
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 Tongfang Kontafarma 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.

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同方康泰產業集團有限公司 Tongfang Kontafarma Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF REMAINING 40% EQUITY INTEREST IN TONGFANG PHARMACEUTICAL INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE AND NOTICE OF EGM

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



GOLDIN FINANCIAL LIMITED

高銀融資有限公司

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 19 of this circular. A letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 20 to 21 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 22 to 40 of this circular.

A notice convening the EGM to be held at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong on Friday, 16 March 2018 at 11:00 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.tfkf.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.

27 February 2018

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DEFINITIONS

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

“2016 Majority Stake Acquisition”	the acquisition of 60% of equity interest in Tongfang Pharmaceutical by the Purchaser conducted in 2016, particulars of which are set out in the announcement and circular of the Company dated 28 January 2016 and 22 March 2016 respectively;
“Acquisition”	the proposed acquisition of 35% and 5% equity interests in Tongfang Pharmaceutical by the Purchaser from Shenzhen Shiao and Sea Best, respectively, pursuant to the Sale and Purchase Agreement;
“Announcement”	the announcement of the Company dated 23 January 2018 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 Tongfang Pharmaceutical;
“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 Tongfang Pharmaceutical;
“Board”	the board of Directors;
“Business Day”	a day other than public holiday on which banks are generally open for business in the Hong Kong;
“China Health”	China Health Management Investment Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, which holds approximately 59.18% interest in the Company as at the Latest Practicable Date;
“Chongqing Huakong”	重慶華控康樂藥物研究有限公司(Chongqing Huakong Kangle Pharmaceutical Research Co., Ltd.*), a company established under the laws of the PRC and a wholly-owned subsidiary of Chongqing Kangle;
“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 Tongfang Pharmaceutical;

DEFINITIONS

“Company”	Tongfang Kontafarma Holdings Limited (formerly known as Allied Cement Holdings Limited), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 1312);
“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” contained 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 Shares”	243,863,777 new Shares to be allotted and issued by the Company to the Vendors at the Issue Price to satisfy part of the consideration for the Acquisition;
“Director(s)”	director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened and held on Friday, 16 March 2018 for the Shareholders to consider and, if thought fit, to approve, among other matters, the issue of the Consideration Shares as part of the settlement of the consideration of the Acquisition;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors, which is formed to advise the Independent Shareholders on the issue of the Consideration Shares;
“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;

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“Independent Shareholders”	Shareholders who are not interested or involved in the Sale and Purchase Agreement and the transactions contemplated thereunder;
“Independent Third Party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of and not connected with the Company and its connected persons;
“Issue Price”	HK\$0.5 per Consideration Share;
“Latest Practicable Date”	23 February 2018, 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;
“PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong and Macau Special Administrative Region of the People’s Republic of China;
“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 23 January 2018 entered into between the Company, the Purchaser and the Vendors in relation to the Acquisition;
“Sea Best”	Sea Best Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Shaanxi Life Care”	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 Tongfang Pharmaceutical;
“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 Life Care;

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.002 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Shares;
“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;
“Shenzhen Shiao Acquisition”	the proposed acquisition of 35% equity interests in Tongfang Pharmaceutical by the Purchaser from Shenzhen Shiao pursuant to the Sale and Purchase Agreement;
“Shenzhen Warranty”	深圳市華融泰資產管理有限公司 (Shenzhen Warranty Asset Management Co., Ltd.*), a company established under the laws of the PRC;
“Specific Mandate”	the specific mandate for the allotment and issue of the Consideration Shares, which is subject to the approval by the Independent Shareholders at the EGM;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscription”	the subscription of 400,000,000 Shares by THTF Energy-Saving pursuant to the general mandate granted to the Directors by the resolution of the Shareholders passed at the annual general meeting of the Company on 20 June 2017 as announced in the Announcement and the completion of which took place on 13 February 2018;
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules;
“Taiwan”	the Republic of China (Taiwan);
“THTF Energy-Saving”	THTF Energy-Saving Holdings Limited (清華同方節能控股有限公司*), a company incorporated in the Cayman Islands and indirectly wholly-owned by Tsinghua Tongfang;
“Tibet Linzhi”	西藏林芝市醫藥有限公司 (Tibet Linzhi Medical Pharmaceutical Co., Ltd.*), a company established under the laws of the PRC and a wholly-owned subsidiary of Tongfang Pharmaceutical;

DEFINITIONS

“Tongfang Financial”	同方金融控股(深圳)有限公司 (Tongfang Financial Holdings Co., Ltd.*) (formerly known as 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;
“Tongfang Pharmaceutical”	同方藥業集團有限公司 (Tongfang Pharmaceutical Group Co., Ltd*) (formerly known as 北京紫光製藥有限公司 (Beijing Ziguang Pharmaceutical Co., Ltd.*)), a company established under the laws of the PRC and 60% equity interest of which is owned by the Group. It is an indirect non-wholly owned subsidiary of the Company as at the date of this circular;
“Tongfang Pharmaceutical Group”	Tongfang Pharmaceutical and its subsidiaries;
“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);
“Vendors”	Shenzhen Shiao and Sea Best;
“Waranty Hong Kong”	Waranty Assets Management (HK) Limited, a company incorporated under the laws of Hong Kong and wholly-owned by Shenzhen Waranty; and
“%”	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 HK\$1.00 equal to RMB0.82. 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

LETTER FROM THE BOARD



同方康泰產業集團有限公司 Tongfang Kontafarma Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

Board of Directors

Executive Directors:

Huang Yu (*Chairman*)

Jiang Chaowen (*Chief Executive Officer*)

Ng Qing Hai

Independent non-executive Directors:

Chan Sze Chung

Zhang Ruibin

Zhang Junxi Jack

Registered office:

P.O. Box 1350

Clifton House

75 Fort Street

Grand Cayman KY1-1108

Cayman Islands

***Principal place of business
in Hong Kong:***

15th Floor

Allied Kajima Building

138 Gloucester Road

Wanchai

Hong Kong

27 February 2018

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
REMAINING 40% EQUITY INTEREST
IN TONGFANG PHARMACEUTICAL
INVOLVING THE ISSUE OF
CONSIDERATION SHARES UNDER SPECIFIC MANDATE**

INTRODUCTION

Reference is made to the Announcement published by the Company on 23 January 2018 in relation to the Subscription and the Acquisition. On 13 February 2018, the Subscription had completed pursuant to which the Company had issued and allotted, and THTF Energy-Saving had subscribed for 400,000,000 Shares at the subscription price of HK\$0.5 per Share. The gross proceeds raised from the Subscription amounted to approximately HK\$200,000,000. After deducting the relevant expenses, the net proceeds raised from the Subscription amounted to approximately HK\$198,500,000. As disclosed in the Announcement, the Company and the Purchaser (being an indirect wholly-owned subsidiary of the Company) also entered into the Sale and Purchase Agreement dated 23 January 2018 with the Vendors (being Shenzhen Shiao and Sea Best) for the acquisition of remaining 40% equity interest in Tongfang

LETTER FROM THE BOARD

Pharmaceutical (35% from Shenzhen Shiao and 5% from Sea Best) by the Group for the total consideration of RMB200,000,000 (equivalent to approximately HK\$243,902,439), of which RMB100,000,000 (equivalent to approximately HK\$121,951,220) will be settled by issue and allotment of 243,863,777 Consideration Shares by the Company with the remaining RMB100,000,000 (equivalent to approximately HK\$121,951,220) to be settled by the Group in cash.

As disclosed in the Announcement, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. The Shenzhen Shiao Acquisition and the issue of the Consideration Shares to Shenzhen Shiao constitute connected transactions of the Company under Chapter 14A of the Listing Rules. The Shenzhen Shiao Acquisition is subject to the requirements of reporting and announcement by virtue of Rule 14A.101 of the Listing Rules. Issue of Consideration Shares to Shenzhen Shiao as part of the settlement of consideration of the Shenzhen Shiao Acquisition is subject to the requirements of reporting, announcement and approval by the Independent Shareholders under Chapter 14A of the Listing Rules.

The purpose of this circular is to provide you with among other things, (i) further information in relation to the Acquisition and the proposed issue of Consideration Shares as part of the settlement of consideration; (ii) the recommendations of the Independent Board Committee and the letter of advice from Goldin Financial to the Independent Board Committee and the Independent Shareholders; (iii) the notice of the EGM; and (iv) other information as required under the Listing Rules.

THE ACQUISITION

In 2016, the Group acquired 60% equity interest in Tongfang Pharmaceutical, the details of which were disclosed in the announcement and circular of the Company dated 28 January 2016 and 22 March 2016 respectively. Since such 2016 Majority Stake Acquisition and up to the Latest Practicable Date, Tongfang Pharmaceutical is an indirect non-wholly owned subsidiary of the Company and indirectly held as to 60% by the Company, 35% by Shenzhen Shiao and 5% by Sea Best.

On 23 January 2018 (after trading hours), the Company and the Purchaser (being an indirect wholly-owned subsidiary of the Company) entered into the Sale and Purchase Agreement with the Vendors (being Shenzhen Shiao and Sea Best) for the acquisition of remaining 40% equity interest in Tongfang Pharmaceutical by the Group.

The Sale and Purchase Agreement

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

(a) *Date*

23 January 2018

LETTER FROM THE BOARD

(b) *Parties to the Sale and Purchase Agreement*

- (i) the Company as issuer;
- (ii) the Purchaser as purchaser; and
- (iii) Shenzhen Shiao and Sea Best as vendors.

(c) *Nature of the Transaction and Subject Matter to be Acquired*

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to dispose of an aggregate of 40% equity interest in Tongfang Pharmaceutical (being the entire equity interests in Tongfang Pharmaceutical held by the Vendors). Upon completion of the Acquisition, Tongfang Pharmaceutical will become an indirect wholly-owned subsidiary of the Company.

(d) *Consideration*

Pursuant to the Sale and Purchase Agreement, the total consideration for the Acquisition is RMB200,000,000 (equivalent to approximately HK\$243,902,439), which shall be satisfied in the following manner within 10 Business Day following the date on which all the conditions precedent of the Acquisition are fulfilled and Tongfang Pharmaceutical has completed the registration of change with the relevant PRC regulatory authorities:

- (i) RMB100,000,000 (equivalent to approximately HK\$121,951,220) to be satisfied in cash and payable to Shenzhen Shiao; and
- (ii) RMB100,000,000 (equivalent to approximately HK\$121,951,220) to be satisfied by the Company allotting and issuing 182,897,833 and 60,965,944 Consideration Shares credited as fully paid at the Issue Price of HK\$0.5 per Consideration Share to Shenzhen Shiao and Sea Best, respectively.

The consideration for the Acquisition (including the Issue Price of the Consideration Shares) was arrived upon arm's length negotiations between the Purchaser and the Vendors with reference to the financial performance of the Tongfang Pharmaceutical Group, the consideration paid by the Group in respect of the acquisition of 60% equity interest in Tongfang Pharmaceutical in 2016, the prospects of the Tongfang Pharmaceutical Group and the future business development of the Group.

As disclosed in the paragraph headed "Funding of the cash consideration for the Acquisition" below, the Company had considered external bank loan facilities as alternative means in settling the consideration. However, the proposed terms and conditions offered to the Company were, in the view of the Company, not favourable to the Company. As such, the Company did not pursue for loan facilities. Considering the blooming share market at the time when the Sale and Purchase Agreement was signed, the Company believed issue of Consideration Shares instead of settlement fully in cash would be

LETTER FROM THE BOARD

beneficial to the Company. As disclosed in the paragraph headed “The Issue Price” below, the Issue Price of HK\$0.5 per Consideration Share is the same with the closing price of HK\$0.5 per Share quoted on the Stock Exchange on 23 January 2018, being the date of the Sale and Purchase Agreement, and the same with the average of the closing prices of approximately HK\$0.5 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately before 23 January 2018. Further, the Issue Price of HK\$0.5 per Consideration Share represented a premium of approximately 3.10% over the closing price of HK\$0.485 as quoted on the Stock Exchange on the Latest Practicable Date.

Further, the consideration paid for the 2016 Majority Stake Acquisition was primarily determined with reference to, among others, the net assets of Tongfang Pharmaceutical in the appraised value of RMB500.27 million as at 30 November 2015 (the “**Valuation**”). In this regard, the Independent Financial Adviser has carried out independent review on the Valuation including the principal assumptions and bases and the market standards and guidelines governing valuations of enterprises in the pharmaceutical industry issued by the recognised authorities in the PRC. Based on the review of the Independent Financial Adviser, it was noted that the principal assumptions and valuation standards, in particular 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, which had been relied on in giving the Valuation, remain valid as at the Latest Practicable Date. As further disclosed in the paragraph headed “Reasons and Benefits for the Acquisition” and “Information of the Tongfang Pharmaceutical Group” below, the business performance of Tongfang Pharmaceutical has been improving and remarkable performance has been recorded through the organic business growth of Tongfang Pharmaceutical especially during the course of 2017 as demonstrated by the financial figures disclosed below.

Notwithstanding that the valuation date of 30 November 2015 in respect of the Valuation is more than two years prior to the date of the Sale and Purchase Agreement, i.e. 23 January 2018, given (i) the major assumptions and valuation standards used in the Valuation remain valid as at the Latest Practicable Date; (ii) the financial performance of the Tongfang Pharmaceutical Group has been improving since the 2016 Majority Stake Acquisition against its loss making performance for the year ended 31 December 2015; (iii) the Consideration Shares are proposed to be issued at the Issue Price which is the same with the closing price quoted on the date of the Sale and Purchase Agreement and even higher than the closing price as at the Latest Practicable Date, it is considered that the determination of the consideration for the Acquisition which is mainly based on the Valuation, the settlement by way of issue of the Consideration Shares and the determination of the Issue Price of HK\$0.5 are fair and reasonable and also favourable to the Company.

LETTER FROM THE BOARD

(e) *Conditions precedent of the Acquisition*

Pursuant to the Sale and Purchase Agreement, completion of the Acquisition is conditional upon the following conditions being fulfilled:

- (i) the board of directors of Tongfang Pharmaceutical having approved the transactions contemplated under the Sale and Purchase Agreement;
- (ii) the Subscription shall have been completed;
- (iii) the Vendors having received the “Overseas Investment Certificate by PRC Enterprises* (企業境外投資證書)” from the relevant PRC regulatory authority in respect of the acceptance of the Consideration Shares as part of the consideration of the Acquisition;
- (iv) the Independent Shareholders having approved the issue of the Consideration Shares as settlement of part of the consideration of the Acquisition as contemplated under the Sale and Purchase Agreement and the transactions contemplated therein in compliance with the Listing Rules; and
- (v) the listing committee of the Stock Exchange having approved the listing of, and permission to deal in, the Consideration Shares.

None of the conditions precedent can be waived. As at the Latest Practicable Date, the conditions precedent set out under (i) and (ii) above have already been fulfilled.

(f) *Completion*

Completion of the Acquisition shall take place within 10 Business Day following the date on which all the conditions precedent to the completion of the Acquisition are fulfilled (or such other date and time as the parties to the Sale and Purchase Agreement may agree in writing).

The Consideration Shares

The Consideration Shares represent:

- (i) approximately 4.56% of the total issued share capital of the Company as at the Latest Practicable Date; and
- (ii) approximately 4.36% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares, assuming there will be no change in the issued share capital of the Company between the Latest Practicable Date and the completion of the Acquisition (save for the allotment and issue of the Consideration Shares).

Pursuant to Rule 13.35(1) of the Listing Rules, the Consideration Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

The Consideration Shares, when fully paid, will rank *pari passu* in all respects among themselves and with the existing Shares in issue, including the right to receive all dividends and distributions which may be declared, made or paid after the completion of the Acquisition and will be issued free and clean of all liens, encumbrances, equities or other third party rights.

Application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Issue Price

The Issue Price of HK\$0.5 per Consideration Share represents:

- (i) the closing price of HK\$0.5 per Share as quoted on the Stock Exchange on 23 January 2018, being the date of the Sale and Purchase Agreement;
- (ii) the average of the closing prices of approximately HK\$0.5 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately before 23 January 2018, being the date of the Sale and Purchase Agreement, and including 23 January 2018; and
- (iii) a premium of approximately 3.10% over the closing price of HK\$0.485 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

Reasons for and Benefits of the Acquisition

As disclosed in the circular of the Company dated 22 March 2016, it is one of the key strategies of the Group to actively explore medical, pharmaceutical and health industry business. The Company believes such business will have promising prospect in the PRC amid its growing economy and increasing demands on pharmaceutical and health products among the population. Subsequent to the acquisition of the controlling stake in Tongfang Pharmaceutical in 2016, the business performance of Tongfang Pharmaceutical has been improving and remarkable performance has been recorded through the organic business growth of Tongfang Pharmaceutical especially during the course of 2017 when various policies were implemented by the National Health and Family Planning Commission of the PRC and the Ministry of Human Resources and Social Security of the PRC which are believed to have positive impact in boosting the pharmaceutical, medical and industry business in the PRC. Benefiting from the governmental policies, based on the unaudited management account of Tongfang Pharmaceutical prepared in accordance with PRC GAAP for the 6 months ended 30 June 2017, Tongfang Pharmaceutical recorded consolidated net profit of RMB17.3 million (before taxation) and RMB16.5 million (after taxation) respectively for the 6 months ended 30 June 2017. The Company considers the Acquisition is a good opportunity of the Group to acquire the remaining interest in Tongfang Pharmaceutical in order to enhance the control and management over Tongfang Pharmaceutical which is in line with the business strategy of the Group. In 2017, Tongfang Pharmaceutical maintained sound momentum of development and greater returns are expected. Hence, the Acquisition is expected to improve the results attributable to the Group and the overall Shareholders' return.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider the terms of the Sale and Purchase Agreement are fair and reasonable and the Acquisition is on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. None of the Directors has a material interest in the transactions contemplated under the Sale and Purchase Agreement or is required to abstain from voting from the Board resolutions for considering and approving the same pursuant to the articles of association of the Company.

Funding of the cash consideration for the Acquisition

As mentioned in the paragraph headed “The Sale and Purchase Agreement – (d) Consideration” above, out of the total consideration of RMB200,000,000 (equivalent to approximately HK\$243,902,439), RMB100,000,000 (equivalent to approximately HK\$121,951,220) will be satisfied in cash and payable to Shenzhen Shiao. As disclosed in the Announcement, such payment in cash will be financed by part of the proceeds raised from the Subscription.

Noting the remarkable performance of Tongfang Pharmaceutical in 2017, the Company commenced to consider the possibility of acquiring the remaining minority interest in Tongfang Pharmaceutical in late 2017. On 11 December 2017, initial attempt was made by the Company to approach the Vendors, for the possible sale of their minority interest. The Vendors, being passive investors of Tongfang Pharmaceutical, had indicated their preliminary intention to sell their minority interests after the said initial contact subject to the then discussion on the terms of the transaction. Apart from the equity interest currently held in Tongfang Pharmaceutical, each of the Vendors is an Independent Third Party. The Company understands that the Vendors regarded their potential disposal of minority interest as a good opportunity to exit and realize the gain from the investment.

After learning the preliminary commercial intention of the Vendors, the Company started to consider possible sources of funding to finance the Acquisition before proceeding any further negotiations with the Vendors. In December 2017, the Company approached certain banks for possible loan facilities while the proposed terms and conditions offered to the Company were, in the view of the Company, not favourable to the Company. The Company considered that external loan facilities should not be an appropriate option for the Company in obtaining funding to finance the Acquisition after taking into account the interest of the Company and its Shareholders. In view of the then blooming share market in Hong Kong, the Company considered equity financing should be an alternative option to pursue. Based on the knowledge of the Company that one of the business segments of Tsinghua Tongfang (being the holding company of the subscriber under the Subscription) is conducting investment in other corporations including listed companies, the Company approached Tsinghua Tongfang on 28 December 2017 to explore possibility of equity financing. It has never been the intention of the Company to negotiate the Subscription and the Acquisition as one package. The Subscription was subsequently and separately pursued after the possibility in obtaining bank facilities had been explored. The Company also explored the option of share placement through placing agent(s). However, after evaluating the transaction cost involved in placing exercise (including but not limited to the placing commission), the Company considered that the Subscription was the then feasible option that should be pursued.

LETTER FROM THE BOARD

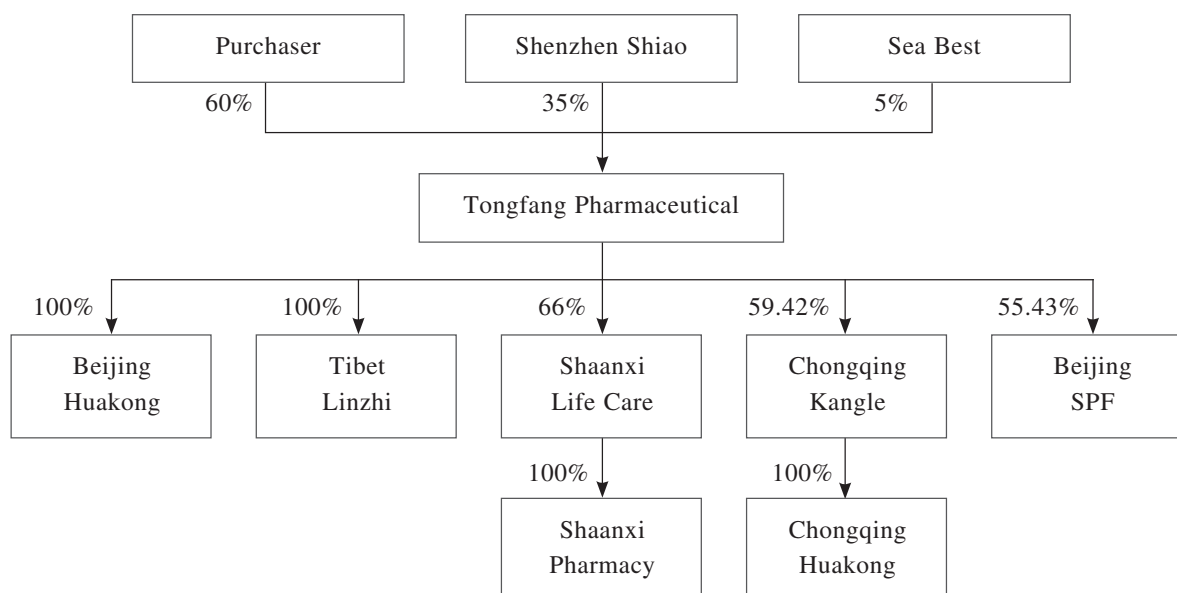
Negotiations on the Subscription and the Acquisition have been continuing separately since early January 2018. Transaction terms have been revised and refined during the negotiation, and such terms include amongst others, the size of the issue in respect of the Subscription, and the consideration and the means of settlement in respect of the Acquisition. After reviewing the then prevailing trading price of the Shares of the Company and the need of working capital in support of ongoing business operation of the Group as a whole, it has been considered that, after arms' length negotiation with the Vendors, the Acquisition would be partly financed by cash and partly by issuance of the Consideration Shares. Given the shareholding structure of the Company is expected to change as a result of the issuance of new Shares as contemplated under the Subscription and the Acquisition, the terms of the Subscription and the Acquisition were finalized by the Group with respective contracting parties on separate basis after the market close on 23 January 2018 and the Company announced the two transactions at the same time in order to fully inform the Shareholders and potential investors of the Company of the possible change in the shareholding structure, the intended application of the proceeds raised from the Subscription and the latest business development of the Group.

INFORMATION OF THE TONGFANG PHARMACEUTICAL GROUP

Tongfang Pharmaceutical is currently a sino-foreign joint venture enterprise established in the PRC and, through its subsidiaries, is principally engaged in the manufacturing and sales of prescription drugs, including injection powder, tablets, capsules, ointments, traditional Chinese medicine patent prescriptions, synthetic drugs, preparations, biochemical drugs and other biochemical products. In addition, Tongfang Pharmaceutical together with its subsidiaries is also involved in an extended range of other pharmaceutical-related businesses, including the sales of health supplements and food products, sales of medical equipment, as well as pharmaceutical research and testing.

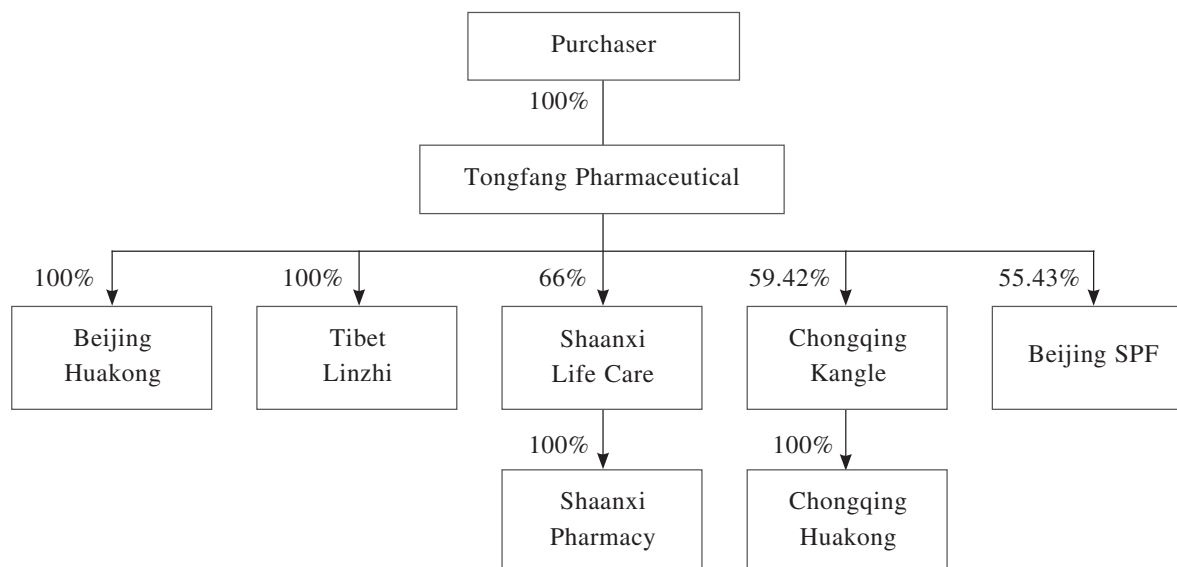
Corporate structure of the Tongfang Pharmaceutical Group

Set out below is the shareholding structure of the Tongfang Pharmaceutical Group as at the Latest Practicable Date:



LETTER FROM THE BOARD

Set out below is the shareholding structure of the Tongfang Pharmaceutical Group immediately after Completion:



Set out below is the consolidated financial information of the Tongfang Pharmaceutical Group prepared in accordance with PRC GAAP for the years ended 31 December 2015 and 2016 and 6 months ended 30 June 2017:

	For the year ended 31 December 2015 (audited) (RMB'000)	For the year ended 31 December 2016 (unaudited) (RMB'000)	For the 6 months ended 30 June 2017 (unaudited) (RMB'000)
Total revenue	148,040	228,754	126,574
Net (loss)/profit before taxation and extraordinary items	(3,493)	29,587	17,300
Net (loss)/profit after taxation and extraordinary items	(3,626)	22,559	16,500

The unaudited total asset value and the net asset value of the Tongfang Pharmaceutical Group as at 30 June 2017 were approximately RMB613,793,000 and RMB228,580,000 respectively. The major assets held by the Tongfang Pharmaceutical Group as at 30 June 2017 comprised (i) the property, plant and equipment of approximately RMB154,019,000; and (ii) the bank balances and cash of approximately RMB176,028,000.

Based on the information available to the Company, the original acquisition cost paid by Shenzhen Shiao attributable to the acquisition of 35% equity interest in Tongfang Pharmaceutical was RMB87,500,000.

LETTER FROM THE BOARD

Temporary revocation of GMP certificate of one product type of the Tongfang Pharmaceutical Group

During 10 to 12 January 2017, the China Food and Drug Administration conducted surprise inspection on the production plant of Shaanxi Life Care, being a subsidiary of Tongfang Pharmaceutical. The results of the inspection based on samples tested revealed that 清熱解毒片, a product of Shaanxi Life Care (the “**Relevant Product**”) contained fiber of 梔子 (*gardenia jasminoides*). The manufacturing process of the Relevant Product involved extraction of certain fluid essence from 梔子 which formed the component of the Relevant Product. The fiber was not supposed to be contained in the fluid essence and the fiber was found to penetrate in the fluid essence during the extraction process. On 23 March 2017, Shaanxi Food and Drug Administration published notice on its website stating that the GMP certificate relating to tablet (片劑) of Shaanxi Life Care was revoked in view of the surprise inspection conducted by China Food and Drug Administration (the “**Incident**”).

Subsequent to the Incident, Shaanxi Life Care took proactive rectification actions, including re-examining every manufacturing step to ensure compliance with stipulated production standards, strengthening the training to the staff to enhance their knowledge in the Chinese medicine and stringent manufacturing procedures, improving the record keeping system, reviewing and refining the internal policies on quality control and implementing enhanced scrutiny system to oversee the quality control throughout the whole manufacturing process.

During 25 and 26 May 2017, Shaanxi Food and Drug Administration conducted on-site inspection at the manufacturing plant to evaluate the rectification actions. On 6 June 2017, Shaanxi Food and Drug Administration published notice on its website stating that the rectification actions taken by Shaanxi Life Care were up to standard and its GMP certificate relating to tablet (片劑) was resumed.

The Relevant Product was the only product the production of which was required to be suspended by the authority. The revenue generated from the sale of the Relevant Product represented approximately 0.2% and 0.04% of the total sale of Shaanxi Life Care in 2016 and 2017 respectively. The overall consolidated performance of the Tongfang Pharmaceutical Group has not been adversely affected by the Incident. Neither Shaanxi Life Care nor any member of the Group received any claim or report of any reaction caused by human consumption of the Relevant Product since the occurrence of the Incident.

Save as disclosed, none of the license, certificate and permit relating to the manufacturing and sale of pharmaceutical products of the Tongfang Pharmaceutical Group has ever been revoked or suspended nor any fine, penalty or punishment has ever been imposed on the Tongfang Pharmaceutical Group since the 2016 Majority Stake Acquisition. There had been no material adverse impact on the operation and financial status of the Tongfang Pharmaceutical Group or the Group as a whole as a result of the Incident.

INFORMATION OF THE PURCHASER AND THE VENDORS

The Purchaser, an indirect wholly-owned subsidiary of the Company, is a company incorporated under the laws of Hong Kong and an investment holding company.

Shenzhen Shiao is a company established under the laws of the PRC with limited liability which is principally engaged in provision of software and information technology services.

LETTER FROM THE BOARD

Sea Best is a company incorporated under the laws of the British Virgin Islands with limited liability which is principally engaged in investment holding.

To the best of the knowledge of the Directors, having made all reasonable enquiries, apart from the equity interest currently held by the Vendors in Tongfang Pharmaceutical, each of the Vendors and its ultimate beneficial owner(s) is an Independent Third Party.

LISTING RULES IMPLICATIONS

Discloseable Transaction

As one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5% but all the applicable percentage ratios are below 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As disclosed in the announcement and circular of the Company dated 28 January 2016 and 22 March 2016 respectively, the 2016 Majority Stake Acquisition conducted in 2016 constituted a then discloseable and connected transaction for the Company under Chapter 14 and 14A of the Listing Rules and the Company has already complied with the applicable requirements under the Listing Rules at relevant time. The Acquisition and the 2016 Majority Stake Acquisition are not required to be aggregated and treated as if they are one transaction pursuant to Rule 14.28 of the Listing Rules on the following basis:

- (i) The initial decision to acquire the 2016 Majority Stake Acquisition was made in January 2016 which was two years prior to the latest decision to acquire the remaining minority interest pursuant to the Sale and Purchase Agreement;
- (ii) The commercial intention and decision in 2018 to proceed with the proposed Acquisition is genuine and made in good faith after reviewing the latest business development and prospect of Tongfang Pharmaceutical (as detailed in the paragraph headed “Reasons for and Benefits of the Acquisition” above) which are believed to be beneficial to the Company and its Shareholders as a whole. There has never been any intention to “split” an otherwise large transaction into smaller transactions for circumventing any requirements under the Listing Rules;
- (iii) 100% of the total assets, revenue and profits of Tongfang Pharmaceutical had already been adopted as numerators for size tests calculation relating to the 2016 Majority Stake Acquisition upon completion of which in 2016, Tongfang Pharmaceutical had been consolidated as subsidiary of the Company with remaining minority interest held by Shenzhen Shiao and Sea Best since then; and
- (iv) Shenzhen Shiao and Sea Best are Independent Third Parties which are not parties connected or otherwise associated with the vendor selling the controlling stake in Tongfang Pharmaceutical to the Group in 2016.

LETTER FROM THE BOARD

Connected Transactions

As at the date of this circular, Shenzhen Shiao holds 35% equity interest in Tongfang Pharmaceutical which is not insignificant subsidiary of the Company under Rule 14A.09 of the Listing Rules and accordingly Shenzhen Shiao, being a substantial shareholder of Tongfang Pharmaceutical, is a connected person of the Company at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. Accordingly, the Shenzhen Shiao Acquisition and the issue of the Consideration Shares to Shenzhen Shiao constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

In respect of the Shenzhen Shiao Acquisition only, as one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Shenzhen Shiao Acquisition are more than 1%, the Shenzhen Shiao Acquisition is subject to the requirements of reporting and announcement by virtue of Rule 14A.101 of the Listing Rules. Issue of Consideration Shares to Shenzhen Shiao as part of the settlement of consideration of the Shenzhen Shiao Acquisition is subject to the requirements of reporting, announcement and approval by the Independent Shareholders under Chapter 14A of the Listing Rules.

INFORMATION OF THE GROUP

The Group is principally engaged in (i) the manufacture and sales of cement and clinker, trading of cement and provision of technical services; (ii) manufacturing and sales of prescription drugs and other pharmaceutical-related businesses and pharmaceutical research and testing in the PRC; and (iii) the operation of fitness and wellness centres and provision of consultation services in Singapore, Taiwan and the PRC.

The Group commenced to conduct the pharmaceutical businesses and the fitness and wellness centres business in 2016 and 2017 respectively. The Company has been evaluating the performance and prospect of different business segments of the Group from time to time in order to formulate the overall business strategies and plan in support of the sustainable growth and development of the Group. The Company would take into account various factors during the evaluation like the relevant external business environment which may have impact on the Group's operations, the prevailing market sentiment toward the business segments that the Group has been conducting, the regulatory regime applicable to such business segments and the necessary actions required to be taken by the Group in adapting to any changes in regulations and the incidental costs that may be incurred by the Group as well as the economic and social evolution in relevant places where the Group has business especially those related to the PRC. Based on the latest evaluation on the overall business of the Group, as at the Latest Practicable Date, the Company has not entered, nor proposes to enter, into any agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied), and negotiation (whether concluded or not) with any third party nor has any intention in relation to disposal of or downsizing the cement business. The Company cannot preclude any possibility of adjusting its focus in developing and expanding any particular business segment, or downsizing or even disposing any particular business segment for the overall long-term development of the Group and the benefits of the Shareholders depending on any possible opportunity that the Group may encounter in the future.

LETTER FROM THE BOARD

EFFECT OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the effect of the issue of the Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date taking into account the issue of the Shares pursuant to the Subscription on 13 February 2018 and assuming completion of the Acquisition having taken place, without taking into account any other new Shares, if any, issued and allotted after the Latest Practicable Date and prior to the allotment and issue of the Consideration Shares:

	As at the Latest Practicable Date		Immediately after the issue and allotment of the Consideration Shares	
	<i>No. of Shares</i>	<i>Approximate %</i>	<i>No. of Shares</i>	<i>Approximate %</i>
Shareholders				
China Health	3,165,974,000	59.18	3,165,974,000	56.60
The Subscriber	513,994,000	9.61	513,994,000	9.19
Shenzhen Shiao	–	–	182,897,833	3.27
Sea Best	–	–	60,965,944	1.09
Other public Shareholders	1,670,032,000	31.21	1,670,032,000	29.85
Total	5,350,000,000	100.00	5,593,863,777	100.00

EGM

The EGM will be convened and held at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong on Friday, 16 March 2018 at 11:00 a.m. for the Shareholders to consider and, if thought fit, among other matters, the issue of the Consideration Shares as part of the settlement of consideration of the Acquisition. A notice convening the EGM is set out on pages N-1 to N-3 of this circular.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries as at the Latest Practicable Date, no Shareholder is involved or interested in the Acquisition nor the proposed issue of the Consideration Shares which require him/her to abstain from voting on the proposed ordinary resolution(s) to approve the issue of the Consideration Shares 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.

LETTER FROM THE BOARD

GENERAL INFORMATION

None of the Directors has any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder. Accordingly, no Directors are required to abstain from voting at the Board meeting approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

RECOMMENDATIONS

The Directors, including the independent non-executive Directors whose views are set out in the section headed “Letter from the Independent Board Committee” in this circular after considering the advice from the Independent Financial Adviser, are of the view that the issue of the Consideration Shares as part of the settlement of consideration of the Acquisition as contemplated under 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 issue of the Consideration Shares as part of the settlement of consideration of the Acquisition contemplated under 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 20 to 21 of this circular, which contains its recommendation to the Independent Shareholders, (ii) the letter from the Independent Financial Adviser set out on pages 22 to 40 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 appendix to this circular.

Yours faithfully,

For and on behalf of

Tongfang Kontafarma Holdings Limited

Huang Yu

Chairman



同方康泰產業集團有限公司
Tongfang Kontafarma Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

27 February 2018

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
REMAINING 40% EQUITY INTEREST
IN TONGFANG PHARMACEUTICAL
INVOLVING THE ISSUE OF
CONSIDERATION SHARES UNDER SPECIFIC MANDATE**

We refer to the circular dated 27 February 2018 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 issue of the Consideration Shares as part of the settlement of consideration of the Acquisition pursuant to the Sale and Purchase Agreement constitutes a 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 whether the issue of the Consideration Shares as part of the settlement of consideration of the Acquisition as contemplated under the Sale and Purchase Agreement and the transactions contemplated thereunder, are fair and reasonable insofar as the Independent Shareholders are concerned. 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 19 of the Circular and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 22 to 40 of the Circular.

Having taken into account, among other things, the advice of the Independent Financial Adviser, we are of the opinion that the issue of the Consideration Shares as part of the settlement of consideration of the Acquisition as contemplated under the Sale and Purchase Agreement and the transactions contemplated thereunder 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.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favor of the ordinary resolution to be proposed at the EGM to approve the issue of the Consideration Shares as part of the settlement of consideration of the Acquisition contemplated under the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. Chan Sze Chung
*Independent non-executive
Director*

Mr. Zhang Ruibin
*Independent non-executive
Director*

Mr. Zhang Junxi Jack
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser 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.



GOLDIN FINANCIAL LIMITED
高銀融資有限公司

Goldin Financial Limited
22/F
Far East Finance Centre
16 Harcourt Road
Hong Kong

27 February 2018

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
REMAINING 40% EQUITY INTEREST
IN TONGFANG PHARMACEUTICAL
INVOLVING THE ISSUE OF
CONSIDERATION SHARES UNDER SPECIFIC MANDATE**

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 27 February 2018 issued by the Company (the “**Circular**”) to the Shareholders, 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.

On 23 January 2018 (after trading hours), the Company and the Purchaser (being an indirect wholly-owned subsidiary of the Company) entered into the Sale and Purchase Agreement with the Vendors for the acquisition of the remaining 40% equity interest in Tongfang Pharmaceutical (35% from Shenzhen Shiao and 5% from Sea Best) by the Group for the total consideration of RMB200,000,000 (equivalent to approximately HK\$243,902,439), of which RMB100,000,000 (equivalent to approximately HK\$121,951,220) will be settled by issue and allotment of 243,863,777 Consideration Shares by the Company with the remaining RMB100,000,000 (equivalent to approximately HK\$121,951,220) to be settled by the Group in cash.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Announcement, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. As at the Latest Practicable Date, Shenzhen Shiao holds 35% equity interest in Tongfang Pharmaceutical which is not insignificant subsidiary of the Company under Rule 14A.09 of the Listing Rules and accordingly Shenzhen Shiao, being a substantial shareholder of Tongfang Pharmaceutical, is a connected person of the Company at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. Accordingly, the Shenzhen Shiao Acquisition and the issue of the Consideration Shares to Shenzhen Shiao constitute connected transactions of the Company under Chapter 14A of the Listing Rules. The Shenzhen Shiao Acquisition is subject to the requirements of reporting and announcement by virtue of Rule 14A.101 of the Listing Rules. Issue of Consideration Shares to Shenzhen Shiao as part of the settlement of consideration of the Shenzhen Shiao Acquisition is subject to the requirements of reporting, announcement and approval by the Independent Shareholders under Chapter 14A of the Listing Rules.

An EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve, among other matters, the issue of the Consideration Shares as part of the settlement of consideration of the Acquisition.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack, has been formed to advise the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issue of the Consideration Shares, taking into account the recommendations of the Independent Financial Adviser.

We, Goldin Financial Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, including the issue of the Consideration Shares, and to make a recommendation as to (i) whether the terms of the Sale and Purchase Agreement are fair and reasonable; (ii) whether the Acquisition is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote with respect to the issue of the Consideration Shares as part of the settlement of consideration of the Acquisition at the EGM.

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Within the past two years, we have been appointed as the independent financial adviser to the then independent board committee and the then independent shareholders of the Company, details of such appointment is set out in the circular of the Company dated 22 March 2016. Apart from normal professional fees paid to us in connection with such appointment, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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, and the consolidated financial information of the Group for the year ended 31 December 2016 (the “**Annual Report 2016**”) and for the six months ended 30 June 2017 (the “**Interim Report 2017**”). We have also reviewed certain information provided by the management of the Company relating to the operations, financial condition 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, 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 them in formulating our opinion, were true, accurate and complete in all material respects as at the Latest Practicable Date and will continue to be true, accurate and complete as at the date of the EGM and Shareholders will be notified of material changes (if any) of the information contained in the Circular.

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, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information which are 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 was necessarily based on the 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 for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their considerations of the Sale and Purchase Agreement and the transactions contemplated thereunder. This letter, 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our opinion and recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

1. Information of the Group

The Group is principally engaged in (i) the manufacture and sales of cement and clinker, trading of cement and provision of technical services; (ii) manufacturing and sales of prescription drugs and other pharmaceutical-related business and pharmaceutical research and testing in the PRC; and (iii) the operation of fitness and wellness centres and provision of consultation services in Singapore, Taiwan and the PRC.

Set out in Table 1 below is a summary of the consolidated financial information of the Group for each of the two financial years ended 31 December 2015 and 2016 and each of the six months ended 30 June 2016 and 2017, as extracted from the Annual Report 2016 and the Interim Report 2017, respectively.

Table 1: Financial highlights of the Group

	For the six months ended		For the year ended	
	30 June		31 December	
	2017	2016	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue				
Manufacture and sales of prescription drugs and laboratory related products	144,292	–	124,461	–
Manufacture and sales of cement and clinker	141,759	88,675	214,319	239,934
Trading of cement	292,546	150,127	294,499	225,805
Operating of fitness centres and provision of consultation services for fitness and health activities	32,779	–	–	–
	<u>611,376</u>	<u>238,802</u>	<u>633,279</u>	<u>465,739</u>
Profit/(Loss) for the period/year	7,521	(12,982)	(27,553)	(29,814)
(Loss) for the period/year attributable to owners of the Company	(8,361)	(18,047)	(37,076)	(34,237)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June	As at 31 December	
	2017	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
Non-current assets	1,670,996	1,006,716	478,180
Current assets	1,889,866	2,147,475	2,151,745
Current liabilities	1,552,327	1,303,230	1,002,108
Net current assets	337,539	844,245	1,149,637
Non-current liabilities	352,056	207,898	19,212
Net assets	1,656,479	1,643,063	1,608,605

For the year ended 31 December 2016

For the year ended 31 December 2016, the Group recorded revenue of approximately HK\$633.28 million, representing an increase of approximately 35.97% as compared to approximately HK\$465.74 million as recorded for the year ended 31 December 2015. Based on the Annual Report 2016, such increase of revenue was mainly attributable to (i) the revenue of approximately HK\$124.46 million generated by Tongfang Pharmaceutical Group after the 2016 Majority Stake Acquisition; and (ii) the increase in the revenue of the Group's cement business by approximately 9.25% from approximately HK\$465.74 million for the year ended 31 December 2015 to approximately HK\$508.82 million for the year ended 31 December 2016.

The Group recorded loss for the year of approximately HK\$27.55 million, which has narrowed by approximately 7.58% as compared to the loss of approximately HK\$29.81 million for the previous year. With reference to the Annual Report 2016, we noted that such loss was primarily the net effect of (i) the increase in revenue as discussed in the above paragraph; (ii) the increase in administrative expenses of approximately HK\$41.35 million mainly resulting from the granting of a share option during the year; and (iii) the increase in distribution and selling expenses of approximately HK\$29.25 million.

As at 31 December 2016, the net current assets and net assets of the Group amounted to approximately HK\$844.25 million and approximately HK\$1,643.06 million, respectively.

For the six months ended 30 June 2017

For the six months ended 30 June 2017, the Group recorded revenue of approximately HK\$611.38 million, representing a significant increase of approximately 156.02% as compared to approximately HK\$238.80 million as recorded in the previous corresponding period. With reference to the Interim Report 2017, we noted that such increase was mainly due to (i) the revenue recognised from (a) the medical, pharmaceutical and health business of the Group following the 2016 Majority Stake Acquisition and (b) the operation of fitness business of the Group after the Group's acquisition of 51% equity interest in TFKT True Holdings and 29% equity interest in True Yoga Holdings Limited which was completed in May 2017 (the "**True Acquisition**"); and (ii) the increase in revenue from the Group's cement business as a result of the recovery of cement market in the PRC hence leading to higher average sales prices and sales volumes of the Group's cement products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Group recorded profit of approximately HK\$7.52 million for the six months ended 30 June 2017, against the loss of approximately HK\$12.98 million as recorded in the previous corresponding period. Based on the Interim Report 2017, we noted that such improvement was primarily due to (i) the profit making performance of the Group's cement business as compared to the loss making performance during the previous corresponding period as a result of the recovery of the overall cement industry in the PRC; and (ii) the respective profits generated by the Group's medical, pharmaceutical and health business and the fitness business following the 2016 Majority Stake Acquisition and the True Acquisition respectively.

As at 30 June 2017, the net current assets and net assets of the Group amounted to approximately HK\$337.54 million and approximately HK\$1,656.48 million, respectively.

2. Information on Tongfang Pharmaceutical Group

Tongfang Pharmaceutical is an indirect non-wholly owned subsidiary of the Company and is indirectly held as to 60% by the Company, 35% by Shenzhen Shiao and 5% by Sea Best. Tongfang Pharmaceutical is currently a sino-foreign joint venture enterprise established in the PRC and, through its subsidiaries, is principally engaged in the manufacturing and sales of prescription drugs, including injection powder, tablets, capsules, ointments, traditional Chinese medicine patent prescriptions, synthetic drugs, preparations, biochemical drugs and other biochemical products. In addition, Tongfang Pharmaceutical together with its subsidiaries is also involved in an extended range of other pharmaceutical-related businesses, including the sales of health supplements and food products, sales of medical equipment, as well as pharmaceutical research and testing.

Set out in Table 2 below is a summary of the consolidated financial information of Tongfang Pharmaceutical Group prepared in accordance with the PRC GAAP for each of the two years ended 31 December 2015 and 2016 and each of the six months ended 30 June 2016 and 2017 respectively.

Table 2: Financial highlights of Tongfang Pharmaceutical Group

	For the six months ended		For the year ended	
	30 June		31 December	
	2017	2016	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>
Total revenue	126,574	111,532	228,754	148,040
Net profit/(loss) before taxation and extraordinary items	17,300	5,675	29,587	(3,493)
Net profit/(loss) after taxation and extraordinary items	16,500	5,546	22,559	(3,626)

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As illustrated in Table 2 above, Tongfang Pharmaceutical Group recorded (i) revenue of approximately RMB228.75 million (equivalent to approximately HK\$278.96 million) for the year ended 31 December 2016, representing an increase of approximately 54.52% as compared to that of approximately RMB148.04 million (equivalent to approximately HK\$180.54 million) for the year ended 31 December 2015; and (ii) revenue of approximately RMB126.57 million (equivalent to approximately HK\$154.35 million) for the six months ended 30 June 2017, representing an increase of approximately 13.49% as compared to that of approximately RMB111.53 million (equivalent to approximately HK\$136.01 million) for the previous corresponding period. Based on our discussion with management of the Company, we noted that such growth in revenue was mainly attributable to the successful launch of new pharmaceutical products and the increase in the sales of existing pharmaceutical products as a result of the growing production capacity of Tongfang Pharmaceutical, as well as the increasing demand for pharmaceutical products in the PRC.

Tongfang Pharmaceutical Group recorded net profit after taxation and extraordinary items of approximately RMB22.56 million (equivalent to approximately HK\$27.51 million) for the year ended 31 December 2016, improving from the net loss after taxation and extraordinary items of approximately RMB3.63 million (equivalent to approximately HK\$4.43 million) as recorded in the previous year. As advised by management of the Company, such turnaround from loss to profit was primarily due to the growth in revenue for the year ended 31 December 2016 as discussed in the above paragraph and increase in investment income. For the six months ended 30 June 2017, Tongfang Pharmaceutical Group recorded net profit after taxation and extraordinary items of RMB16.50 million (equivalent to approximately HK\$20.12 million), representing a significant increase of approximately 197.30% from the net profit after taxation and extraordinary items of RMB5.55 million (equivalent to approximately HK\$6.77 million) as recorded from the previous corresponding period, which was mainly the result of the rising revenue for the period.

As at 30 June 2017, the unaudited total asset value and the net asset value of Tongfang Pharmaceutical Group were approximately RMB613.79 million and RMB228.58 million, respectively. The major assets held by Tongfang Pharmaceutical Group as at 30 June 2017 comprised (i) property, plant and equipment of approximately RMB154.02 million; and (ii) bank balances and cash of approximately RMB176.03 million.

3. Reasons for and benefits of the Acquisition

As disclosed in the circular of the Company dated 22 March 2016 in relation to the 2016 Majority Stake Acquisition, it is one of the key strategies of the Group to actively explore medical, pharmaceutical and health industry business. The Company believes such business will have promising prospect in the PRC amid its growing economy and increasing demands on pharmaceutical and health products among the population. In this regard, the Group conducted the 2016 Majority Stake Acquisition which was completed in July 2016, allowing the Group to establish its presence in the pharmaceutical industry in the PRC while enabling the Group to expand its product range to cover pharmaceutical products. Since completion of the 2016 Majority Stake Acquisition, the financial results of Tongfang Pharmaceutical have been consolidated into the accounts of the Group and the Tongfang Pharmaceutical Group has provided the Group with continuous positive contribution (as further discussed in the above section headed “2. Information on Tongfang Pharmaceutical Group”). With reference to the Interim Report 2017, we noted

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that Tongfang Pharmaceutical has been increasing its effort to furnish itself as a full value-chain biopharmaceutical enterprise. It has proactively built a business network that covers various aspects of biopharmaceutical sector such as biotechnology services, research and development of new drugs, active pharmaceutical ingredients and intermediates, chemical generic medicines, prescribed Chinese medicines and medicine circulation. For the six months ended 30 June 2017, Tongfang Pharmaceutical has maintained a sound momentum of development and benefited from development of industrial network and economies of scale. The Company expected that Tongfang Pharmaceutical will soon enter into the stage of rapid development. As such, the Acquisition would enable the Group to fully capture the returns generated by Tongfang Pharmaceutical which is in line with the business strategy of the Group, aiming to create and enhance the overall returns to the Shareholders.

Based on our review of the financial results of the Group and Tongfang Pharmaceutical Group, it is notable that the revenue contributed by Tongfang Pharmaceutical Group represented around 44.05% and 25.25% to the Group's total revenue for the year ended 31 December 2016 (assuming consolidation of Tongfang Pharmaceutical Group's financial results on a full-year basis) and for the six months ended 30 June 2017, respectively. Moreover, we understand from the Company that the Acquisition would (i) provide the Group with a valuable opportunity to strengthen its position in the pharmaceutical industry in the PRC by enhancing its control and management over Tongfang Pharmaceutical while a dedicated and experienced management team has been established by the Company since completion of the 2016 Majority Stake Acquisition in July 2016 to manage the business operation of Tongfang Pharmaceutical such that the Group is already familiar with the business and operation as well as the production plan of Tongfang Pharmaceutical; and (ii) enable the Group to enjoy the entire profits and cash flow streams of Tongfang Pharmaceutical. In this connection, we are of the view that the Acquisition would facilitate the Group to gain full control over Tongfang Pharmaceutical Group and incorporate more fully the financial results of Tongfang Pharmaceutical Group as a subsidiary which has contributed favourably to the Group's financial results.

On the other hand, we have conducted independent research from the public domain in respect of the future prospect of the pharmaceutical industry in the PRC. According to the 醫藥工業發展規劃指南 (Guidelines of the planning for pharmaceutical industry*) jointly published by the Ministry of Industry and Information Technology of the PRC, National Development and Reform Commission, Ministry of Science and Technology of the PRC, Ministry of Commerce of the PRC, National Health and Family Planning Commission of the PRC and China Food and Drug Administration in October 2016, the average annual revenue growth rate and average annual profit growth rate of main business in pharmaceutical industry maintained at approximately 17.4% and approximately 14.5% respectively during the 12th five-year period. It is also stated that the government of the PRC is aiming to promote the upgrading of devices and improvement of quality in the pharmaceutical industry, in particular the development of biochemical drugs, new varieties of chemical drugs, high quality medical devices, new pattern of medical accessories and facilities for pharmaceutical production. Furthermore, the 關於促進醫藥產業健康發展的指導意見 (Guidance on promoting the healthy development of the pharmaceutical industry*) published by the State Council of the PRC on 4 March 2016 set out the general goal during the 13th five-year period, including but not limited to securing stable increase in industrial profit, improving the supply-demand system, strengthening the financial support, and achieving the year-on-year revenue growth rate of 10% or above. According to the 健康中國2030規劃綱要 (Healthy China 2030 Planning Outline*) published by the State Council of the PRC in October 2016, the scale of the health care industry, including but not limited to pharmaceutical industry and health services industry, is expected to increase from RMB1

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trillion in 2015 to RMB8 trillion by 2020, and further increase to RMB16 trillion by 2030. With reference to the ‘十三五’全國人口健康信息化發展規劃 (13th five-year development plan in regarding the health informationization of national population*) issued by the National Health and Family Planning Commission of the PRC on 24 January 2017, the health information of national population will be further combined with internet technique to create a more effective informationization population health system thus require further improvement and strengthened connection between population health system and pharmaceutical industry. It is also stated that with the upgrade and connection of the population’s health and pharmaceutical industry under the big data system, the overall pharmaceutical market is enhancing to a new development stage. As noted from the China Pharmaceutical Sector – Inflection Point Emerging published in May 2017 by research department DBS, a multinational banking and financial services corporation, the sales growth of the pharmaceutical industry in the PRC is projected to rebound to 9-10% in 2018 as a result of (i) the increase in number of drugs reimbursable from public medical insurance programmes and (ii) expected growth in floating population under effective public medical insurance protection in the PRC. In view of the continuing growth of the pharmaceutical industry and the supportive governmental policies recently released, we consider that the overall prospect of the pharmaceutical industry in the PRC is optimistic.

Taking into account (i) the consecutive revenue growth of Tongfang Pharmaceutical Group across the six months ended 30 June 2016 and 2017 and the two years ended 31 December 2015 and 2016; (ii) the continuous profitable track record of Tongfang Pharmaceutical Group for the year ended 31 December 2016 and the six months ended 30 June 2017; (iii) the significant historical revenue contribution of Tongfang Pharmaceutical Group to the Group’s total revenue since the 2016 Majority Stake Acquisition; and (iv) the promising prospect of the pharmaceutical industry in the PRC, we are of the view that the Acquisition is fair and reasonable and in the interest 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 (being an indirect wholly-owned subsidiary of the Company) has conditionally agreed to acquire and the Vendors (being Shenzhen Shiao and Sea Best) have conditionally agreed to dispose of an aggregate of 40% equity interest in Tongfang Pharmaceutical (being the entire equity interests in Tongfang Pharmaceutical held by the Vendors), at a total consideration of RMB200,000,000 (equivalent to approximately HK\$243,902,439). The consideration for the Acquisition shall be payable by the Purchaser as to (i) RMB100,000,000 (equivalent to approximately HK\$121,951,220) to be satisfied in cash; and (ii) as to RMB100,000,000 (equivalent to approximately HK\$121,951,220) to be satisfied by the issue of 243,863,777 Consideration Shares by the Company at the Issue Price of HK\$0.5 per Consideration Share.

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The consideration for the Acquisition

As stated in the Letter from the Board, the consideration for the Acquisition (including the Issue Price of HK\$0.5 per Consideration Share) was arrived upon arm's length negotiations between the Purchaser and the Vendors with reference to (i) the financial performance of the Tongfang Pharmaceutical Group; (ii) the consideration paid by the Group in respect of the 2016 Majority Stake Acquisition and (iii) the prospects of the Tongfang Pharmaceutical Group and the future business development of the Group.

With reference to the circular of the Company dated 22 March 2016 in relation to the 2016 Majority Stake Acquisition, the Purchaser and the vendor entered into a sale and purchase agreement on 28 January 2016 pursuant to which the Purchaser conditionally agreed to purchase and the vendor conditionally agreed to sell an aggregate of 60% equity interest in Tongfang Pharmaceutical (formerly known as 北京紫光製藥有限公司(Beijing Ziguang Pharmaceutical Co., Ltd.*)), at the total consideration of RMB291.20 million (equivalent to approximately HK\$355.12 million). The 2016 Majority Stake Acquisition was approved by the then independent shareholders of the Company at the extraordinary general meeting of the Company on 15 April 2016. The 2016 Majority Stake Acquisition was completed in July 2016 and since then, the financial results of Tongfang Pharmaceutical have been consolidated into the accounts of the Group as a 60%-owned subsidiary of the Company.

We further noted from the aforesaid circular that the consideration of the 2016 Majority Stake Acquisition was primarily determined with reference to, among others, the net assets of Tongfang Pharmaceutical in the appraised value of RMB500.27 million as at 30 November 2015 (the “**Valuation**”). In this regard, we have carried out independent review on the Valuation including the principal assumptions and bases and the market standards and guidelines governing valuations of enterprises in the pharmaceutical industry issued by the recognised authorities in the PRC. Based on our review, we noted that the principal assumptions and valuation standards, in particular 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, which had been relied on in giving the Valuation, remain valid as at the Latest Practicable Date. Notwithstanding that the valuation date of 30 November 2015 in respect of the Valuation is more than two years prior to the date of the Sale and Purchase Agreement, i.e. 23 January 2018, in view of that (i) the major assumptions and valuation standards used in the Valuation remain valid as at the Latest Practicable Date; and (ii) the financial performance of Tongfang Pharmaceutical Group has been improving since the 2016 Majority Stake Acquisition against its loss making performance for the year ended 31 December 2015, we are of the view that the referencing to the consideration of the 2016 Majority Stake Acquisition, which was to a large extent based on the Valuation, is appropriate and favourable to the Company for the determination of the consideration for the Acquisition.

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Based on the consideration for the 2016 Majority Stake Acquisition for the acquisition of 60% of Tongfang Pharmaceutical of RMB291.20 million (equivalent to approximately HK\$355.12 million), the implied value for the acquisition of the remaining 40% of Tongfang Pharmaceutical (“**Implied Value**”) referencing to the consideration for the 2016 Majority Stake Acquisition would be approximately RMB194.13 million (equivalent to approximately HK\$236.74 million). Therefore, the consideration for the Acquisition of RMB200 million (equivalent to approximately HK\$243.90 million) represents a slight premium of around 3.02% to the Implied Value taking into account the consideration paid by the Group in respect of the 2016 Majority Stake Acquisition.

Comparable analysis

In further assessing the fairness and reasonableness of the consideration for the Acquisition, we have taken into account the price-to-earnings ratio(s) (“**P/E ratio(s)**”) of companies with principal business comparable to Tongfang Pharmaceutical Group which is a commonly adopted valuation method by conducting independent research from the public domain on comparable companies which are (i) listed on the Stock Exchange; (ii) principally engaged in the manufacturing and sales of prescription drugs (the “**Relevant Business**”); (iii) recorded at least 50% revenue from the Relevant Business; and (iv) derived at least 50% revenue from the PRC, as disclosed in their respective latest published annual reports, excluding companies under prolonged suspension. To the best of our knowledge and on a best-effort basis, an exhaustive list of 24 comparable companies (the “**Comparables**”) has been identified based on the aforesaid selection criteria. Set out in Table 3 below are a summary of the Comparables.

Table 3: Summary of the Comparables

Company name	Stock code	Relevant Business	P/E ratio <i>(Note 1)</i> <i>(times)</i>
CSPC Pharmaceutical Group Limited	1093	Principally engaged in the development, manufacture, marketing and sales of medicines and pharmaceutical related products in the PRC	49.70
Sihuan Pharmaceutical Holdings Group Ltd.	460	Principally engaged in the research and development, and manufacture and sale of pharmaceutical products in the PRC	14.55
China Medical System Holdings Limited	867	Principally engaged in production of medicines, marketing, promotion and sale of drugs	25.22
Shanghai Fosun Pharmaceutical (Group) Co., Ltd.	2196	Principally engaged in the development, manufacture and sale of pharmaceutical products and medical equipment	33.77

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Company name	Stock code	Relevant Business	P/E ratio <i>(Note 1)</i> <i>(times)</i>
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited	874	Principally engaged in the research, development, manufacturing and sales of Chinese patent medicine, western medicine, chemical raw materials, natural medicine, biological medicine and chemical raw materials intermediates	17.68
Sino Biopharmaceutical Limited	1177	Principally engaged in the research, development, manufacturing and marketing of Chinese medicines and chemical medicines	55.40
China Shineway Pharmaceutical Group Limited	2877	Principally engaged in the research and development, manufacturing and trading of modern Chinese medicines	13.45
Shenzhen Neptunus Interlong Bio-technique Company Limited	8329	Principally engaged in the research and development, production and sales of medicines, and the purchase and sales of medicines and healthcare food products	8.65
Livzon Pharmaceutical Group Inc.	1513	Primarily engaged in the research and development, production and distribution of pharmaceutical products	35.68
Tong Ren Tang Technologies Co. Ltd.	1666	Principally engaged in the manufacturing and sale of Chinese medicine products	24.21
Lansen Pharmaceutical Holdings Limited	503	Principally engaged in the manufacture and trading of pharmaceutical products	18.66
China Traditional Chinese Medicine Holdings Co. Limited	570	Principally engaged in the research and development, production and sale of Chinese medicine and pharmaceutical products in the PRC	20.48
Tianda Pharmaceuticals Limited	455	Principally engaged in the research and development, production and sales of pharmaceutical, biotechnology and healthcare products	51.72
Dawnrays Pharmaceutical (Holdings) Limited	2348	Principally engaged in the manufacture and sale of finished drugs	11.58
Uni-Bio Science Group Limited	690	Principally engaged in the manufacture and sale of chemical and biological pharmaceutical products in the PRC	NA <i>(Note 2)</i>

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Company name	Stock code	Relevant Business	P/E ratio <i>(Note 1)</i> <i>(times)</i>
Essex Bio-Technology Limited	1061	Principally engaged in the manufacturing and sales of pharmaceutical products	21.58
China Pioneer Pharma Holdings Limited	1345	Principally engaged in the provision of comprehensive marketing, promotion and channel management services for imported pharmaceutical products and medical devices in China	11.71
PuraPharm Corporation Limited	1498	Principally engaged in the production and sale of concentrated Chinese medicine granule products in China	18.35
YiChang HEC ChangJiang Pharmaceutical Co., Ltd.	1558	Principally engaged in the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases	47.77
3SBio Inc.	1530	Principally engaged in the development, production, marketing and sale of pharmaceutical products in the PRC	47.03
Consun Pharmaceutical Group Limited	1681	Principally engaged in the manufacturing and sales of pharmaceuticals	24.35
Luye Pharma Group Ltd.	2186	Principally engaged in the developing, producing, marketing and selling innovative pharmaceutical products in three of the largest and fastest growing therapeutic areas in the PRC	22.74
Jilin Province Huinan Changlong Bio-pharmacy Company Limited	8049	Principally engaged in the manufacture and distribution of Chinese medicines and pharmaceutical products in the PRC	4.87
Sanai Health Industry Group Company Limited	1889	Principally engaged in the manufacturing, marketing and selling of branded prescription and non-prescription drugs as well as Chinese pharmaceutical products in the PRC	NA <i>(Note 2)</i>
		Maximum	55.40
		Minimum	4.87
		Average	26.33
Tongfang Pharmaceutical Group		Principally engaged in the manufacturing and sales of prescription drugs	22.16 <i>(Note 3)</i>

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Sources: The website of the Stock Exchange (www.hkex.com.hk) and the latest published annual reports of the respective Comparables.

Notes:

- 1. The respective P/E ratios of the Comparables were extracted from the website of the Stock Exchange as at the Latest Practicable Date.*
- 2. The P/E ratio of this Comparable is not available as it recorded loss in its latest full financial year.*
- 3. The P/E ratio of the consideration for the Acquisition is calculated by dividing the consideration for the Acquisition of RMB200,000,000 by 40% of the net profit of Tongfang Pharmaceutical Group for the year ended 31 December 2016 (i.e. RMB22,559,000 x 40%).*
- 4. For illustrative purpose only, amounts denominated in RMB have been converted into HK\$ at the rate of HK\$1.00 to RMB0.82.*

As demonstrated in the above, the P/E ratio of the consideration for the Acquisition of approximately 22.16 times fall within the range of the P/E ratios of the Comparables and is below the average P/E ratio of the Comparables. Given that the market valuation of Tongfang Pharmaceutical Group based on the consideration for the Acquisition is lower than the average market valuation of the Comparables with reference to the average P/E ratio of the Comparables, we consider that the consideration for the Acquisition is fair and reasonable.

In view of (i) that the consideration for the Acquisition approximates to the Implied Value; (ii) the P/E ratio of the consideration for the Acquisition falls within the range of the P/E ratios and is below the average P/E ratio as represented by the Comparables; (iii) the improving financial results of Tongfang Pharmaceutical Group following the 2016 Majority Stake Acquisition (as further discussed in the above section headed “2. Information on Tongfang Pharmaceutical Group”); and (iv) the future growth potential of Tongfang Pharmaceutical Group, we consider that the determination and basis for the consideration for the Acquisition is fair and reasonable.

Settlement of the consideration for the Acquisition

As stated in the Letter from the Board, after reviewing the then prevailing trading price of the Shares of the Company and the need of working capital in support of ongoing business operation of the Group as a whole, it has been considered that, after arms’ length negotiation with the Vendors, the Acquisition would be partly financed by cash and partly by issuance of the Consideration Shares.

A. Settlement methods

The cash portion of the consideration for the Acquisition in the amount of RMB100,000,000 (equivalent to approximately HK\$121,951,220) shall be settled within 10 Business Days following the date on which all the conditions precedent of the Acquisition are fulfilled and Tongfang Pharmaceutical has completed the registration of change with the relevant PRC regulatory authorities. We understand that such cash consideration will be financed by the proceeds from the Subscription and the Group’s internal resources.

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As disclosed in the Interim Report 2017, as at 30 June 2017, the Group had cash and cash equivalents of approximately HK\$410.89 million. On 23 January 2018 (after trading hours), the Company and THTF Energy-Saving entered into the subscription agreement pursuant to which the THTF Energy-Saving conditionally agreed to subscribe and the Company conditionally agreed to allot and issue 400,000,000 Shares at the subscription price of HK\$0.5 per Share. The Subscription was completed on 13 February 2018. The Group has raised net proceeds of approximately HK\$198,500,000 after deducting the relevant expenses related thereto. We noted that the Company intends to apply such proceeds from the Subscription for the settlement of part of the cash consideration for the Acquisition. Taking into account (i) the cash position of the Group as at 30 June 2017; (ii) the proceeds raised from the Subscription has increased the Group's internal resources; and (iii) the settlement by cash would reduce the dilution impact to the Shareholders from the issuance of further consideration shares, we consider that the Group will have sufficient internal resources to satisfy the cash portion of the consideration for the Acquisition and that the settlement by a combination of cash and issue of Consideration Shares under the Acquisition is fair and reasonable.

B. Issue Price of the Consideration Shares

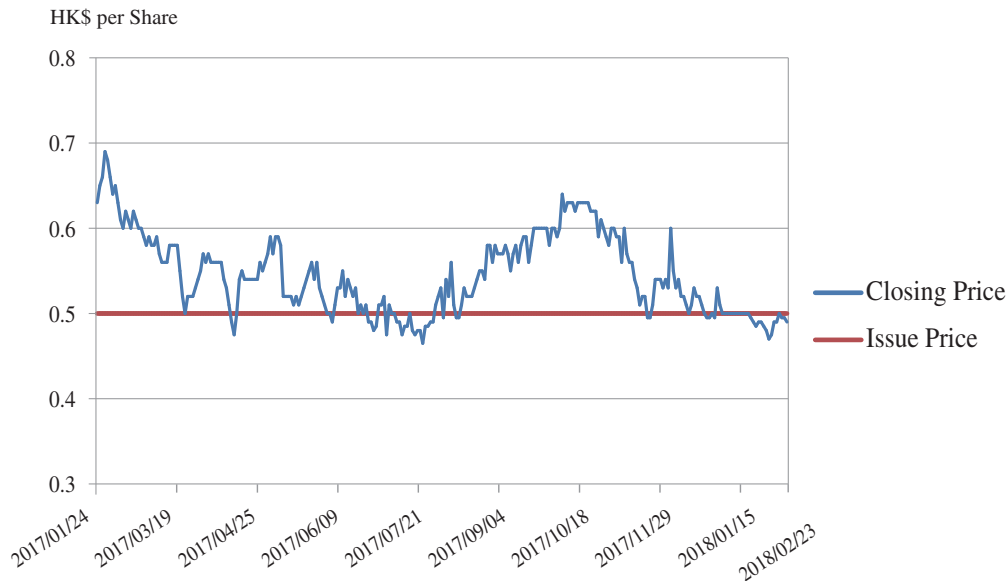
The Issue Price of HK\$0.5 per Consideration Share represents:

- (i) the closing price of HK\$0.5 per Share as quoted on the Stock Exchange on 23 January 2018, being the date of the Sale and Purchase Agreement;
- (ii) the average of the closing prices of approximately HK\$0.5 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately before 23 January 2018, being the date of the Sale and Purchase Agreement and including 23 January 2018; and
- (iii) a premium of approximately 3.10% over the closing price of HK\$0.485 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

In assessing the fairness and reasonableness of the Issue Price, we have primarily made reference to the historical price performance of the Shares. Set out in Chart 1 below are the daily closing prices of the Shares on the Stock Exchange for the period from 24 January 2017 (being the first trading day of the 12-month period prior to the date of the Sale and Purchase Agreement) up to and including the Latest Practicable Date (the "**Review Period**"). We consider that the Review Period which covers a full year prior to the date of the Sale and Purchase Agreement represents a reasonable period to provide a general overview of the historical trend of the Share price when assessing the Issue Price.

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Chart 1: Share price performance against the Issue Price during the Review Period



Source: The website of the Stock Exchange (www.hkex.com.hk)

As shown in Chart 1 above, the closing price of the Shares ranged from approximately HK\$0.465 per Share on 31 July 2017 to approximately HK\$0.690 per Share on 27 January 2017 with an average of approximately HK\$0.545 per Share during the Review Period, and the Issue Price represents (i) a discount of approximately 8.26% to the average closing price; (ii) a discount of approximately 27.54% to the maximum closing price; and (iii) a premium of approximately 7.53% over the minimum closing price during the Review Period. We noted that the Company issued a positive profit alert announcement on 25 July 2017 (the “**Profit Alert**”) which stated that the Group expected to record a net profit for the six months ended 30 June 2017 against its net loss position for the corresponding period in 2016. On 30 August 2017 and 26 September 2017, the Company published the unaudited interim results for the six months ended 30 June 2017 and the Interim Report 2017 (collectively, the “**Result Announcements**”) respectively, setting out, among others, the Group’s profit for the six months ended 30 June 2017 of approximately HK\$7.52 million against the loss for the previous corresponding period of approximately HK\$12.98 million. The Share price exhibited an upsurge from the lowest of HK\$0.465 per Share on 31 July 2017 to a peak of HK\$0.640 per Share on 18 October 2017 (the “**Post-Announcements Period**”), representing an increase of approximately 37.63% over the period. We have discussed with the management of the Company regarding the possible reasons for the surge in the closing prices after the publication of the Profit Alert and the Result Announcements and were advised that save for such announcements, they were not aware of any matters which might have an impact on the closing prices of the Shares. Such surge in Share price is believed to be attributed to the market reaction on the Profit Alert and the Result Announcements. We also noted that there was a surge of Share price on 15 December 2017, however, we noted that the Company did not issue any price sensitive information on or around 15 December 2017. In this regard, we have discussed with the management of the Company in respect of the said surge and were advised that they were not aware of any matters which might have an impact on the closing price of the Shares. Subsequently, the Share price followed a generally decreasing trend up to the Latest Practicable Date and that save for the Post-Announcements Period, the Share price demonstrated an overall downward trend throughout the Review Period.

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Given that the Issue Price is (i) within the range of the closing prices of the Shares during the Review Period; (ii) equivalent to (a) the closing price of the Shares on 23 January 2018, being the date of the Sale and Purchase Agreement and (b) the average of the closing prices of approximately HK\$0.5 per Share as quoted on the Stock Exchange for the last five (5) trading days immediately before 23 January 2018, being the date of the Sale and Purchase Agreement and including 23 January 2018; (iii) at a premium to (a) the closing price of the Shares on the Latest Practicable Date and (b) the average of the closing prices of approximately HK\$0.492 per Share from the date of the Sale and Purchase Agreement up to and including the Latest Practicable Date; and (iv) the closing price of the Shares exhibited an overall downward trend apart from the Post-Announcements Period the surge of which may be due to temporary market optimism, we consider that the Issue Price is fair and reasonable.

5. Shareholding structure of the Company

The following table sets out the effect of the issue of the Consideration Shares on the shareholding structure of the Company based on the total number of issued Shares as at the Latest Practicable Date taking into account the issue of the Shares pursuant to the Subscription on 13 February 2018 and assuming completion of the Acquisition having taken place, without taking into account any other new Shares, if any, issued and allotted after the Latest Practicable Date and prior to the allotment and issue of the Consideration Shares:

	As at the Latest Practicable Date		Immediately after the issue and allotment of the Consideration Shares	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Shareholders				
China Health	3,165,974,000	59.18	3,165,974,000	56.60
The Subscriber	513,994,000	9.61	513,994,000	9.19
Shenzhen Shiao	–	–	182,897,833	3.27
Sea Best	–	–	60,965,944	1.09
Other public Shareholders	1,670,032,000	31.21	1,670,032,000	29.85
Total	<u>5,350,000,000</u>	<u>100.00</u>	<u>5,593,863,777</u>	<u>100.00</u>

Pursuant to the Sale and Purchase Agreement, the consideration for the Acquisition as to RMB100,000,000 (equivalent to approximately HK\$121,951,220) will be satisfied by the issue of an aggregate of 243,863,777 Consideration Shares by the Company to the Vendors at the Issue Price of HK\$0.5 per Consideration Share. As illustrated in the above, the issue and allotment of the Consideration Shares will dilute the existing public Shareholders' shareholding, other than the Subscriber, from approximately 31.21% to approximately 29.85%. Taking into consideration that (i) the degree of the potential dilution effect is relatively small; (ii) the issue of the Consideration Shares would settle part of the consideration for the Acquisition without immediate significant cash outlay of the Group thereby reserving financial resources of the Group for development of its business; and (iii) the Acquisition would potentially enhance the earning base of the Group given the optimistic prospect of Tongfang Pharmaceutical (as further discussed in the above section headed "3. Reasons for and benefits of the Acquisition"), we are of the view that the potential dilution effect on the shareholding of the Independent Shareholders is justifiable.

6. Financial effects of the Acquisition

Upon completion of the Acquisition, Tongfang Pharmaceutical will become an indirect wholly-owned subsidiary of the Company and the operating results and assets and liabilities of Tongfang Pharmaceutical will continue to be consolidated into the consolidated financial statements of the Group.

Earnings and net asset value

As Tongfang Pharmaceutical will become an indirect wholly-owned subsidiary of the Company, there will not be any non-controlling interests in Tongfang Pharmaceutical and accordingly, its profit and net assets attributable to owners of the Company is expected to increase. Further, taking into account the historical profitable track record of Tongfang Pharmaceutical (as further discussed in the above section headed “2. Information on Tongfang Pharmaceutical Group”), it is expected that the Acquisition would potentially enhance the earnings of the Group.

Liquidity

According to the Interim Report 2017, the Group had cash and cash equivalents of approximately HK\$410.89 million as at 30 June 2017. Since part of the consideration for the Acquisition of RMB100,000,000 (equivalent to approximately HK\$121,951,220) will be settled by cash, it is expected that the balance of cash and cash equivalents of the Group will decrease by the same amount as a result of the Acquisition.

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 completion of the Acquisition.

Taking into consideration (i) that the entire profit and net assets of Tongfang Pharmaceutical would be attributable to the owners of the Company upon completion of the Acquisition; and (ii) the proven track record of Tongfang Pharmaceutical, we are of the view that the overall financial effect to the Group as a result of the Acquisition is generally positive.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

Based on the principal factors and reasons as set out in this letter, we are of the view that (i) the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares) are fair and reasonable; (ii) the Acquisition is on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) the Acquisition is in the interests of the Company and the 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 ordinary resolution(s) to be proposed at the EGM to approve the issue of the Consideration Shares as part of the settlement of the consideration for the Acquisition.

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 Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO. 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 HK\$1.00 = RMB0.82. 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) Long positions in the Shares or underlying Shares of the Company:

Name of Directors	Number of Shares			Total	Approximate percentage of issued Shares
	Personal interest	Corporate interests	Number of share options		
Huang Yu	-	3,165,974,000 <i>(Note)</i>	-	3,165,974,000	59.18%
Jiang Chaowen	-	-	12,000,000	12,000,000	0.22%
Ng Qing Hai	-	-	5,000,000	5,000,000	0.09%
Chan Sze Chung	-	-	1,000,000	1,000,000	0.02%
Zhang Ruibin	-	-	1,000,000	1,000,000	0.02%
Zhang Junxi Jack	-	-	1,000,000	1,000,000	0.02%

Note:

As at the Latest Practicable Date, China Health was the beneficial owner of 3,165,974,000 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 associated corporations:

Name of Director	Name of associated corporation	Capacity	Approximate percentage of interest of associated corporation
Huang Yu (<i>Note</i>)	Shenzhen Aorongxin	Beneficial owner	99%

Note:

As at the Latest Practicable Date, Mr. Huang Yu owned 99% interests in the registered capital of Shenzhen Aorongxin and Shenzhen Aorongxin owned 52% interests in the registered capital of Shenzhen Waranty. Shenzhen Waranty, through its subsidiary, Waranty Hong Kong, owned 100% interests in the issued share capital of China Health. China Health directly held 3,165,974,000 Shares.

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) Substantial Shareholders 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 substantial Shareholders	Capacity	Long position	
		Number of Shares interested	Approximate percentage of issued Shares
China Health	Beneficial owner (<i>Note 1</i>)	3,165,974,000	59.18%
Waranty Hong Kong	Interest in a controlled corporation (<i>Note 2</i>)	3,165,974,000	59.18%
Shenzhen Waranty	Interest in a controlled corporation (<i>Note 3</i>)	3,165,974,000	59.18%
Tongfang Financial	Interest in a controlled corporation (<i>Note 4</i>)	3,165,974,000	59.18%
THTF Energy-Saving Resuccess Investments Limited (“ Resuccess ”)	Beneficial owner (<i>Note 5</i>)	513,994,000	9.61%
Tsinghua Tongfang	Interest in a controlled corporation (<i>Note 6</i>)	513,994,000	9.61%
Tsinghua Tongfang	Interest in a controlled corporation (<i>Note 7</i>)	3,679,968,000	68.78%
Shenzhen Aorongxin	Interest in a controlled corporation (<i>Note 8</i>)	3,165,974,000	59.18%

Notes:

- The figure refers to the legal and beneficial interest of China Health in 3,165,974,000 Shares. 1,375,000,000 Shares of which are pledged to Haitong International Financial Products (Singapore) Pte. Ltd. (“**Haitong International Financial**”). Under the SFO, the holding companies of Haitong International Financial are also deemed to be interested in these 1,375,000,000 Shares.
- Waranty Hong Kong owned 100% interest in the issued share capital of China Health and was therefore deemed to have an interest in the Shares in which China Health was interested. The figure refers to the same interests of China Health in the Shares under the SFO.
- Shenzhen Waranty, through its subsidiary, namely Waranty Hong Kong, owned 100% interests in the issued share capital of China Health and was therefore deemed to have an interest in the Shares in which China Health was interested. The figure refers to the same interests of China Health in the Shares under the SFO.
- Tongfang Financial owned 48% interests in the registered capital of Shenzhen Waranty and was therefore deemed to have an interest in the Shares in which Shenzhen Waranty was interested. The figure refers to the same interests of China Health in the Shares under the SFO. Tongfang Financial is principally engaged in financial and investment business, including equity investment and venture capital investment. Tongfang Financial, being a wholly-owned subsidiary of Tsinghua Tongfang, is regarded as one of the investment hubs within the group of Tsinghua Tongfang which is a conglomerate and has been publicly listed on the Shanghai Stock Exchange since 1997. The total assets of Tongfang Financial as at 31 December 2016 and 30 June 2017 were approximately RMB5,771 million and RMB7,078 million respectively. The investment in minority interest in Shenzhen Waranty is one of the investment portfolio owned by Tsinghua Tongfang through Tongfang Financial.

5. The figure refers to the legal and beneficial interest of THTF Energy-Saving in 513,994,000 Shares.
6. Resuccess owned 100% interests in the issued share capital of THTF Energy-Saving and was therefore deemed to have an interest in the Shares in which THTF Energy-Saving was interested. The figure refers to the same interests of China Health in the Shares under the SFO.
7. Tsinghua Tongfang owned 100% interests in the registered capital of Tongfang Financial and was therefore deemed to have an interest in the Shares in which Tongfang Financial was interested. In addition, THTF Energy-Saving, an indirect wholly-owned subsidiary of Tsinghua Tongfang, was the beneficial owner of 513,994,000 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. Tsinghua Tongfang was therefore interested in 3,679,968,000 Shares representing approximately 68.78% of the issued share capital of the Company. Mr. Huang Yu is also director of Tsinghua Tongfang, Tongfang Financial and THTF Energy-Saving.
8. Shenzhen Aorongxin owned 52% interests in the registered capital of Shenzhen Waranty and was therefore deemed to have an interest in the Shares in which Shenzhen Waranty was interested. The figure refers to the same interests of China Health in the Shares 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, 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 2016 (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

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 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

6. EXPERT'S QUALIFICATION AND CONSENT

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

Name	Qualification
Goldin Financial Limited	A licensed corporation to carry out Type 6 regulated activities under the SFO

The above expert 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 expert was not beneficially interested in the share capital of any member of the Group nor did it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group nor did it has any interest, either direct or indirect, in any assets which had been acquired or disposed of by or leased to, or was proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2016 (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.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on a Business Day at the principal place of business of the Company in Hong Kong at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong, from the date of this circular up to and including 16 March 2018, 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 section headed “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 section headed “Letter from the Independent Financial Adviser” in this circular;
- (d) the written consent referred to in the paragraph headed “Expert’s qualification and consent” in this appendix; and
- (e) this circular.

NOTICE OF EGM



同方康泰產業集團有限公司 Tongfang Kontafarma Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1312)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Tongfang Kontafarma Holdings Limited (the “**Company**”) will be held at 15th Floor, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong on Friday, 16 March 2018 at 11:00 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 27 February 2018.

ORDINARY RESOLUTION

“THAT:

- (a) the issue of the consideration shares (i.e. 243,863,777 new Shares) by the Company (the “**Consideration Shares**”) as part of the settlement of consideration of the acquisition pursuant to the sale and purchase agreement (the “**Sale and Purchase Agreement**”) dated 23 January 2018 entered into between the Company, Kingwood Limited (being an indirect wholly-owned subsidiary of the Company) (the “**Purchaser**”), Sea Best Group Limited (“**Sea Best**”) and 深圳市世奧萬運投資有限公司 (Shenzhen Shiao Wan Yun Investment Co. Ltd.*) (together with Sea Best, the “**Vendors**”), relating to sale and purchase of an aggregate of 40% equity interest in 同方藥業集團有限公司 (Tongfang Pharmaceutical Group Co., Ltd.*) (“**Tongfang Pharmaceutical**”), representing the entire interest held by the Vendors in Tongfang Pharmaceutical, for a total consideration of RMB200,000,000, and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Consideration Shares under the Specific Mandate as part of the settlement of consideration of RMB100,000,000) (the “**Acquisition**”) be and are hereby approved, confirmed and ratified in all respects;
- (b) the board (“**Board**”) of directors of the Company or a committee thereof be and is hereby specifically authorised to allot and issue the Consideration Shares in accordance with the terms of the Sale and Purchase Agreement; and
- (c) the Board or a committee thereof be and is authorised to do all such acts and things, to sign and execute such documents or agreements or deed on behalf of the Company and to do such other things and to take all such actions as they consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Acquisition and to agree to such variation, amendments or waiver or matters relating thereto (excluding any variation, amendments or waiver of such documents or any terms thereof, which are fundamentally and materially different from those as provided for in the Sale and

NOTICE OF EGM

Purchase Agreement and which shall be subject to approval of the shareholders of the Company) as are, in the opinion of the Board or a committee thereof, in the interest of the Company and its shareholders as a whole.”

By Order of the Board of
Tongfang Kontafarma Holdings Limited
Huang Yu
Chairman

Hong Kong, 27 February 2018

Registered office:

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

Principal place of business

in Hong Kong:
15th 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 (the “**Share(s)**”) 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 respective websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

NOTICE OF EGM

6. The register of members of the Company will be closed from Tuesday, 13 March 2018 to Friday, 16 March 2018 (both days inclusive), during which period no transfer of Shares will be registered. In order for a member to be eligible to attend and vote 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 Monday, 12 March 2018.

As at the date of this notice, the Board comprises three executive Directors, namely Mr. Huang Yu (Chairman), Mr. Jiang Chaowen (Chief Executive Officer) and Mr. Ng Qing Hai; and three independent non-executive Directors, namely Mr. Chan Sze Chung, Mr. Zhang Ruibin and Mr. Zhang Junxi Jack.

* *For identification purposes only*