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# 廣州藥業股份有限公司

**Guangzhou Pharmaceutical Company Limited**

*(a joint stock company established in the People's Republic of China with limited liability)*

## ANNOUNCEMENT

### IN RELATION TO (1) MEDICAL INSURANCE FOR ALL RETIRED AND RETIRING EMPLOYEES OF THE GROUP AS REQUIRED BY PROVISIONAL RULES OF MEDICAL INSURANCE AND (2) ACCOUNTING TREATMENT OF INSURANCE PREMIUM PAYMENTS

#### SUMMARY

As required by the Provisional Rules of Medical Insurance promulgated by the Guangzhou People's Municipal Government effective on 1 December 2001, the Group shall be responsible for taking out medical insurance for its Retired and Retiring Employees and pay for the relevant insurance premium.

At the board meeting of the Company held on 23 January 2003, the directors voted in favour of the motion for the adoption of HKGAAP in the accounting treatment in relation to the medical insurance taken out by the Group for its Retired and Retiring Employees.

Based on the preliminary estimate by the Company, which is subject to the review by the international auditors of the Group, the net present value of the aggregate payments for medical insurance in 2002 and the next nine years is approximately RMB75 million, representing about 3.2% of the Group's net tangible asset as at 31 December 2001. Therefore, if such payments of medical insurance are recognized as expense in the Group's financial statements for the year ended 31 December 2002, the financial results of the Group shown in the accounts prepared in accordance with HKGAAP for the year ended 31 December 2002 would be adversely affected. Since the total present value for the aforesaid medical insurance is still under consideration, the best estimated amount thereof will be disclosed in the 2002 annual report.

In view of the impact on the financial results of the Group, shareholders and potential investors are advised to exercise caution when dealing in shares of the Company.

As required by circular no. 17 - Provisional Rules of Basic Medical Insurance for Employees in Guangzhou City (17號《廣州市城鎮職工基本醫療保險試行辦法》) (the "Provisional Rules of Medical Insurance") promulgated by the Guangzhou People's Municipal Government effective on 1 December 2001, Guangzhou Pharmaceutical Company Limited (the "Company" and its subsidiaries (together the "Group")) shall be responsible for taking out medical insurance for all its Retired and Retiring Employees. Pursuant to the requirements of the Provisional Rules of Medical Insurance, the enterprises may pay in one lump sum or on a yearly or monthly basis over 10 years for the insurance premium for their retired employees and the employees to be retired in next ten years (the "Retired and Retiring Employees"). In view of the circumstances of the Group, the Group will comply with the relevant requirements but intends to make such payments on a monthly basis for their Retired and Retiring employees (except those 233 Retired and Retiring Employees of certain subsidiaries of the Group, representing about 3.16% of the total number of about 7,373 Retired and Retiring Employees of the Group, for whom the insurance premium has been paid by the Group in one lump sum as such subsidiaries consider that it is better for them to make one lump sum payment). According to《關於繳納過渡性基本醫療保險金及相關問題的補充意見》(the Supplemental Advice Relating to Payment of the Transitional Basic Medical Insurance Premium and Related Questions) issued by the relevant government authorities, no approval of the payment by the Group on a monthly basis for the medical insurance of their Retired and Retiring Employees is required.

The board of directors (the “Board”) of the Company held the 2nd term of the 21st meeting at the Conference Room on the 2nd floor of the Company on 23 January 2003 to consider the accounting treatment regarding the payment to be made by the Group in relation to medical insurance as required by the Provisional Rules of Medical Insurance. There were 9 directors eligible to attend the meeting, out of which 6 attended the meeting. Mr. Liu Jinxiang and Mr. Feng Zansheng respectively appointed Mr. Cai Zhixiang, the Chairman of the Board, as their proxy to vote at the meeting. Mr. Zhang Bohua appointed Mr. Li Yimin, the Vice Chairman of the Board, as his proxy to vote at the meeting. The meeting was chaired by Mr. Cai Zhixiang and attended by the supervisors and senior management of the Company. Thus, the meeting was held in accordance with the requirements of the Company Law and the Articles of Association of the Company and validly constituted. After detailed discussion, the directors present unanimously voted in favour of the motion for the adoption of the accounting principles generally accepted in Hong Kong (“HKGAAP”) in the accounting treatment in relation to the medical insurance taken out by the Group for its Retired and Retiring Employees.

According to the requirement of HKGAAP and the opinion of the international auditors of the Group, payment to be made by the Group in relation to medical insurance for past services of its Retired and Retiring Employees should be recognized as expense in 2002. Based on the preliminary estimate by the Company, which is subject to the review by the auditors of the Group, the net present value of the aggregate payments for medical insurance in 2002 and the next nine years is approximately RMB75 million, representing about 3.2% of the Group’s net tangible asset as at 31 December 2001. The estimate of the net present value of the payments to be made by the Group in relation to the medical insurance for past services of the Retired and Retiring Employees is based on; (i) the actual age and number of the Retired and Retiring Employees; (ii) the parameters taken from per capita salaries of in Guangzhou city in 2001; (iii) the national average life span; and (iv) the expected growth rate of the gross national products of the Guangzhou city after deduction of the general corporate debenture rates. If such payments of medical insurance are recognized as expense in the Group’s financial statements for the year ended 31 December 2002, financial results of the Group shown in the accounts prepared in accordance with HKGAAP for the year ended 31 December 2002 would be adversely affected as approximately RMB75 million may be recognized as an expense. The Group disclosed matters related to the Provisional Rules of Medical Insurance in its 2002 interim results announcement. As the Group was still assessing the financial impact of the Provisional Rules of Medical Insurance, the Group did not reflect such impact on its 2002 interim accounts.

Since the total present value for the aforesaid medical insurance is still under consideration, the best estimated amount thereof will be disclosed in the 2002 annual report.

In view of the impact on the financial results of the Group, shareholders and potential investors are advised to exercise caution when dealing in shares of the Company.

This announcement is made in accordance with paragraph 2(2) of the Listing Agreement and will be published simultaneously in Hong Kong and Shanghai.

The directors individually and jointly accept responsibility for the accuracy of this announcement.

By Order of the Board  
**He Xuhua**  
*Company Secretary*  
**Guangzhou Pharmaceutical Company Limited**

Guangzhou, the PRC, 23 January 2003

Please also refer to the published version of this announcement in The Standard / Hong Kong Economic Times.