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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 People's Republic of China)*

(Stock Code: 0874)

## CONTINUING CONNECTED TRANSACTIONS

The Directors announce that on 26 March 2004, the Company and GPHL entered into the Agreement which governs the Trading Transactions (being the Continuing Connected Trading Transactions and the Other Trading Transactions) for the three financial years ending 31 December 2006.

The Other Trading Transactions will not constitute connected transactions for the Company under the Listing Rules. The Continuing Connected Trading Transactions, being transactions between the Group and the GPHL Group, will constitute continuing connected transactions for the Company under Chapter 14A of the Revised Listing Rules. The Continuing Connected Trading Transactions will be subject to disclosure requirements and are exempted from the Independent Shareholders' approval requirements pursuant to rule 14A.34 of the Revised Listing Rules.

According to the rules of the Shanghai Stock Exchange, the Agreement, which covers both the Continuing Connected Trading Transactions and the Other Trading Transactions, is subject to Independent Shareholders' approval in the Company's general meeting. GPHL and its associates will abstain from voting at the general meeting in relation to the Agreement and the Trading Transactions.

The Board has appointed Grand Vinco Capital Limited as the independent financial adviser to the Independent Board Committee which shall be formed to consider the terms of the Agreement and the Trading Transactions. A circular containing, among other things, details of the Agreement and the Trading Transactions, and the recommendation of the Independent Board Committee as well as the advice of Grand Vinco Capital Limited in relation thereto will be dispatched to the shareholders of the Company as soon as possible.

## **THE AGREEMENT**

The Directors announce that on 26 March 2004, 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 2006,

- (1) the maximum aggregate value of the Sale Transactions would be HK\$160,000,000 (equivalent to about RMB169,600,000), comprising the maximum aggregate value of the Continuing Connected Sale Transactions of HK\$10,000,000 (equivalent to about RMB10,600,000), and the maximum aggregate value of the Other Sale Transactions of HK\$150,000,000 (equivalent to about RMB159,000,000); and
- (2) the maximum aggregate value of the Purchase Transactions would be HK\$160,000,000 (equivalent to about RMB169,600,000), comprising the maximum aggregate value of the Continuing Connected Purchase Transactions of HK\$10,000,000 (equivalent to about RMB10,600,000), and the maximum aggregate value of the Other Purchase Transactions of HK\$150,000,000 (equivalent to about RMB159,000,000).

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 individual and 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;

- b. the Continuing Connected 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 Continuing Connected Trading Transactions, will be set out in the Company's next annual report following the occurrence of the relevant Continuing Connected Trading Transactions; and
- c. GPHL will provide its relevant records to the Company's auditors during their course of review of the Continuing Connected Trading Transactions.

### **REASONS FOR THE AGREEMENT**

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.

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

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

The Group, in its ordinary and usual course of business, sells/purchases pharmaceutical products, pharmaceutical raw materials and medical apparatus to/from the GPHL Group, BYSHL Group and the BYSCL Group.

It was set out in the Company's announcement dated 6 February 2004 that 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, and GPHL has been representing the Guangzhou Municipal Government as a sole 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. Therefore BYSHL is not a subsidiary of GPHL. It was also set out in the Company's announcement dated 6 February 2004 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. Accordingly, BYSHL and BYSCL are not regarded as associates of GPHL and the Other Trading Transactions will not constitute connected transactions for the Company under the Listing Rules. However, having considered the relationship among GHPL, BYSHL and BYSCL as mentioned in this paragraph, the Company and GPHL entered into the Agreement to govern the Trading Transactions for the three financial years ending 31 December 2006, in particular, to set out the respective maximum aggregate values of the Continuing Connected Sale Transactions, the Other Sale Transactions, the Continuing Connected Purchase Transactions and the Other Purchase Transactions for each of the three years ending 31 December 2006.

Set out below is a summary of the Trading Transactions took place during the three financial years ended 31 December 2003:

## Sale Transactions

Sales of  
pharmaceutical  
products,

pharmaceutical  
raw materials and  
medical apparatus  
by the Group to:

	Year ended 31 December 2001		Year ended 31 December 2002		Year ended 31 December 2003	
	RMB'000	% to turnover (Note 5)	RMB'000	% to turnover (Note 5)	RMB'000	% to turnover (Note 5)
The GPLH Group (i.e. Continuing Connected Sale Transactions) (Notes 1 & 2)	3,848	0.072	288	0.005	215	0.003
The BYSHL Group and the BYSCL Group (i.e. Other Sale Transactions) (Notes 1, 3 & 4)	38,118	0.715	65,352	1.099	104,025	1.492
Pro forma annual values of the Sale Transactions	41,966	0.787	65,640	1.104	104,240	1.495

## Purchase Transactions

Purchases of  
pharmaceutical  
products,

pharmaceutical  
raw materials and  
medical apparatus  
by the Group from:

	Year ended 31 December 2001		Year ended 31 December 2002		Year ended 31 December 2003	
	RMB'000	% to cost of sales (Note 6)	RMB'000	% to cost of sales (Note 6)	RMB'000	% to cost of sales (Note 6)
The GPLH Group (i.e. Continuing Connected Purchase Transactions) (Notes 1 & 2)	1,975	0.047	1,661	0.036	6,815	0.122
The BYSHL Group and the BYSCL Group (i.e. Other Purchase Transactions) (Notes 1, 3 & 4)	41,855	1.005	75,615	1.633	100,113	1.796
Pro forma annual values of the Purchase Transactions	43,830	1.052	77,276	1.669	106,928	1.918

Notes:

1. Assuming the acquisition of 51% equity interest in Yingbang by the Group from GPLH (details of which was disclosed in the Company's announcement dated 6 February 2004) had been completed on 1 January 2001, hence Yingbang had been a subsidiary of the Group during the three years ended 31 December 2003.
2. Based on the assumption stated in Note 1 above, not including transactions between Yingbang and other companies of the Group as stated in the Company's annual reports for the three years ended 31 December 2001, 2002 and 2003.
3. Assuming the transfer of equity interests in six companies from GPLH to BYSCL had been completed on 1 January 2001.
4. Based on the assumptions stated in Notes 1 and 3 above, including transactions between Yingbang and (i) the BYSHL Group and (ii) the BYSCL Group (including the six companies mentioned in Note 3 above) in relation to sales and purchases of pharmaceutical products, pharmaceutical raw materials and medical apparatus.

5. Turnover of the Group during the financial years ended 31 December 2001, 2002 and 2003 were about RMB5,334,029,000, RMB5,943,823,000 and RMB6,973,113,000, respectively (these figures were extracted from the Company's accounts prepared in accordance with accounting principles generally accepted in Hong Kong).
6. Cost of sales of the Group during the financial years ended 31 December 2001, 2002 and 2003 were about RMB4,165,306,000, RMB4,630,443,000 and RMB5,576,164,000, respectively (these figures were extracted from the Company's accounts prepared in accordance with accounting principles generally accepted in Hong Kong).

The Directors estimate that in each of the three financial years ending 31 December 2006, (i) the aggregate value of the Sale Transactions will not exceed HK\$160,000,000 (equivalent to about RMB169,600,000) as the aggregate values of the Continuing Connected Sale Transactions and the Other Sale Transactions will not exceed HK\$10,000,000 (equivalent to about RMB10,600,000) and HK\$150,000,000 (equivalent to about RMB159,000,000), respectively; and (ii) the aggregate value of the Purchase Transactions will not exceed HK\$160,000,000 (equivalent to about RMB169,600,000) as the aggregate values of the Continuing Connected Purchase Transactions and the Other Purchase Transactions will not exceed HK\$10,000,000 (equivalent to about RMB10,600,000) and HK\$150,000,000 (equivalent to about RMB159,000,000), respectively. The basis of these values are determined with reference to (a) the respective pro forma annual values of the Continuing Connected Sale Transactions, the Other Sale Transactions, the Continuing Connected Purchase Transactions and the Other Purchase Transactions during each of the three years ended 31 December 2003 as shown in the tables above; and (b) the anticipated growth in the respective aggregate values of the Sale Transactions and the Purchase Transactions since it is expected that the business of the Group will further grow during the three years ending 31 December 2006, hence it is expected that the respective volumes of sales and purchases of pharmaceutical products, pharmaceutical raw materials and medical apparatus to be made by the Group to/from the GPHL Group, the BYSHL Group and the BYSCL Group will increase.

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 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 Trading Transactions, comprising the Continuing Connected Trading Transactions and the Other Trading Transactions, are fair and reasonable so far as the shareholders of the Company are concerned as a whole.

#### **INDEPENDENT SHAREHOLDERS' APPROVAL**

According to the rules of the Shanghai Stock Exchange, as during each of the three years ending 31 December 2006 each of the maximum aggregate values of the Sale Transactions and the Purchase Transactions under the Agreement are set to be RMB169,600,000 (equivalent to about HK\$160,000,000), which is higher than RMB30,000,000 (equivalent to about HK\$28,302,000), the Agreement is required to be subject to Independent Shareholders' approval in the general meeting of the Company.

#### **CONTINUING CONNECTED TRANSACTIONS UNDER THE REVISED LISTING RULES**

As mentioned in the above paragraph headed "Reasons for the Agreement" of this announcement, BYSHL and BYSCL are not regarded as associates of GPLH, and the Other Trading Transactions will not constitute connected transactions for the Company under the Listing Rules.



The Continuing Connected Trading Transactions between the Group and the GPLH Group will constitute continuing connected transactions for the Company under Chapter 14A of the Revised Listing Rules. After reviewing the respective annual values of the Continuing Connected Sale Transactions and the Continuing Connected Purchase Transactions in recent years, the Directors estimate that in the coming years, the respective aggregate amounts of the Continuing Connected Sale Transactions and the Continuing Connected Purchase Transactions for each financial year will not exceed HK\$10,000,000 (equivalent to about RMB10,600,000). On that basis, the Continuing Connected Trading Transactions will only be subject to disclosure requirements and are exempted from the Independent Shareholders' approval requirements pursuant to rule 14A.34 of the Revised Listing Rules. Nevertheless, as mentioned above, the Agreement, which covers both the Continuing Connected Trading Transactions and the Other Trading Transactions, is subject to Independent Shareholders' approval in the Company's general meeting according to the rules of the Shanghai Stock Exchange.

In addition, the Company will comply with the following conditions in relation to the Continuing Connected Trading Transactions:

- (a) the Continuing Connected 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 of the Company as a whole;
- (b) during each of the three financial years ending 31 December 2006, with regard to the maximum aggregate value of the Continuing Connected Sale Transactions, (1) each of the percentage ratios (other than the profits ratio) is on an annual basis less than 2.5%; or (2) each of the percentage ratios (other than the profits ratio) should be less than 25% and the annual consideration is less than HK\$10,000,000 (equivalent to about RMB10,600,000);

- (c) during each of the three financial years ending 31 December 2006, with regard to the maximum aggregate value of the Continuing Connected Purchase Transactions, (1) each of the percentage ratios (other than the profits ratio) is on an annual basis less than 2.5%; or (2) each of the percentage ratios (other than the profits ratio) should be less than 25% and the annual consideration is less than HK\$10,000,000 (equivalent to about RMB10,600,000);
- (d) details of the Continuing Connected 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 transactions in accordance with rule 14A.45 of the Revised Listing Rules;
- (e) the Company's independent non-executive Directors shall review annually the Continuing Connected Trading Transactions and confirm in the Company's next annual reports following the occurrence thereof that the Continuing Connected Trading Transactions have been conducted in the manner as stated in paragraphs (a), (b) and (c) 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;
- (f) the Company's auditors shall review the Continuing Connected Trading Transactions annually, and provide the Board with a letter confirming that:
  - (i) the Continuing Connected Trading Transactions have received the approval of the Directors;
  - (ii) the aggregate amount of the Continuing Connected Sale Transactions during each of the financial year ending 31 December 2006 has not exceeded the annual cap as stated in paragraph (b) above;

- (iii) the aggregate amount of the Continuing Connected Purchase Transactions during each of the financial year ending 31 December 2006 has not exceeded the annual cap as stated in paragraph (c) above;
- (iv) the Continuing Connected Sale Transactions are in accordance with the pricing policies of the Company; and
- (v) the Continuing Connected Trading Transactions have been entered into in accordance with the terms of the relevant agreements governing the transactions;

where, 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

- (g) GPHL shall provide the Stock Exchange 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 (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 Continuing Connected Trading Transactions referred to in paragraph (f) above.

In the event that any of the respective annual caps applicable to the Continuing Connected Sale Transactions and the Continuing Connected Purchase Transactions as stated in paragraphs (b) and (c) above is exceeded or if the Group enters into any new agreement with any connected person (within the meaning of the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14A of the Revised Listing Rules dealing with connected transactions, unless it applies for and obtains a separate waiver from the Stock Exchange.

## **ANNUAL GENERAL MEETING**

The Directors propose to seek the Independent Shareholders' approval of the Agreement in the forthcoming annual general meeting of the Company to be convened to, inter alia, consider and approve the Company's audited financial results for the year ended 31 December 2003. The Board has appointed Grand Vinco Capital Limited as the independent financial adviser to the Independent Board Committee which shall be formed to consider the terms of the Agreement and the Trading Transactions, which comprises the Continuing Connected Trading Transactions and the Other Trading Transactions. A circular containing, among other things, details of the Agreement and the Trading Transactions, and the recommendation of the Independent Board Committee as well as the advice of Grand Vinco Capital Limited in relation thereto will be dispatched to the shareholders of the Company as soon as possible.

GPHL and its associates will abstain from voting at the forthcoming annual general meeting in relation to the Agreement and the Trading Transactions.

## **DEFINITIONS**

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

“Agreement”	the agreement dated 26 March 2004 entered into between the Company and GPHL in relation to the Trading Transactions
“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“BYSCL”	廣州白雲山製藥股份有限公司 (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
“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
“Continuing Connected Purchase Transactions”	purchases of pharmaceutical products, pharmaceutical raw materials and medical apparatus by the Group from the GPLH Group which are regarded as continuing connected transactions under the Revised Listing Rules
“Continuing Connected Sale Transactions”	sales of pharmaceutical products, pharmaceutical raw materials and medical apparatus by the Group to the GPLH Group which are regarded as continuing connected transactions under the Revised Listing Rules
“Continuing Connected Trading Transactions”	the Continuing Connected Sale Transactions and the Continuing Connected Purchase Transactions
“Directors”	the directors of the Company
“Existing Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited currently in effect
“Group”	the Company and its subsidiaries
“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 of the Company
“GPLH Group”	GPLH and its subsidiaries and their associates, other than the Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“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 of the Company 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
“Listing Rules”	the Existing Listing Rules and the Revised Listing Rules
“Other Purchase Transactions”	purchases of pharmaceutical products, pharmaceutical raw materials and medical apparatus by the Group from the BYSHL Group and the BYSCL Group
“Other Sale Transactions”	sales of pharmaceutical products, pharmaceutical raw materials and medical apparatus by the Group to the BYSHL Group and the BYSCL Group
“Other Trading Transactions”	the Other Sale Transactions and the Other Purchase Transactions
“percentage ratios”	has the meaning ascribed thereto under the Revised Listing Rules
“PRC”	the People’s Republic of China
“profits ratio”	has the meaning ascribed thereto under the Revised Listing Rules
“Purchase Transactions”	the Continuing Connected Purchase Transactions and the Other Purchase Transactions
“RMB”	Renminbi, the lawful currency of the PRC

“Revised Listing Rules”	the revised Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which will come into effect on 31 March 2004
“Sale Transactions”	the Continuing Connected Sale Transactions and the Other Sale Transactions
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trading Transactions”	the Continuing Connected Trading Transactions (being the Continuing Connected Sale Transactions and the Continuing Connected Purchase Transactions) and the Other Trading Transactions (being the Other Sale Transactions and the Other 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 currently a 51% owned subsidiary of the Company
“%”	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, 26 March 2004

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