THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the provisions of which form part of the terms of the Offer contained herein. **If you are in doubt** as to any aspect of this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser. **If you have sold or transferred** all your shares in 山東羅欣藥業集團股份有限公司 (Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.*), you should at once hand this Composite Document together with the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the bank or licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

罗欣

山東羅欣藥業集團股份有限公司
SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.*

(a joint stock limited company established in the People's Republic of China with limited liability)

(Stock code: 8058)

GL Capital Group
德福资本

GL INSTRUMENT INVESTMENT L.P.
(a limited partnership registered in Canada)

GIANT STAR GLOBAL (HK) LIMITED
(a company incorporated in Hong Kong with limited liability)

Ally Bridge Group

ALLY BRIDGE FLAGSHIP LX (HK) LIMITED
(a company incorporated in Hong Kong with limited liability)

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF GIANT STAR GLOBAL (HK) LIMITED (TO BE CO-INVESTED BY ENTITIES CONTROLLED BY MR. LIU ZHENTENG AND GL CAPITAL RESPECTIVELY) AND ALLY BRIDGE FLAGSHIP FOR ALL THE ISSUED H SHARES IN SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD. (OTHER THAN THOSE ALREADY OWNED, CONTROLLED OR AGREED TO BE ACQUIRED BY THE JOINT OFFERORS AND PARTIES ACTING IN CONCERT WITH ANY OF THEM WHO HAVE UNDERTAKEN NOT TO ACCEPT THE OFFER)

PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.

Financial Adviser to the Joint Offerors

SOMERLEY CAPITAL LIMITED

Independent Financial Adviser to the Independent Committee

凱基金融亞洲 中華開發金控 CHINA DEVELOPMENT FINANCIAL
KGI CAPITAL ASIA

Financier to Ally Bridge Flagship

新鴻基金融集團
SUN HUNG KAI FINANCIAL

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document. A letter from the Joint Offerors is set out on pages 10 to 19 of this Composite Document. A letter from Somerley Capital, containing amongst other things, the terms of the Offer, is set out on pages 20 to 27 of this Composite Document. A letter from the Board is set out on pages 28 to 35 of this Composite Document. A letter from the Independent Committee containing its recommendation to the Independent Shareholders in respect of the Offer and the Delisting is set out on pages 36 to 37 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Committee in respect of the Offer and the Delisting is set out on pages 38 to 60 of this Composite Document.

The procedures for acceptance and settlement of the Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Form of Acceptance of the Offer contained herein should be received by the Registrar by no later than 4:00 p.m. on Monday, 26 June 2017 or such later time or date as the Joint Offerors may determine and announce, with the consent of the Executive, in accordance with the Takeovers Code.

The EGM and the H Share Class Meeting convened to approve the voluntary withdrawal of the listing of the H Shares from the Stock Exchange, will be held at 10:30 a.m. and 11:00 a.m., respectively, on Monday, 29 May 2017. Notices of the EGM and the H Share Class Meeting are set out in Appendices V and VI respectively. Proxy forms for use at the EGM and the H Share Class Meeting are enclosed with this Composite Document. Whether or not you are able to attend the EGM or the H Share Class Meeting (as the case may be), you are strongly urged to complete the accompanying proxy forms in accordance with the instructions printed thereon and return the proxy forms to the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in the case of H Shareholders) or the registered office of the Company at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the People's Republic of China (in respect of Domestic Shareholders) as soon as possible and in any event not later than 10:30 a.m. (in case of the EGM) or 11:00 a.m. (in case of H Share Class Meeting) on Sunday, 28 May 2017, or not less than 24 hours before the time appointed for any adjournment of the EGM or the H Share Class Meeting (as the case may be) and return of the proxy form will not preclude you from attending and voting in person at the respective meeting or any adjourned meeting should you so wish. Reply slips for the EGM and the H Share Class Meeting are also enclosed. You are reminded to complete and sign the reply slip (if you are entitled to attend the EGM or the H Share Class Meeting (as the case may be)) and return the signed reply slip to the Registrar at the above address (in case of H Shareholders) and the Company (in case of Domestic Shareholders) on or before Tuesday, 9 May 2017 in accordance with the instructions printed thereon.

* *For identification purposes only*

11 April 2017

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Notice to the holders of H Shares in the United States

The Offer is subject to Hong Kong disclosure and procedural requirements, including with respect to offer timetable, settlement procedures, timing of payments and withdrawal rights, which are different from those applicable to tender offers carried out in the United States. In the absence of a relevant exemption under the laws of the United States, the Offer may not be available to persons who are in the United States. Even where an exemption is available, persons in the United States are urged, before accepting the Offer, to consult their own professional advisers regarding the tax consequences of acceptance of the Offer, whether in relation to United States federal income tax or taxes under applicable state and local tax laws, or foreign tax laws.

The financial information of the Company has been extracted from the audited financial statements of the Company for the three years ended 31 December 2016, which have been prepared in accordance with the Hong Kong Financial Reporting Standards, which may not be wholly comparable to financial information of United States companies or companies whose financial statements are solely prepared in accordance with generally accepted accounting principles in the United States.

The Company is incorporated under the laws of the People's Republic of China. It may be difficult for holders of H Shares in the United States to enforce their rights and claims arising out of United States federal securities laws, since the Company is located in a country other than the United States, some or all of its officers and directors may be residents of a country other than the United States and the assets of the Company may be located outside the United States. Holders of H Shares in the United States may not be able to sue a non-United States company or its officers or directors in a non-United States court for violations of United States securities laws. It may be difficult for such holders of H Shares to effect service of process within the United States upon the Company or its officers or directors or to enforce against them any judgment of a United States court predicated upon the federal or state securities laws of the United States. In particular holders of H Shares in the United States should note that the Joint Offerors reserve the right themselves or through affiliates or nominees or their brokers acting as agents from time to time making purchases of, or arrangements to purchase H Shares outside of the United States whether in open market or by private transaction during the offer period of the Offer other than pursuant to the Offer to the extent permitted by and in accordance with the requirements of the Takeovers Code. Information about such purchases will be reported to the SFC in accordance with the requirements of the Takeovers Code and will be available on the website of the SFC at http://www.sfc.hk/.

In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise:

"Accepting Shareholder(s)"	the Shareholders who accept the Offer by duly completing and returning the Form of Acceptance
"acting in concert"	has the meaning given to it in the Takeovers Code, and "parties acting in concert" shall be construed accordingly
"Ally Bridge Flagship"	Ally Bridge Flagship LX (HK) Limited, a company incorporated in Hong Kong with limited liability, being one of the Joint Offerors which is held as to 100% by Flagship Lucky Limited, which is in turn held as to 16.75% by ABG Fund III, 8.25% by ABG Fund II, 50% by ABG Flagship Fund and 25% by ABG Flagship Lucky Co-invest Limited (the voting right of which is 100% held by ABG Flagship Fund) as at the Latest Practicable Date, and each of ABG Fund III, ABG Fund II and ABG Flagship Fund are ultimately managed and operated through certain general partners which are ultimately held as to 100% by Mr. Yu Fan
"Ally Bridge Group"	Ally Bridge Flagship and its affiliates
"associate(s)"	has the meaning given to it in the Takeovers Code
"Board"	the board of directors of the Company
"Business Day"	a day on which the Stock Exchange is open for the transaction of business
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Closing Date"	Monday, 26 June 2017 (or such later date(s) as the Joint Offerors may, subject to the Takeovers Codes, decide), being the 28th day after the date on which the Offer becomes unconditional
"Company"	山東羅欣藥業集團股份有限公司(Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.*), a joint stock company incorporated in the PRC with limited liability whose H Shares are listed on the Growth Enterprise Market of the Stock Exchange under stock code 8058

"Composite Document"	this composite offer and response document jointly issued by the Joint Offerors, GL Instrument and the Company in connection with the Offer in accordance with the Takeovers Code
"Consortium Agreement"	the consortium agreement dated 7 March 2017 (as supplemented by a supplemental agreement dated 13 March 2017) entered into among the Consortium Investors, Giant Star (HK) and Vibrant Grow Limited for the purpose of governing their respective rights and liabilities in connection with the Offer
"Consortium Investors"	Giant Star BVI, GL Instrument and Ally Bridge Flagship
"controlling shareholder"	has the meaning given to it in the GEM Listing Rules
"Delisting"	the voluntary withdrawal of the listing of the H Shares from the Growth Enterprise Market of the Stock Exchange
"Directors"	the directors of the Company
"Domestic Share(s)"	ordinary share(s) of par value of RMB0.10 each in the share capital of the Company
"Domestic Shareholder(s)"	holders of the Domestic Shares
"EGM"	the extraordinary general meeting of the Shareholders to be held to consider and vote on, among other matters, the Delisting
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"Form of Acceptance"	the form of acceptance and transfer in respect of the Offer which accompanies this Composite Document
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
"Giant Star BVI"	Giant Star Global Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Liu Zhenteng, the Director, being the sole owner of Vibrant Grow Limited as at the Latest Practicable Date

"Giant Star HK"	Giant Star Global (HK) Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by Vibrant Grow Limited, which is, in turn, wholly-owned by Giant Star BVI, being one of the Joint Offerors
"GL Capital"	GL Instrument, GL Capital Management GP II B.C 4. Ltd., GL Capital Management Limited and any of its affiliated funds
"GL Instrument"	GL Instrument Investment L.P., a limited partnership registered in Alberta, Canada, being one of the Consortium Investors
"Group"	the Company and its subsidiaries
"H Share(s)"	overseas listed foreign ordinary share(s) in the share capital of the Company with a par value of RMB0.10 each, all of which are listed on the Growth Enterprise Market of the Stock Exchange and traded in HK$
"H Share Class Meeting"	the extraordinary general meeting of the Independent H Shareholders to be convened, and any adjournment thereof for the purpose of approving the Delisting
"H Share Irrevocable Undertakings"	the irrevocable undertakings entered into by each of GL Trade Investment Limited and GL Healthcare Investment L.P. in favour of the Joint Offerors and Giant Star BVI (for itself and on behalf of GL Instrument) in respect of the Offer and the Delisting
"H Shareholder(s)"	holders of the H Shares
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Committee"	the independent committee of the Board, comprising all of the independent non-executive Directors, formed pursuant to Rule 2.1 of the Takeovers Code for the purpose of making recommendations as to whether the terms of the Offer are, or are not, fair and reasonable and as to acceptances and whether the Delisting is, or is not, fair and reasonable and as to voting

"Independent Domestic Shareholders"	Domestic Shareholders other than the Joint Offerors or parties acting in concert with any of them, and in this case, the Six Domestic Shareholders
"Independent Financial Adviser" or "KGI Capital"	KGI Capital Asia Limited, the independent financial adviser to the Independent Committee in respect of the Offer and Delisting, which is a licensed corporation to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Independent H Shareholders"	H Shareholders other than the Joint Offerors or parties acting in concert with any of them
"Independent Shareholders"	Independent Domestic Shareholders and Independent H Shareholders
"Irrevocable Undertakings"	the irrevocable undertakings entered into by each of the holders of the Domestic Shares (including the Six Domestic Shareholders) in favour of the Joint Offerors and Giant Star BVI (for itself and on behalf of GL Instrument) in respect of the Offer and the Delisting
"Joint Announcement"	the announcement jointly issued by the Joint Offerors, GL Instrument and the Company on 13 March 2017 in connection with the Offer and the Delisting
"Joint Offerors"	Giant Star HK and Ally Bridge Flagship
"Last Trading Date"	6 March 2017, being the last full Business Day on the Stock Exchange for trading in the H Shares immediately before the suspension of trading in the H Shares before publication of the Joint Announcement
"Latest Practicable Date"	7 April 2017, being the latest practicable date prior to the printing of the Composite Document for the purpose of ascertaining certain information contained in this Composite Document
"Offer"	the voluntary conditional offer to be made by Somerley Capital on behalf of the Joint Offerors to acquire all of the issued H Shares (other than those already owned or controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer)

"Offer Period"	the period commencing from the date of the Joint Announcement until the later of (i) the date when the Offer closes for acceptances, (ii) the date when the Offer lapses and (iii) the date when an announcement is made of the withdrawal of the Offer
"Pingan Loan Facility"	a loan facility agreement entered into between Giant Star HK as borrower and Ping An Bank Co., Ltd. as lender pursuant to which Ping An Bank Co., Ltd. has granted a Hong Kong dollar loan facility to Giant Star HK for the purpose of the Offer
"PRC"	the People's Republic of China other than Hong Kong, the Macau Special Administrative Region and Taiwan
"Registrar"	Computershare Hong Kong Investor Services Limited whose address is at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, being the H Share registrar of the Company for receiving and processing the acceptances of the Offer from H Shareholders
"Relevant Period"	the period commencing from 13 September 2016, being the date falling six months preceding the date of the Joint Announcement, up to and including the Latest Practicable Date
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as revised from time to time)
"Shandong Luoxin Holdings"	山東羅欣控股有限公司 (Shandong Luoxin Holdings Co., Ltd.*), a company incorporated in the PRC with limited liability and the controlling shareholder of the Company
"Shares"	the Domestic Shares and H Shares
"Shareholder(s)"	holders of the Shares
"SHK Facility Letter"	a facility letter entered into between, among others, Sun Hung Kai Investment Services Limited, as lender, and Ally Bridge Flagship, as borrower, pursuant to which Sun Hung Kai Investment Services Limited has granted a credit facility to Ally Bridge Flagship for the purpose of the Offer

"Six Domestic Shareholders"	the six Domestic Shareholders who have entered into the Irrevocable Undertakings
"Somerley Capital"	Somerley Capital Limited, the financial adviser to the Joint Offerors, which is a licensed corporation under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	Hong Kong Code on Takeovers and Mergers (as revised from time to time)
"Unconditional Date"	the date on which the Offer becomes or is declared unconditional in all respects

* *for identification purposes only*

Despatch date of this Composite Document	Tuesday, 11 April 2017
Opening date of the Offer *(Note 1)*	Tuesday, 11 April 2017
Latest time for lodging transfers of the Shares in order to be entitled to attend and vote at the EGM and the H Share Class Meeting	4:30 p.m. on Friday, 28 April 2017
Record time and date for the EGM and the H Share Class Meeting	4:30 p.m. on Friday, 28 April 2017
Closure of the register of the Company for the determination of entitlements of the Independent Shareholders to attend and vote at the EGM and the H Share Class Meeting	Saturday, 29 April 2017 to Monday, 29 May 2017 (both days inclusive)
Last day for return of reply slips for the EGM and the H Share Class Meeting *(Note 2)*	Tuesday, 9 May 2017
Latest time for lodging proxy forms in respect of the EGM *(Note 3)*	10:30 a.m. on Sunday, 28 May 2017
Latest time for lodging proxy forms in respect of the H Share Class Meeting *(Note 3)*	11:00 a.m. on Sunday, 28 May 2017
EGM	10:30 a.m. on Monday, 29 May 2017
H Share Class Meeting	11:00 a.m. on Monday, 29 May 2017 or immediately after the conclusion or adjournment of the EGM
Announcement of the results of the EGM and the H Share Class Meeting on the website of the Stock Exchange	by 7:00 p.m. on Monday, 29 May 2017
Unconditional Date *(Note 4)*	Monday, 29 May 2017
Re-opening of the register of the Company	9:00 a.m. on Wednesday, 31 May 2017
Last day of trading in the H Shares on the Stock Exchange	Monday, 5 June 2017

Latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances received at or before the Unconditional Date *(Note 5)*	Thursday, 8 June 2017
Announcement made and written notification sent to the H Shareholders in respect of the Closing Date and the implication of not accepting the Offer *(Note 6)*	by Monday, 12 June 2017
Withdrawal of the listing of the H Shares from the Stock Exchange *(Note 7)*	9:00 a.m. on Friday, 16 June 2017
Latest time and date for the Offer remaining open for acceptance on Closing Date *(Note 8)*	4:00 p.m. on Monday, 26 June 2017
Closing Date	Monday, 26 June 2017
Announcement of the results of the Offer as at the Closing Date on the website of the Stock Exchange	by 7:00 p.m. on Monday, 26 June 2017
Latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances received at or before the latest time for acceptances of the Offer on the Closing Date *(Note 5)*	Wednesday, 5 July 2017

Notes:

(1) The Offer is made on Tuesday, 11 April 2017, the date of posting of this Composite Document, and is capable of being accepted on and from that date.

(2) Reply slips should be duly completed and returned to the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in case of H Shareholders) or the registered office of the Company at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC (in case of Domestic Shareholders) no later than Tuesday, 9 May 2017 (i.e. 20 days prior to the date of convening of the EGM and the H Share Class Meeting). Failure to return the reply slips will not affect the Shareholders' right to attend the EGM and the H Share Class Meeting.

(3) Proxy forms should be deposited with the Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in case of H Shareholders) or the registered office of the Company at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC (in case of Domestic Shareholders) as soon as possible and in any event by the time stated above, in order to be valid. Completion and return of a proxy form for the EGM or the H Share Class Meeting (as the case may be) will not preclude an Independent Shareholder from attending the EGM or the H Share Class Meeting (as the case may be) and voting in person if he/she/it so wishes and if such Independent Shareholder has notified the Company not less than 24 hours in writing before the time appointed for any adjournment of the EGM or the H Share Class Meeting (as the case may be). In such event, the returned proxy form will be deemed to have been revoked.

(4) It is expected that the Unconditional Date will be Monday, 29 May 2017, subject to the conditions of the Offer having been satisfied or waived (as the case may be).

(5) Pursuant to Rule 20.1 of the Takeovers Code, settlement in cash in respect of acceptances of the Offer will be made within 7 Business Days of the later of the Unconditional Date and the date on which the H Shares are tendered for acceptance of the Offer. Relevant documents of title must be received by the Registrar to render each acceptance of the Offer complete and valid. For this purpose, Business Days refers to the days on which the Stock Exchange is open for transaction of business.

(6) In accordance with Rule 15.3 of the Takeovers Code, where the Offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offer is closed to the H Shareholders who have not accepted the Offer if the announcement to extend the Offer does not state the next closing date. The Joint Offerors will extend the 14-day period under Rule 15.3 of the Takeovers Code to 28 calendar days.

(7) It is currently expected that the withdrawal of listing of the H Shares from the Stock Exchange would happen at 9:00 a.m. on Friday, 16 June 2017, subject to the satisfaction of any conditions for the Delisting and receipt of any regulatory approvals required for the Delisting.

(8) The Joint Offerors reserve the right to extend the Offer until such time and/or date as it may determine and in accordance with the Takeovers Code. The Joint Offerors will issue an announcement, stating whether the Offer has been revised or extended, has expired or has become or been declared unconditional (as to acceptances or in all respects).

Unless otherwise indicated, all time references contained in this Composite Document are to Hong Kong time.

GL INSTRUMENT INVESTMENT L.P.
(a limited partnership registered in Canada)

General partner:
GL Capital Management GP II B.C. 4 Ltd. (sole director being Mr. Li Zhenfu)

Registered Office:
Suite 1700 Park Place,
666 Burrard Street,
Vancouver,
BC V6C 2X8

GIANT STAR GLOBAL (HK) LIMITED
(a company incorporated in Hong Kong with limited liability)

Director:
Mr. Liu Zhenteng

Registered Office:
Unit 3312, 33/F.,
Shui On Centre,
6–8 Harbour Road,
Wanchai, Hong Kong

ALLY BRIDGE FLAGSHIP LX (HK) LIMITED
(a company incorporated in Hong Kong with limited liability)

Director:
Mr. Pang Andrew Chee On

Registered Office:
Unit 3002–3004, 30/F,
Gloucester Tower,
The Landmark,
15 Queen's Road
Central, Hong Kong

11 April 2017

To the H Shareholders

Dear Sir/Madam,

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF GIANT STAR GLOBAL (HK) LIMITED (TO BE CO-INVESTED BY ENTITIES CONTROLLED BY MR. LIU ZHENTENG AND GL CAPITAL RESPECTIVELY) AND ALLY BRIDGE FLAGSHIP FOR ALL THE ISSUED H SHARES IN SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD. (OTHER THAN THOSE ALREADY OWNED, CONTROLLED OR AGREED TO BE ACQUIRED BY THE JOINT OFFERORS AND PARTIES ACTING IN CONCERT WITH ANY OF THEM WHO HAVE UNDERTAKEN NOT TO ACCEPT THE OFFER)

PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.

1. INTRODUCTION

On 13 March 2017, the Joint Offerors, GL Instrument and the Company jointly announced that Somerley Capital will, on behalf of the Joint Offerors, make a voluntary conditional offer for all the issued H Shares in the Company (other than those H Shares owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer) in accordance with the Takeovers Code which, if implemented, will result in the Delisting.

This letter forms part of the Composite Document and sets out certain background information on the Joint Offerors, explains why we are making the Offer and our intention in relation to the Group. Further details of the terms of the Offer are set out under the sections headed "2. The Offer" and "3. Conditions of the Offer" in the "Letter from Somerley Capital" which immediately follows this letter in this Composite Document, and details of the procedures for acceptance of the Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance.

Terms defined in the Composite Document have the same meaning when used in this letter.

2. INFORMATION ON THE JOINT OFFERORS

Giant Star HK was incorporated on 13 February 2017 in Hong Kong as a limited liability company. Its principal business is as an investment vehicle for the sole purpose of the Offer. As at the Latest Practicable Date, Giant Star HK is held as to 100% by Vibrant Grow Limited, a company incorporated in the British Virgin Islands with limited liability as an investment vehicle for the sole purpose of the Offer, which is in turn held as to 100% by Giant Star BVI (the sole director of which is Mr. Liu Zhenteng) and is ultimately 100% owned by Mr. Liu Zhenteng who is also an executive Director of the Company and the son of Mr. Liu Baoqi, the ultimate controlling shareholder, the chairman and the founder of the Company.

Ally Bridge Flagship was incorporated in Hong Kong as a limited liability company. It is an investment vehicle for the purpose of the Offer, and held as to 100% by Flagship Lucky Limited, which is in turn held as to 16.75% by Ally Bridge Group Innovation Capital Partners III, L.P. ("**ABG Fund III**"), 8.25% by Ally Bridge Group Capital Partners II, L.P. ("**ABG Fund II**"), 50% by Ally Bridge Group Flagship Capital Partners L.P. ("**ABG Flagship Fund**") and 25% by ABG Flagship Lucky Co-invest Limited (the voting right of which is 100% held by ABG Flagship Fund) as at the Latest Practicable Date. Each of ABG Fund III, ABG Fund II and ABG Flagship Fund is an exempted limited partnership established in the Cayman Islands whose principal business is investment holding. ABG Fund III is managed and operated by its general partner, ABG Innovation Capital Partners III GP, L.P., which is in turn an exempted limited partnership established in the Cayman Islands managed and operated by its general partner, ABG Innovation Capital Partners III GP Limited ("**ABG Fund III GP**"). ABG Fund III GP is ultimately held as to 100% by Mr. Yu Fan (also known as Frank Yu). ABG Fund II is managed and operated by its general partner, ABG Capital Partners II GP, L.P. which is in turn an exempted limited partnership established in the Cayman Islands managed and operated by its general partner, ABG Capital Partners II GP Limited ("**ABG Fund II GP**"). ABG Fund II GP is ultimately held as to 100% by Mr. Yu Fan. ABG Flagship Fund is managed and operated by its general partner, ABG Flagship Capital Partners GP, L.P. which is in turn an exempted limited partnership established in the Cayman Islands managed and operated by its general partner, ABG Flagship Capital Partners GP Limited ("**ABG Flagship Fund GP**"). ABG Flagship Fund GP is ultimately held as to 100% by Mr. Yu Fan. ABG Flagship Lucky Co-invest Limited was incorporated in the British Virgin Islands as a limited liability company and as at the Latest Practicable Date, its voting share is wholly owned by ABG Flagship Fund. Non-voting participating shares of ABG Flagship Lucky Co-invest Limited may be issued to third parties (which are not existing shareholders of the Company) after the Latest Practicable Date, but Ally Bridge Flagship will remain 100% controlled by funds which are managed and operated through certain general partners which are ultimately held as to 100% by Mr. Yu Fan.

Ally Bridge Group is a global healthcare-focused investment group, founded and led by Mr. Yu Fan (formerly a Managing Director of Goldman Sachs and Och-Ziff Capital) with a global healthcare investment portfolio in China, the United States, and Europe and more than US$1 billion in assets under management. In 2015, Ally Bridge Group initiated, led and completed the US$3.3 billion take-private of WuXi PharmaTech, a leading global life science service provider, from the New York Stock Exchange.

3. INFORMATION ON THE CONSORTIUM INVESTORS AND THE CONSORTIUM AGREEMENT

The Consortium Investors comprise Giant Star BVI, GL Instrument and Ally Bridge Flagship.

Consortium Investors

Giant Star BVI was incorporated in the British Virgin Islands as a limited liability company as an investment vehicle for the purpose of the Offer, and is held as to 100% by Liu Zhenteng who is an executive Director of the Company and a shareholder of Shandong Luoxin Holdings. For details of his equity interest in the Company, please refer to the sub-section headed "4. Shareholding structure of the Company".

GL Instrument is a limited partnership registered in Alberta, Canada, as an investment vehicle for GL Capital. It is managed and operated by its general partner, GL Capital Management GP II B.C. 4 Ltd., a company incorporated in Vancouver, Canada, whose principal business is investment holding and is held as to 100% by GL Capital Management Limited. GL Capital Management Limited is held as to 51% by GL Partners Capital Management Limited, which is in turn held as to 70% by Mr. Li Zhenfu.

GL Capital is a leading investor in China healthcare. With a deep understanding of the Chinese healthcare industry, GL Capital's mission is to invest wisely, partner with and add value to leaders of the industry. GL Capital has been a significant shareholder of the Company since 2013.

Please refer to the sub-section headed "2. Information on the Joint Offerors" for information of Ally Bridge Flagship.

Save as disclosed above and in the sub-section headed "4. Shareholding structure of the Company", none of the Joint Offerors, the Consortium Investors and any party acting in concert with any of them is a Shareholder.

Consortium Agreement

On 7 March 2017, Giant Star HK, Ally Bridge Flagship, GL Instrument, Vibrant Grow Limited and Giant Star BVI entered into the Consortium Agreement for the purposes of governing their respective rights and liabilities in connection with the Offer.

Under the Consortium Agreement, each Joint Offeror has agreed and undertaken, among other things, (i) to contribute the investment amount such Joint Offeror has committed for the Offer, and (ii) to reimburse Giant Star BVI and its affiliates for third party costs and expenses incurred in connection with the Offer and the Delisting (including, without limitation, fees for professional advisors, financial printers and other intermediaries acting for the Joint Offerors) in proportion to its contribution of the investment amount to the Offer.

Furthermore, each of Giant Star HK, Ally Bridge Flagship, Vibrant Grow Limited and GL Instrument (each for itself and on behalf of its parties acting in concert who have undertaken not to accept the Offer) has agreed and undertaken to act in concert in respect of the Offer and to grant Giant Star BVI the right to take all actions relating to the Offer and the Delisting.

As at the Latest Practicable Date, Vibrant Grow Limited is wholly-owned by Giant Star BVI, which is in turn, wholly-owned by Mr. Liu Zhenteng. Pursuant to the Consortium Agreement conditional upon the Offer becoming unconditional, GL Instrument shall contribute up to HK$224,415,962 of investment amount for the acquisition of H Shares under the Offer and subscribe for such number of shares representing 14.29% of the enlarged issued share capital of Vibrant Grow Limited. Subject to the full payment of the investment amount by GL Instrument, Vibrant Grow Limited shall issue and allot to GL Instrument such number of shares representing 14.29% of the enlarged issued share capital of Vibrant Grow Limited. Completion of the share subscription of Vibrant Grow Limited is expected to take place on or around the Closing Date, and in any event, no later than the last date for posting of remittances for the amounts due under the Offer in respect of valid acceptances received, and Vibrant Grow Limited will be owned as to 85.71% by Giant Star BVI and 14.29% by GL Instrument upon completion of the share subscription. Each of Giant Star BVI and GL Instrument has also agreed to share all costs concerning Vibrant Grow Limited and Giant Star HK in respect of their establishment and the making of the Offer based on their ownership percentage in Vibrant Grow Limited whether or not the share subscription by GL Instrument in Vibrant Grow Limited has completed.

Assuming the Offer is accepted in full and there are no changes in the share capital of the Company, the investment amount and the corresponding interest of the Joint Offerors and the Consortium Investors in the H Shares acquired under the Offer are expected to be as follows:

Joint Offerors/ Consortium Investors	Investment amount *(HK$)*	Approximate % of total H Shares acquired under the Offer
Giant Star HK[1]	**1,570,440,599**	**67.04%**
(1) Giant Star BYI	1,346,024,637	57.46%
(2) GL Instrument	224,415,962	9.58%
Ally Bridge Flagship	**772,102,060**	**32.96%**

Note:

(1) Pursuant to the Consortium Agreement, GL Instrument has agreed to contribute up to HK$224,415,962 to the investment amount (representing 9.58% of the total investment amount) for the acquisition of H Share under Offer and subscribe for such number of shares representing 14.29% of the enlarged issued share capital of Vibrant Grow Limited.

4. SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the Joint Offerors and their concert parties other than those with exempt principal trader or exempt fund manager status are interested in approximately 62.28% of the Shares, held as follows:

	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Number of H Shares	Approximate % of total issued H Shares
Shandong Luoxin Holdings[1]	293,075,954	65.85%	—	—
Mr. Li Xueliang[2]	17,000,000	3.82%	—	—
Mr. Chen Laiyang[2]	30,239,821	6.79%	—	—
Ms. Zhang Yi[3]	—	—	1,668,000	1.01%
Mr. Liu Zhenfei[2]	—	—	412,000	0.25%
廣州德福股權投資基金合夥企業（有限合夥）(Guangzhou GL Capital Investment Fund L.P.*)[4]	7,280,000	1.64%	—	—
GL Trade Investment Limited[5]	—	—	26,166,000	15.90%
GL Healthcare Investment L.P.[6]	—	—	597,373	0.36%
GL China Long Equity Opportunities SPV L.P.[7]	—	—	160,627	0.10%
Ally Bridge LB Healthcare Master Fund Limited[8]	—	—	3,070,000	1.87%
TOTAL	347,595,775	78.10%	32,074,000	19.49%

Notes:

(1) Held as to 51.73% by Mr. Liu Baoqi, 14.90% by Ms. Li Minghua, 2.00% by Mr. Han Fengsheng, and 21.37% by Mr. Liu Zhenteng, each a Director, and 10.00% by Mr. Zheng Jiaxin.

(2) Mr. Li Xueliang, Mr. Chen Laiyang and Mr. Liu Zhenfei are the directors of Vibrant Grow Limited and are deemed to be acting in concert with Giant Star HK under the Takeovers Code. Mr. Liu Zhenfei is also the brother of Mr. Liu Zhenteng. The H shares held by Mr. Liu Zhenfei are subject to the Offer and Mr. Liu Zhenfei may accept the Offer in accordance with its terms.

(3) Ms. Zhang Yi is the wife of Mr. Liu Zhenteng and is deemed to be acting in concert with Mr. Liu Zhenteng under the Takeovers Code. The H shares held by Ms. Zhang Yi are subject to the Offer and she may accept the Offer in accordance with its terms.

(4) 廣州德福股權投資基金合夥企業（有限合夥）(Guangzhou GL Capital Investment Fund L.P.*) is a limited partnership incorporated in the PRC. The general partner of 廣州德福股權投資基金合夥企業（有限合夥）(Guangzhou GL Capital Investment Fund L.P.*) is 廣州德福投資諮詢合夥企業（有限合夥）(Guangzhou GL Capital Investment Consulting L.P.*), the general partner of which is 廣州德福投資管理有限公司(Guangzhou GL Capital Investment Management Co., Ltd.*). 廣州德福股權投資基金合夥企業（有限合夥）(Guangzhou GL Capital Investment Fund L.P.*) is an affiliate of GL Instrument. Guangzhou GL Capital Investment Fund L.P. has entered into the Irrevocable Undertaking. For details, please refer to the sub-section headed "4. Irrevocable Undertakings" in the "Letter from Somerley Capital" in this Composite Document.

(5) GL Trade Investment Limited is a limited company incorporated in the Cayman Islands, which is held as to 100% by GL China Opportunities Fund L.P. GL Trade Investment Limited is an affiliate of GL Instrument. GL Trade Investment Limited has entered into the H Share Irrevocable Undertakings. Further details are set out below in this sub-section.

(6) GL Healthcare Investment L.P. is a limited partnership incorporated in Canada. The general partner of GL Healthcare Investment L.P. is GL Capital Management GP II B.C. 2 Ltd. GL Healthcare Investment L.P. is an affiliate of GL Instrument. GL Healthcare Investment L.P. has entered into the H Share Irrevocable Undertakings. Further details are set out below in this sub-section.

(7) GL China Long Equity Opportunities SPV L.P. is a limited partnership incorporated in Canada. The general partner of GL China Long Equity Opportunities SPV L.P. is GL Capital Management Long Equity Opportunities GP B.C. 1 Ltd.. GL China Long Equity Opportunities SPV L.P. is an affiliate of GL Instrument. The Offer will be extended to the H Shares held by GL China Long Equity Opportunities SPV L.P. which may accept the Offer in accordance with its terms.

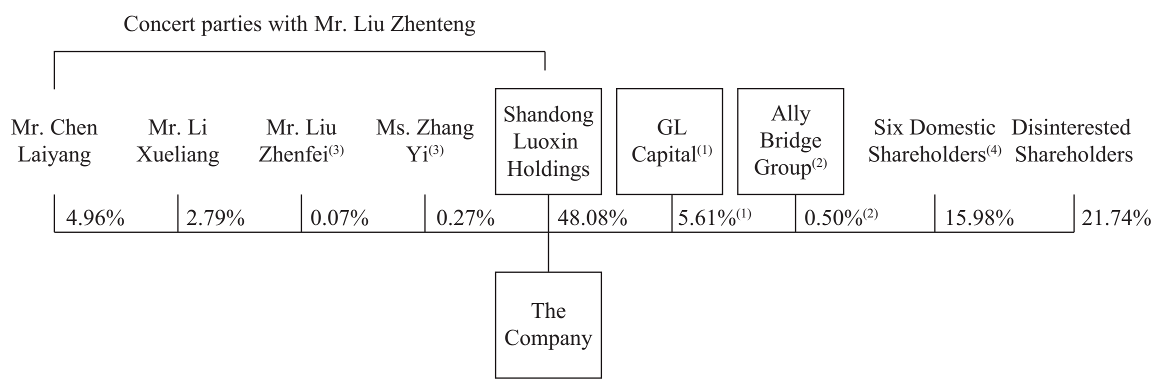
(8) Controlled through an investment management agreement by Ally Bridge LB Management Limited, which is in turn held as to 50% by Mr. Yu Fan and 50% by Dr. Bin Li. Mr. Yu Fan ultimately owns 100% interest in the respective general partners which ultimately manage and operate the three funds which together hold 75% interest in Flagship Lucky Limited and one of these funds holds 100% voting right in an entity that holds the remaining 25% interest in Flagship Lucky Limited as at the Latest Practicable Date. Flagship Lucky Limited in turn holds 100% interest in Ally Bridge Flagship as at the Latest Practicable Date. The Offer will be extended to the H Shares held by Ally Bridge LB Healthcare Master Fund Limited which may accept the Offer in accordance with its terms.

(9) The percentage figures in the table above are approximate figures which have been rounded to the second decimal place.

On 10 March 2017, each of GL Trade Investment Limited and GL Healthcare Investment L.P. entered into the H Share Irrevocable Undertakings in favour of the Joint Offerors and Giant Star BVI (for itself and on behalf of GL Instrument), pursuant to which each of them has irrevocably agreed and undertaken to the Joint Offerors and Giant Star BVI (for itself and on behalf of GL Instrument) that, among other things, (i) the Offer does not have to be extended to it and even if the Offer is extended to it, it will not accept the Offer; and (ii) it will not offer, sell, give, transfer, pledge, encumber, charge, grant any right over or otherwise dispose of or deal with the H Shares held by it or any interest therein until completion of the Delisting. Such irrevocable undertakings will terminate when the Offer is withdrawn, lapsed or closed.

The simplified shareholding chart of the Company (i) as at the Latest Practicable Date and (ii) immediately after close of the Offer (assuming the Offer is fully accepted and the total issued share capital of the Company remains unchanged) is as follows:

(i) As at the Latest Practicable Date:



Notes:

(1) GL Capital represents (i) 廣州德福股權投資基金合夥企業(有限合夥) (Guangzhou GL Capital Investment Fund L.P.), the general partner of which is 廣州德福投資諮詢合夥企業(有限合夥) (Guangzhou GL Capital Investment Consulting L.P.*), the general partner of which in turn is 廣州德福投資管理有限公司 (Guangzhou GL Capital Investment Management Co., Ltd.*), holding 7,280,000 Domestic Shares (representing approximately 1.19% of the total issued Shares); (ii) GL Trade Investment Limited, which is held as to 100% by GL China Opportunities Fund L.P., holding 26,166,000 H Shares (representing approximately 4.29% of the total issued Shares); (iii) GL Healthcare Investment L.P., the general partner of which is GL Capital Management GP II B.C. 2 Ltd. holding 597,373 H Shares (representing approximately 0.10% of the total issued Shares); (iv) GL China Long Equity Opportunities SPV L.P., the general partner of which is GL Capital Management Long Equity Opportunities GP B.C. 1 Ltd. holding 160,627 H Shares (representing approximately 0.03% of the total issued Shares). GL China Long Equity Opportunities SPV L.P. may accept the Offer in accordance with its terms in respect of the 160,627 H Shares held by it.

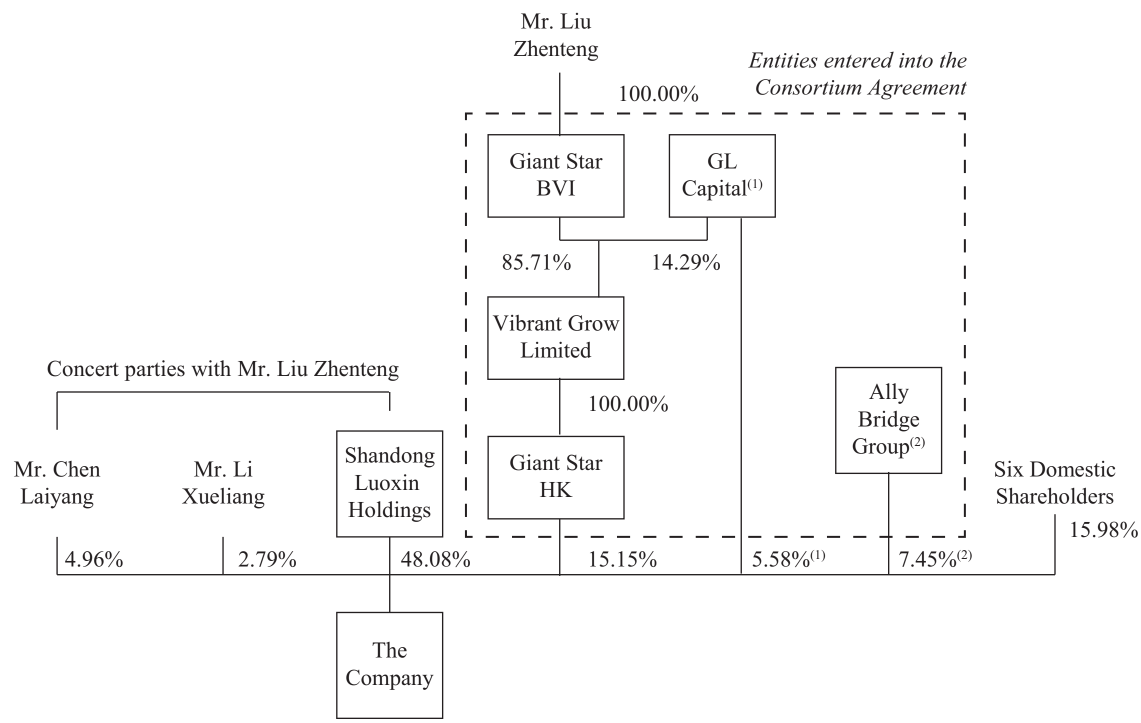
(2) Ally Bridge Group represents Ally Bridge LB Healthcare Master Fund Limited, which is controlled through an investment management agreement by Ally Bridge LB Management Limited, which is in turn held as to 50% by Mr. Yu Fan and 50% by Dr. Bin Li. Ally Bridge LB Healthcare Master Fund Limited may accept the Offer in accordance with its terms in respect of the 3,070,000 H Shares held by it.

(3) The 412,000 and 1,668,000 H Shares held by Mr. Liu Zhenfei and Ms. Zhang Yi respectively are subject to the Offer and each of them may accept the Offer in accordance with its terms.

(4) Zhuhai New Wolf Investment Partnership (L.P.) holds 32,563,995 Domestic Shares; Zhuhai Gaoling TCA Private Equity Fund (L.P.) holds 8,640,136 Domestic Shares; Mr. Wang Jian holds 9,360,136 Domestic Shares; Mr. Zhang Bin holds 30,239,822 Domestic Shares; Mr. Xu Feng holds 10,640,136 Domestic Shares; and Mr. Hou Haifeng holds 6,000,000 Domestic Shares, and each of them has entered into the Irrevocable Undertakings. For details, please refer to the sub-section headed "4. Irrevocable Undertakings" in the "Letter from Somerley Capital" in this Composite Document.

(5) The percentage figures above are approximate figures which have been rounded to the second decimal place.

(ii) Immediately after close of Offer (assuming the Offer is fully accepted):



Notes:

(1) It means (i) GL Instrument; (ii) 廣州德福股權投資基金合夥企業(有限合夥) (Guangzhou GL Capital Investment Fund L.P.); (iii) GL Trade Investment Limited ; and (iv) GL Healthcare Investment L.P.

(2) It means Ally Bridge Flagship, one of the Joint Offerors.

(3) The percentage figures above are approximate figures which have been rounded to the second decimal place.

5. OFFER

For further details of the Offer, please refer to the ''Letter from Somerley Capital'' which immediately follows this letter in this Composite Document.

6. REASONS FOR AND BENEFITS OF THE OFFER

The Group is principally engaged in the manufacturing and distribution of pharmaceutical products and has registered satisfactory profitability since its listing in 2005. Nevertheless, the operating environment of pharmaceutical enterprises has become difficult since 2015 due to the sustained decrease in tender prices, drug proportion, medical insurance premium control, the introduction of policies like quality consistency evaluation for generic drugs, reform on registration category for chemical drugs and reform on assessment and approval for pharmaceutical products. The Group is also facing increasing pressure over its sales and profitability due to the industrial policies and the market environment.

For the year ended 31 December 2016, the Group's profit attributable to Shareholders decreased by 23.07% year-on-year. In view of numerous newly implemented industry policies, the Group not only put significant effort on the establishment of its sales teams and proactively broadened its sales network so as to enhance the market share of its products but also adjusted its operating strategies in order to adapt to changes in the industry and market demands by investing additional resources in scientific research to consolidate its standing in scientific researches and technologies. However, it is anticipated that these measures taken by the Group will result in squeeze on its net profit margin in short-to-mid-term.

As a publicly listed company, investors would have different requirements with regard to their return on investment, which may differ from the development plan of the Group in the long run. The Offer, if completed, will enable the Company to have greater flexibility to make timely investment decision and to focus on the long term development of the Group.

The Joint Offerors also believe that the Offer provides a compelling opportunity for the H Shareholders to dispose of their H Shares (other than those owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer) and to realise their investment in the Company for cash at an attractive premium over the prevailing market price without having to suffer any illiquidity discount, for the following reasons:

- **Satisfactory return:** the offer price under the Offer represents 65.38 times the offer price of the H Shares at the initial public offering.

- **Premium valuation:** the Offer provides an opportunity for the H Shareholders to sell their H Shares and receive cash at a price significantly above the prevailing market price as set out in the sub-section headed "2.2 Comparisons of value" in the "Letter from Somerley Capital".

- **Certain and immediate value:** considering the low trading volume in the H Shares, it may be challenging for the H Shareholders to dispose of their H Shares without adversely affecting the market price of the H Shares. The Offer presents an opportunity for the H Shareholders to dispose of their H Shares and exit their investment for cash proceeds which may be reinvested in alternative investments with higher liquidity.

- **Avoid holding unlisted shares:** assuming the Offer will become unconditional, the Company will make an application for the listing of the H Shares to be withdrawn from the Stock Exchange in accordance with Rule 9.20 of the GEM Listing Rules. If the H Shares are delisted from the Stock Exchange, the H Shares will become securities that are not listed or quoted on any stock exchange and the liquidity of the H Shares will be severely reduced.

7. OUR INTENTION WITH RESPECT TO THE COMPANY

The Joint Offerors intend to continue with the existing business of the Group and do not intend to make any material changes to the current business operations of the Group and do not expect there to be a redeployment of the fixed assets of the Company following completion of the Offer. It is also the intention of the Joint Offerors that there will not be any material changes in the management or employees of the Group as a result of the Offer.

8. WITHDRAWAL OF LISTING OF THE H SHARES

The Joint Offerors intend to withdraw the listing of the H Shares of the Company from the Growth Enterprise Market of the Stock Exchange upon the Offer becoming unconditional.

Upon the Offer becoming unconditional, the Company will make an application for the Delisting in accordance with Rule 9.20 of the GEM Listing Rules. The Shareholders will be notified by way of an announcement of the dates for the last day for dealing in the H Shares and on which the Delisting will become effective.

9. OTHER INFORMATION

Your attention is drawn to the "Letter from Somerley Capital" which immediately follows this letter in this Composite Document, as well as the other information set out in the rest of this Composite Document.

Yours faithfully,
For and on behalf of
Ally Bridge Flagship LX (HK) Limited
Pang Andrew Chee On
Director

Yours faithfully,
For and on behalf of
Giant Star Global (HK) Limited
Liu Zhenteng
Director

Yours faithfully,
For and on behalf of
GL Capital Management GP II B.C. 4 Ltd. as the general partner of **GL Instrument Investment L.P.**
Li Zhenfu
Director

* *for identification purposes only*

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

11 April 2017

To the H Shareholders

Dear Sir or Madam,

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF GIANT STAR GLOBAL (HK) LIMITED (TO BE CO-INVESTED BY ENTITIES CONTROLLED BY MR. LIU ZHENTENG AND GL CAPITAL RESPECTIVELY) AND ALLY BRIDGE FLAGSHIP FOR ALL THE ISSUED H SHARES IN SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD. (OTHER THAN THOSE ALREADY OWNED, CONTROLLED OR AGREED TO BE ACQUIRED BY THE JOINT OFFERORS AND PARTIES ACTING IN CONCERT WITH ANY OF THEM WHO HAVE UNDERTAKEN NOT TO ACCEPT THE OFFER)

PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.

1. INTRODUCTION

On 13 March 2017, the Joint Offerors, GL Instrument and the Company jointly announced that a voluntary conditional offer is being contemplated by Somerley Capital, on behalf of the Joint Offerors, for the H Shares (other than those H Shares owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer) in accordance with the Takeovers Code which, if implemented, will result in the Delisting.

This letter forms part of the Composite Document and sets out, among other things, principal terms and conditions of the Offer. Further details of the terms of the Offer and details of the procedures for acceptance of the Offer are also set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

Shareholders are strongly advised to consider carefully the information contained in the "Letter from the Joint Offerors", the "Letter from the Board", the "Letter from the Independent Committee" and the "Letter from the Independent Financial Adviser" in this Composite Document.

Unless the context otherwise requires, terms defined in the Composite Document shall have the same meanings when used in this letter.

2. THE OFFER

2.1 Consideration for the Offer

The Offer will be made in accordance with the provisions of the Takeovers Code on the following basis:

For each H Share . . . . HK$17.00 in cash

The Joint Offerors will not increase the offer price as set out above.

2.2 Comparisons of value

The offer price under the Offer represents:

(1) a premium of approximately 31.78% over HK$12.90 which is the closing price per H Share as quoted on the Stock Exchange on the Last Trading Date;

(2) a premium of approximately 3.91% over HK$16.36 which is the closing price per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

(3) a premium of approximately 30.37% over HK$13.04 which is the average closing price per H Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Date;

(4) a premium of approximately 39.69% over HK$12.17 which is the average closing price per H Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;

(5) a premium of approximately 54.55% over HK$11.00 which is the average closing price per H Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;

(6) a premium of approximately 50.44% over HK$11.30 which is the average closing price per H Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date; and

(7) a premium of approximately 223.81% over RMB4.62 (equivalent to HK$5.25) which is the audited consolidated net asset value of each Share as at 31 December 2016.

2.3 Highest and lowest prices

During the Relevant Period, the highest per share closing price of the H Shares as quoted on the Stock Exchange was HK$16.38 which was recorded on 5 April 2017, and the lowest per share closing price of the H Shares as quoted on the Stock Exchange was HK$9.30 which was recorded on 18 October 2016.

2.4 Settlement of consideration

Settlement of the consideration in respect of valid acceptances of the Offer will be made as soon as possible but in any event within seven Business Days of the date of receipt of a complete and valid acceptance of the Offer or of the date on which the Offer becomes or is declared unconditional in all respects, whichever is the later.

2.5 Total consideration and confirmation of financial resources

Based on the cash offer price of HK$17.00 per H Share and the total number of H Shares subject to the Offer of 137,796,627 H Shares (representing the H Shares not already owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer), the total consideration of the Offer (assuming the Offer is accepted in full and there are no changes in the share capital of the Company) is approximately HK$2,342,542,659.

The consideration was determined by the Joint Offerors with reference to 90-day and 180-day average closing prices per H Share up to and including the Last Trading Date, the most recent published financial information of the Company and the Joint Offerors' assessment of the Company's business and its prospects and its market position.

The Offer will be financed as to (i) 67.04% of the total consideration by Giant Star HK by cash or the credit facility available under the Pingan Loan Facility or a combination of the above; and (ii) 32.96% of the total consideration by Ally Bridge Flagship by a combination of a credit facility available under the SHK Facility Letter and cash from its internal resources.

The Pingan Loan Facility may be used by Giant Star HK from time to time for the purpose of acquisition of the H Shares under the Offer after the Offer has become unconditional. If the facility provided under the Pingan Loan Facility has been used, the H Shares acquired by Giant Star HK shall be pledged to Ping An Bank Co., Ltd. as security. If the facility provided under the SHK Facility Letter is utilised, the H Shares acquired by Ally Bridge Flagship using the proceeds of each utilisation shall be pledged to Sun Hung Kai Investment Services Limited as security.

Somerley Capital has been appointed as the financial adviser to the Joint Offerors in respect of the Offer and is satisfied that sufficient financial resources are available to the Joint Offerors to satisfy full acceptance of the Offer.

3. CONDITIONS OF THE OFFER

The Offer is subject to the fulfilment or waiver, as applicable, of the following conditions:

(a) the passing by the Independent H Shareholders at the H Share Class Meeting to be convened for this purpose of a resolution approving the Delisting, provided that:

(i) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and

(ii) the number of votes cast, by way of poll, against the resolution is not more than 10% of the votes attaching to all the H Shares held by the Independent H Shareholders;

(b) the passing by the Independent Shareholders at the EGM to be convened for this purpose of a resolution approving the Delisting, provided that:

(i) approval is given by at least 75% of the votes attaching to the Shares held by the Independent Shareholders that are cast either in person or by proxy; and

(ii) the number of votes cast, by way of poll, against the resolution is not more than 10% of the votes attaching to all the Shares held by the Independent Shareholders;

(c) all necessary authorizations, consents and approvals (including approval in-principle) of any government or governmental or regulatory body or court or institution in relation to the Delisting and the Offer (including the implementation thereof) having been obtained, and remaining in full force and effect and not having been revoked or rescinded pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and other relevant jurisdictions;

(d) all necessary third party consents in relation to the Delisting and the Offer, pursuant to any agreement to which the Company or any of its subsidiaries is a party, where any failure to obtain such consent would have a material adverse effect on the business of the Group taken as a whole, having been waived or obtained and remaining in full force and effect and not having been revoked or rescinded by the relevant party(ies);

(e) no event having occurred which would have a material adverse effect on the legal ability of the Joint Offerors to proceed with or consummate the Offer or the Delisting;

(f) no event having occurred which would make the Delisting or the Offer or the acquisition of any of the H Shares void, unenforceable or illegal or which would restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Delisting or the Offer or any part thereof; and

(g) no change, fact, event or circumstance having occurred which has had or would reasonably be expected to have a material adverse effect on the business, financial position, operations or prospects of the Group taken as a whole.

Giant Star BVI (on behalf of the Joint Offerors) reserves the right to waive any of the conditions set out above (except for the conditions referred to in paragraphs (a), (b) and (c) above) in whole or in part. Referring to paragraph (c) above, in Hong Kong, the Delisting and the Offer shall comply with the requirements under the GEM Listing Rules and the Takeovers Code, including the approval of the Delisting by the Stock Exchange, and the Executive's consents for the waivers from the requirements under Rule 2.2(c) and Rule 14 of the Takeovers Code. As advised by the PRC lawyers to the Joint Offerors and the Company, no PRC regulatory approval is required for the making of the Offer by the Joint Offerors and the Delisting.

The Offer will be made in compliance with the Takeovers Code, which is administered by the Executive. In accordance with Note 2 to Rule 30.1 of the Takeovers Code, the Joint Offerors will not invoke any of the above conditions to the Offer so as to cause the Offer to lapse unless the circumstances which give rise to the right to invoke the condition are of material significance to the Joint Offerors in the context of the Offer.

If all of the conditions under the Offer are fulfilled or waived (as applicable), an announcement will be made in accordance with the Takeovers Code and the GEM Listing Rules as soon as practicable.

4. IRREVOCABLE UNDERTAKINGS

As at the Latest Practicable Date, there are 445,040,000 Domestic Shares in issue, of which 347,595,775 Domestic Shares in aggregate are owned by the following parties acting in concert with Giant Star HK: (i) Shandong Luoxin Holdings, the controlling shareholder of the Company owned as to 73.1% by Mr. Liu Baoqi and Mr. Liu Zhenteng in aggregate and Mr. Liu Zhenteng is the ultimate controlling shareholder of Giant Star HK, one of the Joint Offerors; (ii) 廣州德福股權投資基金合夥企業(有限合夥) (Guangzhou GL Capital Investment Fund L.P.*), which is an affiliated fund of GL Instrument, one of the Consortium Investors; and (iii) Mr. Li Xueliang and Mr. Chen Laiyang, both are directors of Vibrant Grow Limited which wholly owns Giant Star HK, details of which are set out in the section headed "4. Shareholding structure of the Company" in the "Letter from the Joint Offerors". The remaining 97,444,225 Domestic Shares, representing approximately 21.90% of the total issued Domestic Shares and approximately 15.98% of the total issued Shares, are owned by the Six Domestic Shareholders.

On 10 March 2017, each of the holders of the Domestic Shares (including the Six Domestic Shareholders) entered into the Irrevocable Undertakings in favour of the Joint Offerors and Giant Star BVI (for itself and on behalf of GL Instrument), pursuant to which each of them has irrevocably agreed and undertaken to the Joint Offerors and Giant Star BVI (for itself and on behalf of GL Instrument) that, among other things, (i) no offer has to be extended to such Domestic Shareholder if a voluntary conditional cash offer is made by the Joint Offerors or their nominee; (ii) even if such offer is extended to the Domestic Shareholders, it will not accept such offer in respect of the Domestic Shares beneficially owned by it; (iii) it will not offer, sell, give, transfer, pledge, encumber, charge, grant any right over or otherwise dispose of or deal with any of the Domestic Shares or any interest therein until completion of the Delisting (or in respect of some of the holders of the Domestic Shares, until the earlier of the completion of the Delisting and the date which is nine (9) months after the date of the Irrevocable Undertakings); and (iv) it will support the Delisting, including to vote in favour of the delisting resolution in the EGM. The Irrevocable Undertakings will terminate when the Offer is withdrawn, lapsed or closed.

Given that all the Independent Domestic Shareholders have entered into the Irrevocable Undertakings, no comparable offer will be made to the Domestic Shareholders and the Joint Offerors have applied to the Executive for a waiver from the requirements under Rule 14 of the Takeovers Code.

5. NO RIGHT OF COMPULSORY ACQUISITION

The Joint Offerors have no rights under the laws of the PRC and the Articles of Association of the Company to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the Offer. Accordingly, the H Shareholders are reminded that if they do not accept the Offer and the Offer subsequently becomes unconditional in all respects, and the H Shares are delisted from the Stock Exchange, this will result in the H Shareholders holding securities that are not listed on the Stock Exchange and the liquidity of the H Shares may be severely reduced. In addition, the Company will no longer be subject to the requirements under the GEM Listing Rules and may or may not continue to be subject to the Takeovers Code after completion of the Offer depending on whether it remains as a public company in Hong Kong for the purposes of the Takeovers Code thereafter.

The Joint Offerors have applied to the Executive for a waiver from the requirements under Rule 2.2(c) of the Takeovers Code, which requires a resolution to approve a delisting to be made subject to the relevant offeror(s) being entitled to exercise, and exercising, its rights of compulsory acquisition.

6. FURTHER TERMS AND GENERAL MATTERS RELATING TO THE OFFER

Hong Kong stamp duty

Seller's ad valorem stamp duty arising in connection with acceptance of the Offer will be payable by each H Shareholder accepting the Offer at the rate of 0.1% of (i) the market value of the H Shares; or (ii) the consideration payable by the Joint Offerors for such person's H Shares, whichever is higher, and will be deducted from the cash amount due to such H Shareholder under the Offer. The Joint Offerors will pay the buyer's ad valorem stamp duty on their own behalf.

H Shares will be acquired with all rights attaching thereto and free from all encumbrances

Any acceptance of the Offer by any H Shareholder will constitute a representation and warranty to the Joint Offerors by such H Shareholder that the H Shares acquired under the Offer and sold by such persons are free from all liens, charges, claims, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching thereto as at the date of the Joint Announcement or subsequently becoming attached thereto, including the right to receive in full all dividends and other distributions, if any, declared, made or paid on or after the date of the Joint Announcement.

Acceptance of the Offer would be irrevocable and would not be capable of being withdrawn, subject to the provisions of the Takeovers Code.

Overseas H Shareholders

The Joint Offerors intend to make available the Offer to all H Shareholders (other than holders of the H Shares which are owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer), including those who are resident outside Hong Kong, to the extent practicable.

The making of the Offer to the overseas H Shareholders and/or their ability to participate in the Offer may be subject to the laws of the relevant jurisdictions in which they are resident or domiciled. Any acceptance of the Offer by any H Shareholder will be deemed to constitute a representation and warranty from such H Shareholder to the Joint Offerors and the Company that all applicable legal and regulatory requirements to which they may be subject, including obtaining any governmental, exchange control and other consents, filing and registration and other necessary formalities, and the payment of any transfer or other taxes, have been complied with and that the Offer can be extended to and/or accepted by such H Shareholder lawfully under such requirements. It is the responsibility of the overseas H Shareholders wishing to accept the Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith. H Shareholders should consult their professional advisers if in doubt.

In the event that the despatch of the Composite Document to overseas H Shareholders is prohibited by any relevant law or may only be effected after compliance with conditions or requirements that are unduly burdensome, subject to the Executive's consent, the Composite Document will not be despatched to such overseas Shareholders. The Joint Offerors will apply for such waivers as may be required by the Executive pursuant to Note 3 to Rule 8 of the Takeovers Code at such time.

Closing Date of the Offer

The Offer will initially be open for acceptances for at least 21 days from the date of the Composite Document. Once all of the conditions under the Offer have been either fulfilled or waived (as applicable), the Offer will be declared unconditional and the Offer will be extended for a subsequent period of at least 28 days before the Offer is closed in order to allow sufficient time for those H Shareholders who have not initially accepted the Offer to accept the Offer or to process the transfer of their H Shares.

If any of the conditions under the Offer is not satisfied or (where applicable) waived on or before the Closing Date, the Offer will lapse unless the offer period is extended by the Joint Offerors.

7. WITHDRAWAL OF LISTING OF THE H SHARES

Upon the Offer becoming unconditional, the Company will make an application for the Delisting in accordance with Rule 9.20 of the GEM Listing Rules. The Shareholders will be notified by way of an announcement of the dates for the last day for dealing in the H Shares and on which the Delisting will become effective.

8. ADDITIONAL INFORMATION

In considering what action to take in connection with the Offer, the H Shareholders should consider their own tax position, and if they are in doubt, they should consult their own professional advisers. We emphasize that none of the Joint Offerors, GL Instrument, the Company, Somerley Capital or any of their respective directors or any person involved in the Offer, accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their acceptance of the Offer.

In making their decision, the H Shareholders must rely on their own examination of the terms of the Offer, including the merits and risks involved. The contents of this letter shall not be construed as any legal or business advice on the part of the Joint Offerors, GL Instrument, the Company, Somerley Capital or any of their respective professional advisers. The H Shareholders should consult their own professional advisers for professional advice.

Your attention is drawn to the information set out in:

(a) the ''Letter from the Joint Offerors'';

(b) the ''Letter from the Board'';

(c) the ''Letter from the Independent Committee'';

(d) the ''Letter from the Independent Financial Adviser''; and

(e) the accompanying Form of Acceptance and the additional information set out in the appendices to this Composite Document which form part of this Composite Document.

Yours faithfully,
For and on behalf of
Somerley Capital Limited
M. N. Sabine
Chairman

山東羅欣藥業集團股份有限公司
SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.*
(a joint stock limited company established in the People's Republic of China with limited liability)
(Stock code: 8058)

Executive Directors:
Mr. Liu Baoqi
Ms. Li Minghua
Mr. Han Fengsheng
Mr. Chen Yu
Mr. Liu Zhenteng

Non-executive Director:
Mr. Liu Zhenhai

Independent Non-executive Directors:
Mr. Foo Tin Chung, Victor
Mr. Fu Hongzheng
Prof. Du Guanhua
Ms. Huang Huiwen

Registered Office:
Luoqi Road
Linyi High and New Technology
Industries Development Zone,
Shandong Province, the PRC

Principal Place of Business in Hong Kong:
Room 1110, 11/F, Tower B
Southmark, 11 Yip Hing Street
Wong Chuk Hang
Hong Kong

11 April 2017

To the Shareholders

Dear Sirs/Madams,

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF GIANT STAR GLOBAL (HK) LIMITED (TO BE CO-INVESTED BY ENTITIES CONTROLLED BY MR. LIU ZHENTENG AND GL CAPITAL RESPECTIVELY) AND ALLY BRIDGE FLAGSHIP FOR ALL THE ISSUED H SHARES IN SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD. (OTHER THAN THOSE ALREADY OWNED, CONTROLLED OR AGREED TO BE ACQUIRED BY THE JOINT OFFERORS AND PARTIES ACTING IN CONCERT WITH ANY OF THEM WHO HAVE UNDERTAKEN NOT TO ACCEPT THE OFFER)

PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.

* *For identification purposes only*

1. INTRODUCTION

On 13 March 2017, the Joint Offerors, GL Instrument and the Company jointly announced that a voluntary conditional offer is being contemplated by Somerley Capital, on behalf of the Joint Offerors, for the H Shares (other than those H Shares owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer) in accordance with the Takeovers Code which, if implemented, will result in the Delisting.

Pursuant to Rule 2.1 of the Takeovers Code, an independent committee of the Board of the Company has been established to make recommendations to the Independent Shareholders as to whether the terms of the Offer are, or are not, fair and reasonable and as to acceptances and whether the Delisting is, or is not, fair and reasonable and as to voting. The Independent Committee comprises all of the independent non-executive Directors, namely, Mr. Foo Tin Chung, Victor, Mr. Fu Hongzheng, Prof. Du Guanhua and Ms. Huang Huiwen, each of whom has no direct or indirect interest in the Offer and the Delisting. Mr. Liu Zhenhai, the non-executive Director, is the nephew of Mr. Liu Baoqi who is the father of Mr. Liu Zhenteng, the ultimate owner of Giant Star HK, one of the Joint Offerors, and has a conflict of interest in the Offer and he is therefore excluded from the Independent Committee.

KGI Capital has been appointed with the approval of the Independent Committee as the Independent Financial Adviser to advise the Independent Committee as to whether the terms of the Offer are, or are not, fair and reasonable and as to acceptances and whether the Delisting is, or is not, fair and reasonable and as to voting.

The purpose of this Composite Document is to provide you with, among other matters, information relating to the Group, the Joint Offerors and the Offer as well as setting out the "Letter from the Independent Committee" containing its recommendations to the Independent Shareholders in respect of the Offer and Delisting and the "Letter from Independent Financial Adviser" containing its advice to the Independent Committee in respect of the Offer and the Delisting.

Unless the context otherwise requires, terms defined in the Composite Document shall have the same meanings when used in this letter.

2. THE OFFER

2.1 Consideration for the Offer

The Offer will be made in accordance with the provisions of the Takeovers Code on the following basis:

For each H Share . . . . .HK$17.00 in cash

The Joint Offerors will not increase the offer price as set out above.

Further details of the Offer are set out in the "Letter from Somerley Capital" on pages 20 to 27 of this Composite Document, Appendix I to this Composite Document and the accompanying Form of Acceptance.

2.2 Comparisons of value

The offer price under the Offer represents:

(1) a premium of approximately 31.78% over HK$12.90 which is the closing price per H Share as quoted on the Stock Exchange on the Last Trading Date;

(2) a premium of approximately 3.91% over HK$16.36 which is the closing price per H Share as quoted on the Stock Exchange on the Latest Practicable Date;

(3) a premium of approximately 30.37% over HK$13.04 which is the average closing price per H Share as quoted on the Stock Exchange for the five trading days up to and including the Last Trading Date;

(4) a premium of approximately 39.69% over HK$12.17 which is the average closing price per H Share as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Date;

(5) a premium of approximately 54.55% over HK$11.00 which is the average closing price per H Share as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Date;

(6) a premium of approximately 50.44% over HK$11.30 which is the average closing price per H Share as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Date; and

(7) a premium of approximately 223.81% over RMB4.62 (equivalent to HK$5.25) which is the audited consolidated net asset value of each Share as at 31 December 2016.

2.3 Highest and lowest prices

During the Relevant Period, the highest per share closing price of the H Shares as quoted on the Stock Exchange was HK$16.38 which was recorded on 5 April 2017, and the lowest per share closing price of the H Shares as quoted on the Stock Exchange was HK$9.30 which was recorded on 18 October 2016.

2.4 Settlement of consideration

Settlement of the consideration in respect of valid acceptances of the Offer will be made as soon as possible but in any event within seven Business Days of the date of receipt of a complete and valid acceptance of the Offer or of the date on which the Offer becomes or is declared unconditional in all respects, whichever is the later.

2.5 Total consideration and confirmation of financial resources

Based on the cash offer price of HK$17.00 per H Share and the total number of H Shares subject to the Offer of 137,796,627 H Shares (representing the H Shares not already owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer), the total consideration of the Offer (assuming the Offer is accepted in full and there are no changes in the share capital of the Company) is approximately HK$2,342,542,659.

The consideration was determined by the Joint Offerors with reference to 90-day and 180-day average closing prices per H Share up to and including the Last Trading Date, the most recent published financial information of the Company and the Joint Offerors' assessment of the Company's business and its prospects and its market position.

The Offer will be financed as to (i) 67.04% of the total consideration by Giant Star HK by cash or the credit facility available under the Pingan Loan Facility or a combination of the above; and (ii) 32.96% of the total consideration by Ally Bridge Flagship by a combination of a credit facility available under the SHK Facility Letter and cash from its internal resources.

The Pingan Loan Facility may be used by Giant Star HK from time to time for the purpose of acquisition of the H Shares under the Offer after the Offer has become unconditional. If the facility provided under the Pingan Loan Facility has been used, the H Shares acquired by Giant Star HK shall be pledged to Ping An Bank Co., Ltd. as security. If the facility provided under the SHK Facility Letter is utilised, the H Shares acquired by Ally Bridge Flagship using the proceeds of each utilisation shall be pledged to Sun Hung Kai Investment Services Limited as security.

Somerley Capital has been appointed as the financial adviser to the Joint Offerors in respect of the Offer and is satisfied that sufficient financial resources are available to the Joint Offerors to satisfy full acceptance of the Offer.

3. CONDITIONS OF THE OFFER

The conditions of the Offer are set out in the section headed "3. Conditions of the Offer" in the "Letter from Somerley Capital" of this Composite Document.

4. GENERAL INFORMATION ON THE GROUP

4.1 Information on the Group

The Company is a joint stock limited company established under the laws of the PRC with limited liability whose H Shares have been listed on the Growth Enterprise Market of the Stock Exchange since 9 December 2005.

The Group is principally engaged in the manufacturing and selling of pharmaceutical products, including wholesaling and manufacturing biochemical products and Chinese medicine.

4.2 Selected financial information of the Group

Selected financial information of the Group as extracted from the Company's audited consolidated financial statements for the three years ended 31 December 2016 prepared in accordance with the Hong Kong Financial Reporting Standards is set out below:

	For the year ended 31 December		
	2014	**2015**	**2016**
	RMB'million	*RMB'million*	*RMB'million*
Turnover	2,766.8	3,611.4	4,117.6
Profit before tax	527.9	571.9	463.8
Profit attributable to owners of the Company	443.6	492.9	379.2

4.3 Shareholding structure of the Company

The shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Offer (assuming the Offer is fully accepted and the total issued share capital of the Company remains unchanged) is as follows:

	As at the Latest Practicable Date		Immediately after completion of the Offer (assuming the Offer is fully accepted and the total issued share capital of the Company remains unchanged)	
	Number of Shares	*Approximate % of shareholding*	*Number of Shares*	*Approximate % of shareholding*
Domestic Shares				
Joint Offerors and their concert parties	347,595,775	57.02%	347,595,775	57.02%
— Giant Star HK and its concert parties	347,595,775	57.02%	347,595,775	57.02%
— Ally Bridge Flagship and its concert parties	—	—	—	—
Six Domestic Shareholders	97,444,225	15.98%	97,444,225	15.98%
Total Domestic Shares	445,040,000	73.01%	445,040,000	73.01%
H Shares				
Joint Offerors and their concert parties	32,074,000	5.26%	164,560,000	26.99%
— Giant Star HK and its concert parties	29,004,000	4.76%	119,142,232	19.54%
— Ally Bridge Flagship and its concert parties	3,070,000	0.50%	45,417,768	7.45%
Public Shareholders (i.e., Independent H Shareholders)	132,486,000	21.73%	—	—
Total H Shares	164,560,000	26.99%	164,560,000	26.99%
Total share capital of the Company	609,600,000	100.00%	609,600,000	100.00%

Note: The percentage figures in the table above are approximate figures which have been rounded to the second decimal place

As at the Latest Practicable Date, the Company does not have any other outstanding convertible securities, options, warrants or derivatives in issue which confer any right to subscribe for, convert or exchange into Domestic Shares or H Shares and/or rights over the Domestic Shares or H Shares in issue.

4.4 Joint Offerors' intention with respect to the Company

Your attention is drawn to the section headed "7. Our intention with respect to the Company" in the "Letter from the Joint Offerors" contained in this Composite Document. The H Shareholders should also note that upon the Offer becoming unconditional, the Company will make an application for the Delisting in accordance with Rule 9.20 of the GEM Listing Rules. The Board notes and welcomes the intention of the Joint Offerors with regard to the Company and the employees of the Company.

WARNING:

The Joint Offerors have no rights under the laws of the PRC and the Articles of Association of the Company to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the Offer. Accordingly, the H Shareholders are reminded that if they do not accept the Offer and the Offer subsequently becomes unconditional in all respects, and the H Shares are delisted from the Stock Exchange, this will result in the H Shareholders holding securities that are not listed on the Stock Exchange and the liquidity of the H Shares may be severely reduced. In addition, the Company will no longer be subject to the requirements under the GEM Listing Rules and may or may not continue to be subject to the Takeovers Code after completion of the Offer depending on whether it remains as a public company in Hong Kong for the purposes of the Takeovers Code thereafter.

5. WITHDRAWAL OF LISTING OF THE H SHARES

As set out in the section headed "7. Withdrawal of listing of the H Shares" in the "Letter from Somerley Capital" of this Composite Document, upon the Offer becoming unconditional, the Company will make an application for the Delisting in accordance with Rule 9.20 of the GEM Listing Rules. The Shareholders will be notified by way of an announcement of the dates for the last day for dealing in the H Shares and on which the Delisting will become effective.

6. RECOMMENDATION

Your attention is drawn to the recommendation of the Independent Financial Adviser to the Independent Committee, in respect of the Offer and the Delisting as set out in the "Letter from the Independent Financial Adviser" of this Composite Document and the recommendation of the Independent Committee in respect of the Offer and the Delisting as set out in the "Letter from the Independent Committee" of this Composite Document.

The Board (excluding the members of the Independent Committee and Mr. Liu Baoqi, Mr. Liu Zhenteng and Mr. Liu Zhenhai, each of whom has either a material interest or a conflict of interest in the Offer) unanimously recommend the H Shareholders to accept the Offer.

7. EGM AND H SHARE CLASS MEETING

The EGM and the H Share Class Meeting will be convened to approve, among others, the Delisting at 10:30 a.m. and 11:00 a.m., respectively, on Monday, 29 May 2017. Notices of the EGM and the H Share Class Meeting are set out in Appendices V and VI to this Composite Document. The Joint Offerors and the parties acting in concert with any of them will abstain from voting in each of the EGM and the H Share Class Meeting.

Whether or not you are able to attend the EGM or the H Share Class Meeting (as the case may be), you are strongly urged to complete the accompanying proxy forms in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in case of H Shareholders) or the Company's registered office at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC (in respect of the Domestic Shareholders) not less than 24 hours before the time for holding the EGM or the H Share Class Meeting (as the case may be) or any adjournment thereof or 24 hours before the time appointed for taking the poll.

Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or the H Share Class Meeting (as the case may be) or any adjourned meeting should you so wish if you have notified the Company not less than 24 hours in writing before the time scheduled for holding the EGM or the H Share Class Meeting (as the case may be). In such event, the returned form of proxy shall be deemed to have been revoked.

You are requested to complete the accompanying reply slip in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (in case of H Shareholders) or the Company's registered office at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC (in respect of the Domestic Shareholders). Voting at the EGM and the H Share Class Meeting will be taken by way of poll as required under the GEM Listing Rules and the Takeovers Code.

8. ADDITIONAL INFORMATION

You are advised to read the "Letter from the Joint Offerors", "Letter from Somerley Capital" of this Composite Document and the accompanying Form of Acceptance in respect of inter alia, further details of the Offer and the acceptance and settlement procedures of the Offer, as well as the additional information contained in the Appendices which form part of this Composite Document.

Yours faithfully,
For and on behalf of
Shandong Luoxin Pharmaceutical Group Stock Co., Ltd*
Han Fengsheng
Executive Director

罗 欣

山東羅欣藥業集團股份有限公司
SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.*

(a joint stock limited company established in the People's Republic of China with limited liability)

(Stock code: 8058)

Executive Directors:
Mr. Liu Baoqi
Ms. Li Minghua
Mr. Han Fengsheng
Mr. Chen Yu
Mr. Liu Zhenteng

Non-executive Director:
Mr. Liu Zhenhai

Independent Non-executive Directors:
Mr. Foo Tin Chung, Victor
Mr. Fu Hongzheng
Prof. Du Guanhua
Ms. Huang Huiwen

Registered Office:
Luoqi Road
Linyi High and New Technology
Industries Development Zone,
Shandong Province, the PRC

Principal Place of Business in Hong Kong:
Room 1110, 11/F, Tower B
Southmark, 11 Yip Hing Street
Wong Chuk Hang
Hong Kong

11 April 2017

To the Independent Shareholders

Dear Sirs/Madams,

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF GIANT STAR GLOBAL (HK) LIMITED (TO BE CO-INVESTED BY ENTITIES CONTROLLED BY MR. LIU ZHENTENG AND GL CAPITAL RESPECTIVELY) AND ALLY BRIDGE FLAGSHIP FOR ALL THE ISSUED H SHARES IN SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD. (OTHER THAN THOSE ALREADY OWNED, CONTROLLED OR AGREED TO BE ACQUIRED BY THE JOINT OFFERORS AND PARTIES ACTING IN CONCERT WITH ANY OF THEM WHO HAVE UNDERTAKEN NOT TO ACCEPT THE OFFER)

PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.

* *For identification purposes only*

We refer to the Composite Document of which this letter forms part. Unless the context requires otherwise, capitalised terms used herein have the same meanings as defined in the Composite Document.

On 13 March 2017, the Joint Offerors, GL Instrument and the Company jointly announced that Somerley Capital will, on behalf of the Joint Offerors, make a voluntary conditional offer for all the issued H Shares in the Company (other than those already owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer).

Details of the Offer are set out in the "Letter from the Joint Offerors", "Letter from Somerley Capital", "Letter from the Board" and Appendix I to the Composite Document and the Form of Acceptance.

We have been appointed as members of the Independent Committee to make a recommendation to the Independent Shareholders in respect of the Offer and the Delisting. KGI Capital has been appointed as the Independent Financial Adviser to advise us as to whether the terms of the Offer and the Delisting are fair and reasonable so far as the Independent Shareholders are concerned and whether the Independent Shareholders should accept the Offer and approve the Delisting.

Having considered the terms of the Offer and the Delisting and taken into account the advice of KGI Capital, in particular, the factors, reasons and recommendations set out in the "Letter from the Independent Financial Adviser" of the Composite Document, we consider that the terms of the Offer and the Delisting are fair and reasonable so far as the Independent Shareholders are concerned.

On this basis, we recommend the Independent Shareholders to accept the Offer and to vote in favour of the resolution in approving the Delisting at the EGM and the H Share Class Meeting (as the case may be). It should be noted that in arriving at this view, we have taken into account "Letter from the Independent Financial Adviser" based on the audited financial results of the Company for the year ended 31 December 2016 as set out in Appendix II to the Composite Document.

Yours faithfully,
For and on behalf of
Independent Committee

Mr. Foo Tin Chung, Victor
Independent Non-executive Director

Mr. Fu Hongzheng
Independent Non-executive Director

Prof. Du Guanhua
Independent Non-executive Director

Ms. Huang Huiwen
Independent Non-executive Director

Set out below is the text of the letter of advice from KGI Capital Asia Limited, the independent financial adviser to the Independent Committee of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd., prepared for inclusion in this composite document.

凱基金融亞洲 中華開發金控 CHINA DEVELOPMENT FINANCIAL
KGI CAPITAL ASIA

41/F, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Tel: 2878 6888
Fax: 2970 0080

11 April 2017

To the Independent Committee of
Shandong Luoxin Pharmaceutical Group Stock Co., Ltd.

Dear Sirs,

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY CAPITAL LIMITED ON BEHALF OF GIANT STAR GLOBAL (HK) LIMITED (TO BE CO-INVESTED BY ENTITIES ULTIMATELY CONTROLLED BY MR. LIU ZHENTENG AND GL CAPITAL RESPECTIVELY) AND ALLY BRIDGE FLAGSHIP FOR ALL THE ISSUED H SHARES IN SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD. (OTHER THAN THOSE ALREADY OWNED, CONTROLLED OR AGREED TO BE ACQUIRED BY THE JOINT OFFERORS AND PARTIES ACTING IN CONCERT WITH ANY OF THEM WHO HAVE UNDERTAKEN NOT TO ACCEPT THE OFFER)

PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Committee in respect of the proposed Delisting via voluntary conditional offer by the Joint Offerors for all the issued H Shares in the Company, other than those already owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the offer (the "**Proposal**"). Details of the Proposal are contained in the composite offer document to the Shareholders dated 11 April 2017 (the "**Composite Document**"), of which this letter forms part. Unless otherwise defined, capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document.

As stated in the letter from the Board in the Composite Document, Somerley Capital, on behalf of the Joint Offerors, will make a voluntary conditional offer for all the issued H Shares in the Company (other than those already owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the offer) in accordance with the Takeovers Code.

Pursuant to Rule 2.1 of the Takeovers Code, an Independent Committee has been established to make recommendations to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptances and whether the Delisting is fair and reasonable and as to voting. The Independent Committee comprises all the independent non-executive Directors, namely, Mr. Foo Tin Chung, Victor, Mr. Fu Hongzheng, Ms. Huang Huiwen and Prof. Du Guanhua, each of whom has no direct or indirect interest in the Offer and the Delisting.

In this regard, we, KGI Capital Asia Limited, has been appointed as Independent Financial Adviser to advise the Independent Committee as to whether the terms of the Offer are fair and reasonable and as to acceptances, whether the Delisting is fair and reasonable and as to voting. We are not associated or connected with the Company, the Joint Offerors, GL Instrument or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them, and accordingly, are considered eligible to give independent advice on the Proposal. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we shall receive any fees or benefits from the Company, the Joint Offerors, GL Instrument or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information, financial information and facts provided, and the opinions and representations expressed to us by the Company, the executive Directors and the management of the Company. We have also assumed that all such information, financial information, facts, statements of belief, opinion and intention and representation made to us by the executive Directors or referred to in the Composite Document were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Composite Document and provided to us by Company, the executive Directors and the management of the Company. We have been advised by the executive Directors that no material facts have been omitted from the information provided to us and referred to in the Composite Document. We have also assumed that all statement of intention of the Company, the executive Directors, the management of the Company as set out in the Composite Document will be implemented. We have assumed that all information and representations made or referred to in the Composite Document and provided to us by the Company, the executive Directors and the management of the Company, for which they were solely and wholly responsible, were true, complete and accurate at the time they were made and shall continue to be true, complete and accurate at the date of the Latest Practicable Date. Shareholders will be informed as soon as reasonably practicable afterwards if we become aware of any material change to the above during the period from the date of the Latest Practicable Date.

In formulating our opinion, we have obtained and reviewed relevant information and documents provided by the Company, the executive Directors and the management of the Company in connection with the Proposal and discussed with the management of the Company so as to assess the fairness and reasonableness of the terms of the Proposal. Relevant information and documents included, among other things, the annual report of the Company for the year ended 31 December 2014 (the "**2014 Annual Report**"), the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**"), the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**"), the letter from the Board in the Composite Document ("**Letter from the Board**"), the letter from Somerley Capital in the Composite Document ("**Letter from Somerley**") and the letter from Joint Offerors in the Composite Document ("**Letter from the Joint Offerors**"). We believe that we have reviewed sufficient information to enable us to reach an informed view, to justify our reliance on the accuracy of the information contained in the Composite Document and to provide a reasonable basis for our opinion regarding the terms of the Proposal. We have not, however, carried out any independent verification of the information and representations provided to us by the management of the Company and the executive Directors nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Company or their respective subsidiaries or associated companies. We have also assumed that all information and representations contained and referred to in the Composite Document are true as at the Latest Practicable Date, and that Shareholders will be notified of any material changes to such information and representations as soon as reasonably practicable in accordance with Rule 9.1 of the Takeovers Code.

We have not considered the tax, regulatory and other legal implications on the Shareholders of their acceptances or non-acceptance of the Offer since these are particular to their individual circumstances. In particular, the Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offer in respect of the outstanding Options and, if in any doubt, should consult their own professional advisers.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they existed on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date. Our opinion does not in any manner address the Joint Offerors' own decision to proceed with the Proposal. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein, which may come or be brought to our attention after the Latest Practicable Date. Except for its inclusion in the Composite Document, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

BACKGROUND AND PRINCIPAL TERMS OF THE PROPOSAL

On 13 March 2017, the Joint Offerors, GL Instrument and the Company jointly announced that a voluntary conditional offer is being contemplated by Somerley Capital, on behalf of the Joint Offerors, for the H Shares (other than those H Shares owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them who have undertaken not to accept the Offer) in accordance with the Takeovers Code which, if implemented, will result in the Delisting. The terms of the Proposal are as follows:

For each H Share.. HK$17.0 in cash

The Joint Offerors will not increase the offer price for the Offer as set out above.

As stated in the Letter from the Board, based on the offer price of HK$17.0 per H Share and the total number of H Shares subject to the Offer of 137,796,627 H Shares (representing the H Shares not already owned, controlled or agreed to be acquired by the Joint Offerors and parties acting in concert with any of them), the maximum value of the Offer (assuming the Offer is accepted in full and there are no changes in the share capital of the Company) is approximately HK$2,342,542,659. The consideration payable under the Offer was determined on the basis of the most recent published financial information of the Company, the Joint Offerors' assessment of the Company's business and its prospects and its market position, and the trend of the market price of the Shares. The consideration will be paid in cash. The Joint Offerors will finance the consideration payable in respect of the acceptances received under the Offer using their own cash resources and credit facilities.

As disclosed in the Letter from Somerley, the Offer is subject to the fulfilment or waiver, as applicable, of the following conditions:

(a) the passing by the Independent H Shareholders at the H Share Class Meeting to be convened for this purpose of a resolution approving the Delisting, provided that:

   (i) such approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and

   (ii) the number of votes cast, by way of poll, against the resolution is not more than 10% of the votes attaching to all the H Shares held by the Independent H Shareholders;

(b) the passing by the Independent Shareholders at the EGM to be convened for this purpose of resolution approving the Delisting, provided that:

   (i) such approval is given by at least 75% of the votes attaching to the Shares held by the Independent Shareholders that are cast either in person or by proxy; and

   (ii) the number of votes cast, by way of poll, against the resolution is not more than 10% of the votes attaching to all the Shares held by the Independent Shareholders;

(c) all necessary authorizations, consents and approvals (including approval in principle) of any government or governmental or regulatory body or court or institution in relation to the Delisting and the Offer (including the implementation thereof) having been obtained, and remaining in full force and effect and not having been revoked or rescinded pursuant to the provisions of any laws or regulations in Hong Kong, the PRC and other relevant jurisdictions;

(d) all necessary third party consents in relation to the Delisting and the Offer, pursuant to any agreement to which the Company or any of its subsidiaries is a party, where any failure to obtain such consent would have a material adverse effect on the business of the Group taken as a whole, having been waived or obtained and remaining in full force and effect and not having been revoked or rescinded by the relevant party(ies);

(e) no event having occurred which would have a material adverse effect on the legal ability of the Joint Offerors to proceed with or consummate the Offer or the Delisting;

(f) no event having occurred which would make the Delisting or the Offer or the acquisition of any of the H Shares void, unenforceable or illegal or which would restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Delisting or the Offer or any part thereof; and

(g) no change, fact, event or circumstance having occurred which has had or would reasonably be expected to have a material adverse effect on the business, financial position, operations or prospects of the Group taken as a whole.

Giant Star BVI (on behalf of the Joint Offerors) reserves the right to waive any of the conditions set out above (except for the conditions referred to in paragraphs (a), (b) and (c) above) in whole or in part. Referring to paragraph (c) above, in Hong Kong, the Delisting and the Offer shall comply with the requirements under the GEM Listing Rules and the Takeovers Code, including the approval of the Delisting by the Stock Exchange, and the Executive's consents for the waivers from the requirements under Rule 2.2(c) and Rule 14 of the Takeovers Code. As advised by the PRC lawyers to the Joint Offerors, no PRC regulatory approval is required for the making of the Offer by the Joint Offerors and the Delisting.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Joint Offerors will not invoke any of the above conditions to the Offer so as to cause the Offer to lapse unless the circumstances which give rise to the right to invoke the condition are of material significance to the Joint Offerors in the context of the Offer.

Details of the terms and conditions of the Offer are contained in the Letter from Somerley. Independent Shareholders are encouraged to read the letter and information set out in the Composite Document in detail.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation, we have taken into account the principal factors and reasons set out below.

1. Background and Information of the Group

The Company is a joint stock limited company incorporated in the PRC with limited liability and whose H Shares were listed on the Growth Enterprise Market ("**GEM**") Board of the Stock Exchange from 9 December 2005. The Group is principally engaged in the manufacturing and selling of pharmaceutical products, including wholesaling and manufacturing biochemical products and Chinese medicine.

(1) Historical financial performance of the Group

Set out below are the summarised audited consolidated statements of profit or loss and other comprehensive income of the Group for the years ended 31 December 2014, 2015 and 2016.

	For the year ended 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Revenue	2,766,788	3,611,380	4,117,573
Gross profit	1,892,728	2,477,276	3,117,540
Gross profit margin	68.41%	68.60%	75.71%
Profit before tax	527,925	571,872	463,823
Net profit	443,865	490,607	380,668
Net profit margin	16.04%	13.59%	9.25%
Net profit attributable to:			
Owners of the Company	443,553	492,929	379,178
Non-controlling interests	312	(2,322)	1,470

(a) Revenue

For the year ended 31 December 2015, the Group recorded a revenue of approximately RMB3,611 million, representing a growth of approximately 30.53% from approximately RMB2,767 million in 2014. According to the 2015 Annual Report, the growth in revenue was attributable to: (i) rapid growth rate of sales of system specified medicine accounted for approximately 36.50% year-on-year basis; and (ii) continuing expanding its sales network.

For the year ended 31 December 2016, the Group recorded a revenue of approximately RMB4,118 million, representing a growth of approximately 14.02% compared to 2015. According to the 2016 Annual Report, the growth in revenue was attributable to: (i) continuing upgrading of the product portfolio; (ii) boosting the sales of high value-added products; and (iii) acceleration of sales network development to increase the market share of products. The year-on-year revenue growth in 2016 was lower as compared to that of 2015.

(b) Gross profit

For the year ended 31 December 2015, the Group's gross profit amounted to approximately RMB2,477 million, representing a growth of approximately 30.88% compared to approximately RMB1,893 million in 2014. The Group's gross profit margin was approximately 68.60%, growing slightly by approximately 0.19% from approximately 68.41% in 2014, which are considered to be leveled off.

For the year ended 31 December 2016, the Group's gross profit was approximately RMB3,118 million, representing a growth of approximately 25.85% compared to 2015. The Group's gross profit margin was approximately 75.71%, growing by 7.11% from approximately 68.60% in 2015. According to the 2016 Annual Report, the increase in gross profit margin as compared to 2015 was mainly attributable to the decrease of cost of sales, which partly due to the Group utilized more self-produced bulk medicines in production.

(c) Net profit

For the year ended 31 December 2015, the Group's net profit was approximately RMB491 million, representing an increase of approximately 10.53% compared to approximately RMB444 million in 2014. The Group's net profit margin was approximately 13.59%, decreased by approximately 2.45% from approximately 16.04% in 2014. According to the 2015 Annual Report and discussion with the Directors, despite the increase in gross profit, the decrease in net profit margin was attributable to the increase of operating expenditure of 36.92% which was mainly due to: (i) the newly acquired or established subsidiaries, Jinan Luoxin, Chongqin Luoxin and Shanghai R&D Centre which are under further business development and were incurring overhead costs before generating revenue; (ii) certain additional expenses which were attributable to research and development undertaken by Shanghai R&D Centre; and (iii) an increase of selling and distribution expenses arising from additional recruitment for business development personnel of the sales team which in turn resulted in an increase of remuneration expense.

For the year ended 31 December 2016, the Group's net profit was approximately RMB381 million, representing a decrease of approximately 22.41% compared to 2015. The Group's net profit margin was approximately 9.25%, declining by 4.34% from approximately 13.59% in 2015. The decrease in net profit was mainly due to the increase in distribution and selling expenses. According to the 2016 Annual Report, there is an increase of approximately 37.80% in operating expenditure which was mainly due to: (i) the subsidiaries, Jinan Luoxin, Chongqing

Luoxin and Shanghai R&D Centre are still under business development and were incurring overhead cost before generating revenue; (ii) continuing additional R&D expense were attributed to Shanghai R&D Centre, and (iii) further recruitment for business development personnel of the sales team which led to an increase of remuneration expense.

(2) Historical financial position of the Group

Set out below are the summarised audited consolidated statements of financial position of the Group as at 31 December 2014, 2015 and 2016.

	As at 31 December		
	2014	**2015**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
Non-current assets	874,739	1,045,852	1,178,690
Current assets	2,198,954	2,594,325	3,189,061
Total assets	3,073,693	3,640,177	4,367,751
Current liabilities	706,097	878,238	1,364,156
Non-current liabilities	20,380	89,526	136,285
Total liabilities	726,477	967,764	1,500,441
Equity attributable to owners of the Company	2,343,420	2,653,153	2,819,092
Non-controlling interests	3,796	19,260	48,218
Total equity	2,347,216	2,672,413	2,867,310

(a) Assets

As at 31 December 2016, the Group's total assets amounted to approximately RMB4,368 million, representing a growth of approximately 20.0% as compared to 31 December 2015. The increase in total assets was mainly attributable to: (i) the increase of inventories; and (ii) the increase of trade and bills receivables.

As at 31 December 2016, the Group's non-current assets amounted to approximately RMB1,179 million, representing approximately 27.0% of the total assets. Non-current assets mainly comprised: (i) property, plant and equipment of approximately RMB884 million, which mainly comprised building, plants and machineries, motor vehicles, and office equipment etc.; (ii) construction-in-progress of approximately RMB100 million; (iii) prepaid lease payments of approximately RMB98 million; and (iv) available-for-sale financial assets of approximately RMB89 million, etc.

As at 31 December 2016, the Group's current assets amounted to approximately RMB3,189 million, representing approximately 73.0% of the total assets. Current assets mainly comprised: (i) financial assets at fair value through profit and loss of approximately RMB1,038 million; (ii) trade and bills receivables of approximately RMB 710 million; (iii) cash and bank balances of approximately RMB556 million; (iv) inventories of approximately RMB505 million; (v) other receivables, deposits and prepayments of approximately RMB295 million; and (vi) fixed deposits of approximately RMB85 million.

(b) Liabilities

As at 31 December 2016, the Group's total liabilities amounted to approximately RMB1,500 million, representing a growth of approximately 55.04% as compared to 31 December 2015.

As at 31 December 2016, the Group's current liabilities amounted to approximately RMB1,364 million, representing approximately 90.92% of the total liabilities. Current liabilities mainly comprised: (i) other payables and accruals of approximately RMB994 million; (ii) trade and bills payables of approximately RMB228 million; and (iii) deposits received of approximately RMB80 million; and (iv) tax payable of approximately RMB63 million.

As at 31 December 2016, the Group's non-current liabilities amounted to approximately RMB136 million, representing approximately 9.08% of the total liabilities. Non-current liabilities represented deferred income of approximately RMB136 million.

(c) Equity

The Group's total equity grew gradually and amounted to approximately RMB2,672 million and RMB2,867 million as at 31 December 2015 and 31 December 2016, respectively. As confirmed with the Company, the Company had not conducted any fund raising exercise since 31 December 2014 up to the Latest Practicable Date. The company had paid final dividend of approximately RMB183 million and RMB213 million (before tax) for the year ended 31 December 2014 and 2015 respectively, whilst the Company has not proposed any dividend for the year ended 31 December 2016. As such, we consider that the growth in the total equity of the Group has been mainly contributed by the profits generated by the Group in recent years.

(3) Shareholding structure of the Group

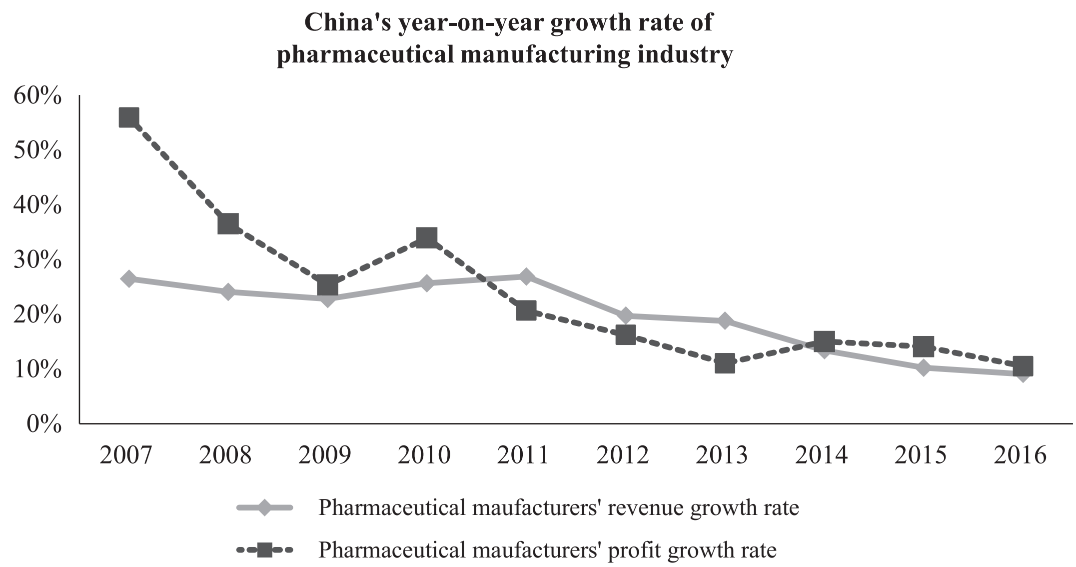
As stated in the Letter from the Board, the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Offer (assuming the Offer is fully accepted by the Independent H Shareholders and there are no changes in the share capital of the Company) is as follows:

	As at the date of this Composite Document		Immediately after completion of the Offer (assuming the Offer is fully accepted by the Independent H Shareholders and the total issued share capital of the Company remains unchanged)	
	Number of Shares	*Approximate % of shareholding*	*Number of Shares*	*Approximate % of shareholding*
Domestic Shares				
Joint Offerors and their concert parties	347,595,775	57.02%	347,595,775	57.02%
— Giant Star HK and its concert parties	347,595,775	57.02%	347,595,775	57.02%
— Ally Bridge Flagship and its concert parties	—	—	—	—
Six Domestic Shareholders	97,444,225	15.98%	97,444,225	15.98%
Total Domestic Shares	445,040,000	73.01%	445,040,000	73.01%
H Shares				
Joint Offerors and their concert parties	32,074,000	5.26%	164,560,000	26.99%
— Giant Star HK and its concert parties	29,004,000	4.76%	119,142,232	19.54%
— Ally Bridge Flagship and its concert parties	3,070,000	0.50%	45,417,768	7.45%
Public Shareholders (i.e., Independent H Shareholders)	132,486,000	21.73%	—	—
Total H Shares	164,560,000	26.99%	164,560,000	26.99%
Total share capital of The Company	609,600,000	100.00%	609,600,000	100.00%

As at the Latest Practicable Date, the Company does not have in issue any other outstanding convertible securities, options, warrants or derivatives in issue which confer any right to subscribe for, convert or exchange into Domestic Shares or H Shares and/or rights over the Domestic Shares or H Shares in issue.

2. Overview of the China's Pharmaceutical Industry

The chart below illustrates China' year-on-year growth rate of pharmaceutical manufacturing industry since 2007 up to 2016, and it shows a pattern of consistently trending down in both revenue and profit growth rate.



Source: National Bureau of Statistics of China

As explained in the graph, the total revenue in China' pharmaceutical manufacturing industry had been stayed in a high growth trend from 2007 to 2011 with year-on-year growth rate higher than 20%. However, since 2012, the year-on-year growth rates in both revenue and profit slowed down and recorded to below 20%, signaling a low growth era.

According to the website of National Bureau of Statistics of China ("**NBSC**"), the revenue from the pharmaceutical manufacturers in China has been increased approximately by 4.7 times from approximately RMB597 billion in 2007 to approximately RMB2,806 billion in 2016; and the profit from the pharmaceutical manufacturers in China has been increased approximately by 5.17 times from approximately RMB58 billion in 2007 to approximately RMB300 billion in 2016. However, the year-on-year growth rate on pharmaceutical manufacturers' revenue has been slowed down since 2012 with an average year-on-year growth rate of approximately 14.22% during 2012 to 2016, while comparing to an average year-on-year growth rate of approximately 25.15% during 2007 to 2011. The year-on-year growth rate on pharmaceutical manufacturer's profit has also been slowed down since 2012 with an average year-on-year growth rate of approximately 13.36% during 2012 to 2016, while comparing to an average year-on-year growth rate of approximately 34.47% during 2007 to 2011. In 2016, the year-on-year growth rate in both revenue growth and profit growth have dropped to the lowest in recent ten years at approximately 9.07% and approximately 10.51% respectively.

We have also made reference to a discussion paper headed "Challenges of the 'two invoices" system for China's pharmaceutical industry" issued by KPMG China on 22 February 2017 (the "**KPMG Discussion Paper**").

According to the KPMG Discussion Paper, on 26 December 2016, the State Council Healthcare Reform Committee, National Health and Family Planning Commission, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce, State Administration of Taxation and State Administration of Traditional Chinese Medicine jointly released Opinion on the implementation of the 'Two Invoices' System in the Procurement of Pharmaceutical Products by Public Medical Institutions (trial) (Guoyigaibanfa [2016] No. 4), which was officially released on 9 January 2017.

The 'two invoices' system aimed to regulate and streamline the pharmaceutical procurement process, where the pharmaceutical manufacturers shall directly bid for the procurement instead of the distributors. The manufacturers shall perform direct delivery or commission a qualified distributor to deliver the pharmaceutical products, and thus creating a more healthy distribution environment where the price of pharmaceutical products is reasonable and affordable for the public. While adopting the new 'two invoices' system, the distribution management for pharmaceutical industry switched from a hierarchical structure to a flat structure. Pharmaceutical manufacturers may have to engage different distributors in each province based on the each province's authorized distributor list, for instance, in some remote areas where the first-tier distributor does not have a direct channel, pharmaceutical manufactures would need to deal directly with the distributors in those locations. This will increase the administrative cost, distribution cost and commission payable to distributors, since increasing number of distributors had to be managed by the pharmaceutical manufacturers.

As stated in the KPMG Discussion Report, by transforming into the 'two invoices' system, multiple distributors in the same supply chain has to be faded out as a single-layer distributor, and inventories maintained by the downstream distributors have to be cleared. This will have an impact on pharmaceutical manufacturers' sales in the short term. Besides under the current practice, a distributor could earn from a higher margins as it covers the promotion, marketing and sales support-related services provided. However, under the new system implemented, distributors would purely act as a trader of pharmaceutical products, to purchase from the manufacturers and submit the invoice to the hospital for verifying the products are delivered in the same batch as sold by the manufacturers. The promotion, marketing and sales support-related services would be delegated to a third party contract sales organization which incurred additional cost for the pharmaceutical manufacturers, therefore the determination of the ex-factory price and margins would then pose a challenge for the manufacturers.

We have also noted that the Ministry of Human Resources and Social Security has released the updated 2017 list of medicines covered by its basic medical insurance schemes on 21 February 2017, and this was the first update of the National Reimbursement Drug List since 2009. Drugs on the list would be available for reimbursement under the government health insurance plans that covers most Chinese citizens. As such, pharmaceutical manufacturers' profitability might be affected due to inclusion and exclusion of their manufactured drugs on the newly released list of medicines.

3. Reasons for and Benefits of the Proposal

As set out in the letter from the Letter from the Joint Offerors, the Group's principal activity is the manufacturing and distribution of pharmaceutical products and has registered satisfactory profitability since its listing in 2005. Nevertheless, the operating environment of pharmaceutical enterprises has become difficult since 2015 due to the sustained decrease in tender prices, drug proportion, medical insurance premium control, the introduction of policies like quality consistency evaluation for generic drugs, reform on registration category for chemical drugs and reform on assessment and approval for pharmaceutical products. The Group is also facing increasing pressure over its sales and profitability due to the industrial policies and the market environment. For the year ended 31 December 2016, the Group's net profit attributable to shareholders decreased by approximately 22.41% year-on-year. In view of numerous newly-implemented industry policies, the Group not only put significant effort on the establishment of its sales teams and proactively broaden its sales network so as to enhance the market share of its products but also adjusted its operating strategies in order to adapt to changes in the industry and market demands by investing additional resources in scientific research to consolidate its standing in scientific researches and technologies. However, it is anticipated that these measures taken by the Group will result in squeeze on its net profit margin in short-to-mid-term.

Having considered the recent business and financial performance of the Group as discussed in the paragraph headed "Background and Information of the Group" above and the development of the PRC pharmaceutical industry as discussed in the paragraph headed "Overview of the China's Pharmaceutical Industry" above, we concur with the view of the Directors that the slowdown of the pharmaceutical industry growth and the distribution system reform implemented by the government, continue providing challenges for the Group's business and operation. Despite the growth in revenue as a result of the continued expansion of its sales force, the Group had been suffering from an adverse impact on net profit margin and net profit as a result of the rising operating costs in the past two financial years. As confirmed by the Directors, a series of policies regarding the pharmaceutical industry have been introduced, including the issuance of new classification measure of drug registration relating to technology and research, implementation of quality consistency evaluation for generic drugs, shortage of resources at clinical bases as a result of upgraded clinical standards as well as decreasing drug prices under the relevant bidding system in the market. Such policies have posed new and enormous challenges to the pharmaceutical industry in the short run.

We therefore concur with the Directors that it is necessary for the Group to take measures, including but not limited to cost control and operation process optimization measures, new R&D center for new products development and expansion of sales network, to continue to consolidate its market position under the current deteriorating operating environment of the pharmaceutical producers. By adopting such measures, the Group may suffer from a worse than expected financial performance due to the initial investment made to expand its business and invest heavily in scientific research. It may not be in line with the expectation of investors as they may need to suffer from a period of lower than expected return on investment. The Proposal hence represents a good opportunity to provide the Group with greater flexibility to make timely investment decisions for those measures when appropriate, while at the same time, is beneficial to the Shareholders in terms of the premium valuation.

4. Intentions of the Joint Offerors Regarding the Group

As set out in the Letter from the Joint Offerors, the Joint Offerors intend to continue the existing business of the Group upon successful completion of the Proposal and that the Joint Offerors have no intention to (i) make any material changes to the current business operations of the Group; (ii) redeploy any of the fixed assets of the Group after completion of the Proposal; and (iii) make any material changes in the management or employees of the Group.

Upon the Offer becoming unconditional and subject to the approval of the Delisting by the Independent Shareholders at the EGM and the approval of the Privatization by the Independent H Shareholders at the H Share Class Meeting, the Company will make an application for the Delisting in accordance with Rule 9.20 of the GEM Listing Rules.

5. Analysis of the Price Performance and Trading Liquidity of the H Shares

(1) Price performance

As set out in the Letter from the Board, the cash offer price offered under the Offer represents:

(i) a premium of approximately 31.78% over HK$12.90 which is the closing price per H Share as quoted on the Stock Exchange on the Last Trading Date;

(ii) a premium of approximately 30.37% over HK$13.04 which is the average closing price per H Share as quoted on the Stock Exchange for the five trading days up and including the Last Trading Date;

(iii) a premium of approximately 39.69% over HK$12.17 which is the average closing price per H Share as quoted for the 30 trading days up to and including the Last Trading Date;

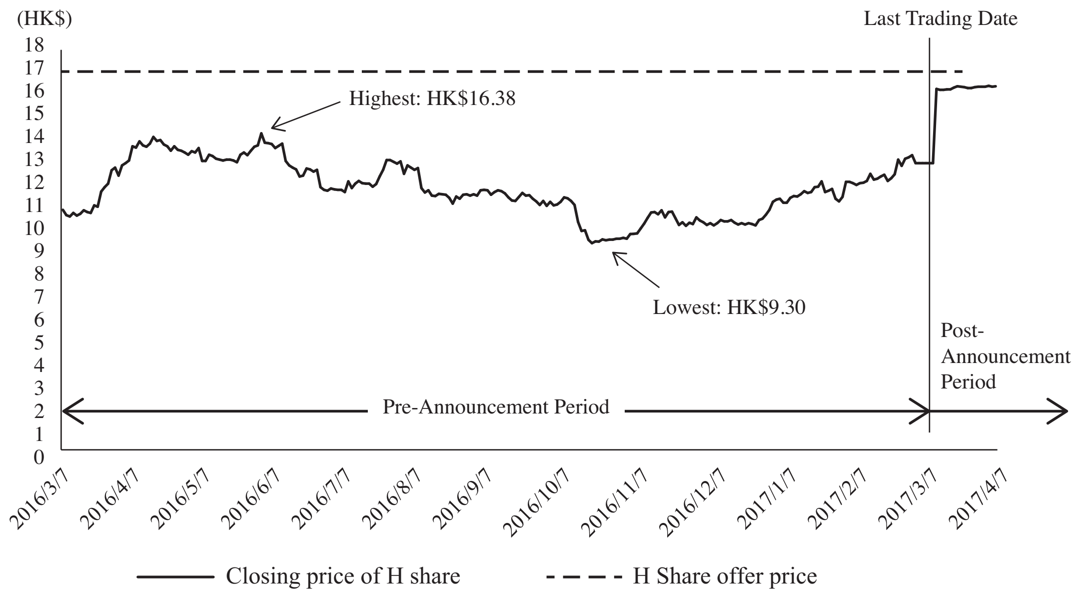
(iv) a premium of approximately 54.55% over HK$11.00 which is the average closing price per H Share as quoted for the 90 trading days up to and including the Last Trading Date;

(v) a premium of approximately 50.44% over HK$11.30 which is the average closing price per H Share as quoted for the 180 trading days up to and including the Last Trading Date;

(vi) a premium of approximately 3.91% over HK$16.36 which is the closing price per H Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(vii) a premium of approximately 223.81% over RMB4.62 which is the audited consolidated net asset value of each Share as at 31 December 2016.

We have reviewed the daily closing prices of the H Shares as quoted on the Stock Exchange during the period commencing from 7 March 2016, being 12-month period leading up to 6 March 2017, being the Last Trading Date (both days inclusive) (the "**Pre-Announcement Period**") and from 7 March 2017 to the Latest Practicable Date (both days inclusive) (the "**Post-Announcement Period**", collectively known as the "**Review Period**"). The following chart sets out the closing prices of the H Shares as quoted on the Stock Exchange during the Review Period:



Source: Bloomberg

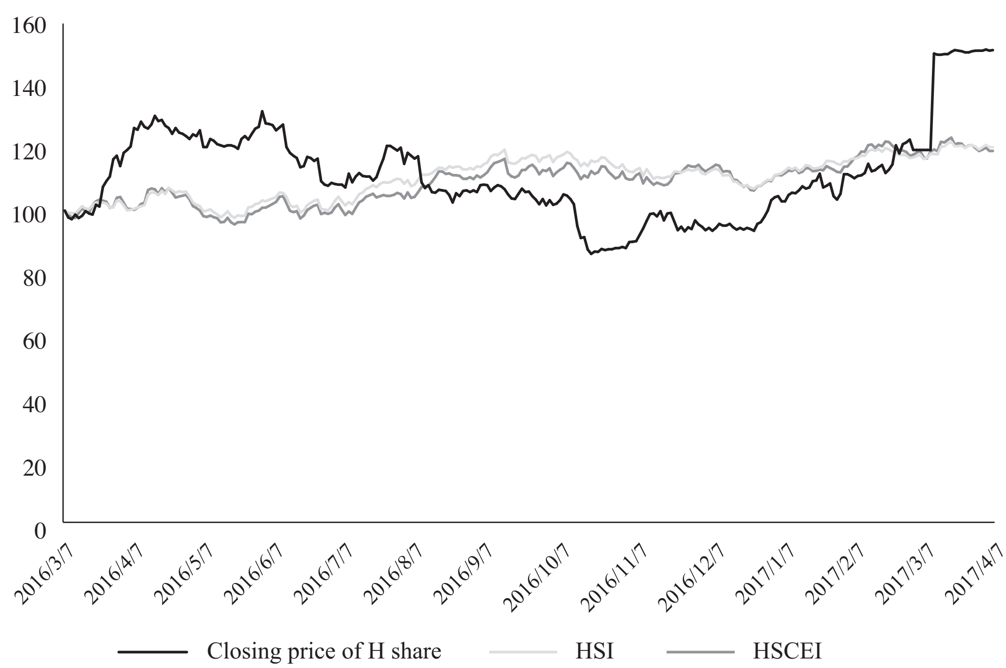
As illustrated by the above chart, during the Pre-Announcement Period, closing prices of the H Shares fluctuated up and down, as the closing price of the H Shares had been prevailing by approximately 53.12% from HK$9.30 to HK$14.24.The H Share offer price represents a premium of approximately 19.38% to the highest closing price of the H Shares of HK$14.24 on 31 May 2016 and a premium of approximately 82.80% over the lowest closing price of the H Shares of HK$9.30 on 18 October 2016. It is noted that the closing price of the H Shares has been below the H Share offer price for all time during the 12-month period and up to the Last Trading Date. Moreover, as shown in the chart above, During the Post-Announcement Period, closing prices of the H Shares materially increased by approximately 25.89% from HK$12.9 on 6 March 2017 (the Last Trading Date) to HK$16.24 (the first trading day immediately after the Joint Announcement) and maintained at a relatively high level but still below the H Share offer price since then.

As such, we believe the recent rise in the H Share price might have been supported by the Proposal and is unlikely to be sustained if the Proposal lapses. As illustrated in the abovementioned price comparison table, the H Share offer price represents a premium range of approximately 30.37% to 54.55% over the average closing prices per H Share for five trading days, 30 trading days, 90 trading days and 180 trading days up to and including the Last Trading Date, and represents a premium of as high as approximately 31.78% over the closing price per H Share on the Last Trading Date. From the

Independent Shareholders' perspective, the H Share offer price represents an immediate uplift in shareholder's value as compared to general share performance of the H Share immediately before the Joint Announcement. **Nonetheless, the Independent Shareholders must also closely monitor the prevailing market price of the H Shares, which may be traded above the H Share offer price, and exercise due care and caution when deciding whether or not to accept the Offer.**

(2) Comparison with the stock market

Set out below is the comparison between the movement of the closing price of the H Shares, Hang Seng Index ("**HSI**") and Hang Seng China Enterprises Index ("**HSCEI**") during the Review Period (all adjusted to 100 as at 7 March 2016).



Source: Bloomberg

As shown in the chart above, the H Share price has generally underperformed compared to the HSI and HSCEI since 9 August 2016, whilst finally outperformed for five trading days before Last Trading Day during the Pre-Announcement Period. During the Pre-Announcement Period, and the H Share price has underperformed compared to the HSI and HSCEI by 148 trading days and 145 trading days respectively, out of 246 trading days, which also represented a domination of 60% of the Pre-Announcement Period.

The general under-performance of the H Shares against the HSI and HSCEI shows that there has been a lack of significant retail and/or institutional investors' interest in the Company relative to the overall market performance.

(3) Trading liquidity

The following table sets out the monthly average daily trading volume of the H Shares and the comparison of such trading volume to total H Shares and total issued share capital of the Company at the end of each relevant month during the Review Period:

	Number of trading days per month	**Average daily trading volume of the H Shares**	**Percentage of the average daily trading volume of the H Shares to total number of issued H Shares at the end of each month**	**Percentage of the average daily trading volume of the H Shares to total issued share capital of the Company at the end of each month**
2016				
March	21	314,489	0.19%	0.05%
April	20	254,044	0.15%	0.04%
May	21	181,795	0.11%	0.03%
June	21	65,241	0.04%	0.01%
July	20	86,600	0.05%	0.01%
August	22	242,239	0.15%	0.04%
September	21	94,924	0.06%	0.02%
October	19	352,379	0.21%	0.06%
November	22	201,370	0.12%	0.03%
December	20	101,216	0.06%	0.02%
2017				
January	19	248,231	0.15%	0.04%
February	20	309,576	0.19%	0.05%
March*	18	1,689,320	1.03%	0.28%
April	4	1,313,000	0.80%	0.22%

Source: Stock Exchange's website

Note:* the trading of the H Shares was suspended from 7 March 2017 to 13 March 2017 pending the release of the Joint Announcement.

As noted from the above table, trading in the H Shares had been extremely thin during the Review Period with the average daily trading volume being below 1.1% of the total issued H Shares. On this basis, we do not consider the trading of the H Shares to be active.

Given that the H Shares are highly illiquid, there is currently limited opportunity for the Independent H Shareholders to divest their investments in the Company, not to mention that the disposal of large blocks of H Shares held by them in the open market would likely trigger price slump of the H Shares. Accordingly, the Proposal provides a valuable opportunity for the Independent H Shareholders, especially those holding a large block of the H Shares, to realise their investments in the Company. **Independent H Shareholders should note that the future liquidity of the H Shares is uncertain.**

6. Comparable Companies

The Group is principally engaged in the manufacturing and distribution of pharmaceutical products. For the purpose of assessing the H Share offer price, we have identified a list of companies (the "**Comparable Companies**"), which is exhaustive and fair, based on our selection criteria that such companies are currently listed on the Stock Exchange and principally engaged in similar businesses of the Company in the manufacturing, distributing and sales of pharmaceutical products. Despite the market capitalization of the Comparable Companies varies, we are of the view that the list provides a meaningful idea on the general investors' perception on the listed PRC pharmaceutical players engaging in similar businesses of the Company.

Company name	Stock code	Principal activities	Market capitalisation (As at Latest Practicable Date) *(HK$ billion)*	2016 price-to-earnings ("P/E") ratio *(times)* *(Note 1)*	2016 price-to-book ("P/B") ratio *(times)* *(Note 2)*
Pharmaceutical manufacturing and distribution					
Sino Biopharmaceutical Ltd.	SEHK: 1177	Production and sales of modernized Chinese medicines and chemical medicines	48.24	25.2	5.4
Livzon Pharmaceutical Group Inc.	SEHK: 1513	Production and sales of pharmaceutical products	25.10	20.9	2.7
Luye Pharma Group Ltd.	SEHK: 2186	Producing, marketing and selling pharmaceutical products	16.11	16.0	2.2
YiChang HEC ChnagJiang Pharmaceutical Co., Ltd	SEHK: 1558	Manufacturing and sales of pharmaceutical products	7.69	18.0	3.2
China Shineway Pharmaceutical Group Ltd.	SEHK: 2877	Manufacturing and trading of Chinese pharmaceutical products	7.20	10.9	1.2
Dawnrays Pharmaceutical (Holdings) Ltd.	SEHK: 2348	Manufacturing and sales of non-patented pharmaceutical medicines	3.66	12.2	2.1
The Comparable Companies			**Max**	**25.2**	**5.4**
			Min	**10.9**	**1.2**
			Average	**17.2**	**2.8**
The Company *(Note 3)*			**7.86**	**18.43**	**2.74**
The H Share offer price *(Note 4)*			**11.66**	**24.29**	**3.21**

Source: Bloomberg and Stock Exchange's website

Notes:

1. 2016 P/E ratio is calculated on the market capitalisation as at the Latest Practicable Date divided by the net profit attributable to equity shareholders for the year ended 31 December 2016.

2. 2016 P/B ratio is calculated on the market capitalisation as at the Latest Practicable Date divided by the net assets attributable to equity shareholders for the year ended 31 December 2016.

3. The analysis for the Company is based on its market capitalization as at the Last Trading Date.

4. The analysis for the H Share offer price is based on the market capitalisation implied by the H Share offer price, which is calculated by multiplying the H Share offer price by total issued share capital of the Company as at the Last Trading Date.

(1) Comparison of 2016 P/E ratio

As shown in the table above, the 2016 P/E ratio of the Comparable Companies are in the range of approximately 10.90 times to approximately 25.2 times, with an average of approximately 17.20 times The 2016 P/E ratio of the Company as at the Last Trading Date was approximately 18.43 times, and the P/E ratio implied by the H Share offer price is approximately 24.29 times, which are both higher than the average 2016 P/E ratio of the Comparable Companies.

(2) Comparison of 2016 P/B ratio

As shown in the table above, the 2016 P/B ratio of the Comparable Companies are in the range of approximately 1.20 times to 5.40 times, with an average of approximately 2.80 times. The 2016 P/B ratio of the Company as at the Last Trading Date was approximately 2.74 times, which is slightly lower than the average 2016 P/B ratio of the Comparable Companies. The P/B ratio implied by the H Share offer price is approximately 3.21 times, which is higher than the average 2016 P/B ratio of the Comparable Companies.

7. Precedent Privatizations

For the purpose of assessing the H Share offer price, we have also identified a list of privatization proposals (the "**Comparable Transaction(s)**"), which to our best knowledge is exhaustive and fair, based on our selection criteria that (i) the privatisation proposals were first announced during the period from 1 January 2012 up to the Latest Practicable Date; and (ii) such companies were primarily listed on and have been successfully delisted from the Stock Exchange. In our view, the proposed Delisting is similar to the Comparable Transactions as both of which are seeking withdrawal of listing in Hong Kong by way of making offer to their shareholders subject to whether the terms thereunder are acceptable to their shareholders; and the subject companies under the Comparable Transactions are no longer listed in Hong Kong after the close of the offers. In order to minimize the possible distortion due to different market sentiment for each Comparable Transaction, a five-year period has been adopted for the selection criteria. However, as the business, financial condition and market capitalization of the Comparable Transactions vary, analysis of the premium of the offer/cancellation price over the share prices prior to the privatisation proposals and the consolidated net assets value ("**NAV**") per share is for Independent Shareholders' information only and is not a principal factor to assess whether the terms of the Offer are fair and reasonable. In our view, the Comparable Transactions represent a complete and exhaustive list of privatization proposals. Set out in the following table are the pricing details of the Comparable Transactions relative to the H Share offer price.

Date of announcement of privatisation proposal	Company name	Stock code	Premium of the offer/cancellation price over the closing price on Last Trading Date to the initial announcement	Premium of the offer/cancellation price over the average closing price of the trading days prior to the privatisation proposal 30 trading days	90 trading days	180 trading days	Premium/ (discount) of the offer/ cancellation price over/(to) the consolidated NAV per share
21 February 2012	Alibaba.com Limited	SEHK: 1688	45.9%	58.8%	59.3%	42.0%	618.8%
23 March 2012	Samling Global Limited	SEHK: 3938	102.7%	103.5%	80.5%	21.4%	(47.8%)
17 January 2013	Trauson Holdings Company Limited	SEHK: 325	66.7%	81.7%	96.4%	121.0%	363.0%
31 January 2013	PCD Stores (Group) Limited	SEHK: 331	10.1%	20.7%	45.5%	59.4%	69.0%
15 August 2013	Magic Holdings International Ltd.	SEHK: 1633	24.8%	25.8%	42.3%	66.7%	372.2%
16 December 2013	Great Wall Technology Company Limited*	SEHK: 74	42.9%	74.9%	95.8%	99.8%	29.4%
1 April 2014	OCBC Wing Hang Bank Ltd.	SEHK: 302	1.6%	11.6%	11.8%	22.3%	177.1%
8 May 2014	Regent Manner International Holdings Ltd.	SEHK: 1997	32.4%	37.5%	38.5%	35.3%	19.1%
11 December 2014	Hunan Nonferrous Metals Corporation Limited*	SEHK: 2626	68.7%	55.8%	58.4%	70.2%	230.2%
26 February 2015	econtext Asia Limited	SEHK: 1390	41.0%	59.9%	51.3%	43.2%	37.2%
27 May 2015	Dorsett Hospitality International Limited *(Note 2)*	SEHK: 2266	32.4%	41.3%	42.4%	34.3%	(1.1%)
13 August 2015	Jingwei Textile Machinery Company Limited*	SEHK: 350	8.1%	18.9%	6.6%	17.4%	16.5%
20 October 2015	Wumart Stores, Inc	SEHK: 1025	90.2%	68.8%	31.8%	15.4%	62.0%
6 January 2016	New World China Land Limited	SEHK: 917	25.6%	40.8%	54.0%	57.0%	14.6%
2 February 2016	Anhui Tianda Oil Pipe Company Limited*	SEHK: 839	59.0%	49.4%	28.6%	20.2%	(23.0%)
18 February 2016	Dongpeng Holdings Company Limited	SEHK: 3386	31.8%	45.3%	54.5%	35.6%	67.8%
30 March 2016	Dalian Wanda Commercial Properties Co., Ltd.*	SEHK: 3699	3.0%	24.1%	33.2%	18.2%	13.3%
24 May 2016	Peak Sport Products Co., Limited	SEHK: 1968	35.4%	29.4%	33.1%	25.7%	9.7%
29 May 2016	AUPU Group Holding Company Limited	SEHK: 477	24.9%	29.7%	30.2%	28.4%	292.8%
13 June 2016	TCL Communication Technology Holdings Limited	SEHK: 2618	34.6%	47.2%	42.1%	36.4%	135.9%
17 June 2016	Bracell Limited	SEHK: 1768	44.3%	132.0%	157.4%	159.9%	(14.8%)
8 July 2016	Nirvana Asia Ltd	SEHK: 1438	22.4%	36.3%	36.8%	35.9%	315.8%
23 Sep 2016	Chinalco Mining Corporation International	SEHK: 3668	32.4%	34.1%	46.9%	62.7%	239.0%
		Max	**102.7%**	**132.0%**	**157.4%**	**159.9%**	**618.8%**
		Min	**1.6%**	**11.6%**	**6.6%**	**15.4%**	**(47.8%)**
		Average	**38.3%**	**49.0%**	**51.2%**	**49.1%**	**130.3%**
14 March 2017	**The H Share offer price**		**31.8%**	**39.7%**	**54.6%**	**50.4%**	**321.1%**

* *H share offer*

Source: Bloomberg and the Stock Exchange's website

Notes:

1. The consideration of the Comparable Transactions was in cash unless stated otherwise.

2. The cancellation consideration of Dorsett Hospitality International Limited consisted of a cash payment of HK$0.72 and 0.28125 share of Far East Consortium International Limited (SEHK: 35) with closing price of HK$3.84 on the last trading date before the announcement. Therefore, cancellation consideration of HK$1.80 per share has been used for the analysis.

(1) Premium over the closing price on last trading date

The premium of the offer/cancellation price over the closing price on last trading date of the Comparable Transactions ranged from approximately 1.6% to 102.7%, with an average of approximately 38.3%.

The premium offered by the H Share offer price over closing price on the Last Trading Date was approximately 31.8%, which was within the range and slightly lower than the average of the Comparable Transactions.

(2) Premium over the prevailing average closing price of the share

The premium of the offer/cancellation price over the prevailing 30 days, 90 days and 180 days average closing price of the share of the Comparable Transactions ranged from approximately 11.6% to 132.0%, 6.6% to 157.4% and 15.4% to 159.9% with average of approximately 49.0%, 51.2% and 49.1% respectively.

The premium offered by the H Share offer price over 30 days average closing price was approximately 39.7%, which was within the range of the premium range of the Comparable Transactions. The premium offered by the H Share offer price over 60 days and 180 days average closing price was approximately 54.6% and 50.4%, which was higher than the respective average of the Comparable Transactions.

(3) Premium over the consolidated NAV per share

The premium of the offer/cancellation price over the consolidated NAV per share of Comparable Transactions widely ranged from approximately -23.0% to 618.8%, with an average premium of approximately 130.3%. The H Share offer price represented a premium of approximately 321.1% over the consolidated NAV per Share as at 31 December 2016, which was higher than the average of the Comparable Transactions.

DISCUSSION AND ANALYSIS

The Group is principally engaged in the manufacturing and distribution of pharmaceutical products and is facing deteriorating business environment as reflected by its declining net profits, narrowing net profit margin in recent years, due to the industry tightening policies, issuance of new classification measure of drug registration, and decreasing drug prices under the relevant bidding system in the market.

China's pharmaceutical industry growth has slowed down with increasing operating expenses and rising policies from government gave further pressure on the PRC pharmaceutical industry.

In view of the above, the Group needs to take measures, including but not limited to cost control and operation process optimization measures, new R&D center for new products development and expansion of sales network, to continue to consolidate its market position under the current severe operating environment of the pharmaceutical producers. We consider the Proposal with an overall objective to offer greater flexibility to the Company to make timely investment decisions in relation to the those measures when appropriate, as a private company will have more efficient decision making process, while at the same time, minimize the adverse effects on Shareholders' return due to potential relatively long investment recovery period.

We noted that the performance of the H Shares, both in terms of price and liquidity, was not encouraging during the Pre-Announcement Period. Hence, from the Independent H Shareholders' perspective, the H Share Offer represents an uplift in Shareholders' value as the offer price represents considerable premiums over the prevailing H Share prices.

The Proposal also provides a valuable opportunity for the Independent H Shareholders, especially those holding a large block of the H Shares, to realize their investment in the Company which would not normally be available through the market given the trading liquidity of the H Shares is thin. We are of the view that the Proposal provides a good opportunity for the Independent H Shareholders to redeploy capital invested in the Company into other investments that they consider more attractive.

Having considered the above, we consider the Proposal can provide a valuable opportunity for the Independent H Shareholders to realise their investments in the Company, and are fair and reasonable and in the interests of the Independent Shareholders.

OPINION AND RECOMMENDATION

In arriving at our opinion, we have taken into account the following factors and reasons:

(i) despite the Company is profitable, it is experiencing continuous decline in profit due to narrowing in net profit margin as a result of heavy research and development cost and the cost of expanding sales force;

(ii) the overall slowdown of China's pharmaceutical industry, tightening industry policies, issuance of new classification measure of drug registration and implementation of quality consistency evaluation;

(iii) the H share offer price represents premiums over the prevailing H Share price;

(iv) the general underperformance of the H Share price compared to the HSI and HSCEI during the Pre-Announcement Period, suggesting a lack of significant retail and/or institutional investors' interest in the Company relative to the overall market performance;

(v) the thin trading volume in the H Shares during the Review Period, indicating that the Proposal provides a valuable opportunity for the Independent H Shareholders to realise their investments in the Company, which would not normally be available through the market given the thin trading liquidity; and

(vi) the 2016 P/E ratio and P/B ratio implied by the H Share offer price were both higher than the respective average ratios as at the Latest Practicable Date of the Comparable Companies.

Based on the above analysis, we consider the terms of the Offer and the Delisting to be fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Committee to recommend the Independent Shareholders to accept the Offer and vote in favour of the resolution of the Delisting at the H Share Class Meeting and the EGM (as the case may be).

Independent H Shareholders are reminded to note that, as disclosed in the letter from the board of the Company, the Joint Offerors have no rights under the laws of the PRC and the Articles of Association of the Company to compulsorily acquire the H Shares that are not tendered for acceptance pursuant to the H Share Offer. Accordingly, if the Independent H Shareholders do not accept the H Share Offer and the H Share Offer subsequently becomes unconditional in all respects, and the H Shares are delisted from the Hong Kong Stock Exchange, this will result in the Independent H Shareholders holding securities that are not listed on the Hong Kong Stock Exchange. In addition, the Company may not continue to be subject to the Takeovers Code after the completion of the Offer.

In any case, Independent H Shareholders are strongly advised that the decision to realize or to hold their investment is subject to individual circumstances and investment objectives. Also, the Independent H Shareholders who wish to realize all of part of their investment in the H Shares should monitor the H Share price performance during the period of the H Share Offer. In the event that the market price of the H Share exceeds the offer price and the net sale proceeds, net of all transaction costs, exceed the amount receivable under the H Share Offer, Independent H Shareholders should consider selling their H Shares on the market instead of accepting the H Share Offer. **If in doubt, Independent Shareholders of the Company should consult their own professional advisers for professional advice. Further, Independent Shareholders of the Company who wish to accept the Proposal are recommended to read carefully the procedures for accepting the Proposal as detailed in the Composite Document.**

Yours faithfully,
For and on behalf of
KGI Capital Asia Limited

Ringo Kwan
Head of Investment Banking

Wesley Chan
Senior Vice President

1. PROCEDURES FOR ACCEPTANCE AND SETTLEMENT FOR H SHAREHOLDERS

1.1 If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in your name, and you wish to accept the Offer in respect of your H Shares, you must send the duly completed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), by post or by hand to the Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event so as to reach the Registrar at the aforesaid address no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Joint Offerors may determine and announce in accordance with the Takeovers Code to the Registrar.

1.2 If the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your H Shares is/are in the name of a nominee company or a name other than your own, and you wish to accept the Offer in respect of your H Shares, you must either:

(a) lodge your H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the duly completed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or

(b) arrange for the H Shares to be registered in your name by the Company through the Registrar, and deliver the duly completed Form of Acceptance together with the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof), to the Registrar; or

(c) if your H Shares have been lodged with your licensed securities dealer or registered institution in securities or custodian bank through CCASS, instruct your licensed securities dealer or registered institution in securities or custodian bank to authorise HKSCC to accept the Offer on your behalf on or before the deadline set out by HKSCC. In order to meet the deadline set by HKSCC, you should check with your licensed securities dealer or registered institution in securities or custodian bank for the timing on the processing of your instruction, and submit your instructions to your licensed securities dealer or registered institution in the securities or custodian bank as required by them; or

(d) if your H Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System no later than the deadline set out by HKSCC.

1.3 If you have lodged transfer(s) of any of your H Shares for registration in your name and have not yet received your H Share certificate(s), and you wish to accept the Offer in respect of your H Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will constitute an irrevocable authority to Somerley Capital and/or the Joint Offerors or their respective agent(s) to collect from the Company or the Registrar on your behalf the relevant H Share certificate(s) when issued and to deliver such H Share certificate(s) to the Registrar on your behalf and to authorise and instruct the Registrar to hold such H Share certificate(s), subject to the terms and conditions of the Offer, as if it was/they were delivered to the Registrar with the Form of Acceptance.

1.4 If the H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in respect of your H Shares is/are not readily available and/or is/are lost and you wish to accept the Offer in respect of your H Shares, you should nevertheless complete the Form of Acceptance and deliver it to the Registrar together with a letter stating that you have lost one or more of your H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title or that it is/they are not readily available. If you find such document(s) or if it/they become(s) available, the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

1.5 Acceptance of the Offer will be treated as valid only if the completed Form of Acceptance is received by the Registrar by no later than 4:00 p.m. on the Closing Date or such later time and/or date as the Joint Offerors may determine and announce as permitted under the Takeovers Code, and is:

(i) accompanied by the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those H Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant H Share; or

(ii) from a registered H Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to H Shares which are not taken into account under another sub-paragraph of this paragraph 1.5); or

(iii) certified by the Registrar or the Stock Exchange.

1.6 If the Form of Acceptance is executed by a person other than the registered H Shareholder, appropriate documentary evidence of authority (e.g. grant of probate or certified copy of a power of attorney) to the satisfaction of the Registrar must be produced.

1.7 No acknowledgement of receipt of any Form(s) of Acceptance, H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or satisfactory indemnity or indemnities required in respect thereof) will be given.

1.8 Provided that a valid Form of Acceptance and the relevant H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order in all respects and have been received by the Registrar no later than the latest time for acceptance (or such later time and/or date as the Joint Offerors may announce with the consent of the Executive) and the Offer has become or is declared unconditional in all respects, a cheque for the amount due to each Accepting Shareholder less seller's ad valorem stamp duty in respect of the Accepting Shareholders' H Shares tendered by him/her/it under the Offer will be despatched to the Accepting Shareholder by ordinary post at his/her/its own risk as soon as possible but in any event within 7 Business Days of the later of the date on which the Offer becomes or is declared unconditional in all respects and the date of receipt of the completed Form of Acceptance and all the relevant documents by the Registrar (which should be received no later than 4:00 p.m. on the Closing Date or such later time and date as determined and announced by the Joint Offerors with the consent of the Executive) from the H Shareholder accepting the Offer. For this purpose, Business Day refers to the day on which the Stock Exchange is open for transaction of business.

2. ACCEPTANCE PERIOD AND REVISIONS

2.1 The Offer is made on 11 April 2017, the date of posting of this Composite Document, and is capable of acceptance on and from this date.

2.2 The Joint Offerors have the right, subject to the Takeovers Code, to extend the Offer after the despatch of this Composite Document or to revise the terms of the Offer (other than the offer price of the Offer), and may introduce new conditions to be attached to any revision to any of the Offer or any subsequent revision thereof to the extent necessary to implement the revised Offer and subject to the consent of the Executive.

2.3 Unless the Executive consents to the extension of the Offer, all acceptances must be received by 4:00 p.m. on the Closing Date in accordance with the instructions printed on the Form of Acceptance and the Offer will be closed at 4:00 p.m. on the Closing Date. In accordance with Rule 15.3 of the Takeovers Code, where the Offer becomes or is declared unconditional, it should remain open for acceptance for not less than 14 days thereafter. In such case, at least 14 days' notice in writing must be given before the Offer is closed to the H Shareholders who have not accepted the Offer and an announcement will be published. The Joint Offerors will extend the 14-day period under Rule 15.3 of the Takeovers Code to 28 calendar days.

2.4 If in the course of the Offer, the Joint Offerors revise its terms (other than the offer price of the Offer), all H Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. A revised offer must be kept open for at least 14 days following the date on which the revised offer document is posted and shall not be closed earlier than the Closing Date.

2.5 If the Offer is extended (with the consent of the Executive) or revised, the announcement of such extension or revision will state the next closing date or, if the Offer becomes or is declared unconditional as to acceptances, a statement may be made that the Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the Offer is closed to those H Shareholders, who have not accepted the Offer and an announcement will be published.

2.6 If the closing date of the Offer is extended, any reference in this Composite Document and in the Form of Acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offer so extended.

2.7 The acceptance by or on behalf of the H Shareholder in its original and/or any previously revised form, shall be treated as an acceptance of the relevant Offer as so revised.

2.8 Any acceptance of the relevant revised Offer and/or any election pursuant thereof shall be irrevocable unless and until the Accepting Shareholder of the Offer becomes entitled to withdraw his/her/its acceptance under the paragraph headed "Right of Withdrawal" below and duly does so.

3. ANNOUNCEMENTS

3.1 By 6:00 p.m. on the Closing Date (or such later time and/or date as the Executive may agree), the Joint Offerors must inform the Executive and the Stock Exchange of their decision in relation to the revision, extension, expiry or unconditionality of the Offer. The Joint Offerors must publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating, among other information required under Rule 19.1 of the Takeovers Code, whether the Offer has been revised or extended, has expired or has become or been declared unconditional (and, in such cases, whether as to acceptances or in all respects).

3.2 In computing the total number of H Shares represented by acceptances, only valid acceptances that are complete, in good order and fulfil the acceptance conditions set out in paragraph 1 of this Appendix I, and which have been received by the Registrar no later than 4:00 p.m. on the Closing Date, being the latest time and date for acceptance of the Offer, shall be included.

3.3 As required under the Takeovers Code and the GEM Listing Rules, any announcement in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be made in accordance with the requirements of the Takeovers Code and the GEM Listing Rules.

4. RIGHT OF WITHDRAWAL

4.1 Acceptance of the Offer tendered by the H Shareholders shall be irrevocable and cannot be withdrawn, except in circumstances set out in 4.2 below or in compliance with Rule 17 of the Takeovers Code which provides that an acceptor shall be entitled to withdraw his/her/its acceptance after 21 days from the Closing Date if the Offer has not by then become unconditional as to acceptances.

4.2 If the Joint Offerors are unable to comply with the requirements set out in the paragraph headed "3. Announcements" in this Appendix, the Executive may require that Accepting Shareholders who have tendered acceptances to the Offer be granted a right of withdrawal on terms that are acceptable to the Executive until the requirements set out in that paragraph are met.

4.3 If the Offer is withdrawn or lapses, the Joint Offerors shall, as soon as possible but in any event within 10 days thereof, return by ordinary post the H Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) lodged with the Form of Acceptance to the relevant Accepting Shareholder(s). For this purpose, Business Day refers to the day on which the Stock Exchange is open for transaction of business.

5. GENERAL

5.1 All communications, notices, Form of Acceptance, certificates of the H Shares, transfer receipts, other documents of title or indemnities, and remittances to settle the consideration payable under the Offer to be delivered by or sent to or from the H Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Joint Offerors, GL Instrument, Somerley Capital, the Company, the Registrar, or any of their respective directors, or any other person involved in the Offer, shall accept any liability for any loss in postage or any other liabilities that may arise as a result thereof.

5.2 Subject to the terms of the Takeovers Code, acceptance(s) of the Offer may, at the discretion of the Joint Offerors, be treated as valid even if it is not entirely in order or is not accompanied by the relevant H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof), but the cheque(s) for the consideration due will not be despatched or (as the case may be) made available for collection until the H Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof), has/have been received by the

Registrar. However, such acceptances to the Offer will not be counted towards fulfilling the acceptance condition unless Rule 30.2 of the Takeovers Code had been fully complied with.

5.3 Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Joint Offerors and Somerley Capital that the number of H Shares in respect of which it is indicated in the Form of Acceptance is the aggregate number of H Shares held by such nominee for such beneficial owners who are accepting the Offer.

5.4 The provisions set out in the Form of Acceptance form part of the terms of the Offer.

5.5 The accidental omission to despatch this Composite Document and/or the Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.

5.6 The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.

5.7 Due execution of a Form of Acceptance will constitute an irrevocable authority to the Joint Offerors or Somerley Capital or such person or persons as the Joint Offerors or Somerley Capital may direct to complete, amend and execute any document on behalf of the person/persons accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Joint Offerors or such person or persons as it may direct the H Shares in respect of which such person/persons has/have accepted the Offer.

5.8 Acceptance of the Offer by any person or persons will constitute a warranty by such person or persons to the Joint Offerors that the H Shares acquired under the Offer are sold by any such person or persons free from all liens, charges, equities, adverse interests, options, claims, and encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them as at the date of the Joint Announcement or subsequently becoming attached to them, including without limitation the right to receive in full all dividends (whether final or interim) and other distributions, if any, declared, made or paid on or after the date of the Joint Announcement.

5.9 References to the Offer in this Composite Document and in the Form of Acceptance shall include any revision and/or extension thereof and references to the Offer becoming unconditional shall include a reference to the Offer being declared unconditional.

5.10 Seller's ad valorem stamp duty for transfers of the H Shares registered with the Registrar arising in connection with acceptance of the Offer will be payable by each Accepting Shareholder at the rate of 0.1% of the greater of (i) the consideration payable by the Joint Offerors for such person's H Shares; and (ii) the value of the H

Shares and will be deducted from the cash amount due to such H Shareholder under the Offer. The Joint Offerors will pay the buyer's ad valorem stamp duty in respect of the H Shares accepted under the Offer.

5.11 Settlement of the consideration to which any Accepting Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Joint Offerors may otherwise be, or claim to be, entitled against such Accepting Shareholder.

5.12 Any H Shareholders accepting the Offer will be responsible for payment of any transfer or cancellation or other taxes or duties payable in respect of the relevant jurisdiction due by such persons.

5.13 In making their decision, H Shareholders must rely on their own examination of the Group and the terms of the Offer, including the merits and risks involved. The contents of the Composite Document, including any general advice or recommendation contained herein together with the Form of Acceptance, shall not be construed as any legal or business advice on the part of the Joint Offerors, GL Instrument, the Company, Somerley Capital or their respective professional advisers. H Shareholders should consult their own professional advisers for professional advice.

5.14 The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. The H Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about or obtain appropriate legal advice regarding the implications of the Offer in the relevant jurisdiction and observe any applicable regulatory or legal requirements. It is the responsibility of any such person who wishes to accept the Offer to satisfy himself/herself/itself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control, regulation or other consents which may be required or the compliance with other necessary formalities, regulatory or legal requirements and the payment of any transfer or other taxes due in respect of such jurisdiction. Any such overseas H Shareholders shall be fully responsible for payment of any transfer or other taxes and duties imposed by whomsoever payable in respect of that jurisdiction. The Joint Offerors, Somerley Capital and any other person involved in the Offer shall be entitled to be fully indemnified and held harmless by such person for any taxes as such person may be required to pay.

5.15 Acceptance of the Offer by any person or persons will constitute a warranty by such person to the Joint Offerors and Somerley Capital and that such person is permitted under all applicable laws to receive and accept the Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

5.16 H Shares sold to the Joint Offerors by way of the Offer will be registered under the name of any of the Joint Offerors or their nominees.

5.17 The English text of this Composite Document and of the Form of Acceptance shall prevail over their respective Chinese texts for the purpose of interpretation.

1. SUMMARY OF FINANCIAL INFORMATION

The following summary of the financial information has been extracted from the audited consolidated financial statements of the Company for each of the three years ended 31 December 2014, 2015 and 2016 in the respect annual reports of the Company.

The auditor of the Company for each of the three years ended 31 December 2014, 2015 and 2016, HLB Hodgson Impey Cheng Limited, has expressed an unqualified audit opinion on the financial statements of the Group for each of the three years ended 31 December 2014, 2015 and 2016.

The Group had no exceptional or extraordinary items which were exceptional because of its size, nature or incidence for each of the three years ended 31 December 2014, 2015 and 2016.

(i) Consolidated results

	For the year ended 31 December		
	2016	**2015**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
RESULTS			
Revenue	4,117,573	3,611,380	2,766,788
Profit before tax	463,823	571,872	527,925
Income tax expense	(83,155)	(81,265)	(84,060)
Profit for the year	380,668	490,607	443,865
Attributable to:			
Owners of the Company	379,198	492,929	443,553
Non-controlling interests	1,470	(2,322)	312
	380,668	490,607	443,865
Earnings per Share			
— Basic and diluted *(RMB)*	0.622	0.809	0.728
Dividend per share *(RMB)*	—	0.35	0.30
Dividend	—	213,360	182,880

(ii) Consolidated assets and liabilities

	For the year ended 31 December		
	2016	**2015**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	(audited)	(audited)
ASSETS AND LIABILITIES			
Total assets	4,367,751	3,640,177	3,073,693
Total liabilities	(1,500,441)	(967,764)	(726,477)
	2,867,310	2,672,413	2,347,216
Equity attributable to owners of the Company	2,819,092	2,653,153	2,343,420
Non-controlling interests	48,218	19,260	3,796
	2,867,310	2,672,413	2,347,216

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2016

The following is the full text of the audited consolidated financial statements of the Group as extracted from the annual report of the Company for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** *RMB'000*	**2015** *RMB'000*
Turnover	*7*	4,117,573	3,611,380
Cost of sales		(1,000,033)	(1,134,104)
Gross profit		3,117,540	2,477,276
Other revenue	*7*	43,215	67,681
Other income	*9*	76,856	39,857
Selling and distribution expenses		(2,309,501)	(1,649,576)
General and administrative expenses		(464,201)	(363,314)
Finance costs	*8*	(86)	(52)
Profit before taxation	*9*	463,823	571,872
Taxation	*10*	(83,155)	(81,265)
Profit for the year		380,668	490,607
Other comprehensive income for the year, net of tax:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		89	—
Total comprehensive income for the year		380,757	490,607
Profit/(loss) for the year attributable to:			
Owners of the Company		379,198	492,929
Non-controlling interests		1,470	(2,322)
		380,668	490,607
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		379,287	492,929
Non-controlling interests		1,470	(2,322)
		380,757	490,607
Earnings per share attributable to owners of the Company (RMB)			
Basic and diluted	*15*	0.622	0.809

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Available-for-sale financial assets	17	89,335	70,287
Intangible assets	18	6,843	4,057
Prepayments to acquire technical know-how	19	—	8,021
Property, plant and equipment	20	883,703	754,293
Construction-in-progress	21	99,636	108,136
Prepaid lease payments	22	97,895	99,675
Deferred tax assets	23	1,113	1,218
Goodwill	24	165	165
		1,178,690	1,045,852
Current assets			
Inventories	25	504,894	241,986
Trade and bills receivables	26	710,277	524,848
Other receivables, deposits and prepayments	27	294,834	172,602
Financial assets at fair value through profit and loss	28	1,038,006	1,049,556
Fixed deposits	29	85,022	—
Cash and bank balances	29	556,028	605,333
		3,189,061	2,594,325
Current liabilities			
Trade and bills payables	30	227,758	130,188
Other payables and accruals	31	993,701	643,027
Deposits received		79,533	56,423
Tax payable		63,164	48,600
		1,364,156	878,238
Net current assets		1,824,905	1,716,087
Total assets less current liabilities		3,003,595	2,761,939

	Notes	2016 RMB'000	2015 RMB'000
Non-current liability			
Deferred income	*32*	136,285	89,526
Net assets		2,867,310	2,672,413
Capital and reserves			
Share capital	*33*	60,960	60,960
Other reserves		84,416	78,128
Retained earnings			
— Proposed final dividend		—	213,360
— Others		2,673,716	2,300,705
Equity attributable to owners of the Company		2,819,092	2,653,153
Non-controlling interests		48,218	19,260
Total equity		2,867,310	2,672,413

Approved by the Board of Directors on 7 March 2017 and signed on its behalf by:

Liu Baoqi	**Liu Zhenteng**
Director	*Director*

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company									
	Share Capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Other reserve RMB'000 (note(a))	Exchange reserve RMB'000 (note(b))	Retained earnings RMB'000	Sub- total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015	60,960	31,139	36,390	6,033	—	—	2,208,898	2,343,420	3,796	2,347,216
Profit/(loss) for the year	—	—	—	—	—	—	492,929	492,929	(2,322)	490,607
Other comprehensive Income for the year	—	—	—	—	—	—	—	—	—	—
Total comprehensive Income/ (loss) for the year	—	—	—	—	—	—	492,929	492,929	(2,322)	490,607
Transfer from retained earnings to statutory surplus reserve fund	—	—	4,882	—	—	—	(4,882)	—	—	—
Additional non-controlling interest arising on disposal of interests in a subsidiary *(Note 40)*	—	—	—	—	(285)	—	—	(285)	18,755	18,470
Change in ownership interests of a subsidiary *(Note 40)*	—	—	—	—	(31)	—	—	(31)	(969)	(1,000)
Dividend paid	—	—	—	—	—	—	(182,880)	(182,880)	—	(182,880)
At 31 December 2015 and 1 January 2016	60,960	31,139	41,272	6,033	(316)	—	2,514,065	2,653,153	19,260	2,672,413
Profit for the year	—	—	—	—	—	—	379,198	379,198	1,470	380,668
Other comprehensive income for the year: Exchange differences on translation of foreign operations	—	—	—	—	—	89	—	89	—	89
Total comprehensive income for the year	—	—	—	—	—	89	379,198	379,287	1,470	380,757
Transfer from retained earnings to statutory surplus reserve fund	—	—	6,187	—	—	—	(6,187)	—	—	—
Change in ownership interests of a subsidiary *(Note 40)*	—	—	—	—	12	—	—	12	(1,912)	(1,900)
Capital injection by non-controlling interest	—	—	—	—	—	—	—	—	4,900	4,900
Arising on the acquisition of subsidiary *(Note 39)*	—	—	—	—	—	—	—	—	24,500	24,500
Dividend paid	—	—	—	—	—	—	(213,360)	(213,360)	—	(213,360)
At 31 December 2016	60,960	31,139	47,459	6,033	(304)	89	2,673,716	2,819,092	48,218	2,867,310

Notes:

(a) Other reserve

Other reserve represents the difference of the nominal amount of the shares of the subsidiaries at the date of the group reorganisation over the consideration for the acquisition and disposal of the interests in the subsidiaries.

(b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the People's Republic of China (the "**PRC**").

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	**2016** *RMB'000*	**2015** *RMB'000*
Operating activities			
Profit before taxation		463,823	571,872
Adjustments for:			
Interest income		(2,661)	(1,690)
Finance costs		86	52
Gain on financial assets at fair value through profit or loss		(35,803)	(59,801)
Reversal of obsolete inventories written-down	*25*	(2,031)	(567)
Reversal of impairment loss recognised in respect of trade receivables	*26*	(1,556)	(1,087)
Reversal of impairment loss recognised in respect of other receivables	*27*	(4,041)	—
Depreciation of property, plant and equipment	*20*	74,980	60,261
Loss on disposal of property, plant and equipment	*9*	2,076	25,412
Write-down of obsolete inventories	*25*	6,331	2,366
Impairment loss recognised in respect of trade receivables	*26*	3,722	1,363
Impairment loss recognised in respect of other receivables	*27*	1,334	2,723
Impairment loss recognised in respect of prepayments to acquire technical know-how	*19*	8,021	9,383
Amortisation of prepaid lease payments	*22*	2,193	1,918
Increase in operating cash flow before movements in working capital		516,474	612,205
Net cash received from financial assets at fair value through profit or loss		47,353	237,606
(Increase)/decrease in inventories		(267,208)	35,816
Increase in trade and bills receivables		(187,595)	(196,655)
Increase in other receivables, deposits and prepayments		(81,097)	(30,263)
Increase/(decrease) in trade and bills payables		97,570	(51,653)
Increase in deposits received		23,110	4,417
Increase in deferred income		46,759	106,578
Increase in other payables and accruals		338,172	169,021
Net cash from operations		533,538	887,072
Interest paid		(86)	(52)
PRC income tax paid		(68,486)	(75,162)
Net cash generated from operating activities		464,966	811,858

	Notes	2016 RMB'000	2015 RMB'000
Investing activities			
Interest received		2,661	1,690
Change in ownership of a subsidiary		(1,900)	—
Purchase of property, plant and equipment	*20*	(105,318)	(73,499)
Additions of construction-in-progress	*21*	(105,459)	(110,092)
Proceeds from disposal of property, plant and equipment		13,875	400
Acquisition of assets		(5,689)	34
Purchase of available-for-sale financial asset		(19,048)	(29,287)
Net cash used in investing activities		(220,878)	(210,754)
Financing activities			
Dividend paid		(213,360)	(185,472)
Capital injection from non-controlling interests of a subsidiary		4,900	—
Increase in fixed deposits		(85,022)	—
Decrease in pledged bank deposits		—	29,189
Net cash used in financing activities		(293,482)	(156,283)
Net (decrease)/increase in cash and cash equivalents		(49,394)	444,821
Cash and cash equivalents at the beginning of the year		605,333	160,512
Effect of foreign exchange rate changes, net		89	—
Cash and cash equivalents at the end of the year		556,028	605,333
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		556,028	605,333

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

The Company was established as a collectively-owned enterprise under the name of Shandong Luoxin Factory in the People's Republic of China (the "**PRC**") on 14 December 1995 and was converted into a joint stock cooperative enterprise on 12 July 1997. On 19 November 2001, Shandong Luoxin Factory underwent a corporate reorganisation and was transformed into a joint stock limited liability company by way of promotion with a registered capital of Renminbi ("**RMB**") 46,000,000. Subsequent to the above reorganisation, the name of the Company was changed to Shandong Luoxin Pharmacy Stock Co., Ltd.. The H shares of the Company have been listed on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 9 December 2005. Pursuant to the Extraordinary General Meeting held on 12 August 2014, the name of the Company was changed to Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. The Company's parent and ultimate holding Company is Shandong Luoxin Holdings Co., Ltd. (山東羅欣控股有限公司) (incorporated in the PRC).

The Company's registered office is located at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC.

The principal activities of the Company are manufacturing and selling of pharmaceutical products. The principal activities of the subsidiaries are described in Note 16.

The consolidated financial statements are presented in RMB which is the same as the functional currency of the Company. All values are rounded to the nearest thousand (RMB'000), unless otherwise stated.

These consolidated financial statements were approved for issue by the board of directors on 7 March 2017.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new and revised standard, amendments and interpretations ("**new and revised HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which are effective for the Company's financial year beginning 1 January 2016. A summary of the new and revised HKFRSs are set out as below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs

In the opinion of directors of the Company (the "**Directors**"), except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the Annual Improvements 2012–2014 Cycle, which are not relevant to the preparation of the Group's financial statements, the application of the new HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
HKFRS 9	Financial Instruments[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

HKFRS 9 "Financial Instruments"

HKFRS 9 was amended in 2013 to include the new requirements for general hedge accounting. A revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("**FVTOCI**") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- Certain financial assets held within a business model whose objective is achieved both collecting contractual cash flows and selling financial assets should be measured at FVTOCI (unless designated at fair value through profit and loss ("**FVTPL**") to eliminate or significantly reduce a measurement mismatch). This applies to assets passing the contractual cash flow characteristics assessment (which is the same test used to determine whether financial assets are measured at amortised cost). Interest revenue, foreign exchange gains and losses and impairment gains and losses shall be recognised in profit or loss with all other gains or losses (i.e. the difference between those items and the total change in fair value) being recognised in other comprehensive income. Any cumulative gain or loss recorded in other comprehensive income would be reclassified to profit and loss on derecognition, or potentially earlier if the asset is reclassified because of a change in business model. Interest income and impairment gains and losses would be recognised and measured in the same manner as for assets measured at amortised cost such that the amounts in other comprehensive income represents the difference between the amortised cost value and fair value. This results in the same information in profit or loss as if the asset was measured at amortised cost, yet the consolidated statement of financial position would reflect the instrument's fair value.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors is in the process of making an assessment of potential impact of the application of HKFRS 9 and it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ''control'' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors is in the process of making an assessment of the potential impact of the application of HKFRS 15 and it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The Group is in the process of assessing the potential impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether the other new and revised HKFRSs will have a significant impact on the Group's financial performance and position.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group as lessee has non-cancellable operating lease commitments of RMB58,317,000 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Directors complete a detailed review.

Except for the above impact, the Directors do not anticipate that the application of other new and amendments to HKFRSs will have significant impact on the Group's consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs (which also include Hong Kong Accounting Standards ("**HKASs**") and interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong, the applicable disclosure required by the Hong Kong Companies Ordinance and the applicable disclosure provisions of The Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

Basis of preparation

The consolidated financial statements has been prepared under the historical cost convention excepted for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company:

- has power to over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee;

- and has the ability to use its power to affect its returns.

The 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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Subsidiaries

A subsidiary in an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	20–40 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment	5 years

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

Construction-in-progress

Construction-in-progress comprises buildings, plant and machinery on which construction work or installation has not been completed and which, upon completion, management intends to use for long-term purpose. It is stated at cost which includes construction expenditure incurred, interest on loan and other direct costs attributable to the construction or installation less any accumulated impairment losses. On completion, the buildings, plant and machinery are transferred to respective categories at cost less any accumulated impairment losses.

Leasehold land

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as ''prepaid lease payments'' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Intangible assets

Purchased technical know-how

Purchased technical know-how is stated at cost less accumulated amortisation and any accumulated impairment losses. It is recognised as an intangible asset if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and amortised on a straight-line basis over its estimated economic life of a period of five years since the commencement of related production. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

License

License with indefinite useful life that are acquired carried at cost less accumulated impairment loss.

The license and its status are reviewed annually to determine whether events and circumstances continue to support indefinite useful life. Should the useful life of the license change from indefinite to finite, the change would be accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss. An assessment is made at each reporting date as to whether there is any indication that Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables, financial assets at fair value though profit or loss and available-for-sale financial assets ("**AFS financial assets**"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

Financial assets at fair value though profit or loss

Financial assets are classified as at fair value though profit or loss when the financial asset is either held for trading or it is designated as at fair value though profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value though profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value though profit or loss.

Financial assets at fair value though profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item. Fair value is determined in the manner described in Note 5.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in the active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and bills receivables, other receivables, pledged bank deposits, cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss on initial recognition.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities (including trade and bills payables, dividend payable and other payables and accruals) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than financial liabilities classified as at fair value through profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Dividend distribution

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

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Employee benefits

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

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received.

Government grant relating to purchase of property, plant and equipment is included in non-current liabilities as deferred income and is expensed in profit or loss on a straight-line basis over the expected useful lives of the related assets.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign and presentation currency

Functional and presentation currency

Items included in the accounts of the Group are measured using the currency of the primary economic environment in which the entity operates ("**the functional currency**"). The accounts are presented in RMB, which is the Group's functional and presentation currency.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. At the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period, and their statement of comprehensive incomes are translated into Hong Kong dollars at the weighted average exchange rates for the year. Exchange differences arising are recognised in the exchange reserve.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income.

Related party transactions

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

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

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

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

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Taxation

The Group is subject to PRC Enterprise Income Tax and value-added tax. Since PRC tax rules are complicated and there may be new PRC tax rules and regulations from time to time, the Group recognised tax liabilities based on estimates of tax liabilities. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

Provision for obsolete inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes provision for obsolete and slow-moving inventory items. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes provision for obsolete items.

Trade and other receivables

The debt profile of trade and other debtors is reviewed on a regular basis to ensure that the trade and other debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However from time to time, the Group may experience delays in collection. Where recoverability of trade and other debtor balances are called into doubts, specific provisions for trade and other receivables are made based on credit status of the debtors, the aged analysis of the receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated statement of profit or loss and other comprehensive income. Changes in the collectibility of trade and other receivables for which provision are not made could affect the results of operations.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are primarily based on market conditions existing at the end of each reporting period.

Impairment of property, plant and equipment and construction in progress

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Construction in progress are stated at costs. At each period-end date or whenever an objective evidence occur, the Company will assess whether there is an indicator that property, plant and equipment and construction in progress are impaired. In making this judgment, historical data such as financial performance of the operation cash generating unit will take into account.

Impairment of intangible assets

The Directors reconsidered the recoverability of the Group's intangible assets. The recoverable amounts of the intangible assets have been determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the intangible assets and a suitable discount rate in order to calculate the present value. The management refers to the valuation performed by independent qualified valuers. In performing the valuation, the valuers have based on method of valuation which involves certain estimates and assumptions.

Impairment of available-for-sale financial assets

Available-for-sale investments are stated at cost less impairment. At each period-end date or whenever an objective evidence occur, the Company will assess whether there is an indicator that available-for-sale financial assets are impaired. In making this judgment, historical data and factors such as industry and sector performance and financial information regarding the investee and certain specific conditions surrounding the transactions giving rise to the investments are taken into account.

5. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	2016	2015
	RMB'000	*RMB'000*
Financial assets		
Available-for-sale investments	89,335	70,287
Loan and receivables (including cash and cash equivalents)	1,571,943	1,232,058
Financial assets at fair value through profit or loss	1,038,006	1,049,556
Financial liabilities		
Amortised cost	1,221,459	773,215

(b) Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including interest rate risk, foreign currency risk and other price risk), credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Interest rate risk management

The Group considers that there is no significant cash flow interest rate risk and fair value interest rate risk as the Group does not have variable rate borrowings. The Group did not enter into interest rate swap to hedge against its exposures to changes in fair values of the borrowings.

The Group's exposure to market risk for changes in interest rates relates primarily to the bank balances. Floating-rate interest income is charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

Foreign currency risk management

The Group operates and conducts business in the PRC and all the Group's transactions, assets and liabilities are primarily denominated in RMB and Hong Kong dollars ("**HK$**"), which expose the Group to foreign currency risk. The Group does not have any formal hedging policy.

No sensitivity analysis on foreign currency risk is performed since the Group's has no material foreign currency denominated monetary assets and liabilities at the end of the reporting period.

Other price risk

The Group is exposed to equity price risk mainly through its investment. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles. In addition, the management of the Group would monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis on change in fair value of financial assets at fair value though profit or loss

The sensitivity analyses below have been determined based on the exposure to price risk at the end of the reporting period.

If prices had been 10% higher/lower (2015: 10%):

— post-tax profit for the year ended 31 December 2016 would increase/decrease by RMB103,800,000 (2015: RMB104,956,000). This is mainly due to the changes in fair value of financial assets designated as financial assets at fair value through profit or loss investments.

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group have put in place policies to ensure that sales of products are made to customers with an appropriate credit history and the Group performs periodic credit evaluation of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade and other receivables has been made in the accounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Directors, which has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate %	On demand or within one year *RMB'000*	More than one year but less than two years *RMB'000*	More than two years but less than five years *RMB'000*	Total undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
As at 31 December 2016						
Non-derivative financial liabilities						
Trade and bill payables	—	181,702	46,056	—	227,758	227,758
Other payables and accruals	—	993,701	—	—	993,701	993,701
		1,175,403	46,056	—	1,221,459	1,221,459
As at 31 December 2015						
Non-derivative financial liabilities						
Trade and bill payables	—	101,346	28,842	—	130,188	130,188
Other payables and accruals	—	643,027	—	—	643,027	643,027
		744,373	28,842	—	773,215	773,215

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

(i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively.

(ii) the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

(iii) the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Some of the Group's financial asset are measured at fair value at the end of each reporting period. The following table give information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

	2016 *RMB'000*	2015 *RMB'000*	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at fair value though profit or loss	1,038,006	1,049,556	Level 2	Based on expected rate of return quoted from financial institution

There were no transfers between Levels 1 and 2 in the both years.

The Directors consider that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements approximate their fair value.

(c) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

6. SEGMENT INFORMATION

Information reported to the board of Directors, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group currently operates in one business segment in the manufacturing and selling of pharmaceutical products in the PRC. A single management team reports to the chief operating decision makers who comprehensively manage the entire business. The reportable operating results report to the chief operating decision makers are the net profit of the Group and the reportable assets and liabilities report to the chief operating decision makers are the Group's assets and liabilities.

Revenue from major products

	2016	**2015**
	RMB'000	*RMB'000*
Pharmaceutical products	4,117,573	3,611,380

Information about major customers

Included in revenues arising from sales of pharmaceutical products of approximately RMB4,117,573,000 (2015: RMB3,611,380,000) are revenues of approximately RMB299,759,000 (2015: RMB442,921,000) which arose from sales to the Group's largest customer. For the year ended 31 December 2016, no individual customer contributed over 10% of the total revenue of the Group (2015: one customer amounting to approximately RMB442,921,000).

Geographical information

The Group mainly operates in the PRC. During the year ended 31 December 2016, except for revenue of approximately RMB1,473,000 (2015: RMB1,592,000) is generated from external customers located in overseas, all of the Group's revenue is derived from external customers located in the PRC. As the non-current assets of the Group are all located in the PRC in each of the year ended 31 December 2016 and 2015, so no geographical analysis was presented.

7. TURNOVER AND OTHER REVENUE

	2016 *RMB'000*	2015 *RMB'000*
Turnover		
Sales of manufactured pharmaceutical products	4,117,573	3,611,380
Other revenue		
Gain on financial assets at fair value through profit or loss		
— Realised	32,797	55,245
— Unrealised	3,006	4,556
	35,803	59,801
Interest income on bills receivables	129	143
Interest income on bank deposits	2,532	1,547
Sundry income	4,751	6,190
	43,215	67,681
Total revenue	4,160,788	3,679,061

The sales of product mix of the Group are as follows:

	2016 *RMB'000*	2015 *RMB'000*
Turnover		
System specified medicine	1,948,667	1,622,818
Anti-biotic medicine	1,232,007	1,211,250
Other specified medicine	936,899	777,312
	4,117,573	3,611,380

8. FINANCE COSTS

	2016 *RMB'000*	2015 *RMB'000*
Bills payables	86	52

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived after charging:

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories recognised as expenses		933,306	1,080,425
Depreciation of property, plant and equipment	20	74,980	60,261
Amortisation of prepaid lease payments	22	2,193	1,918
Write-down of obsolete inventories	25	6,331	2,366
Impairment loss recognised in respect of trade receivables	26	3,722	1,363
Impairment loss recognised in respect of other receivables	27	1,334	2,723
Employees benefit expenses (excluding Directors' and supervisors' remuneration)		1,607,786	1,267,725
Loss on disposal of property, plant and equipment		2,076	25,412
Research and development costs		314,315	253,607
Rental expenses		3,245	1,751
Advertising costs		10,718	4,368
Auditors' remuneration		1,050	1,151

and after crediting:

	Notes	2016 RMB'000	2015 RMB'000
Other income			
Waiver of trade payables		29	552
Net exchange gain		20,556	8,362
Government grant		40,047	27,184
Penalty income		8,596	2,105
Reversal of obsolete inventories written-down	25	2,031	567
Reversal of impairment loss recognised in respect of trade receivables	26	1,556	1,087
Reversal of impairment loss recognised in respect of other receivables	27	4,041	—
		76,856	39,857

10. TAXATION

(i) No provision for Hong Kong profits tax has been made as the Group did not carry on any business in Hong Kong during the year ended 31 December 2016 (2015: Nil).

(ii) As described in the paragraph below, the Company is subjected to the PRC Enterprise Income Tax at a rate of 15% (2015: 15%). The subsidiaries of the Group are subjected to the PRC Enterprise Income Tax at a rate of 25% (2015: 25%).

The Company received confirmation from the recognition authority that the Company has been recognised as the High and New Technology Enterprise. Pursuant to the new Enterprise Income Tax Law, the Enterprise Income Tax applicable to the High and New Technology Enterprise is reduced to be levied at 15%. The Company has since been enjoying the tax concession rate of 15% for the years ended 31 December 2016 and 2015.

(iii) The Group is subjected to the PRC value-added tax ("**VAT**") at 17% (2015: 17%) of revenue from sale of goods in the PRC. Input VAT paid on purchases can be used to offset output VAT levied on sales to determine the net VAT recoverable/payable.

(iv) The amount of taxation charged to the consolidated statement of profit or loss and other comprehensive income represents:

	2016	**2015**
	RMB'000	*RMB'000*
Current taxation — Enterprise income tax	83,050	81,960
Deferred taxation *(Note 23)*	105	(695)
	83,155	81,265

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate in the PRC as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Profit before taxation	463,823	571,872
Calculated at a taxation rate of 25% (2015: 25%)	115,956	142,968
Tax effect of income not taxable for tax purpose	(9,005)	(16,980)
Tax effect of expenses not deductible for tax purpose	1,773	139
Tax effect of tax concession	(43,091)	(51,844)
Tax effect of different jurisdiction	(164)	—
Tax effect of tax losses utilised	(4,870)	(376)
Tax effect of unutilised tax losses	3,070	6,830
Tax effect of temporary difference	19,486	528
Taxation charge for the year	83,155	81,265

The Group has tax losses of approximately RMB38,443,000 (2015: RMB45,643,000), that are available for five years for offsetting against future taxable profits of the companies in which the loses arise. Deferred tax assets have not been recognised in respect of these losses because it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. DIVIDENDS

The dividend paid in 2016 and 2015 were RMB213,360,000 (RMB0.35 per share) and RMB182,880,000 (RMB0.30 per share) respectively.

The Directors did not recommend the payment of a final dividend of the year ended 31 December 2016 (2015: RMB213,360,000, RMB0.35 per share in respect of year ended 31 December 2015).

12. EMPLOYEE SALARIES, WAGES, COMMISSION AND PENSION

	2016	**2015**
	RMB'000	*RMB'000*
Salaries and wages	1,573,084	1,254,734
Pension costs — defined contribution plans	24,517	6,332
	1,597,601	1,261,066

13. PENSION AND RETIREMENT BENEFIT COSTS

The Group has provided for pension and retirement benefit costs to all qualified employees in the PRC in accordance with the regulations set by the PRC local government which is calculated based on 30% on the employees' salary or the monthly average salaries set out by the PRC local government.

Commencing 2003, the Group has participated in a Mandatory Provident Fund Scheme (the "**MPF Scheme**") in Hong Kong for all qualified Hong Kong employees, which is a defined contribution scheme managed by independent trustees. Monthly contributions are made to the MPF Scheme based on 5% of the Hong Kong employees' relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. Both the Group's and the employees' contributions are subject to a cap of RMB1,210 (equivalent to HK$1,500) per month with effect from 1 June 2014, and thereafter contributions are voluntary.

During the year ended 31 December 2016, the Group has contributed approximately RMB14,520 (2015: RMB14,520) to the MPF Scheme.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) The aggregate amounts of emoluments paid and payable to the Directors are as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Basic salaries and allowances	1,248	1,084
Retirement benefit costs	54	60
	1,302	1,144

Individual emoluments paid and payable to the directors for the year ended 31 December 2016 are as follows:

	Year ended 31 December 2016			
	Fees	**Salaries, and other benefits**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:				
Liu Baoqi *(Chairman)*	—	473	9	482
Li Minghua	—	172	9	181
Liu Zhenteng	—	154	9	163
Han Fengsheng	—	107	9	116
Chen Yu	—	111	9	120
Non-executive Directors:				
Yin Chuangui (retired on 30 June 2016)	12	—	—	12
Liu Zhenhai	24	—	9	33
Independent non-executive director:				
Foo Tin Chung, Victor	123	—	—	123
Fu Hongzheng	24	—	—	24
Prof. Du Guanhua	24	—	—	24
Huang Huiwen (appointed on 1 July 2016)	12	—	—	12
Prof. Chen Yun Zhen (retired on 30 June 2016)	12	—	—	12
	231	1,017	54	1,302

Individual emoluments paid and payable to the directors for the year ended 31 December 2015 are as follows:

	Year ended 31 December 2015			
	Fees	**Salaries, and other benefits**	**Retirement scheme contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Executive director:				
Liu Baoqi *(Chairman)*	—	446	10	456
Li Minghua	—	115	10	125
Liu Zhenteng	—	144	10	154
Han Fengsheng	—	72	10	82
Chen Yu	—	72	10	82
Non-executive Directors:				
Yin Chuangui	24	—	—	24
Liu Zhenhai	24	—	10	34
Independent non-executive director:				
Foo Tin Chung, Victor	115	—	—	115
Fu Hongzheng	24	—	—	24
Prof. Chen Yun Zhen	24	—	—	24
Prof. Du Guanhua	24	—	—	24
	235	849	60	1,144

The number of directors whose emoluments fell within the following band is as follows:

	Number of individuals	
	2016	**2015**
Nil–RMB806,000 (equivalent to Nil–HK$1,000,000)	12	11

None of the directors have waived or agreed to waive any emoluments during the year.

(ii) The five individuals whose emoluments were the highest in the Group for the year did not include (2015: five) director whose emoluments are reflected in the analysis presented above. The emoluments payable (excluding amounts paid or payable by way of commissions on sales generated by the individual) to the five (2015: five) non-director, highest paid individual during the year are as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Basic salaries and allowances	1,200	4,790
Retirement benefit costs	50	115
	1,250	4,905

The number of non-director, highest paid individuals whose emoluments fell within the following band is as follows:

	Number of individuals	
	2016	**2015**
Nil–RMB806,000 (equivalent to Nil–HK$1,000,000)	5	3
RMB806,000–RMB1,613,000 (equivalent to HK$1,000,000 to HK$2,000,000)	—	2

(iii) During the year, no emoluments have been paid to the Directors or the five highest individuals as an inducement to join or as compensation for loss of office (2015: Nil).

(iv) Ms. Li Minghua was also the chief executive of the Company during the years ended 31 December 2016 and 2015.

The number of senior management (excluding directors) whose emolument fell within the following band is as follows:

	Number of individuals	
	2016	**2015**
Nil–RMB806,000 (equivalent to Nil–HK$1,000,000)	1	1

(v) Mr. Liu Baoqi was also the chairman of the Board of the Company during the years ended 31 December 2016 and 2015.

15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2016	**2015**
Profit attributable to owners of the Company (RMB'000)	379,198	492,929
Weighted average number of ordinary shares in issue ('000)	609,600	609,600
Basic and diluted earnings per share (RMB)	0.622	0.809

During the year ended 31 December 2016 and 2015, there is no instrument with potential dilutive share issued by the Company. Therefore, the basic and diluted earnings per share for the respective years are equal.

16. PARTICULARS OF SUBSIDIARIES

As at 31 December 2016 and 2015, the Company had interests in the following subsidiaries:

Name of the entity	Form of business structure	Place of incorporation and operation	Paid-up capital	Proportion of registered capital held by the Company 2016	2015	Proportion of voting power held 2016	2015	Principal activities
Directly held:								
Sichuan Luoxin Pharmacy Company Limited* (四川羅欣醫葯有限公司) ("**Sichuan Luoxin**")	Incorporated	PRC	RMB6,000,000	51%	51%	51%	51%	Wholesale of biochemical products and Chinese medicine
Shandong Yuxin Pharmaceutical Company Limited* (山東裕欣藥業有限公司) ("**Shandong Yuxin**")	Incorporated	PRC	RMB50,000,000	100%	100%	100%	100%	Wholesale and manufacture of biochemical products and Chinese medicine
Shandong Luoxin Pharmaceutical Group Hengxin Pharmaceutical Company Limited** (山東羅欣藥業集團恆欣藥業有限公司) ("**Shandong Hengxin**")	Incorporated	PRC	RMB50,000,000	100%	100%	100%	100%	Wholesale and manufacture of biochemical products and Chinese Medicine
Luoxin Biological Technology (Shanghai) Co., Ltd.*# (羅欣生物科技(上海)有限公司) ("**Biological Technology**")	Incorporated	PRC	RMB165,000,000	100%	100%	100%	100%	Development, technology transfer, technology consultancy and technology services of biological products, Pharmaceutical Products and medical equipments
Jinan Luoxin Pharmacy Co., Ltd.* 濟南羅欣醫藥 ("**Jinan Luoxin**")	Incorporated	PRC	RMB50,000,000	68.86%	65.06%	68.86%	65.06%	Wholesale of biochemical products and Chinese medicine, development technology transfer, technology consultancy and technology services of biological products
Shandong Luoxin Pharmaceutical Group Chongqing Pharmaceutical Co., Ltd.* 山東羅欣藥業集團重慶醫藥有限公司	Incorporated	PRC	RMB10,000,000	51.00%	—	51.00%	—	Sales of chemical raw medicine and preparations, antibiotic raw medicine and preparations, biochemical medicine, Chinese Traditional Patent Medicine, biological products, food, medical equipments, general merchandise, disinfection supplies, medicine consulting and import and export of goods
Shandong Luoxin Pharmaceutical Group Runxin Pharmaceutical Company Limited* 山東羅欣藥業集團潤欣醫藥有限公司 ("**Shandong Runxin**")	Incorporated	PRC	RMB50,000,000	51.00%	—	51.00%	—	Sales of Chinese medicine, biochemical products, medical equipments and health care products

Name of the entity	Form of business structure	Place of incorporation and operation	Paid-up capital	Proportion of registered capital held by the Company 2016	2015	Proportion of voting power held 2016	2015	Principal activities
Indirectly held:								
Luoxin Hong Kong Holdings Limited ("**Hong Kong Luoxin**")	Incorporated	Hong Kong	HK$10,000	100%	100%	100%	100%	Investment holding
Gaotang County Runxin Large Pharmacy Co., Ltd.* 高唐縣潤欣大藥房有限公司	Incorporated	PRC	RMB500,000	51%	—	51%	—	Dormant

The subsidiaries had no debt securities outstanding at the end of the reporting period or at any time during the year.

Shandong Hengxin, Shandong Yuxin, Biological Technology and Hong Kong Luoxin were incorporated on 11 April 2012, 19 December 2012, 25 June 2014 and 28 May 2015 respectively.

* The English name represents the translated name of the subsidiary as no English name has been registered.

The table below shows details of non-wholly owned subsidiary of the Group that have material non-controlling interest:

Name of subsidiary	Profit/(loss) allocated to non-controlling interest 2016	2015	Accumulated non-controlling interests 2016	2015	Percentage of equity interest held by non-controlling interest 2016	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*%*	*%*
Sichuan Luoxin	637	(1,298)	3,131	2,498	49	49
Jinan Luoxin	2,102	(1,024)	16,952	16,762	31.14##	34.94##
Shandong Runxin	(1,050)	—	23,450	—	49	—
Others	(219)	—	4,685	—	—	—

For the changes in percentage of equity interest of Jinan Luoxin, please refer to Note 40.

Summarised financial information in respect of each of the Group's subsidiary that has material non-controlling interest is set out below. The summarised financial information below represents amounts before intra-group eliminations.

Sichuan Luoxin

	2016 *RMB'000*	2015 *RMB'000*
Current assets	74,613	38,370
Non-current assets	380	355
Current liabilities	(68,603)	(33,636)
Equity attributable to owners of the company	6,390	5,089
Revenue	196,261	113,554
Expenses	(194,960)	(116,202)
Profit/(loss) for the year	1,301	(2,648)
Total comprehensive income/(loss) for the year	1,301	(2,648)
Net cash generated from/(used in) operating activities	24	(2,922)
Net cash used in investing activities	(166)	(207)
Net cash generated from financing activities	—	2,939
Net decrease in cash and cash equivalents	(142)	(190)

Jinan Luoxin

	2016 *RMB'000*	2015 *RMB'000*
Current assets	65,853	73,081
Non-current assets	5,815	5,853
Current liabilities	(17,232)	(30,963)
Equity attributable to owners of the company	54,436	47,971
Revenue	322,581	172,275
Expenses	(316,116)	(175,016)
Profit/(loss) for the year	6,465	(2,741)
Total comprehensive income/(loss) for the year	6,465	(2,741)
Net cash generated from/(used in) operating activities	2,200	(39,062)
Net cash used in investing activities	(397)	(1,415)
Net cash generated from financing activities	—	47,000
Net increase in cash and cash equivalents	1,803	6,523

Shandong Runxin

	2016 *RMB'000*
Current assets	52,934
Non-current assets	25,605
Current liabilities	(30,683)
Equity attributable to owners of the company	47,856
Revenue	20,291
Expenses	(22,435)
Loss for the year	(2,144)
Total comprehensive loss for the year	(2,144)
Net cash used in operating activities	(28,422)
Net cash used in investing activities	(23,391)
Net cash generated from financing activities	51,820
Net increase in cash and cash equivalents	7

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
	RMB'000	*RMB'000*
Unlisted securities — Equity securities *(Note)*		
At cost	89,335	70,287

Notes:

1. Amount of RMB1,000,000 represented 10% of the capital of 山東羅欣陽光包裝制品有限公司, a company involved in the production and selling of plastic and packaging materials.

2. As at 31 December 2014, the investment cost of RMB40,000,000 represent 40% of the capital of Second Hospital of Fei County (費縣第二醫院). On July 2015, the Group further invested RMB15,000,000 to acquired 15% of the capital on it.

   As at 31 December 2016 and 2015, although the Group hold 55% capital on the Second Hospital of Fei County, the Directors confirmed that the Group does not involve into the daily operation decision and financial decision of the Second Hospital of Fei County. Therefore the Group does not have any control or significant influence on the Second Hospital of Fei County.

3. On 13 July 2015, the Group entered into subscription agreements to acquire the capital of WuXi Healthcare Ventures II, L.P. The partnership makes capital investments, primarily in privately-owned life sciences companies in PRC, Hong Kong and Taiwan ("**Greater China**") or United States. At 31 December 2015, the Group contributed approximately RMB14,287,000 (USD2,200,000). During the year ended 31 December 2016, the Group further contributed approximately RMB19,048,000 (USD2,600,000), represented 3.46% of the capital of WuXi Healthcare Ventures II, L.P.

The available-for-sale financial assets are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that the fair value cannot be reliably measured. No impairment was recognised as at 31 December 2016 and 2015.

18. INTANGIBLE ASSETS

	Purchased Technical Know-how *RMB'000*	License *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2015	17,450	—	17,450
Acquisition of assets *(Note 39)*	—	4,057	4,057
At 31 December 2015 and 1 January 2016	17,450	4,057	21,507
Acquisition of assets *(Note 39)*	—	2,786	2,786
At 31 December 2016	17,450	6,843	24,293
Accumulated amortisation and impairment:			
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	17,450	—	17,450
Net carrying amount:			
At 31 December 2016	—	6,843	6,843
At 31 December 2015	—	4,057	4,057

The licenses will expire on December 2020 and subject to renewal. The Directors are not aware of any expected impediment with respect to the renewal of the licenses and consider that the possibility of failing in renewal is remote and the licenses will generate net cash flows for the Group for an indefinite period. Therefore, the licenses are treated as having an indefinite useful life.

The purchased technical know-how with estimated useful life of 5 years was fully amortised for the year ended 31 December 2014.

Impairment testing of intangible assets

Intangible assets with indefinite useful life acquired through acquisition of subsidiaries is allocated to the following cash generating units (the "CGU") for impairment testing.

— Jinan Luoxin

— Shandong Runxin

Jinan Luoxin

The recoverable amount of Jinan Luoxin has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16.78% (2015: 17.20%). Other key assumptions for the value in use calculations are related to the estimation of cash inflows/outflows which include budgeted sales with a compound average growth rate of 5% (2015: 5%) and stable gross margin, such estimation is based on the CGU's past performance and its management's expectations for the market development. The management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amount of Jinan Luoxin to exceed aggregate recoverable amount of Jinan Luoxin.

Shandong Runxin

The recoverable amount of Shandong Runxin has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16.78%. Other key assumptions for the value in use calculations are related to the estimation of cash inflows/outflows which include budgeted sales with a compound average growth rate of 5% and stable gross margin, such estimation is based on the CGU's past performance and its management's expectations for the market development. The management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amount of Shandong Runxin to exceed aggregate recoverable amount of Shandong Runxin.

19. PREPAYMENTS TO ACQUIRE TECHNICAL KNOW-HOW

As at 31 December 2015, the amounts are prepayments to third parties to acquire technical know-how. For the year ended 31 December 2016 and 2015, amount of approximately RMB8,021,000 and RMB9,383,000 respectively were impaired which was included in research and development expenses. The Directors have considered that the amount of the prepayment to acquire technical know-how of RMB8,021,000 (2015: RMB9,383,000) was not recoverable as the research and development process was not successful and would not bring any future economic benefit to the Group. The Directors are of the opinion that no further impairment was recognised because the remaining research and development process was considered to be successful and would bring future economic benefit to the Group.

20. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
Cost					
At 1 January 2015	274,556	401,996	33,895	25,436	735,883
Acquisition of assets *(Note 39)*	—	—	—	734	734
Additions	7,626	38,719	2,875	24,279	73,499
Disposals	(23,500)	(13,121)	(2,558)	(3,943)	(43,122)
Transfer from construction-in-progress *(Note 21)*	113,610	103,987	—	4,261	221,858
At 31 December 2015 and 1 January 2016	372,292	531,581	34,212	50,767	988,852
Acquisition of assets *(Note 39)*	29	540	40	455	1,064
Additions	23,417	58,022	6,445	17,434	105,318
Disposals	(10,361)	(11,202)	(2,285)	(2,528)	(26,376)
Transfer from construction-in-progress *(Note 21)*	58,058	48,054	—	7,847	113,959
At 31 December 2016	443,435	626,995	38,412	73,975	1,182,817
Accumulated depreciation and impairment					
At 1 January 2015	36,009	124,005	14,719	16,875	191,608
Charge for the year	9,854	36,110	7,560	6,737	60,261
Written back on disposals	(3,878)	(11,546)	(1,118)	(768)	(17,310)
At 31 December 2015 and 1 January 2016	41,985	148,569	21,161	22,844	234,559
Charge for the year	11,010	47,621	4,792	11,557	74,980
Written back on disposals	(365)	(6,553)	(1,908)	(1,599)	(10,425)
At 31 December 2016	52,630	189,637	24,045	32,802	299,114
Net carrying value					
At 31 December 2016	390,805	437,358	14,367	41,173	883,703
At 31 December 2015	330,307	383,012	13,051	27,923	754,293

21. CONSTRUCTION-IN-PROGRESS

	RMB'000
At 1 January 2015	219,902
Additions	110,092
Transfer to property, plant and equipment *(Note 20)*	(221,858)
At 31 December 2015 and 1 January 2016	108,136
Additions	105,459
Transfer to property, plant and equipment *(Note 20)*	(113,959)
At 31 December 2016	99,636

Construction-in-progress is reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

Analysis of construction-in-progress as follows:

	2016	2015
	RMB'000	*RMB'000*
Construction cost of buildings	55,164	56,448
Cost of plant and machinery	44,316	51,688
Office equipment	156	—
	99,636	108,136

22. PREPAID LEASE PAYMENTS

Prepaid lease payments represent 48-year to 70-year land use rights in the PRC expiring from November 2050 to September 2079. This payment is recognised as an expense over the leasehold period.

	RMB'000
At 1 January 2015	52,597
Addition of prepaid lease payments	50,927
Amortisation of prepaid lease payments *(Note 9)*	(1,918)
At 31 December 2015 and 1 January 2016	101,606
Addition of prepaid lease payments	675
Amortisation of prepaid lease payments *(Note 9)*	(2,193)
At 31 December 2016	100,088

Analysed for reporting purposes as:

	2016	2015
	RMB'000	*RMB'000*
Current assets (included in other receivables, deposits and prepayments) *(Note 27)*	2,193	1,931
Non-current assets	97,895	99,675
	100,088	101,606

	2016	2015
	RMB'000	*RMB'000*
Long-term lease	8,774	8,914
Medium-term lease	91,314	92,692
	100,088	101,606

23. DEFERRED TAX ASSETS

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2015: 25%).

	Provision
	RMB'000
At 1 January 2015	523
Credited to the consolidated statement of profit or loss and other comprehensive income *(Note (10))*	695
At 31 December 2015 and 1 January 2016	1,218
Charged to the consolidated statement of profit or loss and other comprehensive income *(Note (10))*	(105)
At 31 December 2016	1,113

All deferred tax assets are to be recovered after more than 12 months.

24. GOODWILL

The carrying amount of goodwill was allocated to cash-generating unit as follows:

	2016	**2015**
	RMB'000	*RMB'000*
Manufacturing and selling of pharmaceutical products	165	165

At the end of the reporting period, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's manufacturing and selling of pharmaceutical products activity was not impaired. The recoverable amount was assessed by reference to the cash-generating unit's value in use.

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and a discount rate of 16.78% (2015: 12%).

Cash flow projections during the budget period are based on the same expected gross margins and raw material price inflation throughout the budget period. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the cash-generating unit.

25. INVENTORIES

	2016	**2015**
	RMB'000	*RMB'000*
Raw materials	19,023	1,506
Work-in-progress	205,551	97,526
Finished goods	287,231	145,565
	511,805	244,597
Less: Write-down of obsolete inventories	(6,911)	(2,611)
	504,894	241,986

Movements in the write down of obsolete inventories are as follows:

	2016	2015
	RMB'000	*RMB'000*
Balance at the beginning of the year	2,611	812
Write-down of obsolete inventories during the year *(Note 9)*	6,331	2,366
Reversal of obsolete inventories written-down *(Note 9)*	(2,031)	(567)
Balance at the end of the year	6,911	2,611

The reversal of obsolete inventories written-down arose from sales of obsolete inventories recognised during the year. The amount reversed has been included in other income to the statement of profit or loss.

The Directors have assessed the net realisable values and conditions of the Group's inventories as at 31 December 2016 and have considered a write-down of obsolete inventories of approximately RMB6,911,000 (2015: RMB2,611,000) be made in respect of the net realisable value of the inventories.

26. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	638,215	475,570
Bills receivables	75,819	50,869
	714,034	526,439
Less: Provision for impairment loss recognised in respect of trade receivables	(3,757)	(1,591)
	710,277	524,848

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, net of provision for impairment loss:

	2016	2015
	RMB'000	*RMB'000*
1 to 90 days	615,006	443,720
91 to 180 days	81,674	63,087
181 to 365 days	13,597	18,041
	710,277	524,848

Customers are generally granted with credit term of 90–180 days. Bills receivables are all due to mature within 180 days. Trade and bills receivables as at 31 December 2016 and 2015 are denominated in RMB.

As at 31 December 2016, amount of approximately RMB130,306,000 was receivable from two connected parties (Note 37). The amounts due are unsecured, interest-free and receivable within 90 days.

As at 31 December 2015, amount of approximately RMB101,852,000 was receivable from three connected parties (Note 37). The amounts due are unsecured, interest-free and receivable within 90 days.

(a) Included in the Group's trade and bills receivables balance are debtors with a carrying amount of approximately RMB13,597,000 (2015: RMB18,041,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group has recognised provision for impairment loss of 100% against all receivables over 365 days because in the opinion of Directors, based on historical experience in collection of debts that receivables that are past due beyond 365 days are not recoverable. The Group does not hold any collateral over these balances.

Details of the aging analysis of trade and bills receivables which are past due but not impaired are as follows:

	2016	2015
	RMB'000	*RMB'000*
181 to 365 days	13,597	18,041

(b) Movements in the provision for impairment loss recognised in respect of trade receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
Balance at the beginning of the year	1,591	1,315
Impairment loss recognised during the year *(Note (9))*	3,722	1,363
Reversal of impairment loss recognised in respect of trade receivables (Note (9))	(1,556)	(1,087)
Balance at the end of the year	3,757	1,591

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. Accordingly, the Directors have considered provision for impairment is made to reduce the trade receivables to their recoverable amount and believed that there is no further provision for impairment loss recognised in respect of trade receivables is need.

The reversal of impairment loss recognised was due to the recovery of impaired trade debts during the years ended 31 December 2016 and 2015.

27. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016	2015
	RMB'000	*RMB'000*
Other receivables and deposits	221,950	105,918
Prepayments *(Note)*	74,218	70,725
	296,168	176,643
Less: Provision for impairment loss recognised in respect of other receivables	(1,334)	(4,041)
	294,834	172,602

Note: Prepayments mainly comprised of prepayment of value-added tax, acquisition of plant and machinery, raw materials, packing materials and consumables, and acquisition of prepaid lease payments of approximately RMB19,676,000 (2015: RMB14,920,000), RMB30,548,000 (2015: RMB12,231,000) and RMB2,192,000 (2015: RMB30,566,000) respectively.

Movements in the provision for impairment loss recognised in respect of other receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
Balance at the beginning of the year	4,041	1,468
Impairment loss recognised during the year *(Note (9))*	1,334	2,723
Written off during the year	—	(150)
Reversal of impairment loss recognised in respect of other receivables *(Note (9))*	(4,041)	—
Balance at the end of the year	1,334	4,041

The reversal of impairment loss recognised due to the recovery of other receivables during the year ended 31 December 2016.

In determining the recoverability of other receivables, the Directors considers any change in the credit quality of the other receivables. Included in the provision for impairment loss recognised in respect of other receivables are individually impaired other receivables with a balance of approximately RMB1,334,000 (2015: RMB4,041,000) which have been in financial difficulty. The impairment recognised represents the difference between the carrying amount of these other receivables and the present value of the expected recoverable amounts. The Company does not hold any collateral over these balances.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	RMB'000	*RMB'000*
Held for trading	1,038,006	1,049,556

2016

As at 31 December 2016, the financial assets at fair value through profit or loss represent eleven principal and return-protected financial products ("**Financial Products 2016**") issued by several financial institutions in the PRC. The Financial Products 2016 were all matured within one year and were classified as current assets.

These financial products were classified as financial assets designated as at financial assets at fair value through profit or loss. The Directors recognised the fair value of the Financial Products 2016 as at the end of reporting period with reference to the discounted of expected return provided by those financial institutions.

2015

As at 31 December 2015, the financial assets at fair value through profit or loss represent eight principal and return-protected financial products ("**Financial Products 2015**") issued by several financial institutions in the PRC. The Financial Products 2015 were all matured within one year and were classified as current assets.

These financial products were classified as financial assets designated as at financial assets at fair value through profit or loss. The Directors recognised the fair value of the Financial Products 2015 as at the end of reporting period with reference to the discounted of expected return provided by those financial institutions.

29. FIXED DEPOSITS/CASH AND BANK BALANCES

As at 31 December 2016, no bank deposits of the Group (2015: nil) are pledged as collateral for bills payables.

Fixed deposit represent the bank deposit mature over three months and carry interest at market rates of 3.30% per annum during the year ended 31 December 2016 (2015: nil).

Cash and cash equivalents of the Group are denominated in RMB and HK$ and bank deposits are placed with banks in the PRC and in Hong Kong. The remittance of funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

30. TRADE AND BILLS PAYABLES

The following is an analysis of trade payables by age based on the invoice date:

	2016	2015
	RMB'000	*RMB'000*
1 to 90 days	158,157	88,021
91 to 180 days	14,021	6,587
181 to 365 days	9,525	6,738
Over 365 days	46,055	28,842
	227,758	130,188

Trade payables as at 31 December 2016 and 2015 are denominated in RMB.

The average credit period on trade payables is 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

31. OTHER PAYABLES AND ACCRUALS

	2016	2015
	RMB'000	*RMB'000*
Accrued salaries	94,882	43,992
Other payables	749,515	550,850
Receipt in advance	149,304	48,185
	993,701	643,027

As at 31 December 2016, other payables mainly consist of accrued sales and distribution expenses of approximately RMB531,881,000 (2015: RMB309,766,000), accrued social insurance and staff benefit of approximately RMB1,119,000 (2015: RMB52,600,000) and other tax and fee payable of approximately RMB68,463,000 (2015: RMB39,897,000).

32. DEFERRED INCOME

Deferred income represent the government grant received by the Group.

During the years ended 31 December 2002 and 2003, the Group received government subsidies in cash of RMB20,380,000 pursuant to an approval obtained from the local government authority. The grants were to enable the Group to construct a new manufacturing plant to produce Chinese medicines. As at 31 December 2016 and 2015, the Group has not commenced the construction of the new manufacturing plant.

During the year ended 31 December 2016, the Group received certain government grants of approximately RMB253,074,000 related to enable the Group to commence technical know-how research and development and construction of plant and equipment.

The government grant received for the Group to commence technical know-how research and development were recognised as income in profit or loss when the related research and development incurred. The government grant received for the Group to construct of plant and equipment were recognised as income in profit or loss on a systematic basis over useful life of related plant and machinery.

33. SHARE CAPITAL

	Number of shares	Nominal value Domestic shares	H-shares	Total
	'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered, issued and fully paid:				
At 31 December 2015 and 2016 (nominal value of RMB0.10 each)	609,600	44,504	16,456	60,960

34. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity to the consolidated financial statements.

35. BANKING FACILITIES

The Group did not have banking facilities as at 31 December 2016 (2015: nil).

36. COMMITMENTS AND CONTINGENCIES

The Group had the following significant commitments:

(a) Operating leases

At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	11,632	878
In the second to fifth years, inclusive	46,685	—
	58,317	878

The Group leases office premises under operating lease arrangements which are negotiated and fixed for an average term of a year. The lease payments are fixed and pre-determined.

(b) Capital commitments

Capital commitments outstanding at 31 December 2016, not provided for in the consolidated financial statements were as follows:

	2016	2015
	RMB'000	*RMB'000*
Contracted but not provided for:		
— Purchase of technical know-how	—	140,134
— Purchase of property, plant and equipment	84,014	74,215

37. RELATED PARTY TRANSACTIONS

Key management compensation for the year ended 31 December 2016 and 2015 was disclosed in Note 14.

Apart from those as disclosed under Note 26 and elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

	2016	2015
	RMB'000	*RMB'000*
Sales of chemical medicine to Luoxin Pharmaceutical Group Co., Ltd. ("**Luoxin Pharmaceutical Group**") *(Note (i))*	299,759	442,921
Sales of chemical medicines to Shandong Luosheng Pharmacy Co., Ltd. ("**Shandong Luosheng**") *(Note (ii))*	45,474	49,026
Sales of chemical medicines to Shandong Mingxin Pharmacy Co., Ltd. ("**Shandong Mingxin**") *(Note (iii))*	35,963	39,950

Notes:

(i) Luoxin Pharmacy Group Company Limited is the promoter of the Company. Mr. Liu Baoqi is the director and controlling shareholder for both Luoxin Pharmacy Group Company Limited and the Company. Mr. Liu Zhenhai is the director for both Luoxin Pharmacy Group Company Limited and the Company (resigned as the director of Luoxin Pharmacy Group Company Limited on 29 February 2016). As at 31 December 2016, amount of approximately RMB122,400,000 (2015: RMB72,871,000) due from Luoxin Pharmaceutical Group is included in trade and bills receivables, the terms of the outstanding balance is set out in Note 26.

(ii) Shandong Luosheng Pharmacy Co., Ltd. is the fellow subsidiary of which Luoxin Pharmacy Group Company Limited is holding 51% of the equity interests of Shandong Luosheng Pharmacy Co., Ltd. Mr. Liu Baoqi and Mr. Liu Zhenhai are the directors for both Shandong Luosheng Pharmacy Co., Ltd. and the Company (Mr. Liu Zhenhai resigned as the director of Shandong Luosheng Pharmacy Co., Ltd on 18 July 2016). As at 31 December 2016, amount of approximately RMB7,906,000 (2015: RMB12,421,000) due from Shandong Luosheng is included in trade and bills receivables, the terms of the outstanding balance is set out in Note 26.

(iii) Shandong Mingxin Pharmacy Co., Ltd. is the fellow subsidiary of which Luoxin Pharmacy Group Company Limited is holding 51% of the equity interests of Shandong Mingxin Pharmacy Co., Ltd. Mr. Liu Baoqi and Mr. Liu Zhenhai are the directors for both Shandong Mingxin Pharmacy Co., Ltd. and the Company (Mr. Liu Zhenhai resigned as the director of Shandong Mingxin Pharmacy Co., Ltd. on 5 July 2016). As at 31 December 2016, amount of approximately RMB159,000 (2015: RMB16,560,000 due from) Shandong Mingxin is included in other payables and accruals (2015: included in trade and bills receivables), the terms of the outstanding balance is set out in Note 26.

The above transactions constitute connected transactions under GEM Listing Rules. Please also refer to "Connected Transactions and Continuing Connected Transactions" under "Report of the Directors".

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016	2015
	RMB'000	*RMB'000*
Non-current assets		
Interests in subsidiaries	333,750	166,250
Available-for-sale financial assets	56,000	56,000
Prepayments to acquire technical know-how	—	8,021
Property, plant and equipment	319,918	393,385
Construction-in-progress	14,913	54,851
Prepaid lease payments	17,633	18,046
Deferred tax assets	1,113	1,218
	743,327	697,771
Current assets		
Inventories	507,138	271,696
Amounts due from subsidiaries	692,774	660,555
Trade and bills receivables	585,477	480,488
Other receivables, deposits and prepayments	175,784	112,991
Financial assets at fair value through profit and loss	937,811	999,514
Fixed deposits	50,172	—
Cash and bank balances	206,730	284,048
	3,155,886	2,809,292
Current liabilities		
Trade and bills payables	177,188	113,107
Other payables and accruals	645,537	580,021
Amount due to a subsidiary	18,540	—
Deposits received	77,330	56,061
Tax payable	61,281	48,135
	979,876	797,324

	2016	2015
	RMB'000	*RMB'000*
Net current assets	2,176,010	2,011,968
Total assets less current liabilities	2,919,337	2,709,739
Non-current liability		
Deferred income	101,115	54,356
Net assets	2,818,222	2,655,383
Capital and reserves		
Share capital	60,960	60,960
Other reserve	67,652	67,652
Retained earnings		
— Proposed final dividend	—	213,360
— Others	2,689,610	2,313,411
Total equity	2,818,222	2,655,383

Approved by the Board of Directors on 7 March 2017 and signed on its behalf by:

Liu Baoqi
Director

Liu Zhenteng
Director

A summary of the Company's reserves is as follows:

	Share Premium *RMB'000*	Statutory surplus reserve fund *RMB'000* *(Note (i))*	Statutory public welfare fund *RMB'000* *(Note (ii))*	Retained earnings *RMB'000*	Total *RMB'000*
At 1 January 2015	31,139	30,480	6,033	2,253,266	2,320,918
Profit and total comprehensive income for the year	—	—	—	456,385	456,385
Dividend paid	—	—	—	(182,880)	(182,880)
At 31 December 2015 and 1 January 2016	31,139	30,480	6,033	2,526,771	2,594,423
Profit and total comprehensive income for the year	—	—	—	376,199	376,199
Dividend paid	—	—	—	(213,360)	(213,360)
At 31 December 2016	31,139	30,480	6,033	2,689,610	2,757,262

Notes:

(i) Pursuant to the PRC regulations and the Articles of Association of the Group's entities in the PRC, the entities in the PRC are required to transfer 10% of its net profit, as determined under the PRC accounting regulations, to statutory surplus reserve fund until the fund aggregates to 50% of the entity's registered capital. The transfer to this reserve must be made before distribution of dividends to shareholders.

During the years ended 31 December 2016 and 2015, no appropriation has been made by the Company because the statutory surplus reserve fund of the Company has reached 50% of the Company's registered capital.

The statutory surplus reserve fund shall only be used to make good previous years' losses, to expand the entity's production operations, or to increase the capital of the entity. Upon approval by a resolution passed at a shareholders' general meeting, the entity may transform its statutory surplus reserve fund into share capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the nominal value of each share currently held by them, provided that the balance of the reserve fund after such issue is not less than 25% of the registered capital.

(ii) Pursuant to the PRC regulations and the Articles of Association of the Group's entities in the PRC, the contribution to statutory public welfare fund by the entities is voluntary. This fund can only be used to provide staff welfare facilities and other collective benefits to the company's employees. This fund is non-distributable other than in liquidation. The directors consider that no provision to be made for the years ended 31 December 2016 and 2015.

39. ACQUISITION OF ASSETS

(a) Shandong Runxin

On 1 July 2016, the Group acquired 51% of the entire capital of Shandong Runxin, for an aggregate consideration of approximately RMB25,500,000 (the "**Acquisition of Shandong Runxin**"). The purpose of the Acquisition of Shandong Runxin is for the Group to develop the wholesales business in Shandong province and as such, the Acquisition of Shandong Runxin has been accounted for as acquisition of assets rather than businesses and such acquisition did not give rise to goodwill.

	RMB'000
Consideration paid during the year ended 31 December 2016	25,500

The assets acquired and liabilities recognised at the date of the Acquisition of Shandong Runxin are as follows:

	RMB'000
Intangible assets — License *(Note 18)*	2,786
Cash and bank balances	19,811
Prepayment, deposit and other receivables	38,841
Property, plant and equipment	1,064
Accruals and other payable	(12,502)
Total identifiable net assets at fair value	50,000
Non-controlling interest	(24,500)
	25,500
Net cash outflow arising on acquisition:	
— Cash and cash equivalent paid	(25,500)
— Cash and cash equivalent acquired	19,811
	(5,689)

(b) Jinan Luoxin

On 28 February 2015, the Group acquired the entire capital of Jinan Luoxin, for an aggregate consideration of approximately RMB3,711,000 (the "Acquisition of Jinan Luoxin"). The purpose of the Acquisition of Jinan Luoxin is for the Group to develop the wholesales business in Shandong province and as such, the Acquisition has been accounted for as acquisition of assets rather than businesses.

	RMB'000
Consideration paid during the year ended 31 December 2014 (Note)	3,711
The assets acquired and liabilities recognised at the date of the Acquisition of Jinan Luoxin are as follows:	
Intangible assets — Licenses (Note 18)	4,057
Cash and bank balances	34
Trade and bills receivables	3,672
Prepayment, deposit and other receivables	2,614
Inventories	1,318
Property, plant and equipment	734
Trade and bills payables	(2,722)
Accruals and other payable	(5,996)
	3,711
Net cash inflow arising on acquisition:	
— Cash and cash equivalent acquired	34

Note: The consideration paid was recognised as prepayment as at 31 December 2014.

40. CHANGE IN OWNERSHIP INTERESTS IN A SUBSIDIARIES

On 20 April 2015, the Group disposed 36.94% equity interest of Jinan Luoxin by way of increasing the registered capital of Jinan Luoxin from RMB3,000,000 to RMB50,000,000. The Group agreed to pay RMB28,530,000 of the increased capital of Jinan Luoxin. The non-controlling interests of Jinan Luoxin agreed to pay RMB18,470,000 for the increase capital of Jinan Luoxin. The Group recognised an increase of non-controlling interests and decrease in other reserve of approximately RMB18,755,000 and RMB285,000 respectively.

On 12 August 2015, the Group further acquired 2.00% equity interest of Jinan Luoxin by way of paying RMB1,000,000 of the capital of Jinan Luoxin. The Group recognised a decrease of non-controlling interest and decrease in other reserve of approximately RMB969,000 and RMB31,000 respectively.

On 24 June 2016, the Group further acquired 3.80% equity interest of Jinan Luoxin by way of paying RMB1,900,000 of the capital of Jinan Luoxin. The Group recognised a decrease of non-controlling interest and increase in other reserve of approximately RMB1,912,000 and RMB12,000 respectively.

41. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 7 March 2017.

3. INDEBTEDNESS

Statement of indebtedness

Apart from intra-group liabilities and normal trade payables, as at the close of business on 31 January 2017, the Group did not have any outstanding loan capital issued, outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptances credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed that there was no material change in the indebtedness and contingent liabilities of the Group since 31 January 2017.

4. MATERIAL CHANGES

The Directors confirm that there has been no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2016 (being the date to which the latest audited account of the Company were made up) up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the Offer, the Joint Offerors, GL Instrument and the Company.

As at the Latest Practicable Date:

(a) the sole director of Giant Star HK is Mr. Liu Zhenteng;

(b) the general partner of GL Instrument Investment L.P. is GL Capital Management GP II B.C. 4 Ltd. and the sole director of GL Capital Management GP II B.C. 4 Ltd. is Mr. Li Zhenfu; and

(c) the sole director of Ally Bridge Flagship is Mr. Pang Andrew Chee On.

The sole director of Giant Star HK accepts full responsibility for the accuracy of the information (other than that relating to the Group, GL Capital, and Ally Bridge Group) contained in this Composite Document and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document (other than that expressed by the Directors, or the directors or general partners of GL Capital or Ally Bridge Group) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The sole director of GL Capital Management GP II B.C. 4 Ltd. accepts full responsibility for the accuracy of the information in connection with GL Capital contained in this Composite Document and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document by the director or general partner of GL Capital have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The sole director of Ally Bridge Flagship accepts full responsibility for the accuracy of the information in connection with Ally Bridge Group contained in this Composite Document and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this Composite Document by the directors or general partners of Ally Bridge Group have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the Joint Offerors and parties acting in concert with them were interested in 347,595,775 Domestic Shares, and 32,074,000 H Shares, representing in aggregate approximately 62.28% of the Shares, made up of approximately 78.10% of the total issued Domestic Shares and approximately 19.49% of the total issued H Shares.

	Number of Domestic Shares	Approximate % of total issued Domestic Shares	Number of H Shares	Approximate % of total issued H Shares
Shandong Luoxin Holdings(1)	293,075,954	65.85%	—	—
Mr. Li Xueliang(2)	17,000,000	3.82%	—	—
Mr. Chen Laiyang(2)	30,239,821	6.79%	—	—
Ms. Zhang Yi(3)	—	—	1,668,000	1.01%
Mr. Liu Zhenfei(2)	—	—	412,000	0.25%
廣州德福股權投資基金合夥企業（有限合夥）(Guangzhou GL Capital Investment Fund L.P.*)(4)	7,280,000	1.64%	—	—
GL Trade Investment Limited(5)	—	—	26,166,000	15.90%
GL Healthcare Investment L.P.(6)	—	—	597,373	0.36%
GL China Long Equity Opportunities SPV L.P.(7)	—	—	160,627	0.10%
Ally Bridge LB Healthcare Master Fund Limited(8)	—	—	3,070,000	1.87%
TOTAL	347,595,775	78.10%	32,074,000	19.49%

Notes:

(1) Held as to 51.73% by Mr. Liu Baoqi, 14.90% by Ms. Li Minghua, 2.00% by Mr. Han Fengsheng, and 21.37% by Mr. Liu Zhenteng, each a Director, and 10.00% by Mr. Zheng Jiaxin.

(2) Mr. Li Xueliang, Mr. Chen Laiyang and Mr. Liu Zhenfei are the directors of Vibrant Grow Limited and are deemed to be acting in concert with Giant Star HK under the Takeovers Code. Mr. Liu Zhenfei is also the brother of Mr. Liu Zhenteng. The H shares held by Mr. Liu Zhenfei are subject to the Offer and Mr. Liu Zhenfei may accept the Offer in accordance with its terms.

(3) Ms. Zhang Yi is the wife of Mr. Liu Zhenteng and is deemed to be acting in concert with Mr. Liu Zhenteng under the Takeovers Code. The H shares held by Ms. Zhang Yi are subject to the Offer and she may accept the Offer in accordance with its terms.

(4) 廣州德福股權投資基金合夥企業（有限合夥）(Guangzhou GL Capital Investment Fund L.P.*) is a limited partnership incorporated in the PRC. The general partner of 廣州德福股權投資基金合夥企業（有限合夥）(Guangzhou GL Capital Investment Fund L.P.*) is 廣州德福投資諮詢合夥企業（有限合夥）(Guangzhou GL Capital Investment Consulting L.P.*), the general partner of which is

廣州德福投資管理有限公司 (Guangzhou GL Capital Investment Management Co., Ltd.*). 廣州德福股權投資基金合夥企業(有限合夥)(Guangzhou GL Capital Investment Fund L.P.*) is an affiliate of GL Instrument.

(5) GL Trade Investment Limited is a limited company incorporated in the Cayman Islands, which is held as to 100% by GL China Opportunities Fund L.P. GL Trade Investment Limited is an affiliate of GL Instrument.

(6) GL Healthcare Investment L.P. is a limited partnership incorporated in Canada. The general partner of GL Healthcare Investment L.P. is GL Capital Management GP II B.C. 2 Ltd. GL Healthcare Investment L.P. is an affiliate of GL Instrument.

(7) GL China Long Equity Opportunities SPV L.P. is a limited partnership incorporated in Canada. The general partner of GL China Long Equity Opportunities SPV L.P. is GL Capital Management Long Equity Opportunities GP B.C. 1 Ltd.. GL China Long Equity Opportunities SPV L.P. is an affiliate of GL Instrument. The Offer will be extended to the H Shares held by GL China Long Equity Opportunities SPV L.P. which may accept the Offer in accordance with its terms.

(8) Controlled through an investment management agreement by Ally Bridge LB Management Limited, which is in turn held as to 50% by Mr. Yu Fan and 50% by Dr. Bin Li. Mr. Yu Fan ultimately owns 100% interest in the respective general partners which ultimately manage and operate the three funds which together hold 75% interest in Flagship Lucky Limited and one of these funds holds 100% voting right in an entity that holds the remaining 25% interest in Flagship Lucky Limited as at the Latest Practicable Date. Flagship Lucky Limited in turn holds 100% interest in Ally Bridge Flagship as at the Latest Practicable Date. The Offer will be extended to the H Shares held by Ally Bridge LB Healthcare Master Fund Limited which may accept the Offer in accordance with its terms.

(9) The percentage figures in the table above are approximate figures which have been rounded to the second decimal place.

Save as disclosed above, as at the Latest Practicable Date, none of the Joint Offerors, their directors and parties acting in concert with them had any interest in the relevant securities (as defined under Note 4 to Rule 22 of the Takeovers Code) of the Company.

(b) Dealings in Securities

During the Relevant Period, none of the Joint Offerors, their respective directors and parties acting in concert with any of them had dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

During the Relevant Period, the following person who has entered into the Irrevocable Undertakings have dealt in the Domestic Shares, details of which are set out below:

Name	Type of Transaction	Date	Number of Domestic Shares	Price per Domestic Share
Zhuhai Gaoling TCA Private Equity Fund (L.P.)	Purchase	15 November 2016	8,640,136	RMB9.7

Save as disclosed above, during the Relevant Period, none of the persons who has entered into the Irrevocable Undertakings or the H Share Irrevocable Undertakings have dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

(c) Other arrangements relating to the Offer

(i) as at the Latest Practicable Date, neither the Joint Offerors nor any person acting in concert with them has received any irrevocable commitment to accept or not to accept the Offer, save as to the H Share Irrevocable Undertakings and Irrevocable Undertakings. For details of the H Share Irrevocable Undertakings and Irrevocable Undertakings, please refer to the the sub-sections headed "4. Shareholding structure of the Company" in "Letter from the Joint Offerors" and "4 Irrevocable Undertakings" in "Letter from Somerley Capital" in the Composite Document;

(ii) as at the Latest Practicable Date, no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code existed between any of the Joint Offerors or their associates or any parties acting in concert with any of them and any other person;

(iii) as at the Latest Practicable Date, there was no agreement or arrangement to which any of the Joint Offerors and parties acting in concert with them is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offer;

(iv) as at the Latest Practicable Date, none of the Joint Offerors and the parties acting in concert with them had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company;

(v) as at the Latest Practicable Date, save as disclosed in the sub-section headed "2.5 Total consideration and confirmation of financial resources" under "Letter from Somerley Capital", there was no agreement, arrangement or understanding between the Joint Offerors and any other person in relation to the transfer, charge or pledge of the Shares to be purchased by the Joint Offerors upon completion of the Offer;

(vi) as at the Latest Practicable Date, no benefit (other than statutory compensation) was or would be given to any Director as compensation for his loss of office or otherwise in connection with the Offer;

(vii) as at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Joint Offerors or any party acting in concert with them on one hand and any Directors, recent Directors, Shareholders or recent Shareholders on the other hand, having any connection with or dependence upon the Offer;

(viii) as at the Latest Practicable Date, no Shares or convertible securities, warrants, options or derivatives of the Company was owned or controlled by a person with whom the Joint Offerors or any party acting in concert with them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code;

(ix) as at the Latest Practicable Date, there were no outstanding derivatives in respect of securities in the Company which had been entered into by the Joint Offerors, their ultimate beneficial owners and/or any person acting in concert with any of them; and

(x) as at the Latest Practicable Date, there is no arrangement in relation to the facilities in the sub-section headed "2.5 Total consideration and confirmation of financial resources" in "Letter from Somerley Capital" pursuant to which the payment of interest on, repayment of or security for any liability, contingent or otherwise, will depend, to any significant extent, on the business of the Company.

3. EXPERTS AND CONSENT

The following are the qualifications of the experts who have been engaged by the Joint offerors and have been named in this document or provided its report or advice which are contained in this Composite Document.

Name	Qualification
Somerley Capital	Somerley Capital Limited, the financial adviser to the Joint Offerors, which is a licensed corporation under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
King & Wood Mallesons	Legal adviser to the Joint Offerors as to the PRC law

The above experts have given and have not withdrawn their respective written consents to the issue of this Composite Document with the inclusion in this Composite Document of the text of their respective letters, reports or opinion, as the case may be, and references to their names in the form and context in which they appear.

4. GENERAL

(a) The registered office of Giant Star HK is situated at Unit 3312, 33/F., Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. The sole director of Giant Star Global (HK) Limited is Mr. Liu Zhenteng.

(b) The registered office of Vibrant Grow Limited is situated at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands. The directors of Vibrant Grow Limited are Mr. Liu Zhenteng, Mr. Liu Baoqi, Mr. Liu Zhenfei, Mr. Chen Laiyang and Mr. Li Xueliang.

(c) The registered office of Giant Star Global Limited is situated at Craigmuir Chambers, Road Town, Tortola, VG 1110, British Virgin Islands. The sole director of Giant Star Global Limited is Mr. Liu Zhenteng.

(d) The registered office of GL Instrument is situated at Suite 1700 Park Place, 666 Burrard Street, Vancouver, BC V6C 2X8. The sole director of GL Capital Management GP II B.C. 4 Ltd. (as the general partner of GL Instrument Investment L.P.) is Mr. Li Zhenfu.

(e) The registered office of GL Partners Capital Management Limited is situated at the offices of Trident Trust Company (Cayman) Limited, Fourth Floor, One Capital Place, P.O. Box 847, Grand Cayman, KY1–1103, Cayman Islands. The sole director of GL Partners Capital Management Limited is Mr. Li Zhenfu.

(f) The registered office of Ally Bridge Flagship is situated at Unit 3002–3004, 30/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong. The sole director of Ally Bridge Flagship is Mr. Pang Andrew Chee On.

(g) The registered office of ABG Fund III GP is situated at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY–1104, Cayman Islands. The sole director of ABG Fund III GP is Mr. Yu Fan.

(h) The registered office of ABG Fund II GP is situated at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman KY–1104, Cayman Islands. The sole director of ABG Fund II GP is Mr. Yu Fan. The registered office of ABG Flagship Fund GP is situated at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The sole director of ABG Flagship Fund GP is Mr. Yu Fan.

(i) The registered office of Somerley Capital is situated at 20/F., China Building, 29 Queen’s Road Central, Central, Hong Kong.

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) the principal place of business of the Company in Hong Kong at Room 1110, 11/F, Tower B, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong;

(ii) the website of the Company at http://shandongluoxin.quamir.com; and (iii) the website of SFC at http://www.sfc.hk from the date of this Composite Document for so long as the Offer remains open for acceptance.

(a) the articles of association of Giant Star HK;

(b) the articles of association of Ally Bridge Flagship;

(c) the letter from the Joint Offerors, the text of which is set out on pages 10 to 19 of this Composite Document;

(d) the letter from Somerley Capital, the text of which is set out on pages 20 to 27 of this Composite Document;

(e) the written consent referred to in section 3 above in this Appendix entitled ''Experts and Consent'';

(f) the Irrevocable Undertakings; and

(g) the H Share Irrevocable Undertakings.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of providing information with regard to the Offer, the Joint Offerors and the Company.

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

2. MARKET PRICES OF H SHARES

(a) During the Relevant Period, the lowest closing price of the H Shares as quoted on the Stock Exchange was HK$9.30 per H Share on 18 October 2016, and the highest closing price of the H Shares as quoted on the Stock Exchange was HK$16.38 per H Share on 5 April 2017.

(b) The table below sets out the closing prices of the H Shares as quoted on the Stock Exchange on (i) the last day on which trading took place in each of the calendar months during the Relevant Period; (ii) the Last Trading Day; and (iii) the Latest Practicable Date:

Date	**Closing price per Share**
	HK$
30 September 2016	11.00
31 October 2016	9.50
30 November 2016	10.46
30 December 2016	10.58
27 January 2017	11.74
28 February 2017	12.78
6 March 2017 (Last Trading Day)	12.90
31 March 2017	16.34
7 April 2017 (Latest Practicable Date)	16.36

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors and the chief executive of the Company in the securities of the Company and the securities of the Company's associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code, were as follows:

1. Interest in Domestic Shares:

Name of Director	Capacity/ Nature of interest	Number of Domestic Shares[1]	Approximate % of total issued Domestic Shares	Approximate % of Company's total issued share capital
Mr. Liu Baoqi[2]	Interest of controlled corporation	293,075,954 (L)	65.85%	48.08%

Notes:

(1) The letter "L" denotes the entity's long position in the Domestic Shares.

(2) Mr. Liu Baoqi was interested in 51.73% of the registered share capital of Shandong Luoxin Holdings and was entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Shandong Luoxin Holdings. For the purpose of the SFO, Mr. Liu is deemed to be interested in the Domestic Shares held by Shandong Luoxin Holdings.

2. Interest in the shares of Shandong Luoxin Holdings:

Name of Director	Capacity/ Nature of interest	Number of shares in Shandong Luoxin Holdings[(1)]	Approximate % of total issued share capital of Luoxin Holdings
Mr. Liu Baoqi	Beneficial owner	25,865,000 (L)	51.73%
Ms. Li Minghua	Beneficial owner	7,450,000 (L)	14.90%
Mr. Han Fengsheng	Beneficial owner	1,000,000 (L)	2.00%
Mr. Liu Zhenteng	Beneficial owner	10,685,000 (L)	21.37%

Notes:

(1) The letter "L" denotes the person's long position in such shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this Composite Document pursuant to the requirements of the Takeovers Code. None of the Directors had dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

(b) Interests of substantial shareholders in the securities of the Company

As at the Latest Practicable Date, so far as was known to any of the Directors, the following persons had or were deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

1. Interest in Domestic Shares:

Name	Capacity/ Nature of interest	Number of Domestic Shares(1)	Approximate % of total issued Domestic Shares	Approximate % of Company's total issued share capital
Shandong Luoxin Holdings	Beneficial owner	293,075,954 (L)	65.85%	48.08%
Chen Laiyang	Beneficial owner	30,239,821 (L)	6.79%	4.96%
Zhang Bin	Beneficial owner	30,239,822 (L)	6.79%	4.96%
珠海鑫沃富投資合夥企業(有限合夥) (Zhuhai New Wolf Investment Partnership (L.P.)*)(2)	Beneficial owner	32,563,995 (L)	7.32%	5.34%
Mr. Zheng Jiaxin(2)	Interest of controlled corporation	32,563,995 (L)	7.32%	5.34%

Notes:

(1) The letter "L" denotes the entity's long position in the Domestic Shares.

(2) Mr. Zheng Jiaxin held as to 99% of the shareholding of 珠海鑫沃富投資合夥企業(有限合夥) (Zhuhai New Wolf Investment Partnership (L.P.)*).

2. Interest in H Shares:

Name	Capacity/ Nature of interest	Number of H Shares(1)(2)	Approximate % of total issued H Shares	Approximate % of Company's total issued share capital
GL Trade Investment Limited	Beneficial owner	26,166,000 (L)	15.90%	4.29%
GL China Opportunities Fund L.P.	Interest of controlled corporation	26,166,000 (L)	15.90%	4.29%
GL Capital Management GP L.P.	Interest of controlled corporation	26,166,000 (L)	15.90%	4.29%
GL Capital Management GP Limited	Interest of controlled corporation	26,166,000 (L)	15.90%	4.29%
Lion River I N.V.	Interest of controlled corporation	26,924,000 (L)	16.36%	4.42%
GL Partners Capital Management Limited	Interest of controlled corporation	26,763,373 (L)	16.26%	4.39%
Assicurazioni Generali S.p.A	Interest of controlled corporation	26,924,000 (L)	16.36%	4.42%
Li Zhenfu	Interest of controlled corporation	26,924,000 (L)	16.36%	4.42%
Morgan Stanley	Interest of controlled corporation	7,573,941 (L) 164,000 (S)	4.60% 0.09%	1.24% 0.02%
Deutsche Bank Aktiengesellschaft	Beneficial owner	77,653 (L) 76,000 (S)	0.05% 0.05%	0.01% 0.01%
	Person having a security interest in shares	9,848,000 (L)	5.98%	1.62%

Notes:

(1) The letter "L" denotes the entity's long position in the H Shares.

(2) The letter "S" denotes the entity's short position in the H Shares.

Save as disclosed in paragraph (b) above, as at the Latest Practicable Date, so far as was known to any of the Directors, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be disclosed herein pursuant to the Takeovers Code.

(c) Interests and dealings in the Shares

(i) No subsidiary of the Company, pension fund of the Group or adviser of the Company as specified in class (2) of the definition of "associate" in the Takeovers Code (but excluding exempt principal traders) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

(ii) No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of "associate" in the Takeovers Code and no such person owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

(iii) Save as disclosed in the section headed "Disclosure of Interests — Interests of the directors and the chief executive of the Company in the securities of the Company and the securities of the Company's associated corporations" in this Appendix, no Director was interested in, owned or controlled and no Director had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

(iv) No Shares or convertible securities, warrants, options or derivatives in respect of the Shares was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company and no fund managers (other than exempt fund managers) connected with the Company had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Relevant Period.

(v) As at the Latest Practicable Date, none of the Company and the directors of Company had borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

(vi) None of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Offer.

(d) Interests and dealings in the shares of the Joint Offerors

Save that Giant Star HK is held as to 100% by Vibrant Grow Limited which in turn is held as to 100% by Giant Star BVI which is ultimately wholly-owned by Mr. Liu Zhenteng who is also an executive Director of the Company, as at the Latest Practicable Date, neither the Directors nor the Company had any interest in the shares or any convertible securities, warrants, options or derivatives in respect of the shares in the Joint Offerors and neither the Directors nor the Company had dealt for value in any such shares, convertible securities, warrants, options or derivatives during the Relevant Period.

(e) Other interests

As at the Latest Practicable Date:

(i) no benefit (save for statutory compensation required under appropriate law) is or will be paid to any Director as compensation for loss of office or otherwise in connection with the Offer;

(ii) save for Mr. Liu Zhenteng who is the ultimate beneficial owner of Giant Star HK, which is one of the Joint Offerors and a party to each of the Consortium Agreement and the Pingan Loan Facility, there are no material contracts entered into by the Joint Offerors in which any Director has a material personal interest;

(iii) save for the Offer, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Joint Offerors or any of the parties acting in concert with any of them on the one hand and any of the Directors, recent Directors, the Shareholders or recent Shareholders on the other hand having any connection with or dependence upon or being conditional upon the outcome of the Offer or otherwise connected with the Offer;

(iv) Mr. Liu Zhenteng is the ultimate beneficial owner of Giant Star HK, which is one of the Joint Offerors. Save for the Offer, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer;

(v) save as disclosed in the section headed "Disclosure of Interests — Interests of the directors and the chief executive of the Company in the securities of the Company and the securities of the Company's associated corporations", none of the Directors has any direct beneficial interest in the Shares.

4. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, non-executive Director, independent non-executive Directors and supervisors of the Company has entered into a service contract with the Company commenced on 1 July 2016 for a term of three years.

The amount of fixed remuneration payable under the contract, excluding arrangements for pension payments and the amount of any variable remuneration payable under the contract for each of the Directors are as below:

Name of Directors	Amount of fixed remuneration payable under the contract (excluding arrangements for pension payments)	Amount of any variable remuneration payable under the contract
Mr. Liu Baoqi	RMB456,000 per annum	Year end Bonus
Mr. Li Minghua	RMB167,833.34 per annum	Year end Bonus
Mr. Han Fengsheng	RMB128,499.99 per annum	Year end Bonus
Mr. Chen Yu	RMB128,499.99 per annum	Year end Bonus
Mr. Liu Zhenteng	RMB172,666.66 per annum	Year end Bonus
Mr. Liu Zhenhai	RMB24,000 per annum	N/A
Mr. Foo Tin Chung, Victor	HK$144,000 per annum	N/A
Mr. Fu Hongzheng	RMB24,000 per annum	N/A
Prof. Du Guanhua	RMB24,000 per annum	N/A
Ms. Huang Huiwen	RMB24,000 per annum	N/A

Save as disclosed above, none of the Directors had any existing or proposed service contract with the Group or associated companies of the Company which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the commencement of the Offer Period; or (ii) is a continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract with more than 12 months to run irrespective of the notice period.

5. INFORMATION REGARDING THE SHARE CAPITAL OF THE COMPANY

(i) As of the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised share capital

Number of Shares	Value of Shares
445,040,000 Domestic Shares	RMB44,504,000
164,560,000 H Shares	RMB16,456,000

Issued share capital

Number of Shares	Value of Shares
445,040,000 Domestic Shares	RMB44,504,000
164,560,000 H Shares	RMB16,456,000

(ii) All of the Shares currently in issue rank pari passu in substantially all respects to each other, including with respect to dividends (except with respect to the currency in which the dividends are paid), voting rights and capital.

(iii) No new Shares were issued since 31 December 2016, being the end of the last financial year of the Company to the Latest Practicable Date.

(iv) Other than the Shares, there are no other options, derivatives, warrants or other securities convertible or exchangeable into Shares which are issued by the Company as at the Latest Practicable Date.

6. LITIGATION

As at the Latest Practicable Date, the Group was not engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Group.

7. MATERIAL CONTRACTS

No material contracts other than contracts entered into in the ordinary course of business carried on or intended to be carried on by the Group had been entered into by any member of the Group within two years preceding 13 March 2017, being the commencement of the Offer Period, and up to the Latest Practicable Date.

8. EXPERTS

The following are the qualifications of the experts who have been engaged by the Company and have been named in this document or provided its report or advice which are contained in this Composite Document.

Name	Qualification
KGI Capital	KGI Capital Asia Limited, the independent financial adviser to the Independent Committee, which is a licensed corporation under the SFO, authorised to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities
King & Wood Mallesons	Legal adviser to the Company as to the PRC law

9. CONSENTS

The experts listed in section 8 above headed "Experts" have given and have not withdrawn their respective written consents to the issue of this Composite Document with the inclusion in this Composite Document of the text of their respective letters, reports or opinion, as the case may be, and references to their names in the form and context in which they appear.

10. GENERAL

(a) The registered office of the Company is situated at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC and its principal place of business in Hong Kong is Room 1110, 11/F, Tower B, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong.

(b) The registered office of KGI Capital Asia Limited is situated at 41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(c) The H Share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited which is situated at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) In case of inconsistency, the English language text of this document and the accompanying forms of proxy shall prevail over the Chinese language text.

(e) All time and dates references contained in this Composite Document refer to Hong Kong time and dates.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) the principal place of business of the Company in Hong Kong at Room 1110, 11/F, Tower B, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong; (ii) the website of the Company at http://shandongluoxin.quamir.com; and (iii) the website of SFC at http://www.sfc.hk from the date of this Composite Document for so long as the Offer remains open for acceptance.

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

(b) the annual reports containing the audited consolidated financial statements of the Company for the financial years ended 31 December 2015 and 2016;

(c) the letter from the Board, the text of which is set out on pages 28 to 35 of this Composite Document;

(d) the letter from the Independent Committee, the text of which is set out on pages 36 to 37 of this Composite Document;

(e) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 38 to 60 of this Composite Document;

(f) the written consents referred to in section 9 above in this Appendix entitled "Consents"; and

(g) the service contracts of each of the Directors.

山東羅欣藥業集團股份有限公司
SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.*

(a joint stock limited company established in the People's Republic of China with limited liability)

(Stock code: 8058)

EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the holders of domestic shares ("**Domestic Shares**") and H shares ("**H Shares**") of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd (the "**Company**") will be held at Conference Room, Level 3, Administrative Centre, Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the People's Republic of China on Monday, 29 May 2017 at 10:30 a.m. (or immediately after the conclusion or adjournment of the annual general meeting of the Company which will be held at the same place and on the same date) for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

AS SPECIAL RESOLUTION

"**That**:

(a) the proposed withdrawal of listing of the H shares of the Company from The Stock Exchange of Hong Kong Limited; and

(b) any director of the Company be and is hereby authorised to take such other action and execute such documents or deeds as he may consider necessary or desirable for the purpose of implementing the proposed withdrawal."

By Order of the Board
Shandong Luoxin Pharmaceutical Group Stock Co., Ltd*
Liu Baoqi
Chairman

Shandong, PRC, 11 April 2017

* *For identification purposes only*

Notes:

(i) Any shareholder who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote at the meeting on his or her behalf. A proxy needs not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith. In the case of joint holders of a share, any one of such joint holders may sign the form of proxy. If more than one of such joint holders attend the meeting either in person or by proxy, the vote of the joint holder whose name appears first in the register of members of the Company shall be accepted to the exclusion of the other joint holder(s).

(ii) In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at, in the case of a holder of H Shares, the registrar of H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in the case of a holder of Domestic Shares, the Company's registered office at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

(iii) In order to determine the holders of Domestic Shares and H Shares who will be entitled to attend and vote at the extraordinary general meeting, the register of members of the Company will be closed from Saturday, 29 April 2017 to Monday, 29 May 2017 (both days inclusive). All properly completed H Shares transfer forms accompanied by the relevant share certificate must be lodged with the registrar for H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 28 April 2017, for registration.

(iv) Holders of Domestic Shares and H Shares whose names appear in the register of members on Friday, 28 April 2017 are entitled to attend and vote at the meeting.

(v) Holders of Domestic Shares and H Shares of the Company who intend to attend the meeting shall complete and deposit by post or fax the enclosed reply slip to the registrar of H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (fax no.: (852) 2865 0990) (in respect of holders of H Shares) or the Company's registered office at Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the PRC (fax no.: (86) 539 824 1226) (in respect of holders of Domestic Shares) on or before Tuesday, 9 May 2017.

(vi) Holders of Domestic Shares and H Shares or their proxies shall produce their identity documents when attending the meeting.

(vii) Holder of Domestic Shares and H Shares of the Company and proxies attending the meeting shall be responsible for their own transportation and accommodation expenses.

山東羅欣藥業集團股份有限公司
SHANDONG LUOXIN PHARMACEUTICAL GROUP STOCK CO., LTD.*

(a joint stock limited company established in the People's Republic of China with limited liability)

(Stock code: 8058)

H SHARES CLASS MEETING

NOTICE IS HEREBY GIVEN that a class meeting of the holders of H shares ("**H Shares**") of Shandong Luoxin Pharmaceutical Group Stock Co., Ltd (the "**Company**") will be held at Conference Room, Level 3, Administrative Centre, Luoqi Road, Linyi High and New Technology Industries Development Zone, Shandong Province, the People's Republic of China on Monday, 29 May 2017 at 11:00 a.m. (or immediately after the conclusion or adjournment of the extraordinary general meeting of the holders of domestic shares and H Shares of the Company which will be held at the same place and on the same date) for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution:

AS SPECIAL RESOLUTION

"**That**:

(a) the proposed withdrawal of listing of the H shares of the Company from The Stock Exchange of Hong Kong Limited; and

(b) any director of the Company be and is hereby authorised to take such other action and execute such documents or deeds as he may consider necessary or desirable for the purpose of implementing the proposed withdrawal."

By Order of the Board
Shandong Luoxin Pharmaceutical Group Stock Co., Ltd*
Liu Baoqi
Chairman

Shandong, PRC, 11 April 2017

* *For identification purposes only*

Notes:

(i) Any shareholder who is entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote at the meeting on his or her behalf. A proxy needs not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith. In the case of joint holders of a share, any one of such joint holders may sign the form of proxy. If more than one of such joint holders attend the meeting either in person or by proxy, the vote of the joint holder whose name appears first in the register of members of the Company shall be accepted to the exclusion of the other joint holder(s).

(ii) In order to be valid, the proxy form and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at, the registrar of H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

(iii) In order to determine the holders of H Shares who will be entitled to attend and vote at the H Shares class meeting, the register of members of the Company will be closed from Saturday, 29 April 2017 to Monday, 29 May 2017 (both days inclusive). All properly completed H Shares transfer forms accompanied by the relevant share certificate must be lodged with the registrar for H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 28 April 2017, for registration.

(iv) Holders of H Shares whose names appear in the register of members on Friday, 28 April 2017 are entitled to attend and vote at the meeting.

(v) Holders of H Shares of the Company who intend to attend the meeting shall complete and deposit by post or fax the enclosed reply slip to the registrar of H Shares in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (fax no.: (852) 2865 0990) on or before Tuesday, 9 May 2017.

(vi) Holders of H Shares or their proxies shall produce their identity documents when attending the meeting.

(vii) Holder of H Shares of the Company and proxies attending the meeting shall be responsible for their own transportation and accommodation expenses.