Mainland China. In October 2013, the Target Company exchanged its 10.42% equity interest in Tianjin Berkgen Biopharmaceutical Co., Ltd. for the 5.4% equity interest of Jiangsu Berkgen Biopharmaceutical Co., Ltd. (江蘇伯克生物醫藥股份有限公司). Both Tianjin Berkgen Biopharmaceutical Co., Ltd. and Jiangsu Berkgen Biopharmaceutical Co., Ltd. are engaged in manufacturing and sale of pharmaceutical equipments.

The fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. This investment was stated at cost less any impairment losses.

The investment in structured financial products represent the investment in trusts issued by Xizang Trust Co., Ltd. and Huaxin International Trust Co., Ltd. amounting to RMB70,000,000 and RMB100,000,000, respectively in 2013, which would be matured in February 2015 and December 2014, respectively. The expected return rate is 9%

for both trusts. Both trusts are used to provide trust loans to Tianbao Jialin International Trading Co., Ltd. (天寶嘉麟國際貿易有限公司), a company controlled by a major shareholder of the Target Company, with loan interest rates of 9.3% to 9.5%. The principal of the loans are protected and guaranteed by the major shareholder.

20. OTHER NON-CURRENT ASSETS

Target Group and Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Prepayment for investment in a subsidiary	—	—	—	8,978

On 24 April 2014, the Target Company entered into an agreement with three individual investors of Beijing Honghui New Medical Technology Co., Ltd. ("Honghui") to acquire their 63% equity interest in Honghui at a total consideration of RMB29,925,000. Honghui's principle operation is to provide pharmaceutical products research and development services. As of 30 June 2014, the Target Company paid a down payment of RMB8,978,000 according to the acquisition agreement. This acquisition was completed on 15 July 2014.

21. INVENTORIES

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Raw materials	7,681	9,197	17,511	24,380
Work in progress	9,738	17,439	25,527	18,020
Finished goods	3,310	8,216	21,834	19,761
	<u>20,729</u>	<u>34,852</u>	<u>64,872</u>	<u>62,161</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Raw materials	7,681	9,197	17,511	24,380
Work in progress	9,738	17,439	25,527	18,020
Finished goods	3,310	4,631	11,473	8,366
	<u>20,729</u>	<u>31,267</u>	<u>54,511</u>	<u>50,766</u>

22. TRADE AND BILL RECEIVABLES

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Trade receivables	139,984	205,580	252,368	335,731
Bill receivables	<u>67,280</u>	<u>78,082</u>	<u>181,338</u>	<u>94,679</u>
Less: Impairment of trade receivables	<u>(1,453)</u>	<u>(2,121)</u>	<u>(2,578)</u>	<u>(3,455)</u>
	<u>205,811</u>	<u>281,541</u>	<u>431,128</u>	<u>426,955</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Trade receivables	139,984	201,782	241,135	316,054
Bill receivables	<u>67,280</u>	<u>78,082</u>	<u>180,107</u>	<u>86,840</u>
Less: Impairment of trade receivables	<u>(1,453)</u>	<u>(2,083)</u>	<u>(2,540)</u>	<u>(3,417)</u>
	<u>205,811</u>	<u>277,781</u>	<u>418,702</u>	<u>399,477</u>

The Target Group's trading terms with its customers are mainly on credit. From 2011 to 2013, the credit period was generally one month, extending up to four months for major customers. In the six months ended 30 June 2014, the credit period was generally six months for major customers. The Target Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. The analysis of concentration of credit risk is given in note 36. Trade receivables are non-interest-bearing.

Movements in the provision for impairment of trade receivables were as follows:

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
At beginning	549	1,453	2,121	2,578
Charge for the year/period	1,060	1,004	1,476	877
Reversal	—	—	(970)	—
Write-off	<u>(156)</u>	<u>(336)</u>	<u>(49)</u>	<u>—</u>
At ending	<u>1,453</u>	<u>2,121</u>	<u>2,578</u>	<u>3,455</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
At beginning	549	1,453	2,083	2,540
Charge for the year/period	1,060	966	1,476	877
Reversal	—	—	(970)	—
Write-off	(156)	(336)	(49)	—
At ending	<u>1,453</u>	<u>2,083</u>	<u>2,540</u>	<u>3,417</u>

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Less than 6 months	139,679	204,766	199,184	323,147
Between 6 and 12 months	92	680	51,798	12,255
Between 1 and 2 years	96	13	1,374	270
Over 2 years	117	121	12	59
	<u>139,984</u>	<u>205,580</u>	<u>252,368</u>	<u>335,731</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Less than 6 months	139,679	200,968	188,925	303,781
Between 6 and 12 months	92	680	50,824	12,098
Between 1 and 2 years	96	13	1,374	116
Over 2 years	117	121	12	59
	<u>139,984</u>	<u>201,782</u>	<u>241,135</u>	<u>316,054</u>

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Neither past due nor impaired	120,720	174,526	103,190	295,168
Less than 3 months past due	14,867	27,141	72,318	25,381
Over 3 months past due	—	—	52,693	10,081
	<u>135,587</u>	<u>201,667</u>	<u>228,201</u>	<u>330,630</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Neither past due nor impaired	120,720	171,763	95,388	282,406
Less than 3 months past due	14,867	26,144	69,860	18,778
Over 3 months past due	—	—	51,758	9,807
	<u>135,587</u>	<u>197,907</u>	<u>217,006</u>	<u>310,991</u>

Trade receivables that were past due but not impaired relate to two major independent customers that have a good business relationship with the Target Group. Based on past experience, the directors of the Target Group are of the opinion that no provision for impairment 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. The Target Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2013 and 30 June 2014, the Target Group has pledged certain trade and bill receivables of RMB220,000,000, respectively, to secure a bond payable (note 27). No trade and bill receivables were pledged as at 31 December 2011 and 2012.

The bill receivables are due within six months. The Target Group had discounted bill receivables of RMB6,000,000 as at 31 December 2013, and the proceeds received have been accounted for as current bank loans (note 27). No bill receivables were discounted as at 31 December 2011 and 2012, and 30 June 2014.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Other receivables	3,098	5,892	37,762	11,515
Prepayments	7,703	11,248	17,049	6,614
Prepaid tax	—	—	1,600	—
	<u>10,801</u>	<u>17,140</u>	<u>56,411</u>	<u>18,129</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Other receivables	3,098	1,055	33,109	1,945
Prepayments	7,427	5,913	5,899	1,858
Prepaid tax	—	—	1,600	—
	<u>10,525</u>	<u>6,968</u>	<u>40,608</u>	<u>3,803</u>

The aged analysis of the prepayments, deposits and other receivables that are not considered to be impaired is as follows:

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Neither past due nor impaired	<u>10,801</u>	<u>17,140</u>	<u>56,411</u>	<u>18,129</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Neither past due nor impaired	<u>10,525</u>	<u>6,968</u>	<u>40,608</u>	<u>3,803</u>

The financial assets included in the above balances that were neither past due nor impaired relate to other receivables for which there was no recent history of default.

24. CASH AND CASH EQUIVALENTS AND PLEDGED SHORT-TERM DEPOSITS

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Cash and cash equivalents	<u>152,199</u>	<u>114,788</u>	<u>74,518</u>	<u>74,810</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Cash and cash equivalents	<u>102,620</u>	<u>16,385</u>	<u>58,462</u>	<u>67,251</u>

All the cash and cash equivalents of the Target Group and the Target Company are denominated in RMB.

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximated to their fair values as at the end of the reporting period.

25. TRADE PAYABLES

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Trade payables	<u>7,193</u>	<u>7,238</u>	<u>26,908</u>	<u>5,554</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Trade payables	<u>7,193</u>	<u>5,858</u>	<u>26,797</u>	<u>5,489</u>

An aged analysis of the trade and notes payables as at the end of the reporting period, based on the invoice date, is as follows:

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Within 3 months	7,186	7,235	26,800	5,411
3 to 12 months	3	—	38	96
Over 1 years	4	3	70	47
	<u>7,193</u>	<u>7,238</u>	<u>26,908</u>	<u>5,554</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Within 3 months	7,186	5,855	26,785	5,390
3 to 12 months	3	—	9	96
Over 1 years	4	3	3	3
	<u>7,193</u>	<u>5,858</u>	<u>26,797</u>	<u>5,489</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

26. OTHER PAYABLES AND ACCRUALS**Target Group**

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Other payables	1,063	511	6,607	1,357
Accrued liabilities	62,570	86,028	103,913	47,198
Accrued payroll	6,309	8,976	11,239	6,830
Advances from customers	220	313	1,475	3,652
Payables for purchases of machinery and construction of buildings	1,748	1,899	1,902	12,469
Taxes payable other than corporate income tax	12,084	14,526	1,212	16,860
	<u>83,994</u>	<u>112,253</u>	<u>126,348</u>	<u>88,366</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Other payables	1,063	493	6,579	724
Accrued liabilities	62,570	86,029	103,915	47,199
Accrued payroll	6,309	7,158	9,696	4,941
Advances from customers	220	313	1,475	2,021
Payables for purchases of machinery and construction of buildings	1,748	1,899	1,902	1,779
Taxes payable other than corporate income tax	12,084	14,508	865	16,095
	<u>83,994</u>	<u>110,400</u>	<u>124,432</u>	<u>72,759</u>

Other payables are non-interest-bearing.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Target Group RMB'000	Target Company RMB'000
As at 31 December 2011				
Current				
Bank loans — secured	6.56–7.57	2012	<u>110,000</u>	<u>110,000</u>
As at 31 December 2012				
Current				
Bank loans — secured	7.20	2013	60,000	60,000
Bank loans — unsecured	5.60	2013	<u>50,000</u>	<u>50,000</u>
			<u>110,000</u>	<u>110,000</u>

	Effective interest rate (%)	Maturity	Target Group RMB'000	Target Company RMB'000
As at 31 December 2013				
Current				
Bank loans — secured	7.20	2014	60,000	60,000
Discounted bill receivables	9.18	2014	6,000	6,000
Bonds payable — secured	8.28	on demand	<u>198,374</u>	<u>198,374</u>
			<u>264,374</u>	<u>264,374</u>
As at 30 June 2014				
Current				
Bank loans — secured	6.00	2015	50,000	50,000
Bonds payable — secured	8.28	on demand	<u>139,365</u>	<u>139,365</u>
			<u>189,365</u>	<u>189,365</u>

The Target Group mortgaged buildings of RMB13,529,000 and RMB15,916,000 to secure interest-bearing bank loans amounting to RMB50,000,000 and RMB50,000,000 as at 31 December 2011 and 30 June 2014, respectively (note 14).

Mylin Holding Group, a major shareholder of the Company provided guarantee to secure interest-bearing bank loans amounting to RMB60,000,000 as at 31 December 2011, 2012, 2013.

The Target Company issued a bond of RMB200,000,000 to a group of institution investors with a maturity date of 7 April 2016 and interest rate of 8.28% on 8 April 2013. This bond is secured by the pledge of certain of the Target Group's trade and bill receivables of RMB220,000,000 (note 22) and land use right of RMB30,119,000 and RMB29,807,000 (note 15) as at 31 December 2013 and 30 June 2014, respectively. Mylin Holdings Group, Co., Ltd, a major shareholder of the Target Company, also provided guarantee on the settlement of the bond. At the end of the second year from the issuance date, the bond holders are entitled to the right of redemption at face value and the bond issuer has the right to adjust the interest rate. Meanwhile, the bond holders are also entitled to the right of redemption whenever the Target Company reduces its registered capital or violates the pledge or guarantee terms.

28. DEFERRED TAX

The movements in deferred tax assets during the Relevant Periods are as follows:

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets	11,297	15,190	32,509	17,678
Deferred tax liabilities	—	—	(1,781)	(2,889)
	<u>11,297</u>	<u>15,190</u>	<u>30,728</u>	<u>14,789</u>

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets	11,297	15,865	33,634	18,803
Deferred tax liabilities	—	—	(1,781)	(2,889)
	<u>11,297</u>	<u>15,865</u>	<u>31,853</u>	<u>15,914</u>

Deferred tax assets

Target Group

	Accrued expenses <i>RMB'000</i>	Impairment of inventories <i>RMB'000</i>	Impairment of trade receivables <i>RMB'000</i>	Government grants <i>RMB'000</i>	Impairment of investment in an associate <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2010 and 1 January 2011	3,765	—	82	221	91	4,159
Deferred tax credited/ (charged) to the statements of profit or loss during the year (note 10)	<u>7,030</u>	<u>—</u>	<u>136</u>	<u>(28)</u>	<u>—</u>	<u>7,138</u>
At 31 December 2011	<u>10,795</u>	<u>—</u>	<u>218</u>	<u>193</u>	<u>91</u>	<u>11,297</u>
At 31 December 2011 and 1 January 2012	10,795	—	218	193	91	11,297
Deferred tax credited to the statements of profit or loss during the year (note 10)	<u>3,647</u>	<u>90</u>	<u>94</u>	<u>62</u>	<u>—</u>	<u>3,893</u>
At 31 December 2012	<u>14,442</u>	<u>90</u>	<u>312</u>	<u>255</u>	<u>91</u>	<u>15,190</u>
At 31 December 2012 and 1 January 2013	14,442	90	312	255	91	15,190
Deferred tax credited to the statements of profit or loss during the year (note 10)	<u>14,732</u>	<u>388</u>	<u>323</u>	<u>1,815</u>	<u>61</u>	<u>17,319</u>
At 31 December 2013	<u>29,174</u>	<u>478</u>	<u>635</u>	<u>2,070</u>	<u>152</u>	<u>32,509</u>
At 31 December 2013 and 1 January 2014	29,174	478	635	2,070	152	32,509
Deferred tax (charged)/ credited to the statements of profit or loss during the year (note 10)	<u>(15,368)</u>	<u>226</u>	<u>219</u>	<u>92</u>	<u>—</u>	<u>(14,831)</u>
At 30 June 2014	<u>13,806</u>	<u>704</u>	<u>854</u>	<u>2,162</u>	<u>152</u>	<u>17,678</u>

Target Company

	Accrued expenses <i>RMB'000</i>	Impairment of inventories <i>RMB'000</i>	Impairment of trade receivables <i>RMB'000</i>	Government grants <i>RMB'000</i>	Impairment of investment in an associate <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2010 and 1 January 2011	3,765	—	82	221	91	4,159
Deferred tax credited/ (charged) to the statements of profit or loss during the year (note 10)	<u>7,030</u>	<u>—</u>	<u>136</u>	<u>(28)</u>	<u>—</u>	<u>7,138</u>
At 31 December 2011	<u>10,795</u>	<u>—</u>	<u>218</u>	<u>193</u>	<u>91</u>	<u>11,297</u>
At 31 December 2011 and 1 January 2012	10,795	—	218	193	91	11,297
Deferred tax credited to the statements of profit or loss during the year (note 10)	<u>3,647</u>	<u>90</u>	<u>94</u>	<u>62</u>	<u>675</u>	<u>4,568</u>
At 31 December 2012	<u>14,442</u>	<u>90</u>	<u>312</u>	<u>255</u>	<u>766</u>	<u>15,865</u>
At 31 December 2012 and 1 January 2013	14,442	90	312	255	766	15,865
Deferred tax credited to the statements of profit or loss during the year (note 10)	<u>14,732</u>	<u>388</u>	<u>323</u>	<u>1,815</u>	<u>511</u>	<u>17,769</u>
At 31 December 2013	<u>29,174</u>	<u>478</u>	<u>635</u>	<u>2,070</u>	<u>1,277</u>	<u>33,634</u>
At 31 December 2013 and 1 January 2014	29,174	478	635	2,070	1,277	33,634
Deferred tax (charged)/ credited to the statements of profit or loss during the year (note 10)	<u>(15,368)</u>	<u>226</u>	<u>219</u>	<u>92</u>	<u>—</u>	<u>(14,831)</u>
At 30 June 2014	<u>13,806</u>	<u>704</u>	<u>854</u>	<u>2,162</u>	<u>1,277</u>	<u>18,803</u>

Deferred tax liabilities*Target Group and Target Company*

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Fair value gains of available-for-sale investments	—	—	1,781	2,889

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Certain subsidiaries of the Target Company also has tax losses arising in Mainland China of RMB148,000, RMB8,884,000, RMB35,340,000 and RMB51,344,000 as at 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively, that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses arisen in Mainland China as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

29. ISSUED CAPITAL

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Issued and fully paid 30,500,000 ordinary shares of RMB1.00 each:	30,500	30,500	30,500	30,500

30. RESERVES**Group***Statutory Surplus Reserves*

In accordance with the Company Law of the PRC, certain subsidiaries of the Target Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Company

	Share Premium <i>RMB'000</i>	Statutory reserves <i>RMB'000</i>	Available- for-sale investment revaluation <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2011	3,200	26,652	—	76,918	106,770
Current year profit	—	—	—	124,603	124,603
At 31 December 2011	<u>3,200</u>	<u>26,652</u>	<u>—</u>	<u>201,521</u>	<u>231,373</u>
Current year profit	—	—	—	170,745	170,745
Profit appropriation	—	—	—	(45,000)	(45,000)
At 31 December 2012	<u>3,200</u>	<u>26,652</u>	<u>—</u>	<u>327,266</u>	<u>357,118</u>
Current year profit	—	—	—	246,358	246,358
Other Comprehensive income					
Fair value change on available-for-sale investments	—	—	5,344	—	5,344
At 31 December 2013	<u>3,200</u>	<u>26,652</u>	<u>5,344</u>	<u>573,624</u>	<u>608,820</u>
Current period profit	—	—	—	153,422	153,422
Other Comprehensive income					
Fair value change on available-for-sale investments	—	—	3,322	—	3,322
At 30 June 2014	<u>3,200</u>	<u>26,652</u>	<u>8,666</u>	<u>727,046</u>	<u>765,564</u>
At 31 December 2012	<u>3,200</u>	<u>26,652</u>	<u>—</u>	<u>327,266</u>	<u>357,118</u>
Current period profit	—	—	—	117,780	117,780
At 30 June 2013 (unaudited)	<u>3,200</u>	<u>26,652</u>	<u>—</u>	<u>445,046</u>	<u>474,898</u>

31. OPERATING LEASE COMMITMENTS

As at 31 December 2011, 2012, 2013 and six months ended 30 June 2014, the Target Group had no lease payments under non-cancellable operating leases arrangements.

32. COMMITMENTS

The Target Group had the following capital commitments as at the end of the reporting period:

Target Group

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Contracted, but not provided for:				RMB'000
Land and buildings	—	—	29,441	59,412
Plant and machinery	—	26,808	16,153	1,475
	—	26,808	45,594	60,887
Contracted, but not provided for:				
Capital contribution payable to a subsidiary	—	—	—	20,947
	—	26,808	45,594	81,834

Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
Contracted, but not provided for:				RMB'000
Plant and machinery	—	26,808	16,153	1,475
Contracted, but not provided for:				
Capital contribution payable to a subsidiary	—	—	—	20,947
	—	26,808	16,153	22,422

33. RELATED PARTY TRANSACTIONS

Details of the Target Group's principal related parties are as follows:

Company	Relationship
Mylin Holdings	Major shareholder of the Target Company
Beijing Mylin Changsheng Decoration Engineering Co., Ltd. ("Mylin Changsheng")	An entity controlled by major shareholder of the Target Company
Beijing Hua Rongwei Information Consulting Co., Ltd. ("Hua Rongwei")	An entity controlled by major shareholder of the Target Company

(a) Except for the transactions detailed elsewhere in these financial statements, the Group had no other transactions with related parties during the Relevant Periods.

(b) Outstanding balances with related parties:

The Target Group had the following significant balances with its related parties during the Relevant Periods:

(i) **Due from related party**

Target Group and Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Mylin Holdings	—	—	—	13,513

(ii) **Due to related parties**

Target Group and Target Company

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Mylin Changsheng	193	63	63	63
Hua Rongwei	3,080	3,080	3,080	3,080
	<u>3,273</u>	<u>3,143</u>	<u>3,143</u>	<u>3,143</u>

(c) Compensation of key management personnel of the Target Group:

	As at 31 December			As at
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Salaries, allowances and benefits in kind	2,784	2,895	3,168	1,370
Pension scheme contributions	405	459	478	246
Total compensation paid to key management personnel	<u>3,189</u>	<u>3,354</u>	<u>3,646</u>	<u>1,616</u>

Further details of directors' remuneration are included in note 8 to the Financial Information.

(d) The Target Company invested RMB170,000,000 into trusts, which were used to provide trust loans to a company controlled by Mylin Holdings (note 19).

The Directors confirmed all the amounts due from and due to related parties will be settled before the Completion and the transactions involved in the related party transaction will not continue after the Completion.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Target Group*As at 31 December 2011**Financial assets*

	Loans and receivables <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bill receivables	205,811	205,811
Financial assets included in prepayments, deposits and other receivables	3,098	3,098
Cash and cash equivalents	<u>152,199</u>	<u>152,199</u>
	<u><u>361,108</u></u>	<u><u>361,108</u></u>

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade payables	7,193	7,193
Financial liabilities included in accrued liabilities and other payables	2,811	2,811
Interest-bearing bank and other borrowings	110,000	110,000
Due to related parties	<u>3,273</u>	<u>3,273</u>
	<u><u>123,277</u></u>	<u><u>123,277</u></u>

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Target Group

As at 31 December 2012

Financial assets

	Loans and receivables <i>RMB'000</i>	Total <i>RMB'000</i>
Trade and bill receivables	281,541	281,541
Financial assets included in prepayments, deposits and other receivables	5,892	5,892
Cash and cash equivalents	<u>114,788</u>	<u>114,788</u>
	<u><u>402,221</u></u>	<u><u>402,221</u></u>

Financial liabilities

	Financial liabilities at amortised cost <i>RMB'000</i>	Total <i>RMB'000</i>
Trade payables	7,238	7,238
Financial liabilities included in accrued liabilities and other payables	2,410	2,410
Interest-bearing bank and other borrowings	110,000	110,000
Due to related parties	<u>3,143</u>	<u>3,143</u>
	<u><u>122,791</u></u>	<u><u>122,791</u></u>

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Target Group

As at 31 December 2013

Financial assets

	Loans and receivables	Available-for- sale financial assets	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investment	—	177,125	177,125
Trade and bill receivables	431,128	—	431,128
Financial assets included in prepayments, deposits and other receivables	37,762	—	37,762
Cash and cash equivalents	74,518	—	74,518
	<u>543,408</u>	<u>177,125</u>	<u>720,533</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	26,908	26,908
Financial liabilities included in accrued liabilities and other payables	8,509	8,509
Interest-bearing bank and other borrowings	264,374	264,374
Due to related parties	3,143	3,143
	<u>302,934</u>	<u>302,934</u>

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Target Group

As at 30 June 2014

Financial assets

	Loans and receivables	Available-for- sale financial assets	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investments	—	181,555	181,555
Trade and bill receivables	426,955	—	426,955
Financial assets included in prepayments, deposits and other receivables	11,515	—	11,515
Due from related party	13,513	—	13,513
Cash and cash equivalents	74,810	—	74,810
	<u>526,793</u>	<u>181,555</u>	<u>708,348</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	5,554	5,554
Financial liabilities included in accrued liabilities and other payables	13,826	13,826
Interest-bearing bank and other borrowings	189,365	189,365
Due to related parties	3,143	3,143
	<u>211,888</u>	<u>211,888</u>

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Target Company

As at 31 December 2011

Financial assets

	Loans and receivables	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bill receivables	205,811	205,811
Financial assets included in prepayments, deposits and other receivables	3,098	3,098
Cash and cash equivalents	<u>102,620</u>	<u>102,620</u>
	<u>311,529</u>	<u>311,529</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	7,193	7,193
Financial liabilities included in accrued liabilities and other payables	2,811	2,811
Interest-bearing bank and other borrowings	110,000	110,000
Due to related parties	3,273	3,273
Due to subsidiaries	<u>49,767</u>	<u>49,767</u>
	<u>173,044</u>	<u>173,044</u>

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Target Company

As at 31 December 2012

Financial assets

	Loans and receivables	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bill receivables	277,781	277,781
Financial assets included in prepayments, deposits and other receivables	1,055	1,055
Cash and cash equivalents	16,385	16,385
Due from subsidiaries	<u>23,434</u>	<u>23,434</u>
	<u><u>318,655</u></u>	<u><u>318,655</u></u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	5,858	5,858
Financial liabilities included in accrued liabilities and other payables	2,392	2,392
Interest-bearing bank and other borrowings	110,000	110,000
Due to related parties	3,143	3,143
Due to subsidiaries	<u>16,000</u>	<u>16,000</u>
	<u><u>137,393</u></u>	<u><u>137,393</u></u>

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Target Company

As at 31 December 2013

Financial assets

	Loans and receivables	Available-for- sale financial assets	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investment	—	177,125	177,125
Trade and bill receivables	418,702	—	418,702
Financial assets included in prepayments, deposits and other receivables	33,109	—	33,109
Cash and cash equivalents	58,462	—	58,462
Due from subsidiaries	79,921	—	79,921
	<u>590,194</u>	<u>177,125</u>	<u>767,319</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	26,797	26,797
Financial liabilities included in accrued liabilities and other payables	8,481	8,481
Interest-bearing bank and other borrowings	264,374	264,374
Due to subsidiaries	75,670	75,670
Due to related parties	3,143	3,143
	<u>378,465</u>	<u>378,465</u>

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Target Company

As at 30 June 2014

Financial assets

	Loans and receivables	Available-for- sale financial assets	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Available-for-sale investments	—	181,555	181,555
Trade and bill receivables	399,477	—	399,477
Financial assets included in prepayments, deposits and other receivables	1,945	—	1,945
Cash and cash equivalents	67,251	—	67,251
Due from a related party	13,513	—	13,513
Due from subsidiaries	122,321	—	122,321
	<u>604,507</u>	<u>181,555</u>	<u>786,062</u>

Financial liabilities

	Financial liabilities at amortised cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	5,489	5,489
Financial liabilities included in accrued liabilities and other payables	2,503	2,503
Interest-bearing bank and other borrowings	189,365	189,365
Due to subsidiaries	54,670	54,670
Due to related parties	3,143	3,143
	<u>255,170</u>	<u>255,170</u>

Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments carried at fair value

The Target Group has carried all investment securities that are classified as available-for-sale investments at their fair values as required by IAS 39, except for an unlisted investments which was stated at cost (note 19).

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Financial instruments whose carrying amounts approximate to their fair values

Management has determined that the carrying amounts of cash and cash equivalents, trade and bill receivables, other receivables, interest receivables, trade payables, other payables, interest payables, amounts due to related parties and short-term interest-bearing bank and other borrowings, based on their notional amounts, reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

The fair values of unlisted available-for-sale investments have been estimated using a discounted cash flow valuation model based on assumptions that are supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows from future proceeds when maturity. The Directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values as at 31 December 2013 and 30 June 2014.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Target Group and Target company's available-for-sale investments:

	Fair value measurement as at 31 December 2013 using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Investment in financial products	—	177,125	—	177,125

	Fair value measurement as at 30 June 2014 using			Total RMB'000
	Quoted prices in active market (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Investment in financial products	—	181,555	—	181,555

During the years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments comprise interest-bearing loans and borrowings and cash. The main purpose of these financial instruments is to raise finance for the Target Group's operations. The Target Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Target Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group's exposure to the risk of changes in market interest rates relates primarily to the Target Group's debt obligations with floating interest rates.

The Target Group's policy is to manage interest cost using a mix of fixed and floating rate debts. The Target Group's policy is to maintain between 30% and 80% of its interest-bearing banks and other borrowings at fixed interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Target Group's profit before tax (through the impact on floating rate borrowings).

	Target Group and Target Company	
	Increase/(decrease)	Increase/(decrease)
	in basis points	in profit before tax
		<i>RMB'000</i>
As at 31 December 2011		
RMB	50	(16)
RMB	(50)	16
As at 31 December 2012		
RMB	50	(2)
RMB	(50)	2
As at 31 December 2013		
RMB	50	—
RMB	(50)	—
As at 30 June 2014		
RMB	50	(6)
RMB	(50)	6

Credit risk

The Target Group trades mainly with recognised and creditworthy third parties. It is the Target Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

The credit risk of the Target Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Target Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. In year 2011, there were no significant concentrations of credit risk within the Target Group as the customer bases of the Target Group's trade receivables were widely dispersed in different regions.

The Target Group had certain concentrations of credit risk as 10% and 21% as at 31 December 2012, 12% and 28% as at 31 December 2013, and 59% and 72% as at 30 June 2014 of the Target Group's trade receivables were due from the Target Group's largest customer and the five largest customers, respectively. The management identified largest customer and the five largest customers based on the sales to these customers in the Relevant Periods.

Further quantitative data in respect of the Target Group's exposure to credit risk arising from trade receivables are disclosed in notes 22 to the Financial Information.

Liquidity risk

The Target Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables, other financial assets) and projected cash flows from operations.

The Target Group maintains a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The maturity profile of the Target Group's financial liabilities as at 31 December 2011, 2012 and 2013 and 30 June 2014, based on contractual undiscounted payments, is as follows:

Target Group

As at 31 December 2011

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to 12 months <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank and other borrowings	—	1,956	113,544	115,500
Trade payables	—	7,193	—	7,193
Other payables	2,811	—	—	2,811
Due to related parties	3,273	—	—	3,273
	<u>6,084</u>	<u>9,149</u>	<u>113,544</u>	<u>128,777</u>

As at 31 December 2012

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to 12 months <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank and other borrowings	—	51,500	62,652	114,152
Trade payables	—	7,238	—	7,238
Other payables	2,410	—	—	2,410
Due to related parties	3,143	—	—	3,143
	<u>5,553</u>	<u>58,738</u>	<u>62,652</u>	<u>126,943</u>

As at 31 December 2013

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to 12 months <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank and other borrowings	224,840	1,080	66,012	291,932
Trade payables	—	26,908	—	26,908
Other payables	8,509	—	—	8,509
Due to related parties	3,143	—	—	3,143
	<u>236,492</u>	<u>27,988</u>	<u>66,012</u>	<u>330,492</u>

As at 30 June 2014

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to 12 months <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank and other borrowings	151,592	750	50,415	202,757
Trade payables	—	5,554	—	5,554
Other payables	13,826	—	—	13,826
Due to related parties	3,143	—	—	3,143
	<u>168,561</u>	<u>6,304</u>	<u>50,415</u>	<u>225,280</u>

The maturity profile of the Company's financial liabilities as at as at 31 December 2011, 2012 and 2013 and 30 June 2014 based on contractual undiscounted payments, is as follows:

Target Company

As at 31 December 2011

	On demand <i>RMB'000</i>	Less than 3 months <i>RMB'000</i>	3 to 12 months <i>RMB'000</i>	Total <i>RMB'000</i>
Interest-bearing bank and other borrowings	—	1,956	113,544	115,500
Trade payables	—	7,193	—	7,193
Other payables	2,811	—	—	2,811
Due to subsidiaries	49,767	—	—	49,767
Due to related parties	3,273	—	—	3,273
	<u>55,851</u>	<u>9,149</u>	<u>113,544</u>	<u>178,544</u>

As at 31 December 2012

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	51,500	62,652	114,152
Trade payables	—	5,858	—	5,858
Other payables	2,392	—	—	2,392
Due to subsidiaries	16,000	—	—	16,000
Due to related parties	3,143	—	—	3,143
	<u>21,535</u>	<u>57,358</u>	<u>62,652</u>	<u>141,545</u>

As at 31 December 2013

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	224,840	1,080	66,012	291,932
Trade payables	—	26,797	—	26,797
Other payables	8,481	—	—	8,481
Due to subsidiaries	75,670	—	—	75,670
Due to related parties	3,143	—	—	3,143
	<u>312,134</u>	<u>27,877</u>	<u>66,012</u>	<u>406,023</u>

As at 30 June 2014

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	151,592	750	50,415	202,757
Trade payables	—	5,489	—	5,489
Other payables	2,503	—	—	2,503
Due to subsidiaries	54,670	—	—	54,670
Due to related parties	3,143	—	—	3,143
	<u>211,908</u>	<u>6,239</u>	<u>50,415</u>	<u>268,562</u>

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Target Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014.

The Target Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Target Group's policy is to keep the gearing ratio below 40%. Net debt includes interest-bearing bank and other borrowings, trade payables, other payables and accruals and amounts due to related parties, less cash and cash equivalents. Total capital represents equity attributable to the owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	Group			As at
	As at 31 December			30 June
	2011	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing bank and other borrowings	110,000	110,000	264,374	189,365
Trade payables	7,193	7,238	26,908	5,554
Other payables and accruals	83,994	112,253	126,348	88,366
Due to related parties	3,273	3,143	3,143	3,143
Less: Cash and cash equivalents	<u>(152,199)</u>	<u>(114,788)</u>	<u>(74,518)</u>	<u>(74,810)</u>
Net debt	52,261	117,846	346,255	211,618
Total capital	<u>261,724</u>	<u>376,778</u>	<u>596,149</u>	<u>732,311</u>
Total capital and net debt	<u><u>313,985</u></u>	<u><u>494,624</u></u>	<u><u>942,404</u></u>	<u><u>943,929</u></u>
Gearing ratio	<u>17%</u>	<u>24%</u>	<u>37%</u>	<u>22%</u>

37. EVENTS AFTER THE REPORTING PERIOD

To the date of approval of the financial statements, no material subsequent event requiring disclosure occurred.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company or any of the companies comprising the Target Group in respect of any period subsequent to 30 June 2014.

Yours faithfully
ERNST & YOUNG
Certified Public Accountants
 Hong Kong

Set out below is the management discussion and analysis of the Target Group for the three financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014. The discussion and analysis relate to the consolidated results and financial position of the Target Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITIONS

Overview

The Target Group is a leading player in the PRC pharmaceutical sector principally engaged in the business of developing, manufacturing, marketing and selling pharmaceutical products in cardiovascular system and oncology. Some of its notable innovative products include A LE (阿樂) (atorvastatin calcium tablets) which is used for the reduction and treatment of high cholesterol, and trimetazidine hydrochloride capsules which treat cardiovascular symptoms including angina. The Target Group has established a wide-coverage sales network through which it sells its products across China.

The Target Group maintained solid growth in its profit for the three financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014. Net profit of the Target Group increased from RMB124.5 million in 2011 to RMB219.4 million in 2013, representing a CAGR of 32.7%. For the six months ended 30 June 2014, net profit of the Target Group increased to RMB136.2 million from RMB104.1 million for the corresponding period in 2013, representing a growth rate of 30.8%. Profit before tax of the Target Group increased by 52.4% for the six months ended 30 June 2014 as compared to the six months ended 30 June 2013.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The discussion and analysis of the Target Group's financial position and results of operations are based on the consolidated financial statements prepared in accordance with IFRSs. Preparation of the consolidated financial information requires the Target Group to make estimates and judgements in applying certain critical accounting policies which may have a significant impact on its consolidated results. The Target Group bases its estimates on historical experience and other assumptions which its management believes to be reasonable under the circumstances. Results may differ from these estimates under different assumptions and conditions. The following discussion provides supplemental information on the Target Group's critical accounting policies, certain of which require estimates and assumptions from the directors of the Target.

Revenue Recognition on sales of pharmaceutical product

The Target Group recognises revenue from the sale of pharmaceutical products when it transfers to the buyer the significant risks and rewards of ownership, provided that the Target Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. When the Target Group sells products to distributors,

they are typically required to inspect the pharmaceutical products on delivery, and must notify the Target Group and obtain the Target Group's written consent before damaged products can be returned or exchanged. Any products that have been accepted on delivery are not eligible for returns. Consequently, the Target Group typically recognises revenue from the sale of pharmaceutical products at the invoice price once the Target Group's distributors have accepted its products for delivery.

Impairment of Trade and Other Receivables

The Target Group regularly monitors its overdue trade and other receivables and assesses at the end of each reporting period whether there is objective evidence that its trade and other receivables are impaired. The Target Group deems trade and other receivables to be impaired if there is objective evidence of impairment as a result of events that have occurred after initial recognition of the receivable, and that such events impact on the recoverability of the receivable. The Target Group's assessment of recoverability requires the Target Group to make judgements and estimates based on indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that such debtors will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decreased recoverability, such as changes in arrears or economic conditions that correlate with defaults. These judgements and estimations are, by their nature, subject to considerable uncertainty. The Target Group's assessment of recoverability may change as further development occurs, and if the Target Group is required to revise its estimates or the actual amount recovered on its trade and other receivables is different from its original estimate, such differences will require the Target Group to revise the carrying values of the trade and other receivables and possibly recognise further impairment losses in the period in which its estimate is revised or the actual recoverability determined.

Useful Lives and Impairment of Property, Plant and Equipment

The Target Group's property, plant and equipment primarily consist of its production and R&D-related buildings, as well as other facilities and related equipment (including construction in progress). The Target Group states property, plant and equipment, other than construction in progress, at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment generally comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. The Target Group depreciates property, plant and equipment on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The Target Group estimates the useful lives of property, plant and equipment as follows:

Buildings	10–24 years
Machinery and equipment	5–10 years
Motor vehicles	4–10 years
Computer and office equipment	3–8 years

Within these parameters, the Target Group determines the estimated useful lives and related depreciation charges for property, plant and equipment based on its experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Target Group reviews and adjusts, if appropriate, the useful lives and the depreciation method for property, plant and equipment at least at each financial year end. The Target Group's reviews could cause its useful life estimates to change significantly, particularly as a result of technical innovations and competitor actions in response to severe industry cycles. If the Target Group estimates the useful lives of property, plant and equipment to be shorter than previously estimated lives, the Target Group is required to increase depreciation charges and to write off or write down technically obsolete or non-strategic assets that have been abandoned. The Target Group assesses whether there are any indicators of impairment for its property, plant and equipment only when there are indicators that the carrying amounts for such assets may not be recoverable. An impairment exists when the carrying value of the relevant asset or, if the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the relevant cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, the Target Group estimates future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In order to do so, the Target Group must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. If the Target Group recognises an impairment loss, it is charged to the Target Group's income statement in the period in which it arises in expense categories consistent with the function of the impaired asset. The Target Group assesses at the end of each reporting period whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Target Group again estimates the recoverable amount and the Target Group reverses a previously recognised impairment loss only if there has been a change in the estimates the Target Group used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Government Grants

The Target Group receives government grants in the form of subsidies for the purpose of compensating the Target Group for expenses arising from research expenses and its improvement of its manufacturing facilities on special projects. The Target Group initially records the receipt of such grants as liabilities on its balance sheet. It recognises government grants at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied, typically when the Target Group has completed the relevant project and passed the final assessment of the relevant government authorities. The Target Group recognises grants related to

expense as other income directly in its income statement over the periods that the costs for which they are intended to compensate us are expensed. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge. In practice, the recognition of a government grant to its income statement occurs when the Target Group's receive from the government authority a final assessment report for the relevant project, which may be subject to delays beyond on its control. Because the Target Group has limited control over the timing of the release of grants to its income statement, its recognition of such grants may not directly correspond to the timing of its incurrence of the relevant expenses or depreciation charges.

Financial review

Revenue

The Target Group generates its revenue from the sale of pharmaceutical products. Its revenues are stated net of revenue-related business tax and government surcharges for which the Target Group is responsible for the payment to the relevant government authority.

For the three financial years ended 31 December 2011, 2012 and 2013, revenue of the Target Group increased from RMB518.9 million in 2011 to RMB1,102.4 million in 2013, representing a CAGR of 45.8%. The growth in the Target Group's revenue was primarily attributable to the increase in sales of the Group's key product A LE (阿樂) (atorvastatin calcium tablets) in the amount of RMB512.8 million, RMB791.8 million and RMB997.0 million, representing 98.8%, 98.3% and 90.4% of the revenue of the three financial years ended 31 December 2011, 2012 and 2013, respectively. The increase in sales of A LE was mainly attributable to the steady increase in its sales volume during the three years.

For the six months ended 30 June 2014, the Target Group recorded a revenue of RMB374.3 million, as compared to a revenue of RMB617.1 million for the corresponding period in 2013. The decrease in revenue for the six months ended 30 June 2014 was mainly due to a change in the sales and promotion model of the Target Group for A LE which was introduced in October 2013, whereby the Target Group started to utilise predominantly third party distributors for its promotional activities of A LE. Prior to the change, the Target Group predominantly utilised its in-house teams for promotional activities of A LE, and the invoice price at which the Target Group sold A LE to distributors accounted for the cost of promotional activities borne by the Target Group. Subsequent to the change, the cost of promotional activities was shifted to the relevant third party distributors who were responsible for conducting marketing and promotional activities for the Target Group's products. Consequently, the average invoice price at which the Target Group sold A LE to the relevant third party distributors decreased by approximately 60% for the first six months in 2014 as compared to the same period in 2013.

The sales and promotion model of pharmaceutical companies in China varies from company to company. Certain companies predominantly utilise in-house promotion teams, certain companies utilise a combination of both in-house promotion teams and third party promotion teams, and certain companies predominantly utilise third party promotion teams. Based on the Company's information, the Company has seen examples of similar changes in the PRC pharmaceutical industry. As such, the Company believes that there are no material regulatory or industry specific risks involved in the Target Group's sales and promotion model prior to its introduction of the change in October 2013.

Despite the decrease in revenue, sales volume of the Target Group's products increased by approximately 45% for the six months ended 30 June 2014 as compared to that of the corresponding period in 2013. Such increase was mainly due to increase in the sales volume of A LE by 41.8% for the same periods. Following completion of the First Tranche Acquisition, the Group expects to gradually re-align the sales model of the Target Group with the sales and distribution channel of the Group, which the Group believes should result in improvements of the revenue contribution of the Target Group to the Group.

Cost of sales, gross profit and gross profit margin

Cost of sales of the Target Group represents cost of inventories sold, which primarily consists of raw materials costs, staff costs for personnel involved in production activity, and other manufacturing overhead. For the three financial years ended 31 December 2011, 2012 and 2013, cost of sales of the Target Group amounted to RMB47.2 million, RMB76.5 million and RMB119.1 million, respectively, showing an increasing trend in line with revenue growth. For the six months ended 30 June 2013 and 2014, cost of sales of the Target Group amounted to RMB59.0 million and RMB70.0 million, respectively. The increase in cost of sales was primarily attributable to increased sales volume of the Target Group's products.

The Target Group's gross profit amounted to RMB471.7 million, RMB729.4 million and RMB983.3 million for the three financial years ended 31 December 2011, 2012 and 2013, respectively. Gross profit margin remained relatively stable at 90.9% in 2011 and 90.5% in 2012. Due to a change in the sales and promotion model of the Target Group introduced in October 2013, whereby the Target Group started to utilise predominantly third party distributors for its promotional activities, the invoice prices at which the Target Group sold its products to the relevant third party distributors decreased, and gross profit margin in 2013 decreased to 89.2%. For the same reason, the Target Group recorded a lower level of gross profit and gross profit margin for the six months ended 30 June 2014 as compared to the corresponding period in 2013. The Target Group's gross profit amounted to RMB558.0 million and RMB304.3 million for the six months ended 30 June 2013 and 2014, respectively, with gross profit margin being 90.4% and 81.3% for the respective period.

Other income and gains

Other income and gains of the Target Group primarily consist of interest income, fair value gains on available-for-sale investments, government grants, and others. Set out below is a breakdown of the Target Group's other income and gains for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest income	481	486	614	173	98
Fair value gains on available-for-sale investments (transfer from equity upon receipt)	—	—	—	—	3,220
Government grants	2,665	7,895	4,542	1,131	1,632
Others	45	339	278	130	45
	<u>3,191</u>	<u>8,720</u>	<u>5,434</u>	<u>1,434</u>	<u>4,995</u>

For the three financial years ended 31 December 2011, 2012 and 2013, other income and gains of the Target Group amounted to RMB3.2 million, RMB8.7 million and RMB5.4 million, respectively. The fluctuation in other income and gains primarily reflected the amount of government grants recognised for the relevant year. The Target Group received government grants in connection with the research and development projects related to its products, as well as other relevant subsidies. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

For the six months ended 30 June 2014, other income and gains of the Target Group increased to RMB5.0 million from RMB1.4 million for the corresponding period in 2013, primarily due to an RMB3.2 million fair value gain on available-for-sale investments in structured financial products and an RMB0.5 million increase in government grants, which were partially offset by an RMB0.1 million decrease in interest income and an RMB0.1 million decrease in others. Further details of the available-for-sale investments are discussed below in "Significant investments, material acquisitions and disposals" and set out in Note 19 of Appendix II to this circular.

Selling and distribution expenses

Selling and distribution expenses of the Target Group primarily consist of promotion expenses for in-house promotional activities, staff costs for marketing and promotion personnel, travelling expenses related to the promotion of the Target Group's products, and conference expenses for the sponsorship of and attendance at conferences related to marketing and promotional activities.

Set out below is a breakdown of the Target Group's selling and distribution expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Staff cost	30,327	56,902	60,964	29,517	14,078
Travelling and Transportation expenses	23,008	11,496	14,793	6,939	4,464
Promotion expenses	194,345	390,813	542,376	349,906	41,613
Conference expenses	1,881	1,289	606	—	4,876
Other	10,292	8,336	7,884	4,211	4,532
	<u>259,853</u>	<u>468,836</u>	<u>626,623</u>	<u>390,573</u>	<u>69,563</u>

For the three financial years ended 31 December 2011, 2012 and 2013, selling and distribution expenses of the Target Group amounted to RMB259.9 million, RMB468.8 million and RMB626.6 million, respectively. The increase in selling and distribution expenses corresponds to increase in revenue for the relevant year.

The selling and distribution expenses increased by RMB208.9 million or 80.4% from RMB259.9 million in 2011 to RMB468.8 million in 2012 mainly due to RMB196.5 million increase in promotion expenses and RMB26.6 million increase in staff cost, which is partially offset by RMB11.5 million decrease in travelling and transportation expenses. The increases in promotion expenses and staff cost were mainly as a result of the expansion of the sales and marketing efforts of A LE in 2012.

The selling and distribution expenses further increased by RMB157.8 million or 33.7% to RMB626.6 million in 2013 mainly due to RMB151.6 million increase in promotion expenses. The increase in promotion expenses was mainly due to the expansion of the sales and marketing efforts of A LE in 2013 in the first nine months of 2013, which was partially offset as a result of the change of sales model towards end of 2013.

The selling and distribution expenses decreased substantially by RMB321.0 million or 82.2% from RMB390.6 million for the six months ended 30 June 2013 to RMB69.6 million for the same period of 2014 primarily due to RMB308.3 million decrease in promotion expenses and RMB15.4 million in staff cost. The decrease in selling and distribution expense for the six months ended 30 June 2014 was primarily due to a change in the sales and promotion model of the Target Group introduced in October 2013, whereby the Target Group started to utilise predominantly third party distributors for its promotional activities. Prior to the change, the Target Group predominantly utilised its in-house teams for promotional activities, the cost of which was borne by the Target Group and recorded as its selling and distribution expenses. Subsequent to the change, the cost of promotional activities was shifted to the relevant third party distributors who were responsible for conducting marketing and promotional activities for the Target Group's products and, consequently, the selling and distribution expenses of the Target Group decreased significantly. Following

completion of the First Tranche Acquisition, the Group expects to gradually re-align the sales model of the Target Group with the sales and distribution channel of the Group, and the selling and distribution cost structure of the Target Group is expected to be gradually in line with that of the Group after the Acquisitions and completion of the post-acquisition integration in the long term.

Administrative expenses

Administrative expenses of the Target Group primarily consist of staff costs for management and administrative personnel, as well as conference expenses and travelling expenses for management and administrative purposes that are not allocated to selling and distribution expenses.

Set out below is a breakdown of the Target Group's administrative expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Staff cost	13,863	16,855	17,359	8,606	8,784
Travelling and Transportation expenses	3,907	4,136	5,233	2,451	3,813
Conference and entertainment expenses	7,620	8,069	16,344	10,002	8,031
Depreciation and amortisation	1,542	2,577	3,505	1,690	1,801
Office expenses	4,592	5,471	4,613	1,877	1,167
Other	9,435	9,131	12,406	5,778	8,529
	<u>40,959</u>	<u>46,239</u>	<u>59,460</u>	<u>30,404</u>	<u>32,125</u>

For the three financial years ended 31 December 2011, 2012 and 2013, administrative expenses of the Target Group amounted to RMB41.0 million, RMB46.2 million and RMB59.5 million, respectively. The increase in administrative expenses was in line with its business expansion.

The administrative expenses increased by RMB5.2 million or 12.7% from RMB41.0 million in 2011 to RMB46.2 million in 2012 mainly due to RMB3.0 million increase in staff cost, RMB1.0 million increase in depreciation and amortisation and RMB0.9 million increase in office expenses.

The administrative expenses increased by RMB13.3 million or 28.8% from RMB46.2 million in 2012 to RMB59.5 million in 2013 mainly due to RMB8.3 million increase in conference and entertainment expenses.

For the six months ended 30 June 2013 and 2014, administrative expenses of the Target Group amounted to RMB30.4 million and RMB32.1 million, respectively. The increase was mainly due to RMB1.4 million increase in travelling and transportation expenses as a result of increase in business.

Other expenses

Other expenses of the Target Group primarily consist of research and development costs, and also include donations, loss on disposals of property, plants and equipment, provision for long-term investment, and miscellaneous expenses. For the three financial years ended 31 December 2011, 2012 and 2013, other expenses of the Target Group amounted to RMB21.9 million, RMB23.2 million and RMB36.1 million, respectively. For the six months ended 30 June 2013 and 2014, other expenses of the Target Group amounted to RMB6.5 million and RMB5.8 million, respectively. The fluctuation in other expenses primarily reflected the costs for research and development activities during the relevant reporting period.

Finance costs

Finance costs of the Target Group primarily consist of interest on bank loans, bill receivables discount, and bonds. Set forth below is a breakdown of the Target Group's finance costs for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank loans	5,344	8,172	4,947	2,782	1,713
Interest of bill receivables discount	—	—	850	289	1,968
Interest on bonds	—	—	12,959	4,090	7,444
	<u>5,344</u>	<u>8,172</u>	<u>18,756</u>	<u>7,161</u>	<u>11,125</u>

For the three financial years ended 31 December 2011, 2012 and 2013, finance costs of the Target Group amounted to RMB5.3 million, RMB8.2 million and RMB18.8 million, respectively. The higher level of finance costs in 2013 primarily reflected the interest payment on the RMB200.0 million bond which was issued by the Target on 8 April 2013 to institutional investors with maturity date on 7 April 2016 and interest rate of 8.28%. The bond was issued for working capital purpose. Further details of the bond are set out in Note 27 of Appendix II to this circular.

For the six months ended 30 June 2014, finance costs increased to RMB11.1 million from RMB7.2 million for the corresponding period in 2013, primarily due to an RMB3.3 million increase in interest on the bond and an RMB1.7 million increase on interest of bill receivables discount, which were partially offset by an RMB1.1 million decrease in interest on bank loans.

Profit before tax

For the three financial years ended 31 December 2011, 2012 and 2013, profit before tax of the Target Group amounted to RMB146.7 million, RMB191.6 million and RMB247.8 million, respectively, representing a CAGR of 30.0%. For the six months ended 30 June 2014, profit before tax of the Target Group increased to RMB190.3 million from RMB124.8 million for the corresponding period in 2013, representing a growth rate of 52.5%.

For the three years ended 31 December 2011, 2012 and 2013, profit before tax as a percentage of revenue was 28.3%, 23.8% and 22.5%, respectively. The decrease in 2012 was mainly due to higher selling and distribution expenses (which mainly contributed by increase in promotion expenses and staff cost) as a result of the expansion of the sales and marketing efforts of A LE in 2012. The further decrease in 2013 was mainly attributable to a change in the sales and promotion model of the Target Group which was introduced in October 2013, as a result of which the revenue decreased immediately, while the selling and distribution expenses and other expenses remained relatively stable due to the lead time in the re-organisation of sales and distribution force.

For the six months ended 30 June 2014, profit before tax as a percentage of revenue increased to 50.8% from 20.2% for the six months ended 30 June 2013. The significant increase was primarily attributable to the significant decrease in revenue resulting from the change in the sales and promotion model of the Target Group introduced in October 2013, whereby the Target Group started to utilise predominantly third party distributors for its promotional activities, while at the same time the profits before tax increased. Profit before tax increased for the six months ended 30 June 2014 primarily due to a significant decrease in the Target Group's selling and distribution expenses discussed in "— Selling and distribution expenses" above as well as the organic growth in the sales volume in the same period. Revenue for the six months ended 30 June 2014 decreased primarily due to decrease in the Target Group's invoice prices to distributors discussed in "— Revenue" above, which was partially offset by the organic growth of sales volume in the same period. As the Group currently expects to gradually re-align the sales model of the Target Group with the sales and distribution channel of the Group following completion of the First Tranche Acquisition, the Directors expect that the Ratio after Acquisitions will gradually decrease to be in line to that of the year ended 31 December 2013.

This said, the possible decrease in the Ratio is not expected to affect the profitability of the Target. What the Ratio shows is the profitability attributable to every unit of the revenue, which does not necessarily represent the overall profitability of the Target. As mentioned above, prior to the change, the Target Group predominantly utilised its in-house teams for promotional activities of A LE, and the invoice price at which the Target Group sold A LE to distributors accounted for the cost of promotional activities borne by the Target Group. Subsequent to the change, the cost of promotional activities was shifted to the relevant third party distributors who were responsible for conducting marketing and promotional activities for the Target Group's products; and consequently, the average invoice price at which the Target Group sold A LE to the relevant third party distributors decreased by approximately 60% for the first six months in 2014 as compared to the

same period in 2013. Accordingly, the revenue also decreased significantly. As such, no matter which sales and promotion model that the Target will adopt in the future, it is unlikely to have any substantial impact on the overall profitability of the Target. On the basis of the above, the Directors do not believe there is any particular risk associated with the expected decrease in the Ratio.

Income tax expense

For the three financial years ended 31 December 2011, 2012 and 2013, the Target Group's income tax expense amounted to RMB22.3 million, RMB31.6 million and RMB28.4 million, respectively, with effective tax rate being 15.2%, 16.5% and 11.5% for the respective year. For the six months ended 30 June 2013 and 2014, the Target Group's income tax expense amounted to RMB20.7 million and RMB54.1 million, respectively, with effective tax rate being 16.6% and 28.4% for the respective period. The higher level of effective tax rate for the six months ended 30 June 2014 was primarily attributable to the absence of preferential tax treatment recognised for the relevant reporting period since the Target is currently applying for renewal of its qualification as High and New Technology Enterprise which enables it to enjoy a preferential income tax rate of 15%. Corresponding preferential tax treatment will be retroactively recognised once the Target has obtained approval of its renewal application. The Directors are not aware of any unpaid taxes of the Target Group which may have a material adverse effect on the Target Group, or any material dispute or unresolved tax issues with the relevant authorities for the three financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014.

Profit after tax

For the three financial years ended 31 December 2011, 2012 and 2013, profit of the Target Group amounted to RMB124.5 million, RMB160.1 million and RMB219.4 million, respectively, representing a CAGR of 32.7%. For the six months ended 30 June 2014, profit of the Target Group increased to RMB136.2 million from RMB104.1 million for the corresponding period in 2013, representing a growth rate of 30.8%. Net profit growth for the six months ended 30 June 2014 was affected by the absence of preferential tax treatment recognised for the reporting period since the Target is currently applying for renewal of its qualification as High and New Technology Enterprise which enables it to enjoy a preferential income tax rate of 15%. Corresponding preferential tax treatment will be retroactively recognised once the Target has obtained approval of its renewal application.

Liquidity, financial resources and capital structure

The Target Group primarily finances its operations with cash flows generated internally from its operating activities, bank loans and other borrowings, and issuance of bond.

As of 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group had net current assets in the amount of RMB173.6 million, RMB202.0 million, RMB294.9 million and RMB451.5 million, respectively, demonstrating an increasing trend. The increase in net current assets primarily reflected increase in available-for-sale investment in structured financial products and increase in trade and bill receivables.

As of 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group had RMB denominated interest-bearing bank and other borrowings in the amount of RMB110.0 million, RMB110.0 million, RMB264.4 million and RMB189.4 million, respectively. Set out below are the maturity profile and interest rate structure of the Target Group's interest-bearing bank and other borrowings as of the balance sheet dates indicated:

	Effective interest rate (%)	Maturity	RMB '000
As of 31 December 2011			
Current			
Bank loans — secured, floating rate	6.56	2012	50,000
Bank loans — secured, fixed rate	7.57	2012	<u>60,000</u>
			<u><u>110,000</u></u>
As of 31 December 2012			
Current			
Bank loans — secured, fixed rate	7.20	2013	60,000
Bank loans — unsecured, floating rate	5.60	2013	<u>50,000</u>
			<u><u>110,000</u></u>
As of 31 December 2013			
Current			
Bank loans — secured, fixed rate	7.20	2014	60,000
Discounted bill receivables, fixed rate	9.18	2014	6,000
Bonds payable — secured, fixed rate	8.28	on demand	<u>198,374</u>
			<u><u>264,374</u></u>
As of 30 June 2014			
Current			
Bank loans — secured, floating rate	6.00	2015	50,000
Bonds payable — secured, fixed rate	8.28	on demand	<u>139,365</u>
			<u><u>189,365</u></u>

The Target Group mortgaged buildings of RMB13.5 million to secure interest-bearing bank loans in the amount of RMB50.0 million as of 31 December 2011, and RMB15.9 million to secure interest-bearing bank loans in the amount of RMB50.0 million as of 30 June 2014.

The Target Group monitors its capital structure using the gearing ratio, which is calculated as net debt divided by total capital plus net debt. The Target Group has a policy to keep its gearing ratio below 40%. Net debt includes interest-bearing bank and other borrowings, trade payables, other payables and accruals, and amounts due to related parties, less cash and cash equivalents. Total capital represents equity attributable to the owners of the parent. Set forth below are the gearing ratios of the Target Group as of the balance sheet dates indicated:

	As of 31 December			As of
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Interest-bearing bank and other borrowings	110,000	110,000	264,374	189,365
Trade payables	7,193	7,238	26,908	5,554
Other payables and accruals	83,994	112,253	126,348	88,366
Due to related parties	3,273	3,143	3,143	3,143
Less: Cash and cash equivalents	<u>(152,199)</u>	<u>(114,788)</u>	<u>(74,518)</u>	<u>(74,810)</u>
Net debt	52,261	117,846	346,255	211,618
Total capital	<u>261,724</u>	<u>376,778</u>	<u>596,149</u>	<u>732,311</u>
Total capital and net debt	<u>313,985</u>	<u>494,624</u>	<u>942,404</u>	<u>943,929</u>
Gearing ratio	<u>16.6%</u>	<u>23.8%</u>	<u>36.7%</u>	<u>22.4%</u>

Significant investments, material acquisitions and disposals

Set out below are the available-for-sale investments of the Target Group and the Target Company as of the balance sheet dates indicated:

	As of 31 December			As of
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Current				
Investment in structured financial products, at fair value	<u>—</u>	<u>—</u>	<u>104,575</u>	<u>181,555</u>
Non-Current				
Unlisted equity investment, at cost	1,893	1,893	1,893	1,893
Investment in structured financial products, at fair value	<u>—</u>	<u>—</u>	<u>72,550</u>	<u>—</u>
	<u>1,893</u>	<u>1,893</u>	<u>74,443</u>	<u>1,893</u>

Unlisted equity investment represents the Target's 10.42% equity interest in an unlisted company, Tianjin Berkgen Biopharmaceutical Co., Ltd. (天津伯克生物科技有限公司). In October 2013, the Target exchanged its 10.42% equity interest in Tianjin Berkgen Biopharmaceutical Co., Ltd. for 5.4% equity interest in Jiangsu Berkgen Biopharmaceutical Co., Ltd. (江蘇伯克生物醫藥股份有限公司). This investment was stated at cost less any impairment losses.

Investment in structured financial products represents investment in trusts issued by Xizang Trust Co., Ltd. and Huaxin International Trust Co., Ltd. in the amount of RMB70.0 million and RMB100.0 million, respectively, with respective maturity dates in February 2015 and December 2014.

Further details of the available-for-sale investments are set out in Note 19 of Appendix II to this circular.

On 24 April 2014, the Target entered into an agreement with three individual investors of Beijing Honghui New Medical Technology Co., Ltd. ("**Honghui**") to acquire their 63% equity interest in Honghui with total consideration of RMB29,925,000. Honghui is principally engaged in providing research and development services for pharmaceutical products. This acquisition was completed on 15 July 2014.

On 9 January 2014, the Target Group entered into an agreement to acquire 20.0% interest in its associated company, Beijing Colin Spey Technology Co., Ltd., which is engaged in the manufacture of medical equipment, with total consideration of RMB10.0 million by way of capital injection. This acquisition was completed on 23 January 2014.

The Target Group did not have any material disposals of subsidiaries and associated companies in the three financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014.

As of the Latest Practicable Date, the Target Group did not have any future plans for material investments or capital assets.

Foreign currency exposure

Revenue from the Target Group's external customers was all derived from the PRC, and non-current assets of the Target Group, excluding financial instruments and deferred tax assets, were all located in the PRC. As a result, the Target Group is not expected to expose to significant foreign exchange risk, and, accordingly, the Target Group did not have any foreign currency hedging policy during the accounting periods as reported in Appendix II to this circular.

Contingent liabilities and capital commitments

As of 31 December 2011, 2012 and 2013 and 30 June 2014, capital commitments of the Target Group were nil, RMB26.8 million, RMB45.6 million and RMB81.8 million, respectively, all of which were contracted but not provided for. Set forth below is a breakdown of the Target Group's capital commitments as of the balance sheet dates indicated:

	As of 31 December			As of
	2011	2012	2013	30 June
	RMB'000	RMB'000	RMB'000	2014
				RMB'000
Contracted, but not provided for:				
Land and buildings	—	—	29,441	59,412
Plant and machinery	—	26,808	16,153	1,475
	—	26,808	45,594	60,887
Contracted, but not provided for:				
Capital contribution payable to a subsidiary	—	—	—	20,947
	—	26,808	45,594	81,834

Save as disclosed above and in Note 32 of Appendix II to this circular, the Target Group did not have any material contingent liabilities and capital commitments.

Pledge of assets

The Target Group mortgaged buildings of RMB13.5 million to secure interest-bearing bank loans in the amount of RMB50.0 million as of 31 December 2011, and RMB15.9 million to secure interest-bearing bank loans in the amount of RMB50.0 million as of 30 June 2014.

On 8 April 2013, the Target issued a bond of RMB200.0 million to a group of institutional investors with maturity date on 7 April 2016 and interest rate of 8.28%. This bond is secured by the pledge of certain of the Target Group's trade and bill receivables of RMB220.0 million, as well as land use right of RMB30.1 million and RMB29.8 million as of 31 December 2013 and 30 June 2014, respectively. Further details of the pledge of the Target Group's trade and bill receivables and land use right are set out in Note 22 and Note 15 of Appendix II to this circular, respectively. Further details of the bond are set out in Note 27 of Appendix II to this circular.

Related party transaction

As of 30 June 2014, the Target Group had amounts due from Mylin Holdings of RMB13.5 million represented fees and expenses paid by the Target on behalf of Mylin Holdings.

As of 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group had amounts due to Beijing Mylin Changsheng Decoration Engineering Co., Ltd. (an entity controlled by Mylin Holdings) of RMB193,000, RMB63,000, RMB63,000 and RMB63,000, all of which represented the unsettled fees for decoration of the office premises of the Target Group.

As of 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group had amounts due to Beijing Hua Rongwei Information Consulting Co., Ltd. (an entity controlled by Mylin Holdings) of RMB3.1 million, which represented the unsettled rental for leasing office premises by the Target Group from such related party in 2010.

All the amounts due from and due to related parties as set out above will be settled before the Completion. The transactions involved in the related party transactions will not continue after the Completion.

As of 30 June 2014, the Target had investment in trusts amounting to RMB70 million and RMB100 million, which would be matured in February 2015 and December 2014, respectively. Both trusts are used to provide trust loans to Tianbao Jialin International Trading Co., Ltd. (天寶嘉麟國際貿易有限公司), a company controlled by Mylin Holdings. The principal of the loans are protected and guaranteed by the Mylin Holdings. The Directors do not intend to re-invest in such trusts upon its maturity.

The transactions involved in the related party transactions as set out above were one-off transactions in nature and the Board does not expect that such transactions will continue after the Completion. None of such transactions would constitute a continuing connected transaction of the Company after the Completion.

Employees and remuneration policies

The Target Group remunerated its employees by reference to their qualifications, experiences, responsibilities, profitability of the Target Group and market conditions. The remuneration of the employees comprises basic salary, discretionary bonus, other allowances, benefits in kind and pension scheme contributions. As of 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group had 861, 1,479, 1,227 and 836 employees, respectively. The Target Group is required to provide certain staff pension benefits to its employees in the PRC pursuant to applicable government regulations. Pension scheme contributions are provided at rates stipulated by PRC government regulations and are made to a pension fund managed by PRC government agencies.

**(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP****(i) Basis of preparation of the unaudited pro forma financial information of the
Enlarged Group**

The information set out below is for illustrative purpose only and does not form part of the accountants' reports prepared by the reporting accountants of Luye Pharma Group Ltd. (the "Company"), Ernst & Young, Certified Public Accountants, Hong Kong, as set out in Appendix II to this circular.

To provide additional financial information, the unaudited pro forma statement of assets and liabilities (the "Unaudited Pro Forma Financial Information of the Enlarged Group") of the Enlarged Group (being the Company and its subsidiaries (the "Group") together with Beijing Jialin Pharmaceutical Co., Ltd. (being the "Target Company" and its subsidiaries (the "Target Group")) as at 30 June 2014 has been prepared based on:

- (a) the historical unaudited consolidated statement of financial position of the Group as at 30 June 2014 which has been extracted from the interim report for the six months ended 30 June 2014 of the Company;
- (b) the audited consolidated statement of financial position of the Target Group as at 30 June 2014 which has been extracted from Appendix II to this circular;
- (c) after taking into account the unaudited pro forma adjustments as described in the notes thereto to demonstrate how the Acquisitions might have affected the historical financial information in respect of the Group as if the Acquisitions had been completed on 30 June 2014; and

- (d) with the acquisition steps in the Announcements, two scenarios stated below are set for the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group:

Scenario	Equity interest obtained	Consideration paid <i>RMB'000</i>
1. Acquisition of 2.8% equity interest from Mr. Cao Lesheng	2.80%	161,000
2. Acquisitions	100.00%	6,100,020

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information contained in this circular and the accountants' reports on the Target Group as set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group is for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2014 or at any future date.

(ii) Unaudited Pro Forma Financial Information of the Enlarged Group under scenario 1

	The Group as at 30 June 2014	Unaudited Pro Forma Adjustments	Unaudited Pro Forma Enlarged Group as at 30 June 2014 Scenario 1
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	1,021,604		1,021,604
Prepaid land lease payments	196,820		196,820
Goodwill	347,356		347,356
Other intangible assets	124,483		124,483
Investment in an associate	5,932		5,932
Available-for-sale investments	4,483		4,483
Scenario 1		161,000	165,483
Long-term deferred expenditure	42		42
Deferred tax assets	78,560		78,560
Total non-current assets	<u>1,779,280</u>		<u>1,940,280</u>
CURRENT ASSETS			
Inventories	226,316		226,316
Trade and bill receivables	776,800		776,800
Prepayments, deposits and other receivables	59,046		59,046
Due from related parties	8,710		8,710
Pledged short-term deposits	271,788		271,788
Available-for-sale investments	40,000		40,000
Cash and cash equivalents	302,542		302,542
Total current assets	<u>1,685,202</u>		<u>1,685,202</u>
CURRENT LIABILITIES			
Trade and notes payables	58,819		58,819
Other payables and accruals	431,825		431,825
Scenario 1		161,000	592,825
Interest-bearing bank and other borrowings	1,013,271		1,013,271
Deferred government grants	51,551		51,551
Tax payable	59,305		59,305
Due to related parties	234		234
Total current liabilities	<u>1,615,005</u>		<u>1,776,005</u>
NET CURRENT ASSETS	<u>70,197</u>		<u>(90,803)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
	<u>1,849,477</u>		<u>1,849,477</u>

	The Group as at 30 June 2014 <i>RMB'000</i>	Unaudited Pro Forma Adjustments <i>RMB'000</i>	Unaudited Pro Forma Enlarged Group as at 30 June 2014 Scenario 1 <i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,849,477</u>		<u>1,849,477</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	759		759
Deferred government grants	94,313		94,313
Deferred tax liabilities	<u>98,762</u>		<u>98,762</u>
Total non-current liabilities	<u>193,834</u>		<u>193,834</u>
Net assets	<u><u>1,655,643</u></u>		<u><u>1,655,643</u></u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	72,624		72,624
Share premium	236,536		236,536
Reserves	<u>1,220,365</u>		<u>1,220,365</u>
	1,529,525		1,529,525
Non-controlling interests	<u>126,118</u>		<u>126,118</u>
Total equity	<u><u>1,655,643</u></u>		<u><u>1,655,643</u></u>

(iii) Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group under scenario 1

Under scenario 1, the Group acquired 2.8% of the Target Group, and accounted for it as an available-for-sale investment.

The pro forma adjustments represent the cash considerations under scenario 1.

(iv) Unaudited Pro Forma Financial Information of the Enlarged Group under scenario 2

	The Group as at 30 June 2014 <i>RMB'000</i>	The Target Group as at 30 June 2014 <i>RMB'000</i>	Pro Forma <i>RMB'000</i> (1)	Unaudited Adjustments <i>RMB'000</i> (2)	Unaudited Pro Forma Enlarged Group as at 30 June 2014 Scenario 2 <i>RMB'000</i>
NON-CURRENT ASSETS					
Property, plant and equipment	1,021,604	194,350			1,215,954
Prepaid land lease payments	196,820	31,257			228,077
Goodwill	347,356	—			
Scenario 2				5,359,043	5,706,399
Other intangible assets	124,483	35,655			160,138
Investment in subsidiaries	—	—			
Scenario 2			6,100,020	(6,100,020)	—
Investment in an associate	5,932	9,583			15,515
Available-for-sale investments	4,483	1,893			6,376
Long-term deferred expenditure	42	—			42
Other non-current assets	—	8,978			8,978
Deferred tax assets	78,560	17,678			96,238
Total non-current assets	<u>1,779,280</u>	<u>299,394</u>			<u>7,437,717</u>
CURRENT ASSETS					
Inventories	226,316	62,161			288,477
Trade and bill receivables	776,800	426,955			1,203,755
Prepayments, deposits and other receivables	59,046	18,129			77,175
Due from related parties	8,710	13,513			22,223
Pledged short-term deposits	271,788	—			271,788
Available-for-sale investments	40,000	181,555			221,555
Cash and cash equivalents	<u>302,542</u>	<u>74,810</u>			<u>377,352</u>
Total current assets	<u>1,685,202</u>	<u>777,123</u>			<u>2,462,325</u>

APPENDIX IV

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group as at 30 June 2014	The Target Group as at 30 June 2014	Pro Forma	Unaudited Adjustments	Unaudited Pro Forma Enlarged Group as at 30 June 2014 Scenario 2
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(1)	(2)	
CURRENT LIABILITIES					
Trade and notes payables	58,819	5,554			64,373
Other payables and accruals	431,825	88,366			
Scenario 2			6,100,020		6,620,211
Interest-bearing bank and other borrowings	1,013,271	189,365			1,202,636
Deferred government grants	51,551	1,598			53,149
Tax payable	59,305	37,575			96,880
Due to related parties	<u>234</u>	<u>3,143</u>			<u>3,377</u>
Total current liabilities	<u>1,615,005</u>	<u>325,601</u>			<u>8,040,626</u>
NET CURRENT ASSETS	<u>70,197</u>	<u>451,522</u>			<u>(5,578,301)</u>
TOTAL ASSETS LESS					
CURRENT LIABILITIES	<u>1,849,477</u>	<u>750,916</u>			<u>1,859,416</u>
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	759	7,050			7,809
Deferred government grants	94,313	—			94,313
Deferred tax liabilities	<u>98,762</u>	<u>2,889</u>			<u>101,651</u>
Total non-current liabilities	<u>193,834</u>	<u>9,939</u>			<u>203,773</u>
Net assets	<u>1,655,643</u>	<u>740,977</u>			<u>1,655,643</u>

APPENDIX IV

**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group as at 30 June 2014 <i>RMB'000</i>	The Target Group as at 30 June 2014 <i>RMB'000</i>	Pro Forma <i>RMB'000</i> (1)	Unaudited Adjustments <i>RMB'000</i> (2)	Unaudited Pro Forma Enlarged Group as at 30 June 2014 Scenario 2 <i>RMB'000</i>
Net assets	<u>1,655,643</u>	<u>740,977</u>			<u>1,655,643</u>
EQUITY					
Equity attributable to owners of the parent					
Issued capital	72,624	30,500			
Scenario 2				(30,500)	72,624
Share premium	236,536	—			236,536
Reserves	<u>1,220,365</u>	<u>710,477</u>			
Scenario 2				(710,477)	<u>1,220,365</u>
	<u>1,529,525</u>	<u>740,977</u>			<u>1,529,525</u>
Non-controlling interests	<u>126,118</u>	—			
Scenario 2				—	<u>126,118</u>
Total equity	<u>1,655,643</u>	<u>740,977</u>			<u>1,655,643</u>

(v) **Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group under scenario 2**

1. The pro forma adjustments represent the aggregate cash considerations under scenario 2.
2. The pro forma adjustments reflect the allocation of the cost of the Acquisitions to the identifiable assets and liabilities of the Target Group, which represent:
 - (a) *Fair value adjustments of the identifiable assets and liabilities of the Target Group*

Upon Completion of the Acquisitions, the identifiable assets and liabilities of the Target Group will be accounted for in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group at fair value under the purchase method of accounting in accordance with International Financial Reporting Standard 3 “Business Combinations”.

For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had assumed that the carrying values of the identifiable assets and liabilities of the Target Group approximated to their fair values, which will be reassessed on the completion date of the Acquisitions together with the fair value assessment of the intangible assets and deferred tax impact in related to such fair value adjustments.

(b) *Recognition of goodwill in relation to the Acquisitions*

Goodwill of the Enlarged Group represents the excess of the cost of the Acquisitions over the estimated fair value of the identifiable net assets of the Target Group. For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors had assumed that the estimated fair value of the identifiable net assets of the Target Group as at 30 June 2014 is determined based on the Target Group’s net asset carrying values attributable to the equity holders of the Target Group as set out in Note 2(a) above.

Goodwill of the Enlarged Group is calculated as below:

	As at 30 June 2014 Scenario 2 RMB'000
The consideration of the Acquisitions	6,100,020
Less: Identifiable net assets acquired (<i>note 1</i>)	<u>(740,977)</u>
Goodwill arising from the Acquisitions (<i>note 2</i>)	<u><u>5,359,043</u></u>

note 1: For illustrative purposes, the Directors had assumed the carrying values of the identifiable assets and liabilities of the Target Group approximated to their fair values, the identifiable net assets acquired can be reached by:

	As at 30 June 2014 Scenario 2 RMB'000
Net assets of the Target Group	740,977
Net assets attributable to the non-controlling shareholders	<u>—</u>
Identifiable net assets acquired	<u><u>740,977</u></u>

note 2: For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Company has assessed if there is any impairment loss on the goodwill arising from the Acquisitions in accordance with the International Accounting Standard 36 (“IAS 36”) “Impairment of Assets” which is consistent with the Company’s accounting policy. The Directors are of the view that, after performing the impairment assessment, there is no impairment indication of the goodwill arising from the Acquisitions as set out in the Unaudited Pro Forma Financial Information of the Enlarged Group.

The Directors confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group is consistent with the accounting policies of the Group, and the accounting policies and the principal assumptions will be consistently adopted in the first set of the financial statements of the Company after the Completion.

Even though the impairment assessment will be carried out in the accounting periods in the future, in view of the date of this circular and the balance sheet date of the first set of the financial statements of the Company after the Completion, any significant changes in the assessment of goodwill impairment is not expected. Accordingly, the Directors considered that no significant goodwill impairment is expected in the first set of financial statements after the Completion. The Directors consider no provision of impairment on goodwill is necessary under IAS 36.

Since the fair value of the identifiable net assets of the Target Group at the date of Completion of the Acquisitions may be substantially different from the respective value used in the Unaudited Pro Forma Financial Statement of the Enlarged Group, the goodwill recognised at the completion date of the Acquisitions may be different from the amount presented above.

**(B) REPORT OF UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE
ENLARGED GROUP**

The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this circular, in respect of the additional unaudited pro forma financial information of the Enlarged Group.



22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

31 December 2014

To the Directors of Luye Pharma Group Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Luye Pharma Group Ltd. (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the pro forma consolidated statement of financial position as at 30 June 2014 and related notes as set out on pages IV-2 to IV-6 of the circular dated 31 December 2014 (the “Circular”) issued by the Company (the “Unaudited Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Section A (i) of Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of a proposed major acquisition (hereinafter referred to as the “Acquisitions”) by the Group to acquire 2.8% or 100% equity interest in Beijing Jialin Pharmaceutical Co., Ltd. (the “Target Company”, together with its subsidiaries collectively referred to as the “Target Group”) on the Group’s financial position as at 30 June 2014 as if the transaction had taken place on 30 June 2014. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s unaudited consolidated financial statements for the six months ended 30 June 2014, on which an interim report has been published. Information about the Target Group’s financial position has been extruded by the Directors from the Target Group’s consolidated financial statements for six months ended 30 June 2014, on which an accountants’ report has been published in Appendix II to the Circular.

Directors' responsibility 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 ("AG7") "Preparation of the Unaudited Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountant's 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 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 accountant comply with ethical requirements and 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 AG7 Preparation of Unaudited Pro Forma Financial Information for Inclusion in Investment Circulars issued by HKICPA.

For purposes 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 Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisitions on unadjusted financial information of the Group as if 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 Acquisitions 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 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 accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the Acquisitions 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 purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

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 Group. 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.

INTERESTS OF DIRECTORS

As of the Latest Practicable Date, the interests and short positions of the Directors, including the chief executive of the Company, in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as set out below.

Long positions in the ordinary shares of the Company

Name of Director	Nature of interest	Total number of Shares held	Approximate % of interest in the Company
Mr. Liu Dian Bo	Founder of a discretionary trust	1,459,999,930	43.96%

Notes:

- (1) Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo Trust Limited, Nelumbo Investments Limited, AsiaPharm Holdings Ltd., Luye Pharma Holdings Ltd., Luye Pharmaceutical International Co., Ltd. and Luye Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,459,999,930 ordinary shares in the Company held by Luye Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of AsiaPharm Holdings Ltd.
- (2) The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo Trust Limited is wholly owned by Shorea LBG whose sole member is Mr. Liu Dian Bo.

Long position in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Total number of shares held	% of interest in the corporation
Mr. Liu Dian Bo	Ginkgo Trust Limited ⁽¹⁾	Founder of a discretionary trust	1	100%
	Nelumbo Investments Limited ⁽¹⁾	Founder of a discretionary trust	1	100%
	AsiaPharm Holdings Ltd. ⁽²⁾	Founder of a discretionary trust	8,400	70%
	Luye Pharma Holdings Ltd.	Founder of a discretionary trust	1,136,852	100%
	Luye Pharmaceutical International Co., Ltd.	Founder of a discretionary trust	202,180,988	100%
	Luye Pharmaceutical Investment Co., Ltd.	Founder of a discretionary trust	1	100%
Mr. Yuan Hui Xian	AsiaPharm Holdings Ltd. ⁽²⁾	Beneficial interest	1,800	15%
Mr. Yang Rong Bing	AsiaPharm Holdings Ltd. ⁽²⁾	Beneficial interest	1,800	15%

Notes:

- (1) The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the family trust of Mr. Liu Dian Bo.
- (2) AsiaPharm Holdings Ltd. holds the entire issued ordinary share capital of Luye Pharma Holdings Ltd. Luye Pharmaceutical International Co., Ltd. is wholly-owned by Luye Pharma Holdings Ltd. and Luye Pharmaceutical Investment Co., Ltd. is wholly-owned by Luye Pharmaceutical International Co., Ltd.

Save as disclosed above, as of the Latest Practicable Date, none of the Directors, including the chief executive of the Company, had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, persons (other than the Directors and chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange, were as set out below.

Long position and lending pool in the ordinary shares of the Company

Name of substantial shareholder	Capacity/Nature of interest	Number of ordinary shares held	Approximate % of interest in the Company
Luye Pharmaceutical Investment Co., Ltd. ⁽¹⁾	Beneficial owner	1,459,999,930 (L)	43.96%
Luye Pharmaceutical International Co., Ltd. ⁽¹⁾	Interest in controlled corporation	1,459,999,930 (L)	43.96%
Luye Pharma Holdings Limited ⁽¹⁾	Interest in controlled corporation	1,459,999,930 (L)	43.96%
AsiaPharm Holdings Ltd. ⁽²⁾	Interest in controlled corporation	1,459,999,930 (L)	43.96%
Nelumbo Investments Limited ⁽²⁾	Interest in controlled corporation	1,459,999,930 (L)	43.96%
Ginkgo Trust Limited ⁽²⁾	Trustee	1,459,999,930 (L)	43.96%
Shorea LBG ⁽²⁾	Interest in controlled corporation	1,459,999,930 (L)	43.96%
CPE Greenery Ltd. ⁽³⁾	Beneficial owner	196,561,695 (L)	5.92%
CPEChina Fund, L.P. ⁽³⁾	Interest in controlled corporation	196,561,695 (L)	5.92%
CITIC PE Associates, L.P. ⁽³⁾	Interest in controlled corporation	196,561,695 (L)	5.92%
CITIC PE Funds Limited ⁽³⁾	Interest in controlled corporation	196,561,695 (L)	5.92%

Name of substantial shareholder	Capacity/Nature of interest	Number of ordinary shares held	Approximate % of interest in the Company
Tropical Excellence Infrastructure Pte Ltd. ⁽⁴⁾	Beneficial owner	195,796,853 (L)	5.90%
GIC (Ventures) Pte. Ltd. ⁽⁴⁾	Interest in controlled corporation	195,796,853 (L)	5.90%
GIC Special Investments Pte. Ltd. ⁽⁴⁾	Interest in controlled corporation	195,796,853 (L)	5.90%
GIC Private Limited ⁽⁴⁾	Interest in controlled corporation	195,796,853 (L)	5.90%
CDH Flower Limited ⁽⁵⁾	Beneficial owner	185,945,580 (L)	5.60%
CDH Pharmaceutical Investments Limited ⁽⁵⁾	Interest in controlled corporation	185,945,580 (L)	5.60%
CDH Fund IV, L.P. ⁽⁵⁾	Interest in controlled corporation	185,945,580 (L)	5.60%
CDH IV Holdings Company Limited ⁽⁵⁾	Interest in controlled corporation	185,945,580 (L)	5.60%
China Diamond Holdings Company Limited ⁽⁵⁾	Interest in controlled corporation	185,945,580 (L)	5.60%
China Diamond Holdings IV, L.P. ⁽⁵⁾	Interest in controlled corporation	185,945,580 (L)	5.60%
Value Partners Group Limited ⁽⁶⁾	Interest in controlled corporation	233,958,500 (L)	7.04%
The Northern Trust Company (ALA)	Approved lending agent	175,270,073 (P)	5.28%

Remark: (L) — Long Position; (P) — Lending Pool

Notes:

- (1) Luye Pharmaceutical Investment Co., Ltd. is wholly owned by Luye Pharmaceutical International Co., Ltd., which is in turn wholly owned by Luye Pharma Holdings Limited.
- (2) Nelumbo Investments Limited holds 70% of the issued share capital of AsiaPharm Holdings Ltd. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo Trust Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo Trust Limited is wholly owned by Shorea LBG whose sole member is Mr. Liu Dian Bo.
- (3) CPE Greenery Ltd. is wholly owned by CPEChina Fund, L.P. The general partner of CPEChina Fund, L.P. is CITIC PE Associates, L.P. The general partner of CITIC PE Associates, L.P. is CITIC PE Funds Limited.
- (4) Tropical Excellence Infrastructure Pte Ltd. is wholly owned by GIC (Ventures) Pte. Ltd. and managed by GIC Special Investments Pte. Ltd. GIC Special Investments Pte. Ltd. is wholly owned by GIC Private Limited.
- (5) CDH Flower Limited is wholly owned by CDH Pharmaceutical Investments Limited, which in turn is wholly owned by CDH Fund IV L.P. CDH IV Holdings Company Limited is the general partner of CDH Fund IV L.P., which is a subsidiary of China Diamond Holdings IV, L.P. China Diamond Holdings Company Limited is the general partner of China Diamond Holdings IV, L.P.
- (6) Value Partners Group Limited is wholly owned by Value Partners Hong Kong Limited, which is in turn wholly owned by Value Partners Limited.
- (7) Messrs. Liu Dian Bo, Yang Rong Bing and Yuan Hui Xian, each being an executive Director, is also a director of AsiaPharm Holdings Ltd., Luye Pharma Holdings Limited, Luye Pharmaceutical International Co., Ltd., and Luye Pharmaceutical Investment Co., Ltd. Further, Mr. Liu Dian Bo is a director of Nelumbo Investments Limited, Ginkgo Trust Limited and Shorea LBG.
- (8) Ms. Zhu Yuan Yuan, an executive Director, is a director of Luye Pharma Holdings Limited, Luye Pharmaceutical International Co., Ltd., and Luye Pharmaceutical Investment Co., Ltd.

Save as disclosed above, as of the Latest Practicable Date, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Liu Dian Bo, the executive chairman and chief executive officer of the Company is interested in the equity interest of Wuhu Luye. Wuhu Luye is a company with limited liability established in the PRC and is owned as to 90% by 綠葉投資集團有限公司 (Luye Investment Group Co., Ltd.), an investment holding company established in the PRC and 10% by 蕪湖長榮醫藥科技資訊諮詢有限責任公司 (Wuhu Changrong Pharmaceutical Technology Information Consulting Co. Ltd.). Luye Investment Group Co., Ltd. is owned as to 70% by Mr. Liu Dian Bo and 15% by each of Mr. Yang Rong Bing and Mr. Yuan Hui Xian (each an executive Director). Wuhu Luye is

primarily engaged in the production and sale of Chinese medicine covering a number of therapeutic areas including cardio-cerebral vascular, neurology, neuropsychiatry and hepatology. Based on the audited financial statements of Wuhu Luye prepared in accordance with PRC general accepted accounting principles, for the years ended 31 December 2011, 2012 and 2013, Wuhu Luye recorded revenue of RMB121.6 million, RMB114.9 million and RMB123.8 million, respectively and a net profit of RMB6.7 million, RMB9.3 million and RMB3.1 million, respectively.

The Board believes that there is clear delineation between the Group and Wuhu Luye on the following basis:

- Wuhu Luye and the Group have different business focus. Wuhu Luye is primarily focused on the production and sale of traditional Chinese medicine. The three key products of Wuhu Luye, namely Ginkgo Biloba capsule (銀杏葉膠囊), Yinao capsule (益腦膠囊) and Yiganling soft capsule (益肝靈軟膠囊), which accounted for approximately 53%, 17% and 8% of the total revenue of Wuhu Luye for 2013, respectively, are all classified by CFDA under its Chinese medicine catalogue in the lower categories. Ginkgo Biloba capsule is a Type 4 Chinese medicine (being new application and dosage of an existing ingredient) registered in 1990's, and both Yinao capsule and Yiganling soft capsule are classified as Type 9 Chinese medicines (being replicates of existing Chinese medicine). The composition and manufacturing process of Wuhu Luye's key products are based on basic technology. Wuhu Luye's key products have no exclusivity in the market and face fierce competition from other manufacturers who produce similar products. According to the CFDA, as of 20 June 2014, there were 122, 48 and 118 valid manufacturing permits issued to multiple manufacturers, including Wuhu Luye, for the manufacturing of Ginkgo Biloba, Yinao and Yiganling pharmaceutical products, respectively, in the PRC. In addition, Wuhu Luye does not engage in R&D activities.
- Compared to the Group, except for Xuezhikang, all the key products of the Group are chemical drugs (not Chinese medicine). Although Xuezhikang is a Chinese medicine, it is classified in a higher category under the CFDA's Chinese medicine catalogue as a Type 3 Chinese medicine (being new replacement of an ingredient). Xuezhikang is patent-protected, listed in the Medical Insurance Catalogue and the National List of Essential Drugs, and enjoys exclusivity in China—according to CFDA, the Group is the only manufacturer of Xuezhikang in the PRC. Unlike the products of Wuhu Luye, most of the Group's products are developed based on advanced technology and protected by single or multiple patents. The Group's sales of patent-protected products accounted for 92.2%, 85.9% and 83.6% of its total revenue for 2011, 2012 and 2013, respectively. The Group's key products and those of Wuhu Luye are indicated for treatment of different illnesses, and their markets do not overlap. The Directors are of the view that there is no

competition between the products of the Group and those of Wuhu Luye. Although Ginkgo Biloba capsule, the key product of Wuhu Luye, can be classified as a product in the cardiovascular therapeutic area, being the same therapeutic area as Xuezhikang, Xuezhikang and Ginkgo Biloba capsule do not compete with each other for the following reasons:

Product	Targeted illness	Indication	CFDA classification	Patent protected	Total number of manufacturing permits issued in the PRC as of 20 June 2014
Xuezhikang	Hyper-cholesterolaemia	Reduce total blood cholesterol, triglycerides and low density lipoprotein (bad cholesterol), increase high density lipoprotein (good cholesterol), inhibit atherosclerotic plaque formation, protect vascular endothelial cells and inhibit lipid deposition in the liver	Type 3 Chinese medicine (being new replacement of an ingredient)	Yes—The Group holds patents over its compositions, separation methods, inspection methods, preparation methods as well as packaging & design of Xuezhikang in the PRC	One for Xuezhikang
Ginkgo Biloba capsule	Coronary heart disease and angina	Help improve blood flow to the brain and reduce blood stagnation that can lead to multiple diseases including chest pain, stroke, paralysis or even Myocardial infarction	Type 4 Chinese medicine (being new application and dosage of an existing ingredient)	No	122 for Ginkgo Biloba pharmaceutical products

- The key licences, permits and certificates relating to the business and operations of Wuhu Luye and the Group (including the drug production licence, GSP, GMP and the product manufacturing permit) are issued in their respective names, independent from each other.
- Wuhu Luye and the Group are managed by different management teams. The daily operation of Wuhu Luye is supervised by its senior management team led by Mr. Zhao Jian, the general manager, who has been working for Wuhu Luye for over seven years. Mr. Zhao Jian is not an employee of the Group. Although two of the Directors, Mr. Liu

Dian Bo and Mr. Yang Rong Bing, are also directors of Wuhu Luye, they are appointed as representatives from a shareholder of Wuhu Luye, and they only participate in the high level strategic decisions of Wuhu Luye at board meetings. They are not involved in the daily operation of Wuhu Luye.

- Wuhu Luye and the Group are operated independently and at arm's length from each other. The production of Wuhu Luye and the Group is carried out at different and separate production facilities. The Group and Wuhu Luye have their own respective procurement teams to source raw materials and suppliers. The sales and marketing activities of Wuhu Luye are devised and carried out independently. During the three years ended 31 December 2011, 2012 and 2013, the Group did not have any transactions with Wuhu Luye.
- Wuhu Luye and the Group have independent financial and accounting systems, which are reviewed by their respectively internal audit teams and external auditors separately.

Save as disclosed above, as of the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective close associates were considered to have any interest in business which competed or were likely, either directly or indirectly, with the business of the Group.

DIRECTORS' SERVICE CONTRACTS

As of the Latest Practicable Date, none of the Directors has or is proposed to have a service contract with any member of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS/ARRANGEMENTS

- (a) As of the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to any member of the Group since 31 December 2013, being the date to which the latest published audited accounts of the Company were made up.
- (b) As of the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting as of the Latest Practicable Date which is significant in relation to the business of the Group.

LITIGATION

Save as the litigation involving disputes on a patent related to the Target Group's key product A LE as disclosed in the section headed "the Agreements — Conditions precedent — First Tranche Acquisition" in the Letter from the Board in this circular, no litigation or claim of material importance was known to the Directors to be pending or threatened against the Enlarged Group as of the Latest Practicable Date.

EXPERT

The following is the qualification of the expert who has provided its opinion or advice, which are contained in this circular:

Name	Qualification
Ernst & Young	Certified Public Accountants

The expert has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter and/or report or the references to its name in the form and context in which it appears.

As of the Latest Practicable Date, the expert had no shareholding, directly or indirectly, in any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group nor did it have any interest, either direct or indirect, in any assets which had since 31 December 2013, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

MATERIAL CONTRACTS

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

- (a) A property sale and purchase agreement dated 20 December 2013 between 山東國際生物科技园發展有限公司 (Shandong International Biological Technology Co. Ltd.) (as vendor) and Shandong Luye (as purchaser) in relation to the sale and purchase of certain buildings being constructed and located in Yantai, Shandong Province, the PRC for a total cash consideration of RMB117,863,262.
- (b) An asset transfer agreement dated 6 January 2014 between Shandong Luye (as transferor) and 山東博安生物技術有限公司 (Shandong Bo'an Biological Technology Co. Ltd.) (as transferee) in relation to the transfer of certain assets of Shandong Luye for a cash consideration of RMB50 million.

- (c) A trademark licence agreement dated 24 March 2014 between Shandong Luye (as licensor) and Wuhu Luye (as licensee) in relation to the licence to use certain trademarks for an annual licence fee of RMB50,000.
- (d) An equity transfer and capital increase agreement dated 26 May 2014 between AsiaPharm Investments Ltd. (as transferor) and Yantai Luye Pharma Holdings Co. Ltd. (as transferee) in relation to the transfer of AsiaPharm Investments Ltd.'s entire equity interest in Shandong Luye to Yantai Luye Pharma Holdings Co. Ltd. as payment for the increase of US\$43,590,000 in the registered capital of Yantai Luye Pharma Holdings Co. Ltd.
- (e) A deed of non-compete undertaking dated 19 June 2014 given by Mr. Liu Dian Bo in favour of the Company.
- (f) A cornerstone investment agreement dated 20 June 2014 between Macquarie Funds Management Hong Kong Limited (for itself and acting as investment manager and agent for each investor listed therein), UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and the Company, pursuant to which Macquarie Funds Management Hong Kong Limited agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US\$25 million at the final offer price determined under the Global Offering.
- (g) A cornerstone investment agreement dated 20 June 2014 between TAL China Focus Master Fund, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and the Company, pursuant to which TAL China Focus Master Fund agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US\$30 million at the final offer price determined under the Global Offering.
- (h) A cornerstone investment agreement dated 20 June 2014 between Value Partners Hong Kong Limited, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and the Company, pursuant to which Value Partners Hong Kong Limited agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US\$100 million at the final offer price determined under the Global Offering.
- (i) A cornerstone investment agreement dated 20 June 2014 between Minmetals Capital (Hong Kong) Limited, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and the Company, pursuant to which Minmetals Capital (Hong Kong) Limited agreed to subscribe for such

number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US\$25 million at the final offer price determined under the Global Offering.

- (j) A cornerstone investment agreement dated 20 June 2014 between OrbiMed Advisors LLC, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and the Company, pursuant to which OrbiMed Advisors LLC agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US\$50 million at the final offer price determined under the Global Offering.
- (k) A cornerstone investment agreement dated 20 June 2014 between Dragon Billion China Master Fund, LMA SPC, UBS AG, Hong Kong Branch, UBS Securities Hong Kong Limited, Citigroup Global Markets Limited, Citigroup Global Markets Asia Limited, CITIC Securities Corporate Finance (HK) Limited, CLSA Limited and the Company, pursuant to which Dragon Billion China Master Fund and LMA SPC agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 500 Shares) as may be purchased for US\$47,747,301 and US\$2,252,699, respectively, at the final offer price determined under the Global Offering.
- (l) A deed of pre-emptive right dated 20 June 2014 given by Luye Investment Group Co. Ltd. in favour of the Company in relation to the interest in Wuhu Luye.
- (m) The Hong Kong underwriting agreement dated 25 June 2014 entered into among UBS AG, Hong Kong Branch, Citigroup Global Markets Asia Limited and CLSA Limited, UBS Securities Hong Kong Limited, Citigroup Global Markets Asia Limited and CITIC Securities Corporate Finance (HK) Limited, Messrs. Liu Dian Bo, Yuan Hui Xian and Yang Rong Bing, AsiaPharm Holdings Ltd., Luye Pharma Holdings Limited, Luye Pharmaceutical International Co., Ltd., Luye Pharmaceutical Investment Co., Ltd., Nelumbo Investments Limited, Ginkgo Trust Limited and the Company.
- (n) The international purchase agreement dated 2 July 2014 entered into among UBS AG, Hong Kong Branch, Citigroup Global Markets Asia Limited, CLSA Limited, Citigroup Global Markets Limited, CITIC Securities Corporate Finance (HK) Limited, Tropical Excellence Infrastructure Pte. Ltd., CPE Greenery Ltd., CDH Flower Limited, Beyond Border Investment Limited, Messrs. Liu Dian Bo, Yuan Hui Xian and Yang Rong Bing, Asiapharma Holdings Ltd., Luye Pharma Holdings Limited, Luye Pharmaceutical International Co., Ltd., Luye Pharmaceutical Investment Co., Ltd., Nelumbo Investments Limited, Ginkgo Trust Limited and the Company.
- (o) The Agreements.

MISCELLANEOUS

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and the principal place of business in Hong Kong is at 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.
- (b) The company secretary of the Company is Ms. Lai Siu Kuen, who is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in United Kingdom.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712–1716 at 17th Floor, Hopewell Centre 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the Special General Meeting:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the accountants' report of the Target Group for the three years ended 31 December 2013 and the six months ended 30 June 2014 prepared by Ernst & Young, the text of which is set out in Appendix II to this circular, and the related statement of adjustments;
- (c) the audited consolidated financial statements of the Group for the two years ended 31 December 2012 and 2013;
- (d) the report from Ernst & Young in respect of the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular;
- (e) the contracts referred to in the paragraph headed "Material contracts" in this Appendix;
- (f) the written consent from Ernst & Young referred to in the paragraph headed "Expert" in this Appendix; and
- (g) this circular.



LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 02186)

NOTICE IS HEREBY GIVEN that a Special General Meeting of Luye Pharma Group Ltd. (the “**Company**”) will be held at Executive Ballroom, Shanghai Marriott Hotel Hongqiao, No. 2270 Hongqiao Road, Shanghai, PR China on Friday, 16 January 2015 at 1:00 p.m. to consider and, if thought fit, pass the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“THAT:

(a) the following agreements:

- (i) the First Tranche Agreement (as defined in the circular of the Company dated 31 December 2014 the (the “**Circular**”)) (a copy of which marked “A” and signed by the chairman of the meeting for identification purpose has been tabled at the meeting);
- (ii) the Second Tranche Agreement (as defined in the Circular) (a copy of which marked “B” and signed by the chairman of the meeting for identification purpose has been tabled at the meeting);
- (iii) the Third Tranche Agreement (as defined in the Circular) (a copy of which marked “C” and signed by the chairman of the meeting for identification purpose has been tabled at the meeting); and
- (iv) the Remaining Equity Interest Agreements (as defined in the Circular) (copies of which marked “D” and signed by the chairman of the meeting for identification purpose have been tabled at the meeting) ((i) to (iv) collectively the “**Agreements**”),

and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

- (b) any one of the directors of the Company be and is authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he/she considers necessary, appropriate, desirable and expedient for the purposes of giving effect to or in

NOTICE OF SGM

connection with the Agreements and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto as are, in the opinion of such director, in the interests of the Company and its shareholders as a whole; and any such acts, things and actions conducted or taken by such director prior to the passing of this resolution be and are hereby approved, confirmed and ratified.”

By Order of the Board
LUYE PHARMA GROUP LTD.
Liu Dian Bo
Chairman

Hong Kong, 31 December 2014

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Office in Hong Kong:

8th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Notes:

1. Any shareholder of the Company entitled to attend and vote at the Special General Meeting is entitled to appoint one or more separate proxies to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her behalf. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) must be deposited at the Company's branch registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the time fixed for holding the Special General Meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting or any adjournment thereof should you so wish and in such event, the relevant form of proxy shall be deemed to be revoked.
4. The resolution as set out in this notice will be taken by poll.