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

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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Guangzhou Pharmaceutical Company Limited (the “Company”), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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



**CONTINUING CONNECTED TRANSACTIONS**

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



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A letter from the independent board committee (the “Independent Board Committee”) of the Company is set out on page 12 of this circular.

A letter from Grand Vinco Capital Limited containing its advice to the Independent Board Committee is set out on pages 13 to 21 of this circular.

A notice convening the AGM to be held at the conference room of the Company, 45 Sha Mian North Street, Guangzhou, PRC, at 10:00 a.m. on 29 May 2008 is despatched to the Shareholders with this circular.

Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

14 April 2008

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## DEFINITIONS

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

“A Share(s)”	Renminbi-denominated domestic share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each
“AGM”	the annual general meeting of the Company convened to be held at the conference room of the Company, 45 Sha Mian North Street, Guangzhou, PRC at 10:00 a.m. on 29 May 2008 for the purposes of, inter alia, considering and, if thought fit, passing the resolution in relation to the approval of the Agreement together with the transactions contemplated thereunder, including the Trading Transactions
“Agreement”	the agreement dated 28 March 2008 entered into between the Company and GPLH in relation to the Trading Transactions
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	廣州藥業股份有限公司 (Guangzhou Pharmaceutical Company Limited), a company incorporated in the PRC and the securities of which are listed on the Stock Exchange and the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“GPLH”	廣州醫藥集團有限公司 (Guangzhou Pharmaceutical Holdings Limited), a state-owned company incorporated in the PRC and the controlling Shareholder which currently holds approximately 47.77% shareholding interest in the Company
“GPLH Group”	GPLH and its subsidiaries and their respective associates, other than the Group
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Stock Exchange

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## DEFINITIONS

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“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company to be formed to consider the terms of the Agreement and the Trading Transactions
“Independent Shareholders”	Shareholders other than GPLH and its associates
“Independent Third Party”	a person or entity who/which is not a connected person of the Company as defined in the Listing Rules
“Latest Practicable Date”	9 April 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“percentage ratios”	has the meaning ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchase Transactions”	purchases of pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials by the Group from the GPLH Group which are regarded as continuing connected transactions under the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Transactions”	sales of pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials by the Group to the GPLH Group which are regarded as continuing connected transactions under the Listing Rules
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws in Hong Kong)
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Trading Transactions”	the Purchase Transactions and the Sale Transactions
“Vinco”	Grand Vinco Capital Limited, a licensed corporation which is engaged in types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee to advise on the terms of Agreement and the Trading Transactions
“%”	per cent.

*In this circular, unless otherwise specified, amounts in Renminbi are converted to Hong Kong dollars at a conversion rate of HK\$1.00=RMB0.9131 for illustration purposes only. No representation is made that any amounts in Renminbi or Hong Kong dollars could have been or could be converted at such rate or any other rates.*

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LETTER FROM THE BOARD

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# 廣州藥業股份有限公司

**Guangzhou Pharmaceutical Company Limited**

*(a joint stock company with limited liability established in the Peoples's Republic of China)*  
(H Share Stock Code: 0874)

*Executive Directors*

Mr. YANG Rongming  
Mr. SHI Shaobin  
Mr. FENG Zansheng

*Independent non-executive Directors*

Mr. WONG Hin Wing  
Mr. LIU Jinxiang  
Mr. LI Shanmin  
Mr. ZHANG Yonghua

*Supervisors*

Ms. Yang Xiuwei  
Mr. Wu Quan  
Mr. ZHONG Yugan

*Registered office and principal  
place of business*

45 Sha Mian North Street  
Guangzhou City  
Guangdong Province, PRC

*Place of business in Hong Kong*

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

14 April 2008

*To the Shareholders*

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS

### 1. INTRODUCTION

The Directors announced on 28 March 2008 that the Company and GPLH had entered into the Agreement for the purposes of governing the Trading Transactions (being the Purchase Transactions and the Sale Transactions) for the three financial years ending 31 December 2010.

Pursuant to the Agreement, the respective maximum aggregate values of the Purchase Transactions and the Sale Transactions for each of the three financial years ending 31 December 2010 shall be RMB630,000,000 (equivalent to approximately HK\$690,000,000) and RMB386,000,000 (equivalent to approximately HK\$423,000,000). The Trading Transactions between the Group and the GPLH Group constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Trading Transactions are subject to disclosure requirements and Independent Shareholders' approval by way of poll in a general meeting of the Company. A resolution in relation to the

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## LETTER FROM THE BOARD

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approval of the Agreement and the Trading Transactions contemplated thereunder is proposed to be considered and, if thought fit, passed in the AGM. GPHL and its associates will abstain from voting at the AGM in relation to the Agreement and the Trading Transactions.

The Independent Board Committee, comprising Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua, the independent non-executive Directors, has been formed to consider the terms of the Agreement and the Trading Transactions and to give relevant recommendation to the Independent Shareholders. As at the Latest Practicable Date, each of the members of the Independent Board Committee does not have any interest in the Trading Transactions. Vinco has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and whether the Trading Transactions are in the interests of the Company and the Shareholders as a whole.

The purposes of this circular are (i) to provide you with details of the terms of the Agreement and the Trading Transactions; (ii) to set out the respective letters from the Independent Board Committee and Vinco which set out their advice and recommendation in relation to the terms of the Agreement and the Trading Transactions; and (iii) to give you information on the Group.

### **2. THE AGREEMENT**

On 28 March 2008, the Company and GPHL entered into the Agreement, pursuant to which the parties have agreed that during each of the three financial years ending 31 December 2010,

- (1) the maximum aggregate value of the Purchase Transactions would be RMB630,000,000 (equivalent to about HK\$690,000,000); and
- (2) the maximum aggregate value of the Sale Transactions would be RMB386,000,000 (equivalent to about HK\$423,000,000).

It was also set out in the Agreement that the Company and GPHL have agreed that:

- a. each Trading Transaction will be conducted (i) in the ordinary and usual course of the business of the Group; (ii) on an arm's length basis; and (iii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms to the Group no less favourable than terms available to or from (as appropriate) Independent Third Parties;

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## LETTER FROM THE BOARD

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- b. the Trading Transactions will be reviewed by the independent non-executive Directors and the auditors of the Company annually, and their respective relevant reports, together with information on the Trading Transactions, will be set out in the Company's next annual report following the occurrence of the relevant Trading Transactions; and
- c. GPHL will provide its relevant records for the Company's auditors during their course of review of the Trading Transactions.

### 3. REASONS FOR THE AGREEMENT

The Group, in its ordinary and usual course of business, purchases / sells pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials from / to the GPHL Group. The pharmaceutical products provided by the GPHL Group are not the same as those pharmaceutical products manufactured by the Group and are distributed by the Group through its extensive network. On the other hand, as the Group is able to source a variety of pharmaceutical raw materials and packaging materials from different markets, including Germany, the United States of America and Japan, it also re-sells those materials at a margin to other manufacturers of pharmaceutical products, including the GPHL Group. In addition, having taken into account the increased orders as a result of re-sale of pharmaceutical raw materials and packaging materials by the Group, the Directors consider that the Group's bargaining power with suppliers will be enhanced.

### 4. ANNUAL CAPS

Set out below is a summary of the Trading Transactions which took place during the three financial years ended 31 December 2007 between the Group and the GPHL Group:

#### *Purchase Transactions*

Year ended 31 December 2005		Year ended 31 December 2006		Year ended 31 December 2007		Proposed annual cap for each of the three years ending 31 December 2010
RMB'000 (Note 3)	% to cost of sales (Note 1)	RMB'000 (Note 3)	% to cost of sales (Note 1)	RMB'000 (Note 3)	% to cost of sales (Note 1)	
456,860	6.11	555,962	6.56	511,570	4.99	630,000

#### *Sale Transactions*

Year ended 31 December 2005		Year ended 31 December 2006		Year ended 31 December 2007		Proposed annual cap for each of the three years ending 31 December 2010
RMB'000 (Note 3)	% to turnover (Note 2)	RMB'000 (Note 3)	% to turnover (Note 2)	RMB'000 (Note 3)	% to turnover (Note 2)	
201,295	2.23	196,786	1.92	162,683	1.33	386,000

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## LETTER FROM THE BOARD

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*Notes:*

1. Audited cost of sales of the Group during the financial years ended 31 December 2005, 2006 and 2007 were approximately RMB7,472,974,000, RMB8,472,228,000 and RMB10,245,291,000 respectively (the audited figures were extracted from the Company's audited accounts, which were prepared in accordance with the Hong Kong Financial Reporting Standards).
2. Audited turnover of the Group during the financial years ended 31 December 2005, 2006 and 2007 were approximately RMB9,026,340,000, RMB10,241,004,000 and RMB12,260,744,000 respectively (the audited figures were extracted from the Company's audited accounts, which were prepared in accordance with the Hong Kong Financial Reporting Standards).
3. The transaction amounts for the Purchase Transactions and the Sales Transactions during each of the three years ended 31 December 2007 were audited figures extracted from the notes to the Company's audited accounts, which were prepared in accordance with the Hong Kong Financial Reporting Standards.
4. The transaction amounts for the Purchase Transactions and Sale Transactions during the period from 1 January 2008 to 21 March 2008 were approximately RMB2,050,000 and RMB1,740,000, respectively.

The Directors estimate that in each of the three financial years ending 31 December 2010, (i) the aggregate value of the Purchase Transactions will not exceed RMB630,000,000 (equivalent to about HK\$690,000,000); and (ii) the aggregate value of the Sale Transactions will not exceed RMB386,000,000 (equivalent to about HK\$423,000,000), respectively. The basis of these values are determined with reference to (a) the respective annual values of the Purchase Transactions and Sale Transactions during each of the three years ended 31 December 2007 as shown in the tables above; (b) the anticipated growth in the respective aggregate values of the Purchase Transactions and the Sale Transactions since it is expected that the business of the Group, inter alia, the export of the Group's products, will grow further during the three years ending 31 December 2010, hence it is expected that the respective volumes of purchases and sales of pharmaceutical products, pharmaceutical raw materials and medical apparatus to be made by the Group from/to the GPL Group will increase; (c) the parties' intention that the Group will act as the integrated purchasing platform for the purpose of strengthening the parties' bargaining power with the suppliers; and (d) the anticipated inflation in the PRC and other countries in the coming future.

The Directors, including the independent non-executive Directors, consider that the Trading Transactions will be conducted in the ordinary and usual course of the business of the Group. In addition, each Trading Transaction will be negotiated on an arm's length basis and will be conducted on normal commercial terms and on terms to the Group no less favourable than those available to or from (as appropriate) Independent Third Parties. Therefore, the Directors, including the independent non-executive Directors, consider that the terms of the Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and the Trading Transactions are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 5. LISTING RULES IMPLICATIONS

The Trading Transactions between the Group and the GPLH Group constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As all of the applicable percentage ratios for the Agreement on an aggregated basis exceed 2.5% and the aggregated annual consideration is more than HK\$10 million, the entering into of the Agreement constitute non-exempt continuing connected transactions for the Company under the Listing Rules and is subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the Independent Shareholders' approval under Rules 14A.48 to 14A.54 of the Listing Rules at the Company's general meeting and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules. GPLH and its associates will abstain from voting at the general meeting of the Company in relation to the Agreement and the Trading Transactions.

Accordingly, upon obtaining the Independent Shareholders' approval of the Agreement, together with the Trading Transactions contemplated thereunder, by way of poll in a general meeting of the Company, the Company will comply with the following requirements in relation to the Trading Transactions:

- (a) the Trading Transactions shall be entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms to the Group no less favourable than terms available to or from (as appropriate) Independent Third Parties; and
  - (iii) in accordance with the terms of the agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) details of the Trading Transactions, including the transaction dates, the parties to the transactions and a description of their connected relationship, a brief description of the transactions and their purpose, the total consideration and terms of the transactions, and the nature and extent of the connected persons' interest in the transactions, shall be disclosed in the Company's next annual reports and accounts following the occurrence of the transaction in accordance with Rule 14A.45 of the Listing Rules;
- (c) the Company's independent non-executive Directors shall review annually the Trading Transactions and confirm in the Company's next annual reports following the occurrence thereof that the Trading Transactions have been conducted in the manner as stated in paragraphs (a) and (b) above, and if, for whatever reasons, the Company's independent non-executive Directors decline or are unable to provide

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## LETTER FROM THE BOARD

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the confirmation mentioned in this paragraph, the Directors shall notify the Stock Exchange promptly and an announcement shall be published by the Company as soon as practicable;

- (d) the Company's auditors shall review the Trading Transactions annually, and provide the Board with a letter confirming that:
  - (i) the Trading Transactions have received the approval of the Directors;
  - (ii) the aggregate amount of the Purchase Transactions and the aggregate amount of the Sale Transactions during each of the financial year ending 31 December 2010 have not exceeded the respective annual caps of RMB630,000,000 (equivalent to approximately HK\$690,000,000) and RMB386,000,000 (equivalent to approximately HK\$423,000,000);
  - (iii) the Trading Transactions have been entered into in accordance with the terms of the relevant agreements governing the transactions;
  - (iv) the Sale Transactions are conducted in accordance with the pricing policies of the Company;

and the Directors must state in the annual report whether the Company's auditors have confirmed the matters stated in this paragraph. If, for whatever reasons, the Company's auditors decline to accept the engagement or are unable to provide the auditors' letter, the Directors shall notify the Stock Exchange promptly and an announcement shall be published by the Company as soon as practicable; and

- (e) GPLH shall provide the Company with an undertaking that, for so long as the Shares are listed on the Stock Exchange and GPLH remains as a substantial shareholder (has the meaning ascribed thereto under the Listing Rules) of the Company, it will provide the Company's auditors with full access to its relevant records to carry out the auditors' review of the Trading Transactions.

In the event that any of the respective annual caps applicable to the Purchase Transactions and the Sale Transactions as stated above is exceeded or if the Group enters into any new agreement relating to any continuing connected transactions with any connected persons in the future, the Company must re-comply with Rules 14A.35(3) and 14A.35(4) of the Listing Rules dealing with continuing connected transactions.

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## LETTER FROM THE BOARD

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### 6. INFORMATION ON THE GROUP

The Group is principally engaged in (i) the manufacture and sale of Chinese patent medicine; (ii) the wholesale, retail, import and export of western and Chinese pharmaceutical products and various medical apparatus; and (iii) research and development of natural medicine and biological medicine.

GPHL, a state-owned enterprise in the PRC, is the controlling shareholder of the Company holding about 47.77% of the issued share capital of the Company as at the Latest Practicable Date. The GPHL Group is principally engaged in the development, manufacture and trading of pharmaceutical products.

### 7. INDEPENDENT SHAREHOLDERS' APPROVAL IN THE AGM

Pursuant to the Agreement, the respective maximum aggregate values of the Purchase Transaction and Sale Transactions for each of the three financial years ending 31 December 2010 shall be RMB630,000,000 (equivalent to approximately HK\$690,000,000) and RMB386,000,000 (equivalent to approximately HK\$423,000,000). The Trading Transactions between the Group and the GPHL Group constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Trading Transactions are subject to the Independent Shareholders' approval by way of poll in AGM.

The Directors propose to seek the Independent Shareholders' approval of the terms of the Agreement and the Trading Transactions in the AGM. The notice convening the AGM to be held at the conference room of the Company, 45 Sha Mian North Street, Guangzhou, PRC at 10:00 a.m. on 29 May 2008 for the purposes of, inter alia, considering and, if thought fit, approving the Agreement and the Trading Transactions, the proxy form applicable to the AGM, together with this circular, are despatched to the Shareholders. Whether or not Shareholders are able to attend the AGM in person, they are requested to complete and return the proxy form in accordance with the instructions printed thereon as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the AGM. Completion and return of the proxy form will not preclude Shareholders from attending and voting at the AGM or any adjournment thereof in person, if they so wish.

Pursuant to Article 69 of the Articles of Association of the Company, a resolution put to the vote of a general meeting of the Shareholders shall be determined in the first instance by a show of hands of the Shareholders present in person or by proxy, but a poll may be demanded (before or after the vote by a show of hands) by:

- (a) the chairman of such meeting; or
- (b) at least two Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) a Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting.

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## LETTER FROM THE BOARD

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The demand for a poll may be withdrawn by the person(s) who made the demand.

In accordance with the requirement of the Listing Rules, the resolution to be proposed at the AGM to approve the Agreement and the Trading Transactions will be determined by way of a poll. The result of the poll will be published in the newspapers on the next business day following the AGM.

As at the Latest Practicable Date, GPLH held a total of 387,368,654 Shares, representing approximately 47.77% of the existing issued share capital of the Company. GPLH and its associates will abstain from voting at the AGM in relation to the Agreement and the Trading Transactions.

### 8. RECOMMENDATION

The Independent Board Committee, comprising Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua, the independent non-executive Directors, has been formed to consider the terms of the Agreement and the Trading Transactions and to give relevant recommendation to the Independent Shareholders. Furthermore, Vinco has been appointed as the independent financial adviser to the Independent Board Committee to advise on whether the terms of the Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and whether the Trading Transactions are in the interests of the Company and the Shareholders as a whole.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 12 of this circular which contains its recommendation to the Independent Shareholders; and (ii) the letter from Vinco set out on pages 13 to 21 of this circular which contains its advice and recommendation to the Independent Board Committee in relation to the terms of the Agreement and the Trading Transactions.

The Independent Board Committee, after taking into account the advice and recommendation from Vinco, has come to the view that the terms of the Agreement together with the transactions contemplated thereunder (including the Trading Transactions) are fair and reasonable so far as the Independent Shareholders are concerned and the Trading Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote for the resolution to be proposed at the AGM to approve the Agreement and the Trading Transactions.

### 9. FURTHER INFORMATION

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

Yours faithfully  
For and on behalf of the Board  
**Yang Rongming**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**廣州藥業股份有限公司**

**Guangzhou Pharmaceutical Company Limited**

*(a joint stock company with limited liability established in the Peoples's Republic of China)*  
(H Share Stock Code: 0874)

14 April 2008

*To the Independent Shareholders*

Dear Sir and Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 14 April 2008 (“the Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the terms of the Agreement and the transactions contemplated thereunder, including the Trading Transactions, and to advise the Independent Shareholders as to (i) the fairness and reasonableness of the terms of the Agreement and the Trading Transactions; and (ii) whether the Trading Transactions are in the interests of the Company and the Shareholders as a whole. Details of the terms of the Agreement and the Trading Transactions are set out in the “Letter from the Board” on pages 4 to 11 of the Circular.

Vinco has been appointed as our independent financial adviser to advise the Independent Shareholders and us on the terms of the Agreement and the Trading Transactions. Details of the relevant advice and recommendation of Vinco, together with the principal factors and reasons taken into account by it in arriving at its advice and recommendation, are set out on pages 13 to 21 of the Circular.

Having taken into account the advice and recommendation of Vinco, we consider that the terms of the Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and the Trading Transactions are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote for the resolution in relation to the Agreement and the transactions contemplated thereunder, including the Trading Transactions, at the AGM.

Yours faithfully,  
For and on behalf of  
Independent Board Committee

<b>WONG Hin Wing</b>	<b>LIU Jinxiang</b>	<b>LI Shanmin</b>	<b>ZHANG Yonghua</b>
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>

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## LETTER FROM VINCO

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*The following is the text of the letter of advice from Vinco to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Agreement and the Trading Transactions, which has been prepared for the purpose of incorporation in this circular.*



**Grand Vinco Capital Limited**

Unit 4909-4910, 49/F, The Center  
99 Queen's Road Central, Hong Kong  
Tel: 2865 4388 Fax: (852) 2865 4339

14 April 2008

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

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Agreement and the Trading Transactions, details of which are set out in the "Letter from the Board" on pages 4 to 11 of the circular of the Company dated 14 April 2008 (the "Circular") to the Shareholders, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

The Company announced on 28 March 2008 that it has entered into the Agreement with GPLH and the Agreement governs Trading Transactions (being the Purchase Transactions and the Sale Transactions) for the three financial years ending 31 December 2010. As all of the applicable percentage ratios for the Agreement on an aggregated basis exceed 2.5% and the aggregated annual consideration is more than HK\$10 million, the Trading Transactions contemplated in the Agreement constitute non-exempt continuing connected transactions for the Company under the Listing Rules. The Trading Transactions are subject to disclosure requirements and Independent Shareholders' approval by way of poll in AGM of the Company. GPLH and its associates will abstain from voting at the AGM of the Company in relation to the Agreement and the Trading Transactions.

The Independent Board Committee comprising Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua, all being the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and whether the Trading Transactions are in the interest of the

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## LETTER FROM VINCO

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Company and the Shareholders as a whole. We have been appointed as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **BASIS OF OUR OPINION AND RECOMMENDATION**

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

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

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

Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the terms of the Agreement and the Trading Transactions, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

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

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## LETTER FROM VINCO

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### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in relation to the terms of the Agreement and the Trading Transactions, we have considered the principal factors and reasons set out below:

#### **Background of the continuing connected transactions**

The Company and GPLH entered into the Agreement, pursuant to which the parties have agreed that during each of the three financial years ending 31 December 2010, (1) the maximum aggregate value of the Purchase Transactions shall be RMB630,000,000 (equivalent to approximately HK\$690,000,000); and (2) the maximum aggregate value of the Sale Transactions shall be RMB386,000,000 (equivalent to approximately HK\$423,000,000).

#### **Reasons for the continuing connected transactions**

The Group is principally engaged in (i) manufacture and sales of Chinese patent medicine; (ii) wholesale, retail, import and export of Western and Chinese pharmaceutical products and various medical apparatus; and (iii) research and development of natural medicine and biological medicine.

GPLH is a state-owned enterprise in the PRC which is principally engaged in the development, manufacture and trading of pharmaceutical products. As GPLH is the controlling shareholder of the Company holding approximately 47.77% of the issued share capital of the Company as at the Latest Practicable Date, the Trading Transactions between the Group and the GPLH Group constitute continuing connected transactions for the Company under the Listing Rules.

As set out in the Letter from the Board, the Group, in its ordinary and usual course of business, purchases/sells pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials from/to the GPLH Group. The pharmaceutical products provided by the GPLH Group are not the same as those pharmaceutical products manufactured by the Group and are distributed by the Group through its extensive network.

On the other hand, as the Group is able to source a variety of pharmaceutical raw materials and packaging materials from different markets, including Germany, the United States of America and Japan, it also re-sells those materials at a margin to other manufacturers of pharmaceutical products, including the GPLH Group. Under the terms of the Agreement, the Trading Transactions were and should be entered into on terms to the Group no less favorable than terms available to or from (as appropriate) Independent Third Parties.

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## LETTER FROM VINCO

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According to the report of the Directors in the 2006 annual report, the Company's auditors have confirmed that the continuing connected transactions, which include the Trading Transactions performed under the existing agreement dated 27 April 2005 between the Company and GPLH (the "Existing Agreement"), were, among others things, entered into in accordance with the terms of the relevant agreements governing the Trading Transactions. Further, as the Trading Transactions being set out in the Agreement capture mainly sale and purchase of pharmaceutical products or the related raw materials, we are of the opinion that the Trading Transactions are in line with the ambit of the businesses currently run by each party of the Trading Transactions and are entered into under the ordinary and usual course of business of the Group. As such, we are of the view that the revision of annual caps is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

### **Terms of the Agreements of the Trading Transactions**

Since the execution and approval of the Existing Agreement, the Trading Transactions have been carried out according to the terms of the Existing Agreement. It was also set out in the Agreement that the Company and GPLH have agreed that, inter alia:

- a. each Trading Transaction will be conducted (i) in the ordinary and usual course of the business of the Group; (ii) on arm's length basis; and (iii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms to the Group no less favorable than terms available to or from (as appropriate) Independent Third Parties;
- b. the Trading Transactions will be reviewed by the independent non-executive Directors and the auditors of the Company annually, and their respective relevant reports, together with information on the Trading Transactions, will be set out in the Company's next annual report following the occurrence of the relevant Trading Transactions; and
- c. GPLH will provide its relevant records to the Company's auditors during their course of review of the Trading Transactions.

Save as the above and after our discussion with the Directors, we understood that i) the Directors would also make their best endeavor to ensure that the Trading Transactions would be entered into on terms to the Group no less favorable than terms available to or from Independent Third Parties and the continuing connected transactions and ii) the Company ensures that the Trading Transactions would be reviewed by independent non-executive Directors and auditors annually. Based on the foregoing, we are of the view that the terms of the Agreement and the Trading Transactions are fair and reasonable and the Trading Transactions are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM VINCO

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### The proposed annual caps

#### a. Historical annual caps

Pursuant to the Existing Agreement, the respective maximum aggregate values of the Sales Transactions and the Purchase Transactions during the three financial years ended 31 December 2007 between the Company and GPLH Group were HK\$360,000,000 (equivalent to approximately RMB382,000,000) and HK\$741,000,000 (equivalent to approximately RMB785,000,000). The table below sets out the historical annual caps and the utilization rates of the Trading Transactions which took place during the respective period:

#### *Purchase Transactions*

Year ended 31 December 2005		Year ended 31 December 2006		Year ended 31 December 2007		Proposed annual cap for each of the three years ending 31 December 2010
RMB'000 (Note)	Utilization rate	RMB'000	Utilization rate	RMB'000	Utilization rate	
456,860	58.20%	555,962	70.82%	511,570	65.17%	630,000

#### *Sale Transactions*

Year ended 31 December 2005		Year ended 31 December 2006		Year ended 31 December 2007		Proposed annual cap for each of the three years ending 31 December 2010
RMB'000 (Note)	Utilization rate	RMB'000	Utilization rate	RMB'000	Utilization rate	
201,295	52.70%	196,786	51.51%	162,683	42.59%	386,000

*Note:* The transaction amounts for the Purchase Transactions and the Sales Transactions during each of the three years ended 31 December 2007 were audited figures extracted from the notes to the Company's audited accounts, which were prepared in accordance with the Hong Kong Financial Reporting Standards.

As illustrated on the abovementioned table, the Company did not exceed the existing annual caps granted in respect of the aforementioned continuing connected transactions. We noted that the Company has substantially utilized the historical annual caps for the Purchase Transactions with the utilization rates, determined by dividing the transaction amount with the annual cap for the specific period, amounted to 58.20%, 70.82% and 65.17% in 2005, 2006 and 2007 respectively. For the Sales Transactions, we noted the transaction amounts in 2005, 2006 and 2007 were lower than the existing annual caps. As discussed with the Directors, Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd., one of the suppliers in relation to the Sale Transactions, was in the process of reorganization and resulted in a negative impact on the transaction volume in relation to the Sales Transaction from 2006 to 2007. As at the Latest Practicable Date, the Directors confirmed that Guangzhou Baiyunshan Qiaoguang Pharmaceutical Co., Ltd. had completed the reorganization. As such, the Directors are

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## LETTER FROM VINCO

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of the view that the negative impact on the transaction volume in relation to the future Sales Transaction will be reactivated. Further, after our discussion with the Directors, we understood that the Directors would make their best endeavor to achieve the target transaction amount of the Company for strengthening the income base and expanding the business volume of the Company.

### **b. Basis of determining the Cap**

The proposed revised annual cap amount for the Purchase Transactions and the Sale Transactions for each of the three year ending 31 December 2010 will not exceed RMB630,000,000 (equivalent to approximately HK\$690,000,000) and RMB386,000,000 (equivalent to approximately HK\$423,000,000). We have reviewed the relevant information, such as the sales breakdown by subsidiaries for 2008 to 2010 projected by the Company, and have discussed with the Directors in relation to the assessment of the fairness and reasonableness of the proposed caps for the Agreement in forming our opinion as below.

We have reviewed the sales breakdown by subsidiaries for 2008 to 2010 projected by the Company and its underlying assumptions. After discussion with the management of the Company, we understood that the proposed caps for the Trading Transactions were determined by the Company based on its discussion with its related parties and the projected transaction volumes in relation to the Purchase Transactions and the Sale Transactions are amounted to RMB629.56 million and RMB385.20 million respectively in 2010 which are commensurate with the caps proposed by the Directors for the relevant period.

Further to our discussion with the Directors, one of the basis of determining the proposed caps for the Agreement is related to the intention of the Directors that the Group will act as the integrated purchasing platform which can allow the Group to order a larger volume in pharmaceutical raw materials and packaging materials. As such, the Group can enhance the bargaining power with the suppliers and may result in getting more favorable terms when negotiating with the suppliers. Larger caps for the Agreement are required to achieve the abovementioned. In addition, more favorable terms with the suppliers may enhance the Company's profit margin and the larger caps may expand the Group's business operation as well. As such, we consider the proposed enlargement of the caps attributable to the intention of the Group to act as the integrated purchasing platform is in the interests of the Company and the Shareholders as a whole.

In order to access the anticipated inflation in the PRC and other countries in the coming future which will have an impact on the transaction amount, we have also reviewed the statistical survey on the pharmaceutical raw materials in PRC. According to a news article from the Ministry of Commerce of the PRC dated 3 April 2008, PRC's inflation rate is expected to be at an average of 5.5% in 2008 and remained approximately 5% in 2009, up from 4.8% in 2007 and we noted the inflation rate of PRC is estimated to remain positive in the future years. According to UBS Wealth Management Research as of 24 September 2007, the inflation rates for Germany, the United States of America, and Japan for 2008 are 1.7%, 2.9% and 0.3% respectively.

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## LETTER FROM VINCO

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Since the inflation rates may also affect the cost of pharmaceutical raw materials, we concluded that the positive inflation rates in the countries mentioned above may increase the transaction value amount. Larger caps to cater for such increase in the transaction amount are considered to be necessary and this basis for the proposed enlargement of the caps is justifiable.

Further, as confirmed with the Directors of the Company, the Company noted that they experienced an approximately 10.92% growth on the cost of the pharmaceutical raw materials in 2007. The Company also noted and concluded from the industry data that the cost of pharmaceutical raw materials had a 15% growth in average and a 38.75% growth among 80 major pharmaceutical raw materials in 2007 from the previous year and this strong growth may still continue in the future years. As such, we are of the view that the assumption under the annual caps of the Agreement of which inflation is one of the deriving reasons is justifiable.

In addition, according to a research by the China Chamber of Commerce for Import and Export of Medicines and Health Products and IMS Health released in 10 December 2007, the healthcare trade volume grew in PRC to US\$31.2 billion in the first ten months of 2007, an increase of 24.3% over the same period last year. The research also noted a growth in the sale of export products from PRC including active pharmaceutical ingredients and the hospital diagnostic and therapeutic products during the first 10 months of 2007. Considering the positive inflation rates in PRC and other countries mentioned above, we are of the view that the growth in export pharmaceutical products in PRC will continue in future years. Because the growth in export pharmaceutical products in PRC may increase the respective volumes of purchases and sales of pharmaceutical products, pharmaceutical raw materials and medical apparatus to be made by the Group from/to the GPLH Group, we are of the view that volumes of purchases and sales of pharmaceutical products, pharmaceutical raw materials and medical apparatus to be made by the Group from/to the GPLH Group will also increase in future years and larger caps are needed to cater for such increase. We further consider the proposed enlargement of the caps is fair and reasonable.

Based on the above analysis, we are of the view that the assumptions for determining the cap sets are justifiable and the cap sets for the Trading Transactions of the Company are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Conditions for the continuing connected transactions**

The Company will also have to comply with the following conditions in relation to the Trading Transactions:

- a. the Trading Transactions shall be entered into:
  - (i) in the ordinary and usual course of business of the Group;

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## LETTER FROM VINCO

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- (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms to the Group no less favorable than terms available to or from (as appropriate) Independent Third Parties; and
  - (iii) in accordance with the terms of the agreements governing such transactions on terms that are fair and reasonable and in the interest of the Shareholders as a whole;
- b. details of the Trading Transactions, including the transaction dates, the parties to the transactions and a description of their connected relationship, a brief description of the transactions and their purpose, the total consideration and terms of the transactions, and the nature and extent of the connected person's interest in the transactions, shall be disclosed in the Company's next annual report and accounts following the occurrence of the transactions in accordance with rule 14A.45 of the Listing Rules;
- c. the Company's independent non-executive Directors shall review annually the Trading Transactions and confirm in the Company's next annual report following the occurrence thereof that the Trading Transactions have been conducted in the manner as stated in paragraphs (a) and (b) above, and if, for whatever reasons, the Company's independent non-executive Directors decline or are unable to provide the confirmation mentioned in this paragraph, the Directors shall notify the Stock Exchange promptly and an announcement shall be published by the Company as soon as practicable;
- d. the Company's auditors shall review the Trading Transactions annually, and provide the Board with a letter confirming that:
  - (i) the Trading Transactions have received the approval of the Directors;
  - (ii) the aggregate amount of the Purchase Transactions and the aggregate amount of the Sale Transactions during each of the financial years ending 31 December 2010 have not exceeded the respective annual caps of RMB630,000,000 (equivalent to approximately HK\$690,000,000) and RMB386,000,000 (equivalent to approximately HK\$423,000,000);
  - (iii) the Trading Transactions have been entered into in accordance with the terms of the relevant agreements governing the transactions;
  - (iv) the Sale Transactions are in accordance with the pricing policies of the Company and the Directors must state in the annual report whether the Company's auditors have confirmed the matters stated in this paragraph. If for whatever reasons, the Company's auditors decline to accept the engagement or are unable to provide the auditors' letter, the Directors shall notify the Stock Exchange promptly and an announcement shall be published by the Company as soon as practicable; and

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## LETTER FROM VINCO

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- e. GPHL shall provide the Company with an undertaking that, for so long as the Company's shares are listed on the Stock Exchange and GPHL remains as a substantial shareholder of the Company, it will provide the Company's auditors with full access to its relevant records to carry out the auditors' review of the Trading Transactions.

In the event that any of the respective annual caps applicable to the Sale Transactions and the Purchase Transactions as stated above is exceeded or if the Group enters into any new agreement with any connected persons (within the meaning of the Listing Rules) in the future, the Company must re-comply with the Rules 14A.35(3) and 14A.35(4) of the Listing Rules dealing with continuing connected transactions, unless it applies for and obtains a separate waiver from the Stock Exchange. These requirements are based on the guidelines for these types of continuing connected transactions as stipulated under the Listing Rules and are in compliance with the continuing connected transactions requirement under the Listing Rules. They are adequate in respect of subsequent review by the Company's auditors and the independent non-executive Directors and disclosure in the annual report. Following our review, we consider these terms of the Agreement are proper and conventional as compared with other similar transactions in the market and we are of the view of they are fair and reasonable and are in the interests of the Company and the Shareholder as a whole.

### CONCLUSION

Having taken into consideration of the above principal factors and reasons, we are of the view that the Agreement and the Trading Transactions are entered into under the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole and the terms and conditions of the Agreement and the Trading Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Therefore, we advise the Independent Board Committee and the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM approving the non-exempt continuing connected transactions.

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

**RESPONSIBILITY STATEMENT**

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

**DISCLOSURE OF INTERESTS****(a) Directors', supervisors' and senior management's interests and short position in the Shares, underlying Shares and Debentures of the Company and its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and senior management of the Company 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) (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors, the chief executive, the supervisors or the senior management were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules for Securities Transactions by Directors of Listed Issuers were as follows:

**Directors:**

<b>Name</b>	<b>Capacity and nature of interest</b>	<b>Company name</b>	<b>Number of shares (Long position)</b>
Shi Shaobin	Beneficial owner/ Personal	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd	25,000
		Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	26,180
	Interest of spouse/ Family	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd	11,000

**Senior Management:**

<b>Name</b>	<b>Type of interest</b>	<b>Number of shares (Long position)</b>
He Shuhua	Beneficial owner/ Personal	36,010 Domestic Shares
Chen Binghua	Beneficial owner/ Personal	6,240 Domestic Shares

Save as disclosed above, as at the Latest Practical Date, none of the Directors, supervisors and senior management of the Company or their respective associates had any personal, family, corporate or other interest in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors, the chief executive, the supervisors or the senior management were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules for Securities Transactions by Directors of Listed Companies.

**(b) Interests of substantial Shareholders**

So far as is known to any Director, supervisor and senior management of the Company, as at the Latest Practicable Date, the interests and short positions of persons or companies (not being a Director, supervisor and senior management of the Company) in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Class of Shares	Number of Shares/ underlying Shares, capacity and nature of interests (Long position)	Number of Shares/ underlying Shares, capacity and nature of interests (Short position)	Approximate percentage of the Company's issued domestic Shares	Approximate percentage of the Company's issued H Shares
GPHL	Domestic Shares	387,368,654 Beneficial owner	–	65.54%	–
Guangzhou Beicheng Rural Credit Cooperative	Domestic Shares	46,670,000 Beneficial owner	–	7.90%	–
Greenwoods Asset Management Limited	H Shares	16,780,900 Investment manager	–	–	7.63%
Deutsche Bank Aktiengesellschaft	H Shares	100,937 Beneficial owner	100,000 Beneficial owner	–	6.85%
		14,307,298 Investment manager			
		660,000 Person having a security interest in shares			
Martin Currie (Holdings) Limited	H Shares	12,386,000 Interest of controlled corporation	–	–	5.63%

*Note:* Save as the fact that Mr. Yang Rongming, the Chairman of the Company is also the Chairman and the General Manager of GPHL, no director or proposed director of the Company is a director or employee of a company with has an interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

So far as is known to any Director, supervisor and senior management of the Company, as at the Latest Practicable Date, the following persons/entities (other than any Director, supervisor and senior management of the Company) were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the following members of the Group:

<b>Name of member of the Group</b>	<b>Name of substantial shareholder</b>	<b>% of issued share capital</b>
Guangzhou Hanfang Modern Chinese Medicine Research and Development Limited	GPHL	20.06
Guangzhou Pharmaceutical Yingbang Marketing Company Limited	GPHL	49.00

Save as disclosed above, as at the Latest Practical Date, the Directors are not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of any other member of the Group.

#### **QUALIFICATION AND INTEREST OF EXPERT**

Vinco, the independent financial adviser to the Independent Board Committee and the Independent Shareholders who has given its opinion in this circular and whose name is included in this circular, is a licensed corporation for types 1 and 6 regulated activities under the SFO.

As at the Latest Practicable Date, Vinco did not have any shareholding interest in any member of the Group nor any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Vinco did not have any direct or indirect interest in any asset which has been, since 31 December 2007 being the date to which the latest audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

**CONSENT**

Vinco has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name included in this circular in the form and context in which they respectively included.

**MATERIAL ADVERSE CHANGE**

As at the Latest Practical Date, the Directors confirm that there is no material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published audited consolidated accounts of the Group were made up.

**GENERAL**

- (i) None of the Directors has entered into, or proposed to enter into, any service contracts with any member of the Group which will not expire or is not determinable by the Company or any of the member of the Group within one year without payment of compensation other than statutory compensation.
- (ii) as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which has been, since 31 December 2007 being the date to which the latest audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group;
- (iii) as at the Latest Practicable Date, none of the Directors have any contract or arrangement subsisting at the date of this circular in which the director is materially interested and which is significant in relation to the business of the group;
- (iv) as at the Latest Practicable Date, none of the Directors and their respective associates had any competing interest with the Group; and
- (v) the English text of this circular shall prevail over the Chinese text.

**LITIGATION**

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the registered office of the Company at 45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC during normal business hours up to and including 29 May 2008:

- (a) the Agreement;
- (b) the letter dated 14 April 2008 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 12 of this circular;
- (c) the letter of advice dated 14 April 2008 from Vinco to the Independent Board Committee, the text of which is set out on pages 13 to 21 of this circular; and
- (d) the written consent referred to in the paragraph headed “Consent” in this appendix.