THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspects of this circular 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 securities in Allied Cement Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

ALLIED CEMENT HOLDINGS LIMITED

聯合水泥控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF CERTAIN EQUITY INTERESTS IN A PHARMACEUTICAL COMPANY IN THE PRC AND NOTICE OF EGM

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

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Capitalized terms used in this cover shall have the same meanings as defined in this circular.

A letter from the Board is set out on pages 6 to 26 of this circular. A letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 27 to 28 of this circular. A letter of advice from Goldin Financial, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, is set out on pages 29 to 57 of this circular.

A notice convening the EGM to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 15 April 2016 at 10:00 a.m. is set out on pages N-1 to N-3 of this circular. A form of proxy for use at the EGM is sent to the Shareholders together with this circular. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.alliedcement.com.hk). Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so desire.

22 March 2016

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

"Acquisition"	the proposed acquisition of 60% equity interests in the Target Company by the Purchaser from the Vendor pursuant to the Sale and Purchase Agreement
"Amended Articles"	the amended articles of association of the Target Company to be entered into between the Purchaser, Shenzhen Shiao and Sea Best on or before the Completion Date
"Announcement"	the announcement of the Company dated 28 January 2016 in relation to, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Beijing Huakong"	華控創新(北京)藥物研究院有限公司 (Huakong Innovation (Beijing) Institute of Pharmaceutical Research Co., Ltd.*), a company established under the laws of the PRC and a wholly-owned subsidiary of the Target Company
"Beijing SPF"	斯貝福(北京)生物技術有限公司 (SPF (Beijing) Biotechnology Co., Ltd.*), a company established under the laws of the PRC and a subsidiary of the Target Company
"Board"	the board of Directors
"China Health"	China Health Management Investment Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, an indirect wholly-owned subsidiary of the Vendor and a substantial shareholder of the Company
"Chongqing Kangle"	重慶康樂製藥有限公司 (Chongqing Kangle Pharmaceutical Co., Ltd.*), a company established under the laws of the PRC and a subsidiary of the Target Company
"Company"	Allied Cement Holdings Limited, a company incorporated under the laws of the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Sale and Purchase Agreement in accordance with the terms and conditions as set out therein
"Completion Date"	the date on which Completion takes place in accordance with the section headed "Completion" in the "Letter from the Board" in this circular

"Condition(s)"	the condition(s) precedent to Completion, as more particularly set out in the section headed "Conditions" in the "Letter from the Board" in this circular
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"connected transaction(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the aggregate consideration payable by the Purchaser to the Vendor for the Acquisition under the Sale and Purchase Agreement, being RMB291,200,000 (approximately HK$346,528,000)
"Deposit"	the deposit in the amount of RMB29,120,000 (approximately HK$34,653,000), representing 10% of the Consideration, payable by the Purchaser to the Vendor under the Sale and Purchase Agreement
"Director(s)"	director(s) of the Company
"Disposal"	the disposal of various non-performing assets and liabilities of the Target Company with poor financial performance from the Target Group
"EGM"	the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder
"GAAP"	Generally Accepted Accounting Principles
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huakong Kangtai"	北京華控康泰醫療健康管理有限公司 (Beijing Huakong Kangtai Healthcare Management Co., Ltd.*), a company established under the laws of the PRC and a wholly-owned subsidiary of the Company

"Independent Board Committee"	a committee of the Board comprising Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack, being the independent non-executive Directors, which is formed to advise the Independent Shareholders on, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Goldin Financial"	Goldin Financial Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, and appointed to advise the Independent Board Committee and the Independent Shareholders on, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder
"Independent Shareholder(s)"	Shareholder(s) other than China Health and its associates
"Latest Practicable Date"	18 March 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"New Joint Venture Agreement"	a new joint venture agreement to be entered into between the Purchaser, Shenzhen Shiao and Sea Best in relation to the Target Company on or before the Completion Date
"PRC"	the People's Republic of China, which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"Profit Warning Announcement"	the announcement of the Company dated 17 February 2016 in relation to a significant loss that the Group is expected to record for the year ended 31 December 2015
"Purchaser"	Kingwood Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 28 January 2016 entered into between the Purchaser and the Vendor in relation to, among other things, the Acquisition
"Sea Best"	Sea Best Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability

"Sea Best Acquisition"	the acquisition of 5% equity interest in the Target Company by Sea Best from Shenzhen Shiao in 2015
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shaanxi Pharmacy"	陝西辰濟大藥房有限公司 (Shaanxi Chen Ji Pharmacy Co., Ltd.*), a company established under the laws of the PRC and a wholly-owned subsidiary of Shaanxi Unisplendour
"Shaanxi Unisplendour"	陝西紫光辰濟藥業有限公司 (Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd.*), a company established under the laws of the PRC and a subsidiary of the Target Company
"Share(s)"	ordinary share(s) of HK$0.002 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen Aorongxin"	深圳市奧融信投資發展有限公司 (Shenzhen Aorongxin Investment Development Co. Ltd.*), a company established under the laws of the PRC
"Shenzhen Shiao"	深圳市世奧萬運投資有限公司 (Shenzhen Shiao Wan Yun Investment Co. Ltd.*), a company established under the laws of the PRC
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Target Company"	北京紫光製藥有限公司 (Beijing Ziguang Pharmaceutical Co., Ltd.*), a sino-foreign joint venture enterprise established in the PRC
"Target Group"	the Target Company and its subsidiaries
"THTF Energy-Saving"	THTF Energy-Saving Holdings Limited, a company incorporated in the Cayman Islands and indirectly wholly-owned by Tsinghua Tongfang
"Tibet Linzhi"	西藏林芝地區醫藥有限公司 (Tibet Linzhi Regional Medical Pharmaceutical Co. Ltd.*), a company established under the laws of the PRC and a wholly-owned subsidiary of the Target Company

"Tongfang Chuangxin"	北京同方創新投資有限公司 (Beijing Tongfang Chuangxin Investment Co., Ltd.*) a company established under the laws of the PRC and wholly-owned by Tsinghua Tongfang
"Tsinghua Holdings"	清華控股有限公司 (Tsinghua Holdings Co., Ltd.*), a company established under the laws of the PRC and wholly-owned by Tsinghua University
"Tsinghua Tongfang"	同方股份有限公司 (Tsinghua Tongfang Co., Ltd.*), a company established under the laws of the PRC, whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600100)
"Valuation Date"	30 November 2015, being the date of valuation in the Valuation Report
"Valuation Report"	the valuation report dated 15 January 2016 prepared by the Valuer in relation to the Target Company, a summary of which is set out in Appendix II to this circular
"Valuer"	中環松德(北京)資產評估有限公司 (Zhonghuan Songde (Beijing) Assets Appraisal Co. Ltd.*), an independent valuer
"Vendor" or "Shenzhen Waranty"	深圳市華融泰資產管理有限公司 (Shenzhen Waranty Asset Management Co., Ltd.*), a company established under the laws of the PRC
"Waranty Hong Kong"	Waranty Assets Management (HK) Limited, a company incorporated under the laws of Hong Kong
"%"	per cent

For the purpose of this circular, translations of RMB into HK$ or vice versa have been calculated by using an exchange rate of RMB1.00 equal to HK$1.19. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

* *For identification purposes only*

ALLIED CEMENT HOLDINGS LIMITED
聯合水泥控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

Board of Directors
Executive Directors:
Huang Yu *(Chairman)*
Ng Qing Hai *(Managing Director)*
Deng Jinguang

Independent non-executive Directors:
Chan Sze Chung
Zhang Ruibin
Zhang Junxi Jack

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

Principal place of business in Hong Kong:
9th Floor
Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

22 March 2016

To the Shareholders

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF CERTAIN EQUITY INTERESTS IN A PHARMACEUTICAL COMPANY IN THE PRC

INTRODUCTION

Reference is made to the Announcement whereby the Board announced that on 28 January 2016, the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, an aggregate of 60% equity interest in the Target Company, representing the entire interest held by the Vendor in the Target Company, for an aggregate Consideration of RMB291,200,000 (approximately HK$346,528,000).

As at the Latest Practicable Date, the Target Company is owned by the Vendor as to 60%, Shenzhen Shiao as to 35% and Sea Best as to 5%. Upon Completion, the Target Company will be owned by the Purchaser as to 60%, Shenzhen Shiao as to 35% and Sea Best as to 5%.

The purpose of this circular is to provide you with, among other things:

(i) further information on the Sale and Purchase Agreement;

(ii) a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder;

(iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder; and

(iv) the notice of the EGM.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are as follows:

Date

28 January 2016

Parties

Kingwood Limited, an indirect wholly-owned subsidiary of the Company, as the Purchaser; and

深圳市華融泰資產管理有限公司 (Shenzhen Waranty Asset Management Co., Ltd.*), as the Vendor.

The Acquisition

The Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, an aggregate of 60% equity interest in the Target Company, representing the entire interest held by the Vendor in the Target Company.

Consideration

The aggregate Consideration payable by the Purchaser to the Vendor for the Acquisition under the Sale and Purchase Agreement is RMB291,200,000 (approximately HK$346,528,000).

The Purchaser shall, within 20 business days from signing of the Sale and Purchase Agreement, pay the Deposit in the amount of RMB29,120,000 (approximately HK$34,653,000), representing 10% of the Consideration, to the Vendor's designated bank account, provided that such designated bank account is capable of receiving and holding the Deposit under the applicable laws and regulations. The Purchaser and the Vendor may also agree for the Deposit to be held in an escrow account. As at the Latest Practicable Date, the Purchaser has duly paid the Deposit to the Vendor's designated bank account in accordance with terms of the Sale and Purchase Agreement.

On the Completion Date, (i) the Deposit paid by the Purchaser to the Vendor's designated bank account shall be set-off against the Consideration and the Purchaser shall pay the remaining balance of the Consideration in the amount of RMB262,080,000 (approximately HK$311,875,000) (being the Consideration less the amount of the Deposit) or an equivalent amount of foreign currency to the Vendor's designated bank account; or (ii) in the event that the Deposit paid by the Purchaser to the Vendor and the interests thereon cannot be set-off against the Consideration, the Vendor shall first procure that the Deposit and the interests thereon be refunded to the Purchaser and, within 10 business days of receipt of the Deposit and the interests thereon refunded by the Vendor to the Purchaser, the Purchaser shall pay the entire amount of the Consideration to the Vendor's designated bank account.

The Consideration for the Acquisition was determined after arm's length negotiations between the Purchaser and Vendor and on normal commercial terms with references to (i) the valuation of the Target Group as shown in the Valuation Report; (ii) the consideration for the Sea Best Acquisition, which is not materially different from the Consideration taken proportionally; (iii) the historical financial performance of the Target Group for the three years ended 31 December 2015 and having taken into account the effect of the Disposal; (iv) the benefits of the Acquisition as set out in the section headed "Reasons for and benefits of the Acquisition" below; and (v) the prospects of the Target Group and the future business development of the Group. The Acquisition will be funded by the internal cash resources of the Company.

In determining the Consideration, the Directors have taken into account (i) the broad range of businesses carried out by the Target Group, including the manufacturing and sale of pharmaceutical products, product development, clinical trials, registration and other technical consulting services relating to pharmaceutical products, as well as life science research; (ii) the broad product portfolio of the Target Group, including chemical drugs, active pharmaceutical ingredients and intermediates, laboratory animals and animal indigenous raw materials and Chinese medicines; (iii) the strategic locations where the production facilities of the Target Group are situated and/or the businesses are operated, namely, Beijing, Shaanxi, Chongqing and Tibet; and (iv) the cooperation with Tsinghua University and other colleges and universities for product developments, including the joint research center with Tsinghua University as a facility for the research and development of medical and pharmaceutical products. In light of the foregoing, as well as the benefits as set out in the section headed "Reasons for and benefits of the Acquisition", the Directors consider the Acquisition to be a valuable investment opportunity for the Company and the Consideration is justifiable.

The Directors (excluding Mr. Huang Yu, who is required to abstain from voting), including the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" in this circular after considering the advice from the Independent Financial Adviser, are of the view that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Conditions

Completion is subject to and conditional upon the satisfaction of, among other things, the following Conditions:

(a) all representations and warranties given by the Vendor under the Sale and Purchase Agreement remaining true and accurate as at and before the date of the Sale and Purchase Agreement and as at the Completion Date;

(b) the Vendor having provided the information of its designated bank account;

(c) all the directors of the Target Company having passed a resolution approving the transactions contemplated under the Sale and Purchase Agreement;

(d) Shenzhen Shiao and Sea Best, as shareholders of the Target Company, having given their consent to the Vendor for transferring its 60% equity interest in the Target Company to the Purchaser and foregoing their right of first refusal in the form and substance reasonably satisfactory to the Purchaser;

(e) the Company having complied with the relevant compliance requirements for the Acquisition as required by the Stock Exchange;

(f) Shenzhen Shiao, Sea Best and the Purchaser having duly signed the New Joint Venture Agreement and the Amended Articles;

(g) all necessary consents and approvals from all relevant PRC government or regulatory authorities in respect of the Sale and Purchase Agreement, the New Joint Venture Agreement and the Amended Articles having been obtained;

(h) the Certificate of Approval for Establishment of Enterprises with Foreign Investment (《外商投資企業批准證書》) reflecting the effect of the Acquisition having been obtained;

(i) the change of business registration reflecting the effect of the Acquisition having been completed and the corresponding new Business License for Enterprise Legal Person (《企業法人營業執照》) having been obtained;

(j) the Drug Manufacturing Permit (《藥品生產許可證》) reflecting the effect of the Acquisition having been obtained (if applicable); and

(k) the director(s) and legal representative of the Target Company appointed by the Vendor having duly signed a resignation letter to the reasonable satisfaction of the Purchaser.

Completion

Subject to the satisfaction of, among other things, the Conditions, Completion shall take place within 10 business days immediately after such satisfaction.

THE NEW JOINT VENTURE AGREEMENT

Pursuant to the Sale and Purchase Agreement, Shenzhen Shiao, Sea best and the Purchaser shall, on or before the Completion Date, enter into the New Joint Venture Agreement, which is expected to contain, among other things, the following material terms:

Registered capital:	The registered capital of the Target Company shall be RMB120,000,000, of which RMB72,000,000 was contributed by the Purchaser by cash, RMB6,000,000 was contributed by the Sea Best by cash, and RMB42,000,000 was contributed by Shenzhen Shiao by cash.
Restrictions on transfer and pre-emption rights:	Any party proposing to transfer any or all of its equity interest in the Target Company to a third party shall first obtain the consents from the other parties to the New Joint Venture Agreement and the approvals from the relevant authorities, and the other parties shall have the pre-emption right in respect of such equity interest. The transfer price offered to a third party shall not be more favourable than that offered to the other parties to the New Joint Venture Agreement.
Board composition:	The board of directors of the Target Company shall comprise five directors, of which three shall be appointed by the Purchaser and two shall be appointed by Shenzhen Shiao. The term of appointment shall be three years and may be renewed. The chairman of the board of directors shall be appointed by the Purchaser.
Profit and loss sharing:	The parties shall share the profit or bear the loss of the Target Company in proportion to their respective contribution to the registered capital of the Target Company.
Reserved matters:	Unanimous consent of all the directors shall be required to approve and resolve certain matters, including but not limited to the alteration of the Amended Articles, winding up of the Target Company, alteration of the registered capital of the Target Company and merger or demerger of the Target Company.

The Vendor has already contributed the registered capital of the Target Company in the amount of RMB72,000,000 (approximately HK$85,680,000) and upon Completion, such registered capital shall be deemed to be contributed by the Purchaser.

As at the Latest Practicable Date, save as disclosed in this circular, the Group does not have any other capital commitment (whether equity, loan or otherwise), including any contractual commitment to subscribe for capital, nor any guarantee or indemnity under the New Joint Venture Agreement.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Shenzhen Shiao, Sea Best and their respective ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

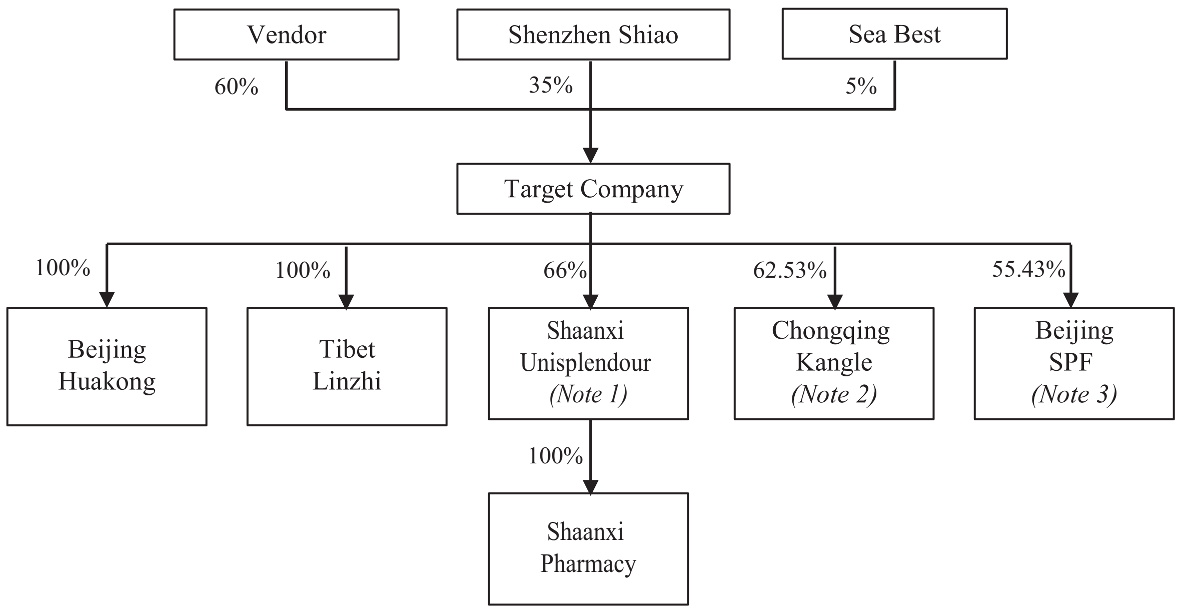
INFORMATION ON THE TARGET GROUP

The Target Group is principally engaged in the manufacturing and sales of prescription drugs, including chemical drugs and traditional prescribed Chinese medicines. In addition, the Target Group is also engaged in the manufacturing and sales of biochemical products and other chemical products.

As at the Latest Practicable Date, the Target Group was granted with permits and licenses to manufacture pharmaceutical products in thirteen dosage forms, namely, tablets, powders for injection, gel, cream, patches, pills, granules, capsules, syrups, oral solution, tinctures, mixtures and vinum, all of which are currently being manufactured by the Target Group.

Corporate structure of the Target Group

The following chart illustrates the corporate structure of the Target Group as at the Latest Practicable Date:



Notes:

1. The remaining 34% equity interest of Shaanxi Unisplendour was held by 陝西鑫匯源醫藥科技有限公司 (Shaanxi Xinhuiyuan Pharmaceutical Technology Co., Ltd.*) ("Shaanxi Xinhuiyuan"), a company established under the laws of the PRC. The equity interest in Shaanxi Xinhuiyuan was held as to 45% by Mr. Wang Ruecheng (王睿成), 35% by Ms. Liu Mingfang (劉明芳), and 20% by Mr. Liu Ming (劉明). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Shaanxi Xinhuiyuan and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

2. The remaining 37.47% equity interest of Chongqing Kangle was held as to 15% by Mr. Yao Ming Hai (姚明海), 12% by Mr. Wang Dingchao (王定超), 10% by Mr. Wang Yachuan (王亞川) and his related parties, 0.42% by Mr. Fan Shaobin (范紹斌) and 0.05% by Mr. Xu Liang (徐亮). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the aforementioned individuals are third parties independent of the Company and its connected persons.

3. The remaining 44.57% equity interest of Beijing SPF was held as to 13% by Mr. Zheng Weihong (鄭偉宏), 10% by Ms. Zhan Binhui (戰斌慧), 10% by Mr. Teng Hailin (滕海林), 3.87% by Mr. Jiang Zhaowen (蔣朝文), 1.5% by Mr. Cao Jie (曹捷), 0.5% by Ms. Zhu Yan (朱豔), 0.5% by Mr. Ma Yuelong (馬躍龍), 1.5% by Ms. Jiao Shujuan (焦淑娟), 1.5% by Mr. Zheng Yongxi (鄭永熙), 0.5% by Mr. Yang Xiaolong (楊小龍), 0.3% by Ms. Wang Xuan (王璇), 0.5% by Mr. Wang Liang (王亮), 0.8% by Mr. Wang Renjun (王仁俊), and 0.1% by Ms. Zhang Qin (張勤). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the aforementioned individuals are third parties independent of the Company and its connected persons.

Principal businesses of the Target Group

The Target Company

The Target Company is a sino-foreign joint venture enterprise established in the PRC, and is principally engaged in the manufacturing of chemical drugs. It operates a production facility in the Badaling Economic and Technological Development Zone in Beijing, which occupies an area of approximately 186,000 square meters, with an average utilization rate of approximately 50% as at the Latest Practicable Date.

The Target Company also cooperates with Tsinghua University for various research initiatives with a view to integrating its academic expertise with the Target Company's industrial experiences. For example, the Target Company has established a joint research center with Tsinghua University as a facility for the research and development of their medical and pharmaceutical products.

The Target Company also engages in the pharmaceutical businesses through five subsidiaries in addition to its own operations, a summary of which is set out below.

Shaanxi Unisplendour

Shaanxi Unisplendour is a company established under the laws of the PRC and is principally engaged in the production of modern Chinese medicines. It operates a production facility in Baoji City of Shaanxi Province, which occupies a construction area of approximately 12,000 square meters, with a gross floor area of approximately 25,000 square meters, and an average utilization rate of approximately 90% as at the Latest Practicable Date.

Chongqing Kangle

Chongqing Kangle is a company established under the laws of the PRC and is principally engaged in the production of active pharmaceutical ingredients and intermediates, the majority of which are for export purpose. It operates a production facility at the Industrial Park of Changshou Economic and Technological Development Zone in the Chongqing Municipality, with an average utilization rate of approximately 70% as at the Latest Practicable Date.

Tibet Linzhi

Tibet Linzhi is a company established under the laws of the PRC. It operates a pharmaceutical warehouse which occupies a total area of approximately 1,200 square meters, and is principally engaged in the wholesale of Tibetan medicines, Chinese medicines and other pharmaceutical products in the Tibet Autonomous Region.

Beijing Huakong

Beijing Huakong is a company established under the laws of the PRC. It is principally engaged in product development, clinical trials, registration and other technical consulting services in relation to chemical drugs, traditional Chinese medicines, biochemical drugs and healthcare products in the PRC, with a focus on cancer and immunology. Beijing Huakong cooperates with the medical college of Tsinghua University and other colleges and universities for product developments, such as conducting pre-clinical studies for new class of drugs.

Beijing SPF

Beijing SPF is a company established under the laws of the PRC. It operates a facility in Beijing, which occupies a construction area of approximately 5,000 square meters, and is principally engaged in life science research through animal experiments, medical research, product development and the supply of laboratory animals and animal indigenous raw materials.

Shaanxi Pharmacy

Shaanxi Pharmacy is a company established under the laws of the PRC. It operates 11 pharmacies in Baoji City of Shaanxi Province, which occupy a total area of approximately 2,100 square meters, and is principally engaged in the retail of Chinese medicines, chemical drugs, biochemical drugs and products, medical devices, food and beverages, cosmetic products and general merchandises.

Business model of the Target Group

The Target Company and its subsidiaries are engaged in different fields of the pharmaceutical industry, manufacturing and selling products and/or providing services with their respective specialties. As such, each of the companies in the Target Group operates its business independently from each other and manufactures and sells its products and/or provides services to third parties other than the Target Group.

Key products

Among the broad product portfolio of the Target Group, the Target Group primarily manufactures and sells (i) chemical drugs; (ii) active pharmaceutical ingredients and intermediates; (iii) laboratory animals and animal indigenous raw materials; and (iv) Chinese medicines.

Chemical drugs

The Target Group manufactures and sells chemical drugs, including compound lidocaine cream, which is local anesthetic cream for needle penetration. In particular, the Target Group focuses on the manufacturing and sales of gynecological drug, including (i) metronidazole vaginal gel, which is for the treatment of bacterial vaginitis; (ii) exemestane tablets, which is for endocrine treatment in breast cancer; and (iii) palmatine vaginal gel, which is for the treatment of candidal vulvovaginiti.

Active pharmaceutical ingredients and intermediates

The Target Group manufactures and sells various active pharmaceutical ingredients and intermediates, which are substances used in drugs, including (i) Cilostazol, which is for the treatment of peripheral vascular disease; (ii) Rocuronium, which is for skeletal muscle relaxation and commonly required for surgery and mechanical ventilation; and (iii) sulfuric acid hydroxyl sinensis intermediates, which is for the treatment of systemic lupus erythematosus.

Laboratory animals and animal indigenous raw materials

The Target Group breeds and sells animals, including rats, mice and golden hamsters for laboratory use. Its major customers and business partners include certain hospitals and laboratories for microorganisms and biophysics. The Target Group also produces and sells animal indigenous raw materials, including animal organs, to biopharmaceutical companies for production of biochemical drugs, including vaccines.

Chinese medicines

The Target Group manufactures and sells Chinese medicines under various brands, including (i) Pei Kun Pills* (培坤丸), which is a modern gynecological Chinese medicine; (ii) Shugan Kuaiwei Pills* (舒肝快胃丸), which is for the treatment of gastritis and chronic hepatitis; (iii) Liuwei Dihuang* (六味地黄), which is for regulating kidney, (iv) Bao He Pills* (保和丸), which is for the treatment of stomach discomfort; (v) Ginseng Wujia oral solution* (洋參五加口服液), which is for regulating blood pressure and sleep; and (vi) Qingxuan oral solution* (清宣口服液), which is for the treatment of coughing and lung diseases.

The following table sets out a breakdown of the unaudited revenue of the Target Group by product category for the year ended 31 December 2015:

	Revenue	Percentage of Total Revenue
	(RMB'000)	*(%)*
KEY PRODUCTS		
Chemical drugs		
Metronidazole vaginal gel (尼美欣) (Ni Mei Xin*)	17,084	13.16
Compound lidocaine	16,305	12.55
Subtotal	33,389	25.71
Active pharmaceutical ingredients and intermediates		
Cilostazol	11,650	8.97
Rocuronium	4,699	3.62
Sulfuric acid hydroxyl sinensis intermediates	4,452	3.43
Subtotal	20,801	16.02
Laboratory animals and animal indigenous raw materials		
Laboratory rat	10,368	7.99
Rat submandibular gland	5,069	3.90
Subtotal	15,437	11.89
Chinese medicines		
Pei Kun Pills* (培坤丸)	3,304	2.55
Shugan Kuaiwei Pills* (舒肝快胃丸)	3,134	2.41
Liuwei Dihuang* (六味地黄)	2,679	2.06
Bao He Pills* (保和丸)	1,996	1.54
Subtotal	11,113	8.56
OTHER PRODUCTS *(Note 1)*	49,131	37.82
TOTAL	**129,871**	**100.00**

Note:

1. The other products comprise approximately 90 types of pharmaceutical products, each of which constitutes less than 2% of the unaudited total revenue of the Target Group for the year ended 31 December 2015.

Financial information of the Target Group

Based on the consolidated financial statements of the Target Group prepared in accordance with the PRC GAAP, the financial information of the Target Group for each of the three years ended 31 December 2015 was approximately as follows:

	For the year ended 31 December		
	2013	**2014**	**2015**
	(audited)	**(audited)**	**(unaudited)**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Revenue	39,841	112,012	129,871
Profit/(loss) before taxation and extraordinary items	(19,890)	(19,938)	1,490
Profit/(loss) after taxation and extraordinary items	(22,657)	(20,314)	462

The Target Group has carried out the Disposal in March 2015 whereby various non-performing assets and liabilities of the Target Company with poor financial performance were disposed of from the Target Group. The financial information of the Target Group for the two years ended 31 December 2013 and 2014 stated above represents the financial performance of the Target Group prior to the Disposal in March 2015.

Based on the consolidated financial statements of the Target Group prepared in accordance with the PRC GAAP, the unaudited net asset value of the Target Group as at 31 December 2015 was approximately RMB192,813,000 (approximately HK$229,447,000).

The Vendor acquired the Target Company in 2010 where the Target Company had net liabilities. The original acquisition cost of the Target Company to the Vendor was at a nominal amount of RMB1 (approximately HK$1.19) and the Vendor assumed all the debts of the Target Company. As disclosed above, subsequent to the Disposal whereby various non-performing assets and liabilities of the Target Company with poor financial performance were disposed of from the Target Group, (i) the Target Group recorded an unaudited profit for the year ended 31 December 2015, compared to the audited net loss for each of the two years ended 31 December 2013 and 2014; and (ii) the Target Group recorded an unaudited net asset value as at 31 December 2015.

Valuation of the Target Company

According to the Valuation Report, the total value of shareholders' equity of the Target Company as at the Valuation Date, being 30 November 2015, was RMB500,267,000 (approximately HK$595,318,000), which was determined based on the asset-based approach.

The results of valuation are set out as follows:

Item	Book value	Appraised value	Increase/ decrease in value	Percentage of change
	A	B	C = B–A	D = C/ A*100%
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(%)*
Current assets	83,621.10	88,390.80	4,769.70	5.70
Non-current assets	173,855.90	509,845.40	335,989.50	193.26
of which: Long-term equity investments	68,793.50	306,513.50	237,720.00	346.56
Investment property	—	—	—	—
Fixed assets	62,143.10	105,314.00	43,170.90	69.47
Construction in progress	—	—	—	—
Intangible assets	39,988.30	95,087.00	55,098.70	137.79
of which: Intangible assets — land use rights	39,837.30	94,924.90	55,087.60	138.28
Other non-current assets	—	—	—	—
Total assets	**257,477.00**	**598,236.20**	**340,759.20**	**132.35**
Current liabilities	97,969.30	97,969.30	—	—
Non-current liabilities	1,680.00	—	(1,680.00)	(100.00)
Total liabilities	**99,649.30**	**97,969.30**	**(1,680.00)**	**(1.69)**
Net assets (shareholders' equity)	**157,827.70**	**500,267.00**	**342,439.20**	**216.97**

According to the Valuation Report, as at the Valuation Date, the book value of the non-current assets of the Target Company was approximately RMB173,855,900 (approximately HK$206,888,500) and its appraised value was approximately RMB509,845,400 (approximately HK$606,716,000), representing an increase of approximately 193.26%. The non-current assets comprise (i) long-term equity investments; (ii) fixed assets; and (iii) intangible assets of the Target Company.

Long-term equity investments

As at the Valuation Date, the book value of the long-term equity investments of the Target Company was approximately RMB68,793,500 (approximately HK$81,864,300) and its appraised value was approximately RMB306,513,500 (approximately HK$364,751,100), representing an increase of approximately 345.56%. The long-term equity investments comprise the investments of the Target Company in Chongqing Kangle, Shaanxi Unisplendour, Beijing SPF and Tibet Linzhi.

According to the Valuer, in determining the value of the long-term equity investments, the Valuer had (i) reviewed all the information relating to the long-term equity investments provided by the Target Company and verified their accuracy; (ii) reviewed the relevant investment agreements, articles of associations and accounting records of the entities involved; (iii) considered various valuation methodologies; and (iv) selected the valuation approaches according to the information collected by the Valuer.

For Chongqing Kangle, Shaanxi Unisplendour and Tibet Linzhi, which are subsidiaries of the Target Company, the Valuer (i) took into account the financial information of such entities; (ii) assessed the total assets of such entities as at the Valuation Date; (iii) derived at their appraised net asset values with reference to their market values; and (iv) adjusted the appraised values in accordance with the Target Company's shareholding in such entities. For Beijing SPF, which was a non-controlling long-term equity investment as at the Valuation Date, the Valuer adjusted the book value of its net asset value with the Target Company's shareholding in such entity.

According to the Valuer, the significant increase in the appraised value of the long-term equity investments of the Target Company was primarily attributable to the increase in the appraised values of Chongqing Kangle and Shaanxi Unisplendour. Since Chongqing Kangle was primarily engaged in the production of active pharmaceutical ingredients and intermediates, whereas Shaanxi Unisplendour was primarily engaged in the production of Chinese medicines, the Valuer had selected various different comparable companies for each of Chongqing Kangle and Shaanxi Unisplendour in their respective business fields to conduct comparative analyses. In determining the appraised values of Chongqing Kangle and Shaanxi Unisplendour, the Valuer had considered various aspects of these comparable companies, including their shareholders' equity, revenue and net profits, and applied certain average market multiples to the appraised values of Chongqing Kangle and Shaanxi Unisplendour accordingly. Furthermore, given that Chongqing Kangle and Shaanxi Unisplendour are private companies, the Valuer had made certain adjustments and discounted their appraised values to reflect the illiquidity of such investments, and consequently determined the final appraised value.

According to the Valuer, given the nature of business carried out by these subsidiaries, it was appropriate to consider the market approach and take into account the valuation of other comparable companies in the same industry when assessing the appraised net asset values of such subsidiaries as the market approach could take into account the broader aspects of these entities, including their overall business prospects, asset management and marketing capabilities, client resources and branding effects. Based on the foregoing and in light of the business prospects of Chongqing Kangle and Shaanxi Unisplendour, in particular the specialties of the businesses operated by these entities, being the production of active pharmaceutical ingredients and intermediates and Chinese medicines, respectively, the appraised value of these entities is higher than the book value.

According to the Valuer, the consideration of market approach and the aforementioned valuation methodologies, including the use of market multiples and discount for the illiquidity of the investments, are also in line with the "Assets Valuation

Standards: Enterprise Value (Zhong Ping Xie [2011] No. 227)"* (《資產評估準則 — 企業價值》(中評協[2011] 227號)) issued by the China Appraisal Society and the market practice for valuation of enterprises in the pharmaceutical industry.

Based on the above, the Board (excluding Mr. Huang Yu, who is required to abstain from voting) is of the view that the difference between the book value of the long-term equity investments of the Target Company and its appraised value as at the Valuation Date is fair and reasonable.

Fixed assets

As at 30 November 2015, the book value of the fixed assets of the Target Company was approximately RMB62,143,100 (approximately HK$73,950,300) and its appraised value was approximately RMB105,314,000 (approximately HK$125,323,700), representing an increase of approximately 69.47%. The fixed assets comprise primarily properties, buildings and machineries of the Target Company. According to the Valuer, the increase in the value of these fixed assets was primarily attributable to the relatively high appraised value derived at with reference to a 50-year period of economic life of the relevant properties, compared to the relatively low book value derived at with reference to a 20-year period for depreciation of the relevant properties.

According to the Valuer, the reference to the 50-year period of economic life as opposed to the 20-year period for depreciation of the relevant properties is in line with the "Rating Standard for Condition of Houses (For Trial Implementation) (Cheng Zhu Zi [1984] No. 678)"* (《房屋完損等級評定標準(試行)》(城住字[1984]第678號) and the "Valuation Principle for Asset and Capital Verification of Rental Housings"* (《經租房屋清產估價原則》) issued by the former Ministry of Urban-Rural Construction and Environment Protection in the PRC, the "Accounting System for Real Estates — Accounts and Financial Statements (Jian Zong [1992] No.349"* (《房地產單位會計制度 — 會計科目和會計報表》(建綜[1992]349號印發))" issued by the Ministry of Construction and the Ministry of Finance of the PRC, the "Unified Standard for Reliability Design of Building Structures"* (《建築結構可靠度設計統一標準》) (GB50068-2001) issued by the Ministry of Housing and Urban-Rural Development of the PRC, as well as the market practice for valuation of properties of a similar nature as the properties of the Target Company under valuation.

Based on the above, the Board (excluding Mr. Huang Yu, who is required to abstain from voting) is of the view that the Valuer's reference to the 50-year period of economic life as opposed to the 20-year period for depreciation of the relevant properties is fair and reasonable.

Intangible assets

As at 30 November 2015, the book value of the intangible assets of the Target Company was approximately RMB39,988,300 (approximately HK$47,586,100) and its appraised value was approximately RMB95,087,000 (approximately HK$113,153,500), representing an increase of approximately 137.79%. The intangible assets comprise primarily land use rights of the Target Company. According to the Valuer, the increase in the value of such land use rights was primarily attributable to the substantial increase in the values of properties in Beijing for the past decade in general, and the relatively low acquisition costs in respect of such land use rights.

Please refer to "Appendix II — Summary of the Valuation Report" in this circular for further details of the Valuation Report.

The Board (excluding Mr. Huang Yu, who is required to abstain from voting) is of the view that the valuation of the Target Company as set out in the Valuation Report is fair and reasonable.

INFORMATION ON THE VENDOR

The Vendor is a company incorporated under the laws of the PRC with limited liability and is an investment holding company. As at the Latest Practicable Date, an aggregate of 63.19% of the issued share capital of the Company is held by China Health, which is an indirectly wholly-owned subsidiary of the Vendor. As China Health is a substantial shareholder of the Company and the Vendor is an associate of China Health by virtue of the Vendor indirectly holding the entire issued share capital of China Health, the Vendor is therefore a connected person of the Company.

As at the Latest Practicable Date, the equity interest of the Vendor was held by Shenzhen Aorongxin as to 52% and Tongfang Chuangxin as to 48%. The equity interest of Shenzhen Aorongxin is held by Mr. Huang Yu as to 99% and Mr. Huang Xuezhong as to 1%. Mr. Huang Yu is the chairman of the board of directors of the Vendor and a director of Waranty Assets Management (HK) Limited, which is a wholly-owned subsidiary of the Vendor. As Mr. Huang Yu is a director of the Company and the chairman of the Board, he is a connected person of the Company. Mr. Huang Xuezhong is Mr. Huang Yu's nephew and is therefore a deemed connected person of the Company.

The entire equity interest of Tongfang Chuangxin is held by Tsinghua Tongfang, which is a company listed on the Shanghai Stock Exchange with stock code 600100. As at the Latest Practicable Date, Tsinghua Holdings held 25.42% of the shareholding of Tsinghua Tongfang and was the controlling shareholder of Tsinghua Tongfang. The entire equity interest of Tsinghua Holdings is held by Tsinghua University. Mr. Huang Yu is a senior vice president of Tsinghua Holdings and a vice chairman of Tsinghua Tongfang. Save as disclosed, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Tsinghua University and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons. As at the Latest Practicable Date, 60% of the equity interest of the Target Company is held by the Vendor.

INFORMATION ON THE GROUP

The Group is principally engaged in the manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services with operations in Shandong province and Shanghai in the PRC.

The Purchaser is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company. The Purchaser is an investment holding company.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Prospects of the pharmaceutical industry

The pharmaceutical industry in the PRC is rapidly growing and is supported by a number of socioeconomic factors, such as China's economic growth and increase in disposable income, population growth and increased life expectancy, rising health consciousness and the active support from the PRC government.

According to the proposal for the Thirteenth Five-Year Plan for National Economic and Social Development of the PRC (中華人民共和國國民經濟和社會發展第十三個五年規劃的建議), the improvement of medical resources in China, including the development of the pharmaceutical industry, is one of the key policy directions for China in the next five years. The proposal aims to, among other things, perfect the national medicine system, ensure adequate supply of pharmaceutical products and encourage the development of both Chinese and western medicines in China. The biopharmaceutical industry is also one of the key technical areas emphasized and encouraged for innovative development and intelligent engineering, such as through scientific research conducted by corporate and academic organizations. Furthermore, the pharmaceutical industry in the PRC may also benefit from the policy directions regarding improvement of the public health and medical insurance system.

In recent years, the PRC government has also initiated scientific research projects with increasing financial support for the invention of essential drugs for the prevention and control of major and emerging diseases, with an aim to enhance the national drug invention capability. In addition, the PRC government has taken steps to simplify the appraisal and approval process of drugs and medical instrument, in particular innovative drugs, such as the drugs to treat AIDS, cancer and serious infectious diseases. The transparency and efficiency of the drug approval system is expected to improve such that by 2018, every application for drug registration will be approved or rejected within a certain time limit. It is also expected that the above efforts in reforming the PRC drug appraisal and approval system will potentially encourage the development and sales of pharmaceutical products in the market.

Business strategies of the Company

As stated in the interim report of the Company for the six months ended 30 June 2014, the annual report of the Company for the year ended 31 December 2014 and the interim report of the Company for the six months ended 30 June 2015, in addition to pursuing the Group's own strategies to improve the core competitiveness of its existing businesses, the Board has reviewed the business of the Group and will actively explore medical, pharmaceutical and health industry business and other investment opportunities, such as hospital management, healthcare and elderly care services, in order to enhance its income and prepare for the Group's future development. In addition, it was disclosed in the offer document of the Company dated 1 December 2014 in relation to its open offer that the Company intended to apply the entire amount of the net proceeds from the open offer for the funding of the development of and/or investment in pharmaceutical and health industry business.

The Acquisition is in line with the business strategies of the Group as outlined above and will enable the future expansion and enhancement of the medical, healthcare and pharmaceutical business of the Group, which will create new revenue streams for the Group and further enhance Shareholders' value.

Synergies with the Group's existing medical, pharmaceutical and health businesses

In order to capture the opportunities of the medical and healthcare industry, the Company has established a wholly-owned subsidiary, Huakong Kangtai, and injected a capital of approximately RMB60,000,000 (approximately HK$71,400,000) into Huakong Kangtai for the purpose of investment in and operation of medical and healthcare businesses in the future. Huakong Kangtai is a company established under the laws of the PRC. As at the Latest Practicable Date, Huakong Kangtai had eight staff members, including a senior executive who has served in major pharmaceutical enterprises in the aspects of investment and asset management and is experienced in mergers and acquisitions of hospital and healthcare businesses, and a medical doctor who is a professor of medical school and is experienced in the management and operation of medical institutions. The remaining staff members of Huakong Kangtai are primarily responsible for investment, management, finance and human resources functions.

As Huakong Kangtai will focus on the investment in and operation of medical and healthcare businesses and the Target Group will continue to focus on its pharmaceutical businesses, it is expected that Huakong Kangtai and the Target Group may provide mutual support for integrating the upstream and downstream supply chain in the medical, healthcare and pharmaceutical aspects. For instance, Huakong Kangtai may create new sources of sales for the Target Group, and Huakong Kangtai may in turn benefit from the existing operational experience from the Target Group. As such, the Directors believe that the Acquisition will generate synergies with the Group's existing medical, healthcare and pharmaceutical businesses and raise the Group's profile in the industry.

Synergies with Tsinghua Tongfang and Tsinghua University

As disclosed above, as at the Latest Practicable Date, the equity interest of the Vendor was held by Tongfang Chuangxin as to 48%, and the entire equity interest of Tongfang Chuangxin was in turn held by Tsinghua Tongfang, which is a company listed on the Shanghai Stock Exchange with stock code 600100. As at the Latest Practicable Date, Tsinghua Holdings held 25.42% of the shareholding of Tsinghua Tongfang and was the controlling shareholder of Tsinghua Tongfang, and the entire equity interest of Tsinghua Holdings was in turn held by Tsinghua University.

Tsinghua University is a renowned university in the PRC with strong capabilities in scientific research and educational resources, including the medical and pharmaceutical disciplines. In particular, Tsinghua University has four hospitals and a medical school in the PRC. On the other hand, Tsinghua Tongfang's group is principally engaged in the businesses of information, security and energy-saving technology, as well as development of science parks, and it is expected that Tsinghua Tongfang would take advantage of Tsinghua University's strengths and resources in medical and pharmaceutical research, and implement strategies in terms of the industrial development, assets integration and investments in medical, healthcare and pharmaceutical businesses, in line with the medical reform policies of the PRC government.

Based on the above, the Directors also believe that the Company will benefit from the synergies created from the Acquisition among the Target Company, Tsinghua Tongfang and Tsinghua University.

New revenue stream for the Company

As disclosed in the Profit Warning Announcement, the Group is expected to record a significant loss for the year ended 31 December 2015 as compared to an audited net profit for the year ended 31 December 2014. Such loss was primarily attributable to: (i) a decline in the average selling prices and sales volume of the Group's cement products as compared to the corresponding period of last year; (ii) an increase in the allowance for bad and doubtful debts; and (iii) an increase in the administrative expenses. In addition to the reasons and benefits of the Acquisition mentioned above, the Directors also believe that the Acquisition will enlarge the Group's revenue streams and improve the financial performance of the Group, which will in turn enhance the Shareholders' value.

LISTING RULES IMPLICATIONS

Discloseable Transaction

Since one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition are more than 5% and all the applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the announcement requirement under Chapter 14 of the Listing Rules.

Connected Transaction

As at the Latest Practicable Date, an aggregate of 63.19% of the issued share capital of the Company is held by China Health, which is an indirectly wholly-owned subsidiary of the Vendor. As China Health is a substantial shareholder of the Company and the Vendor is an associate of China Health by virtue of the Vendor indirectly holding the entire issued share capital of China Health, the Vendor is therefore a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition are more than 5%, the Acquisition is subject to the requirements of reporting, announcement and approval by the Independent

Shareholders under Chapter 14A of the Listing Rules. China Health and its associates will be required to abstain from voting on the Shareholders' resolution in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder.

EGM

The EGM will be convened and held at Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 15 April 2016 at 10:00 a.m. for the Independent Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. A notice convening the EGM is set out on pages N-1 to N-3 of this circular.

China Health and its associates will be required to abstain from voting on the Shareholders' resolution in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and therefore no other Shareholder is required to abstain from voting at the EGM.

A form of proxy for use at the EGM is sent to the Shareholders together with this circular. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire.

GENERAL INFORMATION

Mr. Huang Yu has abstained from voting at the Board meeting approving the Sale and Purchase Agreement and the transactions contemplated thereunder. Save as disclosed, none of the Directors has any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder.

RECOMMENDATIONS

The Directors (excluding Mr. Huang Yu, who is required to abstain from voting), including the independent non-executive Directors whose views are set out in the "Letter from the Independent Board Committee" in this circular after considering the advice from the Independent Financial Adviser, are of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder have been entered into on normal commercial terms that are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board (including the Independent Board Committee) recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the "Letter from the Independent Board Committee" set out on pages 27 to 28 of this circular, which contains its recommendation to the Independent Shareholders; (ii) the "Letter from the Independent Financial Adviser" set out on pages 29 to 57 of this circular, which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders; and (iii) the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
Allied Cement Holdings Limited
Huang Yu
Chairman

* *For identification purposes only*

ALLIED CEMENT HOLDINGS LIMITED
聯合水泥控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1312)

22 March 2016

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF CERTAIN EQUITY INTERESTS IN A PHARMACEUTICAL COMPANY IN THE PRC

We refer to the circular dated 22 March 2016 issued by the Company to the Shareholders (the "**Circular**") of which this letter forms part. Unless otherwise defined, capitalized terms used in this letter shall have the same meanings as defined in the Circular.

Under the Listing Rules, the Acquisition constitutes a discloseable and connected transaction of the Company, and is subject to the approval of the Independent Shareholders at the EGM.

We have been appointed as the Independent Board Committee to consider the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder and to advise the Independent Shareholders as to (i) the fairness and reasonableness of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) whether such transactions are on normal commercial terms and in the ordinary and usual course of business of the Company; (iii) whether such transactions are in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on such transactions. Goldin Financial has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard.

We wish to draw your attention to the "Letter from the Board" set out on pages 6 to 26 of the Circular and the "Letter from the Independent Financial Adviser" to the Independent Board Committee and the Independent Shareholders set out on pages 29 to 57 of the Circular.

Having taken into account, among other things, the advice of the Independent Financial Adviser, we are of the opinion that while the Sale and Purchase Agreement is not entered into in the ordinary and usual course of business of the Company, the terms of the Sale and Purchase Agreement (including the Consideration) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. Chan Sze Chung	**Mr. Zhang Ruibin**	**Mr. Zhang Junxi Jack**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the full text of the letter from Goldin Financial setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Goldin Financial Limited
Suites 2202–2209, 22/F
Two International Finance Centre
8 Finance Street
Central
Hong Kong

22 March 2016

To the Independent Board Committee and
the Independent Shareholders of
Allied Cement Holdings Limited

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF CERTAIN EQUITY INTERESTS IN A PHARMACEUTICAL COMPANY IN THE PRC

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "Letter from the Board") contained in this circular dated 22 March 2016 issued by the Company (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As stated in the Letter from the Board, on 28 January 2016, the Purchaser, an indirect wholly-owned subsidiary of the Company, and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, an aggregate of 60% equity interest in the Target Company, representing the entire interest held by the Vendor in the Target Company, for an aggregate Consideration of RMB291.20 million (approximately HK$346.53 million).

As at the Latest Practicable Date, the Target Company is owned by the Vendor as to 60%, Shenzhen Shiao as to 35% and Sea Best as to 5%. Upon Completion, the Target Company will be owned by the Purchaser as to 60%, Shenzhen Shiao as to 35% and Sea Best as to 5%.

Since one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Acquisition are more than 5% and all the applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company.

As at the Latest Practicable Date, an aggregate of 63.19% of the issued share capital of the Company is held by China Health, which is an indirectly wholly-owned subsidiary of the Vendor. As China Health is a substantial shareholder of the Company and the Vendor is an associate of China Health by virtue of the Vendor indirectly holding the entire issued share capital of China Health, the Vendor is therefore a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Therefore, the Acquisition is subject to the requirements of reporting, announcement and approval by the Independent Shareholders under Chapter 14A of the Listing Rules. The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. China Health and its associates will be required to abstain from voting on the Shareholders' resolution in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and therefore no other Shareholder is required to abstain from voting at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all independent non-executive Directors, namely, Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack, has been established to make recommendations to the independent Shareholders as to (i) the fairness and reasonableness of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) whether such transactions are on normal commercial terms and in the ordinary and usual course of business of the Company; (iii) whether such transactions are in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on such transactions. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Apart from normal professional fees for our services to the Company in connection with the engagements described above, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. We are not aware of any relationships or interests between us and the Group, the Vendor or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates as at the Latest Practicable Date. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder.

BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the Announcement, the Sale and Purchase Agreement, the annual report of the Company for the year ended 31 December 2014 and the interim report of the Company for the six months ended 30 June 2015 (the "Annual Report 2014" and the "Interim Report 2015", respectively), and the Valuation Report. We have also reviewed certain information provided by the management of the Company relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, as well as the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are accurate and complete in all material respects and not misleading or deceptive as of the date hereof and should there be any material changes to our opinion after the despatch of the Circular, the Shareholders will be notified of any material changes as soon as possible.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make the Circular misleading. We consider that we have been provided with, and we have reviewed, all information and documents which are currently available under present circumstances to enable us to reach an informed view regarding the terms of, and reasons for entering into the Sale and Purchase Agreement and the transactions contemplated thereunder to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

This letter is issued as our advice for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Sale and Purchase Agreement and the transactions contemplated thereunder, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation to the Independent Board Committee and the Independent Shareholders on the Sale and Purchase Agreement and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

1. Business and financial information of the Group

The Group is principally engaged in the manufacture and sales of cement, clinker and slag, trading of cement and provision of technical services with operations in Shandong province and Shanghai in the PRC. The Purchaser is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company. The Purchaser is an investment holding company.

Set out below are certain audited financial information of the Group for the two financial years ended 31 December 2014 and certain unaudited financial information of the Group for the six months ended 30 June 2014 and 2015, respectively, as extracted from the Annual Report 2014 and the Interim Report 2015, respectively:

Table 1: Financial highlights of the Group

	For the year ended 31 December		For the six months ended 30 June	
	2013	**2014**	**2014**	**2015**
	(audited)	(audited)	(unaudited)	(unaudited)
	HK'000	*HK'000*	*HK'000*	*HK'000*
Revenue	703,468	733,125	364,067	259,189
Profit for the year/period	46,222	28,024	20,745	3,080

	As at 31 December		As at 30 June
	2013	**2014**	**2015**
	(audited)	(audited)	(unaudited)
	HK'000	*HK'000*	*HK'000*
Non-current assets	516,258	525,667	517,510
Current assets	1,109,738	1,901,107	2,519,169
Current liabilities	319,332	505,245	1,295,907
Non-current liabilities	96,356	207,780	23,943
Net current assets	790,406	1,395,862	1,223,262
Net assets	1,210,308	1,713,749	1,716,829

For the year ended 31 December 2014

For the year ended 31 December 2014, the Group's revenue increased by approximately 4.22% from approximately HK$703.47 million for the year ended 31 December 2013 to approximately HK$733.13 million for the year ended 31 December 2014. According to the Annual Report 2014, the increase of the Group's revenue for the year ended 31 December 2014 was mainly attributable to (i) the increase in the segment revenue of the Group in manufacture and sales and trading of cement by approximately 2.95% from approximately HK$700.39 million for the year ended 31 December 2013 to approximately HK$721.05 million for the year ended 31 December 2014; and (ii) the increase in the segment revenue of the Group in manufacture and sales and trading of clinker by approximately 292.21% from approximately HK$3.08 million for the year ended 31 December 2013 to approximately HK$12.08 million for the year ended 31 December 2014.

The Group's profit for the year ended 31 December 2014 decreased by approximately 39.38% from approximately HK$46.22 million for the year ended 31 December 2013 to approximately HK$28.02 million for the year ended 31 December 2014. According to the Annual Report 2014, the decrease in the Group's profit for the year ended 31 December 2014 was mainly attributable to (i) the increase in the finance costs of the Group by approximately 188.87% from approximately HK$5.12 million for the year ended 31 December 2013 to approximately HK$14.79 million for the year ended 31 December 2014, which was incurred in connection with additional bank and other borrowings drawn by the Group in the second half of 2014 in support of the business expansion of the Group; and (ii) the decrease in the fair value gains on financial assets designated as at fair value through profit or loss by approximately 67.47% from approximately HK$14.05 million for the year ended 31 December 2013 to approximately HK$4.57 million for the year ended 31 December 2014, which was resulted from the maturity of the Group's investment in exchange rate-linked structured deposits during the year ended 31 December 2014. According to the Annual Report 2014, the decrease in fair value gains or the year ended 31 December 2014 is nonrecurring and the overall financial position and the business operation of the Group remain solid.

As at 31 December 2014, the audited net current assets and net assets of the Group amounted to approximately HK$1,395.86 million and approximately HK$1,713.75 million, respectively, with net current assets of the Group increased by approximately 76.60% from approximately HK$790.41 million as at 31 December 2013, and net assets of the Group increased by approximately 41.60% from approximately HK$1,210.31 million as at 31 December 2013, respectively.

For the six months ended 30 June 2015

For the six months ended 30 June 2015, the Group's revenue decreased by approximately 28.81% from approximately HK$364.07 million for the six months ended 30 June 2014 to approximately HK$259.19 million for the six months ended 30 June 2015. According to the Interim Report 2015, the decrease in the Group's revenue for the six months ended 30 June 2015 was mainly attributable to (i) the decrease in the segment revenue of the Group in manufacture and sales and trading of cement by approximately 27.48% from approximately HK$357.23 million for the six months ended 30 June 2014 to approximately HK$259.06 million for the six months ended 30 June 2015; and (ii) the decrease in the segment revenue of the Group in manufacture and sales and trading of clinker by approximately 98.10% from approximately HK$6.83 million for the six months ended 30 June 2014 to approximately HK$0.13 million for the six months ended 30 June 2015.

The Group's profit for the six months ended 30 June 2015 decreased by approximately 85.16% from approximately HK$20.75 million for the six months ended 30 June 2014 to approximately HK$3.08 million for the six months ended 30 June 2015. According to the Interim Report 2015, the decrease of the Group's profit for the six months ended 30 June 2015 was mainly attributable to (i) a slowdown in national investment in fixed assets in the PRC, resulting in a decrease in the demand for cement, and thus a decline in the average selling prices and sales volume of the Group's cement products as compared to the six months ended 30 June 2014; (ii) the increase in the administrative expenses of the Group by approximately 46.38% from approximately HK$21.00 million for the six months ended 30 June 2014 to approximately HK$30.74 million for the six months ended 30 June 2015; and (iii) the increase in the finance costs of the Group by approximately 276.31% from approximately HK$2.87 million for the six months ended 30 June 2014 to approximately HK$10.80 million for the six months ended 30 June 2015, which was incurred in connection with additional bank and other borrowings drawn by the Group in the second half of 2014 in support of the business expansion of the Group.

As at 30 June 2015, the unaudited net current assets and net assets of the Group amounted to approximately HK$1,223.26 million and approximately HK$1,716.83 million, respectively.

Profit Warning Announcement

As disclosed in the Profit Warning Announcement, the Group is expected to record a significant loss for the year ended 31 December 2015 as compared to the audited net profit for the year ended 31 December 2014. Such loss was primarily attributable to: (i) a decline in the average selling prices and sales volume of the Group's cement products as compared to the corresponding period of last year; (ii) an increase in the allowance for bad and doubtful debts; and (iii) an increase in the administrative expenses. As such, we are of the view that the Acquisition will enlarge the Group's revenue streams and improve the financial performance of the Group, which will in turn enhance the Shareholders' value (further discussions are set out in the section headed "**3. Reasons for and benefits of entering into of the Sale and Purchase Agreement**").

2. Information on the Target Group

The Target Group is principally engaged in the manufacturing and sales of prescription drugs, including chemical drugs and traditional prescribed Chinese medicines. In addition, the Target Group is also engaged in the manufacturing and sales of biochemical products and other chemical products.

As at the Latest Practicable Date, the Target Group was granted with permits and licenses to manufacture pharmaceutical products in thirteen dosage forms, namely, tablets, powders for injection, gel, cream, patches, pills, granules, capsules, syrups, oral solution, tinctures, mixtures and vinum, all of which are currently being manufactured by the Target Group.

Principal business of the Target Group

The Target Company is a sino-foreign joint venture enterprise established in the PRC and is principally engaged in the manufacturing of chemical drugs. It operates a production facility in the Badaling Economic and Technology Development Zone in Beijing, the PRC, which occupies an area of approximately 186,000 square meters, with an average utilization rate of approximately 50% as at the Latest Practicable Date.

The Target Company also cooperates with Tsinghua University for various research initiatives with a view to integrating its academic expertise with the Target Company's industrial experiences. For example, the Target Company has established a joint research centre with Tsinghua University as a facility for the research and development of their medical and pharmaceutical products.

The Target Company also engages in the pharmaceutical businesses through five subsidiaries in addition to its own operations, a summary of which is set out below:

(1) Shaanxi Unisplendour

Shaanxi Unisplendour is a company established under the laws of the PRC and is principally engaged in the production of modern Chinese medicines. It operates a production facility in Baoji City of Shaanxi Province, which occupies a construction area of approximately 12,000 square meters, with a gross floor area of approximately 25,000 square meters, and an average utilization rate of approximately 90% as at the Latest Practicable Date.

(2) Chongqing Kangle

Chongqing Kangle is a company established under the laws of the PRC and is principally engaged in the production of active pharmaceutical ingredients and intermediates, the majority of which are for export purpose. It operates a production facility at the Industrial Park of Changshou Economic and Technological Development Zone in the Chongqing Municipality, with an average utilization rate of approximately 70% as at the Latest Practicable Date.

(3) Tibet Linzhi

Tibet Linzhi is a company established under the laws of the PRC. It operates a pharmaceutical warehouse which occupies a total area of approximately 1,200 square meters, and is principally engaged in the wholesale of Tibetan medicines, Chinese medicines and other pharmaceutical products in the Tibet Autonomous Region.

(4) Beijing Huakong

Beijing Huakong is a company established under the laws of the PRC. It is principally engaged in product development, clinical trials, registration and other technical consulting services in relation to chemical drugs, traditional Chinese medicines, biochemical drugs and healthcare products in the PRC, with a focus on cancer and immunology. Beijing Huakong cooperates with the medical college of Tsinghua University and other colleges and universities for product developments, such as conducting pre-clinical studies for new class of drugs.

(5) Beijing SPF

Beijing SPF is a company established under the laws of the PRC. It operates a facility in Beijing, which occupies a construction area of approximately 5,000 square meters, and is principally engaged in life science research through animal experiments, medical research, product development and the supply of laboratory animals and animal indigenous raw materials.

(6) Shaanxi Pharmacy

Shaanxi Pharmacy is a company established under the laws of the PRC. It operates 11 pharmacies in Baoji City of Shaanxi Province, which occupy a total area of approximately 2,100 square meters, and is principally engaged in the retail of Chinese medicines, chemical drugs, biochemical drugs and products, medical devices, food and beverages, cosmetic products and general merchandises.

We are of the view that the Acquisition represents a valuable opportunity for the Group to expand its business operation in the medical, pharmaceutical and health industry by including the Target Group's business of the broad range of businesses carried out by the Target Group, including the manufacturing and sale of pharmaceutical products, product development, clinical trials, registration and other technical consulting service relating to pharmaceutical products, as well as life science research, as part of its development focus over the value chain of the medical, pharmaceutical and health business.

Business model of the Target Group

The Target Company and its subsidiaries are engaged in different fields of the pharmaceutical industry, manufacturing and selling products and/or providing services with their respective specialties. As such, each of the companies in the Target Group operates its business independently from each other and manufactures and sells its products and/or provides services to third parties other than the Target Group.

Key products

Among the broad product portfolio of the Target Group, the Target Group primarily manufactures and sells (i) chemical drugs; (ii) active pharmaceutical ingredients and intermediates; (iii) laboratory animals and animal indigenous raw materials; and (iv) Chinese medicines.

Chemical drugs

The Target Group manufactures and sells chemical drugs, including compound lidocaine cream, which is local anesthetic cream for needle penetration. In particular, the Target Group focuses on the manufacturing and sales of gynecological drug, including (i) metronidazole vaginal gel, which is for the treatment of bacterial vaginitis; (ii) exemestane tablets, which is for endocrine treatment in breast cancer; and (iii) palmatine vaginal gel, which is for the treatment of candidal vulvovaginiti.

Active pharmaceutical ingredients and intermediates

The Target Group manufactures and sells various active pharmaceutical ingredients and intermediates, which are substances used in drugs, including (i) Cilostazol, which is for the treatment of peripheral vascular disease; (ii) Rocuronium, which is for skeletal muscle relaxation and commonly required for surgery and mechanical ventilation; and (iii) sulfuric acid hydroxyl sinensis intermediates, which is for the treatment of systemic lupus erythematosus.

Laboratory animals and animal indigenous raw materials

The Target Group breeds and sells animals, including rats, mice and golden hamsters for laboratory use. Its major customers and business partners include certain hospitals and laboratories for microorganisms and biophysics. The Target Group also produces and sells animal indigenous raw materials, including animal organs, to biopharmaceutical companies for production of biochemical drugs, including vaccines.

Chinese medicines

The Target Group manufactures and sells Chinese medicines under various brands, including (i) Pei Kun Pills* (培坤丸), which is a modern gynecological Chinese medicine; (ii) Shugan Kuaiwei Pills* (舒肝快胃丸), which is for the treatment of gastritis and chronic hepatitis; (iii) Liuwei Dihuang* (六味地黄), which is for regulating kidney, (iv) Bao He Pills* (保和丸), which is for the treatment of stomach discomfort; (v) Ginseng Wujia oral solution* (洋參五加口服液), which is for regulating blood pressure and sleep; and (vi) Qingxuan oral solution* (清宣口服液), which is for the treatment of coughing and lung diseases.

The following table sets out a breakdown of the unaudited revenue of the Target Group by product category for the year ended 31 December 2015:

Table 2: Breakdown of the unaudited revenue of the Target Group by product category for the year ended 31 December 2015

	Revenue *(RMB'000)*	Percentage of Total Revenue *(%)*
KEY PRODUCTS		
Chemical drugs		
Metronidazole vaginal gel (尼美欣) (Ni Mei Xin*)	17,084	13.16
Compound lidocaine	16,305	12.55
Subtotal	33,389	25.71
Active pharmaceutical ingredients and intermediates		
Cilostazol	11,650	8.97
Rocuronium	4,699	3.62
Sulfuric acid hydroxyl sinensis intermediates	4,452	3.43
Subtotal	20,801	16.02
Laboratory animals and animal indigenous raw materials		
Laboratory rat	10,368	7.99
Rat submandibular gland	5,069	3.90
Subtotal	15,437	11.89
Chinese medicines		
Pei Kun Pills* (培坤丸)	3,304	2.55
Shugan Kuaiwei Pills* (舒肝快胃丸)	3,134	2.41
Liuwei Dihuang* (六味地黄)	2,679	2.06
Bao He Pills* (保和丸)	1,996	1.54
Subtotal	11,113	8.56
OTHER PRODUCTS *(Note 1)*	49,131	37.82
TOTAL	**129,871**	**100.00**

Note:

1 The other products comprise approximately 90 types of pharmaceutical products, each of which constitutes less than 2% of the unaudited total revenue of the Target Group for the year ended 31 December 2015.

Therefore, we are of the view that the Acquisition will greatly raise the Group's profile in the medical, pharmaceutical and health industry, and also create new revenue streams for the Group and further enhance Shareholders' value, by including the broad product portfolio of the Target Group, including laboratory animals and animal indigenous raw materials, chemical drugs, Chinese medicines and active pharmaceutical ingredients and intermediates.

Financial information of the Target Group

The Vendor acquired the Target Company in 2010 where the Target Company had net liabilities. The original acquisition cost of the Target Company to the Vendor was at a nominal amount of RMB1 (approximately HK$1.19) and the Vendor assumed all the debts of the Target Company.

Based on the consolidated financial statements of the Target Group prepared in accordance with the PRC GAAP, the financial information of the Target Group for each of the three years ended 31 December 2015 was approximately as follows:

Table 3: Financial highlights of the Target Group

	For the year ended 31 December		
	2013	**2014**	**2015**
	(audited)	(audited)	(unaudited)
	RMB'000	*RMB'000*	*RMB'000*
Revenue	39,841	112,012	129,871
Profit/(loss) before taxation and extraordinary items	(19,890)	(19,938)	1,490
Profit/(loss) after taxation and extraordinary items	(22,657)	(20,314)	462

For the year ended 31 December 2015

For the year ended 31 December 2015, the Target Group's revenue increased by approximately 15.95% from approximately RMB112.01 million (approximately HK$133.29 million) for the year ended 31 December 2014 to approximately RMB129.87 million (approximately HK$154.55 million) for the year ended 31 December 2015. In addition, the Target Group recorded profit after taxation and extraordinary items of approximately RMB0.46 million (approximately HK$0.55 million) for the year ended 31 December 2015, as compared to the loss after taxation and extraordinary items of approximately RMB20.31 million (approximately HK$24.17 million) for the year ended 31 December 2014, demonstrating an improvement in the earnings of the Target Group.

According to the management of the Group, the Target Group has carried out the Disposal in March 2015 whereby various non-performing assets and liabilities of the Target Company with poor financial performance were disposed of from the Target Group. The financial information of the Target Group for the two years ended 31 December 2013 and 2014 stated above represents the financial performance of the Target Group prior to the Disposal in March 2015.

The unaudited net asset value of the Target Group as at 31 December 2015 was approximately RMB192.81 million (approximately HK$229.45 million).

Taking into account that subsequent to the Disposal whereby various non-performing assets and liabilities of the Target Company with poor financial performance were disposed of from the Target Group, (i) the Target Group recorded a positive earning for the year ended 31 December 2015, comparing to the loss making position for each of the two years ended 31 December 2013 and 2014; and (ii) the Target Group recorded a positive net asset value as at 31 December 2015, we are of the view that the historical financial performance and the financial position of the Target Group was improving.

3. Reasons for and benefits of entering into of the Sale and Purchase Agreement

The Acquisition is in line with the business strategies of the Group

As discussed above, the cement manufacturing selling and trading business in the PRC has been one of the core businesses of the Group. However, the operating environment of the cement industry has been challenging given the recent economic downturn in the PRC and the tightened control policies for the cement industry by the government. According to the announcement published by the National Bureau of Statistics of China (中國國家統計局) on 15 July 2015 (http://data.stats.gov.cn/tablequery.htm?code=AB050A), in the first half of 2015, total cement production in the PRC was approximately 1,080 million tons, representing a decrease of approximately 5.3% over the corresponding period in 2014. In addition, the PRC government continued the strict control policies over new capacity, accelerated the elimination of obsolete capacity, promoted energy saving and emission reduction and enhanced product quality for the cement industry. Upon the issue of《水泥工業大氣污染物排放標準》(the "Emission Standard of Air Pollutants for Cement Industry"*) in 2013, which has been officially applicable to existing production lines since July 2015, tighter standards on emission of nitrogen oxides and particulate matters has been imposed. In January 2015, the Ministry of Industry and Information Technology of the PRC (中國工業和信息化部) issued《水泥行業規範條件(2015年本)》(the "Regulatory Requirements for the Cement Industry (2015)"*) which emphasized on the principle of "capacity replacement for equal or reduced quantities" and required that newly commenced projects had to co-process solid wastes. In February 2015, the Ministry of Industry and Information Technology of the PRC (中國工業和信息化部) required monitor of electricity consumption of cement companies and strict implementation of execution procedure for multi-step and differential electricity pricing policies, which will accelerate the exit of obsolete capacities. In May 2015, six ministries and commissions of the PRC government including the Ministry of Industry and Information Technology (中國工業和信息化部), the Ministry of Housing and Urban-Rural Development (中國住房和城鄉建設部), National Development and Reform Commission (國家發展和改革委員會), the Ministry of Science and Technology (中國科技部), the Ministry of Finance (中國財政部) and the Ministry of Environmental Protection (中國環境保護部) decided to jointly commence and assess the pilot projects for urban waste co-processing by using cement kilns, in order to resolve the overcapacity issue, enforce the transformation and upgrade of the cement industry and promote green development of the industry. It is expected that additional cost and resources would be required for the Group to meet the enhanced industry standard for its existing cement business.

As stated in the Annual Report 2014 and the Interim Report 2015, in addition to pursuing the Group's own strategies to improve the core competitiveness of its existing businesses, the Board has reviewed the business of the Group and will actively explore medical, pharmaceutical and health industry business and other investment opportunities, such as hospital management, healthcare and elderly care services, in order to enhance its income and prepare for the Group's future development. Moreover, the Company announced on 7 November 2014 that it proposed to do a funding raising exercise by way of open offer (more details as in the offer document of the Company dated 1 December 2014), and as disclosed in the offer document of the Company dated 1 December 2014 relating to the open offer that it is intended that the entire amount of the net proceeds amounting to approximately HK$487.3 million from the respective open offer after deducting the relevant expenses would be applied by the Group for the funding of the development of and/or investment in pharmaceutical and health industry business.

Therefore, we are of the view that the Acquisition is in line with the business strategies of the Group as outlined above, and will enable the future expansion and enhancement of the medical, healthcare and pharmaceutical industry business of the Group.

Synergies with the Group's existing medical, pharmaceutical and health businesses

In order to capture the opportunities of the medical and healthcare industry, the Company has established a wholly-owned subsidiary, Huakong Kangtai, and injected a capital of approximately RMB60 million (approximately HK$71.40 million) into Huakong Kangtai for the purpose of investment in and operation of medical and healthcare businesses in the future. Huakong Kangtai is a company established under the laws of the PRC. As at the Latest Practicable Date, Huakong Kangtai had eight staff members, including a senior executive who has served in major pharmaceutical enterprises in the aspects of investment and asset management and is experienced in mergers and acquisitions of hospital and medical businesses, and a medical doctor who is a professor of medical school and is experienced in the management and operation of medical institutions. The remaining staff members of Huakong Kangtai are primarily responsible for investment, management, finance and human resources functions.

As Huakong Kangtai will focus on the investment in and operation of medical and healthcare businesses and the Target Group will continue to focus on its pharmaceutical businesses, it is expected that Huakong Kangtai and the Target Group may provide mutual support for integrating the upstream and downstream supply chain in the medical, healthcare and pharmaceutical aspects. For instance, Huakong Kangtai may create new sources of sales for the Target Group, and Huakong Kangtai may in turn benefit from the existing operational experience from the Target Group. As such, we are of the view that the Acquisition will generate synergies with the Group's existing medical, healthcare and pharmaceutical businesses and raise the Group's profile in the industry.

Synergies with Tsinghua Tongfang and Tsinghua University

As disclosed in the Letter from the Board, as at the Latest Practicable Date, the equity interest of the Vendor was held by Tongfang Chuangxin as to 48% and the entire equity interest of Tongfang Chuangxin was in turn held by Tsinghua Tongfang, which is a company listed on the Shanghai Stock Exchange with stock code 600100. As at the Latest Practicable Date, Tsinghua Holdings held 25.42% of the shareholding of Tsinghua Tongfang and was the controlling shareholder of Tsinghua Tongfang and the entire equity interest of Tsinghua Holdings was in turn held by Tsinghua University.

Tsinghua University is a renowned university in the PRC with strong capabilities in scientific research and educational resources, including the medical and pharmaceutical disciplines. In particular, Tsinghua University has four hospitals and a medical school in the PRC. On the other hand, Tsinghua Tongfang's group is principally engaged in the businesses of information, security and energy-saving technology, as well as development of science parks, and it is expected that Tsinghua Tongfang would take advantage of Tsinghua University's strengths and resources in medical and pharmaceutical research, and implement strategies in terms of the industrial development, assets integration and investments in medical, healthcare and pharmaceutical businesses, in line with the medical reform policies of the PRC government.

We have conducted research from the public domain regarding the hospitals of Tsinghua University, namely Hua Xin Hospital (First Hospital of Tsinghua University), Tsinghua University YuQuan Hospital (Second Hospital of Tsinghua University), Beijing Tsinghua Changgung Hospital, and 清華大學校醫院 (Tsinghua University Hospital*). According to《醫院分級管理標準》(the "Hospitals Classification Standards"*) issued by the PRC government, based on assessment indicators such as functions, facilities, technology and other qualifications, hospitals in the PRC are categorized into three grades (3 being the highest and 1 being the lowest). According to Beijing Municipal Commission of Health and Family Planning (http://www.bjfc.gov.cn), it is noted that the grading of Hua Xin Hospital (First Hospital of Tsinghua University), Tsinghua University YuQuan Hospital (Second Hospital of Tsinghua University), Beijing Tsinghua Changgung Hospital, and Tsinghua University Hospital is 3, 2, 3 and 2, respectively. We are of the view that with hospitals in such satisfactory grading, the Company will benefit from the synergies created from the Acquisition among the Target Company, Tsinghua Tongfang and Tsinghua University.

We are of the view that the Acquisition represents a valuable opportunity for the Group to expand its business operation in the medical, healthcare and pharmaceutical industry by including the Target Group's business as part of its development focus over the value chain of the medical, healthcare and pharmaceutical business. Accordingly, we concur with the view of the Directors that the Acquisition will raise the Group's profile in the medical, healthcare and pharmaceutical industry, and also create new revenue streams for the Group and further enhance Shareholders' value.

Prospect of the pharmaceutical industry in the PRC

We have conducted research from the public domain in assessing the future prospect of the pharmaceutical industry in the PRC. According to an announcement published by the National Health and Family Planning Commission of the PRC government (國家衛生和計劃生育委員會) (http://en.nhfpc.gov.cn/2015-11/05/content_22381075.htm) on 5 November 2015, the proposal relating to the development of the 13th five-year plan has set a new goal of boosting the construction of a healthy PRC with the aim to protect the health of citizens and to achieve long-term prosperity. It is the government's policy to vigorously develop health-care services to provide effective, convenient and affordable medical services to the community. Furthermore, the Food and Drug Administration of the PRC (國家食品藥品監督管理總局) published an article on 20 August 2015 in relation to the approval system for drugs and medical instruments (http://eng.sfda.gov.cn/WS03/CL0757/127120.html), pursuant to which the PRC government has decided to reform its appraisal system for drugs and medical instruments with the aim of, among others, simplifying the approval process of innovative drugs. It is also stated that by 2018, every application will be approved or rejected within a certain time limit, thereby accelerating the sale of drugs in the market for sale once they are approved and registered. As a result of a simplified drug appraisal procedures, innovation and development of drugs are to be encouraged. Besides, the National Health and Family Planning Commission of the PRC (國家衛生和計劃生育委員會) issued the "2015 Report of Disease Prevention and Control Progress in China" in June 2015 (http://en.nhfpc.gov.cn/2015-06/03/content_20897809.htm), which stated that a series of significant science research projects on the prevention and control of major diseases have been initiated with increasing financial support, with the goal to develop a group of drugs against ten major diseases including malignant tumors, and to improve the national drug invention system while promoting drug innovation. In view of the continuing growth of the pharmaceutical industry and the supportive governmental policies, we consider that the future prospect of the pharmaceutical industry in the PRC is optimistic.

Conclusion

Having taken into consideration that (i) the Acquisition is in line with the business strategies of the Group, which also represents a valuable opportunity for the Group to expand its business operation in the medical, pharmaceutical and health industry; and (ii) the Acquisition will bring in a positive revenue stream to the Company, given the future optimistic prospect of the pharmaceutical industry in the new few years in the PRC, we are of the view that the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

4. Principal terms of the Sale and Purchase Agreement

Pursuant to the Sale and Purchase Agreement, the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, an aggregate of 60% equity interest in the Target Company, representing the entire interest held by the Vendor in the Target Company. The aggregate Consideration payable by the Purchaser to the Vendor for the Acquisition under the Sale and Purchase Agreement is RMB291.20 million (approximately HK$346.53 million). The Acquisition will be funded by the internal cash resources of the Company.

Basis of the Consideration

The Consideration for the Acquisition was determined after arm's length negotiations between the Purchaser and Vendor and on normal commercial terms with references to (i) the valuation of the Target Group as shown in the Valuation Report; (ii) the consideration for the Sea Best Acquisition, which is not materially different from the Consideration taken proportionally; (iii) the historical financial performance of the Target Group for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and having taken into account the effect of the Disposal; (iv) the benefits of the Acquisition as set out in the section headed "**Reasons for and benefits of the Acquisition**" in the Letter from the Board; and (v) the prospects of the Target Group and the future business development of the Group.

In determining the Consideration, the Directors have taken into account (i) the broad range of businesses carried out by the Target Group, including the manufacturing and sale of pharmaceutical products, product development, clinical trials, registration and other technical consulting services relating to pharmaceutical products, as well as life science research; (ii) the broad product portfolio of the Target Group chemical drugs, active pharmaceutical ingredients and intermediates, laboratory animals and animal indigenous raw materials and Chinese medicines; (iii) the strategic locations where the production facilities of the Target Group are situated and/or the businesses are operated, namely, Beijing, Shaanxi, Chongqing and Tibet; and (iv) the cooperation with Tsinghua University and other colleges and universities for product developments, including the joint research center with Tsinghua University as a facility for the research and development of medical and pharmaceutical products.

Valuation of the Target Company

Set out below is a summary of the valuation of the net asset value of the Target Group as at 30 November 2015:

Table 4: Valuation of the net asset value of the Target Group as at 30 November 2015

Valuation of the net asset value of the Target Group (A) *(RMB'000)*	**Interest in the Target Company to be acquired by the Purchaser** (B) *(%)*	**Valuation of the net asset value attributable to 60% equity interest in the Target Group** (C) = (A) x (B) *(RMB'000)*	**Consideration** *(RMB'000)*
500,267	60	300,160	291,200

Set out below is a summary of the results of the valuation as at 30 November 2015:

Table 5: Valuation of the Target Group as at 30 November 2015

Item	**Book value**	**Appraised value**	**Increase/ decrease in value**	**Percentage of change**
	A	**B**	**C = B–A**	**D = C/ A*100%**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(%)*
Current assets	83,621.10	88,390.80	4,769.70	5.70
Non-current assets	173,855.90	509,845.40	335,989.50	193.26
of which: Long-term equity investments	68,793.50	306,513.50	237,720.00	346.56
Investment property	—	—	—	—
Fixed assets	62,143.10	105,314.00	43,170.90	69.47
Construction in progress	—	—	—	—
Intangible assets	39,988.30	95,087.00	55,098.70	137.79
of which: Intangible assets — land use rights	39,837.30	94,924.90	55,087.60	138.28
Other non-current assets	—	—	—	—
Total assets	**257,477.00**	**598,236.20**	**340,759.20**	**132.35**
Current liabilities	97,969.30	97,969.30	—	—
Non-current liabilities	1,680.00	—	(1,680.00)	(100.00)
Total liabilities	**99,649.30**	**97,969.30**	**(1,680.00)**	**(1.69)**
Net assets (shareholders' equity)	**157,827.70**	**500,267.00**	**342,439.20**	**216.97**

According to the Valuation Report, as at the Valuation Date, the book value of the non-current assets of the Target Company was approximately RMB173.86 million (approximately HK$206.89 million) and its appraised value was approximately RMB509.85 million (approximately HK$606.72 million), representing an increase of approximately 193.26%. The non-current assets comprise (i) long-term equity investments; (ii) fixed assets; and (iii) intangible assets of the Target Company.

Long-term equity investments

As at the Valuation Date, the book value of the long-term equity investments of the Target Company was approximately RMB68.79 million (approximately HK$81.86 million) and its appraised value was approximately RMB306.51 million (approximately HK$364.75 million), representing an increase of approximately 345.56%. The long-term equity investments comprise the investments of the Target Company in Chongqing Kangle, Shaanxi Unisplendour, Beijing SPF and Tibet Linzhi.

According to the Valuer, in determining the value of the long-term equity investments, the Valuer had (i) reviewed all the information relating to the long-term equity investments provided by the Target Company and verified their accuracy; (ii) reviewed the relevant investment agreements, articles of associations and accounting records of the entities involved; (iii) considered various valuation methodologies; and (iv) selected the valuation approaches according to the information collected by the Valuer.

For Chongqing Kangle, Shaanxi Unisplendour and Tibet Linzhi, which are subsidiaries of the Target Company, the Valuer (i) took into account the financial information of such entities; (ii) assessed the total assets of such entities as at the Valuation Date; (iii) derived at their appraised net asset values with reference to their market values; and (iv) adjusted the appraised values in accordance with the Target Company's shareholding in such entities. For Beijing SPF, which was a non-controlling long-term equity investment as at the Valuation Date, the Valuer adjusted the book value of its net asset value with the Target Company's shareholding in such entity.

According to the Valuer, the significant increase in the appraised value of the long-term equity investments of the Target Company was primarily attributable to the increase in the appraised values of Chongqing Kangle and Shaanxi Unisplendour. Since Chongqing Kangle was primarily engaged in the production of active pharmaceutical ingredients and intermediates, whereas Shaanxi Unisplendour was primarily engaged in the production of Chinese medicines, the Valuer had selected various different comparable companies for each of Chongqing Kangle and Shaanxi Unisplendour in their respective business fields to conduct comparative analyses. In determining the appraised values of Chongqing Kangle and Shaanxi Unisplendour, the Valuer had considered various aspects of these comparable companies, including their shareholders' equity, revenue and net profits, and applied certain average market multiples to the appraised values of Chongqing Kangle and Shaanxi Unisplendour accordingly. Furthermore, given that Chongqing Kangle and Shaanxi Unisplendour are private companies, the Valuer had made certain adjustments and discounted their appraised values to reflect the illiquidity of such investments, and consequently determined the final appraised value.

According to the Valuer, given the nature of business carried out by these subsidiaries, it was appropriate to consider the market approach and take into account the valuation of other comparable companies in the same industry when assessing the appraised net asset values of such subsidiaries as the market approach could take into account the broader aspects of these entities, including their overall business prospects, asset management and marketing capabilities, client resources and branding effects (please see our further discussion on the market approach in the sections below). Based on the foregoing and in light of the business prospects of Chongqing Kangle and Shaanxi Unisplendour, in particular the specialties of the businesses operated by these entities, being the production of active pharmaceutical ingredients and intermediates and Chinese medicines, respectively, the appraised value of these entities is higher than the book value. In addition, the consideration of market approach and the valuation methodologies as discussed below, including the use of market multiples and discount for the illiquidity of the investments, are also in line with the "Assets Valuation Standards: Enterprise Value (Zhong Ping Xie [2011] No. 227)"* (《資產評估準則 — 企業價值》(中評協[2011] 227號)) issued by the China Appraisal Society and the market practice for valuation of enterprises in the pharmaceutical industry.

In light of the above, we are of the view that the difference between the book value of the long-term equity investments of the Target Company and its appraised value as at the Valuation Date is fair and reasonable.

Fixed assets

As at 30 November 2015, the book value of the fixed assets of the Target Company was approximately RMB62.14 million (approximately HK$73.95 million) and its appraised value was approximately RMB105.31 million (approximately HK$125.32 million), representing an increase of approximately 69.47%. The fixed assets comprise primarily properties, buildings and machineries of the Target Company. According to the Valuer, the increase in the value of these fixed assets was primarily attributable to the relatively high appraised value derived at with reference to a 50-year period of economic life of the relevant properties, compared to the relatively low book value derived at with reference to a 20-year period for depreciation of the relevant properties.

We have reviewed the "Rating Standard for Condition of Houses (For Trial Implementation) (Cheng Zhu Zi [1984] No. 678)"* (《房屋完損等級評定標準(試行)》(城住字[1984]第678號)) and the "Valuation Principle for Asset and Capital Verification of Rental Housings"* (《經租房屋清產估價原則》) issued by the former Ministry of Urban-Rural Construction and Environment Protection of the PRC, the "Accounting System for Real Estates — Accounts and Financial Statements (Jian Zong [1992] No.349)"* (《房地產單位會計制度 — 會計科目和會計報表》(建綜[1992] 349號印發))" issued by the Ministry of Construction and the Ministry of Finance of the PRC and the "Unified Standard for Reliability Design of Building Structures"* (《建築結構可靠度設計統一標準》)(GB50068-2001) issued by the Ministry of Housing and Urban-Rural Development of the PRC, and noted that the reference to the 50-year period of economic life as opposed to the 20-year period for depreciation of the relevant properties is in line with the aforementioned regulations. In addition, according to the Valuer, it is the market practice for valuation of properties of a similar nature as the properties of the Target Company under valuation.

In light of the above, we are of the view that the Valuer's reference to the 50-year period of economic life as opposed to the 20-year period for depreciation of the relevant properties is fair and reasonable.

Intangible assets

As at 30 November 2015, the book value of the intangible assets of the Target Company was approximately RMB39.99 million (approximately HK$47.59 million) and its appraised value was approximately RMB95.09 million (approximately HK$113.15 million), representing an increase of approximately 137.79%. The intangible assets comprise primarily land use rights of the Target Company. According to the Valuer, the increase in the value of such land use rights was primarily attributable to the substantial increase in the values of properties in Beijing for the past decade in general, and the relatively low acquisition costs in respect of such land use rights.

During the course of our discussions with the Valuer and after reviewing the information provided by the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the Valuation Report. In light of the above, we are of the view that the difference between the book value of the non-current assets of the Target Company and its appraised value as at the Valuation Date is fair and reasonable.

Valuation method

For our due diligence purpose and in compliance with Rule 13.80(2)(d) of the Listing Rules, we have reviewed the qualification and experience of the Valuer in relation to the performance of the valuation of the Target Group based on the information available. We noted that the Valuer has experience in performing valuation services for numerous sizeable enterprises covering a wide range of industries in the PRC and has the licences as a qualified valuer in the PRC. The Valuer confirmed that it is a third party independent of the Company and its connected persons. The Valuer also confirmed that all relevant material information provided by the Company had been incorporated in the Valuation Report. In addition, we have also reviewed the terms of the Valuer's engagement and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report. Based on the above, we are of the view that the scope of work of the Valuer is appropriate and the Valuer is qualified to issue the Valuation Report.

We have reviewed the Valuation Report prepared by the Valuer, and discussed with the Valuer regarding the methodologies adopted, and bases and assumptions used in arriving at the valuation of the Target Group. We were given to understand that during the course in preparing the Valuation Report, the Valuer has implemented the following steps to formulate the basis and assumptions adopted for the valuation of the Target Group, including but not limited to: (i) discussing with the management of the Company as to the purpose and the required scope of valuation of the Target Group; (ii) obtaining all relevant financial and operational information of the Target Group and analysed the operation as well as revenue generating capability of the

Target Group; and (iii) formulating and examining the valuation methodologies and all relevant basis and assumptions related to the Target Group based on all relevant information and analyses.

Valuation assumptions

In performing the valuation of the Target Group, we were given to understand that certain assumptions and bases have been set by the Valuer, namely, (A) assumptions of marco and external environment; (B) assumption of the transactions; and (C) specific assumption.

A. Assumptions of macro and external environment

(1) It is assumed that there is no material change in the macroeconomics of the PRC and the existing relevant laws, regulations, policies and there is no material change in the political, economic and social environment of the region in which the parties to this transaction locate.

(2) It is assumed that the industry in which the valuation subject operates maintained a stable development and there is no material change in the industry policy, management system and relevant requirements.

(3) It is assumed that there is no material change in credit interest rate, exchange rate, tax base and rate, as well as policy-imposed levies.

(4) It is assumed that there is no force majeure and unforeseeable factors which may have material adverse impact on the company.

(5) It is assumed that all inputs for the calculation in this valuation are determined based on the current pricing system and taking no account of the effect from the inflation subsequent to the valuation benchmark date.

B. Assumption of the transaction

(1) Assumption of the transaction principle: it is assumed that all assets to be evaluated are part of the transaction process, and the valuer conducts the valuation based on the hypothetical market, such as transaction conditions of assets to be evaluated.

(2) Assumption of open market and fair transaction: it is assumed that all parties to the asset transaction or the proposed asset transaction in the market are dealing with each other at arm's length and have opportunities and time to access to sufficient information and such transaction is a voluntary and rational decision of both parties without any mandatory or unrestricted conditions.

(3) It is assumed that the assets and liabilities within the scope of valuation are true and complete, and are free from property defects, mortgage, lien or security nor any other restrictions on the transaction.

C. *Specific assumption*

(1) It is assumed that production and operation of the valuation subject continues as a going concern and there are no significant changes of its operation in the foreseeable period.

(2) It is assumed that the management team will continue to exercise due diligence and the existing operating and managing model adopted by the corporate will be maintained.

(3) It is assumed that the assets will continue to be used. That means the assets valued will continue to be lawfully and effectively used in the existing manner in terms of purpose, use, scale, frequency and environment and will not have significant changes in the foreseeable future.

(4) It is assumed that the general information, property information, policy documents, and other relevant documents about the operation of the corporate provided by the entrusting entity and the Target Company are true and valid.

(5) It is assumed that the acquisition, possession and construction of the valuation subject are in compliance with the relevant laws and regulations.

(6) It is assumed that there are neither any major technical difficulties nor potential significant defects in the key components and materials which will affect the continual use of the tangible assets of the valuation subject.

(7) It is assumed that the nature of the principal business and scale of operation of the valuation subject do not have significant changes.

(8) It is assumed that there are no significant changes in operating strategy and cost control of the corporate in the future.

(9) In the foreseeable operating period, no anticipated non-recurring losses, including but not limited to the disposal of long term investments, fixed assets, work in progress, intangible assets, profit and loss of other long term assets and other non-operating revenue and expense are taken into account.

(10) No effect of contributions made by the shareholders and other parties in the future is taken into account.

(11) It is assumed the documents of approval as required for normal operation of the corporates can be obtained in time.

(12) It is assumed that significant investment will be made or the investment plan can complete as scheduled and come into operation during the course of valuation.

Based on our discussion with the Valuer, we were given to understand that the valuation assumptions are in line with the "Assets Valuation Standards: Enterprise Value (Zhong Ping Xie [2011] No. 227)"* (《資產評估準則 — 企業價值》(中評協[2011] 227號)) issued by the China Appraisal Society and the market practice for valuation of enterprises in the pharmaceutical industry. In addition, during the course of our discussions with the Valuer and after reviewing the data and the calculation work provided by the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the principal bases and assumptions used in preparing the valuation of the Target Group. We are satisfied that such bases and assumptions have been made with due care and objectivity, and on a reasonable basis, and we believe the assumptions used under the Valuation Report are fair, reasonable and complete. As such, we are of the view that these valuation assumptions are fair and reasonable.

Valuation approach

In performing the valuation of the Target Group, we were given to understand that, of the three commonly adopted valuation approaches considered, namely the income approach, market approach and asset-based approach, the Valuer has adopted the asset-based approach after considering the following factors:

(i) The market approach

The market approach is to evaluate the current fair market value of an evaluation target with a reference object on the real market. It is characterized with a direct evaluation angle and approach, an intuitive evaluation process, the direct drawing of evaluation data from the market and convincing evaluation findings. However, the Valuer considered that the market approach to be inappropriate for the valuation. The Valuer noted that the main difficulty with this approach lies with the lack of financial information and full details regarding sales of similar assets, there were insufficient transaction cases or reference from enterprises in the relevant domestic capital market to assess the prevailing market values of the Target Group.

(ii) The income approach

The adoption of income approach for valuation requires fulfillment of the following three conditions:

(1) The investment amount paid by the investor in a particular company shall not exceed the discounted value of the company's future expected income.

(2) The future income of such company can be reasonably estimated.

(3) The income rate which corresponds to the risk level of the future income of such company can be reasonably estimated.

The income approach was also considered by the Valuer to be inappropriate in the valuation of the Target Group given there was uncertainty in performing reliable estimation on the revenue and risks for the future years of the Target Group, as the valuation under the income approach uses the expected income of assets as the valuation standards that would be affected by several conditions such as macro-economy, government control and effective utilisation of the assets.

(iii) The asset-based approach

For tangible assets, the asset-based approach is based on their carrying amount. It is relatively easy and accurate for the valuation using the asset-based approach, only if the record of carrying amount is accurate. The asset costs are considered and the value of a company is arrived at by the summation of valuation of each asset less the appraised value of liability with reference to the market value of each individual asset and liability (or other types of value) instead of their respective historical costs. The Valuer considered that the asset-based approach was the most appropriate for the valuation of the Target Group. The assets based approach reflects the value of the enterprise from the perspective of enterprise asset construction and provides a basis for the operation, management and assessment of the enterprise after the realisation of the economic behaviour.

Having considered the respective downsides of the market approach and the income approach, the asset-based approach would be the preferred approach for the valuation of the Target Group.

According to the Valuation Report, as at the Valuation Date, being 30 November 2015, on the basis of going-concern, the appraised value of the total value of shareholders' equity of the Company as determined by using the income approach amounted to approximately RMB521.44 million (approximately HK$620.51 million). The total value of shareholders' equity derived from the asset-based approach in the appraisal is approximately RMB500.27 million (approximately HK$595.32 million). The difference of the valuation results derived from asset-based approach and income approach is approximately RMB21.17 million (approximately HK$25.19 million).

Upon our discussion with the Valuer, we are given to understand that the principal reasons for the discrepancy between the two valuation approaches are:

(1) the valuation under the asset-based approach uses the replacement costs of assets as the valuation standards, reflecting the labour of the society required and spent on the investment in the assets. Usually this type of costs of purchase and construction vary according to the changes in the economy of the PRC. In addition, asset-based approach cannot comprehensively reflect the overall profitability of an enterprise; and

(2) the income approach is to assess the value of an enterprise by estimating the projected future cash flow of such enterprise and then discounting such projected future cash flows into their present value at a proper discount rate. Income approach focuses on the future income of an enterprise, and is based on the projected future income of the enterprise. On the other hand, asset-based approach focuses on the history and fact of the establishment of an enterprise. The difference in the nature of focus between the two valuation approaches resulted in the discrepancy of the valuation conclusion.

The asset-based approach used in the valuation was not limited to the accounting record of the carrying amount of an enterprise. Instead, it thoroughly investigated into every assets and liabilities of the enterprise, and conducted valuation on the enterprise with appropriate valuation approach. As such, the results in this valuation as derived from the asset-based approach fully reflected the market value of the entrusted asset to a certain extent. On the whole, the general valuation on the enterprise derived from the asset-based approach was considered to be comprehensive with pinpointed highlights without material omissions.

Theoretically, the valuation on the total value of shareholders' equity of an enterprise derived from the income approach was comprehensive, but there were also concern about the reliability of its estimation in this valuation. The valuation result under the income approach is subject to the demand and supply of the market, as well as a number of factors, such as the macro-economy and government control policies of the PRC on the industry, which thus causes material uncertainty in the valuation result of the income approach.

After comprehensive analysis, it is concluded that the asset-based approach can better reflect the enterprise value of the valuation subject, that the Valuer decided to choose the appraised value derived from the asset-based approach as the result of the valuation, and that the final valuation result of the total value of shareholders' equity of the Target Company was approximately RMB500.27 million (approximately HK$595.32 million) in aggregate.

During the course of our discussions with the Valuer and after reviewing the data and the calculation work provided by the Valuer, we have not identified any major factors which would lead us to cast doubt on the fairness and reasonableness of the methodology, principal bases and assumptions used in preparing the valuation of the Target Group. We are satisfied that such bases and assumptions have been made with due care and objectivity, and on a reasonable basis, and we believe the assumptions used under the Valuation Report are fair, reasonable and complete. Having considered the above, we are of the view that the principal basis, valuation methods and assumptions adopted for the valuation of the Target Group are fair, reasonable and complete and hence the reliability of the Valuation Report.

Taking into account that (i) the principal basis, valuation methods and assumptions adopted for the valuation of the Target Group are fair, reasonable and complete and hence the reliability of the Valuation Report; (ii) the Consideration represents a discount of approximately 2.99% to the valuation of the net asset value attributable to 60% equity interest of the Target Group being approximately RMB300.16 million (approximately HK$357.19 million); (iii) the Target Company achieved a turnaround and recorded positive earnings for the year ended 31 December 2015; (iv) the Acquisition is in line with the business strategies of the Group, which also represents a valuable opportunity for the Group to expand its business operation in the medical, pharmaceutical and health industry; and (v) the Acquisition will bring in a positive revenue stream to the Company, given the future optimistic prospect of the pharmaceutical industry in the new few years in the PRC as discussion in the section above headed "**3. Reasons for and benefits of entering into of the Sale and Purchase Agreement**", we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Company and the Shareholders as a whole

Conclusion

We have reviewed the principal terms of the Sales and Purchase Agreement and were not aware that there is any unusual term in the Sales and Purchase Agreement which is not normal and commercial terms, and taking into account that (i) the Consideration represents a discount of approximately 2.99% to the valuation of the net asset value attributable to 60% equity interest of the Target Group being approximately RMB300.16 million (approximately HK$357.19 million); (ii) the Target Company achieved a turnaround and recorded positive earnings for the year ended 31 December 2015; and (iii) the reasons for and benefits of the Acquisition as discussed in the section head "**3 Reasons for and benefits of entering into of the Sale and Purchase Agreement**" above, we are of the view that the terms of the Sales and Purchase Agreement and the transactions contemplated thereunder have been entered into on normal and commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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

5. Financial effects of the Acquisition

Liquidity

According to the Interim Report 2015, the cash and cash equivalents of the Group as at 30 June 2015 was approximately HK$790.42 million. Since the Consideration of approximately RMB291.20 million (approximately HK$346.53 million) for the Acquisition will be funded by the internal cash resources of the Company, it is expected that the working capital of the Group will decrease by the same amount upon the Completion.

Net asset value

According to the Interim Report 2015, the net assets of the Group was approximately HK$1,716.83 million as at 30 June 2015. Since the Consideration of RMB291.20 million (approximately HK$346.53 million) for the Acquisition will be funded by the internal cash resources of the Company, the net asset value attributable to the owners of the Group will remain unchanged upon the Completion.

Earnings

Upon Completion, the financial results of the Target Group will be consolidated into the financial statements of the Group. Taking into account of the Target Company recorded a positive earning for the year ended 31 December 2015 and the optimistic prospect of the pharmaceutical industry in the PRC, it is expected that the Acquisition will have a positive impact on the earnings of the Group.

Conclusion

Having considered that upon the Completion, although the working capital of the Group would decrease, the Acquisition will have a positive impact on the earnings of the Group while there would be no impact on the gearing ratio and the net asset value of the Group will remain unchanged, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

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

RECOMMENDATIONS

With respect of the Sales and Purchase Agreement and the transactions contemplated thereunder, based on the abovementioned principal factors and reasons for the Sales and Purchase Agreement and the transactions contemplated thereunder, we are of the view that, while the Sales and Purchase Agreement is not entered into in the ordinary and usual course of business of the Company, the terms of the Sales and Purchase Agreement (including the Consideration) and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions to be proposed at the EGM to approve the Sales and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Goldin Financial Limited
Billy Tang
Director

Notes: *Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Goldin Financial to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance. He has over 10 years of experience in the corporate finance profession.*

For the purpose of this letter, translations of RMB into HK$ or vice versa have been calculated by using an exchange rate of RMB1.00 equal to HK$1.19. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were, may have been or will be exchanged at such rate or any other rates or at all.

* *For identification purposes only*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executive's interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of each of the Directors and chief executives of the Company 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) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") were as follows:

(i) Interests in the Shares or underlying Shares of the Company:

Name of Directors/ chief executive	**Capacity**	**Number of Shares interested** *(Note 1)*	**Approximate percentage of issued Shares**
Mr. Huang Yu	Interest in a controlled corporation *(Note 2)*	3,127,995,000 (L)	63.19%

Notes:

1. The letter "L" denotes a long position in Shares.

2. China Health was the beneficial owner of 3,127,995,000 Shares. China Health was a wholly-owned subsidiary of Waranty Hong Kong, which in turn was a wholly-owned subsidiary of Shenzhen Waranty. The equity interest of Shenzhen Waranty was held by Shenzhen Aorongxin as to 52% and the equity interest of Shenzhen Aorongxin is held by Mr. Huang as to 99%. Mr. Huang Yu was therefore deemed to be interested in the Shares beneficially owned by China Health under the SFO.

(ii) Interests in the shares or underlying shares of associated corporations:

Name of Director/ chief executive	Name of associated corporation	Capacity	Approximate percentage of equity interest of associated corporation
Mr. Huang Yu	Shenzhen Aorongxin	Beneficial owner	99%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares or the underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be and were entered in the register required to be kept by the Company referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Persons who have an interest and/or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

So far as is known to the Directors and chief executive of the Company, as at the Latest Practicable Date, the following persons (other than Directors and chief executives of the Company) had, or were deemed or taken to have an interest or short position in the Shares and underlying Shares of the Company, which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Shareholders	Capacity	Number of Shares interested *(Note 1)*	Approximate percentage of issued Shares
China Health	Beneficial owner	3,127,995,000 (L)	63.19%
Waranty Hong Kong	Interest in a controlled corporation *(Note 2)*	3,127,995,000 (L)	63.19%
Shenzhen Waranty	Interest in a controlled corporation *(Note 3)*	3,127,995,000 (L)	63.19%
Tongfang Chuangxin	Interest in a controlled corporation *(Note 4)*	3,127,995,000 (L)	63.19%
Tsinghua Tongfang	Interest in a controlled corporation *(Note 5)*	3,241,989,000 (L)	65.49%
Shenzhen Aorongxin	Interest in a controlled corporation *(Note 6)*	3,127,995,000 (L)	63.19%

Notes:

1. The letter "L" denotes a long position in the shares.

2. China Health was a wholly-owned subsidiary of Waranty Hong Kong and Waranty Hong Kong was therefore deemed to have an interest in all the Shares beneficially owned by China Health under the SFO.

3. Waranty Hong Kong is a wholly-owned subsidiary of the Vendor and the Vendor was therefore deemed to have an interest in all the Shares beneficially owned by China Health under the SFO.

4. As at the Latest Practicable Date, the equity interest of the Vendor was held by Shenzhen Aorongxin as to 52% and Tongfang Chuangxin as to 48%. Tongfang Chuangxin was therefore deemed to have an interest in the Shares in which the Vendor was interested under the SFO.

5. The entire equity interest of Tongfang Chuangxin was held by Tsinghua Tongfang and Tsinghua Tongfang was therefore deemed to have an interest in the Shares in which Tongfang Chuangxin was interested under the SFO. In addition, THTF Energy-Saving, an indirect wholly-owned subsidiary of Tsinghua Tongfang, was the beneficial owner of 113,994,000 Shares, and Tsinghua Tongfang was therefore also deemed to have an interest in the Shares in which THTF Energy-Saving was interested under the SFO.

6. The equity interest of the Vendor was held by Shenzhen Aorongxin as to 52% and Shenzhen Aorongxin was therefore deemed to have an interest in the Shares in which the Vendor was interested under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had, or was deemed or taken to have, an interest or short position in the Shares and underlying Shares of the Company which are required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

3. DIRECTORS' INTERESTS

(a) Interests in contract or arrangement

As at the Latest Practicable Date, save for the Sale and Purchase Agreement and the transactions contemplated thereunder as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

(b) Interests in assets

As at the Latest Practicable Date, save for the Sale and Purchase Agreement and the transactions contemplated thereunder as disclosed in this circular, none of the Directors had any direct or indirect interests in any assets which had been, since 31 December 2014 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(c) Interests in competing business

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined in the Listing Rules) had an interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder).

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries which is not expiring or determinable by the Company or any of its subsidiaries within one year without payment (other than statutory compensation).

5. MATERIAL ADVERSE CHANGE

Save as disclosed in the Profit Warning Announcement, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

6. EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualification of the experts who have provided their opinion or advice, which are contained in this circular.

Name	Qualification
Goldin Financial Limited	A licensed corporation to carry out Type 6 regulated activities under the SFO
中環松德(北京)資產評估有限公司 (Zhonghuan Songde (Beijing) Assets Appraisal Co. Ltd.*)	Qualified PRC valuer

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its statements and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above experts were not beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2014 (being the date to which the latest published audited financial statements of the Group were made up).

The "Letter from the Independent Financial Adviser" is given by Goldin Financial as at the date of this circular for incorporation herein.

The "Summary of the Valuation Report" is given by the Valuer as at the date of this circular for incorporation herein.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on a business day in Hong Kong at the principal place of business of the Company in Hong Kong at 9th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong, from the date of this circular up to and including 15 April 2016, being the date of the EGM:

(a) the Sale and Purchase Agreement;

(b) the letter from the Board, the text of which is set out in the "Letter from the Board" in this circular;

(c) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the "Letter from the Independent Financial Adviser" in this circular;

(d) the written consent referred to in the paragraph headed "Experts' qualifications and consents" in this appendix; and

(e) this circular.

* *For identification purposes only*

The following is a summary of the Valuation Report prepared by the Valuer, 中環松德(北京)資產評估有限公司 (Zhonghuan Songde (Beijing) Assets Appraisal Co. Ltd.), in relation to the Target Company. Unless otherwise defined, capitalized terms used in this appendix shall have the same meanings as defined in the circular of the Company dated 22 March 2016.*

Purpose of valuation:	The purpose of the valuation was to appraise the total value of shareholders' equity of the Target Company, so as to provide basis of reference in respect of the Acquisition.
Subject under valuation:	The total value of shareholders' equity of the Target Company.
Scope of valuation:	The total assets and liabilities of the Target Company under valuation as at the Valuation Date.
Type of value:	Market value
Valuation Date:	30 November 2015
Valuation methods:	On the basis of going-concern, assuming there is an open market, and taking into account the actual circumstances of the Target Company and various factors, the Valuation Report considered the asset-based approach and income approach, and has selected the asset-based approach as the basis for conclusion of the valuation.
Result of valuation:	The total value of shareholders' equity of the Target Company as at 30 November 2015 was RMB500,267,000.
Restrictions on the use of the Valuation Report:	The effective period for the use of the conclusion of valuation shall be one year from the date of the valuation benchmark date.
Date of the Valuation Report:	15 January 2016
Special issues which may affect the conclusion of the valuation:	(1) The Valuation Report assumes that the information provided by the Target Company is true and reliable, and derives the result of the asset valuation based on the investigation results from the valuation personnel. The result of the valuation should be regarded as an estimation of the asset valuation prior to confirming the validity of the relevant assumptions, and should only be a basis of reference for the determination of total value of the Target Company.

(2) The Valuer did not consider certain factors which may increase or decrease the value of the Target Company, such as the controlling interest and the minority interest of the Target Company, and did not consider the effect of the marketability of the Target Company's equity interest to the valuation results.

Users of the valuation report should give adequate consideration to the above special issues, which may affect the conclusion of the valuation.

SCOPE OF VALUATION

The scope of valuation is the total assets and liabilities of the Target Company under valuation as at the Valuation Date, including current assets, long-term equity investments fixed assets, intangible assets, research and development expenditures, deferred income tax assets, current liabilities, non-current liabilities, the details of which are set out below:

(1) current assets, including cash, account receivables, prepaid expenses, and other receivables and inventories, amounted to a carrying amount of RMB83,621,095.37 in aggregate;

(2) long-term equity investments, representing the equity interests in three subsidiaries and one joint stock company, amounted to a carrying amount of RMB68,793,544.91;

(3) fixed assets, representing the properties, buildings, equipment, vehicles and electronic facilities, amounted to a carrying amount of RMB62,143,139.95 in aggregate;

(4) intangible assets, representing the land use rights and purchased financial software expenses, amounted to a carrying amount of RMB39,988,321.92 in aggregate;

(5) research and development expenditures, representing the expenditures in research and development of products, amounted to a carrying amount of RMB2,908,715.41 in aggregate;

(6) deferred income expenses assets, representing the differences for the calculation of bad debts during tax payments, amounted to a carrying amount of RMB22,201.33;

(7) current liabilities, representing the short term borrowings, account payables, advance payments, salary payables, interest payables, tax payables and other payables, amounted to a carrying amount of RMB97,969,269.79 in aggregate; and

(8) non-current liabilities, representing certain specific payables, amounted to a carrying amount of RMB1,680,000.00.

VALUATION METHODS

Generally, three valuation approaches are used in the valuation of enterprise value, namely, income approach, market approach and asset based approach. The income approach is a valuation methodology to determine the value of the valuation subject through capitalizing or discounting the expected income of the subject entity. The market approach is a valuation methodology to determine the value of the valuation subject by comparing it with comparable enterprises, enterprises with comparable market transactions, and equity assets such as shareholder equity and securities. The asset-based approach refers to the valuation methodology to determine the value of the valuation subject on the basis of reasonably assessing the value of all assets and liabilities of the subject entity.

Application of the market approach

The market approach is to evaluate the current fair market value of an evaluation target with a reference object on the real market. It is characterized with a direct evaluation angle and approach, an intuitive evaluation process, the direct drawing of evaluation data from the market and convincing evaluation findings. However, the market approach was not adopted for this evaluation because of the small number of identical or similar comparable corporate transaction cases, the difficulty to access comparable corporate market and financial information, and the restricted application of the market approach in the current Chinese domestic capital market.

Application of the income approach

The adoption of income approach for valuation requires fulfillment of the following three conditions:

(1) The investment amount paid by the investor in a particular company shall not exceed the discounted value of the company's future expected income.

(2) The future income of such company can be reasonably estimated.

(3) The income rate which corresponds to the risk level of the future income of such company can be reasonably estimated.

Since the Target Company has a stable operation and its management is able to provide profit estimation of earnings for the future years, and in view of the purpose and the process of data collection of the valuation, the Valuer is of the opinion that the income approach may be considered for the valuation.

Application of the asset-based approach

For tangible assets, the asset-based approach is based on their carrying amount. It is relatively easy and accurate for the valuation using the asset-based approach, only if the record of carrying amount is accurate. As the asset-based approach is based on the balance sheet, the asset costs are considered and the net asset value of a company is arrived at by the summation of valuation of each asset less the appraised value of liability with reference to the market value of each individual asset and liability (or other types of value) instead of their respective historical costs.

After comprehensive analysis on the financial position, the ability to continue as a going concern and the development prospect of the company, the Valuer finally determined to consider the asset-based approach and income approach as the valuation methodology for this project, and used the appraised result derived from the asset-based approach as the confirmed final result of the valuation.

VALUATION CONCLUSIONS

Valuation conclusion under the asset-based approach

As at the Valuation Date, being 30 November 2015, the market value of the total equity of shareholders of the Target Company as determined by using the asset-based approach amounted to RMB500,267,000, of which:

(i) the total carrying amount and appraised value of the assets were RMB257,477,000 and RMB598,236,300, respectively, representing a valuation surplus of RMB340,759,200 or 132.35%;

(ii) the total carrying amount and appraised value of the liabilities were RMB99,649,300 and RMB97,969,300, respectively, representing a valuation deficit of RMB1,680,000 or 1.69%; and

(iii) the carrying amount and appraised value of the net assets were RMB157,827,700 and RMB500,267,000, respectively, representing a valuation surplus of RMB342,439,200 or 216.97%.

The results of valuation are set out as follows:

Statement of asset valuation results
Valuation Date: 30 November 2015

Item	Book value	Appraised value	Increase/ decrease in value	Percentage of change
	A	B	C = B–A	D = C/ A*100%
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(%)*
Current assets	83,621.10	88,390.80	4,769.70	5.70
Non-current assets	173,855.90	509,845.40	335,989.50	193.26
of which: Long-term equity investments	68,793.50	306,513.50	237,720.00	346.56
Investment property	—	—	—	—
Fixed assets	62,143.10	105,314.00	43,170.90	69.47
Construction in progress	—	—	—	—
Intangible assets	39,988.30	95,087.00	55,098.70	137.79
of which: Intangible assets — land use rights	39,837.30	94,924.90	55,087.60	138.28
Other non-current assets	—	—	—	—
Total assets	**257,477.00**	**598,236.20**	**340,759.20**	**132.35**
Current liabilities	97,969.30	97,969.30	—	—
Non-current liabilities	1,680.00	—	(1,680.00)	(100.00)
Total liabilities	**99,649.30**	**97,969.30**	**(1,680.00)**	**(1.69)**
Net assets (shareholders' equity)	**157,827.70**	**500,267.00**	**342,439.20**	**216.97**

Analysis of the valuation results and final valuation conclusion

The asset-based approach used in the valuation was not limited to the accounting record of the carrying amount of an enterprise. Instead, it thoroughly investigated into every assets and liabilities of the enterprise, and conducted valuation on the enterprise with appropriate valuation approach. As such, the results in this valuation as derived from the asset-based approach fully reflected the market value of the entrusted asset to a certain extent. Overall, the general valuation on the enterprise derived from the asset-based approach was considered to be comprehensive with pinpointed highlights without material omissions.

Theoretically, the valuation on the total value of shareholders' equity of an enterprise derived from the income approach was comprehensive, but there were also concerns about the reliability of its estimation in this valuation. The valuation result under the income approach is subject to the demand and supply of the market, as well as a number of factors, such as the government control policies of the PRC on the macro industry, which thus leads to causes material uncertainties in the valuation result of the income approach.

After comprehensive analysis, it is concluded that the asset-based approach can better reflect the enterprise value of the valuation subject and the Valuer decided to choose the appraised value derived from the asset-based approach as the result of the valuation, and that:

(1) the final valuation result of the total value of shareholders' equity of the Target Company was RMB500,267,000 in aggregate; and

(2) the valuation conclusion was arrived at according to the valuation works stated in the Valuation Report, and is only valid under the valuation assumptions and limitations stipulated by the Valuation Report.

ALLIED CEMENT HOLDINGS LIMITED
聯合水泥控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Allied Cement Holdings Limited (the "**Company**") will be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 15 April 2016 at 10:00 a.m., or any adjournment thereof, for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as ordinary resolution of the Company. Unless otherwise defined, capitalized terms used in this notice shall have the same meanings as defined in the circular of the Company dated 22 March 2016.

ORDINARY RESOLUTION

"**THAT**

(a) the sale and purchase agreement (the "**Sale and Purchase Agreement**") dated 28 January 2016 entered into between Kingwood Limited (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, and 深圳市華融泰資產管理有限公司 (Shenzhen Waranty Asset Management Co., Ltd.*) (the "**Vendor**"), pursuant to which, among other things, the Purchaser conditionally agreed to purchase, and the Vendor conditionally agreed to sell, an aggregate of 60% equity interest in 北京紫光製藥有限公司 (Beijing Ziguang Pharmaceutical Co., Ltd.*) (the "**Target Company**"), representing the entire interest held by the Vendor in the Target Company, for an aggregate consideration of RMB291,200,000, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified in all respects; and

(b) any one of the directors of the Company (the "**Director**") be and is hereby authorised to do all such acts and things and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his/her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder."

By Order of the Board of
Allied Cement Holdings Limited
Huang Yu
Chairman

Hong Kong, 22 March 2016

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

Principal place of business in Hong Kong:
9th Floor
Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote on his/her behalf, subject to the articles of association of the Company. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her to attend and vote on his/her behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

4. Where there are joint holders of any share, any one of such joint holders may vote at the EGM, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the EGM personally or by proxy, then the one of such joint holders so present whose name stands first on the register of members of the Company shall, in respect of such share, be entitled alone to vote in respect thereof.

5. The resolution at the EGM will be taken by poll pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

6. The register of members of the Company will be closed from Thursday, 14 April 2016 to Friday, 15 April 2016 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending and voting at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration by 4:30 p.m. on Wednesday, 13 April 2016.

As at the date of this notice, the board of Directors of the Company comprises three executive Directors, namely Mr. Huang Yu (Chairman), Mr. Ng Qing Hai (Managing Director) and Mr. Deng Jinguang; and three independent non-executive Directors, namely Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack.

* *For identification purposes only*