

广州白云山医药集团股份有限公司

26 February 2015

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED ISSUE AND PLACING OF NEW A SHARES;
(2) CONNECTED TRANSACTION –
PROPOSED SUBSCRIPTION OF NEW A SHARES BY GPHL;
(3) PROPOSED IMPLEMENTATION OF
THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015);
(4) WHITEWASH WAIVER;
(5) GENERAL MANDATE TO ISSUE NEW H SHARES;
(6) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
AND
(7) ELECTION OF
AN INDEPENDENT NON-EXECUTIVE DIRECTOR**

(A) INTRODUCTION

Reference is made to the Announcement, the announcements of the Company dated 12 January 2015 and 22 January 2015 regarding the proposed amendments to the Articles of Association and the appointment of the Independent Financial Adviser respectively, and the notices of the EGM and the H Share Class Meeting both dated 19 January 2015.

The purpose of this circular is, among other things, to provide you with (i) further information on the Proposed Placing, the Subscription Agreements and the transactions contemplated thereunder; (ii) further information on the Employee Stock Ownership Scheme (2015), the Asset Management Agreement and the transactions contemplated thereunder; (iii) further information on the Whitewash Waiver; (iv) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (v) a letter of advice from Proton Capital to the Independent Board Committee and the Independent Shareholders in respect of the Proposed Placing and the Whitewash Waiver; and (vi) other information as required under the Hong Kong Listing Rules and the Hong Kong Takeovers Code, in order to enable you to make an informed decision on whether to vote for or against the resolutions at the EGM and the H Share Class Meeting. The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Proposed Placing and the Whitewash Waiver and Proton Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

This circular also provides you with information regarding the resolutions relating to (i) the General Mandate; (ii) the proposed amendments to the Articles of Association pursuant to the PRC laws; (iii) the election of an independent non-executive Director; (iv) the proposed amendments to the undertaking of GPLH in relation to the performance period for injection of the “Wang Lao Ji” trademarks; and (v) the proposed amendments to the rules of procedures of the general meetings of Shareholders.

(B) MATTERS RELATING TO THE PROPOSED PLACING AND THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015)

I. PROPOSED ISSUE AND PLACING OF NEW A SHARES

1. Proposal in relation to the compliance and satisfaction by the Company of the requirements of the non-public issue and placing of new A Shares

In accordance with the Companies Law of the PRC (《中華人民共和國公司法》), the Law of the PRC on Securities (《中華人民共和國證券法》), the Measures for the Administration of the Issue of Securities of Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) and other relevant laws and regulations of the PRC, the Company conducted an internal review and self-examination and was of the view that the Company has complied with the requirements of the prevailing laws and regulations on non-public issue of new A Shares, and satisfied the conditions for the non-public issue of new A Shares.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (1) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders.

2. Details of the Proposed Placing

- Class and par value of Shares to be issued : New A Shares with a par value of RMB1.00 each.
- Method and time of the Proposed Placing : The Proposed Placing will be carried out by way of non-public issue of new A Shares to the Subscribers. The Company will complete the Proposed Placing within six (6) months from obtaining the endorsement of the Proposed Placing from the CSRC.
- Number of Shares to be issued : Subject to any adjustment which may be made by the CSRC, but in any event the maximum number of A Shares to be issued under the Proposed Placing will not be more than 419,463,087 new A Shares, which represents (i) approximately 39.15% of the issued A Shares and approximately 32.48% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 28.13% of the enlarged issued A Shares and approximately 24.52% of the enlarged total issued share capital of the Company upon completion of the Proposed Placing. The aggregate nominal value of the A Shares to be issued under the Proposed Placing, with a par value of RMB1.00 each, will be no more than RMB419,463,087.

Upon completion of the Proposed Placing and if the maximum of 419,463,087 new A Shares are placed, the total number of A Shares in issue will be increased from 1,071,440,650 A Shares to 1,490,903,737 A Shares and the total issued share capital of the Company will be increased from 1,291,340,650 Shares to 1,710,803,737 Shares.

- Target Subscribers : Pursuant to the Proposed Placing and subject to the Share Adjustment, the Company shall issue new A Shares for subscription to 5 subscribers in total, being GPLH, GZ SOA Development, GZ Chengfa, Shanghai Yunfeng (on behalf of the Fund) and the Asset Manager (as trustee of the Employee Stock Trust). On 12 January 2015, the Subscribers have entered into the Subscription Agreements respectively with the Company to subscribe for a total of up to 419,463,087 new A Shares at the Subscription Price of RMB23.84 per new A Share, representing total gross proceeds of approximately RMB10,000 million.
- Method of subscription and placing : All the Subscribers shall subscribe for new A Shares to be issued under the Proposed Placing in cash. The Subscription Price for all the new A Shares to be issued will be the same.
- Price Determination Date : 13 January 2015, being the date of the announcement of the Board resolution made by the Company in relation to the Proposed Placing on the Shanghai Stock Exchange and the date on which the Subscription Price was fixed.
- Subscription Price and pricing principles : Subject to the Price Adjustment, the Subscription Price is RMB23.84 per new A Share, being not less than 90% of the average trading price per A Share during the 20 trading days prior to the Price Determination Date.

The Subscription Price represents (i) a discount of approximately 12.06% to the closing price of RMB27.11 per A Share as at 3 December 2014, being the last trading day immediately before the Price Determination Date and the date of the Subscription Agreements; (ii) a discount of approximately 10.88% to the average closing price of RMB26.75 per A Share for the last five trading days up to and including 3 December 2014; and (iii) a discount of approximately 22.22% to the closing price of RMB30.65 per A Share as at the Last Shanghai Trading Date.

The Subscription Price was determined through arm's length negotiation between the Company and the Subscribers with reference to the trading prices of the A Shares on the Shanghai Stock Exchange.

If there is any ex-right event (such as declaration of dividend, bonus issue or capitalization of capital reserves) to the Company between the Price Determination Date and the date of issue of A Shares under the Proposed Placing, the Subscription Price and the number of new A Shares to be issued by the Company under the Proposed Placing shall be adjusted in accordance with the relevant regulations relating to the Price Adjustment and Share Adjustment respectively.

- Lock-up period : Under the Proposed Placing, all the Subscribers shall not transfer the A Shares subscribed within 36 months from the date of completion of the Proposed Placing.
- Place of listing : The new A Shares to be issued under the Proposed Placing will be listed on the Shanghai Stock Exchange. The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the new A Shares.
- Use of proceeds : If the maximum of 419,463,087 new A Shares are placed, the Proposed Placing will raise gross proceeds of approximately RMB10,000 million. The net proceeds from the Proposed Placing, after deducting all related expenses incurred, will be used to strengthen the Group's research and development capability on medicines, health products and medical technology; expand and reform part of the Group's production facilities; expand and strengthen the Group's distribution networks and promotion channel; establish a new management and information system of the Group; and for general working capital purpose, further details of which are set out in the sub-section headed "IX. Reasons for the Proposed Placing and the Employee Stock Ownership Scheme (2015)" in this section.
- Arrangements for the accumulated undistributed profits : Upon completion of the Proposed Placing, holders of new A Shares, together with all existing Shareholders of the Company, will be entitled to all accumulated, retained and undistributed profits of the Company prior to the completion of the Proposed Placing.

Effective period of the Shareholders' resolutions : The effective period of the Shareholders' resolutions on the Proposed Placing shall be 12 months starting from the date on which the resolutions are approved by the Shareholders at the EGM, the A Share Class Meeting and the H Share Class Meeting.

Details of this proposal will be put forward at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively as a special resolution for consideration and approval by the non-related Shareholders under the PRC laws, by the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively one by one as set out in the notice of the EGM, the notice of the A Share Class Meeting and the notice of the H Share Class Meeting (see special resolution Nos. 1.01 to 1.11 set out in the notice of the EGM, special resolution Nos. 1.01 to 1.11 set out in the notice of the A Share Class Meeting and special resolution Nos. 1.01 to 1.11 set out in the notice of the H Share Class Meeting, all dated 19 January 2015). GPLH and its associates shall abstain from voting on such Shareholders' resolution.

3. Conditions precedent of the Proposed Placing

The Subscription Agreements entered into by the Company in respect of the Proposed Placing are subject to the satisfaction of certain conditions including, among other things:

- (i) the passing of the relevant resolutions in respect of the Proposed Placing by the Board;
- (ii) the passing of all relevant resolutions in respect of the Proposed Placing (including the entering into the Subscription Agreements) by the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting respectively;
- (iii) the obtaining of the approvals from relevant stated-owned Assets Supervision and Administration Departments regarding the Proposed Placing;
- (iv) the obtaining of the approval from the CSRC regarding the Proposed Placing;
- (v) the obtaining of the approval from the non-related Shareholders under the PRC laws at the EGM in relation to the waiver of a mandatory general offer by GPLH and its concert parties which may be triggered by the Proposed Placing pursuant to the relevant PRC takeover laws and regulations;
- (vi) the obtaining of the approvals from the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting about the Whitewash Waiver;

(vii) the Executive having granted, and not having withdrawn or revoked such grant, the Whitewash Waiver and the fulfillment of all conditions (if any) attached to the Whitewash Waiver; and

(viii) the obtaining of all the approvals and consents which are necessary pursuant to the laws and regulations outside the PRC (if any) regarding the Proposed Placing.

None of the above conditions may be waived by any party to the Proposed Placing and, therefore, if any condition above cannot be obtained (including but not limited to, if the Whitewash Waiver is not granted and approved as per conditions (vi) and (vii) above), the Company will not proceed with the Proposed Placing. As at the Latest Practicable Date, condition (i) above has been fulfilled.

4. Rights of the new A Shares

Save that no voting right will be acquired or can be exercised by the Asset Manager for the A Shares held by it as trustee of the Employee Stock Trust (details of which are set out in the sub-section headed "III. Proposed implementation of the Employee Stock Ownership Scheme (2015)" in this section) by virtue of the terms of the Employee Stock Ownership Scheme (2015), the new A Shares to be issued pursuant to the Proposed Placing, when fully paid up and issued, will rank *pari passu* in all respects amongst themselves and with the A Shares in issue at the time of issue and allotment of such new A Shares.

5. Subscription Agreements entered into pursuant to the Proposed Placing

As part of the Proposed Placing, the Company has entered into the Subscription Agreements with the 5 Subscribers respectively, details of which are set out in the sub-section headed "II. Proposed subscription of new A Shares" in this section. Save for the parties to the agreement, the number of A Shares to be subscribed for, the aggregate subscription amount payable to the Company and the GPLH Undertaking, all other major terms of the Subscription Agreements are the same.

Completion of each of the Subscription Agreements is not conditional upon each other.

Pursuant to the applicable PRC laws and regulations, (i) the GPLH Subscription Agreement, the Employee Scheme Subscription Agreement and the transactions contemplated thereunder will be subject to the approval of the non-related Shareholders under the PRC laws at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively, by way of special resolutions (see special resolutions Nos. 3.01 to 3.02 set out in the notice of the EGM, special resolutions Nos. 3.01 to 3.02 set out in the notice of the A Share Class Meeting and special resolutions Nos. 3.01 to 3.02 set out in the notice of the H Share Class Meeting, all dated 19 January 2015); and (ii) the Concert Party Subscription Agreements, the Fund Subscription Agreement and the transactions contemplated thereunder will be subject to the approval of the Shareholders at the EGM, the A Share Class Meeting and the H Share Class Meeting

respectively, by way of special resolutions (see special resolutions Nos. 3.03 to 3.05 set out in the notice of the EGM, special resolutions Nos. 3.03 to 3.05 set out in the notice of the A Share Class Meeting and special resolutions No. 3.03 to 3.05 set out in the notice of the H Share Class Meeting, all dated 19 January 2015).

As a result of the implications under the Hong Kong Listing Rules and the Hong Kong Takeovers Code respectively, the GPLH Subscription Agreement and the Concert Party Subscription Agreements will be subject to the approvals of the Independent Shareholders' approval at the EGM, the Independent A Share Shareholders' approval at the A Share Class Meeting and the Independent H Share Shareholders' approval at the H Share Class Meeting respectively by way of special resolutions (see special resolutions Nos. 3.01, 3.03 and 3.04 set out in the notice of the EGM, special resolutions Nos. 3.01, 3.03 and 3.04 set out in the notice of the A Share Class Meeting and special resolutions Nos. 3.01, 3.03 and 3.04 set out in the notice of the H Share Class Meeting, all dated 19 January 2015). Please refer to the sub-sections headed (i) "II. Proposed subscription of new A shares – 1. Connected transaction – Proposed subscription of new A Shares by GPLH – c. Implications under the Hong Kong Listing Rules and the Hong Kong Takeovers Code"; (ii) "II. Proposed subscription of new A shares – 2. Proposed Concert Party Subscription – c. Implications under the Hong Kong Listing Rules and the Hong Kong Takeovers Code"; and (iii) "X. Whitewash Waiver" respectively in this section for more information. GPLH and its associates shall abstain from voting on such Shareholders' resolutions for the purposes of the Hong Kong Listing Rules. In addition, the Shareholders, the A Share Shareholders and/or the H Share Shareholders who are members of the Concert Group and their respective parties acting in concert and associates and any Shareholders who are interested in or involved in the Proposed Placing, the Employee Stock Ownership Scheme (2015) and/or the Whitewash Waiver will abstain from voting on such resolutions for the purposes of the Hong Kong Takeovers Code.

6. Proposal in relation to the plan of the Proposed Placing

In accordance with the Companies Law of the PRC (《中華人民共和國公司法》), the Law of the PRC on Securities (《中華人民共和國證券法》), the Measures for the Administration of the Issue of Securities of Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) and other relevant laws and regulations of the PRC, the Company formulated the plan on the Proposed Placing.

Details of the plan have been disclosed in different sections of this circular. This proposal will be put forward at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively as a special resolution (see special resolution No. (2) set out in the notice of the EGM, special resolution No. (2) set out in the notice of the A Share Class Meeting and special resolution No. (2) set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the consideration and approval by the non-related Shareholders under the PRC laws, by the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively. GPLH and its associates shall abstain from voting on such Shareholders' resolution.

7. Proposal in relation to the report on previous proceeds

According to the requirements of the relevant laws and regulations and regulatory documents such as the Measures for the Administration of the Issue of Securities by Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》), and the Regulations for Reports on the Use of Proceeds from Previous Fund Raising (《關於前次募集資金使用情況報告的規定》) issued by the CSRC, the Board has, upon

verification of the use of proceeds from previous issue of A Shares as at 12 January 2015, prepared the report on previous proceeds.

Guangzhou Pharmaceutical Company Limited* (廣州藥業股份有限公司), the predecessor of the Company, had issued (i) 445,601,005 A Shares at RMB12.10 per A Share to all the then shareholders of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (廣州白雲山製藥股份有限公司) (“BYS”) in exchange for the shares of BYS held by such shareholders for absorption and merger of the entire issued share capital of BYS in May 2013; and (ii) 34,839,645 A Shares at RMB12.10 per A Share to acquire the assets, comprising the following, from GPHL, in July 2013:

- Properties – a list of 21 properties with a total gross floor area of approximately 34,906.94 sq.m. in Guangzhou owned by GPHL;
- Trademarks – a total of 388 registered trademarks owned by GPHL which are mainly trademarks of Chinese patent medicine;
- 100% equity interest in Guangzhou Pharmaceutical Baiyunshan Hong Kong Company Limited (formerly known as Po Lian Development Company Limited), a company incorporated in Hong Kong; and
- 12.50% equity interest in Baxter Healthcare (Guangzhou) Company Limited, a Sino-foreign equity joint venture established in the PRC.

Details of the above transactions were set out in the circular of the Company dated 4 September 2012 and were approved by the then Shareholders on 19 September 2012.

Upon completion of the above transactions, BYS was deregistered, all assets and liabilities of BYS were taken up by the Company. There was no fund raised by the Company from the above mentioned transactions.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (5) set out in the notice of the EGM) for consideration and approval by the Shareholders.

8. Proposal in relation to the feasibility study report

In accordance with the proposal in relation to the feasibility study report, the net proceeds (after deducting all applicable costs and expenses in association with the Proposed Placing) from the Proposed Placing are intended to be used for financing the projects as described below.

a. Establishment of the R&D platform for “Grand Southern TCM”

The Company intends to apply approximately RMB1,500 million to establish the R&D platform, of which approximately RMB350 million will be used to construct the R&D center and acquire equipment and machinery; and approximately RMB1,150 million will be used to conduct further laboratory studies, clinical studies on various famous traditional Chinese medicines, chemical medicines (e.g. medicines for cancers, Parkinson’s disease and other age-related diseases and new antibiotics), biological medicines (e.g. medicines for cardiovascular and cerebrovascular diseases and biological vaccines) and high-end health care products of the Group; studies on the development of high-end medical equipment and vitro diagnostic reagents for early detection of infectious diseases, cancer and HPV; and studies on some of the common and critical medical technologies (e.g. extraction and separation technology of Chinese medicines and chemical synthesis technology).

This project is a strategic project for maintaining and improving the competitiveness of the Company. After the construction of the R&D center is completed, the Company will focus on the R&D of new medicines with proprietary intellectual property rights, improve the technology level, gradually enrich the reserve of the products, optimize product structure, improve the profitability and establish the foundation for long-term development.

b. Expansion and reformation of phase 1 of the production base for “Grand Southern TCM”

The production facilities of the Group are currently located in different areas of Guangzhou. The Company intends to establish an integrated production base and apply approximately RMB1,000 million for the establishment of phase 1 of the production base, relocation of the factories of Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山何濟公製藥廠) and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) in the production base and refurbishment of production facilities of these two factories.

The aim of this project is to solve the restrictions on the development of the Company by centralizing its production facilities and increasing the production capacities and technology level. Upon completion of the construction and full utilization of the production capacity of the above factories of Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山何濟公製藥廠) and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥

有限公司), it is expected that the financial internal rate of return on the investment income after tax are approximately 23% and approximately 44.53% respectively, and the payback period (including the construction period) are approximately 7.69 years and approximately 4.96 years respectively.

c. Capital injection into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)

The Company intends to apply approximately RMB1,000 million for additional capital injection into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) as the business platform of the "Grand Commerce", which is a 50% joint venture of the Company, to establish a modern logistic system for medicines distribution and establish an e-commerce platform for medicines distribution. Alliance Boots (聯合博姿), the joint venture partner, will also inject RMB1,000 million into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) at the same time.

This project is in line with the Company's strategic development direction for the future, to realize the layout of "Grand Commerce" and enhance market development prospect and economic benefits.

d. Sales and promotion of the "Wang Lao Ji" brand and products for "Great Health"

The Company intends to apply approximately RMB4,000 million for additional capital injection into Guangzhou Wang Lao Ji Great Health Industry Co., Ltd.* (廣州王老吉大健康產業有限公司), which is a wholly-owned subsidiary of the Company. Approximately RMB2,400 million of the amount injected will be used to conduct brand, culture and marketing activities, and enhance the reputation of the "Wang Lao Ji" brand and products to young consumers, expand the existing sale teams to further penetrate the food and beverage industry and increase the "Wang Lao Ji" market share in the PRC. The Company will use part of the proceeds to vigorously promote the culture of herbal tea and the "Wang Lao Ji" brand to overseas markets, and accelerate the establishment of a distribution network for the "Wang Lao Ji" drinks. Approximately RMB1,600 million of the amount injected will be used to construct the production bases for "Wang Lao Ji" drinks in Nansha Guangzhou, Meizhou Guangdong, Yaán Sichuan and other places in the PRC respectively in order to ensure product quality and reduce reliance on OEM manufacturers.

This project is in line with the Company's strategic move to further enhance its core competitiveness, establish the absolute market advantages and improve its comprehensive profitability.

e. Establishment of a new management and information platform

The Company intends to apply approximately RMB200 million for the establishment of a new management and information system of the Group, including establishing an information data base for procurements and suppliers management, customers' relationship, sales and distribution management and production management.

This project is to enhance the efficiency of the Company's management and administration efficiency. Upon completion, it will also serve as an effective technical means for improving customer satisfaction and loyalty and improving the competitiveness of the Company.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (4) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the non-related Shareholders under the PRC laws.

9. Proposal in relation to waiving the obligations of GPHL and persons acting in concert with it from making an offer to increase their shareholdings in the Company pursuant to the relevant PRC takeover laws and regulations

The number of Shares held by GPHL, the controlling shareholder of the Company, in the Company will increase upon completion of the Proposed Placing. As such, an obligation to make a general offer on the part of GPHL will be triggered pursuant to the Measures for the Administration of Acquisition of Listed Companies (CSRC Order No. 35) (《上市公司收購管理辦法》(中國證監會令第35號)) and its revisions. Since after the Proposed Placing, GPHL will still be the controlling shareholder of the Company, and GPHL has undertaken to be subject to a 36-month lock-up period for the A Shares to be issued to it, the Board proposed a proposal to be put forward at the EGM to approve the granting of a waiver to GPHL and its concert parties from the obligation to make a general offer under the relevant PRC takeover laws and regulations.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (8) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the non-related Shareholders under the PRC laws.

10. Proposal in relation to the establishment of a special saving account for proceeds raised by the Company

According to the requirements of the relevant laws and regulations and regulatory documents such as the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (2014 Revision) (《上海證券交易所股票上市規則(2014年修訂)》) and the Measures for the Administration of the Fund Raising by Listing Companies on the Shanghai Stock Exchange (2013 Revision) (《上海證券交易所上市公司募集資金管理辦法(2013年修訂)》) and the Articles of Association, the Company proposes to set up a special saving account solely for the proceeds raised by the Company from fund raising activities.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (6) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders.

11. Proposal in relation to the formulation of management measures for proceeds raised by the Company

In order to regulate the management and use of proceeds from the Proposed Placing, maximize the protection of the rights of investors, ensure the safety of such proceeds and improve the efficiency of the use of such proceeds, and pursuant to the relevant requirements of the relevant laws and regulations and regulatory documents such as the Companies Law of the PRC (《中華人民共和國公司法》), Law of the PRC on Securities (《中華人民共和國證券法》), the Measures for the Administration of the Issue of Securities by Listed Companies (《上市公司證券發行管理辦法》), the Listed Companies

Regulatory Guidelines No. 2 – Management and Use of Funds Raised by Listed Companies (《上市公司監管指引第2號 – 上市公司募集資金管理和使用的監管要求》) and the

Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (2014 Revision) (《上海證券交易所股票上市規則(2014年修訂)》), and taking into account of the actual circumstances of the Company, the Company proposes to formulate management measures for proceeds raised by the Company.

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (7) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders.

12. Proposal in relation to the approval of granting the Whitewash Waiver under the Hong Kong Takeovers Code

Assuming no further Shares will be issued by the Company prior to the completion of the Proposed Placing, upon completion of the Proposed Placing, the interests in the Company held by GPLH will decrease (i) from approximately 45.24% to approximately 42.72% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii) from approximately 45.24% to approximately 43.96% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking); and the aggregate interests in the Company held by GZ SOA Development and GZ Chengfa will increase from 0% to approximately 13.49% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing.

GPLH, GZ SOA Development and GZ Chengfa would be treated as parties acting in concert by virtue of falling into the class (1) presumption of “acting in concert” as defined in the Hong Kong Takeovers Code as a result of the Proposed Placing from which their aggregate interests in the Company will increase (i) from approximately 45.24% to approximately 56.20% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not

required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii) from approximately 45.24% to approximately 57.44% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking).

GPLH and the Concert Party Subscribers will, in the absence of the Whitewash Waiver, be obliged to make a mandatory general offer for all the Shares not already owned or agreed to be acquired by them pursuant to Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing and the Concert Group Subscription. The Board will put forward an ordinary resolution (see ordinary resolution No. (9) set out in the notice of the EGM, ordinary resolution No. 2 set out in the notice of the A Share Class Meeting and ordinary resolution No. 2 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively to consider and approve the Whitewash Waiver at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

Further information about the Whitewash Waiver is set forth in the sub-section headed "X. Whitewash Waiver" in this section.

13. Authorization to the Board in connection with the Proposed Placing

In accordance with the Companies Law of the PRC (《中華人民共和國公司法》), the Law of the PRC on Securities (《中華人民共和國證券法》), the Measures for the Administration of the Issue of Securities of Listed Companies (《上市公司證券發行管理辦法》), the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》) and other relevant laws and regulations of the PRC, the Board will also put forward a proposal to authorize itself to handle the matters in connection with the Proposed Placing, including but not limited to the matters set out in (i) to (viii) below at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively as an ordinary resolution (see ordinary resolution No. (10) set out in the notice of the EGM, ordinary resolution No. 3 set out in the notice of the A Share Class Meeting and ordinary resolution No. 3 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for consideration and approval by the non-related Shareholders under the PRC laws, the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively:

- (i) to formulate and implement the detailed proposal about the Proposed Placing and with full authority to handle and decide the issuance time, final number of shares to be issued, size of proceeds, issue price, target subscribers, detailed subscription method and any other matters about the Proposed Placing;

- (ii) to negotiate on behalf of the Company in relation to the Proposed Placing, execute all related agreements and other necessary documents, prepare, amend, perfect, execute all documents and information about the Proposed Placing, and carry out necessary and appropriate disclosure;
- (iii) to handle the applications to relevant authorities in relation to the Proposed Placing and the listing of shares and adjust the detailed proposal in accordance with the comments from the relevant authorities (if any) (other than those matters requiring further Shareholders' approval pursuant to the relevant laws, regulations and the Articles of Association);
- (iv) to select and engage qualified intermediaries, including but not limited to sponsors, underwriters, lawyers, auditors and valuers, for the Proposed Placing;
- (v) to increase the registered capital and actual capital received, amend the relevant provisions to the Articles of Association, handle capital verification procedures and relevant registration procedures with the Administration for Industry and Commerce, in accordance with the actual final results of the Proposed Placing;
- (vi) to handle the registration of shares, lock-up arrangement and listing matters of the A shares issued upon completion of the Proposed Placing;
- (vii) to set-up a special saving account for the proceeds from the Proposed Placing; and
- (viii) subject to the applicable laws and regulations, to take all necessary action, decision and handle all other matters in relation to the Proposed Placing.

GPHL and its associates will abstain from voting on such Shareholders' resolution.

Such authorization shall be valid for a period of 12 months, commencing from the date of the passing of the relevant resolution at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

14. Directors' Confirmation

The Directors (including the independent non-executive Directors after receiving the advice from Proton Capital) are of the view that the terms of the Proposed Placing are fair, reasonable and on normal commercial terms taking into account of the current market conditions and are in the interests of the Company and the Shareholders as a whole.

The Directors who abstained from voting on the relevant Board resolutions approving the aforesaid transactions include Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Wang Wenchu, who are materially

interested in the Proposed Placing by virtue of them also being the directors and/or members of the senior management or employee of GPLH. Save as disclosed above, none of the Directors have a material interest in the Proposed Placing or is required to abstain from voting on the relevant Board resolutions for considering and approving the Proposed Placing and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

II. PROPOSED SUBSCRIPTION OF NEW A SHARES

As part of the Proposed Placing, the Company has entered into a Subscription Agreement with each of the 5 Subscribers. Save for the parties to the agreement, the number of A Shares to be subscribed for, the aggregate subscription amount payable to the Company and the GPLH Undertaking, all other major terms of the Subscription Agreements are the same.

Completion of each of the Subscription Agreements is not conditional upon each other.

1. Connected transaction – Proposed subscription of new A Shares by GPLH

On 12 January 2015, GPLH, a controlling shareholder of the Company, entered into the GPLH Subscription Agreement with the Company pursuant to which GPLH has agreed to subscribe for a maximum of 146,596,236 new A Shares for a maximum subscription amount of approximately RMB3,495 million and has given the GPLH Undertaking in case of any under-subscription of the Employee Scheme Subscription. Major terms of the GPLH Subscription Agreement are set out below.

a. Major terms of the GPLH Subscription Agreement

Date	:	12 January 2015.
Parties	:	(i) the Company as the issuer; and (ii) GPLH as the subscriber.
Subscription Shares	:	Subject to the Share Adjustment, a maximum of 146,596,236 A Shares, representing (i) approximately 13.68% of the issued A Shares and approximately 11.35% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 9.83% of the enlarged issued A Shares and approximately 8.57% of the enlarged issued share capital of the Company upon completion of the Proposed Placing.

- Subscription Price : Subject to the Price Adjustment, RMB23.84 per A Share with a maximum subscription amount of approximately RMB3,495 million payable by GPLH to the Company in cash.
- Lock-up undertaking : GPLH undertakes not to transfer or otherwise dispose of the new A Shares subscribed during the period commencing from the completion of the Proposed Placing and ending on the date which is 36 months from the time of such completion.
- Conditions precedent : Details of which are set out in the sub-section headed "I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing" in this section.
- Payment and completion : Subject to the satisfaction of the conditions precedent, payment of the subscription amount will be made in cash by GPLH on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.
- The Company will appoint a certified registered accountant in the PRC to verify the payment made by GPLH for its subscription and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by GPLH with the securities and depository and clearing institution as soon as practicable.
- In the event that GPLH fails to make payment of its subscription amount, GPLH shall be liable to pay the Company 10% of its total subscription amount as liquidated damages.
- Additional Shares : GPLH also undertakes to subscribe for all the under-subscribed A Shares under the Employee Scheme Subscription if there is no and/or any under subscription by the Asset Manager at the same Subscription Price and on the same terms as above.

b. Information on GPLH

GPLH is a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government State-owned Assets Supervision and Administration Commission in the PRC. GPLH is principally engaged in the investment in and management of state-owned assets, manufacturing and selling of Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise, undertaking medicine related import and export affairs, development of real estate and lease of properties.

c. Implications under the Hong Kong Listing Rules and the Hong Kong Takeovers Code

GPLH is a controlling shareholder of the Company holding approximately 45.24% of the total issued share capital of the Company as at the Latest Practicable Date and, therefore, is a connected person of the Company. Accordingly, the entering into the GPLH Subscription Agreement by the Company constitutes a connected transaction under Chapter 14A of the Hong Kong Listing Rules. GPLH and its associates shall abstain from voting on the Shareholders' resolutions in relation to the Proposed Placing, the GPLH Subscription Agreement and the transactions contemplated thereunder at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

GPLH Subscription forms part of the Concert Group Subscription. Please refer to the sub-section headed "X. Whitewash Waiver" in this section for details of the implications of the Hong Kong Takeovers Code on the Concert Group Subscription.

For the purposes of the Hong Kong Listing Rules and the Hong Kong Takeovers Code, the Board will put forward a special resolution (see special resolution No. 3.01 set out in the notice of the EGM, special resolution No. 3.01 set out in the notice of the A Share Class Meeting and special resolution No. 3.01 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders to consider and approve the GPLH Subscription Agreement at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

Besides, for the purposes of the PRC laws and regulations, the Board will put forward an ordinary resolution (see ordinary resolution No. (3) set out in the notice of the EGM, ordinary resolution No. 1 set out in the notice of the A Share Class Meeting and ordinary resolution No. 1 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) and a special resolution (see special resolution No. 3.01 set out in the notice of the EGM, special resolution No. 3.01 set out in the notice of the A Share Class Meeting and special resolution No. 3.01 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for

the non-related Shareholders, the non-related A Share Shareholders and the non-related H Share Shareholders to consider and approve the GPLH Subscription Agreement and the connected transactions constituted under the PRC laws at the EGM, the A Share Class Meeting and H Share Class Meeting respectively.

d. Directors' confirmation

The Directors (including the independent non-executive Directors after receiving the advice from Proton Capital) are of the view that the terms of the GPLH Subscription Agreement are fair, reasonable and on normal commercial terms taking into account of the current market conditions and are in the interests of the Company and the Shareholders as a whole.

The Directors who abstained from voting on the relevant Board resolutions approving the aforesaid transactions include Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Wang Wenchu, who are materially interested in the Proposed Placing by virtue of them also being the directors and/or members of the senior management or employee of GPLH. Save as disclosed above, none of the Directors have a material interest in the GPLH Subscription Agreement or is required to abstain from voting on the Board resolutions for considering and approving the GPLH Subscription Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

2. Proposed Concert Party Subscription

On 12 January 2015, the Company entered into the Concert Party Subscription Agreements with the respective Concert Party Subscribers. Pursuant to the Concert Party Subscription Agreements, GZ SOA Development and GZ Chengfa have agreed to subscribe for an aggregate maximum of 230,704,697 new A Shares for an aggregate maximum subscription amount of approximately RMB5,500 million. Major terms of the Concert Party Subscription Agreements are set out below.

a. Major terms of the Concert Party Subscription Agreements

- Date : 12 January 2015.
- Parties : (i) the Company as the issuer; and
- (ii) GZ SOA Development and GZ Chengfa as the subscribers.

- Subscription Shares : Subject to the Share Adjustment, a maximum of 125,838,926 A Shares to be subscribed by GZ SOA Development, representing (i) approximately 11.74% of the issued A Shares and approximately 9.74% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 8.44% of the enlarged issued A Shares and approximately 7.36% of the enlarged issued share capital of the Company upon completion of the Proposed Placing.
- Subject to the Share Adjustment, a maximum of 104,865,771 A Shares to be subscribed by GZ Chengfa, representing (i) approximately 9.79% of the issued A Shares and approximately 8.12% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 7.03% of the enlarged issued A Shares and approximately 6.13% of the enlarged issued share capital of the Company upon completion of the Proposed Placing.
- Subscription Price : Subject to the Price Adjustment, RMB23.84 per A Share with a maximum subscription amount of approximately RMB3,000 million and RMB2,500 million payable by GZ SOA Development and GZ Chengfa respectively to the Company in cash.
- Lock-up undertaking : GZ SOA Development and GZ Chengfa respectively undertakes not to transfer or otherwise dispose of the new A Shares subscribed during the period commencing from the completion of the Proposed Placing and ending on the date which is 36 months from the time of such completion.
- Conditions precedent : Details of which are set out in the sub-section headed “I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing” in this section.

Payment and completion

: Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by the Concert Party Subscribers respectively on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by the Concert Party Subscribers for their respective subscriptions and issue the relevant verification reports. The Company will also apply in writing to register the A Shares subscribed by the Concert Party Subscribers with the securities and depository and clearing institution as soon as practicable.

In the event that the Concert Party Subscribers fail to make payment of their respective subscription amounts, the Concert Party Subscribers shall be liable to pay the Company 10% of their respective total subscription amounts as liquidated damages.

b. Information on GZ SOA Development and GZ Chengfa

GZ SOA Development is a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government in the PRC. GZ SOA Development is principally engaged in the investment of its own funds, investment management services, business management services (except for projects required for license to operate), investment advisory services, product wholesale (except for products required permit to sell) and retail business (except for products required permit to sell).

GZ Chengfa is a limited partnership established under the laws of the PRC. Its general partner, Guangzhou China Life Urban Development Industry Investment Advisory Enterprise (Limited Partnership)* (廣州國壽城市發展產業投資諮詢企業(有限合夥)), is controlled by Guangzhou Industrial Investment Fund Management Company Limited* (廣州產業投資基金管理有限公司), a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government of the PRC. GZ Chengfa is principally engaged in the investment of its own funds, equity investment, and investment advisory services.

c. Implications under the Hong Kong Listing Rules and Hong Kong Takeovers Code

The Concert Party Subscribers are established by, and under the administration of, the Guangzhou Municipal People's Government in the PRC, which is a "PRC Governmental Body" as defined under Rule 19A.04 of the Hong Kong Listing Rules and therefore, the Concert Party Subscribers and their ultimate beneficial owners are not connected persons of the Company and the entering into the Concert Party Subscription Agreements by the Company are not connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

The Concert Party Subscription forms part of the Concert Group Subscription. Please refer to the sub-section headed "X. Whitewash Waiver" in this section for details of the implications of the Hong Kong Takeovers Code on the Concert Group Subscription.

For the purposes of the Hong Kong Takeovers Code, the Board will put forward special resolutions (see special resolutions Nos. 3.03 and 3.04 set out in the notice of the EGM, special resolutions Nos. 3.03 and 3.04 set out in the notice of the A Share Class Meeting and special resolutions Nos. 3.03 and 3.04 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders to consider and approve the Concert Party Subscription Agreements at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

Besides, for the purposes of the PRC laws and regulations, the Board will put forward the same special resolutions for the Shareholders, the A Share Shareholders and the H Share Shareholders to consider and approve the Concert Party Subscription Agreements at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively.

d. Directors' confirmation

The Directors (including the independent non-executive Directors after receiving the advice from Proton Capital) are of the view that the terms of the Concert Party Subscription Agreements are fair, reasonable and on normal commercial terms taking into account the current market conditions and are in the interests of the Company and the Shareholders as a whole.

None of the Directors have a material interest in the Concert Party Subscription Agreements or is required to abstain from voting on the Board resolutions for considering and approving the Concert Party Subscription Agreements and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

3. Proposed Employee Scheme Subscription

On 12 January 2015, the Company entered into the Employee Scheme Subscription Agreement with the Asset Manager (as trustee of the Employee Stock Trust). Pursuant to the Employee Scheme Subscription Agreement, the Asset Manager (as trustee of the Employee Stock Trust) has agreed to subscribe for a maximum of 21,189,000 new A Shares for a maximum subscription amount of approximately RMB505 million. Major terms of the Employee Scheme Subscription Agreement are set out below.

a. Major terms of the Employee Scheme Subscription Agreement

Date	:	12 January 2015.
Parties	:	(i) the Company as the issuer; and (ii) the Asset Manager (as trustee of the Employee Stock Trust) as the subscriber.
Subscription Shares	:	Subject to the Share Adjustment, a maximum of 21,189,000 A Shares, representing (i) approximately 1.98% of the issued A Shares and approximately 1.64% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 1.42% of the enlarged issued A Shares and approximately 1.24% of the enlarged issued share capital of the Company upon completion of the Proposed Placing. Pursuant to the GPLH Undertaking, GPLH undertakes to subscribe for all the under-subscribed A Shares under the Employee Scheme Subscription if there is no and/or any under subscription by the Asset Manager.
Subscription Price	:	Subject to the Price Adjustment, RMB23.84 per A Share with a maximum subscription amount of approximately RMB505 million payable by the Asset Manager (as trustee of the Employee Stock Trust) to the Company in cash.

- Lock-up undertaking : The Asset Manager (as trustee of the Employee Stock Trust) undertakes not to transfer or otherwise dispose of the new A Shares subscribed during the period commencing from the completion of the Proposed Placing and ending on the date which is 36 months from the time of such completion.
- Conditions precedent : Details of which are set out in the sub-section headed “I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing” in this section.
- Payment and completion : Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by the Asset Manager (as trustee of the Employee Stock Trust) on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by the Asset Manager (as trustee of the Employee Stock Trust) for the Employee Scheme Subscription and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by the Asset Manager (as trustee of the Employee Stock Trust) with the securities and depository and clearing institution as soon as practicable.

In the event that the Asset Manager (as trustee of the Employee Stock Trust) fails to make payment of its subscription amount, the Asset Manager (as trustee of the Employee Stock Trust) shall be liable to pay the Company 10% of the total subscription amounts as liquidated damages.

b. Information on the Asset Manager

The Asset Manager is a joint stock limited company established in the PRC, owned as to 47% by Orient Securities Company Limited (東方證券股份有限公司), as to 26.5% by Wenhui-Xinmin United Press Group (文匯新民聯合報業集團) (which merged with Jiefang Daily Group* (解放軍日報報業集團) in 2013 after which the merged entity became known as Shanghai United Media Group* (上海

報業集團)), and as to 26.5% by CES Finance Holding Co., Ltd. (東航金戎控股有限責任公司). It is principally engaged in the fund raising and trading, asset management and other businesses as permitted by the CSRC.

c. Implications under the Hong Kong Listing Rules

To the best knowledge and belief of the Directors, having made all reasonable enquires, the Asset Manager and its ultimate beneficial owners are independent third parties of the Group and its connected persons. In addition, since all the employees (excluding the independent non-executive Directors) of the Company, its subsidiaries, joint ventures and associated companies as at 1 January 2015 have an equal opportunity to participate in the Employee Stock Ownership Scheme (2015) (there were 4,897 employees who have indicated their intentions to participate in the scheme), pursuant to Rule 14A.12 of the Hong Kong Listing Rules, the Employee Stock Ownership Scheme (2015) is an “employees’ share scheme for a wide scope of participants” and since the connected persons’ aggregate interests in the Employee Stock Ownership Scheme (2015) will be less than 30%, the Asset Manager will not be regarded as an associate of the connected persons of the Company. Accordingly, the entering into the Employee Scheme Subscription Agreement by the Company is not a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

The Employee Scheme Subscription constitutes a connected transaction under the PRC laws and, in this connection, the Board will put forward a special resolution (see special resolution No. 3.02 set out in the notice of the EGM, the notice of the A Share Class Meeting and the notice of the H Share Class Meeting respectively, all dated 19 January 2015) for the non-related Shareholders under the PRC laws to consider and approve the Employee Scheme Subscription Agreement.

d. Directors’ confirmation

The Directors (including the independent non-executive Directors) are of the view that the terms of the Employee Scheme Subscription Agreement are fair, reasonable and on normal commercial terms taking into account the current market conditions and are in the interests of the Company and the Shareholders as a whole.

All the executive Directors, namely Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu, are materially interested in the Employee Scheme Subscription Agreement by virtue of them having indicated their intention to participate in the Employee Stock Ownership Scheme (2015) and had abstained from voting on the relevant Board resolutions approving the aforesaid transactions. Save as disclosed above, none of the Directors have a material interest in the Employee Scheme Subscription Agreement or is required to abstain from voting on the Board resolutions for considering and approving the Employee Scheme Subscription Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

4. Proposed Fund Subscription

On 12 January 2015, the Company entered into the Fund Subscription Agreement with Shanghai Yunfeng (on behalf of the Fund). Pursuant to the Fund Subscription Agreement, Shanghai Yunfeng (on behalf of the Fund) has agreed to subscribe for a maximum of 20,973,154 new A Shares for a maximum subscription amount of approximately RMB500 million. Major terms of the Fund Subscription Agreement are set out below.

a. Major terms of the Fund Subscription Agreement

Date	:	12 January 2015.
Parties	:	(i) the Company as the issuer; and (ii) Shanghai Yunfeng (on behalf of the Fund) as the subscriber.
Subscription Shares	:	Subject to the Share Adjustment, a maximum of 20,973,154 A Shares, representing (i) approximately 1.96% of the issued A Shares and approximately 1.62% of the issued share capital of the Company as at the Price Determination Date; and (ii) approximately 1.41% of the enlarged issued A Shares and approximately 1.23% of the enlarged issued share capital of the Company upon completion of the Proposed Placing.
Subscription Price	:	Subject to the Price Adjustment, RMB23.84 per A Share with a maximum subscription amount of approximately RMB500 million payable by Shanghai Yunfeng (on behalf of the Fund) to the Company in cash.
Lock-up undertaking	:	Shanghai Yunfeng (on behalf of the Fund) undertakes not to transfer or otherwise dispose of the new A Shares subscribed during the period commencing from the completion of the Proposed Placing and ending on the date which is 36 months from the time of such completion.

Condition precedent : Details of which are set out in the sub-section headed "I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing" in this section.

Payment and completion : Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by Shanghai Yunfeng (on behalf of the Fund) on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations.

The Company will appoint a certified registered accountant in the PRC to verify the payment made by Shanghai Yunfeng (on behalf of the Fund) and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by Shanghai Yunfeng (on behalf of the Fund) with the securities and depository and clearing institution as soon as practicable.

In the event that Shanghai Yunfeng (on behalf of the Fund) fails to make payment of its subscription amount, Shanghai Yunfeng (on behalf of the Fund) shall be liable to pay the Company 10% of the total subscription amounts as liquidated damages.

Once the Fund is set up by Shanghai Yunfeng, the Company will enter into a subscription agreement with the Fund directly to replace the Fund Subscription Agreement. All terms in the subscription agreement with the Fund, including the number of A Shares to be subscribed for, the aggregate subscription amount payable to the Company and all terms and conditions, will be the same as the Fund Subscription Agreement. The Fund Subscription Agreement will be terminated at the same time when the Company enters into the subscription agreement with the Fund.

b. Information on Shanghai Yunfeng

Shanghai Yunfeng is a limited liability company established in the PRC, owned as to 60% by Mr. Yu Feng (虞鋒先生) and as to 40% by Mr. Ma Yun (馬雲先生). It is principally engaged in investment management, investment advisory, management consultation and business consultation services.

c. Implications under the Hong Kong Listing Rules

To the best knowledge and belief of the Directors, having made all reasonable enquires, Shanghai Yunfeng and its ultimate beneficial owners are independent third parties of the Group and its connected persons. Accordingly, the entering into the Fund Subscription Agreement is not a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

The Board will put forward a special resolution (see special resolution No. 3.05 set out in the notice of the EGM, the notice of the A Share Class Meeting and the notice of the H Share Class Meeting respectively, all dated 19 January 2015) for the Shareholders to consider and approve the Fund Subscription Agreement.

d. Directors' confirmation

The Directors (including the independent non-executive Directors) are of the view that the terms of the Fund Subscription Agreement are fair, reasonable and on normal commercial terms taking into account the current market conditions and are in the interests of the Company and the Shareholders as a whole.

None of the Directors have a material interest in the Fund Subscription Agreement or is required to abstain from voting on the Board resolutions for considering and approving the Fund Subscription Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

Shareholders and potential investors should be cautioned that the Proposed Placing is subject to the conditions precedent set out in this circular and, therefore, the Proposed Placing may or may not proceed. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

III. PROPOSED IMPLEMENTATION OF THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015)

In order to motivate the employees of the Group, the Board approved the Employee Stock Ownership Scheme (2015) on 12 January 2015, details of which are as follows:

1. Details of the Employee Stock Ownership Scheme (2015)

- Target participants : The target participants of the Employee Stock Ownership Scheme (2015) are all the employees of the Group as at 1 January 2015, including Directors (excluding independent non-executive Directors), supervisors, senior management and other employees of the Company, its subsidiaries, joint ventures and associated companies.
- Investment in new A Shares through the Employee Stock Ownership Scheme (2015) will be made in cash. The participating employees will only contribute funds to the Employee Stock Trust for the Asset Manager (acting as trustee of the Employee Stock Trust) to make the Employee Stock Scheme Subscription. No shares will be issued to the participating employees, including those connected persons of the Company.
- Total size : No more than the maximum number of A Shares subscribed for and the maximum subscription amount under the Employee Scheme Subscription, being 21,189,000 A Shares and approximately RMB505 million respectively.
- Minimum participation : Subject to Price Adjustment, the minimum subscription amount of each participating employee is RMB11,920. The Company has no discretion or right to reject any eligible participant or vary his/her intended amount of participation.
- Source of funds : Remuneration and/or the own funds of the Group's employees. Employees of the Group shall voluntarily participate in the Employee Stock Ownership Scheme (2015) with funds from or raised by themselves and at their own risks in compliance with laws and regulations.

The Company has not provided, and will not provide, any financing to the participants for such purpose.

- Class and par value of Shares to be subscribed : New A Shares with a par value of RMB1.00 each.
- In any event, the Employee Stock Ownership Scheme (2015) shall not in aggregate be entitled to more than 10% of the issued share capital of the Company upon completion of the Proposed Placing and any participating employee shall not be entitled to more than 1% of the issued share capital of the Company upon completion of the Proposed Placing.
- Method and date of issue : The new A Shares to be issued under the Employee Stock Ownership Scheme (2015) will be carried out by way of non-public issue of new A Shares simultaneously with the Proposed Placing within six (6) months from obtaining the endorsement of the Proposed Placing from the CSRC.
- Lock-up period : 36 months from the date when the Company announces that such new A Shares are registered under the Employee Stock Trust.
- Trading moratorium : The holding period of the new A Shares under the Employee Stock Ownership Scheme (2015) shall be 48 months from the date when the Company announces that such new A Shares are registered under the Employee Stock Trust and can be extended when the Board and the members of the Employee Stock Ownership Scheme (2015) Committee agree to do so. Such new A Shares will be free for transfer after the 36-month lock-up period provided that the Asset Manager can only dispose of such A Shares and pay the net proceeds to the relevant participant(s). Under no circumstances will the Asset Manager transfer any A Shares from the Employee Stock Trust to any participants.

Voting right : During the holding period of the new A Shares under the Employee Stock Ownership Scheme (2015), the Employee Stock Trust shall give up the exercise of any voting right in respect of the A Shares and the Asset Manager cannot exercise any voting right attaching to or arising from any A Shares which it may hold as trustee of the Employee Stock Trust.

For the purpose of managing the Employee Stock Ownership Scheme (2015), the Company (on behalf of the Group's employees) will enter into the Asset Management Agreement with the Asset Manager and an asset custodian, details of which are set out in the sub-section headed "IV. Proposed asset management of the Employee Stock Ownership Scheme (2015)" in this section.

2. Conditions precedent of the Employee Stock Ownership Scheme (2015)

The Employee Stock Ownership Scheme (2015) is subject to, among other things, the passing of all relevant resolution(s) in respect of the Employee Stock Ownership Scheme (2015) by the Shareholders at the EGM, including ordinary resolution No. (2) to be voted on by the non-related Shareholders under PRC laws and ordinary resolution No. (11) to be voted on by the Shareholders set out in the notice of the EGM dated 19 January 2015. As the Employee Scheme Subscription forms part of the Proposed Placing, the Company will not proceed with the Employee Stock Ownership Scheme (2015) if the conditions precedent of the Proposed Placing set out in the sub-section headed "I. Proposed issue and placing of new A Shares – 3. Conditions precedent of the Proposed Placing" in this section are not fulfilled.

3. Rights of the new A Shares

As the Employee Scheme Subscription forms part of the Proposed Placing, details of rights of new A Shares under the Employee Scheme Subscription are the same as those under the Proposed Placing as set out in the sub-section headed "I. Proposed issue and placing of new A Shares – 4. Rights of the new A Shares" in this section except that the Asset Manager cannot exercise any voting right in respect of the A Shares held by it as trustee of the Employee Stock Trust by virtue of the terms of the Employee Stock Ownership Scheme (2015).

4. Authorization to the Board in connection with the Employee Stock Ownership Scheme (2015)

To ensure the smooth implementation of the Employee Stock Ownership Scheme (2015), an ordinary resolution will be proposed at the EGM (see ordinary resolution No. (11) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders to authorize the Board to exercise full power to handle matters relating to the Employee Stock Ownership Scheme (2015), including but not limited to:

- (i) handling any changes relating to, and termination of, the Employee Stock Ownership Scheme (2015);
- (ii) extending the holding period of the new A Shares subscribed for under the Employee Stock Ownership Scheme (2015);
- (iii) handling all matters relating to the lock-up arrangement of the new A Shares subscribed for under the Employee Stock Ownership Scheme (2015);
- (iv) appointing the asset management organization and making decisions on any changes relating to such appointment; and
- (v) (save for the matters required to be approved by the Shareholders at general meetings) taking all necessary actions, decisions and handling all other matters in relation to the Employee Stock Ownership Scheme (2015).

Such authorization shall be valid for a period of 12 months, commencing from the date of passing of the relevant resolution at the EGM.

IV. PROPOSED ASSET MANAGEMENT OF THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015)

For the purpose of managing the A Shares held under the Employee Stock Ownership Scheme (2015), the Company (on behalf of the Group's employees) will enter into the Asset Management Agreement with the Asset Manager and an asset custodian after the approval of the Shanghai Stock Exchange has been given. Major proposed terms of the Asset Management Agreement are set out below.

1. Major terms of the Asset Management Agreement

- | | | |
|------------------|---|---|
| Parties | : | <ul style="list-style-type: none"> (i) the Company (on behalf of the Group's employees) as the principal; (ii) the Asset Manager as the asset manager; and (iii) an asset custodian (to be appointed) (who and its ultimate beneficial owner(s) will be independent third parties of the Group and its connected persons). |
| Asset management | : | <p>The Asset Manager shall be responsible for the management and operation of the assets entrusted by the Company (on behalf of the Group's participating employees), in particular the sale, disposal or transfer of the A Shares subscribed for under the Employee Scheme Subscription after the 36-month lock-up period.</p> |

- Voting right : Pursuant to the Employee Stock Ownership Scheme (2015), the exercise of any voting right in respect of the A Shares shall be given up and, accordingly, the Asset Manager cannot exercise any voting right attaching to or arising from any A Shares which it may hold as trustee of the Employee Stock Trust.
- Asset custodian and supervision : The asset custodian shall be responsible for the custodian of the assets entrusted by the Company, including the A Shares subscribed for under the Employee Stock Ownership Scheme (2015) and also responsible for the monitoring and supervision of the investment operation of the entrusted assets by the Asset Manager.
- Size of the assets to be entrusted : The initial size of the assets to be entrusted by the Company (on behalf of the Group's participating employees) will be no less than RMB30,000,000. Within the term of the Asset Management Agreement, the Company can request the Asset Manager and the asset custodian to manage additional assets to be entrusted by the Company (on behalf of the Group's participating employees).
- Assets to be entrusted : Mainly the subscription money and then the A Shares to be held for the Employee Stock Trust. If there is any fund unutilized, such fund can be used for short term bonds, bank deposits, bills of central bank, etc..
- Fees : The Asset Manager will charge the asset management fee and performance reward based on the market rates.
- The asset custodian will charge the asset custodian fee based on the market rates.
- An agreement will be entered into by the parties to the Asset Management Agreement to determine the applicable fee. The Company will comply with the Hong Kong Listing Rules when entering into such agreement.

Term : No fixed term, subject to the holding period of the new A Shares under the Employee Stock Ownership Scheme (2015), which shall be 48 months from the date when the Company announces that such new A Shares are registered under the Employee Stock Trust and can be extended by the parties to the Asset Management Agreement.

2. Information on the Asset Manager

Details of the Asset Manager is set out in the sub-section headed “II. Proposed subscription of new A Shares – 3. Proposed Employee Scheme Subscription – b. Information on the Asset Manager” in this section.

3. Implications under the Hong Kong Listing Rules

To the best knowledge and belief of the Directors, having made all reasonable enquires, the Asset Manager and its ultimate beneficial owners are independent third parties of the Group and its connected persons. In addition, since all the employees (excluding the independent non-executive Directors) of the Company, its subsidiaries, joint venture and associated companies as at 1 January 2015 have an equal opportunity to participate in the Employee Stock Ownership Scheme (2015) (there were 4,897 employees who have indicated their intentions to participate in the scheme), pursuant to Rule 14A.12 of the Hong Kong Listing Rules, the Employee Stock Ownership Scheme (2015) is an “employees’ share scheme for a wide scope of participants” and the connected persons’ aggregate interests in the Employee Stock Ownership Scheme (2015) will be less than 30%, the Asset Manager will not be regarded as an associate of the connected persons of the Company. Besides, the Company will appoint an asset custodian who and its ultimate beneficial owner(s) will be independent third parties of the Group and its connected persons. Accordingly, the entering into the Asset Management Agreement by the Company will not be a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

The eligible participants of the Employee Stock Ownership Scheme (2015) are all the employees of the Group as at 1 January 2015, including Directors (excluding independent non-executive Directors), supervisors, senior management and other employees of the Company, its subsidiaries, joint ventures and associated companies. The participation in the Employee Stock Ownership Scheme (2015) by the directors and supervisors of the Company and its subsidiaries as well as their respective associates (if any, collectively, the “Connected Participants”), all being connected persons of the Company under the Hong Kong Listing Rules, may constitute potential connected transactions for the Company under the Hong Kong Listing Rules. As at the Latest Practicable Date, 4,897 employees (including the Connected Participants) had indicated their intention to participate in the Employee Stock Ownership Scheme (2015). The Company will keep monitoring the situation and, subject to the Proposed Placing and the Employee Stock Ownership Scheme (2015) being approved at the EGM, will comply with the applicable requirements governing connected transactions

under the Hong Kong Listing Rules, including the reporting, announcement and independent shareholders' approval, as may be necessary, when the Connected Participants enter into the relevant subscription documents with the Asset Manager. Such subscription documents are targeted to be entered into prior to the Company's annual general meeting for year 2014 to be held in or about June 2015.

Pursuant to the GPLH Undertaking, GPLH undertakes that in the event that there is no and/or any under subscription by the eligible participants under the Employee Stock Ownership Scheme (2015) (including no/and or under subscription resulting from the approval of the subscription by the Connected Participants not being given by the independent Shareholders where such approval is necessary under the Hong Kong Listing Rules), it shall subscribe for all the under-subscribed A Shares under the Employee Scheme Subscription. The GPLH Subscription Agreement, of which the GPLH Undertaking forms part, is subject to the approval of the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting. For more details, please refer to the sub-section headed "II. Proposed subscription of new A shares – 1. Connected transaction – proposed subscription of new A Shares by GPLH" in this section.

The provision of the GPLH Undertaking demonstrates GPLH's confidence in the Company and support of the development of the Company's business by subscribing additional new A Shares where applicable, this would assist the Company to raise the targeted amounts of proceeds even if there is under subscription by the eligible participants under the Employee Stock Ownership Scheme (2015) and is therefore in the benefit of the Company and the Shareholders as a whole.

4. Directors' confirmation

The Directors are of the view that the terms of the Employee Stock Ownership Scheme (2015) and the Asset Management Agreement are fair, reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

All the executive Directors, namely Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu, are materially interested in the Employee Stock Ownership Scheme (2015) by virtue of them having indicated their intentions to participate in the Employee Stock Ownership Scheme (2015) and had abstained from voting on the relevant Board resolutions approving the aforesaid transactions. Save as disclosed above, none of the Directors have a material interest in the Employee Stock Ownership Scheme (2015) or is required to abstain from voting on the Board resolutions for considering and approving the Employee Stock Ownership Scheme (2015), the Asset Management Agreement and the transactions contemplated thereunder pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

V. EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Proposed Placing (assuming GPHL is not required to take up any additional A Shares pursuant to the GPHL Undertaking and there is no change in the total issued share capital of the Company other than the issue of A Shares since the Latest Practicable Date and up to completion of the Proposed Placing); and (iii) immediately after the completion of the Proposed Placing (assuming GPHL is required to take up all the additional A Shares pursuant to the GPHL Undertaking and there is no change in the total issued share capital of the Company other than the issue of A Shares since the Latest Practicable Date and up to completion of the Proposed Placing):

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately after the completion of the Proposed Placing (assuming GPHL is not required to take up any additional A Shares pursuant to the GPHL Undertaking)		(iii) Immediately after the completion of the Proposed Placing (assuming GPHL is required to take up all the additional A Shares pursuant to the GPHL Undertaking)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
<u>A Shares</u>						
The Concert Group						
GPHL	584,228,036	45.24	730,824,272	42.72	752,013,272	43.96
GZ SOA Development	–	–	125,838,926	7.36	125,838,926	7.36
GZ Chengfa	–	–	104,865,771	6.13	104,865,771	6.13
Sub-total	584,228,036	45.24	961,528,969	56.20	982,717,969	57.44
Other non-public A Share Shareholders						
The Employee Stock Trust	–	–	21,189,000	1.24	–	–
Public A Share Shareholders						
The Fund	–	–	20,973,154	1.23	20,973,154	1.23
Other public A Share Shareholders	487,212,614	37.73	487,212,614	28.48	487,212,614	28.48
Sub-total	487,212,614	37.73	508,185,768	29.70	508,185,768	29.70
Total number of A Shares	1,071,440,650	82.97	1,490,903,737	87.15	1,490,903,737	87.15
<u>H Shares</u>						
Public H Share Shareholders	219,900,000	17.03	219,900,000	12.85	219,900,000	12.85
Total number of Shares	1,291,340,650	100.00	1,710,803,737	100.00	1,710,803,737	100.00

Note: The percentages shown are rounded to the nearest 2 decimal places. The numbers may not add up to 100% due to rounding.

The Company had no outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

VI. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION PURSUANT TO THE PROPOSED PLACING

In order to comply with the applicable laws and regulations of the PRC with regard to the Proposed Placing, the Company proposes to amend the Articles of Association to reflect changes in, among other things, the registered capital and shareholding structure of the Company immediately after completion of the Proposed Placing. Exact details of such proposed amendments to the Articles of Association (including without limitation the number of issued Shares) will only be available after completion of the Proposed Placing. Upon passing of ordinary resolution No. (10) as set out in the notice of the EGM dated 19 January 2015, the Board will have full powers to handle matters relating to the non-public issue of A Shares, including the power to prepare a proposal on amendments to the Articles of Association to reflect the changes in the registered capital and shareholding structure of the Company resulting from the completion of the Proposed Placing. According to the PRC laws, the amendments to the Articles of Association proposed by the Board would still be subject to the approval by the Shareholders at a general meeting. The Company will convene a separate general meeting after the completion of the Proposed Placing for the Shareholders to approve the above proposal on amendments to the Articles of Association.

VII. EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the 12 months immediately preceding the Latest Practicable Date.

VIII. INFORMATION ON THE GROUP

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares and A Shares are listed on the Main Board of the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively. The Group is principally engaged in (a) research and development, manufacture and sales of Chinese and western patent medicine, chemical active pharmaceutical ingredients (API), natural medicine, biological medicine and chemical API intermediates; (b) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; (c) research and development, production and sales of great health products; and (d) investment in the healthcare industry such as medical treatment, health management, health nursing, etc..

IX. REASONS FOR THE PROPOSED PLACING AND THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015)

1. The Proposed Placing

The Proposed Placing and the implementation of projects to be invested with the proceeds raised will help the Group to improve its financial condition, strengthen the Group's research and development capability, production facilities, distribution networks and promotion channel; and maximize its returns, which will be in the best interests of the the Group and Shareholders as a whole.

The participation of GPLH in the Proposed Placing and the provision of the GPLH Undertaking also demonstrates GPLH's confidence in the Company and support of the development of the Company's business, which is conducive to enhancing the market image of the Company.

Following the completion of the Proposed Placing, GPLH intends to continue the existing business of the Group, and has no intention to introduce any major changes in such business (including redeployment of the fixed assets of the Group) or to terminate the continued employment of the employees of the Group. Given that GPLH has no intention to change any business and employment of the Group, the Directors are of the view that there will be no distortion or interruption to the Group's operations which will continue to be operated upon completion of the Proposed Offer as before.

The gross proceeds to be raised from the Proposed Placing will be a maximum of approximately RMB10,000 million. The net proceeds from the Proposed Placing, after deducting all related expenses incurred, will be used as to approximately RMB1,500 million for strengthening the Group's research and development capability on medicines, health products and medical technology; as to approximately RMB2,600 million for the expansion and reformation of part of the Group's production facilities; as to approximately RMB3,400 million for the expansion of and strengthening the Group's distribution networks and promotion channels; as to approximately RMB200 million for the establishment of a new management and information system of the Group; and as to approximately RMB2,300 million as for general working capital, details of which are set out below. In the event that the proceeds from the Proposed Placing are not enough to fund the above plans, the Group will use its internal resources to finance the shortfall. Further details on the proposed use of proceeds are set out below.

a. Establishment of the R&D platform for "Grand Southern TCM"

In order to maintain its competitiveness, the Company intends to apply approximately RMB1,500 million to establish the R&D platform, of which approximately RMB350 million will be used to construct the R&D center and acquire equipment and machinery; and approximately RMB1,150 million will be used to conduct further laboratory studies, clinical studies on various famous traditional Chinese medicines, chemical medicines (e.g. medicines for cancers, Parkinson's disease and other age-related diseases and new antibiotics), biological medicines (e.g. medicines for cardiovascular and cerebrovascular diseases and biological vaccines) and high-end health care products of the Group; studies on the development of high-end medical equipment and vitro diagnostic reagents for early detection of infectious diseases, cancer and HPV; and studies on some of the common and critical medical technologies (e.g. extraction and separation technology of Chinese medicines and chemical synthesis technology).

b. Expansion and reformation of phase 1 of the production base for “Grand Southern TCM”

The production facilities of the Group are currently located in different areas of Guangzhou. With an aim to centralize its production facilities, the Company intends to establish an integrated production base and apply approximately RMB1,000 million for the establishment of phase 1 of the production base, relocation of the factories of Guangzhou Baiyunshan He Ji Gong Pharmaceutical Factory* (廣州白雲山何濟公製藥廠) and Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.* (廣州白雲山明興製藥有限公司) in the production base and refurbishment of production facilities of these two factories to increase their production capacities and technology level.

c. Capital injection into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司)

The Company intends to apply approximately RMB1,000 million for additional capital injection into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) as the business platform of the “Grand Commerce”, which is a 50% joint venture of the Company, to establish a modern logistic system for medicines distribution and establish an e-commerce platform for medicines distribution. Alliance Boots (聯合博姿), the joint venture partner, will also inject RMB1,000 million into Guangzhou Pharmaceuticals Corporation* (廣州醫藥有限公司) at the same time.

d. Sales and promotion of the “Wang Lao Ji” brand and products for “Great Health”

The Company intends to apply approximately RMB4,000 million for additional capital injection into Guangzhou Wang Lao Ji Great Health Industry Co., Ltd.* (廣州王老吉大健康產業有限公司), which is a wholly-owned subsidiary of the Company. Approximately RMB2,400 million of the amount injected will be used to conduct brand, culture and marketing activities, and enhance the reputation of the “Wang Lao Ji” brand and products to young consumers, expand the existing sale teams to further penetrate the food and beverage industry and increase the “Wang Lao Ji” market share in the PRC. The Company will use part of the proceeds to vigorously promote the culture of herbal tea and the “Wang Lao Ji” brand to overseas markets, and accelerate the establishment of a distribution network for the “Wang Lao Ji” drinks. Approximately RMB1,600 million of the amount injected will be used to construct the production bases for “Wang Lao Ji” drinks in Nansha Guangzhou, Meizhou Guangdong, Yaán Sichuan and other places in the PRC respectively in order to ensure product quality and reduce reliance on OEM manufacturers.

e. Establishment of a new management and information platform

The Company intends to apply approximately RMB200 million for the establishment of a new management and information system of the Group, including establishing an information data base for procurements and suppliers management, customers' relationship, sales and distribution management and production management to enhance the efficiency of the Company's management and administration efficiency.

f. Use as general working capital

In addition, the Company intends to apply approximately RMB2,300 million to replenish its cash flow for general working capital use and to support the Company's future merger and acquisition and expansion opportunities.

2. The Employee Stock Ownership Scheme (2015)

According to the Several Opinions of the State Council on Further Promoting the Healthy Development of the Capital Market (Guo Fa [2014] No. 17) (《國務院關於進一步促進資本市場健康發展的若干意見》(國發[2014]17號)), listed companies are allowed to adopt employee stock ownership schemes in various forms. The CSRC issued the Guidelines on Pilot Implementation of Employee Stock Ownership Schemes by Listed Companies (《關於上市公司實施員工持股計劃試點的指導意見》) (the "Guiding Opinions") on 20 June 2014 on the basis of the Companies Law of the PRC (《中華人民共和國公司法》) and the Law of the PRC on Securities (《中華人民共和國證券法》) pursuant to the approval by the State Council of the PRC for the trial of employee stock ownership schemes of listed companies. The Employee Stock Ownership Scheme (2015) is a long-term incentive and restriction scheme to fully motivate the employee of the Group and to enhance their sense of responsibility, to promote the degree of recognition of the Company in the capital market, to maintain the stability of the workforce and the effectiveness of its implementation of strategies.

X. WHITEWASH WAIVER

Each of GPLH and GZ SOA Development is a state-owned enterprise under the Guangzhou Municipal People's Government and GZ Chengfa is a limited partnership established under the laws of the PRC, whose general partner is controlled by a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government, i.e. they are under the administration of different government departments. GPLH is under the administration of the Guangzhou Municipal People's Government State-owned Assets Supervision and Administration Commission while GZ SOA Development and GZ Chengfa are directly or indirectly under the administration of the Guangzhou Municipal People's Government. Assuming no further Shares will be issued by the Company prior to the completion of the Proposed Placing, upon completion of the Proposed Placing, the interests in the Company held by GPLH will decrease (i) from approximately 45.24% to approximately 42.72% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii)

from approximately 45.24% to approximately 43.96% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPHL is required to take up all the additional A Shares pursuant to the GPHL Undertaking); and the aggregate interests in the Company held by GZ SOA Development and GZ Chengfa will increase from 0% to approximately 13.49% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing.

GPHL, GZ SOA Development and GZ Chengfa would be treated as parties acting in concert by virtue of falling into the class (1) presumption of “acting in concert” as defined in the Hong Kong Takeovers Code as a result of the Proposed Placing from which their aggregate interests in the Company will increase (i) from approximately 45.24% to approximately 56.20% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPHL is not required to take up any additional A Shares pursuant to the GPHL Undertaking) or (ii) from approximately 45.24% to approximately 57.44% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPHL is required to take up all the additional A Shares pursuant to the GPHL Undertaking),

GPHL has confirmed that none of the members of the Concert Group and their respective parties acting in concert acquired any voting rights of the Company nor dealt in any securities of the Company and there have been no disqualifying transactions as stipulated under paragraph 3 of Schedule VI to the Hong Kong Takeovers Code, in the Relevant Period. GPHL has further confirmed that as at the Latest Practicable Date, save for 584,228,036 A Shares, representing approximately 45.24% of the issued share capital of the Company, held by GPHL as at the Latest Practicable Date:

- (i) the Concert Group and parties acting in concert with any of them did not hold, control or have direction over any Shares, convertible securities, warrants or options of the Company or any outstanding derivatives in respect of relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company;
- (ii) the Concert Group and parties acting in concert with any of them did not receive any irrevocable commitment or arrangements to vote in favour of or against the resolutions in respect of the Proposed Placing, the Employee Stock Ownership Scheme (2015) and the Whitewash Waiver;
- (iii) save for the Subscription Agreements, there is no arrangement referred to in Note 8 to Rule 22 of the Hong Kong Takeovers Code (whether by way of option, indemnity or otherwise) in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company or the Concert Group, which might be material to the Proposed Placing, the Employee Stock Ownership Scheme (2015) and the Whitewash Waiver;
- (iv) other than those conditions set out in the sub-section headed “I. Proposed issue and placing of new A Shares” in this section, there is no agreement or arrangement to which any of the Concert Group is a party which relates to

circumstances in which any of them may or may not invoke or seek to invoke a pre-condition or a condition to the Proposed Placing, the Employee Stock Ownership Scheme (2015) and the Whitewash Waiver; and

- (v) there is no borrowing or lending of any relevant securities (as defined in Note 4 to Rule 22 of the Hong Kong Takeovers Code) of the Company by any member of the Concert Group and their respective parties acting in concert.

A formal application has been made by the Concert Group to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Takeovers Code. It is a condition precedent to completion of the Proposed Placing, including the Concert Group Subscription, that the Whitewash Waiver is granted by the Executive. If the Whitewash Waiver is not granted by the Executive or if the conditions (if any) imposed thereon are not fulfilled, the Proposed Placing, including the Concert Group Subscription, will not proceed. In such case, the requirement of the Concert Group to make a mandatory general offer under Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing, Concert Party Subscription Agreement will not be triggered.

The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Share Shareholders at the H Share Class Meeting respectively by way of poll.

The Executive has indicated that it will agree, subject to the approval by the Independent Shareholders at the EGM, the Independent A Share Shareholders at the A Share Class Meeting and the Independent H Shares Shareholders at the H Share Class Meeting respectively by way of poll, to waive the Concert Group from any obligation to make a general offer for all the Shares under Rule 26 of the Hong Kong Takeovers Code as a result of the Proposed Placing and Concert Group Subscription.

If the Whitewash Waiver is granted by the Executive, and the voting rights of the Concert Group together with the respective persons acting in concert with them exceed 50% of the voting rights of the Company upon completion of the Proposed Placing, the Concert Group may increase their aggregate shareholding in the Company subsequent to the completion of the Proposed Placing without triggering any obligation under Rule 26 of the Hong Kong Takeovers Code to make a general offer.

An ordinary resolution will be put forward at the EGM, the A Share Class Meeting and the H Share Class Meeting respectively for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively to consider and, if thought fit, approve the Whitewash Waiver.

(C) OTHER MATTERS

I. GENERAL MANDATE TO ISSUE NEW H SHARES

As at the Latest Practicable Date, the Company had 219,900,000 H Shares in issue. On 12 January 2015, the Board resolved to submit to the Shareholders for their consideration and approval a special resolution in respect of the grant of the General Mandate to the Board, pursuant to which the Board may issue, allot and/or deal with a maximum of 43,980,000 new H Shares, representing 20% of the existing issued H Shares, assuming that there will be no change in the number of issued H Shares on the date the proposed special resolution regarding the General Mandate is passed.

Subject to the passing of the special resolution (see special resolution No. (4) set out in the notice of the EGM, special resolution No. 4 set out in the notice of the A Share Class Meeting and special resolution No. 4 set out in the notice of the H Share Class Meeting, all dated 19 January 2015) for the approval of the General Mandate at the EGM, the A Share Class Meeting and the H Share Class Meeting, the General Mandate shall become effective immediately upon the passing of the relevant special resolution up to (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the 12-month period from the date of passing the relevant special resolution; and (iii) the date on which the General Mandate is revoked or varied by a special resolution of the Shareholders in general meeting, whichever is the earliest.

The Directors believe that the General Mandate will allow financial flexibility for the Company to raise further funds for its future business development and expansion. Accordingly, the Directors consider that the approval of the grant of the General Mandate is in the interests of the Company and the Shareholders as a whole.

II. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION PURSUANT TO THE PRC LAWS

As set out in the announcement of the Company dated 12 January 2015, in order to comply with the applicable laws and regulations of the PRC and taking into consideration of the actual circumstances of the Company, the Company proposed to amend the Articles of Association. Details of such amendments are as follows:

(a) Proposed new provisions

Article 6

All of the assets of the Company shall be divided into shares of equal value. The shareholders shall be liable to the extent of the shares subscribed and the Company shall be liable for its debts to the extent of all of its assets.

Article 9

Other senior management referred to in the Articles of Association means the deputy manager of the Company, secretary to the Board and the financial controller of the Company.

Article 18

Domestic shares issued by the Company are deposited and under the custody of China Securities Depository and Clearing Corporation Limited.

Article 51

If a resolution of a general meeting of shareholders or a resolution of the Board violates the laws and administrative regulations, shareholders shall have the right to request a people's court to declare that such resolution as invalid.

If the procedure for convening a general meeting of shareholders or Board meeting, or the method of voting at either meeting, violates the laws, administrative regulations or the Articles of Association, or the contents of a resolution violates the Articles of Association, shareholders shall have the right to request a people's court to rescind the resolution within sixty days from the date on which the resolution is passed.

Article 55

Where the shareholdings of a shareholder is more than 5%, and any such shares carry voting rights of the Company, if the shareholders charges such shares held by him, he shall submit a written report to the Company upon the date on which the shares are charged.

Article 65

The supervisory committee is entitled to propose in writing to the Board to convene an extraordinary general meeting. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, furnish a written reply to the Supervisory Committee stating its agreement or disagreement to the convening of the extraordinary general meeting within ten days after having received such proposal.

In the event that the Board agrees to convene an extraordinary general meeting, it shall serve the notice of such meeting within five days after the relevant Board resolution is passed. Consent of the supervisory committee shall be obtained in the event of any changes made to the original proposal in the notice.

In the event that the Board does not agree to convene an extraordinary general meeting or does not furnish any written reply to the Supervisory Committee within ten days after having received such proposal, the Board is

deemed to be unable or unwilling to perform the duty of convening a general meeting, in which case the supervisory committee may convene and preside over such meeting by itself.

Article 66

Any shareholder(s) who individually or jointly hold more than 10% of the shares of the Company is/are entitled to propose in writing to the Board to convene an extraordinary general meeting. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, furnish a written reply to the relevant shareholders stating its agreement or disagreement to the convening of the extraordinary general meeting within ten days after having received such proposal.

In the event that the Board agrees to convene an extraordinary general meeting, it shall serve the notice of such meeting within five days after the relevant Board resolution is passed. Consent of the relevant shareholders shall be obtained in the event of any changes made to the original proposal in the notice.

In the event that the Board does not agree to convene an extraordinary general meeting or does not furnish any written reply to the relevant shareholders within ten days after having received such proposal, any shareholder(s) who individually or jointly hold more than 10% of the shares of the Company is/are entitled to propose to the supervisory committee to convene an extraordinary general meeting.

In the event that the supervisory committee agrees to convene an extraordinary general meeting, it shall serve the notice of such meeting within five days after having received such proposal. Consent of the relevant shareholders shall be obtained in the event of any changes made to the original proposal in the notice.

In the event that the supervisory committee does not serve any notice of an extraordinary general meeting within the prescribed period, the supervisory committee is deemed not to convene and preside over such meeting, in which case the shareholder(s) who individually or jointly hold more than 10% of the shares of the Company for more than ninety consecutive days may convene and preside over such a meeting by himself/themselves.

Clause (1) of Article 73:

The Board, the supervisory committee and shareholder(s) who individually or jointly hold more than 3% of the total number of the shares of the Company is entitled to propose resolutions to the Company to be decided at the general meeting of shareholders convened by the Company.

Article 217

(II) The management of the Company shall make reasonable proposals on profit distribution to the Board based on, among other things, the provisions of the Articles of Association, size of share capital, profits, investment arrangements, capital needs, cash flow and returns to the shareholders of the Company. The Board should fully and widely listen to the opinions of the independent directors and minority shareholders with respect to the profit distribution proposal through multiple channels and propose detailed annual or interim profit distribution plans which are scientific and reasonable. The independent directors shall fully express their independent opinions with respect to such profit distribution plan(s).

When the profit distribution plan(s) is being considered by the Board, it shall be approved by the majority of all directors and approved by more than one half of the independent directors who are also required to express their explicit independent opinions. When the profit distribution plan(s) is being considered by the supervisory committee, it shall be approved by the majority of all supervisors. The profit distribution plan(s) should only be submitted to the shareholders' meeting for consideration and approval after it has been considered and approved by the Board and the supervisory committee and the plan(s) shall be approved by shareholders present at the general meeting and who hold more than two-thirds of the voting rights.

(IV) The Company shall expressly disclose the details about the formulation and implementation of the cash dividend policy in its annual report, and state the details of the following matters:

1. Whether the policy is in compliance with the requirements of the Articles of Association or the resolutions passed at the general meeting;
2. Whether the basis and ratio of the distribution of dividends are specific and clear;
3. Whether the relevant decision making procedure and system are sound;
4. Whether the independent directors have duly performed their duties and functions;
5. Whether there are enough opportunities for minority shareholders to express their views and concerns, and whether their legal interests are sufficiently protected, etc.

If the cash dividend policy is to be adjusted or changed, the Company shall disclose the details of such policy, such as whether the conditions and procedures for the adjustments or changes are in compliance with the regulations and are transparent.

(b) Proposed amendments

The existing Article 55 is proposed to be re-numbered and partially amended as follows:

Article 60

- (2) to elect and replace directors who are not the employees' representatives and to decide matters relating to the remuneration of directors;
- (3) to elect and replace supervisors who are not the employees' representatives and to decide matters relating to the remuneration of supervisors;

The existing Article 58 is proposed to be re-numbered and partially amended as follows:

Article 63

- (1) the number of directors fall short of the number stipulated by the Company Law or is less than 8;

The existing Article 66(2) is proposed to be re-numbered and amended as follows:

Article 73(2)

Shareholders(s) who individually or jointly hold 3% or more of the shares of the Company, and if any such shares carry voting rights of the Company, is/are entitled to proposed additional resolutions in writing to the convener ten days before the shareholders' meeting is held. The convener shall issue a supplemental notice of meeting with two days after receiving such proposal specifying the contents of such proposal, and, if such proposals are within the scope of the meeting, include such proposals in the agenda of the meeting.

The existing Article 81 is proposed to be re-numbered and partially amended as follows:

Article 88

Such registration shall be ceased prior to the announcement by the chairman of the general meeting of the number of shareholders and their proxies present at the meeting and the total number of their respective voting shares.

The existing Article 82 is proposed to be re-numbered and amended as follows:

Article 89

The Company shall, on the condition that the shareholders' meeting is legally and validly held, use all means and methods as far as the conditions permit, give first priority to the use of modern information technology to provide a network voting platforms to domestic shareholders in order to increase participation of public shareholders at general meetings.

The existing Article 84 is proposed to be re-numbered and amended as follows:

Article 91

The Board, independent directors and eligible shareholders are entitled to solicit proxy from shareholders publicly. While soliciting proxy of shareholders, sufficient disclosure of information such as the specific voting preference shall be made to the shareholders from whom proxy is being solicited. No consideration or other form of actual consideration shall be involved in the solicitation of proxy from shareholders. The Company shall not impose any limitation related to the minimum shareholding ratio on the solicitation of proxy.

The existing Article 86 is proposed to be re-numbered and amended as follows:

Article 93

For the purpose of voting at a general meeting, a shareholder (including proxy) exercises his/her voting rights in accordance with the number of shares carrying voting rights represented by him. Each share has one vote.

Where material issues considered at a general meeting affect the interests of minority investors, the votes of minority investors shall be counted separately. The results of the separate votes shall be disclosed publicly in a timely manner.

No voting rights shall attach to the Company shares held by the Company, and such shares shall not be counted among the total number of shares with voting rights present at a general meeting.

Article 97

It is proposed that the existing Article 97 be deleted in its entirety.

Upon these revisions, the Articles of Association and the serial numbers referring to the existing provisions will be reordered according to the amendments made.

Reasons for the proposed amendments to the Articles of Association

Pursuant to the relevant requirements under the Guidelines for the Articles of Association of Listed Companies (2014 Revision) (《上市公司章程指引(2014年修訂)》), the Listed Companies Regulatory Guidelines No. 3 – Cash Dividends Distribution of Listed Companies (the Announcement of CSRC [2013] No. 43) (《上市公司監管指引第3號–上市公司現金分紅(中國證券監督管理委員會公告[2013]43號)》) and the Rules Governing the Procedures for the General Meeting of Shareholders for Listed Companies (2014 Revision) (《上市公司股東大會規則(2014年修訂)》) issued by the CSRC, and taking into consideration of the actual circumstances of the Company, the amendments as described above are proposed to be made to the Articles of Association.

The proposed amendments to the Articles of Association pursuant to the PRC laws are subject to the Shareholders' approval at the EGM by way of special resolution (see special resolution No. (6) set out in the notice of the EGM dated 19 January 2015).

All the Directors (including the independent non-executive Directors) consider that the proposed amendments to the Articles of Association pursuant to the PRC laws are in the interests of the Company and the Shareholders as a whole.

III. ELECTION OF AN INDEPENDENT NON-EXECUTIVE DIRECTOR

In the announcement of the Company dated 24 December 2014, the Company announced, among other things, that (i) Mr. Fang (“Mr. Fang”) Shuting had tendered his resignation as an independent non-executive Director, a member of each of the audit committee, the nomination and remuneration committee and the budget committee of the Board; (ii) Mr. Fang’s resignation would come into effect on the date on which his successor is elected at a general meeting of the Company to be held; and (iii) the number of independent non-executive Directors will be less than one-third of the Board following the resignation of Mr. Fang. At the meeting of the Board held on 12 January 2015, the Board resolved to nominate Mr. Jiang Wenqi(姜文奇先生) (“Mr. Jiang”) as a candidate for the election of an independent non-executive Director at the EGM.

The biographical details of Mr. Jiang is set out below:

Mr. Jiang, aged 57, is a master degree postgraduate, second-grade professor and tutor of Ph.D. students. Mr. Jiang graduated from medical science of Shanghai Medical University in 1982 and graduated as a master degree postgraduate of oncology of Sun Yat-sen University of Guangzhou in 1988. During 1988 to 2014, He was a physician, medical superintendent and the deputy head of medical department of the affiliated cancer hospital of Sun Yat-sen University of Guangzhou, and dean of the school of medicine of Shenzhen University. As at the Latest Practicable Date, Mr. Jiang was the head of medical department of the cancer affiliated hospital of Sun Yat-sen University of Guangzhou, and deputy director of the institute of clinical pharmacology of Sun Yat-sen University. Mr. Jiang has comprehensive knowledge and understanding in the medical industry and health sectors.

According to the emoluments policy of the Company, the annual emoluments of the Directors (including the independent non-executive Directors) are proposed by the Board to the annual general meeting of the Company at which the Board will seek authorization to determine the amount of the emoluments and the method of payment for services of the Directors. If elected, Mr. Jiang will be entitled to emoluments to be determined by the Board in accordance with the authorization of the coming annual general meeting of the Company for year 2014 which is expected to be held in June 2015. For reference purpose, the remuneration of the existing independent non-executive Directors is an annual salary of RMB50,000 and an additional RMB30,000 annually for being a member or members of the committee(s) of the Board. If elected, the term of office of Mr. Jiang shall commence on the date on which he is elected and will be ended on the date on which members of the seventh session of the Board are elected. As at the Latest Practicable Date, it is expected that the members of the seventh session of the Board will be elected at the annual general meeting of the Company to be held in 2018. The election of Mr. Jiang as an independent non-executive Director is subject to the approval of the Shareholders at the EGM. Please refer to ordinary resolution No. (12) set out in the notice of the EGM dated 19 January 2015.

Mr. Jiang does not have any relationships with the Directors, senior management, substantial or controlling shareholders of the Company. Mr. Jiang does not have any interests in the shares of the Company within the meaning of Part XV of the SFO and had not held any directorships in other listed public companies in the past three years. There is no other information which is required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules, nor is there any information relating to Mr. Jiang that needed to be brought to the attention of the Shareholders. Mr. Jiang will be a member of the audit committee, the nomination and remuneration committee and the budget committee of the Board should he be elected as an independent non-executive Director by the Shareholders at the EGM.

The resolution on the election of Mr. Jiang as an independent non-executive Director is proposed for the purpose of achieving the proportion of independent non-executive Directors in the Board required under the Hong Kong Listing Rules and the PRC regulatory requirements. All the Directors (including the independent non-executive Directors) consider that the election of Mr. Jiang as an independent non-executive Director in the interests of the Company and the Shareholders as a whole.

IV. PROPOSED AMENDMENTS TO THE UNDERTAKING OF GPLH IN RELATION TO THE PERFORMANCE PERIOD FOR INJECTION OF THE “WANG LAO JI” TRADEMARKS

1. Relevant contents of the original undertaking

As set out in the announcement of the Company dated 18 December 2014, when the Company prepared and considered the major assets reorganization proposal in March 2012 (details of which were set out in the circular of the Company dated 4 September 2012), the arbitration result in relation to the “Wang Lao Ji” trademarks has not yet been given. As GPLH had undertaken in the trademark license agreement between it and Hung To (Holdings) Company Limited* (鴻道(集團)有限公司) that “it was warranted that the “Wang Lao Ji” trademarks will not be transferred to any third party (including the subsidiaries of the licensor) during the licence period; and in case of any transfer, the licensee shall have pre-emptive right on the same terms”, there was an impediment in transferring the “Wang Lao Ji” trademarks and the Company had not included the “Wang Lao Ji” trademarks in the assets acquisition by issuing new shares to GPLH. To ensure the completeness of the assets of the listed company, GPLH issued the “Letter of Undertaking related to the Injection of the “Wang Lao Ji” trademarks” in February 2012 and a further supplemental undertaking in June 2012 respectively (collectively, the “Original Undertaking”) undertaking that, after all of the legal disputes regarding the “Wang Lao Ji” trademarks have been resolved and within two years commencing from the day on which the “Wang Lao Ji” trademarks are permitted to be transferred, GPLH shall, pursuant to the requirements of the laws and regulations which are valid at the material time and, after complying the relevant procedures regarding applications for approvals, transfer the series of “Wang Lao Ji” trademarks to Guangzhou Pharmaceutical Co., Ltd. (“GPC”, the predecessor of the Company). In February 2014, pursuant to the relevant requirements under the Regulatory Guidelines for Listed Companies No. 4 – the Giving and Performance of Undertakings by the De Facto Controllers, Shareholders, Related Parties and Offerors of Listed Companies and Listed Companies (Statements of the CSRC [2013] No. 55)* (《上市公司監管指引第4號—上市公司實際控制人、股東、關聯方、收購人以及上市公司承諾及履行》(中國證券監督管理委員會公告[2013]55號)) and the relevant requirements of the CSRC and Guangdong Securities Regulatory Bureau, and taking into account the developments of the legal disputes relating to the trademark license agreement, the Company clarified the timeline for the performance of the Original Undertaking (details of which were set out in the announcement in Chinese dated 14 February 2014 published by the Company by way of overseas regulatory announcement).

2. Proposed amendments to the undertaking by GPHL

It is stated in the “Letter in relation to Amending the Undertaking of Injecting the Series of Trademarks of Wang Lao Ji” received from GPHL in December 2014 that:

“After decision of the trademark arbitration case has been given, the company and its competitor each initiated legal proceedings to courts against each other parties in relation to the unauthorized use of the specific packaging and decoration of the well-known products (the “Case of Disputes relating to the Red-can Decoration”). The court case is still in the course of trial.

As the judgement of the Case of Disputes relating to the Red-can Decoration will have material impact on the trademark rights and sale of the red-canned “Wang Lao Ji” herbal tea in market which will, in turn, affect the valuation of the “Wang Lao Ji” trademarks, the company proposed to amend the undertaking by amending the performance period in the Original Undertaking to “within two years from the effective date of the judgement of the Case of Disputes relating to Red-can Decoration” for the purposes of minimizing uncertainties, and adequately protecting the legitimate interests of the Company and all kinds of shareholders.”

3. Directors’ confirmation

The Directors (including the independent non-executive Directors) are of the view that the proposed amendments to the undertaking of GPHL in relation to the performance period for injection of the “Wang Lao Ji” trademarks are fair, reasonable and on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

The Directors who abstained from voting on the relevant Board resolutions approving the aforesaid transactions include Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu Juyan, Ms. Cheng Ning, Mr. Ni Yidong and Mr. Wang Wenchu, who are materially interested in the proposed amendments to the undertaking by GPHL as described in this sub-section by virtue of them also being the directors and/or members of the senior management or employee of GPHL. Save as disclosed above, none of the Directors have a material interest in the above mentioned proposed amendments or is required to abstain from voting on the relevant Board resolution pursuant to the Hong Kong Listing Rules and/or the Articles of Association.

4. Shareholders’ approval

The Board considered and approved the said proposed amendments to undertaking in the Board meeting held on 12 January 2015 and resolved to propose a resolution to the non-related Shareholders under the PRC laws for their consideration and approval at the EGM. The relevant resolution will be a special resolution at the EGM (see special resolution No. (5) set out in the notice of the EGM dated 19 January 2015).

V. PROPOSED AMENDMENTS TO THE RULES OF PROCEDURES OF THE GENERAL MEETINGS OF SHAREHOLDERS

According to the relevant requirements of the Rules Governing the Procedures for the General Meetings of Shareholders for Listed Companies (2014 Revision) (《上市公司股東大會規則(2014年修訂)》) issued by the CSRC and the Reminder on individual counting and disclosure of small-and medium-sized investors' votes (《關於對中小投資者表決單獨計票並披露的業務提醒》) issued by the Shanghai Stock Exchange, and taking into account the actual circumstances of the Company, the Company proposes to amend certain provisions of its rules of procedures of the general meetings of Shareholders, details of which are set out as follows:

No.	Existing provisions	Proposed amended provisions
1.	Provision 8. Subject to the legality and effectiveness of the Shareholders' meetings and all applicable conditions are qualified, the Company shall, through a variety of ways and means, including the provision of modern information technology means, e.g. network voting platform to the holders of domestic shares, increase the proportion of public Shareholders' participation in Shareholders' meetings.	Provision 8. Subject to the legality and effectiveness of the Shareholders' general meetings and the satisfaction of all relevant conditions, the Company shall facilitate Shareholders to attend the Shareholders' meetings through a variety of ways and means, including the provision of modern information technology (e.g. priority network voting platform) to the holders of domestic shares.
2.	Provision 9. The Board, the independent Directors and Shareholders who fulfill the relevant conditions can solicit their voting rights at the Shareholders' meetings. The voting rights to be solicited should be done without any compensation and the persons who are solicited should be provided with full information.	Provision 9. The Board, the independent Directors and Shareholders who satisfy the relevant conditions can solicit voting rights. The persons who are solicited should be provided with full information, including the right to vote. Any compensation or similar payments paid in relation to the solicitation of Shareholders' voting rights is prohibited. The Company shall not set a minimum threshold on shareholding to restrict the solicitation of voting rights.

No. Existing provisions	Proposed amended provisions
<p>3. Provision 46. In the Shareholders' meetings, the Shareholders (including their proxies) can exercise their voting rights based on the number of Shares held by them, each Share has one vote.</p>	<p>Provision 46. At the Shareholders' general meetings, Shareholders (including their proxies) can exercise their voting rights based on the number of Shares held by them, each Share has one vote.</p> <p>Where there are material matters in the Shareholders' general meetings which may affect the interests of small-and medium-sized investors, the votes of the small-and medium-sized investors should be counted separately and the results should be disclosed promptly and publicly.</p> <p>The Shares held by the Company shall have no voting rights and such number of Shares shall not be counted as part of the total number of Shares held by the Shareholders who attend the general meetings.</p>

This proposal will be put forward at the EGM as an ordinary resolution (see ordinary resolution No. (13) set out in the notice of the EGM dated 19 January 2015) for consideration and approval by the Shareholders.

(D) GENERAL

I. EGM, THE A SHARE CLASS MEETING AND THE H SHARE CLASS MEETING

The EGM, the A Share Class Meeting and the H Share Class Meeting will be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC on Friday, 13 March 2015. The EGM will be held at 10:00 a.m., the H Share Class Meeting will be held immediately after the conclusion of the EGM and the A Share Class Meeting will be held immediately after the conclusion of the H Share Class Meeting. At the EGM, the H Share Class Meeting and the A Share Class Meeting, resolutions will be put forward for the Independent Shareholders, the Independent A Share Shareholders and the Independent H Share Shareholders respectively to consider and, if thought fit, to approve, among other things, the Proposed Placing and the transactions contemplated thereunder and the Whitewash Waiver. At the EGM, the resolutions relating to the Employee Stock Ownership Scheme (2015) and the transactions contemplated thereunder will also be proposed for the consideration and, if thought fit, the approval by the Shareholders. All the members of the Concert Group and their respective parties acting in concert and associates and any Shareholders who are

interested in or involved in the Proposed Placing, the Employee Stock Ownership Scheme (2015) and/or the Whitewash Waiver will abstain from voting at the EGM, A Share Class Meeting and H Share Class Meeting for the relevant resolutions.

At the EGM and/or the A Share Class Meeting and the H Share Class Meeting (as the case may be), the resolutions relating to the granting of the General Mandate, the proposed amendments to the Articles of Association, the election of an independent non-executive Director, the proposed amendments to the undertaking of GPLH in relation to the performance period for injection of the "Wang Lao Ji" trademarks and the proposed amendments to the rules of procedures of the general meetings of the Shareholders will also be proposed for the consideration and, if thought fit, approval by the Shareholders.

All special resolutions proposed at the EGM and/or the A Share Class Meeting and the H Share Class Meeting (as the case may be) are required to be passed by over two-thirds of the voting rights held by those Shareholders having the right to attend and vote at the EGM and/or the A Share Class Meeting and the H Share Class Meeting respectively and not otherwise required by the applicable laws, rules or regulations to abstain from voting thereat.

The notices convening the EGM, the A Share Class Meeting and the H Share Class Meeting and forms of proxy were published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.equitynet.com.hk/0874) on 19 January 2015 and despatched to the Shareholders on 23 January 2015.

II. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 65 to 66 in this circular which contains its recommendations to the Independent Shareholders as to voting at the EGM and the H Share Class Meeting in relation to the Proposed Placing and the Whitewash Waiver.

Your attention is also drawn to the letter from Proton Capital set out on pages 67 to 90 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as regards to the Proposed Placing and the Whitewash Waiver and the principal factors and reasons considered by it in arriving thereat.

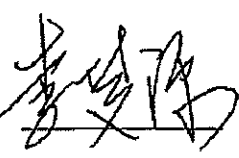

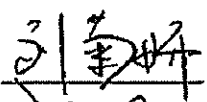
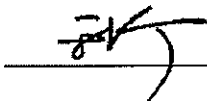
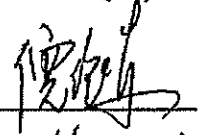
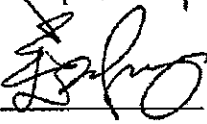
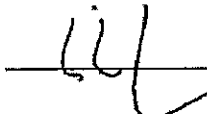
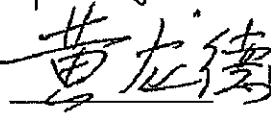
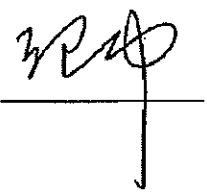
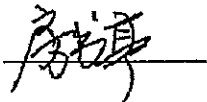
The Directors (including the independent non-executive Directors after receiving the advice from Proton Capital) consider that the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription) and the Whitewash Waiver are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders and the Independent H Share Shareholders to vote in favour of the resolution(s) to be proposed at the EGM and the H Share Class Meeting to approve the Proposed Placing (including the GPLH Subscription and the Concert Party Subscription) and the Whitewash Waiver. You are advised to read the letter from the Independent Board Committee and the letter from Proton Capital mentioned above before deciding how to vote on the resolution(s) to be proposed at the EGM and the H Share Class Meeting.

The Directors (including the independent non-executive Directors) consider that the proposal in relation to the compliance and satisfaction by the Company of the requirements of the non-public issue and placing of new A Shares, the implementation of the Employee Stock Ownership Scheme (2015), the granting of the General Mandate, the proposed amendments to the Articles of Association, the feasibility report for the use of proceeds raised by the non-public issue of A Shares, the report of use of proceeds raised in the previous fund raising of the Company, the establishment of a special saving account for proceeds raised by the Company, the formulation of management measures for proceeds raised by the Company, the proposal in relation to waiving the obligations of GPLH and persons acting in concert with it from making an offer to increase their shareholdings in the Company pursuant to the relevant PRC takeover laws and regulations, the election of an independent non-executive Director, the proposed amendments to the undertaking of GPLH in relation to the performance period for injection of the "Wang Lao Ji" trademarks and the proposed amendments to the rules of procedures of the general meetings of the Shareholders are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders having the right to attend and vote on the resolution(s) to be proposed at the EGM and/or the H Share Class Meeting (as the case may be) and not otherwise required by the applicable laws, rules or regulations to abstain from voting thereat to vote in favour of those resolutions.

III. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
The Board of
Guangzhou Baiyunshan Pharmaceutical
Holdings Company Limited

李楚源: 	陈 矛: 	刘菊妍: 
程 宁: 	倪依东: 	吴长海: 
王文楚: 	黄龙德: 	邱鸿钟: 
房书亭: 	储小平: 