
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

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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)

(H Share Stock Code: 0874)

CONTINUING CONNECTED TRANSACTIONS

Financial adviser to the Company

CAOSH

Celestial Capital Limited

Independent financial adviser to the Independent Board Committee

VINCO 威高

Grand Vinco Capital Limited

A letter from the independent board committee (the “Independent Board Committee”) of the Company is set out on page 15 of this circular.

A letter from Grand Vinco Capital Limited containing its advice to the Independent Board Committee is set out on pages 16 to 22 of this circular.

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DEFINITIONS

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

“A Share(s)”	Renminbi-dominated 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 2nd Floor, 45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC at 10:00 a.m. on 11 June 2004 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 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
“BYSCL Non-competition Agreement”	the non-competition agreement dated 6 February 2004 entered into between the Company and BYSCL (details of which were disclosed in the Company’s announcement dated 6 February 2004)
“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 GPHL Group which are regarded as continuing connected transactions under the Listing Rules

DEFINITIONS

“Continuing Connected Sale Transactions”	sales of pharmaceutical products, pharmaceutical raw materials and medical apparatus by the Group to the GPHL Group which are regarded as continuing connected transactions under the Listing Rules
“Continuing Connected Trading Transactions”	the Continuing Connected Sale Transactions and the Continuing Connected Purchase Transactions
“Directors”	the directors of the Company
“Grand Vinco”	Grand Vinco Capital Limited, a licensed corporation for types 1 and 6 regulated activities under the SFO, the independent financial adviser to the Independent Board Committee to advise on the Agreement and the Trading Transactions
“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 their associates, other than the Group
“GPHL Non-competition Agreement”	the non-competition and right of first refusal agreement dated 1 September 1997 entered into between the Company and GPHL (details of which were set out in the paragraph headed “Non-competition and right of first refusal agreement” under the section headed “Particulars of the Group” of the Company’s prospectus dated 21 October 1997)
“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee of the Company formed to consider the terms of the Agreement and the Trading Transactions
“Independent Shareholders”	Shareholders other than GPHL 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”	13 April 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“Listing Rules”	the Rules Governing the listing of securities on The Stock Exchange of Hong Kong Limited
“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 Listing Rules
“profits ratio”	has the meaning ascribed thereto under the Listing Rules
“PRC”	the People’s Republic of China
“Purchase Transactions”	the Continuing Connected Purchase Transactions and the Other Purchase Transactions
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Transactions”	the Continuing Connected Sale Transactions and the Other Sale Transactions
“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
“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 circular, unless otherwise specified, amounts in Renminbi are converted to Hong Kong dollars at a conversion rate of HK\$1.00=RMB1.06 for illustration 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.

LETTER FROM THE BOARD



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)

(H Share Stock Code: 0874)

Executive Directors

Mr. CAI Zhixiang

Mr. LI Yimin

Mr. FENG Zansheng

Mr. ZHOU Yuejin

Independent non-executive Directors

Mr. WONG Hin Wing

Mr. WU Zhang

Mr. ZHANG He Yong

Supervisors

Mr. CHEN Canying

Mr. OU YANG Qiang

Mr. ZHONG Yu Gan

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

16 April 2004

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

The Directors announced on 26 March 2004 that the Company and GPLH had entered into the Agreement for the purposes of governing the Trading Transactions (being the Continuing Connected Trading Transactions and the Other Trading Transactions) for the three financial years ending 31 December 2006.

LETTER FROM THE BOARD

The Other Trading Transactions will not constitute connected transactions for the Company under the Listing Rules. The Continuing Connected Trading Transactions, comprising the Continuing Connected Sale Transactions and the Continuing Connected Purchase Transactions between the Group and the GPLH Group, will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Pursuant to the Agreement, the respective aggregate amounts of the Continuing Connected Sale Transactions and the Continuing Connected Purchase Transactions for each of the financial year will not exceed HK\$10,000,000. The Continuing Connected Trading Transactions will be subject to disclosure requirements and are exempted from the Independent Shareholders' approval requirement pursuant to rule 14A.34 of the 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. A resolution in relation to the approval of the Agreement and the transactions contemplated thereunder, including the Trading Transactions, is proposed to be considered and, if thought fit, passed in the AGM. GPLH 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. Wu Zhang and Mr. Zhang He Yong, the independent non-executive Directors, has been formed to consider the Agreement and the Trading Transactions and to give relevant recommendation to the Independent Shareholders. Each of the members of the Independent Board Committee does not have any interest in the Trading Transactions. Grand Vinco has been appointed as the independent financial adviser to the Independent Board Committee to advise on the Agreement and the Trading Transactions.

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

2. THE AGREEMENT

On 26 March 2004, 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 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

LETTER FROM THE BOARD

- (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 GPLH 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 not 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. GPLH will provide its relevant records to the Company's auditors during their course of review of the Continuing Connected Trading Transactions.

3. 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.

GPLH, a state-owned enterprise in the PRC, is the controlling Shareholder holding about 63.26% of the issued share capital of the Company. The GPLH 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 GPLH Group, BYSHL Group and the BYSCL Group.

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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 of the Company under the Listing Rules. However, having considered the relationship among GPHL, 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 GPHL 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	<u>41,966</u>	<u>0.787</u>	<u>65,640</u>	<u>1.104</u>	<u>104,240</u>	<u>1.495</u>

LETTER FROM THE BOARD

Purchase Transactions

Purchases of pharmaceutical products, pharmaceutical raw materials and medical apparatus by the Group from:	Year ended		Year ended		Year ended	
	31 December 2001		31 December 2002		31 December 2003	
		% to		% to		% to
	RMB'000	cost of sales (Note 6)	RMB'000	cost of sales (Note 6)	RMB'000	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.

LETTER FROM THE BOARD

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 principals 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 GPL 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 or 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 are concerned as a whole.

LETTER FROM THE BOARD

4. CONTINUING CONNECTED TRANSACTIONS UNDER THE LISTING RULES

As mentioned in the above paragraph headed “Reasons for the Agreement” of this circular, 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 of the Company under Chapter 14A of the 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) and each of the percentage ratios (other than the profits ratio) in relation to the Continuing Connected Sale Transactions and Continuing Connected Purchase Transactions should be less than 25%. 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 Listing Rules. Nevertheless, as mentioned in the paragraph headed “Independent Shareholders’ approval in the AGM” below, 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 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);

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- (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 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

LETTER FROM THE BOARD

- (g) GPLH shall provide the Stock Exchange with an undertaking that, for so long as the Company's 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 sufficient access to its relevant records to carry out the auditors' review of the Continuing Connected Trading Transactions referred to 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 persons (within the meaning of the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14A of the Listing Rules dealing with connected transactions, unless it applies for and obtains a separate waiver from the Stock Exchange.

5. INDEPENDENT SHAREHOLDERS' APPROVAL IN THE AGM

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.

The Directors propose to seek the Independent Shareholders' approval of the Agreement and the Trading Transactions in the AGM. The notice convening the AGM to be held at 45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC at 10:00 a.m. on 11 June 2004 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

LETTER FROM THE BOARD

- (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.

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 513,000,000 Shares, representing approximately 63.26% 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.

6. RECOMMENDATION

The Independent Board Committee, comprising Mr. Wong Hin Wing, Mr. Wu Zhang and Mr. Zhang He Yong, the independent non-executive Directors, has been formed to consider the Agreement and the Trading Transactions and to give relevant recommendation to the Independent Shareholders. Furthermore, Grand Vinco has been appointed as the independent financial adviser to the Independent Board Committee to advise on the Agreement and the Trading Transactions.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 15 of this circular which contains its recommendation to the Independent Shareholders; and (ii) the letter from Grand Vinco set out on pages 16 to 22 of this circular which contains its advice and recommendation to the Independent Board Committee in relation to the Agreement and the Trading Transactions.

The Independent Board Committee, after taking into account the advice and recommendation from Grand 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 are in the interest 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.

LETTER FROM THE BOARD

7. FURTHER INFORMATION

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

Yours faithfully
For and on behalf of the Board
Cai Zhixiang
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

(H Share Stock Code: 0874)

16 April 2004

To the Independent Shareholders

Dear Sir and Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 16 April 2004 (“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 consider 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 Agreement and the Trading Transactions are in the interest of the Company and the Shareholders as a whole. Details of the Agreement and the Trading Transactions are set out in the “Letter from the Board” on pages 4 to 14 of the Circular.

Grand Vinco has been appointed as our independent financial adviser to advise us on the Agreement and the Trading Transactions. Details of the relevant advice and recommendation of Grand 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 16 to 22 of the Circular.

Having taken into account the advice and recommendation of Grand 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 are in the interest 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

WONG Hin Wing
Independent
non-executive Director

WU Zhang
Independent
non-executive Director

ZHANG He Yong
Independent
non-executive Director

LETTER FROM GRAND VINCO

The following is the text of the letter of advice from Grand Vinco to the Independent Board Committee in relation to the Agreement and the Trading Transaction, which has been prepared for the purpose of inclusion in this circular.



Grand Vinco Capital Limited

Room 902, Far East Finance Centre, 16 Harcourt Road, Hong Kong

16 April 2004

The Independent Board Committee
Guangzhou Pharmaceutical Company Limited
Room 2005, 20th Floor,
Tower Two, Lippo Centre,
89 Queensway,
Hong Kong

Dear Sirs

CONTINUING CONNECTED TRANSACTIONS

We refer to the announcement (the "Announcement") issued by the Company dated 26 March 2004 in respect of the Trading Transactions. Details of the terms of the Trading Transactions are set out in the circular (the "Circular") issued by the Company to the Shareholders dated 16 April 2004 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

The Continuing Connected Trading Transactions will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules and will be subject to disclosure requirements and are exempted from the approval requirement of the Independent Shareholders pursuant to rule 14A.34 of the Listing Rules. Nevertheless, according to the rules of the Shanghai Stock Exchange both the Continuing Connected Trading Transactions and Other Trading Transactions will be subject to Independent Shareholders' approval in the Company's general meeting. The Independent Board Committee, comprising Mr. Wong Hin Wing, Mr. Wu Zhang and Mr. Zhang He Yong, the independent non-executive Directors, has been formed to consider the Agreement and the Trading Transactions and to give relevant recommendation to the Independent Shareholders. We, Grand Vinco, have been appointed by the Company to advise the Independent Board Committee in relation to the Agreement and the Trading Transactions. This letter contains our advice to the Independent Board Committee as to whether or not the Agreement and the transactions contemplated there under including the Continuing Connecting Trading Transaction and the Other Trading Transactions, are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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In formulating our opinion and recommendation to the Independent Board Committee in relation to the Agreement and the Trading Transactions, we have relied on the accuracy of the information and representations contained in the Circular which have been provided to us by the Directors and which the Directors consider to be complete and relevant. We are not aware that any statements, information and representations made or referred to in the Circular, for which the Directors are solely responsible, were untrue and incorrect in all respects at the time they were made and continued to be so as at the date of despatch of the Circular. We are also not aware that any statements of belief, opinion and intention made by the Directors in the Circular were not reasonably made after due and careful enquiry and are not based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular.

We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our opinion and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the Directors. We have not, however, carried out any independent in-depth investigation into the affairs of the Company and its subsidiaries.

BACKGROUND OF THE TRANSACTIONS

On 26 March 2004, the Company entered into the Agreement which governs the Trading Transactions for three financial years ending 31 December 2006. The Agreement covers both Continuing Connected Trading Transaction and the Other Trading Transactions.

As GPHL is the controlling shareholder of the Company holding approximately 63.26% of the issued share capital of the Company, all Continuing Connected Trading Transactions between the Company and the GPHL Group constitute continuing connected transactions for the Company under the Listing Rules.

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. Therefore BYSHL is not a subsidiary of GPHL. BYSCL was a subsidiary of BYSHL. GPHL does not exercise or control the exercise of 30% or more of the voting power at the general meetings of BYSCL, and does not control the composition of a majority 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 GPHL, BYSHL and BYSCL as mentioned in this paragraph, the Company and GPHL entered into the Agreement to govern both of the Continuing Connected Trading Transactions and the Other Trading Transaction for each of the three years ending 31 December 2006.

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According to the rules of the Shanghai Stock Exchange, the Company is required to seek the approval of Independent Shareholders at the general meeting for the Trading Transactions. GPLH and its associates will abstain from voting at the general meeting in relation to the Agreement and Trading Transactions.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Reasons for the Continuing Connected Transactions

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

As set out in the prospectus of the Company dated 21 October 1997 in relation to the listing of its shares on the Stock Exchange, the Company and GPLH have entered into the GPLH Non-competition Agreement which provides, inter alia, that the GPLH Group will not engage directly or indirectly in any business that competes with those of the Group. As BYSCL is not a part of the GPLH Group and BYSCL's involvement in the pharmaceutical industry does not lead to a breach of the GPLH Non-competition Agreement.

Also, in order to avoid any perception of conflicts of interest, the Company and BYSCL entered into the BYSCL Non-competition Agreement on 6 February 2004 for not researching, developing or manufacture products that are being researched, developed or manufactured by the other party.

Taking the advantage of the above two non-competition agreements, (i) the Group imports foreign pharmaceutical raw materials and finished products and has been supplying such products to the GPLH Group and the Group has been purchasing products from the GPLH Group since the listing of the Company's shares; and (ii) the Group also purchases/sells pharmaceutical products from/to the BYSCL Group. The Group regards the GPLH Group and the BYSCL Group as trading partners for selling and purchasing pharmaceutical products, pharmaceutical raw materials and medical apparatus.

We therefore of the view that it is fair and reasonable to enter into the Agreement to govern and monitor the operation of the Trading Transactions within the ambit of the above two non-competition agreements and to provide a clearer segregation of duties among the parties.

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2. Terms

The Company and GPHL have agreed under the Agreement that 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 not 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; 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 GPHL will provide its relevant records to the Company's auditors during their course of review of the Continuing Connected Trading Transactions.

As the Trading Transactions would be entered into on terms to the Company no less favorable than terms available to or from Independent Third Parties and the Continuing Connected Transactions would be reviewed by independent executive Directors and auditors annually, we are of the view that the terms of the Agreement is fair and reasonable to the Group.

3. Basis of determining the Cap

Sale Transactions

The proposed annual cap amount for the Sale Transactions for each of the three year ending 31 December 2006 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. As advised by the Directors, the proposed annual cap amount of the Sale Transactions were determined by the Group with reference to the historical results and the anticipated growth of the Group.

We note that the turnover of the Group during the three financial years ended 31 December 2003 were about RMB5,334,029,000, RMB5,943,823,000 and RMB6,973,113,000 respectively and the average growth rate was about 14%. Also, for each of the three financial years ended 31 December 2003, turnover from the Sale Transactions accounted for approximately 0.787%, 1.104% and 1.495% of the total turnover of the Group respectively. Assuming that there will be no material change in the proportion of the Sale Transactions to the total sale transactions of the Group, we are of the opinion that the cap amounts adopted by the Group are consistent with the historical turnover trend and are fair and reasonable to the shareholders as a whole.

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Purchase Transactions

The proposed annual cap amount for the Purchase Transactions for each of the three year ending 31 December 2006 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. As advised by the Directors, these proposed annual cap amounts are determined by the Group with reference to historical results and the anticipated growth of the Group.

We note that the 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 as the average growth rate of the Group's cost of sales was approximately 16%. Also, for each of the three financial years ended 31 December 2003, cost of sales from the Purchase Transactions accounted for approximately 1.052%, 1.669% and 1.918% of the total cost of sales of the Group respectively. Assuming that there will be no material change in proportion of the Purchases Transactions to the total purchase transactions, we are of opinion that the cap amounts adopted by the Group are consistent with the historical trend and are fair and reasonable to the Shareholders as a whole.

4. Conditions for the Continuing Connected Transactions

The Company will also have to 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 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);

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- (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 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 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;
 - (ix) the Continuing Connected Sale Transactions are in accordance with the pricing policies of the Company; and
 - (x) 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

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- (g) GPLH shall provide the Stock Exchange with an undertaking that, for so long as the Company's 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 sufficient access to its relevant records to carry out the auditors' review of the Continuing Connected Trading Transactions referred to 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 persons (within the meaning of the Listing Rules) in the future, the Company must comply with the provisions of Chapter 14A of the Listing Rules dealing with 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. As such, we consider them reasonable and adequate.

CONCLUSION

Having taken into consideration of the above principal factors and reasons, we consider that the Agreement and the Trading Transactions are in the interests of the Company and its Shareholders as a whole and the terms and conditions of the Trading Transactions are fair and reasonable so far as the Shareholders are concerned.

Yours faithfully
For and on behalf of
Grand Vinco Capital Limited
Kevin Miu
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 or the supervisors 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 for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Long position of the Directors:

Name	Type of interest	Company	Number of shares
Cai Zhixiang	Personal	The Company(A Shares)	14,700
	Family	Guangzhou Xing Qun Pharmaceutical Co., Ltd. ("Xing Qun")	1,900
		Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. ("Pan Gao Shou")	1,670
	Family	Guangzhou Yang Cheng Pharmaceutical Co., Ltd. ("Yang Cheng")(1)	1,960
	Family	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. ("Jing Xiu Tang")	2,240
	Family	Guangzhou Guang Hau Pharmaceutical Co., Ltd. ("Guang Hua")	1,670
	Family	Guangzhou Tian Xin Pharmaceutical Co., Ltd. ("Tian Xin")	1,670
	Trust(2)	Po Lian Development Company Limited ("Po Lian")	200,000

Long position of the Directors (continued):

Name	Type of interest	Company	Number of Shares
Li Yimin	Personal	The Company (A Shares)	14,700
	Family	Xing Qun	1,900
	Family	Pan Gao Shou	1,670
	Family	Yang Cheng	1,960
	Family	Jing Xiu Tang	2,240
	Family	Tian Xin	1,670
	Family	Guang Hua	1,670
	Trust(2)	Po Lian	200,000
Zhou Yuejin	Personal	The Company (A Shares)	28,900
	Trust(2)	Po Lian	200,000

Long position of the Supervisors:

Name	Type of interest	Company	Number of Shares
Chen Canying	Personal	The Company (A Shares)	9,800
	Personal	Yang Cheng	22,150
Ou Yang Qiang	Personal	The Company (A Shares)	10,100

Long position of the Senior Management:

Name	Type of interest	Company	Number of Shares
He Shuhua	Personal	The Company (A Shares)	27,700

(1) The name of Guangzhou Yang Cheng Pharmaceutical Co., Ltd was changed to Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd with effect from 5 February 2004.

(2) Messers Cai Zhixiang, Li Yimin and Zhou Yuejin hold the said shares in Po Lian as trustees only. The said shares, except those in Po Lian and the A shares of the Company, are inner staff 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 or short position 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 or the supervisors 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 for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) Interests of 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, Supervisors 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:

Long position in the Shares:

Shareholders	Nature and Shares held	Number of Shares held	% of total issued State-owned Shares	% of total issued H Shares
GPHL (Note 1)	State-owned shares	513,000,000	100%	—
The Hong Kong and Shanghai Banking Corporation Limited (Note 2)	H Shares	41,475,694	—	18.86%
Guotai Junan Securities (Hong Kong) Company Limited (Note 2)	H Shares	23,000,000	—	10.46%
HSBC Broking Securities (Hong Kong) Limited	H Shares	18,206,000	—	8.28%
Bank of China (Hong Kong) Limited (Note 2)	H Shares	15,499,000	—	7.05%
Citibank N.A. (Note 2)	H Shares	12,254,000	—	5.57%
Hang Seng Bank Limited (Note 2)	H Shares	11,088,274	—	5.04%

Notes:

1. GPLH disposed of part of its interests in the Company's State-owned Shares for the purpose of financing the debt restructuring of BYSCL. The total number of the State-owned Shares involved is 152,600,000 Shares, including a proposed disposal of 12,480,000 State-owned Shares to the Guangzhou Office of China Huarong Asset Management Corporation and 22,000,000 State-owned Shares to the Guangzhou Office of China Greatwall Asset Management Corporation. Relevant procedures to complete the disposals are currently in progress. The remaining State-owned Shares of the Company held by GPLH and as involved are still pledged as collateral.
2. As notified by HKSCC Nominees Limited, as at the Latest Practical Date, the H Shares held by each corporation in its securities account with the Central Clearing and Settlement System amounted to more than 5% of the total issued H Shares of the Company.

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 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, 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

Grand Vinco, the independent financial adviser to the Independent Board Committee 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, Grand 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, Grand Vinco did not have any direct or indirect interest in any asset which has been, since 31 December 2003 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

Grand 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 were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2003, the date to which the latest published audited consolidated accounts of the Group were made up.

GENERAL

- (i) Each of the executive Directors entered into a service contract with the Company and the term is for 3 years commencing from 26 March 2004 and will expire on the date of election of the 4th term of the Board. Save as disclosed, 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;
- (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 2003 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 had any contract or arrangement subsisting at the date of this circular in which a 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 11 June 2004:

- (a) the Agreement;
- (b) the letter dated 16 April 2004 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 15 of this circular;
- (c) the letter of advice dated 16 April 2004 from Grand Vinco to the Independent Board Committee, the text of which is set out on pages 16 to 22 of this circular;
- (d) the written consent referred to in the paragraph headed “Consent” in this appendix; and
- (e) the service contracts of each of the executive Directors entered into with the Company as set out above under paragraph headed “General” in this appendix.