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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 forms of proxy dated 18 January 2016 and despatched to you on 22 January 2016 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).

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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: 0874)

**EXTENSION OF THE EFFECTIVE PERIOD OF THE SHAREHOLDERS'
RESOLUTIONS RELATING TO THE PROPOSED PLACING
AND
EXTENSION OF THE EFFECTIVE PERIOD OF THE AUTHORISATION
GRANTED TO THE BOARD AND PERSONS AUTHORISED BY THE BOARD
TO HANDLE MATTERS RELATING TO THE PROPOSED PLACING**

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

VINCO 城高

Grand Vinco Capital Limited

(A wholly-owned subsidiary of Vinco Financial Group Limited)

Capitalised 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 7 to 28 in this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 29 to 30 of this circular. A letter from Vinco Capital containing its advice in respect of the Extension Resolutions to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 37 of this circular.

The notices convening the EGM to be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC on Thursday, 10 March 2016 at 10:00 a.m. or any adjournment thereof and the H Share Class Meeting to be held immediately after the EGM or any adjournment thereof were published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.hmdatalink.com/C14070) on 18 January 2016 and despatched to the Shareholders on 22 January 2016 respectively. Whether or not you intend to attend the EGM and/or the H Share Class Meeting, please complete the forms of proxy despatched together with the aforementioned notices in accordance with the instructions printed thereon and return them to the office of the Company's H Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for H Share Shareholders as soon as possible and in any event not less than 24 hours before the time for holding of the EGM and the H Share Class Meeting or any adjournment thereof. Completion and return of the forms of proxy will not preclude you from attending and voting at the EGM and the H Share Class Meeting should you so wish.

16 February 2016

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DEFINITIONS

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

“2014 Profit Distribution Proposal”	the proposal on profit distribution and dividend payment of a final dividend of RMB2.80 (including tax) for every 10 Shares held in cash to all Shareholders by the Company for year 2014
“2015 Announcements and Circular”	the announcements dated 12 January 2015, 4 May 2015, 9 July 2015, 28 October 2015, 26 November 2015 and 9 December 2015 and the circular dated 26 February 2015 of the Company in relation to, among other things, the Proposed Placing
“2015 Poll Results Announcement”	the poll results announcement dated 17 March 2015 of the Company in relation to, among other things, the Proposed Placing
“A Share(s)”	RMB-denominated domestic share(s) in the share capital of the Company, with a nominal value of RMB1.00 each and are listed on the Shanghai Stock Exchange
“A Share Class Meeting”	the first class meeting of the Company in 2016 to be held immediately after the H Share Class Meeting for the Independent A Share Shareholders to consider and, if thought fit, pass the Extension Resolutions
“A Share Shareholder(s)”	the holder(s) of A Shares
“acting in concert”	has the meaning ascribed to it under the Hong Kong Takeovers Code
“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 organisation of the Employee Stock Ownership Scheme (2015) and a Subscriber (as a trustee of the Employee Stock Trust) who would subscribe for a maximum of 21,440,821 new A Shares (subject to any adjustment which may be made by the CSRC and any further Share Adjustment) under the Proposed Placing
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	the board of Directors
“Class Meetings”	the H Share Class Meeting and the A Share Class Meeting

DEFINITIONS

“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
“Concert Group”	GPHL, GZ SOA Development and GZ Chengfa
“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)
“Directors”	the directors of the Company
“EGM”	the first extraordinary general meeting of the Company in 2016 to be held at 10:00 a.m. on Thursday, 10 March 2016 for the Independent Shareholders to consider and, if thought fit, pass the Extension Resolutions
“Employee Stock Ownership Scheme (2015)”	the employee stock ownership scheme of the Company set up to allow the target participants of the Company to invest in the Shares, details of which were set out in the circulars of the Company dated 26 February 2015 and 19 May 2015 respectively
“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)
“Executive”	the Executive Director of the Corporate Finance Division of the Hong Kong Securities and Futures Commission or any delegate of the Executive Director
“Extension Resolutions”	the proposed resolutions (i) to extend the effective period of the Shareholders’ resolutions relating to the Proposed Placing for a further period of 12 months, commencing from the date of the passing of the relevant resolution at the EGM and the Class Meetings; and (ii) to extend the effective period of the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing for a further period of 12 months, commencing from the date of the passing of the relevant resolution at the EGM and the Class Meetings

DEFINITIONS

“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 Latest Practicable Date and is a Subscriber who would subscribe for a maximum of 148,338,467 new A Shares (subject to any adjustment which may be made by the CSRC and any further Share Adjustment) under the Proposed Placing
“Group”	the Company and its subsidiaries
“GZ Chengfa”	Guangzhou China Life Urban Development Industry Investment Enterprise (Limited Partnership)* (廣州國壽城市發展產業投資企業(有限合夥)), a limited partnership established under the laws of the PRC, whose general partner is controlled by Guangzhou Industrial Investment Fund Management Company Limited* (廣州產業投資基金管理有限公司), a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People’s Government of the PRC and a Subscriber who would subscribe for a maximum of 73,313,783 new A Shares (subject to any adjustment which may be made by the CSRC and any further Share Adjustment) under the Proposed Placing
“GZ SOA Development”	Guangzhou State-owned Asset Development Holdings Limited* (廣州國資發展控股有限公司), a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People’s Government in the PRC and is a Subscriber who would subscribe for a maximum of 87,976,539 new A Shares (subject to any adjustment which may be made by the CSRC and any further Share Adjustment) under the Proposed Placing
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company, with a nominal value of RMB1.00 each and are listed on the Hong Kong Stock Exchange
“H Share Class Meeting”	the first class meeting of the Company in 2016 to be held immediately after the EGM for the Independent H Share Shareholders to consider and, if thought fit, pass the Extension Resolutions
“H Share Shareholder(s)”	the holder(s) of H Shares
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“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
“Hong Kong Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Independent A Share Shareholders”	the A Share Shareholders other than those who are required by the Shanghai Listing Rules and/or relevant PRC laws to abstain from voting on the Extension Resolutions at the EGM and the A Share Class Meeting or otherwise required to abstain from voting on the Extension Resolutions at the EGM and the A Share Class Meeting as disclosed in the section headed “Letter from the Board – I. EGM AND CLASS MEETINGS” of this circular
“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 Extension Resolutions
“Independent H Share Shareholders”	the H Share Shareholders other than those who are required by the Hong Kong Listing Rules to abstain from voting on the Extension Resolutions at the EGM and the H Share Class Meeting or otherwise required to abstain from voting on the Extension Resolutions at the EGM and the H Share Class Meeting as disclosed in the section headed “Letter from the Board – I. EGM AND CLASS MEETINGS” of this circular
“Independent Shareholders”	the Independent A Share Shareholders and the Independent H Share Shareholders
“Latest Practicable Date”	5 February 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“PRC”	the People’s Republic of China and, for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Previous Shareholders’ Meetings”	the first extraordinary general meeting of the Company in 2015, the first class meeting of the A Share Shareholders in 2015 and the first class meeting of the H Share Shareholders in 2015 held on 13 March 2015

DEFINITIONS

“Price Adjustment”	the adjustment made and/or may be made to the Subscription Price where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issue or capitalisation of capital reserves) to the Company between the Price Determination Date and the date on which the new A Shares under the Proposed Placing will be issued
“Price Determination Date”	13 January 2015, being the date of the announcement of the Board resolution made by the Company in relation to the Proposed Placing on the Shanghai Stock Exchange and the date on which the initial Subscription Price of RMB23.84 per A Share was fixed
“Proposed Placing”	the proposed non-public issue and placing of not more than 419,463,087 new A Shares (which was revised to 352,292,020 new A Shares as disclosed in the announcements of the Company dated 28 October 2015 and 26 November 2015 respectively)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Listing Rules”	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange
“Shanghai Yunfeng”	Shanghai Yunfeng Xinchuang Investment Management Company Limited* (上海雲鋒新創投資管理有限公司), a limited liability company established in the PRC
“Share(s)”	A Share(s) and/or H Share(s)
“Share Adjustment”	the adjustment made and/or may be made to the number of new A Shares to be issued under the Proposed Placing where there occurs any ex-dividend or ex-rights event (such as distribution of dividend, bonus issue or capitalisation of capital reserves) to the Company between the Price Determination Date and the date on which the new A Shares under the Proposed Placing will be issued
“Shareholder(s)”	the holder(s) of Shares
“Subscriber(s)”	GPHL, GZ SOA Development, GZ Chengfa, the Asset Manager (as trustee of the Employee Stock Trust) and Yunfeng Investment

DEFINITIONS

“Subscription Price”	initially RMB23.84 per A Share (which was adjusted to RMB23.56 per A Share as disclosed in the announcement of the Company dated 28 October 2015 as a result of the 2014 Profit Distribution Proposal)
“trading day(s)”	with respect to A Shares, means a day on which the Shanghai Stock Exchange is open for dealing or trading in securities, and with respect to H Shares, means a day on which the Hong Kong Stock Exchange is open for dealing or trading in securities
“Vinco Capital”	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 Extension Resolutions
“Whitewash Waiver”	the waiver granted by the Executive on 12 March 2015 and approved by the then Independent Shareholders in the Previous Shareholders’ Meetings pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Hong Kong Takeovers Code in respect of the obligations of the Concert Group to make a mandatory general offer for all the securities of the Company not already owned by them which would otherwise arise as a result of the Proposed Placing and the subscription of the Concert Group
“Yunfeng Investment”	Shanghai Yunfeng New Venture Equity Interest Investment Centre (Limited Partnership)* (上海雲峰新創股權投資中心(有限合夥)), a limited partnership set up under the laws of the PRC by Shanghai Yunfeng, a Subscriber who would subscribe for a maximum of 21,222,410 new A Shares (subject to any adjustment which may be made by the CSRC and any further Share Adjustment) under the Proposed Placing and was defined as the “Fund” or “Yunfeng LLP” in the 2015 Announcements and Circular
“%”	per cent

Certain English translations of Chinese names or words marked with “” in this circular are included for reference purpose only and should not be regarded as the official English translation of such Chinese names or words. If there is any inconsistency between those Chinese expressions and their English translations in this circular, the Chinese expressions shall prevail.*

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: 0874)

Executive Directors:

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

Independent non-executive Directors:

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

*Registered office and principal place
of business:*

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

Principal place of business in Hong Kong:

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

16 February 2016

To the Shareholders

Dear Sir or Madam,

**EXTENSION OF THE EFFECTIVE PERIOD OF THE SHAREHOLDERS'
RESOLUTIONS RELATING TO THE PROPOSED PLACING
AND
EXTENSION OF THE EFFECTIVE PERIOD OF THE AUTHORISATION
GRANTED TO THE BOARD AND PERSONS AUTHORISED BY THE BOARD
TO HANDLE MATTERS RELATING TO THE PROPOSED PLACING**

A. INTRODUCTION

References are made to (i) the 2015 Announcements and Circular; and (ii) the 2015 Poll Results Announcement in relation to, among other things, the Proposed Placing; (iii) the announcement of the Company dated 15 January 2016; and (iv) the notices of the EGM and the Class Meetings dated 18 January 2016 in relation to the Extension Resolutions.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with (i) more information on the Extension Resolutions; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in respect of the Extension Resolutions; 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 Extension Resolutions at the EGM and the H Share Class Meeting. The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Extension Resolutions and Vinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

B. THE EXTENSION RESOLUTIONS

In the announcement of the Company dated 9 December 2015, it was disclosed that the Proposed Placing has been approved by the Issuance Examination Committee of the CSRC. As at the Latest Practicable Date, the Company has not yet received the written approval from the CSRC. Considering that the effective period of the Shareholders' resolutions relating to (i) the Proposed Placing; and (ii) the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing, which were approved and passed by the then Independent Shareholders, the then Independent H Share Shareholders and the then Independent A Share Shareholders respectively at the Previous Shareholders' Meetings (for (i) above, please refer to special resolution No. 1.10 set out in the respective poll results of the Previous Shareholders' Meetings in the 2015 Poll Results Announcement; and for (ii) above, please refer to ordinary resolution Nos. (10), 3 and 3 set out in the respective poll results of the Previous Shareholders' Meetings in the 2015 Poll Results Announcement), will expire in March 2016, the Board proposed to convene the EGM and the Class Meetings for the Independent Shareholders, the Independent H Share Shareholders and the Independent A Share Shareholders to consider the Extension Resolutions below:

By special resolution

1. To extend the effective period of the Shareholders' resolutions relating to the Proposed Placing for a further period of 12 months, commencing from the date of the passing of the relevant resolution at the EGM and the Class Meetings.

By ordinary resolution

2. To extend the effective period of the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing for a further period of 12 months, commencing from the date of the passing of the relevant resolution at the EGM and the Class Meetings.

C. REASONS FOR THE EXTENSION RESOLUTIONS

The Board proposed to extend the effective period of the Shareholders' resolutions relating to the Proposed Placing based on the following reasons: (i) despite having obtained the approval from the Issuance Examination Committee of the CSRC on 9 December 2015, as at the Latest Practicable Date, the Company has not yet received the written approval from the CSRC, which is the only outstanding condition precedent

LETTER FROM THE BOARD

to the completion of the Proposed Placing, and it is unclear whether the written approval from the CSRC will be obtained before the expiry of the effective period of the said Shareholders' resolutions; and (ii) even after the written approval from the CSRC has been received, there would still be administrative matters relating to the Proposed Placing that the Company needs a certain amount of time to deal with.

Taking into account the abovementioned reasons, the Board is of the view that it is necessary and in the interests of the Company and the Shareholders as a whole to extend the effective period of (i) the Shareholders' resolutions relating to the Proposed Placing and (ii) the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing for a further period of 12 months, commencing from the date of the passing of the Extension Resolutions at the EGM and the Class Meetings.

The Directors who abstained from voting on the Board resolutions approving the Extension Resolutions include all 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, who are materially interested in the Proposed Placing by virtue of them also being the directors and/or members of the senior management or employee of GPLH, and/or the target participants who had indicated their intention to participate in the Employee Stock Ownership Scheme (2015). Save as disclosed above, none of the Directors have a material interest in the Proposed Placing or is required to abstain from voting on the Board resolutions for considering and approving the Extension Resolutions pursuant to the Hong Kong Listing Rules and/or the articles of association of the Company.

Save for the above extensions, details of the Proposed Placing which are set out below remain unchanged and in full force and effect.

D. THE PROPOSED PLACING

(a) Details of the Proposed Placing

Class and par value of Shares to be issued : New A Shares with a par value of RMB1.00 each.

Method and time of the Proposed Placing : The Proposed Placing will be carried out by way of non-public issue of new A Shares to the Subscribers. The Company will complete the Proposed Placing within six (6) months from obtaining the endorsement of the Proposed Placing from the CSRC.

LETTER FROM THE BOARD

Number of Shares to be issued : As disclosed in the circular of the Company dated 26 February 2015, the initial maximum number of A Shares to be issued under the Proposed Placing will not be more than 419,463,087 new A Shares and it shall be adjusted in accordance with the Share Adjustment and any adjustment as appropriate. Following the adjustments as a result of (i) the 2014 Profit Distribution Proposal, the number of new A Shares to be issued under the Proposed Placing has been adjusted to 424,448,216 new A Shares; and (ii) the offering size reduction of the Proposed Placing after considering the volatile market sentiment in the PRC capital market by the Board as disclosed in the announcement of the Company dated 28 October 2015 (the “**Offering Size Reduction**”), further adjusted to 352,292,020 new A Shares. Subject to any further Share Adjustment and any adjustment as appropriate, the 352,292,020 new A Shares represents (i) approximately 32.89% of the issued A Shares and approximately 27.29% of the total issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 24.75% of the enlarged issued A Shares and approximately 21.44% of the enlarged total issued share capital of the Company upon completion of the Proposed Placing (assuming full subscription by the Asset Manager for the Employee Stock Trust). The aggregate nominal value of the A Shares to be issued under the Proposed Placing, with a par value of RMB1.00 each, will not be more than RMB352,292,020.

Upon completion of the Proposed Placing and if the maximum of 352,292,020 new A Shares are placed, the total number of A Shares in issue will be increased from 1,071,179,250 A Shares to 1,423,471,270 A Shares and the total issued share capital of the Company will be increased from 1,291,079,250 Shares to 1,643,371,270 Shares.

LETTER FROM THE BOARD

- Target Subscribers : Pursuant to the Proposed Placing and subject to any adjustment which may be made by the CSRC and any further Share Adjustment, the Company shall issue new A Shares for subscription to 5 Subscribers, as follows:
- (a) GPLH : a maximum of 148,338,467 new A Shares;
 - (b) GZ SOA : a maximum of 87,976,539 new A Shares;
Development
 - (c) GZ Chengfa : a maximum of 73,313,783 new A Shares;
 - (d) The Employee : a maximum of 21,440,821 new A Shares; and
Stock Trust
 - (e) Yunfeng : a maximum of 21,222,410 new A Shares.
Investment
- Method of subscription and placing : All the Subscribers shall subscribe for new A Shares to be issued under the Proposed Placing in cash. The Subscription Price for all the new A Shares to be issued will be the same.
- Subscription Price and pricing principles : As disclosed in the circular of the Company dated 26 February 2015, the initial Subscription Price was RMB23.84 per new A Share, being not less than 90% of the average trading price per A Share during the 20 trading days prior to the Price Determination Date, and shall be adjusted in accordance with the Price Adjustment. Upon completion of the 2014 Profit Distribution Proposal as disclosed in the announcement of the Company dated 28 October 2015, the Subscription Price had been adjusted to RMB23.56 per new A Share, subject to any further Price Adjustment.

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The Subscription Price represents (i) a discount of approximately 4.89% to the average closing price of RMB24.77 per A Share for the last five trading days immediately prior to 15 January 2016, being the date of the announcement of the Company relating to the Extension Resolutions; (ii) a premium of approximately 1.29% over the closing price of RMB23.26 per A Share as at 15 January 2016; (iii) a premium of approximately 7.24% over the closing price of RMB21.97 per A Share as at the Latest Practicable Date; (iv) a premium of approximately 293.32% over the audited net asset value per Share of approximately RMB5.99 as at 31 December 2014, which is calculated based on the number of Shares 1,291,079,250 in issue as at the Latest Practicable Date and the audited consolidated net asset value attributable to the Shareholders of approximately RMB7,739,301,000 as at 31 December 2014; and (v) a premium of approximately 274.56% over the unaudited net asset value per Share of approximately RMB6.29 as at 30 September 2015, which is calculated based on the number of Shares 1,291,079,250 in issue as at the Latest Practicable Date and the unaudited consolidated net asset value attributable to the Shareholders of approximately RMB8,119,002,000 as at 30 September 2015.

LETTER FROM THE BOARD

The Subscription Price was determined through arm's length negotiation between the Company and the Subscribers (i) with reference to the trading prices of the A Shares on the Shanghai Stock Exchange at the time of the Proposed Placing approved by the Board in January 2015; (ii) pursuant to the requirements set out in the Measures for the Administration of the Issue of Securities of Listed Companies (《上市公司證券發行管理辦法》), being not less than 90% of the average trading price per A Share during the 20 trading days prior to the Price Determination Date; and (iii) adjusted pursuant to the Price Adjustment as a result of the 2014 Profit Distribution Proposal according to the requirements set out in the Implementation Rules for the Non-public Issue of Shares by Listed Companies (《上市公司非公開發行股票實施細則》). The Directors (including the independent non-executive Directors) consider that the Subscription Price, being determined and adjusted in compliance with the above relevant measures and implementation rules, and representing only a slight discount or premium to the recent trading prices of the A Shares but significant premium over the net asset value of the Company as at 31 December 2014 and 30 September 2015 respectively, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

- Lock-up period : Under the Proposed Placing, all the Subscribers shall not transfer the A Shares subscribed within 36 months from the date of completion of the Proposed Placing.
- Place of listing : The new A Shares to be issued under the Proposed Placing will be listed on the Shanghai Stock Exchange. The Company will apply to the Shanghai Stock Exchange for the listing of, and permission to deal in, the new A Shares.

LETTER FROM THE BOARD

- Use of proceeds : If the maximum of 352,292,020 new A Shares are placed, the Proposed Placing will raise gross proceeds of approximately RMB8,300 million (assuming full subscription by the Asset Manager for the Employee Stock Trust). The net proceeds from the Proposed Placing, after deducting all related expenses incurred, will be used to finance the following projects of the Company: (i) approximately RMB1,500 million for strengthening the Group's research and development capability on medicines, health products and medical technology; (ii) approximately RMB1,000 million for expanding and reforming part of the Group's production facilities; (iii) approximately RMB3,400 million for expanding and strengthening the Group's distribution networks and promotion channel; (iv) approximately RMB200 million for establishing a new management and information system of the Group; and (v) remaining balance of approximately RMB2,200 million for general working capital purpose.
- Arrangements for the accumulated undistributed profits : Upon completion of the Proposed Placing, holders of new A Shares, together with all existing Shareholders, will be entitled to all accumulated, retained and undistributed profits of the Company prior to the completion of the Proposed Placing.
- Effective period of the Shareholders' resolutions : The original effective period of the Shareholders' resolutions on the Proposed Placing will expire in March 2016. The Board proposed to extend the effective period of the Shareholders' resolutions for a further period of 12 months, commencing from the date of the passing of the relevant resolution at the EGM and the Class Meetings.

(b) Conditions precedent of the Proposed Placing

The Proposed Placing is subject to the satisfaction of certain conditions including, among other things:

- (i) the passing of the relevant resolutions in respect of the Proposed Placing by the Board;
- (ii) the passing of all relevant resolutions in respect of the Proposed Placing (including the entering into the subscription agreements relating to the Proposed Placing) by the then Independent Shareholders, the then Independent H Share Shareholders and the then Independent A Share Shareholders at the Previous Shareholders' Meetings respectively;
- (iii) the obtaining of the approvals from relevant stated-owned Assets Supervision and Administration Departments regarding the Proposed Placing;

LETTER FROM THE BOARD

- (iv) the obtaining of the approval from the CSRC regarding the Proposed Placing;
- (v) the obtaining of the approval from the non-related Shareholders under the PRC laws at the first extraordinary general meeting of the Company in 2015 in relation to the waiver of a mandatory general offer by GPHL and its concert parties which may be triggered by the Proposed Placing pursuant to the relevant PRC takeover laws and regulations;
- (vi) the obtaining of the approvals from the then Independent Shareholders, the then Independent H Share Shareholders and the then Independent A Share Shareholders at the Previous Shareholders' Meetings about the Whitewash Waiver;
- (vii) the Executive having granted, and not having withdrawn or revoked such grant, the Whitewash Waiver and the fulfillment of all conditions (if any) attached to the Whitewash Waiver; and
- (viii) the obtaining of all the approvals and consents which are necessary pursuant to the laws and regulations outside the PRC (if any) regarding the Proposed Placing.

None of the above conditions may be waived by any party to the Proposed Placing and, therefore, if any condition above cannot be fulfilled, the Company will not proceed with the Proposed Placing. As at the Latest Practicable Date, condition (iv) above is the only condition which remains unfulfilled.

(c) Effects on the shareholding structure of the Company

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the completion of the Proposed Placing (assuming full subscription by the Asset Manager for the Employee Stock Trust and no change in the total issued share capital of the Company other than the issue of A Shares under the Proposed Placing from the Latest Practicable Date and up to the completion of the Proposed Placing); and (iii) immediately after the completion of the Proposed Placing (assuming no subscription by the Asset Manager for the Employee Stock Trust and no change in the total issued share capital of the Company other than the issue of A Shares under the Proposed Placing from the Latest Practicable Date and up to the completion of the Proposed Placing):

LETTER FROM THE BOARD

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately after the completion of the Proposed Placing (assuming full subscription by the Asset Manager for the Employee Stock Trust)		(iii) Immediately after the completion of the Proposed Placing (assuming no subscription by the Asset Manager for the Employee Stock Trust)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
<u>A Shares</u>						
The Concert Group						
GPHL	583,966,636	45.23	732,305,103	44.56	732,305,103	45.15
GZ SOA Development	-	-	87,976,539	5.35	87,976,539	5.42
GZ Chengfa	-	-	73,313,783	4.46	73,313,783	4.52
Sub-total	583,966,636	45.23	893,595,425	54.38	893,595,425	55.09
The Employee Stock Trust	-	-	21,440,821	1.30	-	-
Public A Share Shareholders						
Yunfeng Investment	-	-	21,222,410	1.29	21,222,410	1.31
Other public A Share Shareholders	487,212,614	37.74	487,212,614	29.65	487,212,614	30.04
Sub-total	487,212,614	37.74	508,435,024	30.94	508,435,024	31.35
Total number of A Shares	1,071,179,250	82.97	1,423,471,270	86.62	1,402,030,449	86.44
<u>H Shares</u>						
Public H Share Shareholders	219,900,000	17.03	219,900,000	13.38	219,900,000	13.56
Total number of Shares	1,291,079,250	100.00	1,643,371,270	100.00	1,621,930,449	100.00

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

(d) Issue of Securities within the past 12 months

The Company had not issued any securities within the 12 months preceding the Latest Practicable Date.

(e) Reasons for the Proposed Placing

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

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products and medical apparatus; (c) research and development, production and sales of great health products; and (d) investment in the healthcare industry such as medical treatment, health management, health nursing, etc..

The Proposed Placing and the implementation of projects to be invested with the proceeds raised as set out in the sub-section headed “D. The Proposed Placing - (a) Details of the Proposed Placing” above will help the Group to improve its financial condition, strengthen the Group’s research and development capability, production facilities, distribution networks and promotion channel; and maximize its returns, which will be in the best interests of the Group and the Shareholders as a whole.

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

(f) Further details of the Proposed Placing

For further details of the Proposed Placing, please refer to the 2015 Announcements and Circular.

E. AUTHORISATION GRANTED TO THE BOARD AND PERSONS AUTHORISED BY THE BOARD TO HANDLE MATTERS RELATING TO THE PROPOSED PLACING

The original effective period of the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing will expire in March 2016. For the purpose of handling matters relating to the Proposed Placing after the written approval from the CSRC has been received, the Board also proposed to extend the effective period of the authorisation granted to itself and persons authorised by the Board to handle matters relating to the Proposed Placing, including but not limited to the matters set out in (i) to (viii) below, for a further period of 12 months, commencing from the date of the passing of the relevant resolution at the EGM and the Class Meetings:

- (i) to formulate and implement the detailed proposal about the Proposed Placing and with full authority to handle and decide the issuance time, final number of shares to be issued, size of proceeds, issue price, target Subscribers, detailed subscription method and any other matters about the Proposed Placing;
- (ii) to negotiate on behalf of the Company in relation to the Proposed Placing, execute all related agreements and other necessary documents, prepare, amend, perfect, execute all documents and information about the Proposed Placing, and carry out necessary and appropriate disclosure;
- (iii) to handle the applications to relevant authorities in relation to the Proposed Placing and the listing of shares and adjust the detailed proposal in accordance with the comments from the relevant authorities (if any) (other than those matters requiring further Shareholders’ approval pursuant to the relevant laws, regulations and the articles of association of the Company);

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- (iv) to select and engage qualified intermediaries, including but not limited to sponsors, underwriters, lawyers, auditors and valuers for the Proposed Placing;
- (v) to increase the registered capital and actual capital received, amend the relevant provisions to the articles of association of the Company, handle capital verification procedures and relevant registration procedures with the Administration for Industry and Commerce, in accordance with the actual final results of the Proposed Placing;
- (vi) to handle the registration of shares, lock-up arrangement and listing matters of the A shares issued upon completion of the Proposed Placing;
- (vii) to set-up a special saving account for the proceeds from the Proposed Placing; and
- (viii) subject to the applicable laws and regulations, to take all necessary action, decision and handle all other matters in relation to the Proposed Placing.

F. SUBSCRIPTION AGREEMENTS ENTERED INTO IN RELATION TO THE PROPOSED PLACING

As part of the Proposed Placing, the Company has entered into a subscription agreement with each of the five Subscribers and supplemental agreements with certain Subscribers. Save for the parties to the agreement, the number of A Shares to be subscribed for, and the aggregate subscription amount payable to the Company, all other major terms of the subscription agreements are the same.

Completion of each of the subscription agreements (as supplemented or otherwise modified, if applicable) is not conditional upon each other.

1. GPLH's subscription

The major terms of the GPLH subscription agreement (the “**GPLH Subscription Agreement**”) as supplemented by its supplemental agreement (the “**GPLH Supplemental Agreement**”) are summarised below:

Date:	GPLH Subscription Agreement: 12 January 2015; and GPLH Supplemental Agreement: 26 November 2015.
Parties:	(i) the Company as the issuer; and (ii) GPLH as the Subscriber.
Subscription Shares:	A maximum of 146,596,236 new A Shares, which were subsequently adjusted to 148,338,467 new A Shares as a result of the Share Adjustment relating to the 2014 Profit Distribution Proposal.
Subscription Price:	Initially RMB23.84 per new A Share, which was subsequently adjusted to RMB23.56 per new A Share as a result of the Price Adjustment relating to the 2014 Profit Distribution Proposal.

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Lock-up undertaking:	36 months from the date of completion of the Proposed Placing.
Conditions precedent:	Details of which are set out in the sub-section headed “D. The Proposed Placing – (b) Conditions precedent of the Proposed Placing” above.
Payment and completion:	Subject to the satisfaction of the conditions precedent, payment of the subscription amount will be made in cash by GPLH on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations. The Company will appoint a certified registered accountant in the PRC to verify the payment made by GPLH for its subscription and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by GPLH with the securities and depository and clearing institution as soon as practicable. In the event that GPLH fails to make payment of its subscription amount, GPLH shall be liable to pay the Company 10% of its total subscription amount as liquidated damages.
GPLH’s undertaking:	<p>Pursuant to the GPLH Subscription Agreement, GPLH undertook to subscribe for all the under-subscribed A Shares of the Employee Stock Trust if there is no and/or any under subscription by the Asset Manager at the same Subscription Price and on the same terms in the GPLH Subscription Agreement (the “GPLH Undertaking”).</p> <p>Such undertaking was withdrawn pursuant to the GPLH Supplemental Agreement, whereby GPLH no longer undertakes to subscribe any under-subscribed A Shares of the Employee Stock Trust.</p>

2. GZ SOA Development’s subscription

The major terms of the GZ SOA Development subscription agreement (the “**GZ SOA Subscription Agreement**”) as supplemented by its supplemental agreement (the “**GZ SOA Supplemental Agreement**”) are summarised below:

Date:	GZ SOA Subscription Agreement: 12 January 2015; and GZ SOA Supplemental Agreement: 27 October 2015.
Parties:	(i) the Company as the issuer; and (ii) GZ SOA Development as the Subscriber.

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Subscription Shares:	A maximum of 125,838,926 new A Shares, which were subsequently adjusted to 127,334,465 new A Shares as a result of the Share Adjustment relating to the 2014 Profit Distribution Proposal and further adjusted to 87,976,539 new A Shares pursuant to the GZ SOA Supplemental Agreement as a result of the Offering Size Reduction.
Subscription Price:	Initially RMB23.84 per new A Share, which was subsequently adjusted to RMB23.56 per new A Share as a result of the Price Adjustment relating to the 2014 Profit Distribution Proposal.
Lock-up undertaking:	36 months from the date of completion of the Proposed Placing.
Conditions precedent:	Details of which are set out in the sub-section headed “D. The Proposed Placing – (b) Conditions precedent of the Proposed Placing” above.
Payment and completion:	Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by GZ SOA Development on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations. The Company will appoint a certified registered accountant in the PRC to verify the payment made by GZ SOA Development for its subscription and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by GZ SOA Development with the securities and depository and clearing institution as soon as practicable. In the event that GZ SOA Development fails to make payment of its subscription amount, GZ SOA Development shall be liable to pay the Company 10% of its total subscription amount as liquidated damages.

3. GZ Chengfa’s subscription

The major terms of the GZ Chengfa subscription agreement (the “**GZ Chengfa Subscription Agreement**”) as supplemented by its supplemental agreements (the “**GZ Chengfa First Supplemental Agreement**” and “**GZ Chengfa Second Supplemental Agreement**” respectively) are summarised below:

Date:	GZ Chengfa Subscription Agreement: 12 January 2015; GZ Chengfa First Supplemental Agreement: 9 July 2015; and GZ Chengfa Second Supplemental Agreement: 27 October 2015.
Parties:	(i) the Company as the issuer; and (ii) GZ Chengfa as the Subscriber.

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- Subscription Shares: A maximum of 104,865,771 new A Shares, which were subsequently adjusted to 106,112,053 new A Shares as a result of the Share Adjustment relating to the 2014 Profit Distribution Proposal and further adjusted to 73,313,783 new A Shares pursuant to the GZ Chengfa Second Supplemental Agreement as a result of the Offering Size Reduction.
- Subscription Price: Initially RMB23.84 per new A Share, which was subsequently adjusted to RMB23.56 per new A Share as a result of the Price Adjustment relating to the 2014 Profit Distribution Proposal.
- Lock-up undertaking: 36 months from the date of completion of the Proposed Placing.
- Conditions precedent: Details of which are set out in the sub-section headed “D. The Proposed Placing – (b) Conditions precedent of the Proposed Placing” above.
- Payment and completion: Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by GZ Chengfa on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations. The Company will appoint a certified registered accountant in the PRC to verify the payment made by GZ Chengfa for its subscription and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by GZ Chengfa with the securities and depository and clearing institution as soon as practicable. In the event that GZ Chengfa fails to make payment of its subscription amount, GZ Chengfa shall be liable to pay the Company 10% of its total subscription amount as liquidated damages.
- Fund readiness undertaking: Pursuant to the GZ Chengfa First Supplemental Agreement, GZ Chengfa undertakes that all the funds for its participation in the Proposed Placing will be ready after the CSRC’s approval of the Proposed Placing is granted but before the proposal in relation to the issue of new A Shares is filed with the CSRC.
- Partnership undertaking: Pursuant to the GZ Chengfa First Supplemental Agreement, GZ Chengfa shall procure that during the lock-up period under the Proposed Placing, its partners shall not dispose of their proportion of assets in the partnership or withdraw from the partnership.

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4. Employee Stock Trust's subscription

The major terms of the employee scheme subscription agreement (the “**Employee Scheme Subscription Agreement**”) are summarised 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:	A maximum of 21,189,000 new A Shares, which were subsequently adjusted to 21,440,821 new A Shares as a result of the Share Adjustment relating to the 2014 Profit Distribution Proposal.
Subscription Price:	Initially RMB23.84 per new A Share, which was subsequently adjusted to RMB23.56 per new A Share as a result of the Price Adjustment relating to the 2014 Profit Distribution Proposal.
Lock-up undertaking:	36 months from the date of completion of the Proposed Placing.
Conditions precedent:	Details of which are set out in the sub-section headed “D. The Proposed Placing – (b) Conditions precedent of the Proposed Placing” above.
Payment and completion:	Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by the Asset Manager (as trustee of the Employee Stock Trust) on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations. The Company will appoint a certified registered accountant in the PRC to verify the payment made by the Asset Manager (as trustee of the Employee Stock Trust) for the employee scheme subscription and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by the Asset Manager (as trustee of the Employee Stock Trust) with the securities and depository and clearing institution as soon as practicable. In the event that the Asset Manager (as trustee of the Employee Stock Trust) fails to make payment of its subscription amount, the Asset Manager (as trustee of the Employee Stock Trust) shall be liable to pay the Company 10% of the total subscription amounts as liquidated damages.

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5. Yunfeng Investment's subscription

The major terms of the Yunfeng subscription agreement (the “**Yunfeng Subscription Agreement**”) as supplemented by its supplemental agreement (the “**Yunfeng Supplemental Agreement**”) are summarised below:

Date:	Yunfeng Subscription Agreement: 12 January 2015; and Yunfeng Supplemental Agreement: 9 July 2015.
Parties:	Yunfeng Subscription Agreement: (i) the Company as the issuer; and (ii) Shanghai Yunfeng (on behalf of Yunfeng Investment) as the Subscriber; and Yunfeng Supplemental Agreement: (i) the Company as the issuer; (ii) Shanghai Yunfeng; and (iii) Yunfeng Investment as the Subscriber.
Subscription Shares:	A maximum of 20,973,154 new A Shares, which were subsequently adjusted to 21,222,410 new A Shares as a result of the Share Adjustment relating to the 2014 Profit Distribution Proposal.
Subscription Price:	Initially RMB23.84 per new A Share, which was subsequently adjusted to RMB23.56 per new A Share as a result of the Price Adjustment relating to the 2014 Profit Distribution Proposal.
Lock-up undertaking:	36 months from the date of completion of the Proposed Placing.
Condition precedent:	Details of which are set out in the sub-section headed “D. The Proposed Placing – (b) Conditions precedent of the Proposed Placing” above.
Payment and completion:	Subject to the satisfaction of the conditions precedent, payment of the subscription amounts will be made in cash by Yunfeng Investment on the date to be determined by the Company and its advisers pursuant to the relevant PRC laws and regulations. The Company will appoint a certified registered accountant in the PRC to verify the payment made by Yunfeng Investment and issue the relevant verification report. The Company will also apply in writing to register the A Shares subscribed by Yunfeng Investment with the securities and depository and clearing institution as soon as practicable. In the event that Yunfeng Investment fails to make payment of its subscription amount, Yunfeng Investment shall be liable to pay the Company 10% of the total subscription amounts as liquidated damages.

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- Investing vehicle: Pursuant to the Yunfeng Supplemental Agreement, it was confirmed that Yunfeng Investment was set up by Shanghai Yunfeng as the investing vehicle to hold the A Shares to be subscribed for pursuant to the Yunfeng Subscription Agreement.
- Fund readiness undertaking: Pursuant to the Yunfeng Supplemental Agreement, Yunfeng Investment undertakes that all the funds for its participation in the Proposed Placing will be ready after the CSRC's approval of the Proposed Placing is granted but before the proposal in relation to the issue of new A Shares is filed with the CSRC.
- Partnership undertaking: Pursuant to the Yunfeng Supplemental Agreement, Yunfeng Investment shall procure that during the lock-up period under the Proposed Placing, its partners shall not dispose of their proportion of assets in the partnership or withdraw from the partnership.

G. IMPLICATIONS OF THE PROPOSED PLACING UNDER HONG KONG TAKEOVERS CODE

It was disclosed in the section headed "X. WHITEWASH WAIVER" of the circular of the Company dated 26 February 2015, among other things, that:

- (a) each of GPLH and GZ SOA Development is a state-owned enterprise under the Guangzhou Municipal People's Government and GZ Chengfa is a limited partnership established under the laws of the PRC, whose general partner is controlled by a state-owned enterprise established by, and under the administration of, the Guangzhou Municipal People's Government, i.e. they are under the administration of different government departments. GPLH is under the administration of the Guangzhou Municipal People's Government State-owned Assets Supervision and Administration Commission while GZ SOA Development and GZ Chengfa are directly or indirectly under the administration of the Guangzhou Municipal People's Government. Assuming no further Shares will be issued by the Company prior to the completion of the Proposed Placing, upon completion of the Proposed Placing, the interests in the Company held by GPLH will decrease (i) from approximately 45.24% to approximately 42.72% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii) from approximately 45.24% to approximately 43.96% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking); and the aggregate interests in the Company held by GZ SOA Development and GZ Chengfa will increase from 0% to approximately 13.49% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing;

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- (b) GPLH, GZ SOA Development and GZ Chengfa would be treated as parties acting in concert by virtue of falling into the class (1) presumption of “acting in concert” as defined in the Hong Kong Takeovers Code as a result of the Proposed Placing from which their aggregate interests in the Company will increase (i) from approximately 45.24% to approximately 56.20% of the total issued share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is not required to take up any additional A Shares pursuant to the GPLH Undertaking) or (ii) from approximately 45.24% to approximately 57.44% of the total issue share capital of the Company as enlarged by the issue of A Shares under the Proposed Placing (assuming GPLH is required to take up all the additional A Shares pursuant to the GPLH Undertaking); and
- (c) a formal application had been made by the Concert Group to the Executive for the Whitewash Waiver pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Takeovers Code.

The Executive granted the Whitewash Waiver to the Concert Group on 12 March 2015, subject to (i) the issue of the new A Shares under the Proposed Placing being approved by the then Independent Shareholders, the then Independent H Share Shareholders and the then Independent A Share Shareholders at the Previous Shareholders’ Meetings by way of poll; and (ii) unless the Executive gives prior consent, no acquisition or disposal of voting rights of the Company being made by any member of the Concert Group and persons acting in concert with any of them between the announcement of the Company dated 12 January 2015 in relation to the Proposed Placing and the completion of the Proposed Placing. The issue of the new A Shares under the Proposed Placing and the Whitewash Waiver had been approved by the then Independent Shareholders, the then Independent H Share Shareholders and the then Independent A Share Shareholders at the Previous Shareholders’ Meetings by way of poll as disclosed in the 2015 Poll Results Announcement.

It is also set out in the Whitewash Waiver letter that the Concert Group and their respective parties acting in concert should continue to comply fully with Schedule VI to the Hong Kong Takeovers Code. If there is any non-compliance with the Hong Kong Takeovers Code or any material change to the information provided or representations made, the Executive should be advised immediately so that the Executive can determine whether the Whitewash Waiver remains valid. The members of the Concert Group have confirmed that they and their respective parties acting in concert have fully complied with and will continue to comply with Schedule VI to the Hong Kong Takeovers Code, in particular, unless the Executive gives prior consent, no acquisition or disposal of voting rights of the Company was and will be made by any member of the Concert Group and persons acting in concert with any of them between the announcement of the Company dated 12 January 2015 in relation to the Proposed Placing and the completion of the Proposed Placing pursuant to paragraph 3(b) of Schedule VI to the Hong Kong Takeovers Code.

Shareholders should be aware that the aggregate shareholding interests of the Concert Group in the Company as at the Latest Practicable Date had changed following the repurchase of 261,400 A Shares by the Company from GPLH on 5 May 2015 (the “**Share Repurchase**”) pursuant to the profit compensation agreement dated 15 June 2012 entered into between the Company and GPLH and described in detail in the circular of the Company dated 4 September 2012 in relation to the major asset reorganisation of the Company and the announcement of the Company dated 9 April 2014 in relation to proposed Share Repurchase. Shareholders should also be aware that the aggregate shareholding interests of the Concert Group in the Company upon completion of the Proposed Placing will change following (i) the adjustments as a result of the 2014 Profit Distribution Proposal and the Offering Size Reduction as disclosed in the

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announcement of the Company dated 28 October 2015; and (ii) the withdrawal of the GPLH Undertaking as disclosed in the announcement of the Company dated 26 November 2015. Details of the aggregate shareholding interests of the Concert Group in the Company as at the Latest Practicable Date and upon completion of the Proposed Placing are set out in the sub-section headed “D. The Proposed Placing – (c) Effects on the shareholding structure of the Company” above.

Save for the extensions of the effective period of (i) the Shareholders’ resolutions relating to the Proposed Placing and (ii) the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing for a further period of 12 months commencing from the date of the passing of the Extension Resolutions at the EGM and Class Meetings, there is no other change to the Proposed Placing. Therefore, the passing of the Extension Resolutions will not affect the validity of the Whitewash Waiver.

H. IMPLICATIONS OF THE PROPOSED PLACING AND EXTENSION RESOLUTIONS UNDER THE HONG KONG LISTING RULES

As disclosed in the circular of the Company dated 26 February 2015, the entering into the GPLH Subscription Agreement by the Company with GPLH (being a connected person as at the date of the GPLH Subscription Agreement) constituted a connected transaction under Chapter 14A of the Hong Kong Listing Rules. As at the Latest Practicable Date, GPLH was a controlling shareholder of the Company holding approximately 45.23% of the total issued share capital of the Company and, therefore, remained a connected person of the Company. Accordingly, the Extension Resolutions are also subject to the announcement, reporting and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

I. EGM AND CLASS MEETINGS

The EGM and the Class Meetings will be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC on Thursday, 10 March 2016. The EGM will be held at 10:00 a.m., the H Share Class Meeting will be held immediately after the conclusion of the EGM and the A Share Class Meeting will be held immediately after the conclusion of the H Share Class Meeting. At the EGM and the Class Meetings, the Extension Resolutions will be put forward for the Independent Shareholders, the Independent H Share Shareholders and the Independent A Share Shareholders respectively to consider and, if thought fit, to approve accordingly.

Since GPLH is one of the Subscribers and therefore has a material interest in the Proposed Placing, GPLH and its associates holding in aggregate approximately 45.23% of the total issued share capital of the Company as at the Latest Practicable Date, who control or are entitled to exercise control over the voting rights in respect of their Shares, will be required to abstain from voting on the Extension Resolutions at the EGM and the Class Meetings respectively. In addition, since only the then Independent Shareholders, the then Independent H Share Shareholders and the then Independent A Share Shareholders voted on the said Shareholders’ resolutions at the Previous Shareholders’ Meetings in relation to the Whitewash Waiver, all members of the Concert Group and their respective parties acting in concert and associates and any Shareholders who are interested in or involved in the Proposed Placing holding in aggregate approximately 45.23% of the total issued share capital of the Company as at the Latest Practicable Date, who control or are entitled to exercise control over the voting rights in respect of their Shares, will also be required to abstain

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from voting at the EGM and the Class Meetings. Save as disclosed above and so far as the Company is aware as at the Latest Practicable Date, no Shareholder will be required to abstain from voting in respect of the Extension Resolutions.

The special resolution to be proposed at the EGM and the Class Meetings are required to be passed by over two-thirds of the voting rights held by those Shareholders who attend and vote at the EGM and the Class Meetings respectively and not otherwise required by the applicable laws, rules or regulations to abstain from voting thereat. The notices convening the EGM and the Class Meetings and forms of proxy were published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.hmdatalink.com/C14070) on 18 January 2016 and despatched to the Shareholders on 22 January 2016 respectively.

Whether or not you intend to attend the EGM and/or the H Share Class Meeting, please complete the forms of proxy despatched together with the aforementioned notices in accordance with the instructions printed thereon and return them to the office of the Company's H Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for H Share Shareholders as soon as possible and in any event not less than 24 hours before the time for holding of the EGM and the H Share Class Meeting or any adjournment thereof. Completion and return of the forms of proxy will not preclude you from attending and voting at the EGM and the H Share Class Meeting should you so wish.

J. RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 29 to 30 of this circular which contains its recommendations to the Independent Shareholders and the Independent H Share Shareholders as to voting at the EGM and the H Share Class Meeting in relation to the Extension Resolutions.

Your attention is also drawn to the letter from Vinco Capital set out on pages 31 to 37 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as regards the Extension Resolutions and the principal factors and reasons considered by it in arriving thereat.

The Directors (including the independent non-executive Directors after receiving the advice from Vinco Capital) consider that the Extension Resolutions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders and the Independent H Share Shareholders to vote in favour of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting. You are advised to read the letter from the Independent Board Committee and the letter from Vinco Capital mentioned above before deciding how to vote on the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting.

LETTER FROM THE BOARD

K. FURTHER INFORMATION

Shareholders and potential investors should be cautioned that the Proposed Placing is still subject to obtaining the written approval from the CSRC and, therefore, the Proposed Placing may or may not proceed. Accordingly, Shareholders and potential investors are advised to exercise caution when dealing in the Shares. The Company will make further announcement(s) in relation to the progress of the Proposed Placing as and when appropriate.

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

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

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: 0874)

16 February 2016

To the Independent Shareholders

Dear Sir or Madam,

**EXTENSION OF THE EFFECTIVE PERIOD OF THE SHAREHOLDERS'
RESOLUTIONS RELATING TO THE PROPOSED PLACING
AND
EXTENSION OF THE EFFECTIVE PERIOD OF THE AUTHORISATION
GRANTED TO THE BOARD AND PERSONS AUTHORISED BY THE BOARD
TO HANDLE MATTERS RELATING TO THE PROPOSED PLACING**

We refer to the circular of the Company dated 16 February 2016 (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.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the fairness and reasonableness of the Extension Resolutions in accordance with the Hong Kong Listing Rules and to recommend whether or not the Independent Shareholders and the Independent H Share Shareholders should vote in favour of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting. Vinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the “Letter from the Board” set out on pages 7 to 28 of the Circular and the “Letter from Vinco Capital” set out on pages 31 to 37 of the Circular.

Having taken into account the principal factors and reasons considered by, and the opinion of, Vinco Capital as set out in the “Letter from Vinco Capital” in the Circular, we are of the view that the Extension Resolutions (i) are in the interests of the Company and the Shareholders as a whole; and (ii) are fair and reasonable so far as the Independent Shareholders and the Independent H Share Shareholders are concerned.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders and the Independent H Share Shareholders to vote in favour of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting.

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 VINCO CAPITAL

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 Extension Resolutions 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

16 February 2016

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

Dear Sirs and Madams,

**EXTENSION OF THE EFFECTIVE PERIOD OF THE SHAREHOLDERS'
RESOLUTIONS RELATING TO THE PROPOSED PLACING
AND
EXTENSION OF THE EFFECTIVE PERIOD OF THE AUTHORISATION
GRANTED TO THE BOARD AND PERSONS AUTHORISED BY THE BOARD
TO HANDLE MATTERS RELATING TO THE PROPOSED PLACING**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Extension Resolutions, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 16 February 2016 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

References are made to (i) the 2015 Announcements and Circular; and (ii) the 2015 Poll Results Announcement in relation to, among other things, the Proposed Placing; (iii) the announcement of the Company dated 15 January 2016; and (iv) the notices of the EGM and the Class Meetings dated 18 January 2016 in relation to the Extension Resolutions.

In the announcement of the Company dated 9 December 2015, it was disclosed that the Proposed Placing has been approved by the Issuance Examination Committee of the CSRC. As at the Latest Practicable Date, the Company has not yet received the written approval from the CSRC.

Considering that the effective period of the Shareholders' resolutions relating to (i) the Proposed Placing; and (ii) the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing, which were approved and passed by the then Independent

LETTER FROM VINCO CAPITAL

Shareholders, the then Independent H Share Shareholders and the then Independent A Share Shareholders respectively at the Previous Shareholders' Meetings, will expire in March 2016, the Board proposed to convene the EGM and the Class Meetings for the Independent Shareholders, the Independent H Share Shareholders and the Independent A Share Shareholders to consider (i) the extension of the effective period of the Shareholders' resolutions relating to the Proposed Placing for a further period of 12 months, commencing from the date of the passing of the special resolution at the EGM and the Class Meetings; and (ii) the extension of the effective period of the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing for a further period of 12 months, commencing from the date of the passing of the ordinary resolution at the EGM and the Class Meetings. Save for the above extensions, details of the Proposed Placing which are set out in the Letter from the Board to the Circular remain unchanged and in full force and effect.

As disclosed in the circular of the Company dated 26 February 2015, the entering into the GPLH Subscription Agreement by the Company with GPLH (being a connected person as date of the GPLH Subscription Agreement) constituted a connected transaction under Chapter 14A of the Hong Kong Listing Rules. As at the Latest Practicable Date, GPLH was a controlling shareholder of the Company holding approximately 45.23% of the total issued share capital of the Company as at the Latest Practicable Date and, therefore, remained a connected person of the Company. Accordingly, the Extension Resolutions are also subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Directors who abstained from voting on the Board resolutions approving the Extension Resolutions include all 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, who are materially interested in the Proposed Placing by virtue of them also being the directors and/or members of the senior management or employee of GPLH, and/or the target participants who had indicated their intention to participate in the Employee Stock Ownership Scheme (2015). Save as disclosed above, none of the Directors have a material interest in the Proposed Placing or is required to abstain from voting on the Board resolutions for considering and approving the Extension Resolutions pursuant to the Hong Kong Listing Rules and/or the articles of association of the Company.

The Independent Board Committee, comprising Mr. Wong Lung Tak Patrick, Mr. Qiu Hongzhong, Mr. Chu Xiaoping and Mr. Jiang Wenqi, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in connection with the Extension Resolutions. We, Vinco Capital, have been appointed and have been 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 Extension Resolutions.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Hong Kong Listing Rules, our role is to give an independent opinion as to whether the Extension Resolutions are in the interests of the Company and the Shareholders as a whole, being fair and reasonable so far as the Independent Shareholders and the Independent H Share Shareholders are concerned and whether the Independent Board Committee should recommend the Independent Shareholders and the Independent H Share Shareholders to vote in favour of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting.

LETTER FROM VINCO CAPITAL

As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, 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. We were not aware of any relationships or interest between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Hong Kong Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Extension Resolutions. We are eligible to give independent advice and recommendations on the Extension Resolutions. Apart from normal professional fees payable to us in connection with this appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates. During the past two years, we have been appointed as the independent financial adviser to the Company regarding the connected transactions for participation in the Employee Stock Ownership Scheme (2015) and the associated acquisition of an interest in the Employee Stock Trust by connected persons of which the circular dated 19 May 2015. The professional fees in connections with the appointments have been fully settled and we are not aware of the existence of or change in any circumstances that would affect our independence. Accordingly, we consider that we are considered eligible to give independent advice on the Extension Resolutions.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the Extension Resolutions, 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 up to and including the date of the EGM and the Class Meetings and that all expectations and intentions of the Directors, management of the 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 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 also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed.

We consider that we have been provided with, and we have reviewed sufficient information to reach an informed view, to justify relying on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. 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

LETTER FROM VINCO CAPITAL

subsidiaries. We 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 prospects.

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Extension Resolutions, as referred to in Rule 13.80 of the Hong Kong Listing Rules (including the notes thereof) in formulating our opinion and recommendation.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Extension Resolutions 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 our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE EXTENSION RESOLUTIONS

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the Extension Resolutions, we have considered the principal factors and reasons set out below:

Background to and reasons for the Extension Resolutions

Background

The Group's current structure mainly includes 11 CPM manufacturing companies, 2 western medicine manufacturing companies, 1 chemical raw materials manufacturing company, 1 prepackaged food manufacturing company, 3 pharmaceutical research and development companies and 4 pharmaceutical trading companies.

References are made to (i) the 2015 Announcements and Circular; and (ii) the 2015 Poll Results Announcement in relation to, among other things, the Proposed Placing; (iii) the announcement of the Company dated 15 January 2016; and (iv) the notices of the EGM and the Class Meetings dated 18 January 2016 in relation to the Extension Resolutions.

In the announcement of the Company dated 9 December 2015, it was disclosed that the Proposed Placing has been approved by the Issuance Examination Committee of the CSRC. As at the Latest Practicable Date, the Company has not yet received the written approval from the CSRC.

Considering that the effective period of the Shareholders' resolutions relating to (i) the Proposed Placing; and (ii) the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing, which were approved and passed by the then Independent Shareholders, the then Independent H Share Shareholders and the then Independent A Share Shareholders respectively at the Previous Shareholders' Meetings, will expire in March 2016, the Board proposed to convene the EGM and the Class Meetings for the Independent Shareholders, the Independent H Share Shareholders and the Independent A Share Shareholders to consider the Extension Resolutions.

LETTER FROM VINCO CAPITAL

Reasons for the Extension Resolutions

As detailed in the Letter from the Board, and after our discussion with the Directors, we are aware that in order to prevent any interruption on the Group's fund raising plan as detailed in the 2015 Announcements and Circular with an aim to improve its financial condition, strengthen the Group's research and development capability, production facilities, distribution networks and promotion channel; and maximize its returns, the Company wishes to seek approval of the Independent Shareholders at the EGM and the Class Meetings for the Extension Resolutions.

With reference to the circular dated 26 February 2015, the Company was planning to complete the Proposed Placing within six months from obtaining the endorsement of the Proposed Placing from the CSRC. The Company announced on 4 May 2015 that it has received the Acceptance Notice of the Application for Administrative Permission (No. 150898) from the CSRC.

The Directors consider that it is necessary and in the interests of the Company and the Shareholders as a whole for the Extension Resolutions as the Issuance Examination Committee of the CSRC had approved the Proposed Placing which was announced on 9 December 2015. As at the Latest Practicable Date, the Company has not yet received the written approval from the CSRC, which is the only outstanding condition precedent to the completion of the Proposed Placing. We reviewed the 2015 Announcements and Circular and the 2015 Poll Results Announcement in relation to the Proposed Placing and the supporting documents in relation to the conditions precedent to be satisfied prior to the completion of the Proposed Placing and noted that the written approval from the CSRC is the only outstanding condition to be satisfied. However, it is unclear whether the written approval from the CSRC will be obtained before the expiry of the effective period of the said Shareholders' resolutions. In addition, the Company needs time to deal with the administrative matters relating to the Proposed Placing after receiving the written approval from the CSRC. Thus, we are of the view and concur with the view of the management of the Company that it is fair and reasonable to propose for the extension of the effective period of the Shareholders' resolutions relating to the Proposed Placing for a further period of 12 months.

Moreover, there are follow-up matters in respect of the Proposed Placing that shall be dealt by the Board and persons authorised by the Board under the authorisation by the resolution from the Shareholders' general meeting. Thus, we are also of the view and concur with the view of the management of the Company that it is fair and reasonable to propose for the extension of the effective period of the authorisation granted to the Board and persons authorised by the Board to handle matters relating to the Proposed Placing for a further period of 12 months.

Comparisons of the Subscription Price

As disclosed in the circular of the Company dated 26 February 2015, the initial Subscription Price was RMB23.84 per new A Share. Upon completion of the 2014 Profit Distribution Proposal as disclosed in the announcement of the Company dated 28 October 2015, the Subscription Price has been adjusted to RMB23.56 per new A Share, subject to any further Price Adjustment. The Subscription Price represents:

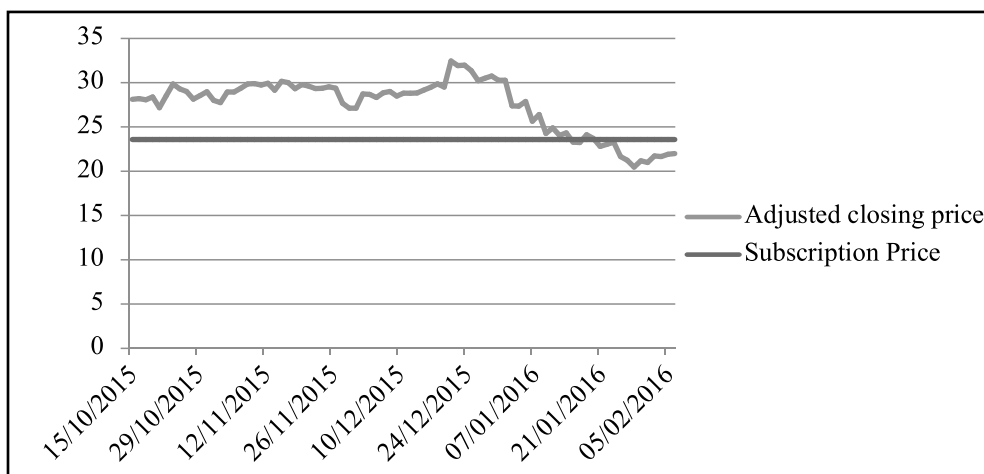
- (i) a discount of approximately 4.89% to the average closing price of RMB24.77 per A Share for the last five trading days immediately prior to 15 January 2016, being the date of the announcement of the Company relating to the Extension Resolutions;

LETTER FROM VINCO CAPITAL

- (ii) a premium of approximately 1.29% over the closing price of RMB23.26 per A Share as at 15 January 2016;
- (iii) a premium of approximately 7.24% over the closing price of RMB21.97 per A Share as at the Latest Practicable Date;
- (iv) a premium of approximately 293.32% over the audited net asset value per Share of approximately RMB5.99 as at 31 December 2014, which is calculated based on the number of Shares 1,291,079,250 in issue as at the Latest Practicable Date and the audited consolidated net asset value attributable to the Shareholders of approximately RMB7,739,301,000 as at 31 December 2014; and
- (v) a premium of approximately 274.56% over the unaudited net asset value per Share of approximately RMB6.29 as at 30 September 2015, which is calculated based on the number of Shares 1,291,079,250 in issue as at the Latest Practicable Date and the unaudited consolidated net asset value attributable to the Shareholders of approximately RMB8,119,002,000 as at 30 September 2015.

Historical price performance of the A Shares

In assessing the fairness and reasonableness of the Subscription Price, we reviewed and performed comparison of the Subscription Price to the historical closing prices of the A Shares. The chart below illustrates the closing price levels of the A Shares as quoted on the Shanghai Stock Exchange for the six-month period preceding the date of the announcement for the Extension Resolutions, being the period of 14 July 2015 to 15 January 2016 and the period of 18 January 2016 to the Latest Practicable Date (the “Review period”):



Source: Bloomberg

As shown in the chart above, the highest and lowest closing prices of the A Shares during the Review Period were RMB32.45 on 21 December 2015 and RMB20.44 on 28 January 2016 respectively. The Subscription Price therefore represents a discount of approximately 37.7% to the highest closing price of the A Shares and a premium of approximately 15.3% over the lowest closing price of the A Shares during the

LETTER FROM VINCO CAPITAL

Review Period. The current Subscription Price is thus within the said historical price range of the A Shares. Furthermore, after reaching the peak level of RMB32.45 per Share during the Review period, the closing prices of the A Shares fluctuated with a decreasing trend and closed at RMB21.97 on the Last Practicable Date. The Subscription Price represents a premium of approximately 7.24% over such closing price. The decreasing trend is mainly due to the investors' concerns about China's slowing economy and its leaders' ability to shore up markets, devaluation of the yuan and approximately 24.12% drop of the Shanghai Stock Exchange A Share Index since December 2015.

The passing of the Extension Resolutions shall (i) ensure that the Company will have sufficient time to complete the Proposed Placing after the receipt of the written approval from the CSRC; and (ii) prevent any interruption on the Group's fund raising plan to improve its financial condition, strengthen the Group's research and development capability, production facilities, distribution networks and promotion channel; and maximize its returns. With reference to the above comparisons of the Subscription price and historical price trend of the A Shares, we are of the view that the Extension Resolutions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into consideration the above principal factors and reasons regarding the Extension Resolutions, we are of the opinion that the Extension Resolutions are in the interests of the Company and the Shareholders as a whole, and the Extension Resolutions are fair and reasonable so far as the Independent Shareholders and the Independent H Share Shareholders are concerned. Shareholders are, however, reminded to note the Proposed Placing is still subject to obtaining the written approval from the CSRC and therefore, the Proposed Placing may or may not proceed. Shareholders are advised to exercise caution when dealing in the Shares.

Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders and the Independent H Share Shareholders to vote in favour of the Extension Resolutions to be proposed at the EGM and the H Share Class Meeting.

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

Note: Mr. Alister Chung is a licensed person registered with the Securities and Futures 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 Securities and Futures Ordinance and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong 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 DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE(S)

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives 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 Latest Practicable Date, so far as was 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 Latest Practicable Date, 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 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 Latest Practicable Date.

6. CONTRACTS REFERRED TO IN THIS CIRCULAR

Set out below are the contracts referred to in this circular and which are material for the purposes of the Extension Resolutions:

- (a) GPLH Subscription Agreement and GPLH Supplemental Agreement;
- (b) GZ SOA Subscription Agreement and GZ SOA Supplemental Agreement;
- (c) GZ Chengfa Subscription Agreement, GZ Chengfa First Supplemental Agreement and GZ Chengfa Second Supplemental Agreement;
- (d) Employee Scheme Subscription Agreement; and
- (e) Yunfeng Subscription Agreement and Yunfeng Supplemental Agreement.

7. COMPETING BUSINESS

As at the Latest Practicable Date, 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.

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

As at the Latest Practicable Date:

- (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.

9. EXPERT AND CONSENT

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

Name	Qualification
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 Latest Practicable Date, 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 Latest Practicable Date, 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.

10. 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 Centre, 89 Queensway, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) this circular;
- (b) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" of this circular;
- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (d) the letter from Vinco Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from Vinco Capital" of this circular;
- (e) the written consent from Vinco Capital referred to in the paragraph headed "9. Expert and consent" in this appendix; and
- (f) the contracts referred to in the paragraph headed "6. Contracts referred to in this circular" in this appendix.