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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 a licensed securities dealer, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Traditional Chinese Medicine Co. Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank manager, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED

中國中藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 570)

- (i) CONNECTED TRANSACTIONS IN RELATION TO
SUBSCRIPTION OF NEW SHARES
BY SINOPHARM, MR. YANG AND MR. WANG UNDER SPECIFIC MANDATE;
(ii) PLACING SPECIFIC MANDATE;
(iii) RE-ELECTION OF DIRECTORS; AND
(iv) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial adviser to China Traditional Chinese Medicine Co. Limited



**Independent Financial Adviser to the Sinopharm Subscription IBC,
the Directors Subscription IBC and the Independent Shareholders**



Guotai Junan Capital Limited

A notice convening the extraordinary general meeting of China Traditional Chinese Medicine Co. Limited to be held at Conference Room, 4th Floor, No.1 Keyuan Heng 4 Road, Gaoli Hi-Tech Park, Ronggui, Shunde District, Foshan City, Guangdong Province, China, on Thursday, 7 May 2015 at 2:30 p.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the registered office of China Traditional Chinese Medicine Co. Limited at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment of it, if you so wish.

21 April 2015

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DEFINITIONS

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

“Acquisition”	the Group’s proposed acquisition of an aggregate of approximately 87.30% of the registered capital of the Target Company as announced in the Acquisition Announcements
“Acquisition Announcements”	the announcements of the Company dated 27 January 2015 and 22 March 2015 respectively in relation to the Acquisition
“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	any day(s) other than a Saturday, Sunday or other day on which commercial banks in the PRC, Hong Kong and the British Virgin Islands are required or authorised by law or executive order to be closed or on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong and any time between 9:00 a.m. and 5:00 p.m. Hong Kong Time
“City-Scape Subscription Agreement”	the agreement dated 14 April 2015 entered into between the Company and City-Scape in relation to the Investors Subscription by City-Scape
“CNPGC”	China National Pharmaceutical Group Corporation (中國醫藥集團總公司), a state-owned enterprise established in the PRC and the ultimate holding company of Sinopharm
“Company”	China Traditional Chinese Medicine Co. Limited 中國中藥有限公司, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 570)
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	director(s) of the Company

DEFINITIONS

“Directors Subscription IBC”	the independent committee of the Board, comprising Mr. Yu Tze Shan Hailson, Mr. Lo Wing Yat, Mr. Zhou Bajun and Mr. Xie Rong, being all the independent non-executive Directors, established to give a recommendation to the Independent Shareholders in respect of the Yang Subscription and the Wang Subscription
“EGM”	the extraordinary general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Subscription Agreements and the transactions contemplated thereunder, the Placing Specific Mandate and the re-election of Directors
“GIC Subscription Agreement”	the agreement dated 25 March 2015 entered into between the Company and GIC in relation to the Investors Subscription by GIC
“Group”	the Company and its subsidiaries
“Guotai Junan”	Guotai Junan Capital Limited, the independent financial adviser to the Sinopharm Subscription IBC, the Directors Subscription IBC and the Independent Shareholders in relation to the Sinopharm Subscription, the Yang Subscription and the Wang Subscription
“Hanmax”	Hanmax Investment Limited, a company wholly owned by Mr. Wang and a substantial Shareholder
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	the Shareholders who are allowed to vote on the resolutions approving the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing Specific Mandate (as the case may be) under the Listing Rules
“Investors”	the subscribers of the Investors Shares under the Investors Subscription Agreements
“Investors Shares”	such number of new Shares to be allotted and issued to the Investors pursuant to the Investors Subscription Agreements under the Placing Specific Mandate, and which form part of the Placing Shares
“Investors Subscriptions”	the subscriptions of the Investors Shares by the Investors pursuant to the Investor Subscription Agreements

DEFINITIONS

“Investors Subscription Agreements”	the agreements dated 25, 26 and 27 March 2015 and 14 April 2015 entered into between the Company and each Investor in relation to the Investors Subscriptions (including the City-Scape Subscription Agreement and the GIC Subscription Agreement, unless expressly excluded in this circular)
“Issue Price”	the issue price of HK\$4.68 per Share for the Sinopharm Shares, the Yang Shares, the Wang Shares and the Investors Shares
“Latest Practicable Date”	17 April 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Wang”	Mr. Wang Xiaochun, an executive Director
“Mr. Yang”	Mr. Yang Bin, an executive Director and the managing Director of the Company
“Placing”	placing of the Placing Shares under the Placing Specific Mandate
“Placing Agents”	together, Morgan Stanley Asia Limited, Credit Suisse (Hong Kong) Limited and CCB International Capital Limited
“Placing Shares”	not more than 1,069,962,000 new Shares to be placed under the Placing Specific Mandate
“Placing Specific Mandate”	the mandate to be sought for approval from the Independent Shareholders at the EGM for the purpose of the Placing
“PRC”	the People’s Republic of China, which for the purpose of this circular excludes Hong Kong, Macao Special Administrative Region and Taiwan
“Profit Channel”	Profit Channel Development Limited, a company wholly owned by Mr. Yang and a substantial Shareholder
“SFC”	The Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) in the share capital of the Company. The Shares have no nominal value pursuant to the Companies Ordinance (Chapter 622 of the laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the issued Share(s)
“Sinopharm”	Sinopharm Group Hongkong Co., Limited (國藥集團香港有限公司), a company incorporated in Hong Kong with limited liability and the controlling Shareholder
“Sinopharm Shares”	the 598,290,598 new Shares to be allotted and issued to Sinopharm pursuant to the Sinopharm Subscription Agreement
“Sinopharm Subscription”	the subscription of the Sinopharm Shares by Sinopharm pursuant to the Sinopharm Subscription Agreement
“Sinopharm Subscription Agreement”	the agreement dated 22 March 2015 (as amended and supplemented by a supplemental agreement dated 30 March 2015) entered into between the Company and Sinopharm in relation to the Sinopharm Subscription
“Sinopharm Subscription IBC”	the independent committee of the Board, comprising Mr. Lo Wing Yat, Mr. Zhou Bajun and Mr. Xie Rong, being all the independent non-executive Directors (other than Mr. Yu Tze Shan Hailson who is deemed to have interest in the Sinopharm Subscription), established to give a recommendation to the Independent Shareholders in respect of the Sinopharm Subscription
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreements”	collectively, the Sinopharm Subscription Agreement, the Yang Subscription Agreement and the Wang Subscription Agreement
“Subscription Announcements” each a “Subscription Announcement”	the announcements of the Company dated 30 March 2015 and 14 April 2015 respectively in relation to the Subscriptions, the Placing Specific Mandate and the Investors Subscriptions
“Subscription Shares”	collectively, the Sinopharm Shares, the Yang Shares and the Wang Shares

DEFINITIONS

“Subscriptions”	collectively, the Sinopharm Subscription, the Wang Subscription and the Yang Subscription
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Target Company”	江陰天江藥業有限公司 (Jiangyin Tianjiang Pharmaceutical Co. Ltd.*), a company established in the PRC with limited liability
“Wang Shares”	the 42,735,042 new Shares to be allotted and issued to Mr. Wang pursuant to the Wang Subscription Agreement
“Wang Subscription”	the subscription of the Wang Shares by Mr. Wang pursuant to the Wang Subscription Agreement
“Wang Subscription Agreement”	the agreement dated 22 March 2015 entered into between the Company and Mr. Wang in relation to the Wang Subscription
“Yang Shares”	the 42,735,042 new Shares to be allotted and issued to Mr. Yang pursuant to the Yang Subscription Agreement
“Yang Subscription”	the subscription of the Yang Shares by Mr. Yang pursuant to the Yang Subscription Agreement
“Yang Subscription Agreement”	the agreement dated 22 March 2015 entered into between the Company and Mr. Yang in relation to the Yang Subscription
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

* for identification only

Unless the context requires otherwise, amounts denominated in US\$ and RMB have been converted into HK\$ at the exchange rates of US\$1:HK\$7.75 and RMB1:HK\$1.25 for the purpose of illustration only. No representation is made that any amount in HK\$, US\$ or RMB could have been or could be converted at the relevant dates at the above rates or at any other rates or at all.

LETTER FROM THE BOARD



CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED

中國中藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 570)

Executive Directors:

Mr. WU Xian (*Chairman*)
Mr. YANG Bin (*Managing Director*)
Mr. WANG Xiaochun

Registered office:

Room 1601
Emperor Group Centre
288 Hennessy Road
Wanchai
Hong Kong

Non-executive Directors:

Mr. LIU Cunzhou
Mr. ZHANG Jianhui
Mr. DONG Zenghe
Mr. ZHAO Dongji

Independent non-executive Directors:

Mr. ZHOU Bajun
Mr. XIE Rong
Mr. YU Tze Shan Hailson
Mr. LO Wing Yat

21 April 2015

To the Shareholders

Dear Sir or Madam,

**(i) CONNECTED TRANSACTIONS IN RELATION TO
SUBSCRIPTION OF NEW SHARES
BY SINOPHARM, MR. YANG AND MR. WANG UNDER SPECIFIC MANDATE;
(ii) PLACING SPECIFIC MANDATE;
AND
(iii) RE-ELECTION OF DIRECTORS**

INTRODUCTION

Reference is made to the Subscription Announcements in relation to the Subscriptions and the Placing Specific Mandate.

LETTER FROM THE BOARD

The Company entered into the following transactions on 22 March 2015:

- (i) the Company and Sinopharm, the controlling Shareholder, entered into the Sinopharm Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue, and Sinopharm has conditionally agreed to subscribe for, 598,290,598 Sinopharm Shares at the total subscription price of HK\$2,800,000,000, equivalent to the Issue Price of HK\$4.68 per Sinopharm Share;
- (ii) the Company and Mr. Yang, an executive Director and the managing director of the Company, entered into the Yang Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Yang has conditionally agreed to subscribe for, 42,735,042 Yang Shares at the total subscription price of HK\$200,000,000, equivalent to the Issue Price of HK\$4.68 per Yang Share; and
- (iii) the Company and Mr. Wang, an executive Director, entered into the Wang Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Wang has conditionally agreed to subscribe for, 42,735,042 Wang Shares at the total subscription price of HK\$200,000,000, equivalent to the Issue Price of HK\$4.68 per Wang Share.

The Company also proposes to issue not more than 1,069,962,000 Placing Shares in aggregate to professional and institutional investors at a price not less than the Issue Price of HK\$4.68 per Placing Share to raise capital for the purpose of financing part of the consideration for the Acquisition or other potential investments in the traditional chinese medicine (“TCM”) industry. The Placing Shares will be issued under the Placing Specific Mandate to be sought for approval from the Independent Shareholders at the EGM. As at the Latest Practicable Date, the Company has entered into the Investors Subscription Agreements with 26 Investors pursuant to which the Company has conditionally agreed to allot and issue, and the Investors have conditionally agreed to subscribe for, such number of Investors Shares as may be purchased with the total subscription price of approximately HK\$5,000,000,000 at the Issue Price of HK\$4.68 per Investors Share. The Investors Shares form part of the Placing Shares and will be issued under the Placing Specific Mandate.

For the avoidance of doubt, completion of each of the Subscription Agreements and the Investors Subscription Agreements are not inter-conditional but it is intended that completion of all the Subscription Agreements and the Investors Subscription Agreements (other than the City-Scape Subscription Agreement) will take place simultaneously on or around 12 May 2015, and the City-Scape Subscription Agreement is expected to complete on or around 14 May 2015.

Details of the Sinopharm Subscription Agreement, the Yang Subscription Agreement, the Wang Subscription Agreement, the Placing Specific Mandate and the Investors Subscription Agreements are set out below.

LETTER FROM THE BOARD

THE SINOPHARM SUBSCRIPTION AGREEMENT

Date

22 March 2015

Parties

- (i) the Company, as issuer; and
- (ii) Sinopharm, as subscriber.

Sinopharm is a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of CNPGC, a state-owned enterprise established in the PRC. CNPGC is principally engaged in research and development, manufacturing, wholesale and retail of pharmaceutical products and biological products. Sinopharm is principally engaged in investment holding. As at the Latest Practicable Date, Sinopharm is the controlling Shareholder holding 1,016,023,044 Shares, representing approximately 40.10% of the issued share capital of the Company. Sinopharm is therefore a connected person of the Company.

The Sinopharm Subscription

Pursuant to the Sinopharm Subscription Agreement, the Company has conditionally agreed to allot and issue, and Sinopharm has conditionally agreed to subscribe for, 598,290,598 Sinopharm Shares at the total subscription price of HK\$2,800,000,000, equivalent to the Issue Price of HK\$4.68 per Sinopharm Share. The total subscription price shall be payable in cash by Sinopharm to the Company at completion of the Sinopharm Subscription.

The Sinopharm Shares

Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Placing Shares since the Latest Practicable Date up to the date of completion of the Subscriptions and the Placing, the 598,290,598 Sinopharm Shares represent:

- (i) approximately 23.61% of the existing issued share capital of the Company;
- (ii) approximately 19.10% of the issued share capital of the Company as enlarged by the allotment and issue of the Sinopharm Shares; and
- (iii) approximately 13.95% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Placing Shares (assuming the Placing Specific Mandate has been fully utilised).

LETTER FROM THE BOARD

The Sinopharm Shares, when issued and fully paid, shall rank pari passu in all respects among themselves and with all other Shares in issue as at the date of their allotment and issue.

The Sinopharm Shares will be issued under a specific mandate to be sought for approval from the Independent Shareholders at the EGM. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Sinopharm Shares.

Conditions precedent

Completion is subject to the fulfilment or waiver (where applicable) of the following conditions:

- (i) the Company having obtained all necessary approvals and consent from the Stock Exchange, the SFC and other relevant regulatory authorities in Hong Kong in relation to the Sinopharm Subscription, including but not limited to the approval of the Stock Exchange for the issue of this circular;
- (ii) the resolution(s) approving the Sinopharm Subscription having been passed by the Independent Shareholders at the EGM;
- (iii) the Listing Committee having granted the listing of, and permission to deal in, the Sinopharm Shares;
- (iv) the representations and warranties given by Sinopharm in the Sinopharm Subscription Agreement remaining true and accurate in all material respects on the date of completion of the Sinopharm Subscription;
- (v) the Company having executed and delivered to Sinopharm the Sinopharm Subscription Agreement; and
- (vi) the representations and warranties given by the Company in the Sinopharm Subscription Agreement remaining true and accurate in all material respects on the date of completion of the Sinopharm Subscription.

The Company may at any time waive the condition referred to in (iv) above by written notice to Sinopharm. Sinopharm may at any time waive the conditions referred to in (v) and (vi) above by written notice to the Company. The ability for the Company to waive condition (iv) above provides greater flexibility to the Company regarding the Sinopharm Subscription. The Company would only waive this condition if it considers that there is no material adverse impact on the Sinopharm Subscription. As at the Latest Practicable Date, the Company does not have any intention to waive this condition.

As at the Latest Practicable Date, conditions (i) and (v) have been satisfied.

LETTER FROM THE BOARD

Completion

Subject to the conditions precedent as set out above being satisfied or waived (as the case may be), completion of the Sinopharm Subscription Agreement shall take place on the third Business Day following the date on which the last in time of the conditions precedent shall have been satisfied or waived in accordance with the Sinopharm Subscription Agreement, or such other time or date as the parties to the Sinopharm Subscription Agreement may agree in writing.

For that purpose, completion of the Sinopharm Subscription Agreement will (to the extent necessary) take place simultaneously with completion of the Yang Subscription Agreement, the Wang Subscription Agreement and/or the Investors Subscription Agreements (as the case may be) so as to ensure that Sinopharm will not trigger any obligation to make a mandatory general offer for all the other securities of the Company pursuant to Rule 26 of the Takeovers Code.

In the event that a simultaneous completion under the Yang Subscription Agreement, the Wang Subscription Agreement and/or the Investors Subscription Agreements (as the case may be) fails to be achieved, the Company will only issue such number of Sinopharm Shares which will not result in Sinopharm's shareholding in the Company increasing by 2% or more from its existing shareholding of approximately 40.10% (being the lowest percentage shareholding of Sinopharm in the Company during the 12-month period ending on and inclusive of the date of the Sinopharm Subscription Agreement). The unissued Sinopharm Shares will be issued by the Company to Sinopharm in one or multiple subsequent tranches at the earliest time when such issues will not result in Sinopharm triggering a mandatory general offer obligation under Rule 26 of the Takeovers Code, but in any event no later than the date falling one month after the passing of the resolution of the Independent Shareholders approving the Sinopharm Subscription. Further announcement(s) will be made by the Company when such unissued Sinopharm Shares are subsequently issued to Sinopharm. For the avoidance of doubt, any unissued Sinopharm Shares will not be issued to Sinopharm after the aforesaid expiry date and no subscription money will be received from such unissued Sinopharm Shares.

For illustration purpose, if an aggregate of 703,449,097 or more new Shares are issued under the Yang Subscription, the Wang Subscription and the Investors Subscriptions, all 598,290,598 Sinopharm Shares will be issued to Sinopharm at completion in one tranche. If less than 703,449,097 new Shares are issued under the Yang Subscription, the Wang Subscription and the Investors Subscriptions, the Sinopharm Shares will be issued in the manner as described above. In the event that the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion, only 87,069,884 Sinopharm Shares will be issued to Sinopharm pursuant to the Sinopharm Subscription Agreement, such that Sinopharm's shareholding in the Company would not increase by 2% or more from its lowest percentage shareholding in the Company during the preceding 12-month period which would otherwise trigger an obligation to make a mandatory general offer for all the other securities of the Company pursuant to Rule 26 of the Takeovers Code. The unissued Sinopharm Shares will be issued by the Company to Sinopharm in one or multiple subsequent tranches at the earliest time when such issues will not result in Sinopharm triggering a mandatory general offer obligation under Rule 26 of the Takeovers Code.

LETTER FROM THE BOARD

THE YANG SUBSCRIPTION AGREEMENT

Date

22 March 2015

Parties

- (i) the Company, as issuer; and
- (ii) Mr. Yang, as subscriber.

Mr. Yang is an executive Director and the managing director of the Company. As at the Latest Practicable Date, Profit Channel (a company wholly owned by Mr. Yang) holds 334,000,000 Shares, representing approximately 13.18% of the issued share capital of the Company. Accordingly, Profit Channel is a substantial Shareholder and Mr. Yang is a connected person of the Company under the Listing Rules.

The Yang Subscription

Pursuant to the Yang Subscription Agreement, the Company has conditionally agreed to allot and issue, and Mr. Yang has conditionally agreed to subscribe for, 42,735,042 Yang Shares at the total subscription price of HK\$200,000,000, equivalent to the Issue Price of HK\$4.68 per Yang Share. The total subscription price shall be payable in cash by Mr. Yang to the Company at completion of the Yang Subscription.

The Yang Shares

Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Placing Shares since the Latest Practicable Date to the date of completion of the Subscriptions and the Placing, the 42,735,042 Yang Shares represent:

- (i) approximately 1.69% of the existing issued share capital of the Company;
- (ii) approximately 1.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Yang Shares; and
- (iii) approximately 1.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Placing Shares (assuming the Placing Specific Mandate has been fully utilised).

The Yang Shares, when issued and fully paid, shall rank *pari passu* in all respects among themselves and with all other Shares in issue as at the date of their allotment and issue.

LETTER FROM THE BOARD

The Yang Shares will be issued under a specific mandate to be sought for approval from the Independent Shareholders at the EGM. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Yang Shares.

Conditions precedent

Completion is subject to the fulfilment or waiver (where applicable) of the following conditions:

- (i) the Company having obtained all necessary approvals and consent from the Stock Exchange and other relevant regulatory authorities in Hong Kong in relation to the Yang Subscription, including but not limited to the approval of the Stock Exchange for the issue of this circular;
- (ii) the resolution(s) approving the Yang Subscription having been passed by the Independent Shareholders at the EGM;
- (iii) the Listing Committee having granted the listing of, and permission to deal in, the Yang Shares;
- (iv) the representations and warranties given by Mr. Yang in the Yang Subscription Agreement remaining true and accurate in all material respects on the date of completion of the Yang Subscription;
- (v) the Company having executed and delivered to Mr. Yang the Yang Subscription Agreement; and
- (vi) the representations and warranties given by the Company in the Yang Subscription Agreement remaining true and accurate in all material respects on the date of completion of the Yang Subscription.

The Company may at any time waive the condition referred to in (iv) above by written notice to Mr. Yang. Mr. Yang may at any time waive the conditions referred to in (v) and (vi) above by written notice to the Company. The ability for the Company to waive condition (iv) above provides greater flexibility to the Company regarding the Yang Subscription. The Company would only waive this condition if it considers that there is no material adverse impact on the Yang Subscription. As at the Latest Practicable Date, the Company does not have any intention to waive this condition.

As at the Latest Practicable Date, conditions (i) and (v) have been satisfied.

Completion

Subject to the conditions precedent as set out above being satisfied or waived (as the case may be), completion of the Yang Subscription Agreement shall take place on the third Business Day following the date on which the last in time of the conditions precedent shall have been satisfied or waived in accordance with the Yang Subscription Agreement, or such other time or date as the parties to the Yang Subscription Agreement may agree in writing.

LETTER FROM THE BOARD

It is intended that completion of the Yang Subscription Agreement will take place simultaneously with the Sinopharm Subscription Agreement, the Wang Subscription Agreement and the Investors Subscription Agreements (other than the City-Scape Subscription Agreement).

THE WANG SUBSCRIPTION AGREEMENT

Date

22 March 2015

Parties

- (i) the Company, as issuer; and
- (ii) Mr. Wang, as subscriber.

Mr. Wang is an executive Director. As at the Latest Practicable Date, Hanmax (a company wholly owned by Mr. Wang) holds 334,000,000 Shares, representing approximately 13.18% of the issued share capital of the Company. Accordingly, Hanmax is a substantial Shareholder and Mr. Wang is a connected person of the Company under the Listing Rules.

The Wang Subscription

Pursuant to the Wang Subscription Agreement, the Company has conditionally agreed to allot and issue, and Mr. Wang has conditionally agreed to subscribe for, 42,735,042 Wang Shares at the total subscription price of HK\$200,000,000, equivalent to the Issue Price of HK\$4.68 per Wang Share. The total subscription price shall be payable in cash by Mr. Wang to the Company at completion of the Wang Subscription.

The Wang Shares

Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Placing Shares since the Latest Practicable Date up to the date of completion of the Subscriptions and the Placing, the 42,735,042 Wang Shares represent:

- (i) approximately 1.69% of the existing issued share capital of the Company;
- (ii) approximately 1.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Wang Shares; and
- (iii) approximately 1.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Placing Shares (assuming the Placing Specific Mandate has been fully utilised).

LETTER FROM THE BOARD

The Wang Shares, when issued and fully paid, shall rank pari passu in all respects among themselves and with all other Shares in issue as at the date of their allotment and issue.

The Wang Shares will be issued under a specific mandate to be sought for approval from the Independent Shareholders at the EGM. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Wang Shares.

Conditions precedent

Completion is subject to the fulfilment or waiver (where applicable) of the following conditions:

- (i) the Company having obtained all necessary approvals and consent from the Stock Exchange and other relevant regulatory authorities in Hong Kong in relation to the Wang Subscription, including but not limited to the approval of the Stock Exchange for the issue of this circular;
- (ii) the resolution(s) approving the Wang Subscription having been passed by the Independent Shareholders at the EGM;
- (iii) the Listing Committee having granted the listing of, and permission to deal in, the Wang Shares;
- (iv) the representations and warranties given by Mr. Wang in the Wang Subscription Agreement remaining true and accurate in all material respects on the date of completion of the Wang Subscription;
- (v) the Company having executed and delivered to Mr. Wang the Wang Subscription Agreement; and
- (vi) the representations and warranties given by the Company in the Wang Subscription Agreement remaining true and accurate in all material respects on the date of completion of the Wang Subscription.

The Company may at any time waive the condition referred to in (iv) above by written notice to Mr. Wang. Mr. Wang may at any time waive the conditions referred to in (v) and (vi) above by written notice to the Company. The ability for the Company to waive condition (iv) above provides greater flexibility to the Company regarding the Wang Subscription. The Company would only waive this condition if it considers that there is no material adverse impact on the Wang Subscription. As at the Latest Practicable Date, the Company does not have any intention to waive this condition.

As at the Latest Practicable Date, conditions (i) and (v) have been satisfied.

LETTER FROM THE BOARD

Completion

Subject to the conditions precedent as set out above being satisfied or waived (as the case may be), completion of the Wang Subscription Agreement shall take place on the third Business Day following the date on which the last in time of the conditions precedent shall have been satisfied or waived in accordance with the Wang Subscription Agreement, or such other time or date as the parties to the Wang Subscription Agreement may agree in writing.

It is intended that completion of the Wang Subscription Agreement will take place simultaneously with the Sinopharm Subscription Agreement, the Yang Subscription Agreement and the Investors Subscription Agreements (other than the City-Scape Subscription Agreement).

LOCK-UP

Each of Sinopharm, Mr. Yang and Mr. Wang undertakes to the Company that it will not transfer and will not allow any of its affiliates to transfer any Shares held as at the date of the relevant Subscription Agreement or any Subscription Shares till the expiration of six months from the date of completion of such Subscription.

THE PLACING SPECIFIC MANDATE

The Company proposes to issue not more than 1,069,962,000 Placing Shares in aggregate to professional and institutional investors at a price not less than the Issue Price of HK\$4.68 per Placing Share to raise capital for the purpose of financing part of the consideration for the Acquisition or other potential investments in the TCM industry. As the actual number of Placing Shares to be issued will depend on the then exchange rate, the maximum number of Placing Shares under the Placing Specific Mandate includes a buffer to cater for potential fluctuations in exchange rate. The Placing Shares will be issued under the Placing Specific Mandate to be sought for approval from the Independent Shareholders at the EGM based on the following parameters:

Issuer

The Company

Target subscribers

Professional and institutional investors which are third parties independent of the Company and its connected persons.

Number of Placing Shares to be issued

Not more than 1,069,962,000 Placing Shares in aggregate.

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Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Placing Shares since the Latest Practicable Date up to the date of completion of the Subscriptions and the Placing, the 1,069,962,000 Placing Shares represent:

- (i) approximately 42.23% of the existing issued share capital of the Company;
- (ii) approximately 29.69% of the issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares; and
- (iii) approximately 24.95% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Placing Shares (assuming the Placing Specific Mandate has been fully utilised).

Method of issue

Non-public issue of the Placing Shares. The subscription price will be paid in cash at completion.

Issue price

Not less than HK\$4.68 per Placing Share

Rights attached to the Placing Shares

The Placing Shares, when issued and fully paid, shall rank pari passu in all respects among themselves and with all other Shares in issue as at the date of their allotment and issue.

Plan of the Placing

The Company has engaged Morgan Stanley Asia Limited, Credit Suisse (Hong Kong) Limited and CCB International Capital Limited as the Placing Agents to assist the Company in procuring and receiving offers from the Investors under the Investors Subscriptions. The Company has agreed to pay to the Placing Agents an aggregate fee equal to 0.8% of the aggregate gross proceeds received by the Company in relation to the portion of Investors Shares issued pursuant to the Investors Subscriptions to the relevant Investors procured by them to the Company.

Subject to the prevailing market conditions at the relevant time, the Placing may be conducted through (i) the Placing Agents, and/or (ii) direct subscriptions by potential investors. As such, the relevant agreements may be entered into by the Company at different points of time prior to completion of the Placing. Such placing and/or subscription as part of the Placing are intended to be completed simultaneously.

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Validity period of the Placing Specific Mandate

The Placing Specific Mandate will be valid until the date falling one month after the passing of the resolution of the Independent Shareholders approving the Placing Specific Mandate.

Listing application

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares.

THE INVESTORS SUBSCRIPTION AGREEMENTS

As at the Latest Practicable Date, the Company has entered into the Investors Subscription Agreements with 26 Investors pursuant to which the Company has conditionally agreed to allot and issue, and the Investors have conditionally agreed to subscribe for, such number of Investors Shares as may be purchased with the total subscription price of approximately HK\$5,000,000,000 at the Issue Price of HK\$4.68 per Investors Share. The Investors Shares form part of the Placing Shares and will be issued under the Placing Specific Mandate.

Date

25, 26 and 27 March 2015 and 14 April 2015

Parties

- (i) the Company, as issuer; and
- (ii) the Investors, as subscribers (details of the Investors are set out in the paragraph headed “Information on the Investors” below).

The Investors Subscriptions

Pursuant to the Investors Subscription Agreements, the Company has conditionally agreed to allot and issue, and the Investors have conditionally agreed to subscribe for, such number of Investors Shares as may be purchased with the total subscription price of approximately HK\$5,000,000,000 at the Issue Price of HK\$4.68 per Investors Share. The total subscription price shall be payable in cash and in HK\$ by the Investors to the Company at completion of the Investors Subscriptions.

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Under the relevant Investors Subscription Agreement, where the total subscription amount of an Investor is denominated in US\$, the relevant parties agree that such amount shall be converted into HK\$ at the exchange rate published by Reuters after the close of business as at the third Business Day prior to the date of completion of the relevant Investors Subscription. For illustration purpose only, the number of Investors Shares to be subscribed by the Investors calculated based on the exchange rate of US\$1: HK\$7.75 is set out as follows:

		Approximate percentage of the issued share capital of the Company as enlarged by the Subscription Shares and the Investors Shares (%)		
	Investors	Subscription amount	Investors Shares	
1.	Athos Asia	US\$5,000,000	8,278,000	0.19
2.	China AMC	US\$8,000,000	13,246,000	0.31
3.	China Life Franklin	HK\$80,000,000	17,094,000	0.40
4.	City-Scape	HK\$1,000,000,000	213,674,000	4.99
5.	CRAMC	US\$16,000,000	26,494,000	0.62
6.	Design Time	HK\$350,000,000	74,786,000	1.74
7.	Diversity Global	HK\$200,000,000	42,734,000	1.00
8.	Everbright Pramerica	HK\$480,000,000	102,564,000	2.39
9.	Exabyte Capital	HK\$77,500,000	16,558,000	0.39
10.	FM First	HK\$28,500,000	6,088,000	0.14
11.	GIC	HK\$488,245,680	104,326,000	2.43
12.	GL Trade	US\$25,000,000	41,398,000	0.97
13.	Hutchin Hill	US\$10,000,000	16,558,000	0.39
14.	Hwabao Trust	HK\$38,750,000	8,278,000	0.19
15.	NCAMHK	HK\$132,500,000	28,310,000	0.66
16.	PAAMC HK	US\$12,000,000	19,870,000	0.46
17.	Quantum Partners	US\$10,000,000	16,558,000	0.39
18.	Senrigan Master Fund	US\$10,000,000	16,558,000	0.39
19.	Sunshine Life	HK\$125,000,000	26,708,000	0.62
20.	Swift Mind	US\$7,000,000	11,590,000	0.27
21.	The Maso Funds	US\$5,000,000	8,278,000	0.19
22.	The Nine Masts Funds	HK\$38,750,000	8,278,000	0.19
23.	The OZ Funds	US\$60,000,000	99,358,000	2.32
24.	Trafalgar	US\$7,000,000	11,590,000	0.27
25.	Value Partners HK	US\$40,000,000	66,238,000	1.55
26.	Vigour Star	US\$38,000,000	62,926,000	1.47
Total		<u>HK\$4,999,995,680</u>	<u>1,068,338,000</u>	<u>24.93</u>

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The Investors Shares

Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Placing Shares since the Latest Practicable Date up to the date of completion of the Subscriptions and the Placing, the 1,068,338,000 Investors Shares represent approximately:

- (i) 42.16% of the existing issued share capital of the Company;
- (ii) 29.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Investors Shares; and
- (iii) 24.93% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Investors Shares.

The Investors Shares, when issued and fully paid, shall rank *pari passu* in all respects among themselves and with all other Shares in issue as at the date of their allotment and issue.

The Investors Shares form part of the Placing Shares and will be issued under the Placing Specific Mandate. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Investors Shares.

Conditions precedent

Completion of each of the Investor Subscription Agreements (other than the City-Scape Subscription Agreement and the GIC Subscription Agreement) is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

- (i) the Stock Exchange having granted the listing of, and permission to deal in, the Investors Shares (and such listing and permission not subsequently being revoked prior to the completion of the respective Investors Subscription Agreement);
- (ii) no order or judgment of any court or governmental, statutory or regulatory body having been issued or made prior to the completion of the respective Investors Subscription Agreement (and no legal or regulatory requirements remaining to be satisfied) which has the effect of making unlawful or otherwise prohibiting the respective Investors Subscription or any transaction contemplated by the respective Investors Subscription Agreement;
- (iii) all necessary regulatory approvals and consents of the Shareholders for the allotment and issue of the Placing Shares having been obtained by the Company and such approvals and consents remaining in full force and effect;
- (iv) the representations and warranties given or made by the Company remaining true and accurate in all material respects and not misleading in any material respect on the date of completion of the respective Investors Subscription Agreement;

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- (v) the Company having performed and complied in all material respects with all obligations contained in the respective Investors Subscription Agreement that are required to be performed or complied with by it on or before completion of the respective Investors Subscription Agreement;
- (vi) the representations and warranties given or made by the respective Investor remaining true and accurate in all material respects and not misleading in any material respect on the date of completion of the respective Investors Subscription Agreement; and
- (vii) the respective Investor having performed and complied in all material respects with all obligations contained in the Investors Subscription Agreement that are required to be performed or complied with by it on or before completion of the respective Investors Subscription Agreement.

Completion of each of the City-Scape Subscription Agreement and the GIC Subscription Agreement is conditional upon the fulfilment or waiver (as the case may be) of the following conditions:

- (i) the Stock Exchange having granted the listing of, and permission to deal in, the Investors Shares (and such listing and permission not subsequently being revoked prior to the completion of the respective Investors Subscription Agreement);
- (ii) no order or judgment of any court or governmental, statutory or regulatory body having been issued or made prior to the completion of the respective Investors Subscription Agreement (and no legal or regulatory requirements remaining to be satisfied) which has the effect of making unlawful or otherwise prohibiting the respective Investors Subscription or any transaction contemplated by the respective Investors Subscription Agreement;
- (iii) all necessary regulatory approvals and consents of the Shareholders for the allotment and issue of the Placing Shares having been obtained by the Company and such approvals and consents remaining in full force and effect;
- (iv) the representations and warranties given or made by the Company remaining true and accurate in all respects and not misleading in any respect on the date of completion of the respective Investors Subscription Agreement;
- (v) the Company having performed and complied in all respects with all obligations contained in the respective Investors Subscription Agreement that are required to be performed or complied with by it on or before completion of the respective Investors Subscription Agreement;
- (vi) the representations and warranties given or made by the respective Investor remaining true and accurate in all respects and not misleading in any respect on the date of completion of the respective Investors Subscription Agreement; and

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- (vii) the respective Investor having performed and complied in all material respects with all obligations contained in the respective Investors Subscription Agreement that are required to be performed or complied with by it on or before completion of the respective Investors Subscription Agreement.

The respective Investor may at any time waive the conditions referred to in (iv) and (v) above by written notice to the Company. The Company may at any time waive the conditions referred to in (vi) and (vii) above by written notice to the respective Investor. The ability for the Company to waive condition (vi) and (vii) above provides greater flexibility to the Company regarding the Investors Subscriptions. The Company would only waive these conditions if it considers that there is no material adverse impact on the Investors Subscriptions. As at the Latest Practicable Date, the Company does not have any intention to waive any of these conditions.

As at the Latest Practicable Date, none of the above conditions have been satisfied.

In the event that the conditions precedent to the Investors Subscription Agreements are not satisfied or waived in accordance with the Investors Subscription Agreements by 30 June 2015 or such other date as the parties may agree in writing, either party to the relevant Investors Subscription Agreement shall be entitled to terminate the respective Investors Subscription Agreement by written notice to the other relevant party and the relevant Investors Subscription Agreement and all rights and obligations of the parties therein shall cease and terminate save for accrued rights and obligations of the parties under the relevant Investors Subscription Agreement.

Completion

For each of the Investors Subscription Agreements (other than the City-Scape Subscription Agreement), subject to the conditions precedent as set out above being satisfied or waived (as the case may be), completion of the relevant Investors Subscription Agreement shall take place on the third Business Day following the date on which the last in time of the conditions precedent (other than those conditions precedent which are expressed to be satisfied on or as at the date of completion of the relevant Investors Subscription Agreement, but subject to waiver or satisfaction of such conditions precedent) shall have been satisfied or waived in accordance with the relevant Investors Subscription Agreement, or such other time or date as the parties to the relevant Investors Subscription Agreement may agree in writing.

For the City-Scape Subscription Agreement, subject to the conditions precedent as set out above being satisfied or waived (as the case may be), completion of the City-Scape Subscription Agreement shall take place on a date not earlier than the fifth Business Day after the date on which the written notice specifying that all the conditions in (i) to (v) above have been satisfied has been sent from the Company to City-Scape, or such other time or date as the parties may agree in writing.

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It is intended that completion of the Sinopharm Subscription Agreement, the Yang Subscription Agreement, the Wang Subscription Agreement and the Investors Subscription Agreements (other than the City-Scape Subscription Agreement) will take place simultaneously on or around 12 May 2015, and the City-Scape Subscription Agreement is expected to complete on or around 14 May 2015.

Termination

Each of the Investors Subscription Agreement may be terminated:

- (i) by either party if the conditions precedent to the Investors Subscription Agreement are not satisfied or waived in accordance with the Investors Subscription Agreement by 30 June 2015 (or such other date as the parties may agree in writing);
- (ii) by either party if there is a material breach of the Investors Subscription Agreement on the part of the other party; or
- (iii) with the written consent of both the Company and the relevant Investor.

Completion of the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Investors Subscriptions is subject to the satisfaction of certain conditions. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

INFORMATION ON THE INVESTORS

Athos Asia Event Driven Master Fund (“Athos Asia”)

Athos Asia is an investment fund managed by Athos Capital Limited, an alternative asset management firm established in 2012 and headquartered in Hong Kong. Among other strategies, Athos Capital Limited seeks to produce superior risk adjusted returns for the investors of the funds it manages by participating in strategic placement and other funding opportunities.

China Asset Management Co., Ltd (“China AMC”)

Established on 9 April 1998 with approval from the China Securities Regulatory Commission, China AMC is one of the first nation-wide fund management firms with the widest business range in the PRC. Its head office is located in Beijing, with branches in Beijing, Shanghai, Nanjing, Shenzhen, Guangzhou, Chengdu and Hangzhou. China AMC is one of the first fund management companies to manage the National Social Security Fund and the Corporate Annuities, the manager of the first exchange traded funds (“ETFs”) in the PRC, the sole investment manager for the Asian Bond Fund in the PRC, among the first batch of managers of both Qualified Domestic Institutional Investor (“QDII”) funds and separate accounts in February 2008.

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China Life Franklin Asset Management Co., Ltd. (“China Life Franklin”)

China Life Franklin is a Hong Kong-based asset management joint venture between China Life Insurance Asset Management Company Limited, China Life Insurance (Overseas) Company Limited and Franklin Templeton Investments. China Life Franklin holds the licenses granted from the SFC to carry out Type 9 (asset management) and Type 4 (advising on securities) regulated activities.

China Re Asset Management Company Ltd. (“CRAMC”)

CRAMC, established in February 2005, is a professional insurance asset management company affiliated to China Reinsurance (Group) Company Limited with a current registered capital of RMB500 million and is one of the first four insurance asset management companies established in the PRC.

CRAMC is based on the domestic capital market and actively developing the overseas market, with investments in A-shares, Hong Kong shares, funds, bonds, deposits, foreign exchange lendings, financial instruments and other assets categories. Over the recent years, the scale of CRAMC’s assets under management has been increasing steadily. As of the end of 2014, CRAMC’s assets under management is close to RMB200 billion. The return on investments has been among the top in the industry over the last three years.

City-Scape Pte. Ltd. (“City Scape”)

City-Scape is a private limited liability company organised and existing under the laws of Singapore. It is an investment vehicle managed by GIC Special Investments Pte. Ltd. GIC Special Investments Pte. Ltd. is wholly owned by GIC Private Limited and is the private equity and infrastructure investment arm of GIC Private Limited, which is one of the world’s leading sovereign wealth funds established in 1981 to manage Singapore’s foreign reserves.

Design Time Limited (“Design Time”)

Design Time is a limited liability company incorporated in the British Virgin Islands. It is indirectly and wholly owned by CCB International (Holdings) Limited (“CCBI”). CCBI is an investment services flagship which is indirectly and wholly owned by China Construction Bank Corporation, a joint-stock company incorporated in the PRC and listed on the Main Board of the Stock Exchange (stock code: 939) and the Shanghai Stock Exchange (stock code: 601939).

Diversity Global Holdings Limited (“Diversity Global”)

Diversity Global is principally engaged in investment holding activities, and is a wholly-owned subsidiary of China Everbright Limited (“CEL”, stock code: 165). CEL, through its subsidiaries and associates, is principally engaged in the provision of financial services and persistently pursues the cross-border macro asset management strategy, with

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specific focuses on fund management and investment business, namely, primary market investment, secondary market investment, structured financing and investment, and aircraft leasing.

Everbright Pramerica Fund Management Co., Ltd. (“Everbright Pramerica”)

Everbright Pramerica is a fund management company established in 2004, holding license issued by the China Securities Regulatory Commission for managing public launched mutual funds. So far, Everbright Pramerica is now managing 17 different style mutual funds and multiple separately managed accounts products. The total assets under management of Everbright Pramerica reached around RMB31 billion by the end of 2014.

Exabyte Capital Fund L.P. (“Exabyte Capital”)

Exabyte Capital is a Greater China-focused hedge fund with a long-short equity strategy.

FM First Hong Kong Fund, LLC (“FM First”)

FM First is an investment fund that seeks to achieve long-term capital appreciation primarily through investment in companies that derive majority of their revenues from the PRC. FM First is managed by First Manhattan Co, and First Beijing Investment Limited.

GIC Private Limited (“GIC”)

GIC is a leading global investment firm with well over US\$100 billion in assets under management. Established in 1981, the firm manages Singapore’s foreign reserves and is uniquely positioned for long-term and flexible investments across a wide range of asset classes, including public equities, fixed income, real estate, and private equity. GIC employs more than 1,200 people across offices in Singapore, Beijing, London, Mumbai, New York, San Francisco, Sao Paulo, Seoul, Shanghai, and Tokyo. For more information, please visit www.gic.com.sg.

GL Trade Investment Limited (“GL Trade”)

GL Trade is a limited company incorporated in the Cayman Islands and a wholly-owned subsidiary of GL China Opportunities Fund, L.P., a leading private equity firm in the PRC specialising in the healthcare industry.

Hutchin Hill Capital Primary Fund, Ltd (“Hutchin Hill”)

Hutchin Hill is a wholly-owned subsidiary of Hutchin Hill Diversified Alpha Master Fund Ltd. (the “**Diversified Alpha Master Fund**”), a fund managed by Hutchin Hill Capital, LP. The Diversified Alpha Master Fund, through Hutchin Hill and other wholly-owned subsidiaries, invests in a wide range of liquid instruments, including, but not limited to, equities, credit instruments, derivatives, rates instruments, among others, in jurisdictions

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throughout the world, including North America, Asia, and Europe. The Diversified Alpha Master Fund began in July 2008 and currently has approximately US\$3.5 billion of assets under management.

Hwabao Trust Co., Ltd. (“Hwabao Trust”)

Hwabao Trust was incorporated in the PRC in 1998. It is a 98%-owned subsidiary of Shanghai Baosteel Group Corporation, a company listed on the Shanghai Stock Exchange (stock code: 600019). Hwabao Trust is principally engaged in asset management and wealth management.

Funds managed and advised by Maso Capital Partners Limited (collectively, the “Maso Funds”)

Founded in 2012, Maso Capital Partners Limited (“**Maso Capital**”) is a SFC licensed asset manager based in Hong Kong. Maso Capital manages and advises a number of Asia-focused multi-asset class investment funds.

New China Asset Management (Hong Kong) Limited (“NCAMHK”)

NCAMHK was established and jointly held by New China Asset Management Co., Ltd. (“**NCAM**”) and New China Life Insurance Company Ltd. (“**NCL**”) as to 60% and 40%, respectively. NCAMHK is the offshore asset allocation and investment platform of NCL.

NCL is the third largest nationwide life insurance company in the PRC. Controlled by Central Huijin Investment Ltd., other major shareholders of NCL are Baosteel Group Corp. Ltd. and the Swiss Re Group, with a total asset value of more than RMB600 billion. NCL was dual-listed on the Stock Exchange and the Shanghai Stock Exchange in December 2011 (stock code: HK.1336; SH.601336).

NCAM was established in July 2006 as a dedicated asset management firm, and over 97% of its shares are controlled by NCL. NCAM’s business scope includes management of proprietary and insurance funds, discretionary mandates, consulting services related to asset management business, and management of other assets permitted by laws and regulations.

Nine Masts Alpha Opportunities Master Fund and Nine Masts Investment Fund (collectively, the “Nine Masts Funds”)

The Nine Masts Funds are investment funds managed by Nine Masts Capital, which is a Hong Kong-based investment manager established in 2010. Using a bottom-up approach, Nine Masts Capital invests across the capital structure of public listed companies, with a focus in Asia.

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Certain affiliated investment funds of Och-Ziff Capital Management Group LLC (collectively, the “OZ Funds”)

The investment manager of each of the OZ Funds is either OZ Management LP or OZ Management II LP, affiliates of Och-Ziff Capital Management Group LLC. Och-Ziff Capital Management Group LLC is one of the largest institutional alternative asset managers in the world with approximately US\$47.3 billion in assets under management as of 1 April 2015.

Ping An of China Asset Management (Hong Kong) Company Limited (“PAAMC HK”)

PAAMC HK was established in May 2006 and is a leading Chinese asset management company based in Hong Kong. It is a wholly-owned subsidiary of the Ping An Insurance (Group) Company of China, Ltd. (“**Ping An Group**”, stock code: 2318), and is the major entity responsible for its overseas investment management business. PAAMC HK is licensed by the SFC to manage assets and give investment advice on securities, holding Type 9 and Type 4 licenses respectively. PAAMC HK accepts investment mandates from a diverse group of private and institutional clients, including other subsidiaries of the Ping An Group as well as external clients. It also manages ETFs listed on the Stock Exchange and unit trusts for the retail market. In addition, it provides QDII and Qualified Foreign Institutional Investor (QFII)/RMB Qualified Foreign Institutional Investor (RQFII) advisory services to institutions.

Quantum Partners LP (“Quantum Partners”)

Quantum Partners is a private investment vehicle managed by Soros Fund Management LLC exclusively for the benefit of Soros family clients.

Senrigan Master Fund

The Senrigan Master Fund is managed by Senrigan Capital Management Limited (“**Senrigan**”). The firm was founded in 2009 to focus on event-driven strategies in the Asia-Pacific region. Senrigan manages funds on behalf of a broad range of global and Asia-based investors including endowments, financial institutions, sovereign wealth funds and pension funds.

Sunshine Life Insurance Corporation Limited (“Sunshine Life”)

Sunshine Life is a company incorporated in the PRC in 2007 and is a nationwide life insurance company specialized in providing comprehensive life insurance products. Sunshine Life is a subsidiary of Sunshine Insurance Group Corporation Limited. Sunshine Insurance Group Corporation Limited is principally engaged in providing a wide range of insurance products and services through its major subsidiaries such as Sunshine Life, Sunshine Property & Casualty Insurance Co., Ltd. and Sunshine Asset Management Co., Ltd.

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Swift Mind Investments Limited (“Swift Mind”)

Swift Mind is a wholly-owned subsidiary of Shandong Peninsula Ocean Blue Economic Investment Company Limited (“**Shandong Peninsula**”). Shandong Peninsula is an exempted company incorporated in the Cayman Islands with limited liability in 2010. The principal investment objective of Shandong Peninsula is to achieve long-term capital appreciation by primarily investing globally in both private and public enterprises that have demonstrated the ability to conduct business that is supported by the economies of the Greater China region.

Trafalgar Capital Management (HK) Limited (“Trafalgar”)

Trafalgar was established as an equity-focused alternative asset management firm in London in 2001. Since 2007, Trafalgar has had an affiliate office in Auckland and since 2010 an office in Hong Kong to focus on investments in Asia, Australia and Japan. Trafalgar is regulated by the SFC in Hong Kong, the Financial Conduct Authority in the United Kingdom and the Financial Markets Authority in New Zealand. Trafalgar is also a member of the Alternative Investment Management Association.

Value Partners Hong Kong Limited (“Value Partners HK”)

Value Partners HK (together with other subsidiaries under Value Partners Group Limited, “**Value Partners**”), was established in 1999. It acts as investment manager or investment advisor to certain investment funds. It is a wholly-owned subsidiary of Value Partners Group Limited, a company listed on the Stock Exchange (stock code: 806). Value Partners is one of Asia’s largest independent asset management firms headquartered in Hong Kong. Value Partners manages absolute return long-biased funds, long-short hedge funds, exchange-traded funds, quantitative funds, as well as fixed income products for institutional and individual clients in Asia Pacific, Europe and the United States.

Vigour Star Global Limited (“Vigour Star”)

Vigour Star is an investment holding company incorporated in the British Virgin Islands and wholly owned by China Harvest Fund III, L.P., which is a private investment fund incorporated in the Cayman Islands focusing on investing in businesses operating in Greater China. The partners of China Harvest Fund III, L.P. include institutional investors, wealthy individuals and their family offices.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, each of the Investors (i) is a third party independent of the Company and its connected persons; (ii) is not and will not as a result of the Investors Subscriptions become a connected person of the Company; and (iii) is not acting in concert with any connected persons in relation to the control of the Company.

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THE ISSUE PRICE

The Issue Price of HK\$4.68 per Share represents:

- (i) a discount of approximately 21.34% to/over the closing price of HK\$5.95 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 2.09% to the closing price of HK\$4.78 per Share as quoted on the Stock Exchange on 17 March 2015, being the last trading day on which the Shares were traded on the Stock Exchange prior to the date of the Subscription Agreements and the Investors Subscription Agreements (other than the City-Scape Subscription Agreement) (the “**Last Trading Day**”);
- (iii) a discount of approximately 22.64% to the closing price of HK\$6.05 per Share as quoted on the Stock Exchange on 14 April 2015, being the last trading date on which the Shares were traded on the Stock Exchange prior to the date of the City-Scape Subscription Agreement;
- (iv) a discount of approximately 2.30% to the average of the closing prices per Share as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Day of HK\$4.79;
- (v) a discount of 2.50% to the average of the closing prices per Share as quoted on the Stock Exchange for the last 30 consecutive full trading days up to and including the Last Trading Day of approximately HK\$4.80; and
- (vi) a premium of approximately 198.1% over the audited consolidated net asset value per Share of the Group attributable to the Shareholders as at 31 December 2014 of approximately HK\$1.57 (based on the audited consolidated net asset value of the Group attributable to the Shareholders as at 31 December 2014 of approximately RMB3,183,756,000 (equivalent to approximately HK\$3,979.7 million) and 2,533,899,186 Shares in issue as at the Latest Practicable Date).

The Issue Price for the Placing was determined after arm’s length negotiations among the Company and the Placing Agents with reference to, among other things, the recent market price of the Shares and the audited consolidated net asset value per Share of the Group attributable to the Shareholders as at 31 December 2014 of approximately HK\$1.57. After the Issue Price for the Placing was fixed, the Issue Price for the Sinopharm Subscription, the Yang Subscription and the Wang Subscription were determined at the same price as the Issue Price for the Placing. Based on the above, the Directors consider that the Issue Price is fair and reasonable.

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SHAREHOLDING STRUCTURE OF THE COMPANY

The table below illustrates the shareholding structures of the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Subscriptions and the Placing (assuming the Placing Specific Mandate has been fully utilised); and (iii) upon the issue of the Sinopharm Shares (assuming the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion):

	(i) As at the Latest Practicable Date		(ii) Immediately after completion of the Subscriptions and the Placing		(iii) upon the issue of the Sinopharm Shares (assuming the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion) (Note 4)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Sinopharm	1,016,023,044	40.10	1,614,313,642	37.65	1,103,092,928	42.09
Mr. Yang and Profit Channel (Note 1)	334,000,000	13.18	376,735,042	8.79	334,000,000	12.74
Mr. Wang and Hanmax (Note 2)	334,000,000	13.18	376,735,042	8.79	334,000,000	12.74
Sub-total	1,684,023,044	66.46	2,367,783,726	55.23	1,771,092,928	67.57
The Investors (Note 3)	53,514,000	2.11	1,123,476,000	26.20	53,514,000	2.04
Other public Shareholders	796,362,142	31.43	796,362,142	18.57	796,362,142	30.39
Total	2,533,899,186	100.00	4,287,621,868	100.00	2,620,969,070	100.00

Notes:

- Profit Channel is wholly owned by Mr. Yang who is an executive Director and the managing director of the Company.
- Hanmax is wholly owned by Mr. Wang who is an executive Director.
- To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the respective dates of the Investors Subscription Agreements, the Investors and their respective associates held in aggregate 53,514,000 Shares. As the Investors are not and will not as a result of the Placing become connected persons of the Company, they are regarded as public Shareholders.
- In the event that the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion, only 87,069,884 Sinopharm Shares will be issued to Sinopharm pursuant to the Sinopharm Subscription Agreement, such that Sinopharm's shareholding in the Company would not increase by 2% or more from its lowest percentage shareholding in the Company during the preceding 12-month period which would otherwise trigger an obligation to make a mandatory general offer for all the other securities of the Company pursuant to Rule 26 of the Takeovers Code. The unissued Sinopharm Shares will be issued by the Company to Sinopharm in one or multiple subsequent tranches at the earliest time when such issues will not result in Sinopharm triggering a

LETTER FROM THE BOARD

mandatory general offer obligation under Rule 26 of the Takeovers Code, but in any event no later than the date falling one month after the passing of the resolution of the Independent Shareholders approving the Sinopharm Subscription.

RESTRICTION ON FURTHER ISSUE OF SHARES

Save for the Sinopharm Subscription, the Yang Subscription, the Wang Subscription, the Investors Subscriptions and the subscription agreements to be entered into between the Company and the trustees designated by Mr. Tan Dengping and Ms. Zhou Jialin (details of which are disclosed in the Acquisition Announcements), the Company has undertaken to each of the Placing Agents that for a period of six months from 28 March 2015 (being the date of the engagement letter with the Placing Agents), the Company will not allot or offer or enter into any agreement to allot or issue or grant or enter into any agreement to grant any option, right to subscribe any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable to any Shares or interest in Share.

The purpose of the above undertaking is to limit the potential dilution on the shareholdings of the existing Shareholders as a result of any further issue of new Shares. Based on the foregoing and considering that there will not be any needs for fund raising in the short run if the Subscriptions and the Investors Subscriptions proceed to completion, the Directors are of the view that the undertaking is in the interests of the Company and the Shareholders as a whole.

EQUITY FUND RAISING ACTIVITIES OVER THE PAST 12 MONTHS

The Company has not conducted any equity fund raising activities in the 12 months immediately preceding the date of the initial Subscription Announcement dated 30 March 2015.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTIONS AND THE PLACING

The principal business activities of the Group are the manufacture and sale of TCM and pharmaceutical products in the PRC with a focus on respiratory system drugs, nasal preparations, cerebro-cardiovascular drugs, rheumatic diseases and bone injury drugs, and orthopaedic drugs.

As disclosed in the Acquisition Announcements, the Company entered into a number of agreements to acquire an aggregate of approximately 87.30% of the registered capital of the Target Company for a total consideration in the range of RMB8,192.7 million (equivalent to approximately HK\$10.2 billion) to RMB8,946.0 million (equivalent to approximately HK\$11.2 billion). The Target Company and its subsidiaries are principally engaged in the manufacture and sale of concentrated TCM granules. The Target Company and one of its subsidiaries are two of the six enterprises approved by the China Food and Drugs Administration to manufacture concentrated TCM granules in the PRC, and together they have a market share of over 50% in terms of revenue in 2013 in the PRC. The Directors believe that the Acquisition allows the Group to gain access to the concentrated TCM granules market in the PRC and take advantage of the expected industry growth. Please refer to the Acquisition Announcements for further details of the Acquisition.

LETTER FROM THE BOARD

The gross proceeds from the Sinopharm Subscription will be HK\$2,800 million. Taking into account the estimated expenses incidental to the Sinopharm Subscription of approximately HK\$1.6 million, the net proceeds from the Sinopharm Subscription will be approximately HK\$2,798.4 million. Accordingly, the net price per Sinopharm Share will be approximately HK\$4.677.

The gross proceeds from the Yang Subscription will be HK\$200 million. Taking into account the estimated expenses incidental to the Yang Subscription of approximately HK\$0.2 million, the net proceeds from the Yang Subscription will be approximately HK\$199.8 million. Accordingly, the net price per Yang Share will be approximately HK\$4.676.

The gross proceeds from the Wang Subscription will be HK\$200 million. Taking into account the estimated expenses incidental to the Wang Subscription of approximately HK\$0.2 million, the net proceeds from the Wang Subscription will be approximately HK\$199.8 million. Accordingly, the net price per Wang Share will be approximately HK\$4.676.

Assuming that the maximum number of 1,069,962,000 Placing Shares will be issued at the Issue Price of HK\$4.68 per Placing Share, the gross proceeds from the Placing will be approximately HK\$5,007.4 million. Taking into account the estimated expenses incidental to the Placing of approximately HK\$44.3 million, the net proceeds from the Placing will be approximately HK\$4,963.1 million. Accordingly, the net price per Placing Share will be approximately HK\$4.639.

The gross proceeds from the Investors Subscriptions will be approximately HK\$5,000.0 million. Taking into account the estimated expenses incidental to the Investors Subscriptions of approximately HK\$44.2 million, the net proceeds from the Investors Subscriptions will be approximately HK\$4,955.8 million. Accordingly, the net price per Investors Share will be approximately HK\$4.639.

The Company intends to apply the proceeds from the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing (including the Investors Subscriptions) to finance part of the consideration for the Acquisition. The Company intends to finance the remaining balance as to (i) approximately HK\$0.8 billion through the subscriptions of new Shares by the trustees designated by Mr. Tan Dengping and Ms. Zhou Jialin; (ii) approximately HK\$0.7 billion of deposit paid by the internal resources of the Company; and (iii) approximately HK\$1.5 billion through bank borrowings. The Company has been in discussions with two banks on the terms of the bank loans and expects that the terms of the bank loans will be finalised before completion of the Acquisition.

Although the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing are not part of the Group's ordinary and usual course of business, the Directors believe that the Subscriptions and the Placing (including the Investors Subscriptions) will allow the Company to raise the necessary funds to finance part of the consideration for the Acquisition and the Placing (including the Investors Subscriptions) will broaden the Shareholders base and enhance the profile of the Company given that the Investors comprise professional and international institutional Investors, and increase the trading liquidity of the Shares. In the event that the Acquisition is not completed, the

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Company intends to apply such proceeds to fund other potential investments in the TCM industry. The Directors are positive about the growth and prospects of the TCM industry in the PRC and consider it more efficient and effective to grow the business of the Group by way of acquisitions. The Directors have been reviewing potential investment opportunities for the Group from time to time, in particular, companies which are engaged in the TCM industry in the PRC. In assessing potential investment opportunities, the Directors will take into consideration, among other things, types of products, scale of operation, brand and market position, geographical coverage, size of the investment and potential synergistic effect with the Group. The focus of the Group would be on medium-sized targets with an investment size of about RMB2 billion each which are able to contribute immediate earnings and broaden the product offering of the Group. It is therefore in the interests of the Company to capture suitable equity market opportunity to raise capital through the Subscriptions and the Placing in a cost efficient manner without imposing any interest burden or finance cost to the Group and build up its war chest for future investments and acquisitions in the TCM industry to increase value for its Shareholders. Apart from the Target Company, the Company has not identified and is not in negotiation with any specific investment or acquisition target as at the Latest Practicable Date. The Company has also considered using part of the proceeds from the Subscriptions and the Placing to repay certain bank loans which amounted to approximately RMB1.2 billion in order to enhance the financial position of the Company in the event that the Acquisition is not completed.

The Company has considered and compared feasibilities of other financing methods such as debt financing, rights issue and open offer. As mentioned above, the Company intends to finance part of the consideration for the Acquisition with a bank loan in the amount of approximately HK\$1.5 billion. The Directors are of the view that too much debt financing would increase the interest burden and have adverse impact on the gearing level of the Group. Considering the size of the fund raising exercise and the market commission rate ranging from 1% to 3% for underwriting a rights issue or open offer, the Directors believe that it would be difficult for the Company to identify an independent underwriter in Hong Kong to underwrite a rights issue or an open offer of the Company with a reasonable underwriting fee which is comparable to the placing commission rate of 0.8% offered by the Placing Agents. Moreover, rights issue and open offer normally take a longer period of time than the Subscriptions and the Placing to complete as it would involve numerous steps which usually take about two to three months and higher documentation preparation costs. Furthermore, in order to take up its entitlements in a rights issue or an open offer, Sinopharm (the controlling Shareholder) will be subject to stringent approval from the relevant PRC government authority if it were to underwrite such rights issue or open offer which will present higher uncertainties as such approval is not required for the Sinopharm Subscription Agreement. As such, the Directors have decided not to conduct a pre-emptive fund raising exercise and therefore have not approached any underwriter in relation to rights issue or an open offer, and are of the view that the Subscriptions and the Placing are the appropriate means of fund raising.

As set out in the table illustrating the shareholding structure of the Company above, immediately after completion of the Subscriptions and the Placing (assuming the Placing Specific Mandate has been fully utilised), the existing shareholdings of the public Shareholders (other than the Investors) will be decreased from approximately 31.43% to 18.57%, representing a dilution impact of approximately 40.92%.

LETTER FROM THE BOARD

Having considered (i) the reasons for and benefits of the Subscriptions and the Placing as discussed above; (ii) the size of the funding requirements for the Acquisition; and (iii) the continuing support from Sinopharm (as the controlling Shareholder), Mr. Yang and Mr. Wang can build up investors' confidence in the Group, the Directors consider the dilution impact on the shareholdings of the public Shareholders resulting from the proposed fund raising exercise is acceptable. Although the Independent Shareholders will not participate in the Subscriptions and the Placing, they are entitled to vote on each of the resolutions approving the Subscriptions and the Placing Specific Mandate. Moreover, Sinopharm and its associates shall abstain from voting at the EGM in respect of the resolutions approving the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing Specific Mandate. Mr. Yang and his associates shall abstain from voting at the EGM in respect of the resolution approving the Yang Subscription. Mr. Wang and his associates shall abstain from voting at the EGM in respect of the resolution approving the Wang Subscription. As such, the Directors are of the view that all Shareholders have been treated fairly. Accordingly, the Directors are of the view that the terms of the Subscription Agreements and the Placing Specific Mandate (including the Investors Subscription Agreements) are fair and reasonable and the Subscriptions and the Placing (including the Investors Subscriptions) are in the interests of the Company and the Shareholders as a whole.

RE-ELECTION OF DIRECTORS

According to Articles 92 of the Articles of Association, the Directors have the power from time to time, and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next annual general meeting of the Company (in case of an addition to the existing Board), and shall then be eligible for re-election.

Accordingly, Mr. Zhang Jianhui ("**Mr. Zhang**") and Mr. Lo Wing Yat ("**Mr. Lo**") who, being a non-executive Director and an independent non-executive Director respectively, were appointed by the Board to fill a casual vacancy during the year shall hold office until the EGM. Mr. Zhang and Mr. Lo, being eligible, will offer themselves for re-election at the EGM.

Biographical details of Mr. Zhang and Mr. Lo are set out in the Appendix I to this circular.

LISTING RULES IMPLICATIONS

Sinopharm is the controlling Shareholder. Accordingly, Sinopharm is a connected person of the Company and the Sinopharm Subscription constitutes a connected transaction of the Company under the Listing Rules which is subject to the Independent Shareholders' approval requirements under the Listing Rules.

LETTER FROM THE BOARD

Mr. Yang is a Director and Profit Channel, a company wholly owned by Mr. Yang, is a substantial Shareholder. Accordingly, Mr. Yang is a connected person of the Company and the Yang Subscription constitutes a connected transaction of the Company under the Listing Rules which is subject to the Independent Shareholders' approval requirements under the Listing Rules.

Mr. Wang is a Director and Hanmax, a company wholly owned by Mr. Wang, is a substantial Shareholder. Accordingly, Mr. Wang is a connected person of the Company and the Wang Subscription constitutes a connected transaction of the Company under the Listing Rules which is subject to the Independent Shareholders' approval requirements under the Listing Rules.

The Investors Shares will be issued under the Placing Specific Mandate. The Placing Specific Mandate will be subject to Independent Shareholders' approval requirements of the Listing Rules.

The EGM will be convened by the Company at which ordinary resolutions will be proposed to seek approval from the Independent Shareholders by way of poll for the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing Specific Mandate.

Sinopharm and its associates shall abstain from voting at the EGM in respect of the resolutions approving the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing Specific Mandate. As at the Latest Practicable Date, Sinopharm and its associates are interested in 1,016,023,044 Shares, representing approximately 40.10% of the issued share capital of the Company. Mr. Yang and his associates shall abstain from voting at the EGM in respect of the resolution approving the Yang Subscription. As at the Latest Practicable Date, Mr. Yang and his associates are interested in 334,000,000 Shares, representing approximately 13.18% of the issued share capital of the Company. Mr. Wang and his associates shall abstain from voting at the EGM in respect of the resolution approving the Wang Subscription. As at the Latest Practicable Date, Mr. Wang and his associates are interested in 334,000,000 Shares, representing approximately 13.18% of the issued share capital of the Company. The Investors and their respective associates shall abstain from voting at the EGM in respect of the resolution approving the Placing Specific Mandate. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the respective dates of the Investors Subscription Agreements, the Investors and their respective associates held in aggregate 53,514,000 Shares, representing approximately 2.11% of the issued share capital of the Company.

Mr. Wu Xian (an executive Director and the chairman of the Company), Mr. Liu Cunzhou, Mr. Zhang Jianhui, Mr. Dong Zenghe and Mr. Zhao Dongji (all being non-executive Directors) are deemed to have an interest in the Sinopharm Subscription as they are Directors appointed by Sinopharm. Mr. Yu Tze Shan Hailson, an independent non-executive Director, is also deemed to have an interest in the Sinopharm Subscription as he is also an independent non-executive director of Sinopharm Group Co. Ltd. (a subsidiary of CNPGC). All of the above Directors have abstained from voting on the Board resolution approving the Sinopharm Subscription.

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Mr. Yang, who has a material interest in the Yang Subscription, has abstained from voting on the Board resolution approving the Yang Subscription.

Mr. Wang, who has a material interest in the Wang Subscription, has abstained from voting on the Board resolution approving the Wang Subscription.

The Sinopharm Subscription IBC has been established to advise the Independent Shareholders on the Sinopharm Subscription. The Sinopharm Subscription IBC comprises all independent non-executive Directors (except Mr. Yu Tze Shan Hailson who is deemed to have a material interest in the Sinopharm Subscription as he is also an independent non-executive director of Sinopharm Group Co. Ltd. (a subsidiary of CNPGC)), namely Mr. Lo Wing Yat, Mr. Zhou Bajun and Mr. Xie Rong. The Directors Subscription IBC has been established to advise the Independent Shareholders on the Yang Subscription and the Wang Subscription. The Directors Subscription IBC comprises all independent non-executive Directors, namely Mr. Yu Tze Shan Hailson, Mr. Lo Wing Yat, Mr. Zhou Bajun and Mr. Xie Rong. Guotai Junan has been appointed by the Company to advise the Sinopharm Subscription IBC, the Directors Subscription IBC and the Independent Shareholders regarding the Subscriptions.

EGM

A notice convening the EGM to be held at Conference Room, 4th Floor, No. 1 Keyuan Heng 4 Road, Gaoli Hi-Tech Park, Ronggui, Shunde District, Foshan City, Guangdong Province, China on Thursday, 7 May 2015 at 2:30 p.m. is set out on pages EGM-1 and EGM-4 of this circular. A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the registered office of the Company at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it, if you so wish.

RECOMMENDATION

The Directors are of the view that although the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing are not in the ordinary and usual course of business of the Group, the terms of the Sinopharm Subscription Agreement, the Yang Subscription Agreement, the Wang Subscription Agreement and the Placing Specific Mandate are fair and reasonable and on normal commercial terms, and the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions approving the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing Specific Mandate to be proposed at the EGM.

LETTER FROM THE BOARD

The Sinopharm Subscription IBC and the Directors Subscription IBC, having taken into account the advice of Guotai Junan, consider that although the Sinopharm Subscription, the Yang Subscription and the Wang Subscription are not in the ordinary and usual course of business of the Group, the terms of the Sinopharm Subscription Agreement, the Yang Subscription Agreement and the Wang Subscription Agreement are fair and reasonable and on normal commercial terms, and the Sinopharm Subscription, the Yang Subscription and the Wang Subscription are in the interests of the Company and the Shareholders as a whole. Accordingly, the Sinopharm Subscription IBC and the Directors Subscription IBC recommend the Independent Shareholders to vote in favour of the resolutions approving the Sinopharm Subscription, the Yang Subscription and the Wang Subscription to be proposed at the EGM.

Your attention is drawn to the letters from the Sinopharm Subscription IBC and the Directors Subscription IBC set out on pages 37 and 38 of this circular which contain their recommendation to the Independent Shareholders and the letter of advice from Guotai Junan set out on pages 39 to 64 of this circular containing its advice to the Sinopharm Subscription IBC and the Directors Subscription IBC and the Independent Shareholders on the Sinopharm Subscription, the Yang Subscription and the Wang Subscription.

Taking into consideration of the qualification, experience and character of each of the retiring Directors, the Directors are of the view that the re-election of Directors is in the interests of the Company and the Shareholders as a whole, and accordingly recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM for the re-election of the retiring Directors as Directors.

By order of the Board
China Traditional Chinese Medicine Co. Limited
Wu Xian
Chairman

LETTER FROM THE SINOPHARM SUBSCRIPTION IBC



CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED 中國中藥有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 570)

21 April 2015

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY SINOPHARM UNDER SPECIFIC MANDATE

We have been appointed as the Sinopharm Subscription IBC to advise the Independent Shareholders in respect of the Sinopharm Subscription, details of which are set out in the letter from the Board contained in the circular of the Company (the “Circular”) dated 21 April 2015. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We wish to draw your attention to the letter from the Board on pages 6 to 36 of the Circular and the letter from Guotai Junan to the Sinopharm Subscription IBC and the Independent Shareholders containing its advice on the Sinopharm Subscription on pages 39 to 64 of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by Guotai Junan in relation to the Sinopharm Subscription as stated in its letter, we consider that although the Sinopharm Subscription is not in the ordinary and usual course of business of the Group, the terms of the Sinopharm Subscription Agreement are fair and reasonable and on normal commercial terms, and the Sinopharm Subscription is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Sinopharm Subscription.

Yours faithfully,

For and on behalf of

The Sinopharm Subscription IBC

ZHOU Bajun

XIE Rong

LO Wing Yat

Independent Non-executive Director

LETTER FROM THE DIRECTORS SUBSCRIPTION IBC



CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED 中國中藥有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 570)

21 April 2015

To the Independent Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES BY MR. YANG AND MR. WANG UNDER SPECIFIC MANDATE

We have been appointed as the Directors Subscription IBC to advise the Independent Shareholders in respect of the Yang Subscription and the Wang Subscription, details of which are set out in the letter from the Board contained in the circular of the Company (the “Circular”) dated 21 April 2015. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

We wish to draw your attention to the letter from the Board on pages 6 to 36 of the Circular and the letter from Guotai Junan to the Directors Subscription IBC and the Independent Shareholders containing its advice on the Yang Subscription and the Wang Subscription on pages 39 to 64 of the Circular.

Having taken into account the advice of, and the principal factors and reasons considered by Guotai Junan in relation to the Yang Subscription and the Wang Subscription as stated in its letter, we consider that although the Yang Subscription and the Wang Subscription are not in the ordinary and usual course of business of the Group, the terms of the Yang Subscription Agreement and the Wang Subscription Agreement are fair and reasonable and on normal commercial terms, and the Yang Subscription and the Wang Subscription are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Yang Subscription and the Wang Subscription.

Yours faithfully,
For and on behalf of

The Directors Subscription IBC

ZHOU Bajun

XIE Rong

YU Tze Shan Hailson

LO Wing Yat

Independent Non-executive Director

LETTER FROM GUOTAI JUNAN

The following is the letter of advice to the Sinopharm Subscription IBC, the Directors IBC and the Independent Shareholders from Guotai Junan for the purpose of inclusion into this circular.



Guotai Junan Capital Limited

27/F., Low Block,
Grand Millennium Plaza,
181 Queen's Road Central,
Hong Kong

21 April 2015

*To the Sinopharm Subscription IBC,
the Directors Subscription IBC,
and the Independent Shareholders,*

Dear Sirs,

CONNECTED TRANSACTIONS IN RELATION TO SUBSCRIPTION OF NEW SHARES BY SINOPHARM, MR. YANG AND MR. WANG UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Sinopharm Subscription IBC, the Directors Subscription IBC and the Independent Shareholders in respect of the Sinopharm Subscription, the Yang Subscription and the Wang Subscription, 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 21 April 2015 (the "**Circular**") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Board announced that the Company entered into the following transactions on 22 March 2015:

- (i) the Company and Sinopharm, the controlling Shareholder, entered into the Sinopharm Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue, and Sinopharm has conditionally agreed to subscribe for, 598,290,598 Sinopharm Shares at the total subscription price of HK\$2,800,000,000, equivalent to the Issue Price of HK\$4.68 per Sinopharm Share;
- (ii) the Company and Mr. Yang, an executive Director and the managing director of the Company, entered into the Yang Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Yang has conditionally agreed to subscribe for, 42,735,042 Yang Shares at the total subscription price of HK\$200,000,000, equivalent to the Issue Price of HK\$4.68 per Yang Share; and

LETTER FROM GUOTAI JUNAN

- (iii) the Company and Mr. Wang, an executive Director, entered into the Wang Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue, and Mr. Wang has conditionally agreed to subscribe for, 42,735,042 Wang Shares at the total subscription price of HK\$200,000,000, equivalent to the Issue Price of HK\$4.68 per Wang Share.

The Sinopharm Shares, the Yang Shares and the Wang Shares will be issued under a specific mandate to be sought for approval by the Independent Shareholders at the EGM.

As at the Latest Practicable Date, Sinopharm and its associates are interested in 1,016,023,044 Shares, representing approximately 40.10% of the issued share capital of the Company. Accordingly, Sinopharm is the controlling Shareholder and a connected person of the Company and the Sinopharm Subscription constitutes a connected transaction of the Company under the Listing Rules which is subject to the Independent Shareholders' approval requirements of the Listing Rules at the EGM by way of poll. Sinopharm and its associates shall abstain from voting at the EGM in respect of the resolution approving the Sinopharm Subscription, the Yang Subscription, the Wang Subscription and the Placing Specific Mandate.

As at the Latest Practicable Date, Mr. Yang is a executive Director and managing director and Profit Channel, a company wholly owned by Mr. Yang, is a substantial Shareholder. Mr. Yang and his associates are interested in 334,000,000 Shares, representing approximately 13.18% of the issued share capital of the Company. Accordingly, Mr. Yang is a connected person of the Company and the Yang Subscription constitutes a connected transaction of the Company under the Listing Rules which is subject to the Independent Shareholders' approval requirements of the Listing Rules at the EGM by way of poll. Mr. Yang and his associates shall abstain from voting at the EGM in respect of the resolution approving the Yang Subscription.

As at the Latest Practicable Date, Mr. Wang is a executive Director and Hanmax, a company wholly owned by Mr. Wang, is a substantial Shareholder. Mr. Wang and his associates are interested in 334,000,000 Shares, representing approximately 13.18% of the issued share capital of the Company. Accordingly, Mr. Wang is a connected person of the Company and the Wang Subscription constitutes a connected transaction of the Company under the Listing Rules which is subject to the Independent Shareholders' approval requirements of the Listing Rules at the EGM by way of poll. Mr. Wang and his associates shall abstain from voting at the EGM in respect of the resolution approving the Wang Subscription.

The Sinopharm Subscription IBC has been established to advise the Independent Shareholders on the Sinopharm Subscription. The Sinopharm Subscription IBC comprises all independent non-executive Directors (except Mr. Yu Tze Shan Hailson who is deemed to have a material interest in the Sinopharm Subscription as he is also an independent non-executive director of Sinopharm Group Co. Ltd. (a subsidiary of CNPGC)), namely Mr. Lo Wing Yat, Mr. Zhou Bajun and Mr. Xie Rong. The Directors Subscription IBC has been established to advise the Independent Shareholders on the Yang Subscription and the Wang Subscription. The Directors Subscription IBC comprises all independent non-executive Directors, namely Mr. Yu Tze Shan Hailson, Mr. Lo Wing Yat, Mr. Zhou Bajun and Mr. Xie Rong.

LETTER FROM GUOTAI JUNAN

BASIS OF OUR OPINION

In formulating our opinions and recommendations to the Sinopharm Subscription IBC, the Directors Subscription IBC and the Independent Shareholders, we consider that we have reviewed sufficient relevant information and documents and have taken necessary steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our opinions and recommendations. We have assumed that all information, statements, opinions and representations contained or referred to in the Circular and all information and representations which have been provided by the Directors (or otherwise provided to us by the Directors and the management of the Group), for which they are solely and wholly responsible for, are true and accurate in all respects at the time when they were made and up to the Latest Practicable Date. We have also assumed that all statements of belief, opinions and intention of the Directors in the Circular (or otherwise provided to us by the Directors and the management of the Group) were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been withheld or omitted from the information provided and referred to in the Circular.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (or otherwise provided to us by the Directors and the management of the Group) and have confirmed, having made all reasonable enquiries, that to the best of their knowledge, that no material facts which would make any statement in the Circular misleading have been omitted from the information supplied in the Circular and opinions expressed in the Circular (or otherwise provided to us by the Directors and the management of the Group) have been arrived at after due and careful consideration. Our review and analysis were based upon, among others, the information provided by the Company including the annual results of the Company for the year ended 31 December 2014 (the “**2014 Annual Results**”), annual reports of the Company for each of the financial years ended 31 December 2013 (the “**2013 Annual Report**”) and 31 December 2012 (the “**2012 Annual Report**”), the Circular and certain published information of the Group.

We have relied on such information and opinions and have not, however, conducted any independent verification or audit of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect. Our opinion was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us as at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations to the Sinopharm Subscription IBC, the Directors Subscription IBC and the Independent Shareholders with regard to the Sinopharm Subscription, the Yang Subscription and the Wang Subscription, we have taken into consideration the following factors and reasons:

LETTER FROM GUOTAI JUNAN

i. Business and financial information of the Company

The Company is an investment holding company incorporated in Hong Kong with limited liability and through its subsidiaries is principally engaged in research and development, production and sale of Chinese medicine and pharmaceutical products in the PRC.

The Group is an integrated pharmaceutical corporation engaged in the manufacture and sale of traditional Chinese medicine (“TCM”) and pharmaceutical products in the PRC with a focus on respiratory system drugs, nasal preparations, cerebro-cardiovascular drugs, rheumatic diseases and bone injury drugs, and orthopaedic drugs. It is a major TCM manufacturer of CNPGC. The Group also operates a number of well-known TCM brands (e.g. Tongjitang, Dezhong, Foshan and Fengliaoqing). According to the 2014 Annual Results, the Group has a total of 332 products and 526 product specifications, 63 of which are national exclusive products. Furthermore, the Group has 58 products listed on the 2012 edition of EDL, 7 of which are exclusive products and has over 200 products being listed on National Drugs List for Basic Medical Insurance, 26 of which are exclusive products.

A summary of the financial information of the Group are set out below as extracted from the 2014 Annual Results, the 2013 Annual Report and the 2012 Annual Report.

	For the year ended 31 December		
	2014	2013	2012
	(Audited)	(Audited)	(Audited)
	RMB'000	RMB'000	RMB'000
Turnover	<u>2,690,173</u>	<u>1,394,613</u>	<u>1,031,766</u>
Gross profit	1,654,323	825,779	564,013
Gross profit margin	61.50%	59.21%	54.66%
Profit for the year	411,546	199,357	173,017
Profit margin	<u>15.30%</u>	<u>14.29%</u>	<u>16.77%</u>
Profit for the year attributable to equity Shareholders	<u>413,090</u>	<u>198,463</u>	<u>168,526</u>

2013 compared to 2012

As stated in the 2013 Annual Report, the Group recorded an increase in turnover from approximately RMB1,031.77 million in the year 2012 to approximately RMB1,394.61 million in the year 2013 (representing an increase of approximately 35.17%). The increase in turnover was mainly attributable to the Group's optimisation of product mix and a new pricing policy being implemented to some products. The selling prices of the products concerned were increased, resulting in a growth of turnover. Moreover, the acquisition of Tongjitang Chinese Medicines Company and its subsidiaries (“Tongjitang”) in the year 2013 set a solid foundation for the business

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development of the Group which contributed to the increase in the turnover of the Group. The Group's gross profit margin increased from approximately 54.66% in 2012 to approximately 59.21% in 2013, resulting from the optimisation of product mix and the pricing policy mentioned above. Also, this successful implementation led to the increase in the profit for the year attributable to equity Shareholders from approximately RMB168.53 million in the year 2012 to approximately RMB198.46 million in the year 2013 (representing an increase of approximately 17.76%). However, the increase was partially offset by the increase in the selling and distribution costs from the expansion of sales force and increased promotion activities, and the increase in administrative expenses and financial costs from the higher level of borrowings related to the acquisition transaction of Tongjitang.

2014 compared to 2013

As stated in the 2014 Annual Results, the Group recorded an increase in turnover from approximately RMB1,394.61 million in the year 2013 to approximately RMB2,690.17 million in the year 2014 (representing an increase of approximately 92.90%). It was mainly attributable to the full year consolidation of the financial results of Tongjitang. In addition, synergy from the integration of the sales force facilitated the growth of turnover. The Group's gross profit margin increased from approximately 59.21% in 2013 to approximately 61.50% in 2014. The profit for the year attributable to equity Shareholders increased from approximately RMB198.46 million in the year 2013 to approximately RMB413.09 million in the year 2014 (representing an increase of approximately 108.15%). The increase was mainly due to the growth in turnover, as well as the implementation of effective operating cost control and improved efficiency by post-merger integration of Tongjitang, resulting in the decrease in administrative expenses as a percentage to turnover from 12.4% for the year 2013 to 8.9% for the year 2014.

Set out below is a summary of consolidated statement of financial position of the Group as at 31 December 2014, 2013 and 2012, as extracted from the annual results and annual reports of the Company of the relevant period respectively.

	As at 31 December		
	2014	2013	2012
	(Audited)	(Audited)	(Audited)
	RMB'000	RMB'000	RMB'000
Consolidated assets and liabilities			
Total non-current assets	3,237,374	3,288,320	739,729
Total current assets	2,094,478	1,778,150	814,491
Total current liabilities	(1,133,841)	(1,264,388)	(649,252)
Total non-current liabilities	(940,889)	(967,319)	(59,197)
Non-controlling interests	(73,366)	(74,910)	(17,317)
Total equity attributable to equity Shareholders	(3,183,756)	(2,759,853)	(828,454)

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As at 31 December 2014, the consolidated net asset value of the Group attributable to the equity Shareholders amounted to approximately RMB3,183.76 million, representing an increase of approximately 15.36% from RMB2,759.85 million as at 31 December 2013. As at 31 December 2014, total assets amounted to approximately RMB5,331.85 million. Non-current assets amounted to approximately RMB3,237.37 million as at 31 December 2014, primarily consisted of fixed assets and construction in progress of approximately RMB1,036.31 million (representing the production facilities of the Group); intangible assets of approximately RMB948.01 million (representing product protection rights, trademarks, distribution network and customer relationship); and goodwill of approximately RMB1,191.05 million (as arisen from various acquisitions of equity interests in a number of subsidiaries of the Group). Current assets, on the other hand, amounted to approximately RMB2,094.48 million as at 31 December 2014, primarily consisted of trade and other receivables of approximately RMB1,236.40 million; inventories of approximately RMB417.70 million; and cash and cash equivalent of approximately RMB439.42 million.

As at 31 December 2014, total liabilities amounted to approximately RMB2,074.73 million. Non-current liabilities comprised of deferred tax liabilities of approximately RMB245.02 million and bank loans of approximately RMB670.57 million. Current liabilities mainly consisted of trade and other payables of approximately RMB540.11 million and bank and other loans of approximately RMB501.65 million.

Equity fund raising activities over the past 12 months

The Company has not conducted any equity fund raising activities in the 12 months immediately preceding the date of the initial Subscription Announcement on 30 March 2015.

ii. Information on Sinopharm

According to the Letter from the Board, Sinopharm is a company incorporated in Hong Kong with limited liability and an indirect wholly owned subsidiary of CNPGC. CNPGC is principally engaged in the research and development, manufacturing, wholesale and retail of pharmaceutical products and biological products. Sinopharm is principally engaged in investment holding. As at the Latest Practicable Date, Sinopharm is the controlling Shareholder holding 1,016,023,044 Shares, representing approximately 40.10% of the issued share capital of the Company. Sinopharm is therefore a connected person of the Company.

iii. Information on Mr. Yang

According to the Letter from the Board, Mr. Yang is an executive Director and the managing director of the Company. As at the Latest Practicable Date, Profit Channel (a company wholly owned by Mr. Yang) holds 334,000,000 Shares, representing approximately 13.18% of the issued share capital of the Company. Accordingly, Profit Channel is a substantial Shareholder and Mr. Yang is a connected person of the Company under the Listing Rules.

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iv. Information on Mr. Wang

According to the Letter from the Board, Mr. Wang is an executive Director. As at the Latest Practicable Date, Hanmax (a company wholly owned by Mr. Wang) holds 334,000,000 Shares, representing approximately 13.18% of the issued share capital of the Company. Accordingly, Hanmax is a substantial Shareholder and Mr. Wang is a connected person of the Company under the Listing Rules.

v. Reasons for and benefits of the Subscriptions

As disclosed in the Letter from the Board, the principal business activities of the Group are the manufacture and sale of TCM and pharmaceutical products in the PRC with a focus on respiratory system drugs, nasal preparations, cerebro-cardiovascular drugs, rheumatic diseases and bone injury drugs, and orthopaedic drugs.

As disclosed in the Acquisition Announcements, the Company entered into a number of agreements to acquire an aggregate of approximately 87.30% of the registered capital of the Target Company for a total consideration in the range of RMB8,192.7 million (equivalent to approximately HK\$10.2 billion) to RMB8,946.0 million (equivalent to approximately HK\$11.2 billion). The Target Company and its subsidiaries (together, the “**Target Group**”) are principally engaged in the manufacture and sale of concentrated TCM granules. According to a third party research report, the market size of the concentrated TCM granules grew from approximately RMB228 million in 2006 to approximately RMB4,200 million in 2013, representing a compound annual growth rate of over 50% for the period from 2006 to 2013.

The Target Company and one of its subsidiaries are two of the six enterprises approved by the China Food and Drugs Administration to manufacture concentrated TCM granules in the PRC, and together they have a market share of over 50% in terms of revenue in 2013 in the PRC. The Directors believe that the Acquisition allows the Group to gain access to the concentrated TCM granules market in the PRC and take advantage of the expected industry growth. Since the Target Group’s commencement of the concentrated TCM granules business in 1992, the Target Group has accumulated valuable experience, knowledge, technology and expertise in the industry and possesses a well-established customer network, especially with over 5,000 hospitals in the PRC. As discussed with the management of the Company, the Group expects to realise synergies as a result of the Acquisition through among others, (i) the sharing of resources in overall management, research and development, raw materials and production, marketing, sales and distribution; (ii) the cross-selling benefits derived from the customer base of the Group and the Target Group; (iii) expanded management expertise; and (iv) additional negotiation power relative to both customer and supplier relationships. Please refer to the Acquisition Announcements for further details of the Acquisition.

The gross proceeds from the Sinopharm Subscription will be HK\$2,800,000,000. Taking into account the estimated expenses incidental to the Sinopharm Subscription of approximately HK\$1.6 million, the net proceeds from the Sinopharm Subscription will be HK\$2,798.4 million. Accordingly, the net price per Sinopharm Share will be approximately HK\$4.677.

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The gross proceeds from the Yang Subscription will be HK\$200,000,000. Taking into account the estimated expenses incidental to the Yang Subscription of approximately HK\$0.2 million, the net proceeds from the Yang Subscription will be HK\$199.8 million. Accordingly, the net price per Yang Share will be approximately HK\$4.676.

The gross proceeds from the Wang Subscription will be HK\$200,000,000. Taking into account the estimated expenses incidental to the Wang Subscription of approximately HK\$0.2 million, the net proceeds from the Wang Subscription will be HK\$199.8 million. Accordingly, the net price per Wang Share will be approximately HK\$4.676.

The Company intends to apply the proceeds from the Sinopharm Subscription, the Yang Subscription and the Wang Subscription to finance part of the consideration for the Acquisition. The Company intends to finance the remaining balance of the consideration of the Acquisition by equity financing (including the Placing), debt financing, or a combination of both (please refer to section headed “Other alternative methods of financing” below for further details).

As discussed with the Company, although the Sinopharm Subscription, the Yang Subscription and the Wang Subscription are not part of the Group’s ordinary and usual course of business, the Directors believe that the Subscriptions will allow the Company to raise funds to finance part of the consideration for the Acquisition. In the event that the Acquisition is not completed, the Company intends to apply such proceeds to fund other potential investments in the TCM industry. The Directors are positive about the growth and prospects of the TCM industry in the PRC and consider it more efficient and effective to grow the business of the Group by way of acquisitions. It is therefore in the interests of the Company to raise capital through the Subscriptions in a cost-efficient manner without imposing any interest burden or finance costs to the Group and build up its war chest for future investments and acquisitions in the TCM industry to increase value for its Shareholders. Apart from the Target Company, the Company has not identified and is not in negotiation with any specific investment or acquisition target as at the Latest Practicable Date.

As discussed with the management of the Company, other than the possible subscriptions by the trustees designated by Mr. Tan Dengping and Ms. Zhou Jialin, the Subscriptions and the Placing (including the Investors Subscriptions), the Directors have also considered and compared feasibilities of other financing methods such as debt financing, rights issue and open offer of the Company. However, the Directors are of the view that such financing methods are more costly and time-consuming as compared to the Subscriptions (please refer to the section headed “Other alternative methods of financing” below for further details). As such, the Directors are of the view that the Subscriptions are appropriate means of fund raising. However, completion of each of the Subscription Agreements is not inter-conditional and is not conditional on completion of the Acquisition, or vice versa.

Although the Independent Shareholders will not participate in the Subscriptions and the Placing, they are entitled to vote on each of the resolutions approving the Subscriptions and the Placing Specific Mandate. Moreover, Sinopharm and its associates shall abstain from voting at the EGM in respect of the resolution approving the Sinopharm Subscription, the

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Yang Subscription and the Wang Subscription and the Placing Specific Mandate. Mr. Yang and his associates shall abstain from voting at the EGM in respect of the resolution approving the Yang Subscription. Mr. Wang and his associates shall abstain from voting at the EGM in respect of the resolution approving the Wang Subscription. As such, the Directors are of the view that all Shareholders have been treated fairly.

As advised by the Board, in the event that the Acquisition does not proceed, the Company will pursue other investment opportunities and use the proceeds from the Subscriptions to finance these investments if the Directors consider appropriate. The Directors have been reviewing potential investment opportunities for the Group from time to time, in particular, companies which are engaged in the TCM industry in the PRC. In assessing potential investment opportunities, the Directors will look for medium-sized targets with an estimated investment size of about RMB2 billion, take into consideration, among other things, types of products, scale of operation, brand and market position, geographical coverage, size of the investment and potential synergistic effect with the Group, and are able to contribute immediate earnings, broaden the product offering and provide synergy to the Group as a whole. The Directors confirmed that, as at the Latest Practicable Date, the Company had not entered into any agreement, arrangement, understanding, intention or negotiation with any party (concluded or otherwise) for any investments other than the Acquisition.

As advised by the Directors, in the event that the Acquisition is not completed, the Company has also considered using part of the proceeds from the Subscriptions to repay certain bank loans which amounted to approximately RMB1,172.2 million (equivalent to approximately HK\$1,465.3 million) in order to enhance the financial position of the Company.

In addition, the Subscriptions demonstrate the recognition of the value of the Company and signify the confidence of the controlling Shareholder, Mr. Yang and Mr. Wang in the existing and future development potentials of the Group. With the continuing support from the controlling Shareholder, Mr. Yang and Mr. Wang, this will ensure business stability and continuity of the Group which are crucial and beneficial to the long-term development of the Group.

Taking into consideration (i) the reasons for and benefits of the Acquisition as stated in the Acquisition Announcements; (ii) strengthening cash position without incurring additional interests expense or commission and size of the funding requirements for the Acquisition (if it is completed); (iii) potential investment opportunities arise from time to time; and (iv) the continuing support from the controlling Shareholder, Mr. Yang and Mr. Wang building up investors' confidence, we agree with the Directors' view that the Subscriptions are preferable and beneficial ways of fund raising available and applicable to the Group and are in the interests of both the Company and the Shareholders as a whole.

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vi. Principal terms of the Subscription Agreements

The Sinopharm Subscription Agreement

Pursuant to the Sinopharm Subscription Agreement, the Company has conditionally agreed to allot and issue, and Sinopharm has conditionally agreed to subscribe for, 598,290,598 Sinopharm Shares at the total subscription price of HK\$2,800,000,000, equivalent to the Issue Price of HK\$4.68 per Sinopharm Share.

Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Placing Shares since the Latest Practicable Date and up to the date of completion of the Subscriptions and the Placing, the 598,290,598 Sinopharm Shares represent:

- (i) approximately 23.61% of the existing issued share capital of the Company;
- (ii) approximately 19.10% of the issued share capital of the Company as enlarged by the allotment and issue of the Sinopharm Shares; and
- (iii) approximately 13.95% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Placing Shares (assuming the Placing Specific Mandate has been fully utilised).

The Sinopharm Shares, when issued and fully paid, shall rank pari passu in all respects among themselves and with all other Shares in issue as at the date of their allotment and issue.

The Yang Subscription Agreement

Pursuant to the Yang Subscription Agreement, the Company has conditionally agreed to allot and issue, and Mr. Yang has conditionally agreed to subscribe for, 42,735,042 Yang Shares at the total subscription price of HK\$200,000,000, equivalent to the Issue Price of HK\$4.68 per Yang Share.

Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Placing Shares since the Latest Practicable Date and up to the date of completion of the Subscriptions and the Placing, the 42,735,042 Yang Shares represent:

- (i) approximately 1.69% of the existing issued share capital of the Company;
- (ii) approximately 1.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Yang Shares; and
- (iii) approximately 1.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Placing Shares (assuming the Placing Specific Mandate has been fully utilised).

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The Yang Shares, when issued and fully paid, shall rank pari passu in all respects among themselves and with all other Shares in issue as at the date of their allotment and issue.

The Wang Subscription Agreement

Pursuant to the Wang Subscription Agreement, the Company has conditionally agreed to allot and issue, and Mr. Wang has conditionally agreed to subscribe for, 42,735,042 Wang Shares at the total subscription price of HK\$200,000,000, equivalent to the Issue Price of HK\$4.68 per Wang Share.

Assuming that there is no change in the issued share capital of the Company other than the allotment and issue of the Subscription Shares and the Placing Shares since the Latest Practicable Date and up to the date of completion of the Subscriptions and the Placing, the 42,735,042 Wang Shares represent:

- (i) approximately 1.69% of the existing issued share capital of the Company;
- (ii) approximately 1.66% of the issued share capital of the Company as enlarged by the allotment and issue of the Wang Shares; and
- (iii) approximately 1.00% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Placing Shares (assuming the Placing Specific Mandate has been fully utilised).

The Wang Shares, when issued and fully paid, shall rank pari passu in all respects among themselves and with all other Shares in issue as at the date of their allotment and issue.

The Issue Price of HK\$4.68 per Share represents:

- (i) a discount of approximately 21.34% over/to the closing price of HK\$5.95 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a discount of approximately 2.09% to the closing price of HK\$4.78 per Share as quoted on the Stock Exchange on 17 March 2015, being the last trading day on which the Shares were traded on the Stock Exchange prior to the date of the Subscription Agreements (other than the City-Scape Subscription Agreement) (the “**Last Trading Day**”);
- (iii) a discount of approximately 2.30% to the average of the closing prices per Share as quoted on the Stock Exchange for the last five consecutive full trading days up to and including the Last Trading Day of approximately HK\$4.79 per Share;

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- (iv) a discount of approximately 2.50% to the average of the closing prices per Share as quoted on the Stock Exchange for the last 30 consecutive full trading days up to and including the Last Trading Day of approximately HK\$4.80 per Share; and
- (v) a premium of approximately 198.1% over the audited consolidated net asset value per Share of the Group attributable to the Shareholders as at 31 December 2014 of approximately HK\$1.57 per Share (based on the audited consolidated net asset value of the Group attributable to the Shareholders as at 31 December 2014 of approximately RMB3,183.8 million (equivalent to approximately HK\$3,979.7 million) and 2,533,899,186 Shares in issue as at the Latest Practicable Date).

As advised by the Company, the Issue Price for the Placing was determined after arm's length negotiations between the Company and the Placing Agents with reference to, among other things, the recent market price of the Shares and the audited consolidated net asset value per Share of the Group attributable to the Shareholders as at 31 December 2014 of approximately HK\$1.57 per Share. After the Issue Price for the Placing was fixed, the Issue Price for the Sinopharm Subscription, the Yang Subscription and the Wang Subscription were determined at the same price as the Issue Price for the Placing.

As stated in the Letter from the Board, completion of the Sinopharm Subscription Agreement will (to the extent necessary) take place simultaneously with completion of the Yang Subscription Agreement, the Wang Subscription Agreement and/or the Investors Subscription Agreements (other than the City-Scape Subscription Agreement) will take place simultaneously on or around 12 May 2015, and the City-Scape Subscription Agreement is expected to complete on or around 14 May 2015 so as to ensure that Sinopharm will not trigger any obligation to make a mandatory general offer for all the other securities of the Company pursuant to Rule 26 of the Takeovers Code.

In the event that a simultaneous completion under the Yang Subscription Agreement, the Wang Subscription Agreement and/or the Investors Subscription Agreements (as the case may be) fails to be achieved, the Company will only issue such number of Sinopharm Shares which will not result in Sinopharm's shareholding in the Company increasing by 2% or more from its existing shareholding of approximately 40.10% (being the lowest percentage shareholding of Sinopharm in the Company during the 12-month period ending on and inclusive of the date of the Sinopharm Subscription Agreement). The unissued Sinopharm Shares will be issued by the Company to Sinopharm in one or multiple subsequent tranches at the earliest time when such issues will not result in Sinopharm triggering a mandatory general offer obligation under Rule 26 of the Takeovers Code but in any event no later than the date falling one month after the passing of the resolution of the Independent Shareholders approving the Sinopharm Subscription. For the avoidance of doubt, any unissued Sinopharm Shares will not be issued to Sinopharm after the aforesaid expiry date and no subscription money will be received from such unissued Sinopharm Shares.

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For illustration purpose, if an aggregate 703,449,097 or more new Shares are issued under the Yang Subscription, the Wang Subscription and the Investors Subscriptions, all 598,290,598 Sinopharm Shares will be issued to Sinopharm at completion in one tranche. If less than 703,449,097 new Shares are issued under the Yang Subscription, the Wang Subscription and the Investors Subscriptions, the Sinopharm Shares will be issued in the manner as described above.

In the event that the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion, only 87,069,884 Sinopharm Shares will be issued to Sinopharm pursuant to the Sinopharm Subscription Agreement, such that Sinopharm's shareholding in the Company would not increase by 2% or more from its lowest percentage shareholding in the Company during the preceding 12-month period which would otherwise trigger an obligation to make a mandatory general offer for all the other securities of the Company pursuant to Rule 26 of the Takeovers Code. The unissued Sinopharm Shares will be issued by the Company to Sinopharm in one or multiple subsequent tranches at the earliest time when such issues will not result in Sinopharm triggering a mandatory general offer obligation under Rule 26 of the Takeovers Code.

As disclosed in the Letter from the Board, save for the Sinopharm Subscription, the Yang Subscription, the Wang Subscription, the Investors Subscriptions and the subscription agreements to be entered into between the Company and the trustees designated by Mr. Tan Dengping and Ms. Zhou Jialin (details of which are disclosed in the Acquisition Announcements), the Company has undertaken to each of the Placing Agents that for a period of six months from 28 March 2015 (date of the engagement letter with the Placing Agents), the Company will not allot or offer or enter into any agreement to allot or issue or grant or enter into any agreement to grant any option, right to subscribe any Shares or any interests in Shares or any securities convertible into or excisable or exchangeable to any Shares or interest in Share.

The undertakings would help limit the risk of existing shareholders as well as the Investors from being diluted by further issue of new Shares; and may help maintain the stability of market price of the Shares, for the specified period.

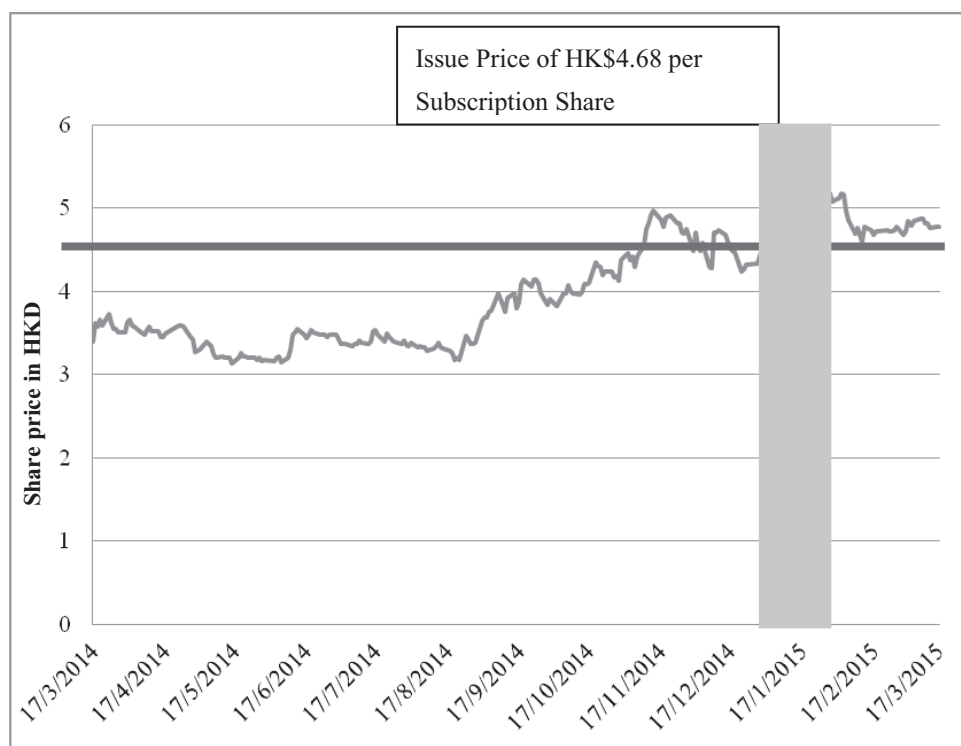
Based on a number of precedent cases, we consider a restriction on issuers for further issue of shares is not uncommon in equity fund raising exercises such as issue of new shares under general mandate and initial public offerings. Furthermore, should the Subscriptions and the Placing proceed to completion, the cash position of the Group will be increased by the net proceeds of approximately HK\$8,161.1 million. As advised by the Company, there will not be any further needs for fund raising in the short run should the Subscriptions and the Placing proceed to completion. The Directors believe and we concur that the Placing will broaden and strengthen the Shareholders base, increase the trading liquidity of the Shares and enhance the profile of the Company considering that the Investors comprise professional and international institutional Investors.

Therefore, we concur with the view of the Directors that the undertaking is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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In assessing the reasonableness of the Issue Price, we have reviewed the closing price level of the Shares traded on the Stock Exchange during the last twelve months preceding the date of the Subscription Agreements up to the Last Trading Day (the “**Review Period**”).

(a) Review on Share prices performance



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

Note: Trading in the Shares was suspended from 2 January 2015 to 27 January 2015 (both days inclusive).

Between 17 March 2014 (being the date of twelve-month prior to the Last Trading Day) and 31 December 2014 (being the last trading day before the issuance of the announcement dated 27 January 2015 in relation to the Acquisition (the “**First Announcement**”)), the Share price increased on the whole, with the lowest closing price of HK\$3.13 and the highest closing price of HK\$4.97, representing approximately a discount of 33.12% and a premium of 6.20% over the Issue Price respectively.

Subsequent to the issuance of the First Announcement, the Share price surged and reached a peak closing price of HK\$5.17 per Share on 29 January 2015 and 3 February 2015 respectively, representing a premium of 10.47% over the Issue Price. It is reasonable to infer that the upsurge of the market interest in the Shares is mainly attributable to the publication of the First Announcement, since then the Share price remained stable ranging from a closing price between HK\$4.59 and HK\$5.17 per Share, representing a slight discount and premium of approximately 1.92% and 10.47% of the Issue Price respectively.

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We note from the above that the Issue Price is within the historical closing price range of the Shares and higher than the majority of the closing prices of the Shares during the Review Period.

(b) Comparable Analysis

In order to assess the fairness and reasonableness of the Issue Price, we have compared it to thirteen comparable companies listing on the Stock Exchange (the “**Share Comparables**”), which are selected based on the following criteria: (i) the transactions involved the subscription/placing of new shares under specific mandates by companies listed on the Stock Exchange; (ii) the transactions were announced during the six-month period immediately prior to 22 March 2015, being the date of entering into the Sinopharm Subscription Agreement, the Yang Subscription Agreement and the Wang Subscription Agreement respectively; and (iii) the market capitalization of the respective company is higher than HK\$1,000 million. We consider the following Share Comparables to be fair, representative and exhaustive samples for our analysis of the Issue Price.

Date of announcement	Share Comparable (stock code)	(Discount)/ premium of the issue price (to)/ over the closing price per share on the respective last trading day (%)	(Discount)/ premium of the issue price (to)/ over the average closing price per share for the last five consecutive trading days up to and including the respective last trading day (%)	(Discount to)/ premium over net asset value per share ¹ (%)	Connected transaction (Y/N)
18 September 2014	Sound Global Ltd. (967)	(9.19)	(7.32)	(1.9)	Y
10 October 2014	Changfeng Axle (China) Company Limited (1039)	(29.03)	(23.26)	(73.60)	Y

¹ The net asset value per share is calculated based on the net asset value attributable to owners of the respective company published in the latest consolidated accounts available on the date of the announcement, dividing the total number of issued shares published on the Stock Exchange website available on the date of announcement.

² The company recorded net liabilities in its latest published consolidated account available on the date of relevant announcement.

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Date of announcement	Share Comparable (stock code)	(Discount)/ premium of the issue price (to)/ over the closing price per share on the respective last trading day (%)	(Discount)/ premium of the issue price (to)/ over the average closing price per share for the last five consecutive trading days up to and including the respective last trading day (%)	(Discount to)/ premium over net asset value per share¹ (%)	Connected transaction (Y/N)
31 October 2014	Yashili International Holdings Limited (1230)	16.72	29.73	228.72	Y
7 November 2014	Crown International Corporation Limited (727)	(24.73)	(21.70)	N/A ²	N
21 November 2014	National Agricultural Holdings Limited (1236)	13.21	12.87	922.50	Y
27 November 2014	Hsin Chong Construction Group Limited (404)	6.38	6.84	(31.58)	N
30 November 2014	Peking University Resources (Holdings) Company Limited (618)	(4.41)	(9.97)	10.50	Y
18 December 2014	United Photovoltaics Group Limited (686)	12.36	12.61	129.29	Y

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Date of announcement	Share Comparable (stock code)	(Discount)/ premium of the issue price (to)/ over the closing price per share on the respective last trading day (%)	(Discount)/ premium of the issue price (to)/ over the average closing price per share for the last five consecutive trading days up to and including the respective last trading day (%)	(Discount to)/ premium over net asset value¹ per share¹ (%)	Connected transaction (Y/N)
28 December 2014	Gemdale Properties and Investment Corp Limited (535)	20.93	26.83	(33.14)	N
5 January 2015	Town Health International Medical Group Limited (3886)	(19.67)	(19.41)	348.54	Y
7 January 2015	China Taifeng Beddings Holdings Limited (873)	(26.83)	(25.86)	(69.02)	N
12 January 2015	Guangzhou Baiyunshan Pharmaceutical Holdings Co. Ltd (874)	(12.06)	(10.88)	316.57	Y
28 January 2015	Realord Group Holdings Limited (1196)	(52.38)	(42.39)	534.58	Y
	Minimum	(52.38)	(42.39)	(73.60)	
	Maximum	20.93	29.73	922.50	
	Mean	(8.36)	(5.53)	190.12	
	Company	(2.09)	(2.30)	198.10	

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

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As stated above, the Issue Price is determined with reference to the recent market price of the Shares and the audited consolidated net asset value of the Group attributable to the Shareholders as at 31 December 2014. We consider these approaches being commonly accepted by the market to decide share price and therefore calculated the followings for Share Comparables to assess fairness and reasonableness of the Issue Price: (i) (discount)/premium of the issue price (to)/over the closing price per share on the respective last trading day; (ii) (discount)/premium of the issue price (to)/over the average closing price per share for the last five consecutive trading days up to and including the respective last trading day; (iii) (discount to)/premium over net asset value per share.

As shown in the table above, the issue prices of the Share Comparables to the respective closing price per share on the last trading day range from a discount of approximately 52.38% to a premium of approximately 20.93% (the “**LTD Range**”), with an average of a discount of approximately 8.36%. The Issue Price of HK\$4.68 represents a discount of approximately 2.09% to the closing price of HK\$4.78 on the Last Trading Day. We note that the discount falls within the LTD Range of the Share Comparables but below the average level.

The issue prices of the Share Comparables to the average closing price per share over the last five consecutive trading days respectively represented a range from a discount of approximately 42.39% to a premium of approximately 29.73% (the “**5-Day Range**”). The Issue Price represented a discount of approximately 2.30% to the average closing price per share over the last five consecutive trading days. We note that the discount falls within the 5-Day Range of the Share Comparables.

It is also illustrated from the above table that the issue prices of the Share Comparables to the net asset value per share of the respective company range from a discount of approximately 73.60% to a premium of approximately 922.50%, with an average of a premium of approximately 190.12%. The Issue Price of HK\$4.68 represents a premium of approximately 198.10% over the net asset value of approximately HK\$1.57 per share. We note that the premium of the Issue Price falls within the premium/(discount) range of the Share Comparables, and is slightly higher than the average level.

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(c) Review on trading liquidity of the Shares

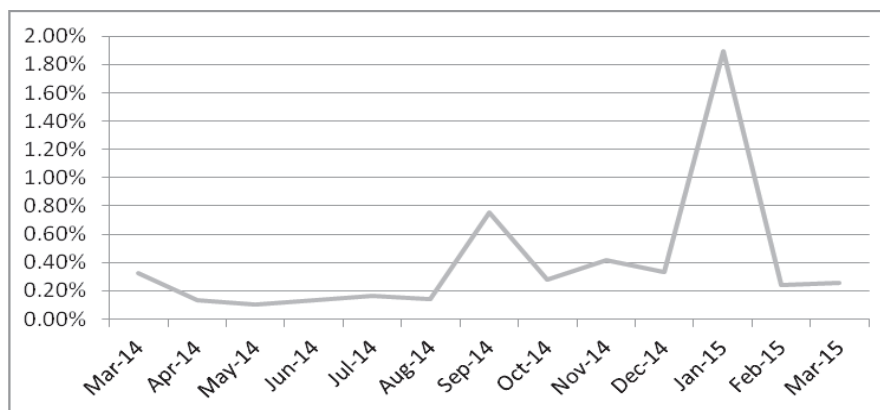
For the purpose of assessing the trading liquidity of the Shares, the following table shows the daily trading volume of the Shares during the Review Period:

Month	No. of trading days in each month	Total trading volume (No. of Shares)	Average daily trading volume (in Shares)	No. of outstanding Shares at the month end (in Shares)	Percentage of average daily trading volume to no. of outstanding Shares (%)
2014					
March	11	87,112,975	7,919,361	2,533,899,186	0.31
April	20	69,552,766	3,477,638	2,533,899,186	0.14
May	20	50,469,860	2,523,493	2,533,899,186	0.10
June	20	68,997,000	3,449,850	2,533,899,186	0.14
July	22	90,900,827	4,131,856	2,533,899,186	0.16
August	21	76,792,293	3,656,776	2,533,899,186	0.14
September	21	401,368,744	19,112,797	2,533,899,186	0.75
October	21	147,117,447	7,005,593	2,533,899,186	0.28
November	20	211,870,678	10,593,534	2,533,899,186	0.42
December	21	175,550,910	8,359,567	2,533,899,186	0.33
2015					
January	3	143,953,480	47,984,493	2,533,899,186	1.89
February	18	108,282,014	6,015,667	2,533,899,186	0.24
March	12	78,201,718	6,516,810	2,533,899,186	0.26

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

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**Percentage of average daily trading volume
to no. of outstanding Shares by month during the Review Period**



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

As illustrated in the table above, the percentage of average daily trading volume to no. of outstanding Shares by month during the Review Period (the “**Percentage**”) ranged from approximately 0.10% to 1.89%. Based on it, we consider the trading volume of the Shares during the Review Period was very thin.

From the chart above, we further note that there are two surges in the Percentage in September 2014 and January 2015 respectively. The surge in September 2014 was due to the announcement dated 19 September 2014 in relation to the disposal of the Shares by a Shareholder and the publication of the interim results of the Company for the period ended 30 June 2014. The surge in January 2015 was primarily due to the publication of the announcements dated 7 January 2015 and the First Announcement. The Percentage remained relatively stable ranging from 0.10% to 0.42% in other months.

(d) Conclusion

We are of the view that the Issue Price is justifiable and the terms of the Subscription Agreements are fair and reasonable and on normal commercial terms, after taking into account that (i) the Issue Price equals to the issue price of the Placing Shares; (ii) the Issue Price is within the historical closing price range of the Shares over the Review Period; (iii) the discount of the Issue Price to the closing price per share on the Last Trading Day and average closing price per Share over the last five consecutive trading days falls within the LTD Range and 5-Day Range respectively of the Share Comparables; (iv) the premium of the Issue Price over net asset value per share falls within the range and is slightly above the average of the Share Comparables; (v) the average daily trading volume of the Shares as a percentage of the total number of the outstanding Shares was thin, ranging from approximately 0.10% to 1.89%.

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vii. Other alternative methods of financing

According to the Acquisition Announcements and as advised by the management of the Company, the Company has paid the deposit in respect of the Acquisition of approximately HK\$700 million using its internal resources. The remaining balance of the consideration of the Acquisition are expected to be financed by as to (i) approximately HK\$830 million raised through the subscriptions of new Shares by the trustees designated by Mr. Tan Dengping and Ms. Zhou Jialin; (ii) approximately HK\$3,200 million from the Subscriptions; (iii) approximately HK\$5,000 million from the Placing; and (iv) approximately HK\$1,500 million from bank borrowings.

As disclosed in the Letter from the Board, the Company proposed to issue not more than 1,069,962,000 Placing Shares in aggregate to professional and institutional investors at a price not less than the Issue Price of HK\$4.68 per Placing Share to raise capital for the purpose of financing part of the consideration of the Acquisition. On 25, 26 and 27 March 2015 and 14 April 2015, the Company entered into the Investors Subscription Agreements with 26 Investors pursuant to which the Company has conditionally agreed to allot and issue, and the Investors have conditionally agreed to subscribe for, such number of Investors Shares as may be purchased with the total subscription price of approximately HK\$5,000 million, at the Issue Price of HK\$4.68 per Investors Share. Taking into account the estimated expenses incidental to the Investors Subscriptions of approximately HK\$44.2 million, the net proceeds from the Investors Subscriptions will be approximately HK\$4,955.8 million. Please refer to the Letter from the Board for further details on the Placing and the Investor Subscriptions.

In addition to the subscriptions by the trustees designated by Mr. Tan Dengping and Ms. Zhou Jialin, the Subscriptions, the Placing (including the Investors Subscriptions) and the deposit paid by the internal resources of the Company, the Company intends to finance the remaining balance as to approximately HK\$1,500 million through bank borrowings. The Company has been in discussions with two banks for the potential bank loans and it is expected that the terms of these bank loans will be finalised before completion of the Acquisition.

We have discussed with the management of the Company and noted that the Company has considered debt financing, bank borrowings, rights issue and open offer of the Company as alternative methods of financing.

Debt financing

As advised by the management of the Company, as compared with the Subscriptions, debt financing would increase interest burden and have adverse impact on the gearing level of the Group. Therefore, the Directors are of the view, and we concur, that Subscriptions are more cost-effective of fund raising so as to minimise the total financial costs for the Acquisition.

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Bank borrowings

As stated above, the Company intends to finance the remaining balance as to approximately HK\$1,500 million through bank borrowings.

Based on our discussion with the management of the Company, we understand that they considered that (i) it will not be commercially viable for the Group to obtain bank borrowings in a scale of the total consideration for the Acquisition in view of the asset scale of the Group; and (ii) the factors considered for debt financing including the interest burden and the adverse impact on the gearing level of the Group as discussed above. As stated in 2014 Annual Results, the balance of the Group's bank and other loans amounted to RMB1,172.2 million (equivalent to approximately HK\$1,465.3 million), of which RMB409.5 million (equivalent to approximately HK\$511.9 million) was secured by the Group's assets with book value of RMB302.5 million (equivalent to approximately HK\$378.1 million) in total and guaranteed by a Shareholder. Therefore, the management of the Company considered that the increase of bank borrowings in the scale of the consideration for the Acquisition would not be preferable and would not be in the interests of the Group.

Rights issue/open offer

The Directors note that a rights issue or an open offer of the Company will give an opportunity to all Shareholders to participate in the subscription for new Shares to be issued by the Company on a pro rata basis. However, the Directors consider that the Company would have difficulties in finding a suitable independent underwriter in Hong Kong to underwrite a rights issue or an open offer of the Company with a reasonable underwriting fee comparable to the placing commission rate of 0.8% offered by the Placing Agents with a market commission rate ranging from 1%-3%, which will considerably increase the transactions costs taking into account the amount of funds to be raised by the Company. Furthermore, the Directors consider that a rights issue or an open offer may not be a feasible mean of fund raising as it may involve a relatively longer timeframe as it involves numerous steps which usually takes about two to three months and higher documentation preparation costs than the Subscriptions. The Directors also advised that in order to take up its entitlements in a rights issue or an open offer in Hong Kong, the controlling Shareholder will be subject to approvals and consents required to be issued by the relevant governmental, statutory or regulatory authorities in the PRC including the State-owned Assets Supervision and Administration Commission of the State Council if it were to underwrite such rights issue or open offer which is not required for the Sinopharm Subscription Agreement. This presents significant uncertainties in terms of the timing and costs of the completion of a rights issue or an open offer. As such, the Directors are of the view that a rights issue or an open offer may not be the appropriate method for its fund raising exercise and is comparatively less advantageous than the Subscriptions. The Directors confirmed that, up to the Latest Practicable Date, the Company has decided not to conduct a pre-emptive fund raising exercise and therefore has not attempted to approach or engage an underwriter in relation to a rights issue or an open offer having considered the reasons set out above.

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In view of (i) the interest burden expected to be incurred by the Group and the impact on its gearing level in debt financing; (ii) unavailability of adequate size of bank borrowings to the Group; and (iii) the additional costs, difficulties and timing constraint for a rights issue or an open offer as compared to the Subscriptions; together with the continuing support from the controlling Shareholder, Mr. Yang and Mr. Wang, we agree with the Directors' view that the Subscriptions are more preferable and beneficial ways of fund raising available and applicable to the Group.

viii. Dilution effect on the shareholding interests of the Shareholders

The shareholdings in the Company (i) as at the Latest Practicable Date; (ii) immediately after completion of the Subscriptions and the Placing (assuming the Placing Specific Mandate has been fully utilised); and (iii) upon the issue of Sinopharm Shares (assuming the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion) are summarised as follows:

	(i) As at the Latest Practicable Date		(ii) Immediately after completion of the Subscriptions and the Placing		(iii) Upon the issue of the Sinopharm Shares (assuming the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion) (Note 4)	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Sinopharm	1,016,023,044	40.10	1,614,313,642	37.65	1,103,092,928	42.09
Mr. Yang and Profit Channel (Note 1)	334,000,000	13.18	376,735,042	8.79	334,000,000	12.74
Mr. Wang and Hanmax (Note 2)	334,000,000	13.18	376,735,042	8.79	334,000,000	12.74
Sub-total	1,684,023,044	66.46	2,367,783,726	55.23	1,771,092,928	67.57
The Investors (Note 3)	53,514,000	2.11	1,123,476,000	26.20	53,514,000	2.04
Other Public Shareholders	796,362,142	31.43	796,362,142	18.57	796,362,142	30.39
Total:	2,533,899,186	100.00	4,287,621,868	100.00	2,620,969,070	100.00

Notes:

- Profit Channel is wholly owned by Mr. Yang, an executive Director and the managing director of the Company.
- Hanmax is wholly owned by Mr. Wang who is an executive Director.
- To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the respective dates of the Investors Subscription Agreements, the Investors and their respective associates held in aggregate 53,514,000 Shares. As the Investors are not and will not as a result of the Placing become connected persons of the Company, they are regarded as public Shareholders.

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4. In the event that the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion, only 87,069,884 Sinopharm Shares will be issued to Sinopharm pursuant to the Sinopharm Subscription Agreement, such that Sinopharm's shareholding in the Company would not increase by 2% or more from its lowest percentage shareholding in the Company during the preceding 12-month period which would otherwise trigger an obligation to make a mandatory general offer for all the other securities of the Company pursuant to Rule 26 of the Takeovers Code. The unissued Sinopharm Shares will be issued by the Company to Sinopharm in one or multiple subsequent tranches at the earliest time when such issues will not result in Sinopharm triggering a mandatory general offer obligation under Rule 26 of the Takeovers Code, but in any event no later than the date falling one month after the passing of the resolution of the Independent Shareholders approving the Sinopharm Subscription. For the avoidance of doubt, any unissued Sinopharm Shares will not be issued to Sinopharm after the aforesaid expiry date and no subscription money will be received from such unissued Sinopharm Shares.

Immediately after completion of the Subscriptions and the Placing, Sinopharm, Mr. Yang and Mr. Wang will hold 1,614,313,642 Shares, 376,735,042 Shares and 376,735,042 Shares respectively, representing 37.65%, 8.79% and 8.79% of the issued share capital of the Company as enlarged by the issue of the Sinopharm Shares, the Yang Shares, the Wang Shares and the Placing Shares respectively. As stated above, immediately after the completion of the Sinopharm Subscription, the Yang Subscription and the Wang Subscription and the Placing, the shareholding interests of (i) Sinopharm will be decreased by approximately 2.45% from approximately 40.10% to approximately 37.65%; (ii) Mr. Yang will be decreased by approximately 4.39% from approximately 13.18% to approximately 8.79%; (iii) Mr. Wang will be decreased by approximately 4.39% from approximately 13.18% to approximately 8.79%; (iv) the Investors will be increased by approximately 24.09% from approximately 2.11% to approximately 26.20%; and (v) the Shareholders deemed as "public" as at the Latest Practicable Date will be decreased by approximately 12.86% from approximately 31.43% to approximately 18.57%.

Upon the issue of the Sinopharm Shares (assuming the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion), Sinopharm, Mr. Yang and Mr. Wang will hold 1,103,092,928 Shares, 334,000,000 Shares and 334,000,000 shares respectively, representing 42.09%, 12.74% and 12.74% of the issued share capital of the Company as enlarged by the issue of the Sinopharm Shares respectively. As stated above, immediately after the completion of the Sinopharm Subscription (assuming the Yang Subscription, the Wang Subscription and the Placing do not proceed to completion), the shareholding interests of (i) Sinopharm will be increased by approximately 1.99% from approximately 40.10% to approximately 42.09%; (ii) Mr. Yang will be decreased by approximately 0.44% from approximately 13.18% to approximately 12.74%; (iii) Mr. Wang will be decreased by approximately 0.44% from approximately 13.18% to approximately 12.74%; (iv) the Investors will be decreased by approximately 0.07% from approximately 2.11% to approximately 2.04%; and (v) the Shareholders deemed as "public" as at the Latest Practicable Date will be decreased by approximately 1.04% from approximately 31.43% to approximately 30.39%.

Having considered that the reasons and benefits of the Sinopharm Subscription, the Yang Subscription and the Wang Subscription as discussed before and, in particular, (i) the reasons for and benefits of the Subscriptions; (ii) the size of the funding requirements for the Acquisition; and (iii) the continuing support from the controlling Shareholder, Mr. Yang

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and Mr. Wang can build up investors' confidence in the Group, we consider that such dilution effect on the shareholding interests of the existing public Shareholders resulting from the issue of the Sinopharm Shares, the Yang Shares and the Wang Shares is justifiable.

ix. Financial effects of the Subscriptions

Cashflow

According to the 2014 Annual Results, as of 31 December 2014, the Group had cash and cash equivalents of approximately RMB439.4 million (equivalent to approximately HK\$549.3 million). Upon completion of the Sinopharm Subscription, the Yang Subscription and the Wang Subscription, the liquidity and cash position of the Group will be increased by the net proceeds of the Subscriptions of approximately HK\$2,798.4 million, HK\$199.8 million and HK\$199.8 million respectively. As such, the Subscriptions are expected to have a positive impact on the cash flow of the Group.

Gearing

Upon the fully subscription of the new Shares under the Subscriptions, the total borrowings of the Group will remain unchanged and the total equity would be enlarged by the allotment and issuance of the Subscription Shares. Hence, it is expected that the gearing position of the Group would be improved.

Earnings

Save for the expenses relating to the Subscriptions, we are of the view that the completion of the Subscriptions will not have any immediate material impact on the earnings of the Group.

Net asset value

According to the 2014 Annual Results, as at 31 December 2014, the audited net assets value of the Group was approximately RMB3,257.1 million (equivalent to approximately HK\$4,071.4 million). Upon the completion of the Subscriptions, the net asset value will improve as the Subscriptions will increase the total assets and share capital of the Company.

Net asset value per Share

The amount of gross proceeds of approximately HK\$2,800 million, HK\$200 million and HK\$200 million is expected to be received by the Company upon the completion of the Sinopharm Subscription, the Yang Subscription and the Wang Subscription respectively. As a result, bank balances and cash, total assets and net assets of the Group are expected to increase by the same amount. As the Issue Price is of a premium to the Group's net asset value per Share as discussed above under the section named "Principal terms of the Subscription Agreements", the net asset value per Share of the Group is expected to increase upon the completion of the Subscriptions.

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RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that although the Sinopharm Subscription is not in the ordinary and usual course of business of the Group, the terms of the Sinopharm Subscription Agreement is fair and reasonable and on normal commercial terms, and the Sinopharm Subscription and the allotment and issue of the Sinopharm Shares pursuant to the Sinopharm Subscription Agreement are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Sinopharm Subscription IBC to advise the Independent Shareholders to vote in favour of the relevant resolution at the EGM to approve the Sinopharm Subscription and the transactions contemplated under the Sinopharm Subscription Agreement.

Having taken into account the above principal factors and reasons, we consider that although each of the Yang Subscription and the Wang Subscription is not in the ordinary and usual course of business of the Group, the terms of each of the Yang Subscription Agreement and the Wang Subscription Agreement are fair and reasonable and on normal commercial terms, and each of the Yang Subscription and the Wang Subscription and the allotment and issue of each of the Yang Shares and the Wang Shares pursuant to the Yang Subscription Agreement and the Wang Subscription Agreement respectively are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Directors Subscription IBC to advise the Independent Shareholders to vote in favour of the relevant resolutions at the EGM to approve the Yang Subscription, the Wang Subscription and the transactions contemplated under each of the Yang Subscription Agreement and the Wang Subscription Agreement.

Yours faithfully,
For and on behalf of
Guotai Junan Capital Limited
Wilson Lo
Managing director

In accordance with Articles 92 of the Articles of Association of the Company, the following Directors (being Directors appointed by the Board to fill a casual vacancy during the year) shall hold office until the EGM and, being eligible, will offer themselves for re-election at the EGM.

Mr. ZHANG Jianhui, aged 70, was appointed as a non-executive Director on 30 August 2014. He was an independent non-executive Director from June 2009 to February 2013. Mr. Zhang graduated from Institute of Chemical Engineering, Faculty of Biochemistry of Zhejiang University. Mr. Zhang is a senior engineer and licensed pharmacist. Mr. Zhang has 40 years of experience in management of pharmaceutical manufacturing and has obtained the National Technological Advancement Third Class Award. Mr. Zhang is entitled to the Special Allowance from State Council and is an Excellent Talent of the Professional Technique in the Shandong Province. Mr. Zhang had been Chairman of Shandong Lukang Pharmaceutical Group and Chairman of Shandong Lukang Pharmaceutical Co., Ltd. (listed on Shanghai Stock Exchange, Stock Code: 600789). Mr. Zhang is currently appointed as deputy director of the 中國化學制藥工業協會專家委員會 (Specialist Committee of China Pharmaceutical Industry Association) and consultant of 山東省醫藥工業協會顧問 (Shandong Pharmaceutical Industry Association). Mr. Zhang is the director of China National Pharmaceutical Group Corporation, the controlling shareholder, since December 2011.

Save as disclosed above, Mr. Zhang has not held directorship in other listed companies in the past three years or any other positions with the Company and other members of the Company's Group.

As at the Latest Practicable Date, Mr. Zhang has no interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, Mr. Zhang does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders.

Mr. Zhang has an appointment letter with the Company for a term of two years commencing on 30 August 2014. Mr. Zhang is also subject to retirement and re-election at the EGM and thereafter is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association. For the year ending 31 December 2014, Mr. Zhang has not received any remuneration from the Company in his capacity as a non-executive Director.

Save as disclosed above, Mr. Zhang is not aware of any other matters that need to be brought to the attention of the Shareholders in relation to his re-election as Director and any other information in relation to Mr. Zhang required to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

Mr. LO Wing Yat, aged 56, was appointed as an independent non-executive Director on 27 January 2015. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. Mr. Lo was an independent non-executive Director from February 2009 to February 2013. Mr. Lo is the executive vice chairman and chief executive officer of CIAM Group Limited (Stock Code: 378) and an executive director of FDG Electric Vehicles Limited (Stock Code: 729), both whose shares are listed on the Stock Exchange. He is also the chief executive officer of CITIC International Assets Management Limited and the managing director of CITIC International Financial Holdings Limited. Mr. Lo graduated from the University of Hong Kong with a bachelor's degree in Laws. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. He served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and a partner of Linklaters. During his legal career, Mr. Lo was specialized in banking project financing primarily in the PRC.

Save as disclosed above, Mr. Lo has not held directorship in other listed companies in the past three years or any other positions with the Company and other members of the Company's Group.

As at the Latest Practicable Date, Mr. Lo has no interest in the Shares within the meaning of Part XV of the SFO.

Mr. Lo does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders.

Mr. Lo has an appointment letter with the Company for a term of two years commencing on 27 January 2015. Mr. Lo is also subject to retirement and re-election at the EGM and thereafter is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association. Mr. Lo is entitled to receive director's fee based on the performance and duties, profitability of the Group and the prevailing market condition. For the year ending 31 December 2015, Mr. Lo will receive a director's fee of HK\$234,000.

Save as disclosed above, Mr. Lo is not aware of any other matters that need to be brought to the attention of the Shareholders in relation to his re-election as a Director and any other information in relation to Mr. Lo required to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(i) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company and/or their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the “**Model Code**”), to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Capacity/Nature of Interest	Number of Shares	Approximate percentage of the issued share capital of the Company (Note 5)
Mr. Wang Xiaochun ("Mr. Wang")	Interest in controlled corporation	334,000,000 (long position) (Note 1)	13.18%
	Interest in controlled corporation	150,000,000 (short position) (Note 2)	5.91%
Mr. Yang Bin ("Mr. Yang")	Interest in controlled corporation	334,000,000 (long position) (Note 3)	13.18%
	Interest in controlled corporation	71,037,863 (short position) (Note 4)	2.80%

Notes:

- The 334,000,000 Shares are held by Hanmax which is wholly owned by Mr. Wang.

2. 150,000,000 Shares were charged to Design Time Limited by Hanmax as security to guarantee the liabilities of a private company wholly owned by Mr. Wang.
3. The 334,000,000 Shares are held by Profit Channel which is wholly owned by Mr. Yang.
4. Profit Channel pledged 71,037,863 Shares to CNPGC as security in connection to the Company's bank borrowing to finance the Company's acquisition of the Tongjitang Chinese Medicines Company.
5. Based on 2,533,899,186 Shares in issue as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company were interested or were deemed to have interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(ii) Interests of substantial Shareholders

Name	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of the issued share capital of the Company (Note 6)
Sinopharm	Beneficial owner	1,016,023,044 (long position) (Note 1)	40.10%
CNPGC	Interest of controlled corporations	1,016,023,044 (long position) (Note 1)	40.10%
	Security interest	71,037,863 (long position) (Note 2)	2.80%
Profit Channel	Beneficial owner	334,000,000 (long position)	13.18%
	Beneficial owner	71,037,863 (short position) (Note 2)	2.80%

Name	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of the issued share capital of the Company (Note 6)
Hanmax	Beneficial owner	334,000,000 (long position) (Note 3)	13.18%
	Beneficial owner	150,000,000 (short position) (Note 3)	5.91%
China Construction Bank Corporation	Person having a security interest in shares (Notes 4 and 5)	150,000,000 (long position)	5.92%
Central Huijin Investment Ltd.	Person having a security interest in shares (Notes 4 and 5)	150,000,000 (long position)	5.92%

Notes:

- 1,016,023,044 shares are held by Sinopharm, which is indirectly wholly owned by CNPGC.
- Profit Channel (wholly owned by Mr. Yang) pledged 71,037,863 shares to CNPGC as security in connection with the Company's bank borrowing to finance the Company's acquisition of the Tongjitang Chinese Medicines Company.
- The 334,000,000 shares are held by Hanmax which is wholly owned by Mr. Wang. On 26 March 2014, 150,000,000 shares were charged to Design Time Limited by Hanmax as security to guarantee the liabilities of a private company wholly owned by Mr. Wang under an agreement dated 3 March 2014.
- The interests of Central Huijin Investment Ltd. and China Construction Bank Corporation relate to the same block of shares.
- Central Huijin Investment Ltd. is the holding company of China Construction Bank Corporation and is deemed to be interested in the shares in which China Construction Bank Corporation is interested through interests of corporations controlled by its as follows:

Name of Controlled Corporation	Name of Controlling Shareholder	Percentage Control
China Construction Bank Corporation	Central Huijin Investment Ltd.	57.26%
CCB International Group Holdings Limited	China Construction Bank Corporation	100%
CCB Financial Holdings Limited	CCB International Group Holdings Limited	100%
CCB International (Holdings) Limited	CCB Financial Holdings Limited	100%
CCBI Investments Limited	CCB International (Holdings) Limited	100%
Design Time Limited	CCBI Investments Limited	100%

6. Based on 2,533,899,186 Shares in issue as at the Latest Practicable Date.

So far as is known to the Directors, as at the Latest Practicable Date, no other persons (other than the Directors, the chief executive and substantial Shareholders disclosed above) had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO or was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group.

Competing interests

As at the Latest Practicable Date, none of the Directors and their respective associates was considered to have interests in businesses apart from the Group's businesses which compete, or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

Other interests

None of the Directors or proposed Directors had any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2014 (the date to which the latest published audited consolidated financial statements of the Company were made up) up to the Latest Practicable Date. There was no contract or arrangement subsisting at the Latest Practicable Date in which a Director is materially interested which is significant in relation to the business of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group which is not expiring or may not be terminable by the Group within one year without payment of compensation (other than statutory compensation).

4. EXPERTS AND CONSENTS

The following is the qualification of the expert who has given opinion or advice which is contained or referred to in this circular:

Guotai Junan	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
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Guotai Junan has given and has not withdrawn its written consent to the issue of this circular with inclusion of its letter and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, Guotai Junan was not beneficially interested in the share capital of any member of the Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, Guotai Junan did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2014 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

5. MATERIAL ADVERSE CHANGE

Up to the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014 (the date to which the latest published audited consolidated financial statements of the Company were made up).

6. 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. (other than Saturdays, Sundays and public holidays) at the registered office of the Company in Hong Kong up to and including the date of the EGM:

- (a) the Sinopharm Subscription Agreement;
- (b) the Yang Subscription Agreement;
- (c) the Wang Subscription Agreement;
- (d) the Investors Subscription Agreements;
- (e) the letter addressed to the Independent Shareholders from the Sinopharm Subscription IBC, the text of which is set out on page 37 of this circular;
- (f) the letter addressed to the Independent Shareholders from the Directors Subscription IBC, the text of which is set out on page 38 of this circular;
- (g) the letter of advice from Guotai Junan to the Sinopharm Subscription IBC, the Directors Subscription IBC and the Independent Shareholders, the text of which is set out on pages 39 to 64 of this circular; and
- (h) the letter of consent from Guotai Junan referred to in the section headed “Expert and Consent” of this appendix.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING



CHINA TRADITIONAL CHINESE MEDICINE CO. LIMITED 中國中藥有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 570)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of China Traditional Chinese Medicine Co. Limited (the “**Company**”) will be held at Conference Room, 4th Floor, No.1 Keyuan Heng 4 Road, Gaoli Hi-Tech Park, Ronggui, Shunde District, Foshan City, Guangdong Province, China on Thursday, 7 May 2015 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the subscription agreement dated 22 March 2015 (as amended and supplemented by a supplemental agreement dated 30 March 2015 (the “**Sinopharm Subscription Agreement**”) entered into between the Company and Sinopharm Group Hongkong Co., Limited (國藥集團香港有限公司) (“**Sinopharm**”), a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and is hereby approved, ratified and confirmed;
- (b) the board of directors of the Company (the “**Board**”) be and is hereby authorised and granted a specific mandate (the “**Sinopharm Specific Mandate**”) to allot and issue to Sinopharm, 598,290,598 new shares of the Company at the issue price of HK\$4.68 each in the share capital of the Company in accordance with the terms and conditions of the Sinopharm Subscription Agreement; and
- (c) the Board be and is hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the Sinopharm Specific Mandate and the Sinopharm Subscription Agreement and the transactions contemplated thereunder.”

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

2. “**THAT:**

- (a) the subscription agreement dated 22 March 2015 (the “**Yang Subscription Agreement**”) entered into between the Company and Mr. Yang Bin, an executive director and the managing director of the Company (“**Mr. Yang**”), a copy of which has been produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and is hereby approved, ratified and confirmed;
- (b) the board of directors of the Company (the “**Board**”) be and is hereby authorised and granted a specific mandate (the “**Yang Specific Mandate**”) to allot and issue to Mr. Yang (or a wholly-owned subsidiary of Mr. Yang as his nominee), 42,735,042 new shares of the Company at the issue price of HK\$4.68 each in the share capital of the Company in accordance with the terms and conditions of the Yang Subscription Agreement; and
- (c) the Board be and is hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the Yang Specific Mandate and the Yang Subscription Agreement and the transactions contemplated thereunder.”

3. “**THAT:**

- (a) the subscription agreement dated 22 March 2015 (the “**Wang Subscription Agreement**”) entered into between the Company and Mr. Wang Xiaochun, an executive director of the Company (“**Mr. Wang**”), a copy of which has been produced to the meeting marked “C” and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and is hereby approved, ratified and confirmed;
- (b) the board of directors of the Company (the “**Board**”) be and is hereby authorised and granted a specific mandate (the “**Wang Specific Mandate**”) to allot and issue to Mr. Wang (or a wholly-owned subsidiary of Mr. Wang as his nominee), 42,735,042 new shares of the Company at the issue price of HK\$4.68 each in the share capital of the Company in accordance with the terms and conditions of the Wang Subscription Agreement; and
- (c) the Board be and is hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the Wang Specific Mandate and the Wang Subscription Agreement and the transactions contemplated thereunder.”

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

4. “**THAT:**

- (a) the board of directors of the Company (the “**Board**”) be and is hereby authorised and granted, during the Relevant Period (as defined below), a specific and unconditional mandate to issue, allot and/or deal with new shares of the Company (the “**Placing Shares**”) and to make or grant offers, agreements, options, convertible securities or other securities which would or might require Placing Shares to be issued, allotted and/or dealt with for the purpose of raising capital to finance part of the consideration for the proposed acquisition of an aggregate of approximately 87.30% of the registered capital of 江陰天江藥業有限公司 (Jiangyin Tianjiang Pharmaceutical Co. Ltd.*) or other potential investments in the traditional Chinese medicine industry, subject to the following conditions:
 - (i) such mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements, options, convertible securities or other securities which might require the exercise of such powers after the end of the Relevant Period;
 - (ii) the number of Placing Shares to be issued, allotted and/or dealt with or agreed conditionally or unconditionally to be issued, allotted and/or dealt with by the Board shall not exceed 1,069,962,000 shares; and
 - (iii) the Placing Shares shall be issued at a price not less than HK\$4.68 per Placing Share.

For the purposes of this resolution, “**Relevant Period**” means the one-month period following the passing of this resolution;

- (b) contingent on the Board resolving to issue the Shares pursuant to paragraph (a) of this resolution, the Board be authorised to do all acts and execute all documents they consider necessary or desirable to give effect to the issue of new shares of the Company pursuant to paragraph (a) of this resolution; and
- (c) any placing agreement or subscription agreement signed by the Company prior to the date of this extraordinary general meeting is hereby approved, ratified and confirmed.”

5. “**THAT:**

Mr. ZHANG Jianhui be and is hereby re-elected as a director of the Company.”

* *for identification only*

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

6. “THAT:

Mr. LO Wing Yat be and is hereby re-elected as a director of the Company.”

By order of the Board
China Traditional Chinese Medicine Co. Limited
Wu Xian
Chairman

21 April 2015

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company.
2. A form of proxy for the meeting is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, shall be deposited at the Company's registered office at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting.

As at the date of this notice, the Board comprises eleven Directors, of which Mr. WU Xian, Mr. YANG Bin and Mr. WANG Xiaochun are executive Directors; Mr. LIU Cunzhou, Mr. ZHANG Jianhui, Mr. DONG Zenghe and Mr. ZHAO Dongji are non-executive Directors; and Mr. ZHOU Bajun, Mr. XIE Rong, Mr. YU Tze Shan Hailson and Mr. LO Wing Yat are independent non-executive Directors.