
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this circular and the form of proxy dated 6 May 2015 and despatched to you on 11 May 2015 to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



廣州白雲山医药集团股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(a joint stock company with limited liability established in the People's Republic of China)
(H Share Stock Code: 00874)

**(1) CONNECTED TRANSACTIONS: PARTICIPATION IN THE
EMPLOYEE STOCK OWNERSHIP SCHEME (2015) AND THE
ASSOCIATED ACQUISITION OF AN INTEREST IN THE EMPLOYEE
STOCK TRUST BY CONNECTED PERSONS;
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
AND
(3) GENERAL MANDATE**

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

VINC 城高

Grand Vinco Capital Limited

(A wholly-owned subsidiary of Vinco Financial Group)

Capitalized terms used in this cover page have the same meanings of those defined in this circular.

A letter from the Board is set out on pages 6 to 21 in this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on page 22 of this circular. A letter from the IFA containing its advice in respect of the Connected Participations to the Independent Board Committee and the Independent Shareholders is set out on pages 23 to 43 in this circular.

The notice convening the AGM to be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC on Friday, 26 June 2015 at 10:00 a.m. was published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.equitynet.com.hk/0874) on 6 May 2015 and despatched to the Shareholders on 11 May 2015 respectively. Whether or not you intend to attend the AGM, please complete the form of proxy despatched together with the aforementioned notice in accordance with the instructions printed thereon and return it to the office of the Company's H Share Registrar, Hong Kong Registrars Limited, for holders of H Shares as soon as possible and in any event not less than 24 hours before the time for holding of AGM. Completion and return of the form of proxy will not preclude you from attending and voting at the AGM should you so wish.

19 May 2015

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	22
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	23
APPENDIX I – GENERAL INFORMATION	I-1

DEFINITIONS

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

“AGM”	the annual general meeting of 2014 of the Company to be held at 10:00 a.m. on Friday, 26 June 2015, including any adjournment thereof
“A Share(s)”	RMB-denominated domestic share(s) in the share capital of the Company, with a nominal value of RMB1.00 each and is(are) listed on the Shanghai Stock Exchange
“Articles of Association”	the articles of association of the Company
“Asset Manager”	China Universal Asset Management Company Limited* (滙添富基金管理股份有限公司), a joint stock limited company established in the PRC, which is entrusted by the Company as the management organization of the Employee Stock Ownership Scheme (2015)
“Asset Management Agreement”	the asset management agreement to be entered into among the Company (on behalf of the Intended Participants), the Asset Manager and the asset custodian in respect of the Employee Stock Trust
“associate”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of Directors
“Company”	Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited*(廣州白雲山醫藥集團股份有限公司), a joint stock company with limited liability established in the PRC, whose H Shares and A Shares are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
“Connected Participant”	the Intended Participant who is a connected person of the Company
“Connected Participation”	the participation in the Employee Stock Ownership Scheme (2015) by a Connected Participant and the transactions contemplated by such participation, including but not limited to the signing of the Subscription Undertaking, the transactions contemplated by the Subscription Undertaking and the associated acquisition of the Trust Interest

DEFINITIONS

“Connected Participation Table”	the table depicted in the annex to the section headed “Letter from the Board” in this circular which contains certain information in respect of the Connected Participations
“connected person”	has the meaning ascribed to it under the Hong Kong Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules
“CSRC”	China Securities Regulatory Commission(中國證券監督管理委員會)
“CSRC Condition”	the obtaining of the approval from the CSRC regarding the Proposed Placing
“Directors”	the directors of the Company
“EGM”	the first extraordinary general meeting of the Company in 2015 held on 13 March 2015
“Employee Scheme Subscription”	the subscription of a maximum of 21,189,000 new A Shares by the Asset Manager (as trustee of the Employee Stock Trust) pursuant to the Employee Scheme Subscription Agreement
“Employee Scheme Subscription Agreement”	the conditional subscription agreement dated 12 January 2015 entered into between the Company and the Asset Manager (as trustee of the Employee Stock Trust) in relation to the Employee Scheme Subscription
“Employee Stock Ownership Scheme (2015)”	the employee stock ownership scheme of the Company set up to allow the Target Participants to invest in the Shares
“Employee Stock Trust”	the asset management trust known as “China Universal – Private Placement Prosperous Age Exclusive Account No. 66 Asset Management Scheme*(添富一定增盛世專戶66號資產管理計劃)” set up by the Asset Manager for the Employee Stock Ownership Scheme (2015)
“February Circular”	the circular of the Company dated 26 February 2015 containing, among other things, information on the Proposed Placing and the Employee Stock Ownership Scheme (2015)

DEFINITIONS

“General Mandate”	an unconditional and general mandate proposed to be granted to the Board at the AGM to issue, allot and/or deal with new H Shares not exceeding 20% of the total issued H Shares as at the date of the AGM
“GPHL”	Guangzhou Pharmaceutical Holdings Limited* (廣州醫藥集團有限公司), 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. It is the controlling shareholder of the Company which held approximately 45.23% of the issued Shares as at the LPD
“GPHL Undertaking”	the undertaking given by GPHL to subscribe for all undersubscribed A Shares under the Employee Scheme Subscription if there is no and/or any under-subscription by the Asset Manager
“Group”	the Company and the Subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company, with a nominal value of RMB1.00 each and is (are) listed on the Hong Kong Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors formed to advise the Independent Shareholders on the Connected Participations
“Independent Shareholders”	Shareholders other than those who are required by the Hong Kong Listing Rules to abstain from voting on the resolutions for the approval of the Connected Participations at the AGM
“Intended Participant”	the Target Participant who has given the Participation Indication, including a Connected Participant

DEFINITIONS

“LPD”	13 May 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Non-connected Participant”	the Intended Participant other than the Connected Participant
“Non-connected Participation”	the participation in the Employee Stock Ownership Scheme (2015) by a Non-connected Participant and the transactions contemplated by such participation, including but not limited to the signing of the Subscription Undertaking, the transactions contemplated by the Subscription Undertaking and the associated acquisition of the Trust Interest
“Participation Indication”	the written indication of the intention to participate in the Employee Stock Ownership Scheme (2015) given by a Target Participant
“PRC”	the People’s Republic of China
“Price Adjustment”	as defined in the February Circular
“Proposed Articles Amendments”	the proposed amendments to the Articles of Association as described in the section headed “3. Proposed Articles Amendments” in the section headed “Letter from the Board” in this circular
“Proposed Placing”	the proposed non-public issue and placing of not more than 419,463,087 new A Shares as described in more detail in the February Circular
“Proposed Subscription Amounts”	in respect of each Intended Participant, means the amounts proposed to be paid by him as specified in the Participation Indication to the Employee Stock Trust for the Asset Manager (acting as trustee of the Employee Stock Trust) to make the Employee Scheme Subscription
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	A Share(s) and/or H Share(s)
“Shareholder(s)”	the holder(s) of Shares

DEFINITIONS

“Subsidiary”	a subsidiary of the Company
“Subsidiary Director”	a director of a Subsidiary
“Subsidiary GM”	a general manager of a Subsidiary
“Subsidiary Supervisor”	a supervisor of a Subsidiary
“Subscription Price”	RMB23.84 per A Share (subject to the Price Adjustment)
“Subscription Undertaking”	the proposed legally binding undertaking to be given by each Intended Participant in relation to, among other things, confirmation of his participation in the Employee Stock Ownership Scheme (2015), the anticipated principal terms of which are set out in the section headed “2.4. The Subscription Undertaking” in the section headed “Letter from the Board” in this circular
“Target Participants”	the target participants of the Employee Stock Ownership Scheme (2015), being 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, the Subsidiaries, joint ventures and associated companies
“Trust Interest”	an interest of an Intended Participant in the Employee Stock Trust represented by the Proposed Subscription Amounts
“Vinco Capital”, “IFA” or “Independent Financial Adviser”	Grand Vinco Capital Limited(大唐域高融資有限公司), a wholly-owned subsidiary of Vinco Financial Group Limited (stock code: 8340), a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Connected Participations
“%”	per cent

Note: where the context so requires or permits, the singular includes the plural and vice versa and a gender includes other genders.

LETTER FROM THE BOARD



廣州白雲山醫葯集團股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(a joint stock company with limited liability established in the People's Republic of China)
(H Share Stock Code: 00874)

Executive Directors:

Mr. Li Chuyuan
Mr. Chen Mao
Ms. Liu Juyan
Ms. Cheng Ning
Mr. Ni Yidong
Mr. Wu Changhai
Mr. Wang Wenchu

*Registered office and principal place
of business:*

45 Sha Mian North Street
Liwan District
Guangzhou City, Guangdong Province
The PRC

Independent non-executive Directors:

Mr. Wong Lung Tak Patrick
Mr. Qiu Hongzhong
Mr. Chu Xiaoping
Mr. Jiang Wenqi

Principal place of business in Hong Kong:

Room 2005, 20th Floor
Tower Two Lippo Center
89 Queensway
Hong Kong

19 May 2015

To the Shareholders

Dear Sir or Madam,

**(1) CONNECTED TRANSACTIONS: PARTICIPATION IN THE
EMPLOYEE STOCK OWNERSHIP SCHEME (2015) AND THE
ASSOCIATED ACQUISITION OF AN INTEREST IN THE EMPLOYEE
STOCK TRUST BY CONNECTED PERSONS;
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
AND
(3) GENERAL MANDATE**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 27 April 2015, pursuant to which it was announced, among other things, that resolutions would be proposed to the Independent Shareholders for them to consider, and if thought fit, approve the Connected Participations and resolutions would be proposed to the Shareholders for them to consider, and if thought fit, approve the Proposed Articles Amendments.

The purpose of this circular is to provide you with (i) more information on the Connected Participations; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the IFA to the

LETTER FROM THE BOARD

Independent Board Committee and the Independent Shareholders in respect of the Connected Participations; and (iv) other information as required under the Hong Kong Listing Rules to enable you to make an informed decision on whether to vote for or against the resolutions in respect of the Connected Participations at the AGM. The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Connected Participations and Vinco 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 the Proposed Articles Amendments and the General Mandate.

2. THE CONNECTED PARTICIPATIONS

2.1 Background

- (a) In the February Circular, it was disclosed, among other things, details of the following:
 - (i) the Proposed Placing;
 - (ii) the Employee Scheme Subscription Agreement;
 - (iii) the Employee Stock Ownership Scheme (2015); and
 - (iv) the Asset Management Agreement.
- (b) It was further disclosed in the February Circular that:
 - (i) 4,897 Target Participants had indicated their intention to participate in the Employee Stock Ownership Scheme (2015); and
 - (ii) the participation in the Employee Stock Ownership Scheme (2015) by the Directors, supervisors of the Company and the Subsidiary Directors and the Subsidiary Supervisors as well as their respective associates, all being connected persons of the Company under the Hong Kong Listing Rules, may constitute potential connected transactions of the Company under the Hong Kong Listing Rules.
- (c) At the Board meeting held on 27 April 2015, the Directors resolved, among other things, to propose to the Independent Shareholders to consider and, if thought fit, approve the resolutions on the Connected Participations at the AGM.

LETTER FROM THE BOARD

2.2 Information on the indication to participate in the Employee Stock Ownership Scheme (2015)

Set out below is the information on the indication to participate in the Employee Stock Ownership Scheme (2015):

	Number of the Intended Participants	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares
Connected Participants	89	110,438,800	4,632,500
Non-connected Participants	<u>4,808</u>	<u>394,706,960</u>	<u>16,556,500</u>
Total	<u>4,897</u>	<u>505,145,760</u>	<u>21,189,000</u>

The participation in the Employee Stock Ownership Scheme (2015) and the amount of the Proposed Subscription Amounts are determined solely by the Intended Participants. Under the terms of the Employee Stock Ownership Scheme (2015), the Company cannot exercise any discretion to pick and choose the Target Participants and it has no discretion or right to reject any Target Participants to participate in the Employee Stock Ownership Scheme (2015) or otherwise vary the Proposed Subscription Amounts of the Target Participants.

For more information on the Employee Stock Ownership Scheme (2015), please refer to the section headed “Letter from the Board – (B) Matters relating to the Proposed Placing and the Employee Stock Ownership Scheme (2015) – III. Proposed implementation of the Employee Stock Ownership Scheme (2015) – 1. Details of the Employee Stock Ownership (2015)” of the February Circular.

2.3 Further information on the Connected Participations

The material information concerning the participation of the Connected Participants in the Employee Stock Ownership Scheme (2015), such as the name of each Connected Participant, his principal position(s) in the Group, his maximum Proposed Subscription Amounts and the maximum number of new A Shares calculated at the Subscription Price is set out in the Connected Participation Table.

LETTER FROM THE BOARD

The A Shares to be subscribed for under the Employee Scheme Subscription, being the same A Shares in relation to the Connected Participations, will be subscribed at the price of RMB23.84 per share (subject to Price Adjustment) as disclosed in the February Circular. Set out below is the information on the prices of A Shares for reference:

	Price per A Share <i>(RMB)</i>
Average closing price for the five consecutive trading days up to and including the LPD	35.79
Average closing price for the 10 consecutive trading days up to and including the LPD	36.01
Historical high for the past 52-week before the LPD	38.99
Historical low for the past 52-week before the LPD	22.94

2.4 The Subscription Undertaking

As at the LPD, the Intended Participants have only given their Participation Indications, but are not legally bound to participate in the Employee Stock Ownership Scheme (2015) or to pay the Proposed Subscription Amounts. For the purposes of, among other things, confirming the participation of the Intended Participants in the Employee Stock Ownership Scheme (2015) and the payment of the Proposed Subscription Amounts, it is proposed that each Intended Participant shall sign the Subscription Undertaking, pursuant to which an Intended Participant will, among other things, confirm and undertake to the Asset Manager, the Company and other participants of the Employee Stock Ownership Scheme (2015) as follows:

- (a) confirms his participation in the Employee Stock Ownership Scheme (2015);
- (b) undertakes to comply with the Employee Stock Ownership Scheme (2015);
- (c) confirms his Proposed Subscription Amounts;
- (d) authorizes the Company to sign the Asset Management Agreement on his behalf;
- (e) agrees that the voting rights attached to the A Shares under the Employee Stock Ownership Scheme (2015) shall be given up and the Asset Manager shall not exercise such voting rights; and
- (f) undertakes to pay his Proposed Subscription Amounts to the Asset Manager (acting as trustee of the Employee Stock Trust) to make the Employee Scheme Subscription within five working days after the signing of the Subscription Undertaking.

LETTER FROM THE BOARD

As at the LPD, it is expected that the Subscription Undertaking will be given on a date after the CSRC Condition has been satisfied but before the completion of the Employee Scheme Subscription.

For the reasons given in the section headed “2.11. Implications of the Connected Participations under the Hong Kong Listing Rules” below, each Connected Participation is a connected transaction of the Company and, therefore, is subject to the approval of the Independent Shareholders under the Hong Kong Listing Rules. In this connection, a resolution in respect of a Connected Participation will be proposed at the AGM for the Independent Shareholders to consider and, if thought fit, approve that Connected Participation subject to the maximum Proposed Subscription Amounts and the maximum number of new A Shares in respect of that Connected Participation as set out in the Connected Participation Table.

2.5 Implications of the Independent Shareholders’ consideration of the Connected Participations

(a) In relation to the Connected Participations and the Non-connected Participations

- (i) None of the Connected Participations will be entered into unless the approval of the Independent Shareholders’ in respect of that Connected Participation is obtained. However, none of the Connected Participations will be conditional upon the approval of any of the other Connected Participations by the Independent Shareholders.
- (ii) Under the Hong Kong Listing Rules, the Non-connected Participations do not require the approval of the Shareholders or the Independent Shareholders.
- (iii) Even if the relevant Shareholders’ approvals in respect of the Connected Participations have been obtained, whether (A) all or only some of the Connected Participations and (B) all or only some of the Non-connected Participations can proceed will depend on whether the condition(s) of the Employee Stock Ownership Scheme (2015) and the Employee Scheme Subscription Agreement are fulfilled as explained in more detail in the section headed “2.6. Condition(s) of the Employee Stock Ownership Scheme (2015) and the Employee Scheme Subscription Agreement” below.

(b) In relation to the Proposed Placing

Whether the Proposed Placing will be proceeded or not is not conditional on the Independent Shareholders’ approval of all the Connected Participations or any of them. Accordingly, the Independent Shareholders’ consideration of the Connected Participations does not have any material impact on the Proposed Placing. Further, as disclosed in the February Circular, GPLH will take up all

LETTER FROM THE BOARD

under-subscribed A Shares under the Employee Scheme Subscription in accordance with the GPLH Undertaking if there is no and/or any under-subscription by the Asset Manager.

2.6 Condition(s) of the Employee Stock Ownership Scheme (2015) and the Employee Scheme Subscription Agreement

- (a) As disclosed in the February Circular, the Employee Stock Ownership Scheme (2015) was 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. At the EGM, all relevant resolution(s) in respect of the Employee Stock Ownership Scheme (2015) were passed.
- (b) The Employee Scheme Subscription Agreement is subject to the conditions set out in the section headed “Letter from the Board – (B) Matters relating to the Proposed Placing and the Employee Stock Ownership Scheme (2015) – I. Proposed issue and placing of new A shares – 3. Conditions precedent of the Proposed Placing” of the February Circular. As at the LPD, save and except for the CSRC Condition, all the conditions of the Employee Scheme Subscription Agreement have been fulfilled. The CSRC may or may not approve the Proposed Placing of which the Employee Scheme Subscription Agreement forms part or it may impose conditions on its approval which may, as a result, prohibit the participation in the Employee Stock Ownership Scheme (2015) by certain Intended Participants (whether Connected Participants or Non-connected Participants).

For more information on the Employee Scheme Subscription Agreement, please refer to the section headed “Letter from the Board – (B) Matters relating to the Proposed Placing and the Employee Stock Ownership Scheme (2015) – II. Proposed subscription of new A shares – 3. Proposed Employee Scheme Subscription” of the February Circular.

2.7 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 health industry such as in the sectors of medical treatment, health management, health nursing, health preservation, caring of the elderly etc..

LETTER FROM THE BOARD

2.8 Information on the Connected Participants

Each Connected Participant is a Director, a supervisor of the Company, a chief executive of the Company, a Subsidiary Director, a Subsidiary Supervisor and/or a chief executive of a Subsidiary as demonstrated by the Connected Participation Table and, therefore, is a connected person of the Company under the Hong Kong Listing Rules.

2.9 Information on the Asset Manager (acting as trustee of the Employee Stock Trust)

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.

For more information on the Asset Management Agreement, please refer to the section headed “Letter from the Board – (B) Matters relating to the Proposed Placing and the Employee Stock Ownership Scheme (2015) – IV. Proposed asset management of the Employee Stock Ownership Scheme (2015) – 1. Major terms of the Asset Management Agreement” of the February Circular.

2.10 Reasons for the Connected Participations

As disclosed in the February Circular, 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. The participation in the Employee Stock Ownership Scheme (2015) by the Connected Participants, all being members of the management or the supervisory organs of the Group, are consistent with the purposes of the Employee Stock Ownership Scheme (2015). The Directors (including the independent non-executive Directors after receiving the advice of the IFA) are of the view that the terms of the Connected Participations are fair and reasonable and in the interests of the Shareholders and the Group as a whole. Each of 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 their respective Connected Participations and, accordingly, has not been counted towards the quorum at the relevant Board meeting and has not participated in the voting on the relevant Directors’ resolution.

LETTER FROM THE BOARD

2.11 Implications of the Connected Participations under the Hong Kong Listing Rules

Each Connected Participant is a Director, a supervisor of the Company, a chief executive of the Company, a Subsidiary Director, a Subsidiary Supervisor and/or a chief executive of a Subsidiary and, therefore, is a connected person of the Company under the Hong Kong Listing Rules. Accordingly, each Connected Participation will constitute a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and is subject to the notification, announcement, shareholders' approval and reporting requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee has been formed to consider, and to advise the Independent Shareholders on the matters specified under Rule 14A.40 of the Hong Kong Listing Rules, including without limitation the fairness and reasonableness of the terms of each Connected Participation. The Independent Financial Adviser has been appointed to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the same. Please refer to the sections headed "Letter from the Independent Board Committee" and "Letter from the Independent Financial Adviser" in this circular respectively for the opinion of the Independent Board Committee and the Independent Financial Adviser in respect of the Connected Participations.

A separate resolution will be proposed at the AGM for the Independent Shareholders to consider and, if thought fit, approve one Connected Participation subject to the maximum Proposed Subscription Amounts and the maximum number of new A Shares in respect of that Connected Participation. A Connected Participant and his associates will be required to abstain from voting on the Shareholders' resolution for the approval of the Connected Participation in respect of him. In addition, GPLH will also be required to abstain from voting on all the Shareholders' resolutions for the approval of the Connected Participations since it has a material interest in each Connected Participation by virtue of the GPLH Undertaking. Save as disclosed and so far as the Company is aware as at the LPD, no Shareholder will be required to abstain from voting in respect of any Connected Participations.

3. PROPOSED ARTICLES AMENDMENTS

As announced in the announcement of the Company dated 9 April 2014, the Company proposed to repurchase an aggregate of 261,400 A Shares from GPLH at the total nominal consideration of RMB1.00 (the "**Repurchase**") as contemplated by a profit compensation agreement dated 15 June 2012 entered into between the Company and GPLH and described in more detail in the circular of the Company dated 4 September 2012.

LETTER FROM THE BOARD

Upon completion of the Repurchase, the total number of Shares in issue, the number of Shares held by GPLH and the registered capital of the Company will be reduced. The Board therefore proposes to amend the Articles of Association as summarized below:

- (a) Article 21 will be amended by inserting the following at its end:

As a follow-up matter of the major asset reorganization, the Company repurchased 261,400 A shares from GPLH at the consideration of RMB1 and cancelled them thereafter. After the repurchase, the shareholding structure of the Company is as follows:

- (i) 583,966,636 shares (State shares), representing 45.23% of the total number of shares of the Company, are held by Guangzhou Pharmaceutical Holdings Limited, the promoter;
 - (ii) 219,900,000 shares (foreign shares), representing 17.03% of the total number of shares of the Company, are held by overseas investors; and
 - (iii) 487,212,614 shares (domestic shares), representing 37.74% of the total number of shares of the Company, are held by domestic investors.
- (b) Article 24 will be amended by deleting the existing registered capital of the Company (i.e. RMB1,291,340,650) and replace it with the registered capital of the Company (i.e. RMB1,291,079,250) immediately upon completion of the Repurchase.

It was disclosed in the announcement of the Company dated 27 April 2015 that the Proposed Articles Amendments were conditional upon the completion of the Repurchase and the passing of a resolution by the Shareholders at a general meeting of the Company. As at the LPD, the Repurchase has been completed and, accordingly, the Proposed Articles Amendments is only subject to the passing of a resolution by the Shareholders at a general meeting of the Company. A resolution will be proposed at the AGM for the Shareholders to consider and, if thought fit, approve the Proposed Articles Amendments.

The Directors are of the view that the Proposed Articles Amendments are necessary to reflect the information on the actual number of Shares in issue, the number of Shares held by GPLH and the registered capital of the Company as contained in the Articles of Association and is therefore in the interests of the Company and the Shareholders as a whole.

4. GENERAL MANDATE

At the EGM, the A Shares class meeting held on 13 March 2015 and the H Shares class meeting held on 13 March 2015, the Shareholders, the holders of A Shares and the holders of the H Shares had each pass a resolution granting a general mandate to the Directors, pursuant to which the Directors may issue, allot and/or deal with a maximum of 43,980,000 new H Shares, representing 20% of the H Shares in issue as at 13 March 2015. That mandate will expire at the conclusion of the AGM.

LETTER FROM THE BOARD

On 27 April 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 for the approval of the General Mandate at the AGM, 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 assist the Company to comply with the requirements in respect of the proportion of the H Shares in the total issued share capital of the Company as required under the Hong Kong Listing Rules after completion of the Proposed Placing and 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.

5. AGM

The AGM will be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC at 10:00 a.m. on Friday, 26 June 2015.

The notice convening the AGM was published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.equitynet.com.hk/0874) on 6 May 2015 and despatched to the Shareholders on 11 May 2015 respectively. Whether or not you intend to attend the AGM, please complete the form of proxy despatched together with the aforementioned notice in accordance with the instructions printed thereon and return it to the office of the Company's H Share Registrar, Hong Kong Registrars Limited, for holders of H Shares as soon as possible and in any event not less than 24 hours before the time for holding of AGM. Completion and return of the form of proxy will not preclude you from attending and voting at the AGM should you so wish.

6. RECOMMENDATIONS

As mentioned in the section headed "2.11. Implications of the Connected Participations under Hong Kong Listing Rules" above, the Independent Board Committee has been formed to consider, and to advise the Independent Shareholders on the matters specified in Rule 14A.40 of the Hong Kong Listing Rules, including without limitation the fairness and reasonableness of the terms of the Connected Participations. Vinco Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors after receiving the advice from the Independent Financial Adviser) consider that the terms of each Connected Participation are fair and reasonable and 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 to vote in favour of each resolution for the approval of each Connected Participation at the AGM.

For the reasons given in the sections headed “3. Proposed Articles Amendments” and “4. General Mandate” above, the Directors (including the independent non-executive Directors) consider that the Proposed Articles Amendments and the General Mandate 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 to vote in favour of the respective resolutions for the approval of the Proposed Articles Amendments and the General Mandate at the AGM.

7. FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 22 of this circular and the letter from the Independent Financial Adviser set out on pages 23 to 43 of this circular which contains the recommendation of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Connected Participations and the principal factors and reasons considered by the Independent Financial Adviser in arriving at its recommendation.

Your attention is also drawn to the additional information set out in Appendix I to this circular.

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

LETTER FROM THE BOARD

Annex Connected Participation Table

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
1	Li Chuyuan	Chairman of the Company and an executive Director	4,768,000.00	200,000	0.015%	0.012%
2	Chen Mao	Vice chairman of the Company and an executive Director	4,768,000.00	200,000	0.015%	0.012%
3	Liu Juyan	Executive Director	4,291,200.00	180,000	0.014%	0.011%
4	Chen Ning	Executive Director	4,291,200.00	180,000	0.014%	0.011%
5	Ni Yidong	Executive Director	4,529,600.00	190,000	0.015%	0.011%
6	Wu Changhai	Executive Director and vice general manager of the Company	4,291,200.00	180,000	0.014%	0.011%
7	Wang Wenchu	Executive Director and vice general manager of the Company	4,291,200.00	180,000	0.014%	0.011%
8	Xian Jiexiong	Chairman of the supervisory committee of the Company	3,933,600.00	165,000	0.013%	0.010%
9	Wu Quan	Supervisor of the Company	715,200.00	30,000	0.002%	0.002%
10	Zhang Chunbo	Vice general manager of the Company and chairman of a Subsidiary	3,814,400.00	160,000	0.012%	0.009%
11	Su Biru	Subsidiary Director	238,400.00	10,000	0.001%	0.001%
12	Xue Min	Subsidiary Supervisor	1,192,000.00	50,000	0.004%	0.003%
13	Li Jingbo	Subsidiary Supervisor	238,400.00	10,000	0.001%	0.001%
14	Li Guangliang	Subsidiary Director	238,400.00	10,000	0.001%	0.001%
15	Xu Keyi	Subsidiary Director	3,099,200.00	130,000	0.010%	0.008%
16	Lin Huizhao	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
17	Chen Kunnan	Chairman of a Subsidiary and Subsidiary GM	357,600.00	15,000	0.001%	0.001%
18	Huang Yuedong	Subsidiary Director	119,200.00	5,000	0.000%	0.000%

LETTER FROM THE BOARD

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
19	Zhang Xiaomei	Subsidiary Supervisor	35,760.00	1,500	0.000%	0.000%
20	Yan Zhibiao	Subsidiary Director and Subsidiary GM	238,400.00	10,000	0.001%	0.001%
21	Chen Zhixiong	Subsidiary Director	715,200.00	30,000	0.002%	0.002%
22	Peng Hongying	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
23	Su Guangfeng	Subsidiary Director	8,344,000.00	350,000	0.027%	0.020%
24	Chen Weiping	Subsidiary Director	3,933,600.00	165,000	0.013%	0.010%
25	Wang Jingwen	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
26	Shi Hongchao	Chairman of a Subsidiary	596,000.00	25,000	0.002%	0.001%
27	Liang Mingji	Subsidiary Director and Subsidiary GM	119,200.00	5,000	0.000%	0.000%
28	Ouyang Qiang	Subsidiary Director	1,192,000.00	50,000	0.004%	0.003%
29	Chen Jinwei	Chairman of the supervisory committee of a Subsidiary	357,600.00	15,000	0.001%	0.001%
30	Jie Min	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
31	Chen Yulian	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
32	Yang Dongsheng	Chairman of a Subsidiary and Subsidiary GM	596,000.00	25,000	0.002%	0.001%
33	Lu Qifu	Subsidiary Director	59,600.00	2,500	0.000%	0.000%
34	Cheng Honghui	Subsidiary Director	1,430,400.00	60,000	0.005%	0.004%
35	Liang Zhiping	Chairman of the supervisory committee of a Subsidiary	95,360.00	4,000	0.000%	0.000%
36	Xu Wenliu	Subsidiary Director and Subsidiary GM	476,800.00	20,000	0.002%	0.001%
37	Fang Guanghong	Vice chairman of a Subsidiary	4,768,000.00	200,000	0.015%	0.012%
38	Yao Jiangxiong	Chairman of a Subsidiary and Subsidiary GM	1,192,000.00	50,000	0.004%	0.003%
39	Xu Zhaodong	Subsidiary Director	59,600.00	2,500	0.000%	0.000%

LETTER FROM THE BOARD

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
40	Zhu Ling	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
41	Cai Zhiwei	Chairman of the supervisory committee of a Subsidiary	476,800.00	20,000	0.002%	0.001%
42	Ouyang Haizhan	Subsidiary Supervisor	47,680.00	2,000	0.000%	0.000%
43	Liu Yanping	Subsidiary Supervisor	536,400.00	22,500	0.002%	0.001%
44	Zhou Lushan	Chairman of a Subsidiary	1,430,400.00	60,000	0.005%	0.004%
45	Kong Jian	Subsidiary Director and Subsidiary GM	1,192,000.00	50,000	0.004%	0.003%
46	Zheng Jianxiong	Subsidiary Director	59,600.00	2,500	0.000%	0.000%
47	Bei Xuhui	Chairman of the supervisory committee of a Subsidiary	357,600.00	15,000	0.001%	0.001%
48	Zheng Haoshan	Subsidiary Supervisor	4,172,000.00	175,000	0.014%	0.010%
49	Shen Ying	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
50	Feng Yaowen	Chairman of a Subsidiary	178,800.00	7,500	0.001%	0.000%
51	Chen Songguang	Subsidiary Director and Subsidiary GM	1,192,000.00	50,000	0.004%	0.003%
52	Ou Guangde	Chairman of the supervisory committee of a Subsidiary	357,600.00	15,000	0.001%	0.001%
53	Liang Shaohui	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
54	Liu Fei	Subsidiary Supervisor	119,200.00	5,000	0.000%	0.000%
55	Yuan Cheng	Chairman of a Subsidiary and Subsidiary GM	894,000.00	37,500	0.003%	0.002%
56	Huang Xiang	Subsidiary Director	3,576,000.00	150,000	0.012%	0.009%
57	Zhang Yongtao	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
58	Yan Huanxiong	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
59	Yao Zhizhi	Subsidiary Supervisor	2,384,000.00	100,000	0.008%	0.006%
60	Lai Zhijian	Subsidiary Supervisor	596,000.00	25,000	0.002%	0.001%
61	Chen Jiannong	Chairman of a Subsidiary	2,384,000.00	100,000	0.008%	0.006%

LETTER FROM THE BOARD

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
62	Huang Ming	Subsidiary Director and Subsidiary GM	3,576,000.00	150,000	0.012%	0.009%
63	Zhang Mingsen	Subsidiary Director	1,192,000.00	50,000	0.004%	0.003%
64	Ying Jun	Subsidiary Director	476,800.00	20,000	0.002%	0.001%
65	Li Hong	Chairman of a Subsidiary	4,291,200.00	180,000	0.014%	0.011%
66	Huang Wenye	Subsidiary Director	23,840.00	1,000	0.000%	0.000%
67	Qiao Yong	Subsidiary Director	23,840.00	1,000	0.000%	0.000%
68	Chen Ping	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
69	TanYingjin	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
70	Deng Weiyang	Subsidiary Supervisor	11,920.00	500	0.000%	0.000%
71	Zhang Weixiang	Subsidiary Director and Subsidiary GM	238,400.00	10,000	0.001%	0.001%
72	Fan Shadan	Subsidiary Director	596,000.00	25,000	0.002%	0.001%
73	Situ Lie	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
74	Lu Jianhua	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
75	Liu Guangsui	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
76	Li Jianwei	Subsidiary Supervisor	11,920.00	500	0.000%	0.000%
77	Dai Bixin	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
78	Xiao Rongming	Subsidiary Director and Subsidiary GM	357,600.00	15,000	0.001%	0.001%
79	Liu Yuhua	Subsidiary Director	23,840.00	1,000	0.000%	0.000%
80	Liu Hanming	Subsidiary Supervisor	238,400.00	10,000	0.001%	0.001%
81	Pang Jianhui	Subsidiary Supervisor	238,400.00	10,000	0.001%	0.001%
82	Pei Zejian	Subsidiary Director and Subsidiary GM	596,000.00	25,000	0.002%	0.001%
83	Huang Haiwen	Subsidiary Director	417,200.00	17,500	0.001%	0.001%
84	Chen Zhizhao	Chairman of a Subsidiary	1,430,400.00	60,000	0.005%	0.004%

LETTER FROM THE BOARD

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
85	Gong Qingxun	Subsidiary Director and Subsidiary GM	178,800.00	7,500	0.001%	0.000%
86	Zhao Min	Subsidiary Director	1,430,400.00	60,000	0.005%	0.004%
87	Yu Liangshuo	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
88	Liu Xuebin	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
89	Chen Jing	Subsidiary Director	<u>4,172,000.00</u>	<u>175,000</u>	<u>0.014%</u>	<u>0.010%</u>
		Total	<u><u>110,438,800</u></u>	<u><u>4,632,500</u></u>	<u><u>0.359%</u></u>	<u><u>0.271%</u></u>

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



廣州白雲山醫葯集團股份有限公司
GUANGZHOU BAIYUNSHAN PHARMACEUTICAL HOLDINGS CO., LTD.

(a joint stock company with limited liability established in the People's Republic of China)
(H Share Stock Code: 00874)

19 May 2015

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTIONS: PARTICIPATION IN THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015) AND THE ASSOCIATED ACQUISITION OF AN INTEREST IN THE EMPLOYEE STOCK TRUST BY CONNECTED PERSONS

We refer to the circular from the Company to the Shareholders dated the date of this letter (the “**Circular**”) of which this letter forms part. Capitalised terms defined in the Circular have the same meanings when used herein unless the context otherwise requires.

Under the Hong Kong Listing Rules, each Connected Participation is subject to the approval of the Independent Shareholders.

We have been appointed by the Board to consider the terms of each Connected Participation and to advise the Independent Shareholders as to whether, in our opinion, the terms of each Connected Participation are on normal commercial terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Vinco Capital has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser as set out in the Circular. Having taken into account the principal factors and reasons considered by and the advice of the Independent Financial Adviser as set out in the letter from the Independent Financial Adviser, we consider that the Connected Participations are not in the ordinary and usual course of business of the Group but the terms of each Connected Participation are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the each resolution for the approval of each Connected Participation at the AGM.

Yours faithfully,
For and on behalf of the
Independent Board Committee
Mr. Wong Lung Tak Patrick
Mr. Qiu Hongzhong
Mr. Chu Xiaoping
Mr. Jiang Wenqi
Independent Non-Executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in respect of the Connected Participation which has been prepared for the purpose of incorporation in this circular:



Grand Vinco Capital Limited
Units 4909-4910, 49/F., The Center
99 Queen's Road Central, Hong Kong

19 May 2015

To the Independent Board Committee and the Independent Shareholders of
Guangzhou Baiyunshan Pharmaceutical Holdings Company Limited

Dear Sirs,

CONNECTED TRANSACTIONS: PARTICIPATION IN THE EMPLOYEE STOCK OWNERSHIP SCHEME (2015) AND THE ASSOCIATED ACQUISITION OF AN INTEREST IN THE EMPLOYEE STOCK TRUST BY CONNECTED PERSONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Connected Participation, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 19 May 2015 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 27 April 2015 in relation to, among other things, the Connected Participations. Pursuant to each Connected Participation, a Connected Participant will sign the Subscription Undertaking, enter into the transactions contemplated by the Subscription Undertaking and acquire the Trust Interest represented by his Proposed Subscription Amounts, such Proposed Subscription Amounts will be used by the Asset Manager for the subscription of new A Shares under the Employee Scheme Subscription. Each Connected Participant is a Director, a supervisor of the Company, a chief executive of the Company, a Subsidiary Director, a Subsidiary Supervisor and/or a chief executive of a Subsidiary and, therefore, is a connected person of the Company under the Hong Kong Listing Rules. Accordingly, each Connected Participation will constitute a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

A Connected Participant and his associates will be required to abstain from voting on the Shareholders' resolution for the approval of the Connected Participation in respect of him. Each of the executive Directors, namely Mr. Li Chuyuan, Mr. Chen Mao, Ms. Liu

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Juyan, Ms. Cheng Ning, Mr. Ni Yidong, Mr. Wu Changhai and Mr. Wang Wenchu are materially interested in their respective Connected Participation and, accordingly, has not been counted towards the quorum at the relevant Board meeting and has not participated in the voting on the relevant Directors' resolution. In addition, GPLH will also be required to abstain from voting on all the Shareholders' resolutions for the approval of each Connected Participation since it has a material interest in each Connected Participation by virtue of the GPLH Undertaking. Save as disclosed and so far as the Company is aware as at the LPD, no Shareholder will be required to abstain from voting in respect of any Connected Participation.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Jiang Wenqi, has been formed (i) to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Connected Participation and whether the Connected Participation are in the interests of the Company and the Shareholders as a whole; and (ii) to advise the Independent Shareholders on how to vote on the resolution(s) in respect of the Connected Participation and the transactions contemplated thereunder.

We have been appointed, and approved by the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Connected Participation. In our capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the matters specified under Rule 14A.40 of the Hong Kong Listing Rules, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to whether each Connected Participation are on normal commercial terms, the terms of each Connected Participation are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole and whether the Independent Shareholders should vote in favour of the resolution to be proposed at the AGM to approve a Connected Participation subject to, among other things, the maximum Proposed Subscription Amounts and the maximum number of new A Shares in respect of that Connected Participation. We are not connected with the directors, chief executive and substantial shareholders of the Company, the Group, or their respective associates and do not have any shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the LPD, and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no previous engagement between us and the Group.

BASIS OF OUR OPINION AND RECOMMENDATION

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Connected Participation, as referred to in Rule 13.80 of the Hong Kong Listing Rules (including the notes thereto).

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Connected Participation and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Connected Participation, we have taken into consideration the following principal factors and reasons:

(i) Background of the Connected Participations

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

development, production and sales of great health products; and (d) investment in health industry such as in the sectors of medical treatment, health management, health nursing, health preservation, caring of the elderly etc.

Set out below are the information of the Group's audited financial information for the three years ended 31 December 2014 as extracted from its annual reports for the years ended 31 December 2014 (the "2014 Annual Report") and 2013 (the "2013 Annual Report"), respectively:

Consolidated statement of profit or loss	For the year ended 31 December		
	2014	2013	2012
	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>
Revenue	18,799,881	17,608,193	12,062,642
Net profit attributable to shareholders of the Company	1,192,472	980,045	729,040
Consolidated statement of financial position	For the year ended 31 December		
	2014	2013	2012
	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>	<i>RMB'000</i> <i>(audited)</i>
Total assets	14,210,784	12,249,123	9,394,208
Total liabilities	6,251,805	5,226,886	3,638,244
Net assets attributable to shareholders of the Company	7,739,301	6,831,768	5,566,352

Source: 2014 Annual Report and 2013 Annual Report

As shown above, we noted that the Group's revenue for the year ended 31 December 2013 amounted to approximately RMB17,608,193,000, representing an increase of approximately 45.97% as compared to that for the year ended 31 December 2012. With reference to the 2013 Annual Report, such increase was mainly due to the effective marketing strategies by the Group, especially its subsidiary, WLJ Great Health, which achieved substantial increase in sales volume in the year. During the year ended 31 December 2013, the Group recorded an increase in the net profit attributable to shareholders of the Company from approximately RMB729,040,000 in the year ended 31 December 2012 to approximately RMB980,045,000. As stated in the 2013 Annual Report, such increase in profit was mainly attributable to the effect of the increase in sales revenue and gross profit ratio being greater than the increase in costs. As at 31 December 2013, the Group recorded total assets, total liabilities and net asset value attributable to shareholders of the Company of approximately RMB12,249,123,000, RMB5,226,886,000 and RMB6,831,768,000.

According to the 2014 Annual Report, the Group's revenue for the year ended 31 December 2014 amounted to approximately RMB18,799,881,000, representing a slight increase of approximately 6.77% as compared to that for the year ended 31 December 2013. With reference to the 2014 Annual Report, in 2014, the Group actively promoted the implementation of the "Economy of Scale 136 Project", pushed forward the strategic

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

upgrading of three segments namely “Grand Southern TCM”, “Grand Health” and “Grand Commerce”, and proactively deployed three new businesses known as “e-commerce, healthcare and capital finance”. Facing a tough challenge from the continuous “two declines and one rise” in the pharmaceutical industry and amid a constant growth in the pharmaceutical sector, the Group focused its resources on the development of the Great Health segment, thereby achieving a rapid growth in its sales revenue. During the year ended 31 December 2014, the net profit attributable to shareholders of the Company was RMB1,192,472,000, representing an increase of approximately 21.68% as compared to that for the year ended 31 December 2013. Such improvement in the Group’s net profit was mainly attributable to the increase in gross profit margin of the manufacturing operations by 3.70 percentage points as compared with 2013, and increase in gross profit margin of the trading operations by 1.57 percentage points as compared with 2013. As at 31 December 2014, the Group recorded total assets, total liabilities and net asset value attributable to shareholders of the Company of approximately RMB14,210,784,000, RMB6,251,805,000 and RMB7,739,301,000.

Information on the Connected Participants

Each Connected Participant is a Director, a Supervisor, a chief executive of the Company, a Subsidiary Director, a Subsidiary Supervisor and/or a chief executive of a Subsidiary, as demonstrated by the Connected Participation Table, is a connected person of the Company under the Hong Kong Listing Rules. As set out in the Letter from the Board, the participation in the Employee Stock Ownership Scheme (2015) and the amount of the Proposed Subscription Amounts are determined solely by the Intended Participants. Under the terms of the Employee Stock Ownership Scheme (2015), the Company cannot exercise any discretion to pick and choose the Target Participants and it has no discretion or right to reject any Target Participants to participate in the Employee Stock Ownership Scheme (2015) or otherwise vary the Proposed Subscription Amounts of the Target Participants.

Out of an aggregate of 21,189,000 new A Shares (being the maximum number of new A Shares to be subscribed for under the Employee Scheme Subscription) (i) 4,632,500 of which are the corresponding A Shares in relation to the aggregated 89 Connected Participants who are connected persons pursuant to the Hong Kong Listing Rules, including a Director, a Supervisor, a chief executive of the Company, a Subsidiary Director, a Subsidiary Supervisor and/or a chief executive of a Subsidiary as set out in the table below; and (ii) 16,556,500 of which are the corresponding A Shares in relation to the aggregated Proposed Subscription Amounts payable by the 4,808 Non-connected Participants who are not connected persons of the Company under the definition of the Hong Kong Listing Rules. Set out below is the information on each Connected Participation, including without limitation, names of the Connected Participants, maximum Proposed Subscription Amounts and maximum number of new A Shares:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
1	Li Chuyuan	Chairman of the Company and an executive Director	4,768,000.00	200,000	0.015%	0.012%
2	Chen Mao	Vice chairman of the Company and an executive Director	4,768,000.00	200,000	0.015%	0.012%
3	Liu Juyan	Executive Director	4,291,200.00	180,000	0.014%	0.011%
4	Chen Ning	Executive Director	4,291,200.00	180,000	0.014%	0.011%
5	Ni Yidong	Executive Director	4,529,600.00	190,000	0.015%	0.011%
6	Wu Changhai	Executive Director and vice general manager of the Company	4,291,200.00	180,000	0.014%	0.011%
7	Wang Wenchu	Executive Director and vice general manager of the Company	4,291,200.00	180,000	0.014%	0.011%
8	Xian Jiexiong	Chairman of the supervisory committee of the Company	3,933,600.00	165,000	0.013%	0.010%
9	Wu Quan	Supervisor of the Company	715,200.00	30,000	0.002%	0.002%
10	Zhang Chunbo	Vice general manager of the Company and chairman of a Subsidiary	3,814,400.00	160,000	0.012%	0.009%
11	Su Biru	Subsidiary Director	238,400.00	10,000	0.001%	0.001%
12	Xue Min	Subsidiary Supervisor	1,192,000.00	50,000	0.004%	0.003%
13	Li Jingbo	Subsidiary Supervisor	238,400.00	10,000	0.001%	0.001%
14	Li Guangliang	Subsidiary Director	238,400.00	10,000	0.001%	0.001%
15	Xu Keyi	Subsidiary Director	3,099,200.00	130,000	0.010%	0.008%
16	Lin Huizhao	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
17	Chen Kunnan	Chairman of a Subsidiary and Subsidiary GM	357,600.00	15,000	0.001%	0.001%
18	Huang Yuedong	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
19	Zhang Xiaomei	Subsidiary Supervisor	35,760.00	1,500	0.000%	0.000%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
20	Yan Zhibiao	Subsidiary Director and Subsidiary GM	238,400.00	10,000	0.001%	0.001%
21	Chen Zhixiong	Subsidiary Director	715,200.00	30,000	0.002%	0.002%
22	Peng Hongying	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
23	Su Guangfeng	Subsidiary Director	8,344,000.00	350,000	0.027%	0.020%
24	Chen Weiping	Subsidiary Director	3,933,600.00	165,000	0.013%	0.010%
25	Wang Jingwen	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
26	Shi Hongchao	Chairman of a Subsidiary	596,000.00	25,000	0.002%	0.001%
27	Liang Mingji	Subsidiary Director and Subsidiary GM	119,200.00	5,000	0.000%	0.000%
28	Ouyang Qiang	Subsidiary Director	1,192,000.00	50,000	0.004%	0.003%
29	Chen Jinwei	Chairman of the supervisory committee of a Subsidiary	357,600.00	15,000	0.001%	0.001%
30	Jie Min	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
31	Chen Yulian	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
32	Yang Dongsheng	Chairman of a Subsidiary and Subsidiary GM	596,000.00	25,000	0.002%	0.001%
33	Lu Qifu	Subsidiary Director	59,600.00	2,500	0.000%	0.000%
34	Cheng Honghui	Subsidiary Director	1,430,400.00	60,000	0.005%	0.004%
35	Liang Zhiping	Chairman of the supervisory committee of a Subsidiary	95,360.00	4,000	0.000%	0.000%
36	Xu Wenliu	Subsidiary Director and Subsidiary GM	476,800.00	20,000	0.002%	0.001%
37	Fang Guanghong	Vice chairman of a Subsidiary	4,768,000.00	200,000	0.015%	0.012%
38	Yao Jiangxiong	Chairman of a Subsidiary and Subsidiary GM	1,192,000.00	50,000	0.004%	0.003%
39	Xu Zhaodong	Subsidiary Director	59,600.00	2,500	0.000%	0.000%
40	Zhu Ling	Subsidiary Director	119,200.00	5,000	0.000%	0.000%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
41	Cai Zhiwei	Chairman of the supervisory committee of a Subsidiary	476,800.00	20,000	0.002%	0.001%
42	Ouyang Haizhan	Subsidiary Supervisor	47,680.00	2,000	0.000%	0.000%
43	Liu Yanping	Subsidiary Supervisor	536,400.00	22,500	0.002%	0.001%
44	Zhou Lushan	Chairman of a Subsidiary	1,430,400.00	60,000	0.005%	0.004%
45	Kong Jian	Subsidiary Director and Subsidiary GM	1,192,000.00	50,000	0.004%	0.003%
46	Zheng Jianxiong	Subsidiary Director	59,600.00	2,500	0.000%	0.000%
47	Bei Xuhui	Chairman of the supervisory committee of a Subsidiary	357,600.00	15,000	0.001%	0.001%
48	Zheng Haoshan	Subsidiary Supervisor	4,172,000.00	175,000	0.014%	0.010%
49	Shen Ying	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
50	Feng Yaowen	Chairman of a Subsidiary	178,800.00	7,500	0.001%	0.000%
51	Chen Songguang	Subsidiary Director and Subsidiary GM	1,192,000.00	50,000	0.004%	0.003%
52	Ou Guangde	Chairman of the supervisory committee of a Subsidiary	357,600.00	15,000	0.001%	0.000%
53	Liang Shaohui	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
54	Liu Fei	Subsidiary Supervisor	119,200.00	5,000	0.000%	0.000%
55	Yuan Cheng	Chairman of a Subsidiary and Subsidiary GM	894,000.00	37,500	0.003%	0.002%
56	Huang Xiang	Subsidiary Director	3,576,000.00	150,000	0.012%	0.009%
57	Zhang Yongtao	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
58	Yan Huanxiong	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
59	Yao Zhizhi	Subsidiary Supervisor	2,384,000.00	100,000	0.008%	0.006%
60	Lai Zhijian	Subsidiary Supervisor	596,000.00	25,000	0.002%	0.001%
61	Chen Jiannong	Chairman of a Subsidiary	2,384,000.00	100,000	0.008%	0.006%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
62	Huang Ming	Subsidiary Director and Subsidiary GM	3,576,000.00	150,000	0.012%	0.009%
63	Zhang Mingsen	Subsidiary Director	1,192,000.00	50,000	0.004%	0.003%
64	Ying Jun	Subsidiary Director	476,800.00	20,000	0.002%	0.001%
65	Li Hong	Chairman of a Subsidiary	4,291,200.00	180,000	0.014%	0.011%
66	Huang Wenye	Subsidiary Director	23,840.00	1,000	0.000%	0.000%
67	Qiao Yong	Subsidiary Director	23,840.00	1,000	0.000%	0.000%
68	Chen Ping	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
69	TanYingjin	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
70	Deng Weiyang	Subsidiary Supervisor	11,920.00	500	0.000%	0.000%
71	Zhang Weixiang	Subsidiary Director and Subsidiary GM	238,400.00	10,000	0.001%	0.001%
72	Fan Shadan	Subsidiary Director	596,000.00	25,000	0.002%	0.000%
73	Situ Lie	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
74	Lu Jianhua	Subsidiary Supervisor	23,840.00	1,000	0.000%	0.000%
75	Liu Guangsui	Chairman of the supervisory committee of a Subsidiary	119,200.00	5,000	0.000%	0.000%
76	Li Jianwei	Subsidiary Supervisor	11,920.00	500	0.000%	0.000%
77	Dai Bixin	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
78	Xiao Rongming	Subsidiary Director and Subsidiary GM	357,600.00	15,000	0.001%	0.001%
79	Liu Yuhua	Subsidiary Director	23,840.00	1,000	0.000%	0.000%
80	Liu Hanming	Subsidiary Supervisor	238,400.00	10,000	0.001%	0.001%
81	Pang Jianhui	Subsidiary Supervisor	238,400.00	10,000	0.001%	0.001%
82	Pei Zejian	Subsidiary Director and Subsidiary GM	596,000.00	25,000	0.002%	0.001%
83	Huang Haiwen	Subsidiary Director	417,200.00	17,500	0.001%	0.001%
84	Chen Zhizhao	Chairman of a Subsidiary	1,430,400.00	60,000	0.005%	0.004%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

No.	Name of the Connected Participant	Principal position(s) in the Group	Maximum Proposed Subscription Amounts (RMB)	Maximum number of new A Shares	Percentage of the total number of Shares in issue as at the LPD	Percentage of the total number of Shares in issue immediately upon the completion of the Proposed Placing
85	Gong Qingxun	Subsidiary Director and Subsidiary GM	178,800.00	7,500	0.001%	0.000%
86	Zhao Min	Subsidiary Director	1,430,400.00	60,000	0.005%	0.004%
87	Yu Liangshuo	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
88	Liu Xuebin	Subsidiary Director	119,200.00	5,000	0.000%	0.000%
89	Chen Jing	Subsidiary Director	<u>4,172,000.00</u>	<u>175,000</u>	<u>0.014%</u>	<u>0.010%</u>
		Total	<u>110,438,800</u>	<u>4,632,500</u>	<u>0.359%</u>	<u>0.271%</u>

Information on the Asset Manager (acting as a trustee of the Employee Stock Trust)

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.

Information on the Employee Stock Ownership Scheme (2015) and the Employee Scheme Subscription Agreement

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 RMB505,145,760.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Major terms of the Employee Scheme Subscription Agreement are set out below:

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 (as defined in the February Circular), a maximum of 21,189,000 A Shares
Subscription Price	:	Subject to the Price Adjustment, RMB23.84 per A Share with a maximum subscription amount of approximately RMB505,145,760 payable by the Asset Manager (as trustee of the Employee Stock Trust) to the Company in cash.

Further details regarding the Employee Stock Ownership Scheme (2015) and the terms of the Employee Scheme Subscription Agreement are set out in the Letter from the Board of this Circular and the section headed “Letter from the Board – (B) Matters relating to the Proposed Placing and the Employee Stock Ownership Scheme (2015) – II. Proposed subscription of new A Shares – 3. Proposed Employee Scheme Subscription” of the February Circular.

(ii) Reasons for and benefits of the Connected Participation in Employee Stock Ownership Scheme (2015)

As stated in the February Circular, 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. As set out in the Letter from the Board, 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. The participation in the Employee Stock Ownership Scheme (2015) by the Connected Participants, all being members of the management or the supervisory organs of the Group, are consistent with the purposes of the Employee Stock Ownership Scheme (2015).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In assessing the merits of participation in the Employee Stock Ownership Scheme (2015), we have performed an industry analysis to evaluate its fundamentals. This includes studying the market statistics and information in relation to the health industry in the PRC. According to “Health Care: A Trillion Dollar Industry in the Making” article dated 11 December 2014 by Mr. Jack Perkowski, healthcare spending in China will reach US\$1 trillion by 2020, up from US\$350 billion in 2014. The Chinese government is even more aggressive, predicting that spending in the country’s healthcare sector will top US\$1.3 trillion by the end of this decade. Healthcare is one of the last big industries in China to open up to investment and technology. In August 2014, China announced a pilot project whereby overseas investors can establish wholly foreign-funded hospitals, either by acquisition or greenfield, in seven of its cities and provinces. As a result, private equity and other substantial investors are actively searching for new investment opportunities in hospitals and companies with the latest in health care technology. Whether it is hospital management, the establishment of specialty clinics, pharmaceuticals, the providing of higher technology medical devices, or a wide range of other health care products or services, China’s health care industry – a trillion dollar industry in the making – will constitute one of the largest markets in the world. In addition, as stated in the “Asia-Pacific Health Industries Newsletter” dated December 2014 as published by PricewaterhouseCoopers, non-traditional players are also expressing rising interest, for example, Alibaba is exploring healthcare institutions or landscape transformation and such investment, in conjunction with other key market growth factors, will lead to the augmented use of health products, including drugs and medical technology products. The market has experienced explosive growth over the past five years, and has been additionally fortified by demographic shifts, extended healthcare access, low overall healthcare market penetration, fragmented markets with undefined leaders, and the rise of local players. Further, by expanding basic medical insurance coverage and expenditure on healthcare, the Chinese government has improved the country’s overall access to healthcare systems. Over 95% of Chinese citizens are currently covered by basic medical insurance and China’s estimated healthcare expenditure has grown to account for approximately 6% of the country’s GDP in 2013. In recent years, healthcare reform activities have received a rising share of overall Chinese government spending, and this trend is expected to continue throughout the foreseeable future.

Having considered the market statistics and information stated above, we are of the view that the outlook of the health industry in the PRC would remain positive and promising in the near future. Based on the foregoing, we thus concur with the Directors’ view and are of the opinion that each Connected Participation is not in the ordinary and usual course of business of the Group, but will be beneficial not only to the Connected Participants, and also the Company and Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

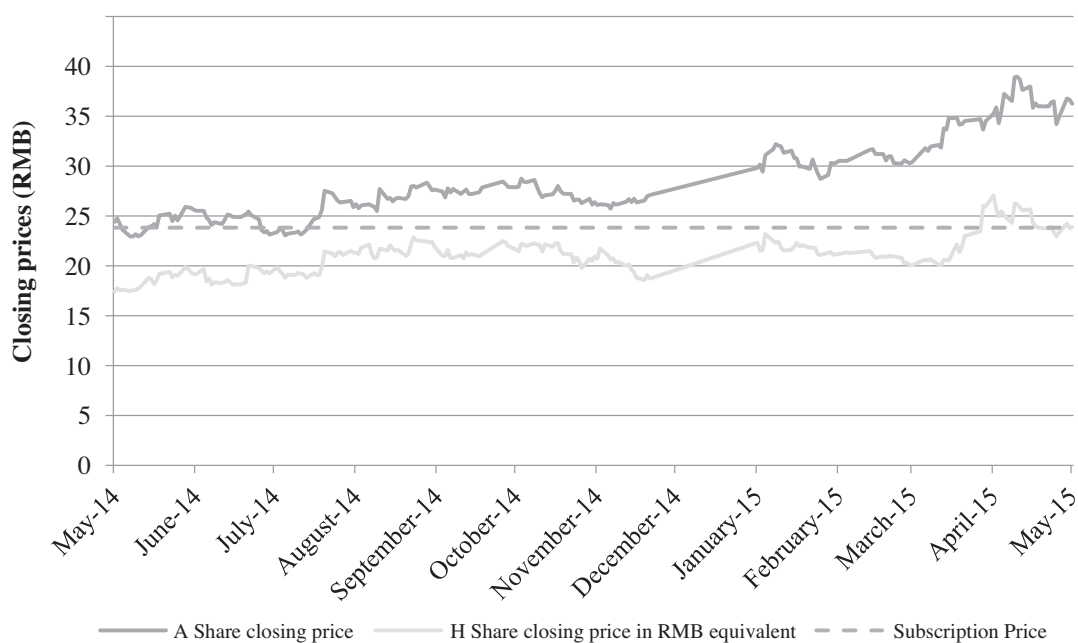
(iii) Comparison of the Subscription Price under the Employee Stock Ownership Scheme (2015)

As stated in the Letter from the Board, the A Shares to be subscribed for under the Employee Scheme Subscription, being the same A Shares in relation to the Connected Participation, will be subscribed at the price of RMB23.84 per share (subject to Price Adjustment) as disclosed in the February Circular. Set out below is the information on the prices of A Shares for reference:

	Price per A Share <i>(RMB)</i>
Average closing price for the five consecutive trading days up to and including the LPD	35.79
Average closing price for the ten consecutive trading days up to and including the LPD	36.01
Historical high for the past 52-week before the LPD	38.99
Historical low for the past 52-week before the LPD	22.94

In assessing the fairness and reasonableness of the Subscription Price, we have reviews and performed comparison of the Subscription Price to historical closing prices of the A Shares over the twelve months period prior to the LPD (the “Review Period”). The following chart depicts the comparison of the daily closing prices of the A Shares and the Subscription Price during the Review Period (the closing prices of the H Shares (presented in RMB equivalent based on the exchange rate of HK\$1: RMB0.8) is also included for reference):

Historical Price Performance



Source: The Hong Kong Stock Exchange and the Shanghai Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As illustrated above, during the Review Period, the closing prices of the A Shares recorded lowest closing price of RMB22.94 on 19 May 2014 and highest closing price of RMB38.98 on 22 April 2015. Based on the chart above, the Subscription Price of RMB23.84 per A Share represents a premium of approximately 3.92% over and a discount of approximately 38.84% to such lowest closing price and highest closing price respectively. The average of the closing prices of the A Shares during the Review Period was approximately RMB28.39. The Subscription Price represents a discount of approximately 16.03% to such average closing price.

(iv) Comparison with other comparable companies

In order to assess the fairness and reasonableness of the Subscription Price, to the best of our knowledge, we exercised our best endeavours to carefully identify and select appropriate companies (the “Comparable Companies”) based on the following selection criteria: (i) principally engaged in more or less the same line of business as the Company, i.e. manufacture and sales of medicine, pharmaceutical products and health products; and (ii) listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange. For the purposes of our evaluation, we have identified the following seven Comparable Companies whose business nature and activities, in our view, are broadly comparable to those of the Group and fulfilled our aforesaid selection criteria. Accordingly, we consider that the list of Comparable Companies is an exhaustive list and are of the opinion the Comparable Companies are fair, sufficient and representative samples for our analysis purpose.

Set forth below is a table illustrating (i) the price-to-earnings ratio (the “P/E”) and the price-to-book ratio (the “P/B”) of the Comparable Companies based on their respective latest published audited financial information; and (ii) the implied P/E and P/B of the Company based on the Subscription Price and its latest published audited financial information:

Company name	Stock code on the Hong Kong Stock Exchange	Stock code on the Shanghai Stock Exchange	Principal business(es)	P/E <i>(times)</i>	P/B <i>(times)</i>
Beijing Tong Ren Tang Chinese Medicine Co Ltd	8138	600085	Principally engaged in the manufacturing Chinese medicine. The Company mainly develops and produces health products, including patent medicines and health-care products.	35.57	7.43
China Shineway Pharmaceutical Group Ltd	2877	600716	Principally engaged in the development, manufacturing, and selling modern Chinese medicines in the PRC. The Company also produces and sells a series of western pharmaceuticals.	12.50	1.79

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company name	Stock code on the Hong Kong Stock Exchange	Stock code on the Shanghai Stock Exchange	Principal business(es)	P/E <i>(times)</i>	P/B <i>(times)</i>
Sinopharm Group Co Ltd	1099	600511	Principally engaged in the distribution of pharmacy. The Company also owns several pharmacy enterprise groups in different industries such as logistics, retail stores, pharmaceutical manufacturing, and chemical testing.	26.94	3.00
Shanghai Fosun Pharmaceutical Group Co Ltd	2196	600196	Principally engaged in pharmaceutical products, and through its subsidiaries, the Company manufactures genetic medicines, Chinese traditional medicines, diagnostic products, and medical instruments, provides technology, marketing, and advertising services, as well as invests in import and export trading.	24.31	3.08
Shanghai Pharmaceutical Holding Co Ltd	2607	601607	Principally engaged in manufacturing, retailing, and wholesaling a variety of pharmaceuticals including biopharmaceuticals, chemical and Chinese traditional medicines, and healthcare products. The Company also invests in new medicine development and provides related services.	20.19	1.89
Livzon Pharmaceutical Group Inc	1513	600588	Principally engaged in developing and manufacturing pharmaceutical products, including chemical medicines, bio-chemical medicines, biological engineering medicines, chemical compound crude medicines, antibiotics, micro-ecological preparations, patent Chinese medicines, and diagnosis reagents etc.	25.29	3.52
China Medical System Holdings	867	601799	Principally engaged in manufacturing of pharmaceutical and medical products mainly in the PRC.	25.42	6.66
Maximum				35.57	7.43
Minimum				12.50	1.79
Mean				24.13	3.45
The Company	874	600332	Principally engaged in manufacturing and selling Chinese patent medicine. The Company also wholesales, retails, imports, and exports Western and Chinese pharmaceutical products and various medical apparatus.	25.80	4.07

Source: the Hong Kong Stock Exchange and the Shanghai Stock Exchange

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above illustration, the P/E and P/B of the respective Comparable Companies ranged from approximately 35.57 times to approximately 12.50 times (the “P/E Range”), and approximately 7.43 times to 1.79 times (the “P/B Range”) respectively. Upon comparison, we note that the implied P/E and P/B of the Company of approximately 25.80 times and approximately 4.07 times respectively are above the mean, as well as fall within the P/E Range and P/B Range. Hence, based on the foregoing, we consider that the Subscription Price is fair and reasonable.

(v) Validity Period and Lock-up Period

Under the Employee Stock Ownership Scheme (2015), the holding period of the new A Shares 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, as defined in the February Circular, 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.

With reference to the Guiding Opinions, the holding period shall not be less than 36 months for the employee stock ownership scheme which is implemented by way of non-public issuance, commencing from the date when the listed company announces the ownership transfer of the underlying shares to the relevant installment of the employee stock ownership scheme. We also consider that the imposition of a lock-up period of 36 months would serve to ease the burden on the part of the Company by incurring the reward compensation by phase. Such spread over 36 months’ time before the new A Shares can be fully unlocked would further help the Company to retain the dedicated and loyal service of Connected Participants in the long run.

We have compared different employee stock ownership schemes with lock-up period adopted by the following companies listed on the Shanghai Stock Exchange in the Review Period. Set for the below is a summary of examples under consideration:

Date of announcement	Stock code	Company name	Lock-up period	Unlocking period
25-Apr-15	603019	Dawning Information Industry Co., Ltd (曙光信息产业股份有限公司)	24 months	36 months
16-Apr-15	603017	Suzhou Industrial Park Design & Research Institute Co., Ltd (蘇州工業園區設計研究院股份有限公司)	12 months	36 months
27-Mar-15	600366	Ningbo Yunsheng Co., Ltd (寧波韻升股份有限公司)	12 months	36 months

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Stock code	Company name	Lock-up period	Unlocking period
19-Mar-15	600315	Shanghai Jahwa United Co., Ltd (上海家化聯合股份有限公司)	12 months	36 months
10-Mar-15	600380	Joincare Pharmaceutical Group Industry Co., Ltd. (健康元藥業集團股份有限公司)	12 months	36 months
21-Jan-15	600196	Shanghai Fosun Pharmaceutical (Group) Co., Ltd (上海復星醫藥(集團)股份有限公司)	12 months	36 months
15-Jan-15	600976	Jianmin Pharmaceutical Groups Corp., Ltd. (武漢健民藥業集團股份有限公司)	24 months	36 months
12-Dec-14	600525	Changyuan Group Ltd. (長園集團股份有限公司)	12 months	4 years
28-Nov-14	600200	JiangSu WuZhong Industrial Co., Ltd. (江蘇吳中實業股份有限公司)	12 months	4 years
28-Nov-14	601677	Henan Mingtai Al. Industrial Co.,Ltd. (河南明泰鋁業股份有限公司)	12 months	48 months
18-Nov-14	603111	Nanjing Kangni Mechanical & Electrical Co., Ltd. (南京康尼機電股份有限公司)	12 months	36 months
23-Oct-14	601012	Xi'an LONGi Silicon Materials Corp. (西安隆基矽材料股份有限公司)	12 months	48 months
16-Oct-14	600498	Fiberhome Telecommunication Technologies Co.,Ltd. (烽火通信科技股份有限公司)	24 months	36 months
24-Sep-14	600590	Tellhow Sci-Tech Co., Ltd. (泰豪科技股份有限公司)	12 months	36 months

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Stock code	Company name	Lock-up period	Unlocking period
29-Aug-14	603288	Foshan Haitian Flavouring and Food Company Ltd. (佛山市海天調味食品股份有限公司)	20 months	36 months
1-Aug-14	600482	Fengfan Stock Limited Company (風帆股份有限公司)	24 months	36 months
24-Jul-14	600597	Bright Dairy & Food Co., Ltd (光明乳業股份有限公司)	24, 36, 48 months	36 months
20-Jun-14	600847	Chongqing Wanli New Energy Co., Ltd. (重慶萬里新能源股份有限公司)	12 months	36 months
29-May-14	600998	Jointown Pharmaceutical Group Company Limited (九州通醫藥集團股份有限公司)	12 months	36 months
21-May-14	601567	Ningbo Sanxing Electric Co., Ltd. (寧波三星電氣股份有限公司)	12 months	36 months
9-May-14	600867	Tonghua Dongbao Pharmaceutical Co., Ltd. (通化東寶藥業股份有限公司)	12 months	36 months
30-Apr-14	600019	Baoshan Iron & Steel Co., Ltd. (寶山鋼鐵股份有限公司)	24 months	36 months
30-Apr-14	600089	TBEA Co., Ltd. (特變電工股份有限公司)	12 months	36 months

Based on the above, we are of the view that the lock-up period of the Employee Stock Ownership Scheme (2015) is in accordance with the laws and regulations of the PRC and within the market range. Based on the foregoing, we are of the view that a 36-month lock-up period is fair and reasonable, and is in the interest of the Company and Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(vi) Effect of the Connected Participation on the shareholding structure of the Company

Assuming there is no change in the issued share capital of, and the shareholding in, the Company from the LPD other than the Connected Participations, the table below sets forth the shareholding structure of the Company (i) as at the LPD; and (ii) immediately after completion of the Connected Participation:

Shareholders	As at the LPD		Immediately after completion of the Connected Participation, for illustration purposes only	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
A Shares				
GPHL	583,966,636	45.23	583,966,636	44.50
Other non-public A Share Shareholders				
Employee Stock Trust	–	–	21,189,000	1.61
Public A Share Shareholders	487,212,614	37.74	487,212,614	37.13
H Shares				
Public H Shares Shareholders	<u>219,900,000</u>	<u>17.03</u>	<u>219,900,000</u>	<u>16.76</u>
Total number of Shares	<u><u>1,291,079,250</u></u>	<u><u>100.00</u></u>	<u><u>1,312,268,250</u></u>	<u><u>100.00</u></u>

Based on the illustration above, immediately after completion of the Connected Participation and assuming there is no change in the issued share capital of, and shareholding in, the Company from the LPD up to the date of the full participation in the Employee Stock Ownership Scheme (2015), we noted that the shareholding of the existing public H Shares Shareholders in the Company will be diluted from approximately 17.03% to approximately 16.76%. The existing public H Shares Shareholders will have a potential maximum decrease in shareholding of approximately 0.27% following the completion of the Connected Participation.

Taking into account the potential benefits of the Connected Participation as discussed above and the fact that the shareholdings of all Shareholders will be diluted proportionally to their respective shareholdings, with all other things being equal, we consider such potential dilution to the shareholdings of the Independent Shareholders to be acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(vii) Possible financial effects of the Connected Participations

Assets and Liabilities

According to the 2014 Annual Report, the audited consolidated total assets and liabilities of the Group as at 31 December 2014 were approximately RMB14,210,784,000 and approximately RMB6,251,805,000 respectively. Upon completion of the Connected Participation, the cash level of the Group will be increased by approximately RMB505,145,760. As such, the Employee Stock Ownership Scheme (2015) is expected to have a positive impact on the assets of the Group. On the other hand, there should be no material effect on the liabilities of the Group under the Employee Stock Ownership Scheme (2015).

Working capital

As disclosed in the 2014 Annual Report, the aggregate balance of cash at bank and on hand of the Group as at 31 December 2014 was approximately RMB3,180,888,000. As the Employee Scheme Subscription (2015) will be fully settled in cash by the Asset Manager, upon completion of the Connected Participation, there would be improvement in the cash position of the Group of approximately RMB505,145,760, the Employee Stock Ownership Scheme (2015) is expected to have a positive impact on the working capital of the Group.

Gearing ratio

According to the 2014 Annual Report, the gearing ratio (defined as total liabilities divided by total assets) was approximately 43.99%. We have enquired with and understand from the Directors that upon completion of the associated acquisition of an interest in the Employee Stock Trust by Connected persons (assuming the total liabilities of the Group remain the same), the cash level of the Group will be increased by approximately RMB505,145,760. As such, the gearing ratio of the Group will be improved.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Connected Participation.

RECOMMENDATIONS

Having considered the principal factors discussed above and, in particular:

- (i) the outlook of the healthcare industry in the PRC looks to be positive and promising in the near future;
- (ii) 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;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iii) the experience and potential contribution provided by the Connected Participants that could enhance the sustainable growth of the Company moving forward;
- (iv) the similar employee stock ownership schemes adopted by other listed companies in China;
- (v) the Subscription Price of RMB23.84 per A Share (subject to Price Adjustment) is within the range of closing prices of the A Shares during the Review Period; and
- (vi) the P/E and P/B of the Company of approximately 26.00 times and approximately 4.00 times respectively are within the P/E Range and P/B Range of the Comparable Companies;
- (vii) the lock-up period for term of 36 months would help the Company to retain dedicated and performing connected Participants; and
- (viii) the acceptable potential dilution to shareholdings of the Independent Shareholders,

we consider that the terms of each Connected Participation are fair and reasonable and on normal commercial terms, and the associated acquisition of an interest in the Employee Stock Trust by each Connected Participants is in the interest of the Company and the Shareholders as a whole. Public H Share Shareholders are, however, reminded to note the potential dilution effect of the completion of the Connected Participation on their shareholding interests in the Company.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the annual general meeting to approve each Connected Participation.

* *English translation for illustrative purposes only.*

Yours faithfully,
For and on behalf of
Grand Vinco Capital Limited
Alister Chung
Managing Director

Note: Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Grand Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in and completed various advisory transactions involving companies listed in Hong Kong in respect of the Takeovers Code for over 10 years.

1. RESPONSIBILITY STATEMENT

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

2. INTERESTS OF DIRECTOR, SUPERVISORS AND CHIEF EXECUTIVE(S)

As at the LPD, none of the Directors, supervisors or chief executive of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), that was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Hong Kong Listing Rules.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the LPD, so far as is known to the Directors, supervisors and senior management of the Company, no person (other than the Directors, the supervisors and senior management of the Company) had interests or short positions in the Shares and underlying shares or debentures of the Company which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, and/or, who was, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Long Position:

Shareholder	Number of shares held <i>(No. of shares)</i>	Approximate percentage of the total issued share capital <i>(%)</i>	Class of shares
GPHL	583,966,636	45.23	A Shares

Set out below is the information on the Directors who are also directors or employees of GPLH:

Directors	Positions in GPLH
Mr. Li Chuyuan	Chairman and director
Mr. Chen Mao	Vice chairman, director and general manager
Ms. Liu Juyan	Vice general manager and chief engineer
Ms. Cheng Ning	Vice general manager and chief financial officer
Mr. Ni Yidong	Vice general manager

4. SERVICE CONTRACTS

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

5. NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial of trading position or outlook of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the LPD.

6. COMPETING BUSINESS

As at the LPD, so far as the Directors are aware, none of the Directors or supervisors nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

7. INTERESTS OF DIRECTORS AND SUPERVISORS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the LPD:

- (a) none of the Directors or supervisors are materially interested in any contract or arrangement, which was significant in relation to the business of the Group; and
- (b) so far as the Directors are aware, none of the Directors or supervisors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or

disposed of by or leased to, any member of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Company were made up.

8. EXPERT AND CONSENT

- (a) The following are the qualifications of the expert who has been named in this circular or has given opinions, letters or advice contained in this circular:

Name	Qualifications
Grand Vinco Capital Limited	A licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the LPD, the above expert did not have any shareholding, directly or indirectly, in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.
- (c) As at the LPD, the above expert did not have any direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2014 (the date to which the latest published audited consolidated financial statements of the Company were made up) or proposed to be so acquired, disposed of or leased.
- (d) The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. on any business day (except Saturdays, Sundays and public holidays) at the Company's principal place of business in Hong Kong at Room 2005, 20th Floor, Tower Two Lippo Center, 89 Queensway, Hong Kong from the date of this circular up to and including the date of the AGM:

- (a) this circular; and
- (b) the anticipated form of the Subscription Undertaking.