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

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**If you have sold or transferred** all your shares in Lansen Pharmaceutical Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**LANSEN PHARMACEUTICAL HOLDINGS LIMITED**

**朗生醫藥控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 503)**

**CONNECTED AND DISCLOSEABLE TRANSACTION IN  
RELATION TO THE SECOND TRANCHE SUBSCRIPTION IN  
HAOTIAN HOLDINGS LIMITED**

**AND**

**CONTINUING CONNECTED AND DISCLOSEABLE  
TRANSACTION IN RELATION TO  
THE CROSS GUARANTEE AGREEMENT**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent financial adviser to the Independent Board Committee and  
the Independent Shareholders**



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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular.

A notice of the EGM to be held at Admiralty Conference Centre (ACC), 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Wednesday, 13 July 2016 at 2:30 p.m. is set out on pages 70 to 72 of this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

28 June 2016

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## TABLE OF CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	6
<b>Letter from the Independent Board Committee</b> .....	24
<b>Letter from Gram Capital</b> .....	26
<b>Appendix I: — Valuation Report</b> .....	44
<b>Appendix II: — General Information</b> .....	65
<b>Notice of EGM</b> .....	70

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## DEFINITIONS

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

“Announcement”	the announcement dated 24 June 2016 issued by the Company in relation to the Second Tranche Subscription and the execution of the Cross Guarantee Agreement
“Ascent Partners”	Ascent Partners Valuation Service Limited, an independent professional valuer in Hong Kong
“associate(s)”	has the meaning given to it under the Listing Rules
“Board”	the board of Directors
“CI Biotechnology”	Cathay International Biotechnology and Pharmaceutical (China) Limited, a company incorporated in the British Virgin Islands with limited liability
“CIH”	Cathay International Holdings Limited, a company incorporated in Bermuda and whose shares are listed on the London Stock Exchange
“Company”	Lansen Pharmaceutical Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability whose shares are listed and trade on the Main Board of The Stock Exchange
“connected person”	has the meaning given to it under the Listing Rules
“continuing connected transaction”	has the meaning given to it under the Listing Rules
“controlling shareholder”	has the meaning given to it under the Listing Rules
“Cross Guarantee Agreement”	the agreement entered into between Jilin Haizi, Ningbo Liwah and Lansen BVI on 24 June 2016, pursuant to which the parties thereto have agreed to provide certain guarantees to the banks in relation to bank facilities of each other as and when necessary
“Directors”	the directors of the Company, and a “Director” means any one of them
“EGM”	a extraordinary general meeting of the Company to be held at Admiralty Conference Centre (ACC), 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Wednesday, 13 July 2016 at 2:30 p.m. to approve the Transactions

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## DEFINITIONS

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“First Completion Date”	29 March 2016
“First Tranche Consideration”	the consideration for the First Tranche Subscription Shares, being RMB33 million
“First Tranche Subscription”	the subscription of the First Tranche Subscription Shares at the First Tranche Consideration pursuant to the Subscription Agreement
“First Tranche Subscription Shares”	new Haotian (BVI) shares representing approximately 19.1% of the total issued share capital of Haotian (BVI) as at the Latest Practicable Date. Assuming the Subscriber proceeds with the Second Tranche Subscription, the First Tranche Subscription Shares will be diluted to 16.5% of the total issued share capital of Haotian (BVI) as enlarged by the Second Tranche Subscription
“Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions
“Group”	the Company and its subsidiaries from time to time
“Guarantee Cap”	the maximum aggregate value of the guarantees that Lansen BVI has agreed to procure its subsidiary, as appropriate, to provide to Jilin Haizi under the reciprocal arrangement of the Cross Guarantee Agreement during the Effective Period
“Haotian (BVI)”	Haotian Holdings Limited, a company incorporated in the British Virgin Islands with limited liability
“Haotian Group”	Haotian (BVI) and its subsidiaries
“Haotian Management”	the senior management of the Haotian Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the board committee of the Board comprising all independent non-executive Directors established by the Board to advise the Independent Shareholders on the Transactions and how to vote in respect of Transaction at the EGM
“Independent Shareholders”	Shareholders other than CIH

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## DEFINITIONS

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“Jilin Haizi”	Jilin Haizi Bio-Engineering Technology Co. Limited* (吉林海資生物工程技術有限公司), a company incorporated under the laws of the PRC and an indirect wholly-owned subsidiary of CIH
“Lansen BVI Group”	Lansen BVI and its subsidiaries from time to time
“Latest Practicable Date”	21 June 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Liwah Zhiti”	Ningbo Liwah Plant Extraction Technology Limited* (寧波立華植物提取技術有限公司), a company incorporated in the PRC and an indirectly wholly-owned subsidiary of the Company
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to the Listing Rules
“Ningbo Liwah”	Ningbo Liwah Pharmaceutical Company Limited* (寧波立華製藥有限公司), a company incorporated under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company
“Notice of EGM”	the notice convening the EGM, as set out on pages 70 to 72 of this circular
“Percentage Ratios”	the percentage ratios under Rule 14.07 of the Listing Rules
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Second Tranche Consideration”	the consideration for the Second Tranche Subscription Shares, being a maximum of RMB26.92 million
“Second Tranche Subscription”	the subscription of the Second Tranche Subscription Shares in accordance with the terms of the Subscription Agreement
“Second Tranche Subscription Shares”	such number of new Haotian (BVI) shares representing a maximum of 13.5% of the total issued share capital of Haotian (BVI) as enlarged by the Second Tranche Subscription; which, in aggregate with the First Tranche Subscription Shares, representing approximately a maximum of 30% of the total issued share capital of Haotian (BVI) as enlarged by the Second Tranche Subscription
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

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## DEFINITIONS

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“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber” or “Lansen BVI”	Lansen Pharmaceutical Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly and directly-owned subsidiary of the Company
“Subscription”	the subscription of the Subscription Shares pursuant to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 24 March 2016 entered into between the Subscriber and Haotian (BVI)
“Subscription Consideration”	collectively, the First Tranche Consideration and/or the Second Tranche Consideration (provided that the Subscriber elects to subscribe for the Second Tranche Subscription Shares)
“Subscription Shares”	Collectively, the First Tranche Subscription Shares and the Second Tranche Subscription Shares (provided that the Subscriber elects to subscribe for the Second Tranche Subscription)
“subsidiary”	in relation to a company wherever incorporated (a holding company) means a “subsidiary” within the meaning set out in Section 15 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), and any other company which is a subsidiary (as so defined) of a company which is itself a subsidiary of such holding company
“Transactions”	collectively, the transactions contemplated under the Second Tranche Subscription and the Cross Guarantee Agreement (including the Guarantee Cap)
“US\$”	United States dollars, the lawful currency of the United States of America
“Valuation”	the independent valuation of Haotian (BVI) as at 31 January 2016 prepared by Ascent Partners, dated 18 March 2016
“Valuation Report”	the report in respect of the Valuation

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## DEFINITIONS

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“Yangling Dailyhealth” Yangling Dailyhealth Bio-Engineering Technology Company Limited (楊凌萃健生物工程技術有限公司) (Formerly known as Yangling Haotian Bio-Engineering Technology Company Limited, 楊凌皓天生物工程技術有限公司), a company incorporated in the PRC with limited liability and an indirect wholly owned subsidiary of Haotian (BVI)

“%” per cent.

\* *For identification purpose only*



**LANSEN PHARMACEUTICAL HOLDINGS LIMITED**

**朗生醫藥控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 503)**

*Executive Directors:*

Mr. Liu Bang Min (*Chief Executive Officer*)

Mr. Hou Song (*Chief Financial Officer*)

*Non-executive Director:*

Mr. Stephen Burnau Hunt (*Chairman*)

Mr. Lee Jin Yi (*Deputy Chairman*)

Mr. Tang Jun

Ms. Liu Xue Zi

*Registered office:*

Clarendon House

Clifton House

75 Fort Street

P.O. Box 1350

Grand Cayman

KY1-1108

Cayman Islands

*Independent non-executive Directors:*

Mr. Chan Kee Huen, Michael

Mr. Tang Chiu Ping, Raymond

Mr. Fritz Heinrich Horlacher

*Headquarters and principal place of  
business in the PRC:*

Room 109, Building 14

No. 818, Qiming Road

Yinzhou District, Ningbo

Zhejiang Province 315100

PRC

28 June 2016

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTION IN  
RELATION TO THE SECOND TRANCHE SUBSCRIPTION IN  
HAOTIAN HOLDINGS LIMITED  
AND  
CONTINUING CONNECTED AND DISCLOSEABLE  
TRANSACTION IN RELATION TO  
THE CROSS GUARANTEE AGREEMENT  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**



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## LETTER FROM THE BOARD

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### 1. INTRODUCTION

The purpose of this circular is to provide with, among other things, further details of (a) the Second Tranche Subscription; (b) the Cross Guarantee Agreement and (c) other information required under the Listing Rules, and the Notice of the EGM and the form of proxy.

#### **The Second Tranche Subscription**

Reference is made to the Announcement, whereby the Board announced that, it has approved the Second Tranche Subscription, conditional upon the approval by the Independent Shareholders at the EGM.

As disclosed in the announcement of the Company on 24 March 2016, pursuant to the Subscription Agreement, at any time within 15 months from the First Completion Date, the Subscriber shall have the sole discretion but not the obligation to subscribe for, and Haotian (BVI) shall have the obligation to issue and allot, the Second Tranche Subscription Shares at the Second Tranche Consideration.

The Subscriber intends to subscribe in full for the Second Tranche Subscription Shares at the Second Tranche Consideration.

Pursuant to Rule 14.22 of the Listing Rules, the Second Tranche Subscription, if proceeded within 12 months of the First Tranche Subscription, will be aggregated with the First Tranche Subscription. As one or more of the applicable Percentage Ratios in respect of the Subscription exceed 5% but less than 25%, the transaction contemplated under the Subscription Agreement constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Based on the applicable Percentage Ratios, the Second Tranche Subscription, in aggregate with the First Tranche Subscription, constitutes a non-exempt connected transaction for the Company and is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **Cross Guarantee Agreement**

Reference is made to the Announcement, whereby the Board announced that on 24 June 2016, Ningbo Liwah, Jilin Haizi and Lansen BVI entered into the Cross Guarantee Agreement, pursuant to which the parties may provide or procure its subsidiaries to provide certain guarantees to banks in relation to the bank facilities of each other during the Effective Period.

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## LETTER FROM THE BOARD

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Based on the applicable Percentage Ratios, the transaction contemplated under the Cross Guarantee Agreement constitutes a non-exempt continuing connected transaction for the Company and is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### 2. THE TRANSACTIONS

#### (A) THE SECOND TRANCHE SUBSCRIPTION

Reference is made to the announcement of the Company dated 24 March 2016 in relation to the execution of the Subscription Agreement.

The Subscriber completed subscription of the First Tranche Subscription on 29 March 2016 with the First Tranche Consideration of RMB33 million pursuant to the Subscription Agreement. According to the Subscription Agreement, at any time within 15 months from the First Completion Date, the Subscriber shall have the sole discretion but not the obligation to subscribe for, and Haotian (BVI) shall have the obligation to issue and allot, the Second Tranche Subscription Shares at the Second Tranche Consideration.

Pursuant to the Subscription Agreement, the Subscriber has the right to subscribe for the Second Tranche Subscription Shares by 29 June 2017, being the date within 15 months from the First Completion Date. The Subscriber now intends to elect to subscribe in full for the Second Tranche Subscription Shares pursuant to the Subscription Agreement within six months from the date the Independent Shareholders' approval is obtained.

The Board approved the Second Tranche Subscription, conditional upon the approval by the Independent Shareholders at the EGM.

#### **Condition precedent under the Subscription Agreement**

The subscription of the Second Tranche Subscription Shares under the Subscription Agreement is not subject to any conditions.

#### **Amount of the Second Tranche Subscription Shares**

The Second Tranche Subscription Shares in full represents 13.5% of the total issued share capital of Haotian (BVI) as enlarged by the Second Tranche Subscription.

Upon completion of the subscription of the Second Tranche Subscription Shares in full, the Subscriber will, in aggregate with the First Tranche Subscription Shares, own 30% of the issued share capital of Haotian (BVI) as enlarged by the Second Tranche Subscription.

In determining the percentage interest in Haotian (BVI) that the Subscriber should obtain under the Subscription, the pre-money valuation of Haotian (BVI) is used. The Valuation (as described below) is a post-money valuation of Haotian (BVI) after the Subscriber has made the capital injection (the "Assumed Capital Injection" as

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## LETTER FROM THE BOARD

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described below) in Haotian (BVI) in order for Haotian (BVI) to develop its business and create the Valuation based on the underlying assumptions. The pre-money valuation is therefore equal to the post-money valuation minus the Assumed Capital Injection.

### **Second Tranche Consideration**

The amount of the Second Tranche Consideration is RMB26.92 million.

As disclosed in the announcement of the Company dated 24 March 2016, the Subscription Consideration was arrived at after arm's length negotiation between the parties, having made reference to an independent valuation of the 100% equity interest of Haotian (BVI) carried out by Ascent Partners, an independent professional valuer in Hong Kong.

The appraised value of the 100% equity interest of Haotian (BVI) set out in the independent valuation report dated 18 March 2016 is US\$33,759,000 as at 31 January 2016. The Subscription Consideration was determined based on the valuation of the 100% equity interest of Haotian (BVI) at US\$30,000,000 (which represents a discount of approximately 11% to the independent valuation) and taking into account the common goal in developing the plant extract business of Haotian (BVI) and the future potential business synergy to be brought by the Subscriber to Haotian (BVI). The Valuation Report is set out on pages 44 to 64 of this circular.

The principal general assumptions upon which the Valuation Report was based are set out below:

- (a) There will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of Haotian (BVI);
- (b) The Haotian Management will be able to successfully implement the business strategy in relation to the marketing and sales;
- (c) All relevant legal approvals and licenses necessary to the production and sales would be officially obtained and renewed upon expiry;
- (d) There will be no material change in the tax rates and relevant government policies in China; and
- (e) There is no hidden or unexpected conditions associated with business of Haotian (BVI) that might adversely affect the valuation.

In the Valuation Report, it is assumed that (a) the corporate tax rate would be 25.00% which is the statutory corporate tax rate in China and (b) the terminal growth rate would be 2.77% which is the average of 2011–2015 inflation rate of China estimated by International Monetary Fund.

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## LETTER FROM THE BOARD

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In the Valuation Report, Ascent Partners also considered the following assumptions provided by the Haotian Management and the Company;

- (a) the selling prices in 2016 and 2017 are based on the Haotian Management's estimation which stems from prevailing market conditions. The selling prices are assumed to be increased by 2.00% per year from 2018 with reference to the terminal growth rate and taking into the account of the slowdown of economic growth in China in the foreseeable future;
- (b) The estimated cost of sales of the existing products is referenced to the historical production cost of the products, and the estimated cost of sales of the new products is referenced to the production data from the trial production, both having taken into account the potential savings arising from scale effect. The cost of sales mainly comprises cost of raw materials, ancillary raw material, processing costs, labour costs, depreciation charge and outsourcing charge;
- (c) the production capacity is estimated based on 300 production days per year, taking into account of the holidays and maintenance downtime;
- (d) the forecasted selling expenses are assumed to be 1.50% of total revenue. Selling expenses mainly comprise variable costs such as transportation cost, business development and promotion expenses and relatively fixed costs such as salary. The forecasted selling expenses is determined as a percentage to the revenue because (i) transportation cost bears a direct relationship with the sales volume; (ii) the business development and promotion expenses are incurred to drive sales volume; and (iii) the relatively fixed costs will become immaterial when revenue grows. The assumption of a fixed percentage to revenue is regarded as a conservative assumption made by the Haotian Management as it does not take into account the potential cost savings arising from scale effect;
- (e) the forecasted administration expenses are assumed to have an annual growth of 2.00% with reference to the terminal growth rate and taking into the account of the slowdown of economic growth in China in the foreseeable future;
- (f) for the change in working capital assumption, the change in working capital is determined from the changes in account receivable, inventory and account payable at end of each year under the projection, based on the assumption of turnover days of 45 days, 45 days and 15 days respectively. The turnover days assumption are with reference to the Haotian (BVI)'s historical performance and the working capital management improvement target; and
- (g) there would be a capital injection (the "**Assumed Capital Injection**") amounted to RMB55 million into the Haotian (BVI). The Assumed Capital Injection of RMB55 million would be applied for, amongst others, (i) expansion of the Haotian (BVI)'s berries extract production line in the

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## LETTER FROM THE BOARD

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second quarter of 2016 (Details set out in Section 10 (Other Assumptions and Notes) d. (1) in the Valuation Report); (ii) obtaining the Good Manufacturing Practice (GMP) filing of one of the products of the Haotian (BVI), namely, ginkgo biloba extract (銀杏葉提取物), in the second quarter of 2016; (iii) building a new multi-functional production line to produce a variety of products from the second half of 2016 to the first half of 2017 (Details set out in Section 10 (Other Assumptions and Notes) d. (5) in the Valuation Report); and (iv) general working capital.

- (h) according to the business plan provided by Haotian Group and the Company,
- i. in the second quarter of 2016, Haotian Group will acquire production machinery and equipment amounted to RMB2.17 million to expand its berries extract production line; and acquire machinery and equipment amounted to RMB5.40 million in existing multi-functional production line for GMP filing of one of its products, namely, ginkgo biloba extract;
  - ii. the expanded berries extract production line is expected to be ready to operate from June 2016, and reach full capacity in 2017. The annual production capacity of the berries extract production line varies with different type of berries extracts due to different input output production ratio. For illustration, assuming only bilberries is produced, the annual production capacity is expanded from 26 tonnes to 59 tonnes;
  - iii. the current production line for synthetic health products is expected to reach full capacity in 2017. The annual production capacity of this production line varies with different type of plant extracts using synthetic production due to different input output production ratio. In 2016, this production line will produce a plant extract which will help brain development. Assuming only this plant extract is produced, the annual production capacity is 25 tonnes;
  - iv. the existing multi-functional production line is capable of producing a variety of plant extracts such as ginkgo biloba extracts and ginseng extracts. It is expected to reach full production capacity in 2017. Assuming only ginkgo biloba extract is produced, the annual production capacity of this multi-functional production line is 30 tonnes;
  - v. Haotian Group will invest RMB30 million for building the new multi-functional production line to produce a variety of products (RMB10 million in the second half of 2016 and RMB20 million in the first half of 2017). When the new multi-functional line is built and after obtaining the relevant certificates for domestic or export sales, the plan is to

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## LETTER FROM THE BOARD

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produce single herb granules (單味顆粒) as its first product in second half of 2017. The sale of single herb granules is expected to maintain an annual growth of 15% from 2019 to 2025; and

- vi. Haotian Group's business strategy from the second half of 2016 is that Haotian Group will outsource part of the production to sub-contractor, based on its own production schedule and the customer requests and sales order, with the view to maintaining production efficiency of its production line. This business area is expected to grow at 15.00% annually until 2025.

Having discussed with Ascent Partners, the Directors believe that the above key assumptions are necessary for the Ascent Partners to arrive at a reasonable estimated valuation. The Directors consider that these assumptions are fair and reasonable.

After reviewing and considering the unaudited management accounts of the Haotian Group for the first four months ended 30 April 2016, the Directors are of the view that there is no material change in the operation and financial position of Haotian (BVI) that would result in the change in the assumptions for the Valuation set out above.

As disclosed in the Announcement and the announcement of the Company on 24 March 2016, BDO Limited, the reporting accountants of the Company, has reviewed the accuracy of the arithmetical accuracy of the calculations of the estimated future cash flows underlying the Valuation, which do not involve the adoption of accounting policies. The Directors have also confirmed that the Valuation, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, has been made after due and careful enquiry.

Please refer to Appendices I and II to the Announcement for the letter from the Board and the letter from BDO Limited that have been submitted on 24 March 2016 to the Stock Exchange pursuant to Rules 14.60A and 14.62 of the Listing Rules.

### **Payment**

The Subscriber shall settle the Second Tranche Consideration by paying to Haotian (BVI) in readily available funds on the third business day following the Subscriber has served a notice to inform Haotian (BVI) of the election to subscribe the Second Tranche Subscription Shares.

The cash payment for the Second Tranche Subscription Shares will be funded by the internal resources of the Group.

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## LETTER FROM THE BOARD

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### INFORMATION ON HAOTIAN (BVI), THE COMPANY AND THE SUBSCRIBER

Haotian (BVI) is incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. Haotian (BVI)'s wholly owned subsidiaries are primarily engaged in the production and sale of plant extracts as ingredients for health products. As of the date of this circular, CI Biotechnology owns 80.9% of Haotian (BVI) and the Subscriber owns 19.1% of Haotian (BVI).

Haotian Group has production facilities which consist of three production lines, namely (i) a production line for berries extracts; (ii) a production line for synthetic health products; and (iii) a new multi-functional production line for a variety of plant extracts. All of the production lines are located at the factory operated by Yangling Dailyhealth at Yangling, Shaanxi province, the PRC. Haotian Group produces a variety of plant extract products and sells as bulk intermediary ingredients for downstream producers of health and dietary supplements, health drink, and cosmetic products. Haotian Group has obtained KOSHER certificate by Orthodox Union, cGMP certificate by the US National Sanitation Foundation, and GEP certificate by China Chamber of Commerce for Import & Export of Medicines & Health Products. Haotian Group is also awarded ISO9001 (Quality Management System Certificate), ISO14001 (Environmental Management System Certificate) and ISO22000 (Food Safety Management System).

During 2014 and 2015, the production facilities at Yangling Dailyhealth, have undergone various modification and expansion work, resulting in disruption in the production and thus affected the turnover of Haotian Group. These improvements and expansion work was completed in 2015, which would allow Haotian Group to scale up production volumes and generate more sales volumes. The modification and expansion work included:

- (a) a new multi-functional production line (completed in Q4 2015) is capable of producing a variety of plant extracts and its annual production capacity varies for different plant extracts due to different input output ratio; and using ginkgo biloba extracts for illustration, the annual production capacity of multi-functional production line would be 30 tonnes. There was no production volume in 2015; and
- (b) the modification of the production line for synthetic health products (completed in early 2015) enables the production of a plant extract which would help brain development. Assuming only this plant extract is produced, the annual production capacity would be 25 tonnes. In 2015, the actual production volume was approximately 10 tonnes.



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## LETTER FROM THE BOARD

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According to the unaudited management accounts of Haotian Group for the year ended 31 December 2015, the financial information of the Haotian Group is set out as below:

	For the year ended 31 December	
	2014	2015
	<i>US\$ million</i>	<i>US\$ million</i>
Turnover	5.76	4.10
Profit (Loss) before taxation	(1.81)	(1.16)
Profit (Loss) after taxation	(1.86)	(1.18)

The Company is a company incorporated in the Cayman Islands whose shares are listed on the Main Board of The Stock Exchange. The Group is engaged in the manufacturing, distribution and development of specialty prescription drugs for the treatment of autoimmune disorder in rheumatology and dermatology. The Group is in a leading market position in disease-modifying antirheumatic drugs for the treatment of rheumatoid arthritis in the PRC. The Group has established an extensive distribution network, covering more than 1,000 hospitals in four municipalities, 25 provinces and cities in the PRC.

The Subscriber, Lansen Pharmaceutical Holdings Limited, is a wholly and directly owned subsidiary of the Company, incorporated in the British Virgin Islands with limited liability. It is principally engaged in investment holding.

### REASONS FOR, AND BENEFITS OF THE SECOND TRANCHE SUBSCRIPTION

The First Tranche Subscription was completed on 29 March 2016. By electing to subscribe for the Second Tranche Subscription Shares pursuant to the Subscription Agreement, the Subscriber can acquire up to a maximum of 30% interest in Haotian (BVI).

The Company intends to seek advance Independent Shareholders' approval in order for the Second Tranche Subscription to be effected expeditiously, as and when appropriate, within six months from the date the Independent Shareholders' approval is obtained.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Second Tranche Subscription are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### IMPLICATIONS OF THE SECOND TRANCHE SUBSCRIPTION UNDER THE LISTING RULES

Pursuant to Rule 14.22 of the Listing Rules, the Second Tranche Subscription, if proceeded within 12 months of the First Tranche Subscription, will be aggregated with the First Tranche Subscription. As one or more of the applicable Percentage Ratios in respect of the Subscription exceed 5% but less than 25%, the transaction contemplated under the



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## LETTER FROM THE BOARD

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Subscription Agreement constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, CIH owns 50.56% of the equity interest in the Company, and is therefore a substantial Shareholder of the Company and a connected person of the Company. Each of CI Biotechnology and Haotian (BVI), being an associate of CIH, are both connected persons of the Company. Accordingly, the transaction contemplated under the Subscription Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Based on the applicable Percentage Ratios, the Second Tranche Subscription, if proceeded within 12 months of the First Tranche Subscription, will be aggregated with the First Tranche Subscription. The Second Tranche Subscription, in aggregate with the First Tranche Subscription, constitutes a non-exempt connected transaction for the Company and is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **(B) THE CROSS GUARANTEE AGREEMENT**

Reference is made to the Announcement in relation to, among others, the execution of the Cross Guarantee Agreement.

#### **Date**

24 June 2016

#### **Parties**

- (a) Jilin Haizi, an indirect wholly-owned subsidiary of CIH;
- (b) Ningbo Liwah, an indirect wholly-owned subsidiary of the Company; and
- (c) Lansen BVI, a direct wholly-owned subsidiary of the Company.

#### **Effective period**

The effective period of the Cross Guarantee Agreement will commence on 1 July 2016 and will expire on 30 June 2019 (the “**Effective Period**”).

#### **Description of the transaction**

Pursuant to the Cross Guarantee Agreement, Jilin Haizi has agreed, during the Effective Period, to provide guarantees for the obligations under the bank facilities obtained or to be obtained by Ningbo Liwah (the “**Jilin Haizi Guarantees**”).

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## LETTER FROM THE BOARD

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Pursuant to the Cross Guarantee Agreement, on a reciprocal basis, Lansen BVI has agreed, during the Effective Period, to procure its subsidiary, as appropriate, to provide guarantees for the obligation under the bank facilities to be obtained by Jilin Haizi (the “**Lansen BVI Guarantees**”) (the Jilin Haizi Guarantees and the Lansen BVI Guarantees, collectively, the “**Guarantees**”).

### Effectiveness of the Cross Guarantee Agreement

The Cross Guarantee Agreement will become effective upon the followings:

- (a) the Company having complied with the procedures required under the Listing Rules in respect of the transaction contemplated under the Cross Guarantee Agreement; and
- (b) the Cross Guarantee Agreement and the transaction contemplated thereunder having been approved by the Independent Shareholders in compliance with the Listing Rules.

### Guarantee cap

The total amount to be guaranteed by Jilin Haizi with respect to Ningbo Liwah’s bank facilities during the Effective Period shall not exceed RMB130,000,000; and, on a reciprocal basis, the total amount to be guaranteed by the Lansen BVI Group during the Effective Period shall not exceed RMB130,000,000 (the “**Guarantee Cap**”).

The respective annual cap for each of the Jilin Haizi Guarantees and the Lansen BVI Guarantees are set out as follow:

Relevant period	Annual Cap of the Jilin Haizi Guarantee ( <i>Note 1</i> ) ( <i>RMB</i> )	The maximum commission fee payable by Ningbo Liwah ( <i>RMB</i> )	Annual Cap of the Lansen BVI Guarantee ( <i>Note 2</i> ) ( <i>RMB</i> )	The maximum commission fee payable by Jilin Haizi ( <i>RMB</i> )
From 1 July 2016 to 31 December 2016	130,000,000	325,000	130,000,000	325,000
From 1 January 2017 to 31 December 2017	130,000,000	650,000	130,000,000	650,000
From 1 January 2018 to 31 December 2018	130,000,000	650,000	130,000,000	650,000
From 1 January 2019 to 30 June 2019	130,000,000	325,000	130,000,000	325,000

*Note 1:* For the avoidance of doubt, the total amount of the Jilin Haizi Guarantee in effect at any time during the Effective Period should not exceed RMB130,000,000.

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## LETTER FROM THE BOARD

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*Note 2:* For the avoidance of doubt, the total amount of the Lansan BVI Guarantee in effect at any time during the Effective Period should not exceed RMB130,000,000.

The respective annual cap for each of the Jilin Haizi Guarantees and the Lansan BVI Guarantees in each of the 2016, 2017, 2018 and 2019 were arrived at after taking into account the following:

- (a) the amount of bank facilities drawn by Ningbo Liwah which are guaranteed by Liwah Zhiti, which is currently RMB130,000,000;
- (b) the suitability of Liwah Zhiti of providing corporate guarantee with respect to Ningbo Liwah's bank facilities will be affected as the source of revenue of Liwah Zhiti will gradually be generated solely from Ningbo Liwah. As such, Ningbo Liwah may require an additional guarantor for its current or future bank facilities (please refer to the paragraph headed "Reasons for, and Benefits of the Cross Guarantee Agreement" below for the elaborated reason). The annual cap is set at the amount of the existing loan amount guaranteed by Liwah Zhiti as at 30 April 2016; and
- (c) the Company was advised by the management of Jilin Haizi that Jilin Haizi is expected to require not more than RMB130 million bank facilities for their current level of business activities during the Effective Period, and that Jilin Haizi may secure the bank facilities of such entire amount in any financial year during the Effective Period.

### **Commission fee**

At each financial year-end on 31 December during the Effective Period, each party shall calculate the commission fee receivable, in accordance with the formula below, in respect of a loan which is guaranteed by one party during that financial year.

If the total commission fee receivable of one party equals to the total commission fee receivable of the other party for that financial year, no commission fee is payable by either party.

If the total commission fee receivable of one party (the "**Net Receiving Party**") is larger than the total commission fee receivable of the other party (the "**Net Paying Party**") for that financial year, the Net Paying Party shall pay the net commission fee in cash to the Net Receiving Party within three months from 31 December of that financial year.

Commission fee for each guarantee = guarantee amount x (the number of days the guarantee is in effect during the year/365) x 0.5%.

For the avoidance of doubt, in the event that a party requests the other party to provide guarantee for more than one loan during a financial year, the total commission fee payable by such party to the other party shall be the aggregate amount of all the commission fees incurred for each of the guarantees.

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## LETTER FROM THE BOARD

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The annual commission fee of 0.5% is determined and agreed with reference to the prevailing market rate of the commission charged by guarantee service providers, which is around 2% per annum, after taking into account of the factors set out in the paragraph headed “Reasons For, and Benefits of the Cross Guarantee Agreement”.

The maximum commission fee payable by Ningbo Liwah to Jilin Haizi in a financial year ended 31 December is RMB650,000, assuming that:

- (a) Jilin Haizi has provided the maximum amount of guarantee (i.e. RMB130,000,000) for the obligations under the bank facilities of Ningbo Liwah in such financial year and the guarantee is effective during such whole financial year; and
- (b) the Lansan BVI Group has provided no guarantee to Jilin Haizi in such financial year.

### **Purpose of the loans which are subject of the Guarantees**

The bank loans to be borrowed by the parties and covered by the Guarantees should be used solely for the purpose of meeting the funding requirement of each of the parties in their ordinary course of business.

### **REASONS FOR, AND BENEFITS OF THE CROSS GUARANTEE AGREEMENT**

Corporate guarantee from PRC corporations is commonly required as a security or additional security for financial transactions in the PRC to secure the obligations of the borrower. The execution of the Cross Guarantee Agreement would enable the parties to obtain loans from banks in the PRC in order to support its ordinary and usual course of business.

As requested by the banks, certain bank facilities of Ningbo Liwah was guaranteed by Liwah Zhiti as secondary credit support. As at 31 December 2015, the aggregate amount of bank loans drawn by Ningbo Liwah under the bank facilities which are guaranteed by Liwah Zhiti (the “Existing Loans”) was RMB120 million. As at 30 April 2016, the aggregate amount of Existing Loans increased to RMB130 million. The average term of the bank facilities which are guaranteed by Liwah Zhiti ranges from 2–5 years and the tenure of each of the Existing Loans is within one-year.

As the Group expects that the sales of its specialty and generic drugs of Ningbo Liwah will continue to experience double digit annual growth, the production lines owned by Liwah Zhiti should be prioritized for producing intermediary raw material for the specialty and generic drugs, including Pafulin, to meet the demand of Ningbo Liwah. Accordingly, production of other plant extract products for sales to Liwah Zhiti;s own third party customer will be reduced significantly. As disclosed in the announcement of the Company dated 24 March 2016, subsequent to the subscription in Haotian (BVI), the Group will continue to develop its plant extract business through Haotian (BVI) which has suitable plant extract production capacity.

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## LETTER FROM THE BOARD

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As the source of revenue of Liwah Zhiti will gradually be generated solely from Ningbo Liwah, Liwah Zhiti's suitability as a guarantor with respect to the bank facilities of Ningbo Liwah may be affected in the future. For existing bank facilities of Ningbo Liwah which are guaranteed by Liwah Zhiti and the new bank facilities in the future, Ningbo Liwah may need to have an additional corporate guarantor.

The Cross Guarantee Agreement would allow the parties to respond promptly to any request of provision of a corporate guarantee by the banks. The banks may require on a case by case basis additional security from the guarantor, which the parties to the Cross Guarantee Agreement will consider the terms of the relevant bank facilities prior to meeting such banks' requirement provided that the parties shall observe their respective obligation under each of their existing bank facilities.

The objective of having the commission fee in place is not for the parties to earn commission fee by providing corporate guarantee, but instead provides a mechanism to cater for the situation when there is a difference in the exposure undertaken by the parties due to the difference in the amount of loans guaranteed by the parties (i.e. the guarantee amounts) under the Jilin Haizi Guarantees and the Lansen BVI Guarantees respectively. The difference in the guarantee amounts can be due to a difference in (1) the sizes and/or (2) the timing of the banking facilities obtained by Jilin Haizi and Ningbo Liwah, which require the Guarantees.

In the event that the guarantee amount of the Lansen BVI Guarantees is less than the guarantee amount of the Jilin Haizi Guarantees, Ningbo Liwah shall pay commission fee to Jilin Haizi under the Cross Guarantee Agreement due to the net amount of guarantee received. The annual commission fee rate of 0.5% is lower than that charged by guarantee service providers in the PRC market and therefore, the commission fee payable to Jilin Haizi is no less favourable to the Company than those available in the market.

In the event that the guarantee amount of the Lansen BVI Guarantees is larger than the guarantee amount of the Jilin Haizi Guarantees, Lansen BVI shall receive commission fee from Jilin Haizi under the Cross Guarantee Agreement due to the net amount of guarantee provided. Under the reciprocal arrangement, the same annual commission fee rate of 0.5% applies and is therefore lower than that charged by guarantee service providers in the PRC market. Despite the commission receivable from Jilin Haizi is lower than those available in the market, it is in the interest of the Company as the commission fee rate is fair and applies equally to the parties to the Cross Guarantee Agreement.

The annual commission fee of 0.5% is determined and agreed with reference to the prevailing market rate of the commission charged by guarantee service providers, which is around 2% per annum, after taking into account the following factors:

- (a) it is a reciprocal arrangement but not a one-sided guarantee provision;
- (b) the objective of the parties is not to earn commission fee but instead provides a mechanism to cater for the situation when there is a difference in the guarantee amounts provided by each party;

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## LETTER FROM THE BOARD

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- (c) the commission fee rate for the parties are all the same and is lower than the market rate; and
- (d) the calculation of the commission fee on each guarantee takes into account the number of days of the guarantee provision;

The Directors consider that the commission fee arrangement under the Cross Guarantee Agreement is fair and reasonable to both parties and is also in the interest of the Company.

The Directors (including the independent non-executive Directors) are of the view that the Cross Guarantee Agreement is fair and reasonable, and have been entered into after arm's length negotiation between all parties thereto and determined on normal commercial terms or better and are in the interests of the Company and its Shareholders as a whole.

### **RISK MANAGEMENT MEASURES UNDER THE CROSS GUARANTEE AGREEMENT**

The Company will endeavor to monitor the financial status of Jilin Haizi from time to time so as to ensure it has adequate financial capability of providing the relevant corporate guarantees for Ningbo Liwah's bank borrowings. Similarly, the Company will also review the financial statement of Haizi at the relevant time prior to the provision of corporate guarantee for Jilin Haizi's bank borrowings in order to consider whether or not to provide the corporate guarantee as requested, or to suggest changes to the borrowing amount.

As at the Latest Practicable Date, based on information provided by Jilin Haizi, the Company has reviewed the unaudited financial statements of Jilin Haizi for the period ended 30 April 2016 and the unaudited financial statements of Jilin Haizi for the year ended 31 December 2015 and are of the view that Jilin Haizi has adequate financial capability of providing the relevant corporate guarantees for Ningbo Liwah's bank borrowings.

So far as the Company is aware having taken reasonable steps to ascertain the same, Jilin Haizi has not defaulted in any of its previous financial obligations.

As a safeguard measure, the Company will conduct review on the prevailing market rate for providing/receiving a guarantee to/from a third party guarantee service provider from time to time and at least on an annual basis to determine if there is any unusual material change to the prevailing market rates. This is to ensure that the rate of guarantee commission under the Cross Guarantee Agreement remains fair and reasonable.

In the event that the Company finds that the prevailing market rate of the commission is significantly lower than the guarantee commission rate of 0.5% under the Cross Guarantee Contract, the Company will evaluate whether the Company should renegotiate with Jilin Haizi to revise down the guarantee commission rate for new guarantee to be provided under the Cross Guarantee Agreement.

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## LETTER FROM THE BOARD

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### INFORMATION ON NINGBO LIWAH, LIWAH ZHITI AND JILIN HAIZI

Ningbo Liwah, being an indirectly and wholly-owned subsidiary of the Company, is a company incorporated in the PRC and is engaged in the business of production, sales and product development of prescription and OTC pharmaceutical products.

Liwah Zhiti, being an indirectly and wholly-owned subsidiary of the Company, is a company incorporated in the PRC and is engaged in the business of production and sales of plant extracts and other key ingredients for healthcare products.

Jilin Haizi, being an indirectly and wholly-owned subsidiary of CIH, is a company incorporated in the PRC and is engaged in the manufacture, marketing and sales of inositol and dicalcium phosphate (“DCP”), for use in health and nutrition supplements. Jilin Haizi is currently in the stage of increasing production and sales of inositol and modifying its production process to produce higher margin food grade DCP for sales. It has no business relationship with Ningbo Liwah.

### IMPLICATIONS OF THE CROSS GUARANTEE AGREEMENT UNDER THE LISTING RULES

As one or more of the applicable Percentage Ratios in respect of the Cross Guarantee Agreement exceed 5% but less than 25%, the transaction contemplated under the Cross Guarantee Agreement constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Jilin Haizi, being an associate of CIH, is connected person of the Company. Accordingly, the transaction contemplated under the Cross Guarantee Agreement constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Based on the applicable Percentage Ratios, the transaction contemplated under the Cross Guarantee Agreement constitutes a non-exempt continuing connected transaction for the Company and is subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

### 3. EGM

The EGM will be held at Admiralty Conference Centre (ACC), 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Wednesday, 13 July 2016 at 2:30 p.m. to consider and, if thought fit, approve the Transactions.

As at the Latest Practicable Date, CIH and its associates were interested in 209,820,000 Shares, representing approximately 50.56% of the issued share capital of the Company. As CIH and its associates are interested in the Second Tranche Subscription and the Cross Guarantee Agreement, CIH and its associates will abstain from voting at the EGM in respect of the resolutions to approve the Transactions. Saved as disclosed above and to the best knowledge of the Directors after having made all reasonable enquiries, no other Shareholder would be required to abstain from voting to approve the Transactions.



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## LETTER FROM THE BOARD

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The Notice of EGM is set out on pages 70 to 72 of this circular. Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time fixed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

#### 4. VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions set out in the notice of EGM will be decided by poll. The chairperson of the EGM will demand, pursuant to Article 72 of the Articles of Association of the Company, poll voting on all resolutions set out in the notice of the EGM. The Company will appoint scrutineers to handle vote-taking procedures at the EGM. The results of the poll will be published on the websites of the Stock Exchange and the Company as soon as possible in accordance with Rule 13.39(5) of the Listing Rules.

#### 5. RECOMMENDATIONS

Your attention is drawn to:

- (a) the letter from the Independent Board Committee, the text of which is set out on pages 24 to 25 of this circular;
- (b) the Valuation Report, the text of which is set out on pages 44 to 64 of this circular; and
- (c) the letter from Gram Capital, the independent financial adviser to advise the Independent Shareholders and the Independent Board Committee with respect to the terms of the Transactions, the text of which is set out on pages 26 to 43 of this circular.

The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote at the EGM.

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that:

- (a) the terms of the Second Tranche Subscription are fair and reasonable, and that the Second Tranche Subscription is in the interests of the Company and the Shareholders as a whole; and



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## LETTER FROM THE BOARD

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- (b) the Lansen BVI Guarantee under the Cross Guarantee Agreement are not in the ordinary and usual course of business but the terms thereto (including the Guarantee Cap) are fair and reasonable, and that the entering into of the Cross Guarantee Agreement is in the interests of the Company and the Shareholders as a whole.

Accordingly, 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 Transactions).

Mr. Lee Jin Yi is the common director of the Company, Haotian (BVI) and CIH, but he does not hold any equity interest in Haotian (BVI) and Jilin Haizi, he therefore does not consider himself to have material interests in the transactions contemplated under the Second Tranche Subscription and the Cross Guarantee Agreement. He has not abstained from voting on the resolutions of the Board to approve the Transactions.

As no Director has a material interest in the Second Tranche Subscription and the Cross Guarantee Agreement, none of the Directors has abstained from voting on the relevant board resolution approving the Transactions.

Taking into account the letter from the Independent Board Committee and all other factors stated above as a whole, the Directors (including the non-executive Directors) are of the view that the terms of the Second Tranche Subscription and the Cross Guarantee Agreement (including the Guarantee Cap) are fair and reasonable, and that the entering into of the Second Tranche Subscription and the Cross Guarantee Agreement is in the interests of the Company and the Shareholders as a whole. As such, the Board recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transactions.

### **6. ADDITIONAL INFORMATION**

Your attention is also drawn to the information set out in the appendix to this circular.

Yours faithfully,  
By order of the Board  
**Lansen Pharmaceutical Holdings Limited**  
**Stephen Burnau Hunt**  
*Chairman*

\* *For identification purpose only*



**LANSEN PHARMACEUTICAL HOLDINGS LIMITED**

**朗生醫藥控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 503)**

28 June 2016

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTION IN  
RELATION TO THE SECOND TRANCHE SUBSCRIPTION IN  
HAOTIAN HOLDINGS LIMITED  
AND  
CONTINUING CONNECTED AND DISCLOSEABLE  
TRANSACTION IN RELATION TO  
THE CROSS GUARANTEE AGREEMENT  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

We have been appointed as members of the Independent Board Committee to advise you in respect of the Transactions, details of which are set out in the “**Letter from the Board**” in the circular of the Company dated 28 June 2016 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Your attention is drawn to the letter of advice from Gram Capital, as set out on pages 26 to 43 of the Circular, which contains its advice and recommendations to us and the Independent Shareholders in respect of the Transactions, as well as the principal factors and reasons for its advice and recommendation.

Having considered the factors and reasons considered by, and the opinions of, Gram Capital as stated in the aforementioned letter of advice, we are of the opinion that:

- (a) the terms of the Second Tranche Subscription are fair and reasonable, and that the Second Tranche Subscription is in the interests of the Company and the Shareholders as a whole; and

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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- (b) the Lansen BVI Guarantee under the Cross Guarantee Agreement are not in the ordinary and usual course of business but the terms thereto (including the Guarantee Cap) are fair and reasonable, and that the entering into of the Cross Guarantee Agreement is in the interests of the Company and the Shareholders as a whole.

We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transactions.

Yours faithfully,  
**Independent Board Committee**  
**Lansen Pharmaceutical Holdings Limited**

**Mr. Chan Kee Huen, Michael**   **Mr. Tang Chiu Ping, Raymond**   **Mr. Fritz Heinrich Horlacher**  
*Independent non-executive*   *Independent non-executive*   *Independent non-executive*  
*Director*   *Director*   *Director*

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## LETTER FROM GRAM CAPITAL

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*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

28 June 2016

*To: The independent board committee and the independent shareholders  
of Lansen Pharmaceutical Holdings Limited*

Dear Sirs,

**(I) CONNECTED AND DISCLOSEABLE TRANSACTION  
IN RELATION TO THE SECOND TRANCHE SUBSCRIPTION  
IN HAOTIAN HOLDINGS LIMITED  
AND  
(II) CONTINUING CONNECTED TRANSACTION AND  
DISCLOSEABLE TRANSACTION  
IN RELATION TO THE CROSS GUARANTEE AGREEMENT**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 28 June 2016 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

### **The Second Tranche Subscription**

On 24 March 2016, the Subscriber entered into the Subscription Agreement with Haotian (BVI), pursuant to which the Subscriber shall subscribe for and Haotian (BVI) shall issue and allot the First Tranche Subscription Shares, representing approximately 19.1% of the enlarged issued share capital of Haotian (BVI), at the First Tranche Consideration on the First Completion Date; and at any time within 15 months from the First Completion Date, the Subscriber shall have the sole discretion but not the obligation to subscribe for, and Haotian (BVI) shall have the obligation to issue and allot, the Second Tranche Subscription Shares at the Second Tranche Consideration. Assuming that the

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## LETTER FROM GRAM CAPITAL

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Subscriber subscribes for the Second Tranche Subscription Shares, the Subscriber will, in aggregate with the First Tranche Subscription Shares, own up to 30% of the enlarged issued share capital of Haotian (BVI).

The Subscriber completed subscription of the First Tranche Subscription on 29 March 2016 with the First Tranche Consideration of RMB33 million.

The Subscriber now intends to elect to subscribe in full for the Second Tranche Subscription Shares pursuant to the Subscription Agreement within six months from the date when the Independent Shareholders' approval is obtained. The Board approved the Second Tranche Subscription, conditional upon the approval by the Independent Shareholders at the EGM.

According to the Board Letter, the transactions contemplated under the Subscription Agreement constitute a discloseable transaction for the Company and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. In addition, the Second Tranche Subscription, in aggregate with the First Tranche Subscription, constitutes a non-exempt connected transaction for the Company and is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **The Cross Guarantee Agreement**

On 24 June 2016, Ningbo Liwah, Jilin Haizi and Lansen BVI entered into the Cross Guarantee Agreement, pursuant to which the parties may provide or procure its subsidiaries to provide certain guarantees to banks in relation to the bank facilities of each other during the Effective Period.

According to the Board Letter, the transactions contemplated under the Cross Guarantee Agreement constitute non-exempt continuing connected transactions for the Company and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Chan Kee Huen, Michael, Mr. Tang Chiu Ping, Raymond and Mr. Fritz Heinrich Horlacher has been established to advise the Independent Shareholders on (i) whether the terms of the Second Tranche Subscription and the Cross Guarantee Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Second Tranche Subscription, the Cross Guarantee Agreement and the transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

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## LETTER FROM GRAM CAPITAL

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### BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the management of the Company (the “**Management**”). We have assumed that all information and representations that have been provided by the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Management, which have been provided to us. Our opinion is based on the Management’s representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group or Haotian (BVI) as set out in Appendix I to the Circular, and we have not been furnished with any such evaluation or appraisal, save and except for the valuation report of 100% equity interest in Haotian (BVI). The Valuation Report was prepared by Ascent Partners. Since we are not experts in the valuation of business entity, we have relied solely upon the Valuation Report for the market value of 100% equity interest in Haotian (BVI) as at 31 January 2016.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Haotian (BVI), Jilin Haizi or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is 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. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we

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## LETTER FROM GRAM CAPITAL

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have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

#### I. THE SECOND TRANCHE SUBSCRIPTION

##### Background of and reasons for the Second Tranche Subscription

###### *Business overview of the Group*

With reference to the Board Letter, the Group is engaged in the manufacturing, distribution and development of specialty prescription drugs for the treatment of autoimmune disorder in rheumatology and dermatology. The Group is in a leading market position in disease-modifying antirheumatic drugs for the treatment of rheumatoid arthritis in the PRC. The Group has established an extensive distribution network, covering more than 1,000 hospitals in four municipalities, 25 provinces and cities in the PRC.

Set out below are the financial information of the Group for the two years ended 31 December 2015 as extracted from the annual report of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”):

	<b>For the year ended 31 December 2015</b>	<b>For the year ended 31 December 2014</b>	<b>Change from 2014 to 2015</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>%</i>
Revenue	93,349	116,817	(20.09)
Profit from operations	13,824	18,922	(26.94)
Profit for the year	2,071	13,980	(85.19)

As illustrated by the above table, the Group recorded a decrease of approximately 20.09% in revenue for the year ended 31 December 2015 (“**FY2015**”) as compared to the year ended 31 December 2014 (“**FY2014**”). With reference to the 2015 Annual Report and as confirmed by the Management, the decline was mainly due to the

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## LETTER FROM GRAM CAPITAL

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transition of Tuoshu and Hepai under leflunomide tablets in 2015, which has exerted certain pressure on the sales during FY2015. In addition, due to loss from flood and administrative penalty and other related expenses of ginkgo products of the Group, the Group's profit for the year also reduced significantly by approximately 85.19% in FY2015 as compared to FY2014.

With reference to the 2015 Annual Report, the management of the Group is optimistic about the prospect of the industry and is confident about the future development of the Group. With the investment in Haotian (BVI), the business of the Group will comprise four major segments namely pharmaceutical, medical cosmetics, healthcare and investment. The Group is committed to becoming an all-round healthcare group featuring high-technology, high profitability and high-growth, and dedicated to creating differentiated and high-quality products and brands.

### *Information on Haotian (BVI)*

Haotian (BVI) is incorporated in the British Virgin Islands with limited liability and principally engaged in investment holding. Haotian (BVI)'s wholly owned subsidiaries are primarily engaged in the production and sale of plant extracts as ingredients for health products. As of the Latest Practicable Date, CI Biotechnology owns 80.9% of Haotian (BVI) and the Subscriber owns 19.1% of Haotian (BVI).

Haotian Group has production facilities which consist of three production lines, namely (i) a production line for berries extracts; (ii) a production line for synthetic health products; and (iii) a new multi-functional production line for a variety of plant extracts. All of the production lines are located at the factory operated by Yangling Dailyhealth at Yangling, Shaanxi province, the PRC.

Detailed information on Haotian (BVI) is set out under the section headed "Information on Haotian (BVI), the Company and the Subscriber" in the Board Letter.

According to the unaudited management accounts of Haotian (BVI) and its subsidiaries (the "**Haotian Group**") for the two years ended 31 December 2015, the financial information of the Haotian Group is set out as below:

	<b>For the year ended 31 December 2015</b>	<b>For the year ended 31 December 2014</b>	<b>Change from 2014 to 2015</b>
	<i>US\$'million</i>	<i>US\$'million</i>	<i>%</i>
Turnover	4.10	5.76	(28.82)
Loss before taxation	(1.16)	(1.81)	(35.91)
Loss after taxation	(1.18)	(1.86)	(36.56)



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## LETTER FROM GRAM CAPITAL

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As illustrated by the above table, the turnover of Haotian Group decreased by approximately 28.82% in FY2015 as compared to FY2014. As advised by the Management, the aforesaid decrease was mainly due to the disruption in the production caused by various modification and expansion work of certain production facilities. Despite the decrease in turnover, Haotian Group recorded a reduced loss after taxation for FY2015 as compared to FY2014. As advised by the Management, the aforesaid improvement of Haotian Group's loss position was mainly due to a recovery of sales of certain obsolete stock previously written off.

### **Reasons for the Second Tranche Subscription**

With reference to the announcement of the Company dated 24 March 2016, most of the plant extract capacity of the Group is utilised in the production of intermediary raw material for its own specialty and generic drugs. The Group expects that, even taking into account the pressure on pricing, the sales of the specialty and generic drugs should continue to experience double digit annual growth, which means the growth in sales quantity would be even faster. As a result, the Group's existing capacity will become fully utilized. Before any decision to build new production facilities is made, there is limited room remained for the Group to take on business to produce and sell plant extract for non-pharmaceutical products. Accordingly, the Company wished to identify investment opportunity in suitable plant extract production capacity and technology within the shortest time as the additional capacity would enable the Company to continue to develop its plant extract business; and in the case of outsourcing business, the equity participation would allow more effective product quality control and assurance.

Haotian (BVI)'s subsidiary, Yangling Dailyhealth, has production facilities that met the Company's investment criteria, and the subscription contemplated under the Subscription Agreement will enable the Company to obtain an interest in suitable plant extract production capacity and know-how within the shortest time and to maintain its interest in plant extract business. The Board also considers that Haotian (BVI) represents a suitable platform for the Company to build its plant extract and health business independent of its specialty drug pharmaceutical business.

The First Tranche Subscription was completed on 29 March 2016. By electing to subscribe in full for the Second Tranche Subscription Shares pursuant to the Subscription Agreement, the Subscriber can own 30% interest in Haotian (BVI).

In view of the foregoing reasons for the Second Tranche Subscription and that the Second Tranche Subscription is in line with the Group's strategy, we concur with the Management that the Second Tranche Subscription is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### **Principal terms of the Second Tranche Subscription**

On 24 March 2016, the Subscriber entered into the Subscription Agreement with Haotian (BVI), pursuant to which the Subscriber shall subscribe for and Haotian (BVI) shall issue and allot the First Tranche Subscription Shares, representing approximately

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## LETTER FROM GRAM CAPITAL

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19.1% of the enlarged issued share capital of Haotian (BVI), at the First Tranche Consideration on the First Completion Date; and at any time within 15 months from the First Completion Date, the Subscriber shall have the sole discretion but not the obligation to subscribe for, and Haotian (BVI) shall have the obligation to issue and allot, the Second Tranche Subscription Shares at the Second Tranche Consideration. Assuming that the Subscriber subscribes for the Second Tranche Subscription Shares, the Subscriber will, in aggregate with the First Tranche Subscription Shares, own up to 30% of the enlarged issued share capital of Haotian (BVI).

The Subscriber completed subscription of the First Tranche Subscription on 29 March 2016 with the First Tranche Consideration of RMB33 million.

The Subscriber now intends to elect to subscribe in full for the Second Tranche Subscription Shares pursuant to the Subscription Agreement within six months from the date when the Independent Shareholders' approval is obtained. The Board approved the Second Tranche Subscription, conditional upon the approval by the Independent Shareholders at the EGM.

Details of the terms of the Second Tranche Subscription are set out under the section headed “(A) The Second Tranche Subscription” in the Board Letter.

### *Amount of the Second Tranche Subscription Shares*

The Second Tranche Subscription Shares represents 13.5% of the total issued share capital of Haotian (BVI) as enlarged by the Second Tranche Subscription.

Upon completion of the subscription of the Second Tranche Subscription Shares, the Subscriber will, in aggregate with the First Tranche Subscription Shares, own 30% of the issued share capital of Haotian (BVI) as enlarged by the Second Tranche Subscription.

### *Second Tranche Consideration*

The amount of the Second Tranche Consideration is RMB26.92 million.

As disclosed in the announcement of the Company dated 24 March 2016, the Subscription Consideration was arrived at after arm's length negotiation between the parties, having made reference to the Valuation Report carried out by Ascent Partners.

The appraised value of the 100% equity interest in Haotian (BVI) set out in the independent valuation report dated 18 March 2016 was US\$33,759,000 as at 31 January 2016 (the “**Valuation**”). The Subscription Consideration was determined based on the valuation of the 100% equity interest in Haotian (BVI) at US\$30,000,000 (the “**Adopted Valuation**”), which represented a discount of approximately 11% (the “**Discount**”) to the Valuation and taking into account the common goal in developing the plant extract business of Haotian (BVI) and the future potential business synergy to be brought by the Subscriber to Haotian (BVI). Having considered the above and that the percentage interest of the Haotian (BVI) which the Subscriber can obtain

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## LETTER FROM GRAM CAPITAL

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under the Subscription will be higher if the Adopted Valuation is applied as compared to applying the Valuation, we are of the view that the Discount is in the interest of the Company and the Shareholders as a whole.

The Valuation Report was prepared by Ascent Partners using the discounted cash flow method under the income approach. In such case, it is stipulated under Rule 14.62 of the Listing Rules that the Company is required to obtain (i) a letter from its auditors or reporting accountants confirming that they have reviewed the accounting policies and calculations for the forecast and containing in the Valuation Report; and (ii) a report from its financial advisers confirming that they are satisfied that the forecast in the Valuation Report has been made by the Directors after due and careful enquiry, if no financial adviser has been appointed in connection with the transaction (as in the case of the Subscription), the Company must provide a letter from the Board confirming they have made the forecast after due and careful enquiry. We consider that the above stipulation of the Listing Rules could safeguard the interest of the Shareholders and we noted that the Company has complied with the said requirements.

For our due diligence purpose, we have reviewed and enquired into (i) the terms of engagement of Ascent Partners with the Company; (ii) Ascent Partners' qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by Ascent Partners for conducting the Valuation Report. From the mandate letter and other relevant information provided by Ascent Partners and based on our interview with it, we are satisfied with the terms of engagement of Ascent Partners as well as its qualification and experience for preparation of the Valuation Report. Ascent Partners has also confirmed that it is independent to the Group and Haotian Group.

Set out below are the key projections of the Valuation Report:

*(a) Revenue*

The revenue of Haotian Group is generated from sales of products from six major sources, namely, (i) berries extract production line; (ii) synthetic health products production line; (iii) existing multi-functional production line; (iv) new multi-functional production line; (v) sub-contract business (production outsourced); and (vi) trading business.

Detailed basis and assumptions of the revenue, including selling prices, growth rate of selling prices, sales volume and production capacity, are set out in the Valuation Report as contained in Appendix I to the Circular.

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## LETTER FROM GRAM CAPITAL

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*(b) Cost of sales*

The estimated cost of sales of the existing products is referenced to the historical production cost of the products and the estimated cost of sales of the new products is referenced to the production data from the trial production, both having taken into account the potential savings arising from scale effect. The cost of sales mainly comprises cost of raw materials, ancillary raw material, processing costs, labour costs, depreciation charge and outsourcing charge.

*(c) Selling and administrative expenses*

The forecasted selling expenses are assumed to be 1.50% of total revenue. Selling expenses mainly comprise variable costs such as transportation cost, business development and promotion expenses and relatively fixed costs such as salary.

The forecasted administration expenses are assumed to have an annual growth of 2.00% with reference to the terminal growth rate and taking into the account of the slowdown of economic growth in the PRC in the foreseeable future.

*(d) Assumed Capital Injection*

There would be an Assumed Capital Injection amounted to RMB55 million into the Target Company. The Assumed Capital Injection of RMB55 million would be applied for, amongst others, (i) expansion of Haotian Group's berries extract production line in the second quarter of 2016; (ii) obtaining the good manufacturing practice filing of one of Haotian Group's products, namely, ginkgo biloba extract, in the second quarter of 2016; (iii) building a new multi-functional production line to produce a variety of products from the second half of 2016 to the first half of 2017; and (iv) general working capital.

*(e) Discount rate*

Weighted average cost of capital (WACC) of the Haotian (BVI) was adopted as the discount rate in the Valuation. It was calculated by taking into account the relative weights of each component of the capital structure. The formula used for the computation of and other basis of the WACC is set out in the Valuation Report as contained in Appendix I to the Circular.

Further details of the basis and assumptions and projection of the Valuation are set out in the Valuation Report as contained in Appendix I to the Circular. During our discussion with Ascent Partners, we have not identified any major factors which caused us to doubt the fairness and reasonableness of the principal basis and assumptions and projection (including revenue, expenses, other income, capital expenditure and discount rate) adopted for or the information used in the Valuation. Nevertheless,

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## LETTER FROM GRAM CAPITAL

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Shareholders should note that valuation of assets or businesses usually involves assumptions and therefore the Valuation may or may not reflect the true market value of Haotian (BVI) accurately.

We understand from the Management and Ascent Partners that the Valuation is prepared on a post-money basis which assumed the value of a capital injection of US\$8.47 million (equivalent to approximately RMB55 million) (i.e. the Assumed Capital Injection). As advised by the Management and Ascent Partners, the Assumed Capital Injection represented the assumed amount of capital injection required for Haotian Group to develop its business and generate the future cash flow under the Valuation.

Therefore, the pre-money valuation of 100% equity interest of Haotian (BVI) as at 31 January 2016 adopted by the Management would be US\$21.53 million (the “**Adopted Pre-money Valuation**”) (as calculated by the Adopted Valuation of US\$30 million minus US\$8.47 million). Given that the Adopted Valuation is a post-money valuation, it is fair and reasonable to deduct the Assumed Capital Injection from the Adopted Valuation when determining the percentage interest of the Haotian (BVI) that the Subscriber should obtain under the Subscription (which is the actual capital injection).

Based on the Adopted Pre-money Valuation of US\$21.53 million, the First Tranche Consideration and the Second Tranche Consideration were calculated as follows:

Adopted Pre-money Valuation	US\$21.53 million
First Tranche Consideration	RMB33 million (equivalent to approximately US\$5.08 million)
Sum of:	Approximately US\$26.61 million
— Adopted Pre-money Valuation	
— First Tranche Consideration	
Percentage interest of Haotian (BVI) under the First Tranche Subscription	US\$5.08 million/US\$26.61 million = Approximately 19.1%
Second Tranche Consideration	RMB26.92 million (equivalent to approximately US\$4.15 million)
Sum of:	Approximately US\$30.76 million
— Adopted Pre-money Valuation	
— First Tranche Consideration	
— Second Tranche Consideration	

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## LETTER FROM GRAM CAPITAL

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Percentage interest of Haotian (BVI) under the Second Tranche Subscription                      US\$4.15 million/US\$30.76 million  
= Approximately 13.5%

Percentage interest of Haotian (BVI) under the Subscription (including both of the First Tranche Subscription and the Second Tranche Subscription)                      (US\$5.08 million + US\$4.15 million)/  
US\$30.76 million  
= Approximately 30%

Having considered the above calculation of the First Tranche Consideration and the Second Tranche Consideration and that the Subscription Consideration was determined based on the Adopted Valuation of US\$30,000,000, which represents a discount of approximately 11% to the Valuation, we are of the view that the Subscription Consideration (including the Second Tranche Consideration) to be fair and reasonable so far as the Independent Shareholders are concerned.

Taking into account the principal terms of the Second Tranche Subscription as discussed above, we consider that the terms of the Second Tranche Subscription are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

### **Possible financial effects of the Second Tranche Subscription**

As confirmed by the Management, upon completion of the Second Tranche Subscription, Haotian (BVI) will become an associated company of the Company. The equity method will be used for accounting of the investment in Haotian (BVI).

Based on the 2015 Annual Report, the audited consolidated net asset value of the Group was approximately US\$101.45 million as at 31 December 2015. As confirmed by the Management, upon completion of the Second Tranche Subscription, the effect of the NAV of the Group would be immaterial.

It should be noted that the aforementioned analysis is for illustrative purposes only and does not purport to represent how the financial position of the Group will be upon completion of the Second Tranche Subscription.

### **RECOMMENDATION ON THE SECOND TRANCHE SUBSCRIPTION**

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Second Tranche Subscription are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Second Tranche Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Second Tranche Subscription and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.



## **II. THE CROSS GUARANTEE AGREEMENT**

### **Information on Ningbo Liwah, Liwah Zhiti and Jilin Haizi**

Ningbo Liwah, being an indirectly and wholly-owned subsidiary of the Company, is a company incorporated in the PRC and is engaged in the business of production, sale and product development of prescription and OTC pharmaceutical products.

Liwah Zhiti, being an indirectly and wholly-owned subsidiary of the Company, is a company incorporated in the PRC and is engaged in the business of production and sale of plant extracts and other key ingredients for healthcare products.

Jilin Haizi, being an indirectly and wholly-owned subsidiary of CIH, is a company incorporated in the PRC and is engaged in the manufacture, marketing and sales of inositol and DCP, for use in health and nutrition supplements. Jilin Haizi is currently in the stage of increasing production and sales of inositol and modifying its production process to produce higher margin food grade DCP for sales. It has no business relationship with Ningbo Liwah.

### **Reasons for and benefits of the Cross Guarantee Agreement**

With reference to the Board Letter, corporate guarantee from PRC corporations is commonly required as a security or additional security for financial transaction in the PRC to secure the obligations of the borrower. The execution of the Cross Guarantee Agreement would enable the parties to obtain loans from banks in the PRC in order to support its ordinary and usual course of business.

As requested by the banks, certain bank facilities of Ningbo Liwah was guaranteed by Liwah Zhiti as secondary credit support. As at 31 December 2015, the aggregate amount of bank loans drawn by Ningbo Liwah under the bank facilities which are guaranteed by Liwah Zhiti was RMB120 million. As at 30 April 2016, the aggregate amount of Existing Loans increased to RMB130 million. The average term of the bank facilities which are guaranteed by Liwah Zhiti ranges from 2–5 years and the tenure of each of the Existing Loans is within one-year.

As the Group expects that the sales of its specialty and generic drugs of Ningbo Liwah will continue to experience double digit annual growth, the production lines owned by Liwah Zhiti should be prioritized for producing intermediary raw material for the specialty and generic drugs, including Pafulin, to meet the demand of Ningbo Liwah. Accordingly, production of other plant extract products for sales to Liwah Zhiti's own third party customer will be reduced significantly. As disclosed in the announcement of the Company dated 24 March 2016, subsequent to the subscription in Haotian (BVI), the Group will continue to develop its plant extract business through Haotian (BVI) which has suitable plant extract production capacity.

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## LETTER FROM GRAM CAPITAL

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As the source of revenue of Liwah Zhiti will gradually be generated solely from Ningbo Liwah, Liwah Zhiti's suitability as a guarantor with respect to the bank facilities of Ningbo Liwah may be affected in the future. For existing bank facilities of Ningbo Liwah which are guaranteed by Liwah Zhiti, and the new bank facilities in the future, Ningbo Liwah may need to have an additional corporate guarantor.

The Cross Guarantee Agreement would allow the parties to respond promptly to any request of provision of a corporate guarantee by the banks. The banks may require on a case by case basis additional security from the guarantor, which the parties to the Cross Guarantee Agreement will consider the terms of the relevant bank facilities prior to meeting such banks' requirement, provided that the parties shall observe the obligation under its existing bank facilities.

The objective of having the commission fee in place is not for the parties to earn commission fee by providing corporate guarantee, but instead provides a mechanism to cater for the situation when there is a difference in the exposure undertaken by the parties due to the difference in the amount of loans guaranteed by the parties (i.e. the guarantee amounts) under the Jilin Haizi Guarantees and the Lansen BVI Guarantees respectively. The difference in the guarantee amounts can be due to a difference in (1) the sizes and/or (2) the timing of the banking facilities obtained by Jilin Haizi and Ningbo Liwah, which require the Guarantees.

In view of the foregoing reasons for and benefits of the Cross Guarantee Agreement, we concur with the Directors that the Cross Guarantee Agreement is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### **Principal terms of the Cross Guarantee Agreement**

#### *Date*

24 June 2016

#### *Parties*

- (a) Jilin Haizi, an indirect wholly-owned subsidiary of CIH;
- (b) Ningbo Liwah, an indirect wholly-owned subsidiary of the Company; and
- (c) Lansen BVI, a direct wholly-owned subsidiary of the Company.

#### *Effective period*

The effective period of the Cross Guarantee Agreement will commence on 1 July 2016 and will expire on 30 June 2019.



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## LETTER FROM GRAM CAPITAL

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### *Description of the transaction*

Pursuant to the Cross Guarantee Agreement, Jilin Haizi has agreed, during the Effective Period, to provide guarantees for the obligations under the bank facilities obtained or to be obtained by Ningbo Liwah.

Pursuant to the Cross Guarantee Agreement, on a reciprocal basis, Lansen BVI has agreed, during the Effective Period, to procure its subsidiary, as appropriate, to provide guarantees for the obligation under the bank facilities to be obtained by Jilin Haizi.

### *Commission*

At each financial year end on 31 December during the Effective Period, each party shall calculate the commission fee receivable, in accordance with the formula below, in respect of a loan which is guaranteed by one party during that financial year.

If the total commission fee receivable of one party equals to the total commission fee receivable of the other party for that financial year, no commission fee is payable by either party.

If the total commission fee receivable of the Net Receiving Party is larger than the total commission fee receivable of the Net Paying Party for that financial year, the Net Paying Party shall pay the net commission fee in cash to the Net Receiving Party within three months from 31 December of that financial year.

Commission fee for each guarantee = guarantee amount x (the number of days the guarantee is in effect during the year/365) x 0.5%

For the avoidance of doubt, in the event that a party requests the other party to provide guarantee for more than one loan during a financial year, the total commission fee payable by such party to the other party shall be the aggregate amount of all the commission fees incurred for each of the guarantees.

The annual guarantee commission rate of 0.5% (the “**Commission Rate**”) is determined and agreed with reference to the prevailing market rate of the commission charged by guarantee service providers after taking into account the following factors:

- (i) it is a reciprocal arrangement but not a one-sided guarantee provision;
- (ii) the objective of the parties is not to earn commission fee but instead provides a mechanism to cater for the situation when there is a difference in the guarantee amounts provided by each party;
- (iii) the commission fee rate for the parties are all the same and is lower than the market rate; and
- (iv) the calculation of the commission fee on each guarantee takes into account the number of days of the guarantee provision.

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## LETTER FROM GRAM CAPITAL

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Upon our enquiry, the Management advised us that guarantee commission quotation obtained from guarantee service provider is around 2% per annum. Having also taken into account the aforesaid factors for the determination of the Commission Rate, we consider the Commission Rate to be justifiable.

### *Guarantee & Commission Caps*

The total amount to be guaranteed by Jilin Haizi with respect to Ningbo Liwah's bank facilities during the Effective Period shall not exceed RMB130,000,000; and, on a reciprocal basis, the total amount to be guaranteed by Lansen BVI Group during the Effective Period shall not exceed RMB130,000,000.

The respective annual cap for each of the Jilin Haizi Guarantees and the Lansen BVI Guarantees and the maximum commission fee payable by Ningbo Liwah/Jilin Haizi (all together, the "**Guarantee & Commission Caps**") are set out as follows:

Relevant period	Annual cap of the Jilin Haizi Guarantee (RMB)	The maximum commission fee payable by Ningbo Liwah (RMB)	Annual cap of the Lansen BVI Guarantee (RMB)	The maximum commission fee payable by Jilin Haizi (RMB)
From 1 July 2016 to 31 December 2016	130,000,000	325,000	130,000,000	325,000
From 1 January 2017 to 31 December 2017	130,000,000	650,000	130,000,000	650,000
From 1 January 2018 to 31 December 2018	130,000,000	650,000	130,000,000	650,000
From 1 January 2019 to 30 June 2019	130,000,000	325,000	130,000,000	325,000

With reference to the Board Letter, the respective annual cap for each of the Jilin Haizi Guarantees and the Lansen BVI Guarantees in each of the 2016, 2017, 2018 and 2019 were arrived at after taking into account the following:

- (a) the amount of bank facilities drawn by Ningbo Liwah which are guaranteed by Liwah Zhiti, which is around RMB130 million;
- (b) the suitability of Liwah Zhiti of providing corporate guarantee with respect to Ningbo Liwah's bank facilities will be affected because the source of revenue of Liwah Zhiti will gradually be generated solely from Ningbo Liwah. As such, Ningbo Liwah may require an additional guarantor for its current or future bank facilities. The annual cap is set at the amount of the existing loan amount guaranteed by Liwah Zhiti as at 30 April 2016; and

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## LETTER FROM GRAM CAPITAL

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- (c) the Board were advised by the management of Jilin Haizi that Jilin Haizi is expected to require not more than RMB130 million bank facilities for their current level of business activities during the Effective Period and that Jilin Haizi may secure the bank facilities of such entire amount in any financial year during the Effective Period.

To assess the fairness and reasonableness of the Guarantee & Commission Caps during the Effective Period, we have discussed with the management of the Company regarding the basis and assumptions underlying the projections of the Guarantee & Commission Caps.

For our due diligence purpose, we have also obtained (i) a list of bank facilities drawn by Ningbo Liwah which are guaranteed by Liwah Zhiti as at 30 April 2016; and (ii) the correspondences between the Board and the management of Jilin Haizi which indicated the expected demand of banking facilities by Jilin Haizi (i.e. RMB130 million) with expected uses of such banking facilities.

Taken into account the aforesaid basis of determination of the Guarantee & Commission Caps and the results of our due diligence, we concur with the Directors that the Guarantee & Commission Caps are reasonable.

Shareholders should note that as the Guarantee & Commission Caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 30 June 2019, and they do not represent forecasts of bank facilities to be drawn by any party to the Cross Guarantee Agreement or commission to be paid/received by Ningbo Liwah under the Cross Guarantee Agreement. Consequently, we express no opinion as to how closely the actual bank facilities to be drawn by any party to the Cross Guarantee Agreement and or the commission to be paid/received by Ningbo Liwah under the Cross Guarantee Agreement will correspond with the Guarantee & Commission Caps.

### *Purpose of the loans which are subject of the Guarantees*

The bank loans to be borrowed by the parties and covered by the Guarantees should be used solely for the purpose of meeting the funding requirement of each of the parties in their ordinary course of business.

Having considered the above, we concur with the Directors that the terms of the Cross Guarantee Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### **Risk management measures under the Cross Guarantee Agreement**

According to the Board Letter, the Company will endeavor to monitor the financial status of Jilin Haizi from time to time so as to ensure it has adequate financial capability of providing the relevant corporate guarantees for Ningbo Liwah's borrowings. Similarly, the Company will also review the financial statement of Jilin

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## LETTER FROM GRAM CAPITAL

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Haizi at the relevant time prior to the provision of corporate guarantee for Jilin Haizi's bank borrowings in order to consider whether or not to provide the corporate guarantee as requested, or to suggest changes to the borrowing amount.

As at the Latest Practicable Date, based on information provided by Jilin Haizi, the Company has reviewed the unaudited consolidated financial statements of Jilin Haizi for the four months ended 30 April 2016 and the unaudited consolidated financial statements of Jilin Haizi for the year ended 31 December 2015 and the Directors are of the view that Jilin Haizi has adequate financial capability of providing the relevant corporate guarantees for Ningbo Liwah's borrowings. So far as the Company is aware having taken reasonable steps to ascertain the same, Jilin Haizi has not defaulted in any of its previous financial obligations.

As a safeguard measure, the Company will conduct review on the prevailing market rate for providing/receiving a guarantee to/from a third party guarantee service provider from time to time and at least on an annual basis to determine if there is any unusual material change to the prevailing market rates. This is to ensure that the rate of guarantee commission under the Cross Guarantee Agreement remains fair and reasonable.

In the event that the Company finds that the prevailing market rate of the commission is significantly lower than the guarantee commission rate of 0.5% under the Cross Guarantee Contract, the Company would evaluate whether the Company should renegotiate with Jilin Haizi to revise down the guarantee commission rate for new guarantee to be provided under the Cross Guarantee Agreement.

### **Listing Rules implication**

The Management confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of each of the Guarantees must be restricted by the Guarantee & Commission Caps for the period concerned under the Cross Guarantee Agreement; (ii) the terms of the Cross Guarantee Agreement must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Cross Guarantee Agreement must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Guarantees (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group (if applicable); (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps. In the event that any of the Guarantees exceed the Guarantee & Commission Caps, or that there is any material amendment to the terms of the Cross Guarantee Agreement, as confirmed by the Management, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

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## LETTER FROM GRAM CAPITAL

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Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Guarantees and thus the interest of the Independent Shareholders would be safeguarded.

### RECOMMENDATION ON THE CROSS GUARANTEE AGREEMENT

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Cross Guarantee Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Cross Guarantee Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Cross Guarantee Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

*The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from Ascent Partners Valuation Service Limited, an independent valuer, in connection with its valuation of Haotian Holdings Limited as at 31 January 2016.*



Suite 2102, Hong Kong Trade Centre,  
161–167 Des Voeux Road Central,  
Hong Kong  
Tel: 3679-3890  
Fax 3579-0884

Date: 18 March 2016

*The Board of Directors*

**Lansen Pharmaceutical Holdings Limited**

Suites 1203–4

Li Po Chun Chambers

189 Des Voeux Road Central

Central, Hong Kong

Dear Sir/Madam,

RE: Valuation of 100% Equity Interest in Haotian Holdings Limited for Lansen Pharmaceutical Holdings Limited

In accordance with the instruction of Lansen Pharmaceutical Holdings Limited (the “**Company**”), we have undertaken a valuation to determine the fair value of 100% equity interest in Haotian Holdings Limited (the “**Target Company**”) as at 31 January 2016 (the “**Valuation Date**”).

This report outlines the factors considered, valuation methodology, basis and assumptions employed in formulating our opinion and our conclusion of value.

Ascent Partners Valuation Service Limited (“**Ascent Partners**”) is an independent firm providing full range of valuation and advisory services. This report is prepared independently. Neither Ascent Partners nor any authors of this report hold any interest in the Company or its related parties. The fee for providing this report is based on Ascent Partners’ normal professional rates, whilst expenses (if incurred) are being reimbursed at cost. Payment of fees and reimbursements are not contingent upon the conclusions drawn in this report.

## 1. PURPOSE OF VALUATION

The purpose of this valuation is to express an independent opinion on the fair value of 100% equity interest in the Target Company as at the Valuation Date. This report outlines our latest findings and valuation conclusion, and is prepared solely for the management of the Company. Ascent Partners understands that it may be included in the Company's circular for public disclosure.

## 2. SCOPE OF WORK

In conducting this valuation exercise, we have

- Co-ordinated with the Company representatives to obtain the required information and documents for our valuation;
- Gathered all relevant information of the Target Company, including the legal documents, licenses, financial statements, projections, etc.;
- Discussed with the management of the Target Company (the “**Management**”) and the Company to understand the history, business model, operations, customer base, business development plan and profit forecast, etc. of the business enterprises for valuation purpose;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;
- Investigated into the information of the Target Company and considered the basis and assumptions of our conclusion of value;
- Designed an appropriate valuation model to analyze the market data and derived the estimated fair value of 100% equity interest in the Target Company; and
- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

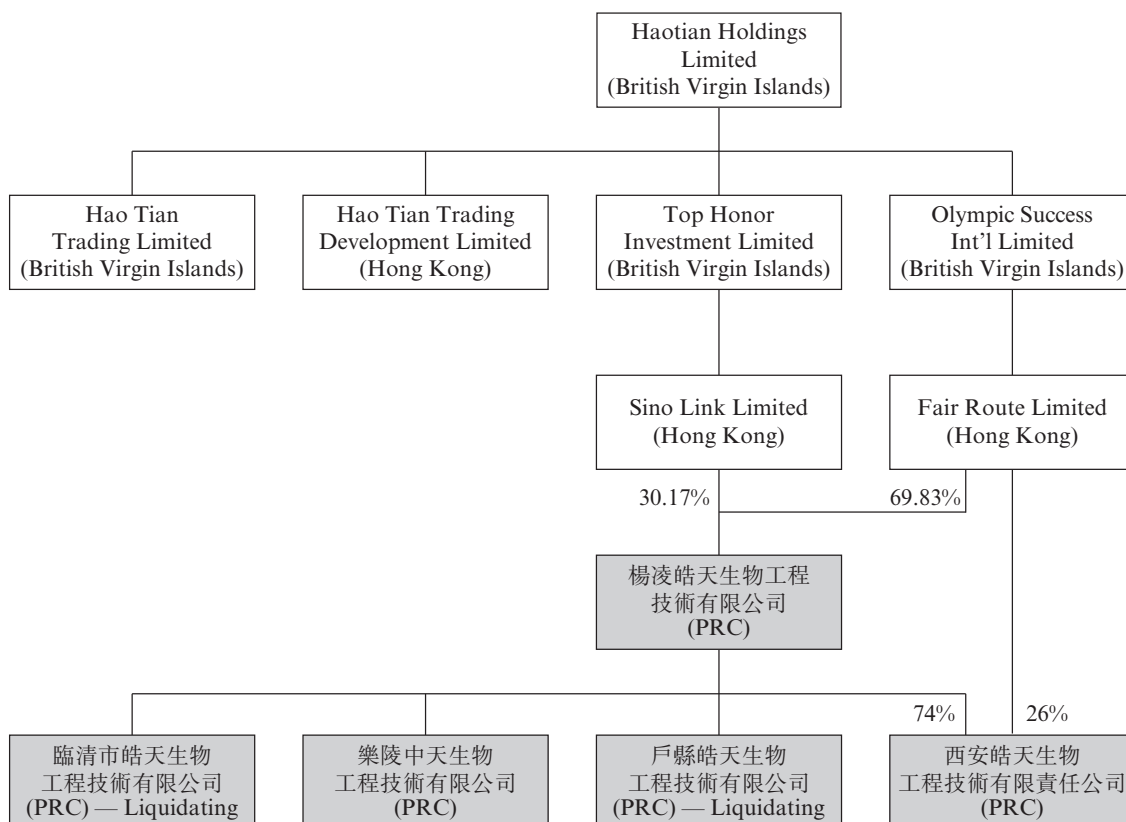
When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the Target Company and its authorized representatives.

### 3. BACKGROUND OF THE TARGET COMPANY

The Target Company mainly engages in research on plant extracts and chemical intermediates and related sales and production. Its products are mainly targeted at manufactures of health food products in China and overseas.

楊凌皓天生物工程技術有限公司 and 西安皓天生物工程技術有限責任公司 are the two main operating companies under the Target Company.

Group Chart of the Target Company:



*Remarks:*

1. 臨清市皓天生物工程技術有限公司 and 戶縣皓天生物工程技術有限公司 are in the process of liquidation, these two companies are excluded in this valuation.
2. 樂陵中天生物工程技術有限公司 will be restructured out of the Target Company, this company is excluded in this valuation.
3. 楊凌皓天生物工程技術有限公司 and 西安皓天生物工程技術有限責任公司 are the two main operating companies under the Target Company.



#### 4. ECONOMIC OVERVIEW

China marches toward the second half of 2015 with its growth slowing down, price level falling, and the government experimenting with new tools to support economic expansion. The People's Bank of China and the Chinese government have implemented aggressive fiscal and monetary policies to bolster the overall demand as well as reform the country's unbalanced economic structure; an attempt to prevent a downward spiral of the economy.

A shrinking working-age population led to a reduced scope for additions to the capital stock and diminished space for productivity gains, as China's potential growth is slowing. China's Gross Domestic Product (GDP) growth is 6.9% in 2015, down from 7.3% in 2014.<sup>1</sup> A smooth slowdown is contingent on the government's success of the aggressive package of reforms of which may contain financial risks. Capacity utilization in the industrial sector is close to lows last seen in the financial crisis of 2008. A GDP deflator in negative territory and falling factory gate prices also point to substantial slack. With much of the unused capacity in high-pollution and low-efficiency heavy industry, the scope for accelerating growth by increasing utilization is limited.

China's long-term strategy for rebalancing the economy toward consumption continues to eke out the modest gains. For shorter terms, slowing income growth, and a drag on wealth from falling house prices means consumers are ill-positioned to boost demand. Urban income growth came in at 6.7% year-on-year (YoY) in the first half of 2015, substantially down from a peak of 17.2% in 2007.<sup>2</sup>

#### 5. INDUSTRY OVERVIEW

##### Plant Extracts Industry in China

According to the statistics from China Chamber of Commerce for Import & Export of Medicines & Health Product (CCCMPIE) in 2014, China's export value of plant extracts was US\$1.78 billion, attaining a YoY growth of 25.9%, represented by 49.48% of export of Chinese medicine products<sup>3</sup>. Meanwhile export of plant extracts achieved a growth rate of 29.6% YoY throughout January-June 2015 reaching US\$1.09 billion. This industry has become one of the fastest growing industries in the traditional Chinese medicinal product export<sup>4</sup>.

In 2014, China's plant extracts exported to 133 countries and districts. The top destinations were Asia, Europe and North America, the shares totalling to 92%. However, America is the largest export country, contributing to 19.3% of total export value with US\$0.34 billion (9.3% YoY) due to the high demand of dietary supplements. With US\$0.23 billion (21.4% YoY) and 13.2% share, Japan became the second largest market, followed by India, Indonesia and Malaysia with export

<sup>1</sup> IMF, 2016, "World Economic Outlook Update"

<sup>2</sup> Orlik, Tom and Chen, Fielding, 2015, 'China's Accelerated Stimulus Stabilizes Outlook for Real Growth', Bloomberg Intelligence

<sup>3</sup> 國內外香化資訊, 2015, "植物提取物市場需求旺盛"

<sup>4</sup> 中藥材天地網, 2015, "2015年上半年提取物出口貿易情況"

values of US\$0.14 billion, US\$0.12 billion and US\$82.44 million respectively<sup>5</sup>. In the first half of 2015, the share of export market remained the same. America is still the largest major export market with 19% share, followed by Japan's 10% share. Indonesia and Malaysia are the third largest market, with shares of 9% respectively<sup>6</sup>.

The future extract market can be described as full of opportunities, with the application areas of plant extracts constantly being expanded, to include pharmaceutical raw materials, foods with specific health functions, food additives, cosmetics, feed additives, veterinary drugs of plant origins, botanical pesticides, etc. The emerging markets slowly rising, and the concept of people returning to nature strengthened.

### Health Food Industry in China<sup>7</sup>

China's health food market is growing at a favourable pace. According to CI Consulting data, the Chinese health food market grew to RMB91.1 billion in 2009, becoming the second largest market in the world following the United States. Growing at a Compound Annual Growth Rate (CAGR) of 6.9% between 2000 and 2009, the market is expected to surpass RMB450 billion by 2015, which would imply an overall CAGR of 15.8% between 2000 and 2015 if realised. Moreover, according to Raise International Group, maintaining a CAGR at approximately 16%, the market will eventually reach a size of about RMB2 trillion by 2023. The drivers of this rapid growth include rising disposable incomes and the ageing society.

Observing companies over the designated size (i.e. annual revenue exceeding RMB30 million), revenue totalled RMB19.6 billion in March 2012 but had grown at an impressive CAGR of 44.8% to RMB41.2 billion by March 2015. As the growth rate of companies over the designated size significantly exceeds that of the overall industry, it can be inferred that the concentration ratio of the industry is increasing. In terms of profitability, as previously noted, due to inadequacies in regulation and food safety issues, the industry's profitability is high with net profit margins hovering close to 20%.

## 6. BASIS OF VALUATION

Our valuation is carried out on a fair value basis. Hong Kong Financial Reporting Standard (HKFRS) 13 *Fair Value Measurement* defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”.

<sup>5</sup> 國內外香化資訊, 2015, “植物提取物市場需求旺盛”

<sup>6</sup> 北京商報, 2015, “植提物:緣何國內開花國外香”

<sup>7</sup> Speeda, 2015, “Health Food Industry Overview — China”

## 7. BASIS OF OPINION

We have conducted our valuation in accordance with International Valuation Standards issued by International Valuation Standards Council<sup>8</sup>. The valuation procedure includes review of the financial and economic conditions of the subject business, an assessment of key assumptions, estimates, and representations made by the Target Company. All matters essential to the proper understanding of the valuation are disclosed in the valuation report. Opinion of value included in the valuation report is impartial, independent, and unbiased.

The following factors also form a considerable part of our basis of opinion:

- Assumptions on the market and on the subject business that are considered to be fair and reasonable;
- Financial performance that shows a consistent trend of the operation of the subject business;
- Consideration and analysis on the micro- and macro-economic factors; and
- Analytical review of the subject business.

We have planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that our valuation provides a reasonable basis for our opinion.

## 8. SOURCES OF INFORMATION

In conducting our valuation of the subject asset, we have considered, reviewed and relied upon the following key information provided by the instructing party and the public.

- Overview of the business nature of the Target Company;
- Discussions with the Management and the Company;
- Historical financial reports of the Target Company;
- Financial projection provided by the Target Company;
- Publications and private research reports regarding the industry; and

<sup>8</sup> The IVSC has been in existence for more than 25 years. Its origins were in the need identified by a number of professional bodies from around the world for uniformity in the valuation approaches used in real estate markets. Over the past decade it has evolved and expanded and now produces standards for many types of assets, including plant and equipment, intangible assets and businesses. The International Valuation Standards are already recognised and accepted by a wide range of organisations including the UK Financial Services Authority, the Hong Kong Securities and Futures Commission, the Securities and Exchange Board of India and the European Public Real Estate Association amongst others. IVSC has also worked in liaison with the International Accounting Standards Board (IASB) in producing guidance on valuations required under IFRS, an increasingly important need as IFRS is adopted in more a states.

- Bloomberg Database, Hong Kong Stock Exchange, Hong Kong Monetary Authority and other reliable sources of market data.

In arriving at our opinion, we have assumed and relied upon the accuracy and completeness of the information reviewed by us for the purpose of this valuation. In addition, we have relied upon the statements, information, opinion and representations provided to us by the Company.

We also conducted research using various sources including government statistical releases and other publications to verify the reasonableness and fairness of information provided and we believe that the information is reasonable and reliable.

Our opinion is based upon existing economic, market, financial and other conditions which can be evaluated on the date of this report and we assume no responsibility to update or revise our opinion based on events or circumstances occurring after the date of this report. In reaching our opinion, we have made assumptions with respect to such economic, market, financial and other conditions and other matters, many of which are beyond our control or the control of any party involved in this valuation exercise.

## 9. VALUATION APPROACH AND METHODOLOGY CONSIDERED

In carrying out this valuation exercise, we have considered the following approaches and methodologies:

**Cost Approach** — The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.

Unlike market and income approaches which either incorporate market sentiments or future earnings capacity of an asset as a function to determine its current value, cost approach considers the fundamental cost it takes to form the asset. In our opinion, this method is inapplicable to the current analysis as there is no convincing association of the market value of the subject asset with its cost.

**Market Approach** — In this approach, the value of an asset is derived by looking at how the market prices similar assets. This approach employs market data from comparable guideline companies to develop a measure of value for the subject company. There are two methods to implement the market approach.

In the first market approach, transaction data for private and public companies is used to compute the value. In this method, a database of buy and sale records of enterprises with financial fundamentals on companies similar to the subject company is used as basis for transaction prices. Assets which have an established market may be appraised by this approach. However, this method has not been adopted because

insufficient market transaction data are available from listed companies engaged in the same business. Therefore, there are insufficient relevant comparable transactions to form reliable basis for our opinion of value.

In the second market approach, the valuation multiples derived from the market prices and financial data of listed companies in a similar business is used to appraise the subject company. This method is considered to be not appropriate because the Target Company does not have positive earnings in the latest fiscal year. As such, earning multiples derived from comparable companies cannot be applied on the Target Company to arrive its fair value.

**Income Approach** — In the income approach, the value of an asset is the present worth of the expected future economic benefits of ownership. The value of the asset to be valued is developed through the application of the discounted cash flow method to devolve the values of expected future income generated by the asset into a present value.

In this valuation exercise, we believed that the income approach would be appropriate and reasonable in the appraisal for the fair value of the Target Company, because it eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to its business operation. The enterprise value of the Target Company has been developed through the application of the market value weighted average cost of capital (WACC) to discount the free cash flows to the firm (FCFFs). The enterprise value is then adjusted for net debt to derive the fair value of equity of the Target Company.

## 10. ASSUMPTIONS AND NOTES TO VALUATION

The assumptions considered to have significant effects in this valuation have been evaluated and validated prior to arriving at our assessed value.

### General Assumptions

- a. There will be no material change in the existing political, legal, technological, fiscal or economic conditions which may adversely affect the economy in general or the business of the Target Company;
- b. The Management will be able to successfully implement the business strategy in relation to the marketing and sales;
- c. All relevant legal approvals and licenses necessary to the production and sales would be officially obtained and renewed upon expiry;
- d. There will be no material change in the tax rates and relevant government policies in China;
- e. There is no hidden or unexpected conditions associated with business of the Target Company that may adversely affect the valuation;

- f. We have not investigated any financial data to determine the earning capacity of the operation in which the assets are used; we assume that the prospective earnings will provide a reasonable return on the fair market value of the assets;
- g. We have not visited the premises where the Target Company's business operates. We have relied on the assistance of information, including the financial projections of the Target Company, which we are not able to verify; and
- h. We have assumed the accuracy of, and have relied on, such information to a considerable extent prior to arriving at our opinion of value.

**Other Assumptions and Notes**

- a. The corporate tax rate is assumed to be 25.00% which is the statutory corporate tax rate in China;
- b. Terminal growth rate is assumed to be 2.77% which is the average of 2011–2015 inflation rate of China estimated by International Monetary Fund<sup>9</sup>;
- c. As advised by the Management and the Company,
  - (1) the selling prices in 2016 and 2017 are based on the Management's estimation which stems from prevailing market conditions. The selling prices are assumed to be increased by 2.00% per year from 2018 with reference to the terminal growth rate and taking into the account of the slowdown of economic growth in China in the foreseeable future;
  - (2) The estimated cost of sales of the existing products is referenced to the historical production cost of the products, and the estimated cost of sales of the new products is referenced to the production data from the trial production, both having taken into account the potential cost savings arising from scale effect. The cost of sales mainly comprises cost of raw materials, ancillary raw material, processing costs, labour costs, depreciation charge and outsourcing charge;
  - (3) the production capacity is estimated based on 300 production days per year, taking into account of the holidays and maintenance downtime;

<sup>9</sup> International Monetary Fund, 2015, "World Economic Outlook Database, April 2015"

- (4) the forecasted selling expenses are assumed to be 1.50% of total revenue. Selling expenses mainly comprise variable costs such as transportation cost, business development and promotion expenses and relatively fixed costs such as salary. The forecasted selling expenses is determined as a percentage to the revenue because (i) transportation cost bears a direct relationship with the sales volume; (ii) the business development and promotion expenses are incurred to drive sales volume; and (iii) the relatively fixed costs will become immaterial when revenue grows. The assumption of a fixed percentage to revenue is regarded as a conservative assumption made by the Management as it does not take into account the potential cost savings arising from scale effect;
- (5) the forecasted administration expenses are assumed to have an annual growth of 2.00% with reference to the terminal growth rate and taking into the account of the slowdown of economic growth in China in the foreseeable future;
- (6) for the change in working capital assumption, the change in working capital is determined from the changes in account receivable, inventory and account payable at end of each year under the projection, based on the assumption of turnover days of 45 days, 45 days and 15 days respectively. The turnover days assumption are with reference to the Target Company's historical performance and the working capital management improvement target; and
- (7) there would be a capital injection (the “**Assumed Capital Injection**”) amounted to RMB55 million into the Target Company. The Assumed Capital Injection of RMB55 million would be applied for, amongst others, (i) expansion of the Target Company's berries extract production line in the second quarter of 2016 (Details set out in Section 10 (Other Assumptions and Notes) d. (1)); (ii) obtaining the Good Manufacturing Practice (GMP) filing of one of the products of the Target Company, namely, ginkgo biloba extract (銀杏葉提取物), in the second quarter of 2016; (iii) building a new multi-functional production line to produce a variety of products from the second half of 2016 to the first half of 2017 (Details in Section 10 (Other Assumptions and Notes) d. (5)); and (iv) general working capital.



- d. According to the business plan provided by the Management and the Company,
- (1) in the second quarter of 2016, the Target Company will acquire production machinery and equipment amounted to RMB2.17 million to expand its berries extract production line; and acquire machinery and equipment amounted to RMB5.40 million in existing multi-functional production line for GMP filing of one of its products, namely, ginkgo biloba extract;
  - (2) the expanded berries extract production line is expected to be ready to operate from June 2016, and reach full capacity in 2017. The annual production capacity of the berries extract production line varies with different type of berries extracts due to different input output production ratio. For illustration, assuming only bilberries is produced, the annual production capacity will be expanded from 26 tonnes to 59 tonnes;
  - (3) the current production line for synthetic health products is expected to reach full capacity in 2017. The annual production capacity of this production line varies with different type of plant extracts using synthetic production due to different input output production ratio. In 2016, this production line will produce a plant extract which will help brain development. Assuming only this plant extract is produced, the annual production capacity of this production line is 25 tonnes;
  - (4) the existing multi-functional production line is capable of producing a variety of plant extracts such as ginkgo biloba extracts and ginseng extracts. It is expected to reach full production capacity in 2017. Assuming only ginkgo biloba extract is produced, the annual production capacity of this multi-functional production line is 30 tonnes;
  - (5) the Target Company will invest RMB30 million for building a new multi-functional production line to produce a variety of products (RMB10 million in the second half of 2016 and RMB20 million in the first half of 2017). When the new multi-functional line is built and after obtaining the relevant certificates for domestic or export sales, the plan is to produce single herb granules (單味顆粒) as its first product in second half of 2017. The sale of single herb granules is expected to maintain an annual growth of 15% from 2019 to 2025; and
  - (6) the Target Company's business strategy from the second half of 2016 is that it will outsource part of the production to sub-contractor, based on its own production schedule and the customer requests and sales order, with the view to maintaining production efficiency of its production line. This business area is expected to grow at 15.00% annually until 2025.

e. Notes to revenue:

The revenue of the Target Company is generated from sales of products from the following sources:

- (1) the berries extract production line
- (2) the synthetic health products production line
- (3) the existing multi-functional production line
- (4) the new multi-functional production line
- (5) the sub-contract business
- (6) the trading business

$$\text{Total Revenue} = \sum \text{Unit selling price} \times \text{Sales volume of each product}$$

For revenue generated from sources (1)–(3), the selling prices in 2016 and 2017 are based on the Management's estimation which stems from prevailing market conditions. The full production capacity is expected to be reached at 2017 (please refer to Section 10 Other Assumptions and Notes D (2)–(4)). The selling prices are assumed to be increased by 2.00% per year from 2018 with reference to the terminal growth rate and taking into the account of the slowdown of economic growth in China in the foreseeable future.

For revenue generated from source (4), according to the business plan in Section 10 Other Assumptions and Notes D (5), when the new multi-functional line is built and after obtaining the relevant certificates for domestic or export sales, the plan is to produce single herb granules as its first product from second half of 2017. The sale of single herb granules is expected to maintain an annual growth of 15% from 2019 to 2025, such growth rate is considered as prudent when comparing to the statistics constructed by CCCMPIE.

For revenue generated from source (5), according to the business plan in Section 10 Other Assumptions and Notes D (6), this business area is expected to grow at 15.00% annually until 2025.

For revenue generated from source (6), the selling prices in 2016 and 2017 are based on the Management's estimation which stems from prevailing market conditions. The selling prices are assumed to be increased by 2.00% per year from 2018 with reference to the terminal growth rate and taking into the account of the slowdown of economic growth in China in the foreseeable future. For prudent purpose, the sales volume of trading business is assumed to have zero growth from 2018 onwards.

- f. Having discussed with the directors of the Company (the “**Directors**”), the Directors believe that the above key assumptions are necessary for us to arrive at a reasonable estimated valuation. The Directors consider that these assumptions are fair and reasonable;
- g. A discount for lack of marketability (DLOM) of 30.00% is applied to account for the lack of marketability of the Target Company, due to the Target Company being a closely held business that is not marketable, according to “Marketability and Value: Measuring the Illiquidity Discount” by Aswath Damodaran; and
- h. The exchange rate adopted in this valuation is 6.576 RMB/US\$ based on the Bloomberg database.

## 11. ANALYSIS AND VALUATION

We have reviewed the financial projections prepared by the Management and the Company and made relevant inquiries with the key management personnel of the Target Company and the Company regarding the reasonableness of the financial projection.

Discounted cash flow method (DCF) is a method adopting the Income Approach to state the value of a business entity in present value term. In this valuation, the free cash flows available to the business as a whole have been considered. The free cash flow to the firm (FCFF) for each year is calculated as follows:

$$\text{FCFF} = \text{Net Profit} + \text{Depreciation} + \text{After-Tax Interest Expenses} - \text{Change in Net Working Capital} - \text{Capital Expenditure}$$

This is a widely used method to determine the value of a business or a firm, which is based on discounting all future cash flows to their present worth. These cash flows are then discounted by the appropriate discount rate, the WACC of the Target Company. The detailed projection schedule of the valuation of the Target Company is disclosed in section 16.

WACC is the minimum required return that a valuation subject must earn to satisfy its various capital providers including shareholders and debtholders. It is calculated by taking into account the relative weights of each component of the capital structure. It is computed using the formula below:

$$\text{WACC} = W_e \times R_e + W_d \times R_d \times (1 - t), \text{ in which:}$$

$$R_e = \text{Cost of Equity}$$

$$R_d = \text{Cost of Debt}$$

$$W_e = \text{Weight of Equity Value to Enterprise Value}$$

$$W_d = \text{Weight of Debt Value to Enterprise Value}$$

$$t = \text{Statutory Corporate Tax Rate}$$

- a. The WACC is derived from the market data of the following guideline public companies adopted.

Stock Code	Company Name
600572 CH Equity	Zhejiang Conba Pharmaceutical Co., Ltd.
600535 CH Equity	Tasly Pharmaceutical Group Co., Ltd.
002118 CH Equity	Jilin Zixin Pharmaceutical Industrial Co., Ltd.
300138 CH Equity	Chenguang Biotech Group Co., Ltd.

Details of screening process and criteria of these guideline public companies can be found in Section 17.

- b. As at the Valuation Date, the debt-to-equity ratio is 16.24% which represents the average debt-to-equity ratio of the guideline public companies.
- c. We assumed the cost of debt is 4.35% which is the China prime rate.
- d. The cost of equity, according to the Capital Asset Pricing Model (CAPM), is given by:

$$\text{Cost of Equity} = \text{Risk-free Rate} + \beta_1 \times \text{Market Risk Premium} + \text{Size Premium} + \text{Company Specific Risk Premium}$$

where

- $\beta_1$  is a measure of the sensitivity of return on equity of the firm to the market risk premium; and
  - the market risk premium is the difference between the expected market return, i.e the expected rate of return on the market portfolio, and the risk-free rate.
- e. The value of  $\beta_1$  is given by

$$\beta_1 = \beta_u + \beta_u (1 - t) \frac{D}{E}$$

where

- $\beta_u$  is a measure of the unlevered sensitivity of return on equity of the managed care industry to the market risk premium;
- $t$  is the statutory corporate tax rate of China, which is 25.00%; and
- $D/E$  is 16.24%, please refer to Section 11 (b).

f. The resulting cost of equity applied is 23.57%. Cost of equity calculation:

Risk-free Rate <sup>(1)</sup>	2.89%
Levered Beta ( $\beta$ ) <sup>(2)</sup>	0.99
Market Risk Premium <sup>(3)</sup>	13.06%
Size Premium <sup>(4)</sup>	5.78%
Company Specific Risk Premium <sup>(5)</sup>	<u>2.00%</u>
<b>Cost of Equity</b>	<b><u><u>23.57%</u></u></b>

Notes:

(1) The 10 years China Sovereign Bond Yield as at the Valuation Date is employed as the risk-free rate of China because government bonds issued by the Chinese Government, are regarded as risk-free. The rate, as obtained from Bloomberg database, is 2.89%.

(2) 0.99 is the levered beta derived from the average of unlevered beta of 4 guideline public companies in similar industries.

<b>Guideline Public Companies</b>	<b>Unlevered Beta (<math>\beta_u</math>)</b>
600572 CH Equity	0.89
600535 CH Equity	0.73
002118 CH Equity	0.98
300138 CH Equity	<u>0.92</u>
<b>Average of <math>\beta_u</math></b>	<b><u><u>0.88</u></u></b>

(3) The expected market return of China, as proxied by the SHSZ300 Index annualized return obtained from Bloomberg, is 15.95%. Therefore, the market risk premium, which is the difference between the expected market return and the risk-free rate, is estimated to be 13.06%.

(4) A small company risk premium of 5.78%, suggested by Duff & Phelps Valuation Handbook 2015, is applied to compensate for the relatively small size of the Target Company.

(5) A company specific risk premium of 2.00% is applied to the computation of cost of equity for the risk factors specific to the Target Company.

g. The resulting WACC is found to be 20.73%.

## 12. VALUATION COMMENTS

As part of our analysis, we have reviewed the financial and business information, project documentation and other pertinent data concerning the Target Company which has been made available to us. Such information has been provided by the Target Company and the Company. We have assumed the accuracy of, and have relied on, such information to a considerable extent in arriving at our opinion of value.

We confirm that we have made relevant searches and inquiries and obtained such further information as is considered necessary for the purposes of this valuation exercise.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are regarded by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, the Target Company and Ascent Partners.

### **13. RISK FACTORS**

#### **a. General Economic, political and social considerations**

Due to the uncertainties in economic situation, there is no guarantee that the expected financial performance will materialize. Any changes in global political, economic and social conditions, laws, regulations and policies may have significant impacts on the projections of the future income of the Target Company. None of these changes can be foreseen with certainty.

#### **b. Inflation**

The concurrent loosening of monetary policies by the central banks in many developed and developing countries pose a significant risk of inflation, which will erode the profitability of the Target Company.

#### **c. Company specific risk**

The performance of the Target Company may be better or worse than our expectation, and the resulting earnings and cash flows will be very different from our estimates. The possibility of severe operational incidence, whether it is exogenous or endogenous, cannot be precluded.

#### **d. Technological changes**

Any change in the technological developments and advancements may have significant impacts on the projections of the future income of the Target Company. To remain competitive in the industry, the Target Company may be required to make substantial capital expenditures to keep up with technological changes.

#### **e. Concentration risk**

The revenue of the Target Company is heavily dependent on a single business. There is no guarantee that this business relationship can be maintained and that the products of the Target Company remain popular.

**14. OPINION OF VALUE**

Based on our investigation and analysis outlined in this report, we are of the opinion that, as at 31 January 2016, the fair value of 100% equity interest in the Target Company is US\$33,759,000 (UNITED STATES DOLLARS THIRTY THREE MILLION SEVEN HUNDRED AND FIFTY NINE THOUSAND ONLY).

Yours faithfully,

For and on behalf of  
**Ascent Partners Valuation Service Limited**

**William Yuen**  
*Director*  
*CFA, FRM*

**Paul Wu**  
*Principal*  
*MSc, CMA (Aust.)*

*Notes:*

1. Mr. William Yuen is a Chartered Financial Analyst charterholder and Financial Risk Manager — Certified by the Global Association of Risk Professionals. He also holds a Master degree of Science in Finance. Mr. Yuen has over 10 years' experience in valuation of business entities, tangible and intangible assets and financial instruments for private and public companies in various industries.
2. Mr. Paul Wu is a Certified Management Accountant. He also holds a Master degree of Science. He has extensive experience in corporate advisory and valuation of business entities, tangible and intangible assets and financial instruments for private and public companies in various industries. Prior to working in the financial service industry, Mr. Wu had worked as a senior management in world class technology companies.
3. This valuation report is co-authored by Mr. Alex Tin.



**15. LIMITING CONDITIONS**

1. As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, client representation, project documentation and other pertinent data concerning the project made available to us during the course of our valuation. We have assumed the accuracy of, and have relied on the information and client representations provided in arriving at our opinion of value.
2. We have explained, as part of our service engagement procedure, which it is the director's responsibility to maintain proper books of accounts, and to ensure that the financial statements give a true and fair view and have been prepared in accordance with the relevant companies' ordinance.
3. Ascent Partners will not be required to give testimony or to attend in court or any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made.
4. No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers.
5. Our conclusions assume continuation of prudent client policies over a period of time that is considered to be necessary in order to maintain the character and integrity of the valuation subject(s).
6. We assume that there are no hidden or unexpected conditions associated with the valuation subject(s) that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the date of this report.
7. This valuation report has been prepared solely for the use of the designated party. The valuation report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any other parties without our prior written consent.
8. This report is confidential to the client for the specific purpose stated in our engagement. In accordance with our standard practice, this report and valuation can solely be used by the party to whom it is addressed, and no responsibility is assumed with respect to any third parties for the whole or any part of its contents.

## 16. VALUATION MODEL

<b>For the periods</b>										
Begin	1-Feb-16	1-Jan-17	1-Jan-18	1-Jan-19	1-Jan-20	1-Jan-21	1-Jan-22	1-Jan-23	1-Jan-24	1-Jan-25
End	31-Dec-16	31-Dec-17	31-Dec-18	31-Dec-19	31-Dec-20	31-Dec-21	31-Dec-22	31-Dec-23	31-Dec-24	31-Dec-25
<i>RMB'000 (unless otherwise stated)</i>										
Revenue	125,908	338,760	392,676	420,659	452,221	487,887	528,260	574,032	626,001	685,082
Cost of Sales	(93,000)	(263,823)	(304,847)	(325,122)	(347,930)	(373,640)	(402,677)	(435,529)	(472,759)	(515,010)
Business Taxes and Surcharges	(449)	(757)	(991)	(1,091)	(1,206)	(1,337)	(1,486)	(1,657)	(1,853)	(2,077)
Gross Profit	32,459	74,179	86,838	94,445	103,085	112,910	124,096	136,845	151,389	167,995
Other Income	982	1,329	2,132	3,872	5,887	8,121	10,601	13,362	16,374	19,680
Selling Expenses	(1,823)	(5,081)	(5,890)	(6,310)	(6,783)	(7,318)	(7,924)	(8,610)	(9,390)	(10,276)
Administrative Expenses	(9,787)	(10,719)	(10,933)	(11,151)	(11,373)	(11,600)	(11,831)	(12,067)	(12,307)	(12,553)
Profit before Tax	21,831	59,707	72,147	80,857	90,816	102,113	114,942	129,529	146,066	164,847
Income Tax	—	(4,706)	(18,037)	(20,214)	(22,704)	(25,528)	(28,736)	(32,382)	(36,516)	(41,212)
Profit after Tax	21,831	55,002	54,110	60,643	68,112	76,585	86,207	97,147	109,549	123,635
Add: Depreciation	5,208	6,826	8,326	8,326	8,326	8,326	8,326	8,326	3,897	3,897
Add: Change in Working Capital	(20,250)	(40,560)	(10,158)	(5,188)	(5,846)	(6,601)	(7,466)	(8,459)	(9,599)	(10,906)
Less: Capital Expenditure	(17,570)	(20,000)	—	—	—	—	—	—	—	—
Free Cash Flow to the Firm (FCFF)	(10,780)	1,267	52,278	63,781	70,592	78,309	87,066	97,013	103,847	116,626
Discount Period	0.46	1.42	2.42	3.42	4.42	5.42	6.42	7.42	8.42	9.42
Discount Factors	20.73% 0.92	0.77	0.63	0.53	0.44	0.36	0.30	0.25	0.20	0.17
Present Values of FCFF	(9,888)	970	33,157	33,507	30,717	28,224	25,991	23,988	21,268	19,784
Sum of Present Value of FCFF	207,716									
Present Value of Terminal Value	109,422									
Enterprise Value	317,138									
Enterprise Value	317,138									
Less: Borrowing	—									
Add: Idle Cash	—									
Less: DLOM	30.00% (95,141)									
<b>100% Equity Interest Value</b>	<b>221,997</b>									
<b>100% Equity Interest Value (US\$'000)</b>	<b>33,759</b>									
<i>Note:</i>										
Terminal Value Calculation:										
Profit after Tax (FY2025)	123,635									
Add: Depreciation	3,897									
Add: Change in Working Capital	(10,906)									
Less: Capital Expenditure	(3,897)									
FCFF	112,729									
Weighted Average Cost of Capital ("WACC")	20.73%									
Terminal Growth Rate ("g")	2.77%									
Capitalization Rate (WACC-g)	17.96%									
Terminal Value	645,052									
Discount Factor	0.17									
Present Value of Terminal Value	109,422									

## 17. GUIDELINE PUBLIC COMPANIES

We have conducted an exhaustive search in the Bloomberg database with the keyword of “Specialty Pharma” as the search criteria. The business model and product profiles of the short-listed companies are examined in further screening, with the information obtained from the companies’ web-sites and/or other reliable sources, if needed.

By studying the companies’ operation in detail, 4 guideline public companies are selected:

*Guideline Public Company 1:*

*Zhejiang Conba Pharmaceutical Co., Ltd. (600572 CH Equity)*

*Zhejiang Conba Pharmaceutical Co., Ltd. develops and manufactures pharmaceutical products. Its products include Chinese traditional medicines.*

*Guideline Public Company 2:*

*Tasly Pharmaceutical Group Co., Ltd. (600535 CH Equity)*

*Tasly Pharmaceutical Group Co Ltd researches, produces, and sells Chinese medicines which are mainly derived from the root of red-rooted salvia. Its products focus on the treatment of cardiovascular and brain blood vessel diseases.*

*Guideline Public Company 3:*

*Jilin Zixin Pharmaceutical Industrial Co., Ltd. (002118 CH Equity)*

*Jilin Zixin Pharmaceutical Industrial Co., Ltd. mainly engages in the development, production and selling of Chinese medicine for Cardio Cerebral blood vessel disease, digestion system disease and bone fracture. It also plants herbs for making Chinese medicine.*

*Guideline Public Company 4:*

*Chenguang Biotech Group Co., Ltd. (300138 CH Equity)*

*Chenguang Biotech Group Co., Ltd. is principally engaged in the natural plant extracts industry. It produces, develops and markets red pepper essence, lutein (marigold extract), Capsicum oleoresin, lycopene and other natural plant extracts.*

**18. HKFRS 13 DISCLOSURE**

Inputs to valuation technique are categorized into three levels in accordance with HKFRS 13.

Definitions of levels of inputs are as follows:

Level 1 inputs	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 inputs	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs	Unobservable inputs for the asset or liability.

Below are the inputs to valuation technique adopted:

**Level 3 Fair Value Measurement**

<b>Valuation Technique</b>	<b>Input(s)</b>	<b>Effect on fair value for increase of input(s)</b>
Income Approach	WACC	Decrease
	DLOM	Decrease
	Terminal Growth Rate	Increase

## 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

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations which were required (a) 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 deemed or taken to have under such provisions of the SFO); (b) to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO; or (c) to otherwise be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

#### *Long positions in the Shares and underlying Shares*

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of issued share capital of the Company</b>
Mr. Lee Jin Yi	Beneficial Owner	500,000 (Long position)	0.12%
Mr. Stephen Burnau Hunt	Beneficial Owner	100,000 (Long position)	0.02%

#### *Short positions in Shares and underlying Shares*

As at the Latest Practicable Date, none of the Directors, chief executive nor their associates had any short positions in any shares underlying shares or debentures of the Company or any of its associated corporations.

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 interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations which was required (a) 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 in which he/she was taken or deemed to have under such provisions of the SFO); (b) which was required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which was required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

**(b) Substantial shareholders**

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of any other member of the Group:

*Long positions in the Shares and underlying Shares*

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of issued share capital of the Company</b>
Cathay International Pharma Manufacture and Distribution (China) Limited	Beneficial Interest	209,820,000 (Long position)	50.56%
Cathay International Changchun Biotechnology and Pharmaceutical Limited	Interest of a controlled corporation	209,820,000 (Long position)	50.56%
Cathay International Biotechnology and Pharmaceutical (China) Limited	Interest of a controlled corporation	209,820,000 (Long position)	50.56%
Cathay International Pharmaceutical Limited	Interest of a controlled corporation	209,820,000 (Long position)	50.56%
Cathay International Biotech Company Limited	Interest of a controlled corporation	209,820,000 (Long position)	50.56%

Name of Shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Cathay International Holdings Limited	Interest of a controlled corporation	209,820,000 (Long position)	50.56%
Cathay International Enterprises Limited	Interest of a controlled corporation	209,820,000 (Long position)	50.56%
Wu Zhen Tao	Founder of discretionary trusts and beneficiary of a trust	209,820,000 (Long position)	50.56%

*Only including the shareholders with percentage of issued share capital of the Company >5%.*

*Short position in the Shares and underlying Shares*

As at the Latest Practicable Date, none of the Substantial shareholders, had any short positions in any shares underlying shares of the Company or any of its associated corporations.

*Long positions in the shares/registered capital of the member of the Group*

As at the Latest Practicable Date, none of the Substantial shareholders, had any long positions in any shares of the member of the Group.

Save as disclosed above, so far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, no other person (who is not a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register kept by the Company under section 336 of the SFO or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.



Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company (or its subsidiary) which has an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### 3. SERVICE CONTRACTS

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

### 4. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors or the proposed directors of the Company was materially interested in any contracts or arrangements entered into by any members of the Group subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

### 5. MATERIAL ADVERSE CHANGE

The Directors confirm that as at the Latest Practical Date, there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Group were made up.

### 6. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has been named in this circular and whose advice or opinion is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Ascent Partners	Independent professional valuer
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Ascent Partners and Gram Capital did not have any shareholding in any member of the Group or any right or option, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Ascent Partners and Gram Capital did not have direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2015, being the date to which the latest published audited consolidated financial statements of the Company were made up.

Ascent Partners and Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letters and reference to its name, in the form and context in which they appear.

## **7. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors, controlling Shareholder, management Shareholders or substantial Shareholders of the Company or any of its respective associates had any interest in a business that competes or might compete, either directly or indirectly, with the business of the Group or had any other conflict of interests with the Group.

## **8. GENERAL**

In case of any discrepancy, the English text of this circular shall prevail over the Chinese text.

## **9. DOCUMENTS FOR INSPECTION**

Copies of the following documents will be available for inspection at 18/F, United Centre, 95 Queensway, Hong Kong, during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 13 July 2016:

- (a) the Subscription Agreement;
- (b) the Cross Guarantee Agreement;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 24 to 25 of this circular;
- (d) the Valuation Report, the text of which is set out on pages 44 to 64 of this circular;
- (e) the letter from Gram Capital to the Independent Board Committee and to the Independent Shareholders, the text of which is set out on pages 26 to 43 of this circular;
- (f) the letters of consent from Ascent Partners and Gram Capital referred to under the paragraph headed "Expert and consent" of this appendix; and
- (g) this circular.



**LANSEN PHARMACEUTICAL HOLDINGS LIMITED**

**朗生醫藥控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock code: 503)**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** a extraordinary general meeting (the “**Meeting**”) of Lansens Pharmaceutical Holdings Limited (the “**Company**”) will be held at Admiralty Conference Centre (ACC), 1804A, 18/F, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Wednesday, 13 July 2016 at 2:30 p.m. (the “**Extraordinary General Meeting**”) for the following purposes:

**AS ORDINARY BUSINESS:**

1. “**THAT**

- (a) at any time within six months from the date this resolution is passed, the directors of Company be and hereby authorized to complete the subscription of such number of shares representing 13.5% of the total issued share capital of Haotian Holdings Limited as enlarged by such subscription (the “**Second Tranche Subscription**”) in accordance with the terms of the subscription agreement dated 24 March 2016 entered into between Lansens Pharmaceutical Holdings Limited and Haotian Holdings Limited.
- (b) the directors of the Company (the “**Directors**”) be and are hereby authorised to execute all such documents, instruments and agreements and do all such acts, matters and things as they may in their absolute discretion consider necessary, desirable or expedient for the purposes of or in connection with implementing, completing and giving effect to the Second Tranche Subscription as they may in their absolute discretion consider necessary or desirable with full power to authorise any other person to do so in the name of and as the act of the Company.”

2. “**THAT**

- (a) the cross guarantee agreement (the “**Cross Guarantee Agreement**”) dated 24 June 2016 entered into between Jilin Haizi Bio-Engineering Technology Co. Limited, Ningbo Liwah Pharmaceutical Company Limited and Lansens Pharmaceutical Holdings Limited (a wholly owned subsidiary of the

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## NOTICE OF EGM

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Company), the proposed caps as described in the circular of the Company to its shareholders dated 28 June 2016 and the transaction thereunder be and is hereby approved and authorized;

- (b) the Directors be and are hereby authorised to execute all such documents, instruments and agreements and do all such acts, matters and things as they may in their absolute discretion consider necessary, desirable or expedient for the purposes of or in connection with implementing, completing and giving effect to the Cross Guarantee Agreement as they may in their absolute discretion consider necessary or desirable with full power to authorise any other person to do so in the name of and as the act of the Company.”

By order of the Board  
**Lansen Pharmaceutical Holdings Limited**  
**Stephen Burnau Hunt**  
*Chairman*

Hong Kong, 28 June 2016

### Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. Any shareholder of the Company who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the meeting. A proxy need not be a shareholder of the Company.
2. Where there are joint holders of any share, any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.
4. To be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than forty-eight (48)

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## NOTICE OF EGM

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hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting.

5. The register of members of the Company will not be closed for the purpose of ascertaining the right of shareholders of the Company to attend and vote at the Extraordinary General Meeting. However, in order to qualify for attending and voting at the Extraordinary General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 11 July 2016.

*As at the date of this notice, the executive Directors are Mr. Liu Bang Min and Mr. Hou Song; the non-executive Directors are Mr. Stephen Burnau Hunt, Mr. Lee Jin Yi, Mr. Tang Jun and Ms. Liu Xue Zi; the independent non-executive Directors are Mr. Chan Kee Huen, Michael, Mr. Tang Chiu Ping, Raymond and Mr. Fritz Heinrich Horlacher.*