

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, 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 announcement.



廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

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

**CONNECTED TRANSACTIONS
ACQUISITION OF INTEREST IN
YINGBANG
&
LEASE OF PROPERTIES
NEW NON-COMPETITION
AGREEMENT**

The Acquisition

On 6 February 2004, the Company entered into the Acquisition Agreement with GPLH pursuant to which the Company agreed to acquire from GPLH 51% equity interest in Yingbang for a cash consideration of RMB3,888,713.99 (equivalent to approximately HK\$3,668,598.10). The consideration represents approximately 51% of the market value of the net assets of Yingbang as at 31 October 2003.

Yingbang is a wholly-owned subsidiary of GPLH. GPLH is the controlling shareholder of the Company holding approximately 63.26% of the issued share capital of the Company. Accordingly, GPLH is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company as defined in the respective listing rules of the Stock Exchange and the Shanghai Stock Exchange. Pursuant to rule 14.25(1) of the Listing Rules, details of the Acquisition are disclosed in this announcement and will be included in the next annual report and accounts of the Company in accordance with Rule 14.25 (1)(A) to (D) of the Listing Rules.

The Trading Transactions between the Group and the GPLH Group will constitute connected transactions under the Listing Rules. The Directors estimate the annual aggregate value of the Trading Transactions will not exceed the higher of HK\$10,000,000

(equivalent to approximately RMB10,600,000) and 3% of the latest published consolidated net tangible assets value of the Group. As a result, the Trading Transactions are only subject to disclosure requirements pursuant to rule 14.25(1) of the Listing Rules. Furthermore, details of the Trading Transactions will be included in the next annual report and accounts of the Company in accordance with Rule 14.25 (1)(A) to (D) of the Listing Rules.

The Lease Agreements

The Company has entered into various lease agreements with GPHL. The leases constitute connected transactions of the Company as defined in the respective listing rules of the Stock Exchange and the Shanghai Stock Exchange. As the aggregate rent payable by the Company to GPHL under the leases does not exceed the higher of HK\$10,000,000 (equivalent to approximately RMB10,600,000) and 3% of the latest published consolidated net tangible assets value of the Group, the leases are only subject to disclosure requirements pursuant to rule 14.25(1) of the Listing Rules. Details of the leases will be included in the next and each successive annual report and accounts of the Company in accordance with Rule 14.25 (1)(A) to (D) of the Listing Rules.

The New Non-competition Agreement

As set out in the Prospectus, the Company and GPHL have entered into the Existing Non-competition Agreement which provides, inter alia, that the GPHL Group will not engage directly or indirectly in any business that competes with those of the Group.

Pursuant to a directive issued by the Guangzhou Municipal Government on 15 November 2000, GPHL was appointed to oversee the debt restructuring of the BYSHL Group, which was under financial distress. The BYSHL Group is a state-owned conglomerate with over 40 subsidiaries covering a variety of industries. BYSCL was one of the subsidiaries of BYSHL and has been engaged in the development, manufacture and sale of pharmaceutical products. At present, both the Group and the BYSCL Group manufacture the Common Products.

Given that GPHL (i) does not exercise or control the exercise of 30% or more of the voting power at the general meetings of BYSCL; and (ii) does not control the composition of a majority of the board of directors of BYSCL, BYSCL is not considered an associate of GPHL within the meaning ascribed thereto under the Listing Rules. Accordingly, BYSCL is not a part of the GPHL Group and the manufacture of the Common Products by the BYSCL Group does not constitute a breach of the Existing Non-competition Agreement.

However, at the request of CSRC and in order to avoid any perception of conflicts of interest, the Company and BYSCL entered into the New Non-competition Agreement on 6 February 2004. Pursuant to the New Non-competition Agreement, effective from 1

January 2004, for so long as the securities of the Company remain listed on the Stock Exchange and/or the Shanghai Stock Exchange, and GPLH remains as a controlling shareholder of the Company and a substantial shareholder of BYSCL, the Group will manufacture four Common Products, while the BYSCL Group will manufacture the remaining three, details of which are set out in the section headed “New Non-competitive Agreement” of this announcement. In addition, each of the Group and the BYSCL Group will not research, develop or manufacture new products that are being researched, developed or manufactured by the other party. Details of the New Non-competition Agreement are disclosed in this announcement pursuant to paragraph 2(2) of the Listing Agreement.

THE ACQUISITION

Acquisition Agreement

Date

6 February 2004

Parties

Vendor: GPLH

Purchaser: The Company

Assets to be acquired

51% equity interest in Yingbang

Consideration

RMB3,888,713.99 (equivalent to approximately HK\$3,668,598.10)

The consideration represents approximately 51% of the market value of the net assets of Yingbang in the amount of RMB7,624,929.40 as at 31 October 2003, according to the valuation report dated 22 November 2003 issued by 廣州羊城會計師事務所有限公司 (Guangzhou Yangcheng Certified Public Accountants Co. Ltd.). The consideration has been arrived at after arm's length negotiation with reference to the valuation of the net assets of Yingbang as at 31 October 2003. The market value of the net assets of Yingbang as at 31 October 2003 was approximately 2.7% higher than its audited book value as at 30 September 2003.

The consideration will be paid in cash by the Company to GPLH within 10 days from the date of the Acquisition Agreement, being 16 February 2004. The consideration will be financed by the internal resources of the Company.

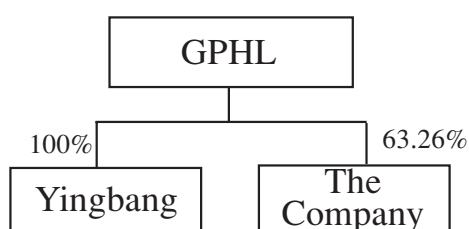
The Directors (including the independent non-executive Directors) consider that the consideration represents normal commercial terms and are fair and reasonable insofar as the Company and its shareholders are concerned.

Completion

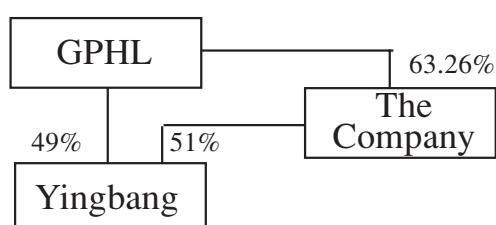
The Acquisition will be completed upon registration with the local Administration of Industry and Commerce of the shareholding change in Yingbang.

Shareholding structure of Yingbang immediately before and after the Acquisition

Before the Acquisition



After the Acquisition



Following the completion of the Acquisition, the Company will hold 51% of the equity interest in Yingbang. Accordingly, Yingbang will become a subsidiary of the Company and its results will be consolidated into the results of the Group.

Information on the Group

The Group is principally engaged in (i) the manufacture and sale of Chinese patent medicine and (ii) the wholesale, retail, import and export of Western and Chinese pharmaceutical products and various medical apparatus.

Information on the GPLH Group

GPLH is the controlling shareholder of the Company holding approximately 63.26% of the issued share capital of the Company. It is a state-owned enterprise in the PRC. It is principally engaged in the development, manufacture and trading of western pharmaceutical products.

Information on Yingbang

廣州醫藥建設開發公司 (Guangzhou Pharmaceutical Development Company), the predecessor of Yingbang, was established in 1984. In 2000, it was converted into a limited liability company and its name was changed to Yingbang. It is engaged in the trading of (i) raw materials for pharmaceutical products; (ii) finished pharmaceutical products; and (iii) medical apparatus.

Yingbang's trading partners include the Group, the GPLH Group and Independent Third Parties. Yingbang mainly supplies pharmaceutical raw materials to the Group and the GPLH Group, while resells finished pharmaceutical products and medical apparatus sourced from the Group and Independent Third Parties. With over 50 staff and offices in about 19 cities and provinces in the PRC, Yingbang has developed a strong marketing network.

The audited sales and net profit/(loss) of Yingbang for the two years ended 31 December 2002 and the nine months ended 30 September 2003 in accordance with PRC GAAP are set out as follows:

<i>RMB ('000)</i>	Year ended 31 December 2001	Year ended 31 December 2002	Nine months ended 30 September 2003
Sales	68,290	97,462	81,469
Net profit/(loss)	69	(277)	1,041

Yingbang's net profit improved from the year ended 31 December 2002 to the nine months ended 30 September 2003 mainly because it managed to reduce its operating expenses during the nine months ended 30 September 2003.

As at 31 December 2001 and 2002 and 30 September 2003, the audited net assets value of Yingbang in accordance with PRC GAAP was approximately RMB9.4 million, RMB9.2 million and RMB7.4 million, respectively.

According to the valuation report dated 22 November 2003 issued by 廣州羊城會計師事務所有限公司 (Guangzhou Yangcheng Certified Public Accountants Co. Ltd.), as at 31 October 2003, Yingbang had total assets of RMB34,145,328.45, current assets of RMB33,432,496.64, total liabilities of RMB26,520,399.05 and net assets of RMB7,624,929.40.

Reasons for the Acquisition

The Directors (including the independent non-executive Directors) consider that the Acquisition will allow the Group to leverage on Yingbang's sales network in the PRC to increase the sales of the Group's pharmaceutical products and enlarge the Group's customer base.

Connected transactions

The Acquisition

Yingbang is a wholly-owned subsidiary of GPHL. GPHL is the controlling shareholder of the Company holding approximately 63.26% of the issued share capital of the Company. Accordingly, GPHL is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company as defined in the respective listing rules of the Stock Exchange and the Shanghai Stock Exchange. Pursuant to rule 14.25(1) of the Listing Rules, details of the Acquisition are disclosed in this announcement and will be included in the next annual report and accounts of the Company in accordance with Rule 14.25 (1)(A) to (D) of the Listing Rules.

The Trading Transactions

Yingbang has been trading pharmaceutical products with the GPHL Group. Following the completion of the Acquisition, such transactions will become connected transactions of the Company under the Listing Rules.

As set out under the paragraph headed “Waiver Application” under the section headed “Particulars of the Group” of the Prospectus, the Group has applied to the Stock Exchange for the Original Waiver with respect to the Trading Transactions. Pursuant to the Original Waiver, the Trading Transactions between the Group (including Yingbang) and the GPLH Group are allowed as long as (i) the aggregate amount of the Sale Transactions does not exceed 3% of the Group’s turnover in any financial year; (ii) the aggregate amount the Purchase Transactions does not exceed 8% of the Group’s cost of goods sold in any financial year; and (iii) the Company complies with other conditions of the Original Waiver as set out in the Prospectus.

After reviewing the historical values of the Trading Transactions in recent years, the Directors find that the caps for the Trading Transactions granted under the Original Waiver exceed the actual needs of the Group. Due to the change in circumstances, the Directors consider that the Original Waiver will no longer be applicable. The Directors estimate that the annual aggregate value of the Trading Transactions will not exceed the higher of HK\$10,000,000 (equivalent to approximately RMB10,600,000) and 3% of the latest published consolidated net tangible assets value of the Group. Therefore, although the Original Waiver is no longer applicable, the Trading Transactions are only subject to disclosure requirements pursuant to rule 14.25(1) of the Listing Rules. Furthermore, details of the Trading Transactions will be included in the next annual report and accounts of the Company in accordance with Rule 14.25 (1)(A) to (D) of the Listing Rules.

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 individual and arm’s length basis and will be conducted on normal commercial terms and on terms no less favourable than those available to Independent Third Parties. Therefore, the Directors (including the independent non-executive Directors) consider that the terms of the Trading Transactions are fair and reasonable so far as the shareholders of the Company are concerned.

THE LEASE AGREEMENTS

The Company has entered into various lease agreements with GPLH. Details of the lease agreements are set out below.

A. Office A Lease Agreement

Date:	6 February 2004
Property:	Office premises located on 2nd Floor, 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC
Lessor:	GPLH
Lessee:	The Company

Area: Approximately 530 sq. m.

Term: From 1 February 2004 to 31 August 2007 (subject to renewal on terms and conditions to be agreed by the parties) (see remarks below)

Rent: RMB45,050 (equivalent to approximately HK\$42,500) per month, subject to adjustment with reference to the standard rent prescribed by 廣州市房地產管理局 (Guangzhou Real Estate Administration Bureau) from time to time. The rent is currently at a discount of approximately 29% to the standard rent prescribed by 廣州市房地產管理局 (Guangzhou Real Estate Administration Bureau) as at 16 April 1999, being the date on which the Guangzhou Real Estate Administration Bureau last published such standard rent

The rent is exclusive of charges for utilities and other outgoings which are payable based on actual consumption.

The rent is payable on a quarterly basis in arrears.

Remarks: The Company has leased this property from GPHL since 1 September 1997. The lease was subsequently renewed in November 2000. For details, please refer to the Company's announcement dated 29 November 2000.

B. Office B Lease Agreement

Dates: 6 February 2004

Property: Office premises located on 2nd and 3rd Floors of the Rear Portion of 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC

Lessor: GPHL

Lessee: The Company

Area: Approximately 619 sq. m.

Term: From 1 January 2003 until the Prepaid Rent (as defined below) is fully utilized (see remarks below) (subject to renewal on terms and conditions to be agreed by the parties).

Rent: RMB46,000 (equivalent to approximately HK\$43,400) per month, subject to adjustment with reference to the standard rent prescribed by 廣州市房地產管理局 (Guangzhou Real Estate Administration Bureau) from time to time. The

rent represents a discount of approximately 38% to the standard rent prescribed by 廣州市房地產管理局 (Guangzhou Real Estate Administration Bureau) as at 16 April 1999, being the date on which the Guangzhou Real Estate Administration Bureau last published such standard rent. The discount is given in recognition of the Prepaid Rent (see remarks below).

The rent is exclusive of charges for utilities and other outgoings which are payable based on actual consumption.

Remarks: Pursuant to an agreement dated 28 August 1998 entered into between the Company and GPHL, GPHL agreed to construct a new office building at the Rear Portion of 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC, and the Company agreed to pay RMB6,000,000 (equivalent to approximately HK\$5,660,400) as prepaid rent (the “Prepaid Rent”) for leasing certain parts of the new building upon completion of its construction.

On 6 February 2004, the Company and GPHL entered into Office B Lease Agreement, pursuant to which the lease term commenced from 1 January 2003 (being the date on which the Group started to use the office) and ends when the Prepaid Rent is fully utilized. The rent was fixed at RMB46,000 per month (subject to adjustment as described above), representing a discount of approximately 38% to the standard rent prescribed by 廣州市房地產管理局 (Guangzhou Real Estate Administration Bureau) as at 16 April 1999.

C. Premises Lease Agreement

Date: 6 February 2004

Properties: Various warehouses, offices and shops in Guangzhou City, Guangdong Province, the PRC (total number of premises: over 35)

Lessor: GPHL

Lessee: The Company

Term: From 1 September 2003 to 31 August 2007 (subject to renewal on terms and conditions to be agreed by the parties)

Rent: RMB2,213,061.66 (equivalent to approximately HK\$2,087,794.02) per year in total, determined by reference to the depreciation charges of the premises as recorded in the books of GPHL. The rent represents a significant discount to market value.

The rent is exclusive of charges for utilities and other outgoings which are payable based on actual consumption.

The rent is payable on a quarterly basis in arrears.

Remarks: The Company has leased similar premises from GPHL since 1 September 1997. The lease was subsequently renewed in November 2000. For details, please refer to the Company's announcement dated 29 November 2000.

Connected transactions

Since the lessor of the above leased premises is GPHL, the controlling shareholder of the Company, the leases constitute connected transactions of the Company as defined in the respective listing rules of the Stock Exchange and the Shanghai Stock Exchange.

The Directors (including the independent non-executive Directors) consider that the Office A Lease Agreement, Office B Lease Agreement and Premises Lease Agreement were entered into in the ordinary and usual course of business of the Group and on normal commercial terms or on terms that are no less favourable to the Group than to Independent Third Parties. Accordingly, they consider that the terms of these lease agreements are in the interests of the Company and its shareholders as a whole.

As the aggregate rent payable by the Company to GPHL under the Office A Lease Agreement, Office B Lease Agreement and Premises Lease Agreement does not exceed the higher of HK\$10,000,000 (equivalent to approximately RMB 10,600,000) and 3% of the latest published consolidated net tangible assets value of the Group, the leases are only subject to disclosure requirements pursuant to rule 14.25(1) of the Listing Rules. Furthermore, details of the leases will be included in the next and each successive annual report and accounts of the Company in accordance with Rule 14.25 (1)(A) to (D) of the Listing Rules.

NEW NON-COMPETITION AGREEMENT

Background

Reference is made to the paragraph headed “Non-competition and right of first refusal agreement” under the section headed “Particulars of the Group” of the Prospectus in relation to the Existing Non-competition Agreement entered into between the Company and GPLH which provides, inter alia, that the GPLH Group will not engage directly or indirectly in any business that competes with those of the Group.

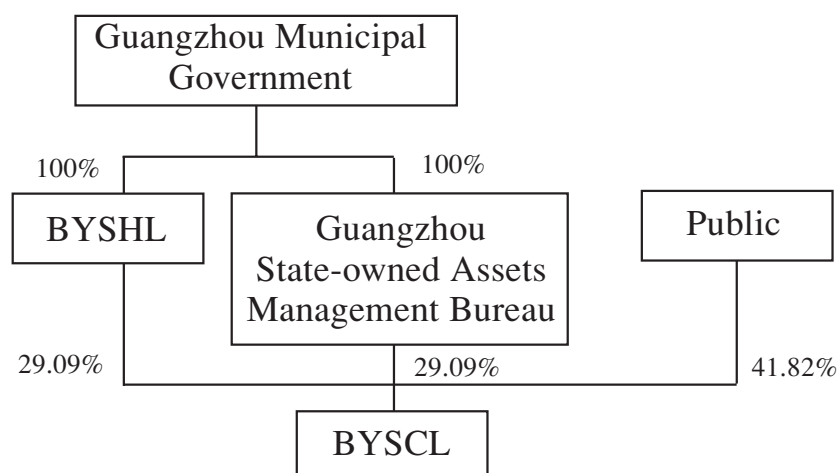
The BYSHL Group is a state-owned conglomerate with over 40 subsidiaries covering a variety of industries. BYSCL was one of the subsidiaries of BYSHL and has been engaged in the development, manufacture and sale of pharmaceutical products.

Pursuant to a directive issued by the Guangzhou Municipal Government on 15 November 2000, GPLH was appointed to oversee the debt restructuring of the BYSHL Group, which was under financial distress. During the debt restructuring, GPLH has mainly assisted the BYSHL Group in the following areas: (i) hiring professionals to conduct the debt restructuring; (ii) devising schemes of restructuring; (iii) negotiating with creditors; and (iv) handling the retrenchment of employees.

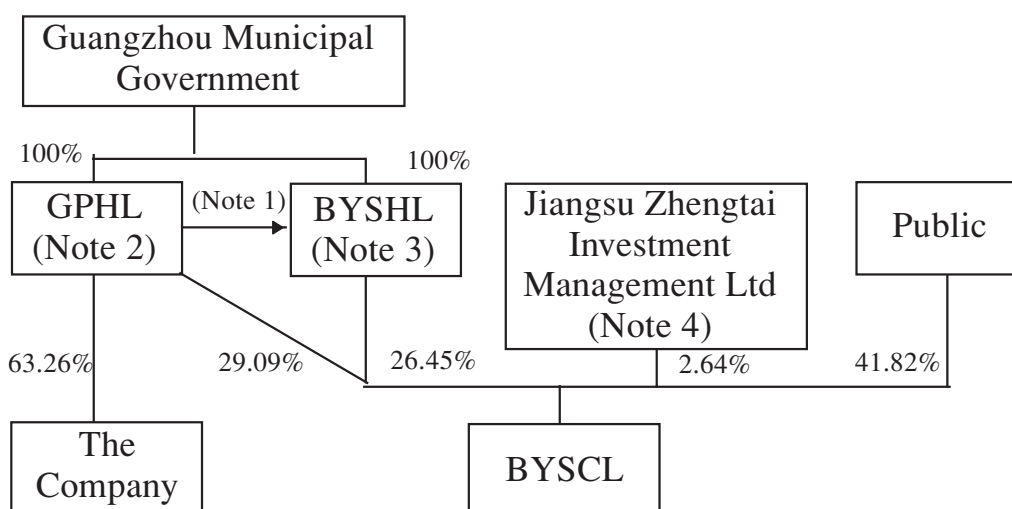
As advised by 正平天成律師事務所 (Z&T Law Firm), the Company’s PRC legal advisers, GPLH has been representing the Guangzhou Municipal Government as a shareholder of BYSHL, but does not have the power to exercise the voting rights of the Guangzhou Municipal Government in BYSHL without the consent of the Guangzhou Municipal Government. In July 2001, the Guangzhou Municipal Government transferred approximately 29.09% of the issued share capital of BYSCL, which was then held by 廣州市國有資產管理局 (Guangzhou State-owned Assets Management Bureau), to GPLH at no consideration. Subsequently, GPLH nominated two directors to the board of BYSCL, which consisted of 9 directors in total. In order to facilitate the debt restructuring of the BYSHL Group, GPLH has also pledged 152,600,000 shares in the Company (representing approximately 18.82% of the issued share capital of the Company) owned by it to certain creditors of the BYSHL Group as disclosed in the 2003 interim report of the Company.

The following diagram depicts the changes in the shareholding structure of BYSCL resulting from the debt restructuring (which is still ongoing):

Before the debt restructuring (before 15 November 2000)



After the debt restructuring (since 27 December 2001)



Notes:

1. GPLH oversees the debt restructuring of the BYSHL Group pursuant to a directive issued by the Guangzhou Municipal Government on 15 November 2000.
2. GPLH has pledged 152,600,000 shares in the Company (representing approximately 18.82% of the issued share capital of the Company) owned by it to certain creditors of the BYSHL Group in order to facilitate the debt restructuring of the BYSHL Group.
3. Of the approximately 26.45% shareholding interest in BYSCL owned by BYSHL, approximately 20.03% and approximately 4.28% has been respectively pledged to Great Wall Asset Management Ltd. and Eastern Asset Management Ltd., creditors of the BYSHL Group.
4. Jiangsu Zhengtai Investment Management Ltd. is an Independent Third Party.

Purpose of the New Non-competition Agreement

The extent of GPLH's influence in BYSCL is limited to (i) the control of 29.09% voting rights in the general meetings of BYSCL; and (ii) the holding of two seats out of nine in the board of BYSCL. Given that GPLH (i) does not exercise or control the exercise of 30% or more of the voting power at the general meetings of BYSCL; and (ii) does not control the composition of a majority of the board of directors of BYSCL, BYSCL is not considered an associate of GPLH within the meaning ascribed thereto under the Listing Rules. Accordingly, BYSCL is not a part of the GPLH Group and BYSCL's involvement in the pharmaceutical industry does not constitute a breach of the Existing Non-competition Agreement.

However, at the request of CSRC and in order to avoid any perception of conflicts of interest, the Company and BYSCL entered into the New Non-competition Agreement on 6 February 2004.

Principal terms of the New Non-competition Agreement

At present, both the Group and the BYSCL Group manufacture the following patented Chinese pharmaceutical products: 骨仙片 (Guxianpian), 小柴胡顆粒 (Xiaochaiwukeli), 板藍根顆粒 (Banlangenkeli), 壯腰健腎丸 (Zhuangyaojianshenwan), 加味藿香正氣丸 (Jiawei huoxiangzhengqiwan), 千柏鼻炎片 (Qianbaibiyianpian) and 烏雞百鳳丸 (Wujibaifengwan) (collectively, the "Common Products").

Pursuant to the New Non-competition Agreement, effective from 1 January 2004, for so long as the securities of the Company remain listed on the Stock Exchange and/or the Shanghai Stock Exchange, and GPLH remains as a controlling shareholder of the Company and a substantial shareholder of BYSCL,

(i) the Group will manufacture the following four Common Products (the "Retained Products"):

- 壯腰健腎丸 (Zhuangyaojianshenwan)
- 加味藿香正氣丸 (Jiawei huoxiangzhengqiwan)
- 千柏鼻炎片 (Qianbaibiyianpian)
- 烏雞百鳳丸 (Wujibaifengwan)

while the BYSCL Group will manufacture the following three Common Products (the "Abandoned Products"):

- 骨仙片 (Guxianpian)
- 小柴胡顆粒 (Xiaochaiwukeli)
- 板藍根顆粒 (Banlangenkeli)

- (ii) each of the Group and the BYSCL Group agrees that it will not research, develop or manufacture new products that are being researched, developed or manufactured by the other party. Both parties will regularly update each other about their own research and development to avoid researching or manufacturing the same new products in the future.

Basis of division of the Common Products between the Group and the BYSCL

The basis of division of the Common Products between the Group and the BYSCL Group was determined following arm's length negotiation between the two parties with reference to the relative sales value achieved by the parties in the Common Products. In essence, the party who has achieved higher sales in a Common Product will keep that Common Product. This approach minimizes the loss in revenue suffered by the party who has to give up a Common Product to the other party. The Directors believe that this approach is fair to both the Group and the BYSCL Group.

Financial impact of the New Non-competition Agreement to the Group

Pursuant to the New Non-competition Agreement, the Group will take over the Retained Products from the BYSCL Group but will give up the Abandoned Products to the BYSCL Group. The turnover and gross profit attributable to the Retained Products and the Abandoned Products for the year ended 31 December 2002 and the nine months ended 30 September 2003 are set out below:

Retained Products

Period	Turnover (RMB'000)	As a percentage of the Group's turnover	Gross profit	As a percentage of the Group's gross profit (RMB'000)
Year ended 31				
December 2002	101,064	1.9%	48,262	4.1%
Nine months ended				
30 September 2003	83,460	1.4%	37,990	2.9%

Abandoned Products

Period	Turnover (RMB'000)	As a percentage of the Group's turnover	Gross profit	As a percentage of the Group's gross profit (RMB'000)
Year ended 31				
December 2002	9,702	0.2%	6,248	0.5%
Nine months ended				
30 September 2003	5,575	0.1%	2,466	0.2%

The net financial effect of the New Non-competition Agreement is that the Group will keep the turnover and gross profit from the Retained Products, while losing those from the Abandoned Products. Based on historical records, the turnover and gross profit attributable to the Retained Products have far exceeded those attributable to the Abandoned Products. In fact, the turnover and gross profit attributable to the Abandoned Products have been immaterial to the Group. On the other hand, the turnover and gross profit attributable to the Retained Products could potentially increase in the future since the existing customers of the BYSCL Group may have to turn to the Group for sourcing such products.

Accordingly, the Directors (including the independent non-executive Directors) consider that the terms of the New Non-competition Agreement, including the choice of the Retained Products and Abandoned Products, are in the interests of the Company and its shareholders as a whole.

Paragraph 2(2) of the Listing Agreement

Details of the New Non-competition Agreement are disclosed in this announcement pursuant to paragraph 2(2) of the Listing Agreement.

DEFINITIONS

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

“Acquisition”	the acquisition of 51% equity interest in Yingbang by the Company from GPHL pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 6 February 2004 entered into between the Company and GPHL in relation to the Acquisition
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“BYSCL”	廣州白雲山制藥股份有限公司 (Guangzhou Baiyunshan Pharmaceutical Manufacturing Company Limited), a company incorporated in the PRC the securities of which are listed on the Shenzhen Stock Exchange
“BYSCL Group”	BYSCL and its subsidiaries
“BYSHL”	廣州白雲山企業集團有限公司 (Guangzhou Baiyunshan Enterprise Holdings Limited), a state-owned company incorporated in the PRC
“BYSHL Group”	BYSHL and its subsidiaries

“Common Products”	the common patented Chinese pharmaceutical products manufactured both by the Group and the BYSCL Group, the details of which are set out in the paragraph headed “Principal terms of the New Non-competition Agreement” of this announcement
“Company”	廣州藥業股份有限公司 (Guangzhou Pharmaceutical Company Limited), a company incorporated in the PRC the securities of which are listed on the Stock Exchange and the Shanghai Stock Exchange
“CSRC”	The China Securities Regulatory Commission
“Directors”	the directors of the Company
“Existing Non-competition Agreement”	the non-competition and right of first refusal agreement dated 1 September 1997 entered into between the Company and GPHL
“Group”	the Company and its subsidiaries
“GPHL”	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 of the Company
“GPHL Group”	GPHL and its subsidiaries and associates, other than the Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party”	a person or entity who/which is not a connected person of the Company as defined in the Listing Rules
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Non-competition Agreement”	the non-competition agreement dated 6 February 2004 entered into between the Company and BYSCL
“Office A Lease Agreement”	the agreement dated 6 February 2004 entered into between the Company and GPHL with respect to the lease of the office premises located on 2nd Floor, 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC

“Office B Lease Agreement”	the agreement dated 6 February 2004 entered into between the Company and GPHL with respect to the lease of the office premises located on 2nd and 3rd Floors of the Rear Portion of 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC
“Original Waiver”	the waiver dated 11 November 1997 granted by the Stock Exchange to the Company from strict compliance with the provisions of Chapter 14 of the Listing Rules with respect to, among others, the Trading Transactions
“PRC”	the People’s Republic of China
“PRC GAAP”	the accounting standards and systems adopted in the PRC
“Premises Lease Agreement”	the agreement dated 6 February 2004 entered into between the Company and GPHL with respect to the lease of various warehouses, offices and shops in Guangzhou City, Guangdong Province, the PRC
“Prospectus”	the prospectus of the Company dated 21 October 1997 in relation to the listing of its shares on the Stock Exchange
“Purchase Transactions”	purchases of pharmaceutical products, pharmaceutical raw materials and medical apparatus by the Group from the GPHL Group
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Transactions”	sales of pharmaceutical products, pharmaceutical raw materials and medical apparatus by the Group to the GPHL Group
“sq. m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trading Transactions”	the Sale Transactions and the Purchase Transactions
“Yingbang”	廣州醫藥集團盈邦營銷有限公司 (Guangzhou Pharmaceutical Yingbang Marketing Company Limited), a company incorporated in the PRC and a wholly owned subsidiary of GPHL before the completion of the Acquisition and a 51% owned subsidiary of the Company after the completion of the Acquisition

“%” per cent.

In this announcement, unless otherwise specified, amounts in RMB are converted to HK\$ at a conversion rate of HK\$1.00=RMB1.06 for illustration only. No representation is made that any amounts in RMB or HK\$ could have been or could be converted at such rate or any other rates.

By order of the Board
He Shuhua
Company Secretary

Guangzhou, the PRC, 6 February 2004

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