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

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

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

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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)

**CONNECTED TRANSACTION  
SUBSCRIPTION OF NEW SHARES  
IN A NON WHOLLY-OWNED SUBSIDIARY**

**Financial adviser to the Company**

**CAOH**

**Celestial Capital Limited**

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

**VINC** 威高

**Grand Vinco Capital Limited**

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A letter from the Independent Board Committee of the Company is set out on page 13 of this circular.

A letter from Grand Vinco Capital Limited containing its advice to the Independent Board Committee is set out on pages 14 to 20 of this circular.

15 September 2004

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## DEFINITIONS

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

“Board”	the board of Directors
“Company”	廣州藥業股份有限公司 (Guangzhou Pharmaceutical Company Limited), a company incorporated in the PRC the securities of which are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened on 1 November 2004 to consider and approve the Subscription Agreement
“Grand Vinco”	Grand Vinco Capital Limited, a licensed corporation for types 1 and 6 regulated activities under the SFO, the independent financial adviser appointed to advise the Independent Board Committee to advise on the Subscription
“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 which currently holds about 63.26% shareholding interest in the Company
“Guangzhou Hanfang”	廣州漢方現代中藥研究開發有限公司 (Guangzhou Hanfang Modern Chinese Medicine Research and Development Limited), a company incorporated in the PRC and currently a 54.03% owned subsidiary of the Company
“Hanfang Share(s)”	a unit (units) of RMB1 in the registered capital of Guangzhou Hanfang
“Hanfang Shareholders”	the existing shareholders of Guangzhou Hanfang, namely the Company, 廣州陳李濟藥廠 (Guangzhou Chen Li Ji Pharmaceutical Factory), 廣州中一藥業有限公司 (Guangzhou Zhongyi Pharmaceutical Co., Ltd), 廣州敬修堂 (藥業) 股份有限公司 (Guangzhou Jing Xiu Tang (Pharmaceutical) Co., Ltd), 廣州市醫藥工業研究所 (Guangzhou Pharmaceutical Industrial Research Institute), 安徽華東中藥工程集團有限責任公司 (Huadong Chinese Medicine), GPHL, Ms. Liu Ju Yan, Mr. Mo Shang Zhi, Mr. Cai Xing Chun, Mr. Zhao Xiang Yong and Mr. Ge Fa Huan

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## DEFINITIONS

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“Huadong Chinese Medicine”	安徽華東中藥工程集團有限責任公司 (Huadong Chinese Medicine Engineering Group Limited), a company incorporated in the PRC and an Independent Third Party
“Independent Board Committee”	the independent board committee of the Company formed to consider the terms of the Subscription
“Independent Shareholders”	Shareholders other than GPLH and its associates
“Independent Third Party”	an independent third party which is not connected with the Company or its subsidiaries, the Directors, chief executive or substantial shareholders of the Company and its subsidiaries or their respective associates (as defined in the Listing Rules)
“Latest Practicable Date”	10 September 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“Project”	the project to develop “modernized methods for extracting the useful ingredients of Chinese medicine” (中藥提取分離過程現代化)
“RMB”	Renminbi, the official currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws in Hong Kong)
“Shareholders”	holders of shares of RMB1 each in the capital of the Company
“Subscription”	the subscription of the Subscription Shares by the Company pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 27 August 2004 entered into among the Hanfang Shareholders
“Subscription Shares”	44,480,000 new Hanfang Shares agreed to be subscribed by the Company pursuant to the Subscription Agreement
“Tangible Assets”	the tangible assets injected into the Guangzhou Hanfang as the consideration for the subscription of Hanfang Shares by GPLH in 2003
“%”	per cent

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LETTER FROM THE BOARD

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# 廣州藥業股份有限公司

**Guangzhou Pharmaceutical Company Limited**

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

(Stock Code: 0874)

*Executive Directors*

Mr. ZHOU Yuejin  
Mr. FENG Zansheng

*Registered office and principal*

*place of business*  
45 Sha Mian North Street  
Guangzhou City  
Guangdong Province, PRC

*Independent non-executive Directors*

Mr. WU Zhang  
Mr. WONG Hin Wing  
Mr. ZHANG Heyong

*Place of business in Hong Kong*

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

*Supervisors*

Mr. CHEN Canying  
Mr. OU YANG Qiang  
Mr. ZHONG Yugan

15 September 2004

*To the Shareholders*

Dear Sir or Madam,

**CONNECTED TRANSACTION  
SUBSCRIPTION OF NEW SHARES  
IN A NON WHOLLY-OWNED SUBSIDIARY**

**1. INTRODUCTION**

The Directors announced on 27 August 2004 that all of the Hanfang Shareholders entered into the Subscription Agreement whereby the Company conditionally agreed to subscribe for the Subscription Shares, being 44,480,000 new Hanfang Shares, at RMB1 per Share.

The consideration of RMB1 per Subscription Share represents a premium of approximately 17.6% over the net asset value per Hanfang Share of about RMB0.85 as at 31 December 2003.

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## LETTER FROM THE BOARD

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GPHL, the Company's controlling shareholder which holds about 63.26% of the issued share capital of the Company, has approximately 30.78% interest in the registered capital of Guangzhou Hanfang. Accordingly, the Subscription which involves the Company acquiring further interest in Guangzhou Hanfang constitutes a connected transaction of the Company as defined in the respective listing rules of the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The Independent Board Committee, comprising Mr. Wong Hin Wing, Mr. Wu Zhang and Mr. Zhang Heyong, the independent non-executive Directors, has been formed to consider the Subscription 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 Subscription. Grand Vinco has been appointed as the independent financial adviser to advise the Independent Board Committee on the Subscription.

The purposes of this circular are (i) to provide you with details of the Subscription; (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 Subscription; and (iii) to give you information on the Group, Guangzhou Hanfang and GPHL.

## 2. SUBSCRIPTION AGREEMENT

### **Date**

27 August 2004

### **Parties**

(a) *Subscriber of the Subscription Shares:*

The Company, which is one of the Hanfang Shareholders holding about 54.03% of the existing registered capital of Guangzhou Hanfang. There is no other subscriber in the Subscription.

(b) *Other parties:*

The other 11 Hanfang Shareholders, which in aggregate hold about 45.97% of the existing registered capital of Guangzhou Hanfang. Please refer to the paragraph headed "Shareholding structure of Guangzhou Hanfang" for details of the Hanfang Shareholders. The other 11 Hanfang Shareholders have agreed to waive the pre-emptive rights to subscribe for the Subscription Shares in proportion to their existing respective shareholdings in Guangzhou Hanfang.

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## LETTER FROM THE BOARD

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### **The Subscription**

Pursuant to the Subscription Agreement, all the Hanfang Shareholders, being the Company and the other 11 Hanfang Shareholders, have agreed to increase the registered capital of Guangzhou Hanfang by way of subscription by the Company for the Subscription Shares, being 44,480,000 new Hanfang Shares. The Subscription Shares represent about 53% of the existing registered capital of Guangzhou Hanfang and about 35% of the registered capital of Guangzhou Hanfang as enlarged by the Subscription Shares. The Company's interest in Guangzhou Hanfang will increase from the current level of 54.03% to about 70.04% as a result of the Subscription. Currently, the board of directors of Guangzhou Hanfang comprises 7 directors and the Company has appointed 4 directors to the existing board of directors of Guangzhou Hanfang. Pursuant to the Subscription Agreement, the composition of the board of directors will remain unchanged.

GPHL, the Company's controlling shareholder which holds about 63.26% shareholding interest in the Company, is a substantial shareholder of Guangzhou Hanfang by holding about 30.78% of its existing registered capital. Accordingly, the Subscription which involves the Company acquiring further interest in Guangzhou Hanfang constitutes a connected transaction of the Company as defined in the respective listing rules of the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

### **Consideration**

The consideration for the Subscription Shares is RMB1 per Subscription Share. The total consideration in the amount of RMB 44,480,000 will be settled by the Company in cash within five business days upon the Subscription is approved by the Independent Shareholders in the EGM. The total consideration will be funded by the internal resources of the Group. According to the terms of the Subscription Agreement, it will become effective upon approval by the Independent Shareholders and there is no long stop date for the Subscription. None of the conditions of the Subscription Agreement will be waivable. As at the Latest Practicable Date, the Company has not paid any deposit for the Subscription.

The consideration of RMB 1 per Subscription Share represents a premium of about 17.6% over the net asset value per Hanfang Share of about RMB0.85 as at 31 December 2003 (based on the audited net asset value of Guangzhou Hanfang of about RMB71.2 million and a total of 83,284,300 Hanfang Shares in issue as at 31 December 2003).

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## LETTER FROM THE BOARD

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The terms of the Subscription Agreement, including the consideration for the Subscription Shares, were arrived at after arm's length negotiation between the Company and the other Hanfang Shareholders after taking into account (i) the factors set out in the paragraph headed "Reasons for the Subscription" below; (ii) the subscription by seven Hanfang Shareholders, being GPLH, Huadong Chinese Medicine, Ms. Liu Ju Yan, Mr. Mo Shang Zhi, Mr. Cai Xing Chun, Mr. Zhao Xiang Yong and Mr. Ge Fa Huan, for Hanfang Shares in February 2003 at a consideration of RMB1 per Hanfang Share, which represented a premium of about 18.9% over the audited net asset value per Hanfang Share of approximately RMB0.841 as at 31 December 2002; (iii) the net asset value per Hanfang Share of approximately RMB0.85 as at 31 December 2003; and (iv) the nominal value of Hanfang Shares of RMB1 each. In addition, having considered the factors set out in the paragraph headed "Reasons for the Subscription" below, the Directors consider that the Subscription is in the interest of the Company and the Shareholders as a whole, and the terms of the Subscription Agreement are fair and reasonable.

### **Restriction on the transfer of the Subscription Shares**

The Company and Huadong Chinese Medicine, which are interested in approximately 70.04% and approximately 3.91% of the registered capital of Guangzhou Hanfang, respectively, following completion of the Subscription Agreement, are restricted from disposing of, transferring or pledging the Hanfang Shares owned by them within 3 years from the date of the Subscription Agreement, being 27 August 2004, unless otherwise agreed by all the Hanfang Shareholders. The remaining Hanfang Shareholders are not subject to such restriction on disposal, transfer or pledge of their Hanfang Shares.

The Company provides resources, other than technical know-how, and Huadong Chinese Medicine provides technical know-how for the research and development of the Chinese medicines for the Project. The Directors consider that both parties are critical for the successful implementation of the Project and continuous research and development in Chinese medicines and their production methods conducted by Guangzhou Hanfang are of strategic importance to the Group. In view of the above and in order to demonstrate commitments to the Project by the Company and Huadong Chinese Medicine, the Directors consider that the restriction on the transfer of the Subscription Shares is fair and reasonable and in the interest of the Company and the Shareholders as a whole. GPLH, through GPLH's shareholding in the Company provides resources, other than technical know-how, to Guangzhou Hanfang. Therefore, the Directors consider that it is fair and reasonable not to apply restriction on the transfer of GPLH's holding of Hanfang Shares. As the shareholdings of shareholders of Guangzhou Hanfang other than the Company, Huadong Chinese Medicine and GPLH, are insignificant, the Directors consider that it is fair and reasonable not to apply the restriction on the transfer of their respective shareholdings in Guangzhou Hanfang.



## LETTER FROM THE BOARD

### Completion

The Subscription is expected to be completed on the date when the new business license of Guangzhou Hanfang (reflecting its new registered capital and its new shareholding structure) is issued by 廣州市工商行政管理局 (Guangzhou Industrial and Commerce Administration Bureau). It is expected that the new business license of Guangzhou Hanfang will be issued not later than 30 business days from the date of the Independent Shareholders' approval of the Subscription.

### 3. SHAREHOLDING STRUCTURE OF GUANGZHOU HANFANG

Set out below is the shareholding structure of Guangzhou Hanfang immediately before and after completion of the Subscription:

Hanfang Shareholders	Immediately before the completion of the Subscription		Immediately after the completion of the Subscription	
	No. of Hanfang Shares	Approximate%	No. of Hanfang Shares	Approximate%
The Company 廣州陳李濟藥廠 (Guangzhou Chen Li Ji Pharmaceutical Factory) (Note 1)	45,000,000	54.03	89,480,000	70.04
廣州中一藥業有限公司 (Guangzhou Zhongyi Pharmaceutical Co., Ltd) (Note 2)	2,000,000	2.40	2,000,000	1.57
廣州敬修堂(藥業)股份有限公司 (Guangzhou Jing Xiu Tang (Pharmaceutical) Co., Ltd) (Note 3)	1,000,000	1.20	1,000,000	0.78
廣州市醫藥工業研究所 (Guangzhou Pharmaceutical Industrial Research Institute) (Note 4)	850,000	1.02	850,000	0.67
安徽華東中藥工程集團有限責任公司 (Huadong Chinese Medicine) (Note 5)	1,150,000	1.39	1,150,000	0.90
GPHL	5,000,000	6.00	5,000,000	3.91
Ms. Liu Ju Yan (Note 6)	25,634,300	30.78	25,634,300	20.06
Mr. Mo Shang Zhi (Note 6)	600,000	0.72	600,000	0.47
Mr. Cai Xing Chun (Note 6)	550,000	0.66	550,000	0.43
Mr. Zhao Xiang Yong (Note 7)	500,000	0.60	500,000	0.39
Mr. Ge Fa Huan (Note 7)	500,000	0.60	500,000	0.39
<b>Total</b>	<b>83,284,300</b>	<b>100.00</b>	<b>127,764,300</b>	<b>100.00</b>

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## LETTER FROM THE BOARD

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*Notes:*

1. 廣州陳李濟藥廠 (Guangzhou Chen Li Ji Pharmaceutical Factory) is a wholly-owned subsidiary of the Company.
2. 廣州中一藥業有限公司 (Guangzhou Zhongyi Pharmaceutical Co., Ltd) is a 90.36% owned subsidiary of the Company.
3. 廣州敬修堂 (藥業) 股份有限公司 (Guangzhou Jing Xiu Tang (Pharmaceutical) Co., Ltd) is a 88.40% owned subsidiary of the Company.
4. 廣州市醫藥工業研究所 (Guangzhou Pharmaceutical Industrial Research Institute) is a wholly-owned subsidiary of GPLH and a connected person (as defined by the Listing Rules) of the Company.
5. 安徽華東中藥工程集團有限責任公司 (Huadong Chinese Medicine) is an Independent Third Party.
6. Ms. Liu Ju Yan, Mr. Mo Shang Zhi and Mr. Cai Xing Chun are the executive directors of Guangzhou Hanfang.
7. Mr. Zhao Xing Yong and Mr. Ge Fa Huan are senior management of Guangzhou Hanfang.

#### **4. REASONS FOR THE SUBSCRIPTION**

Guangzhou Hanfang is conducting research for the Project (i.e. “modernized methods for extracting the useful ingredients of Chinese medicine” (中藥提取分離過程現代化)). The useful ingredients of Chinese medicine represent the ingredients which are functionally crucial for the Chinese medicine intended to be manufactured. Guangzhou Hanfang will apply for patent for each of the products being developed by the Project. At present, the production of Chinese medicine is largely based on traditional methods, such as boiling and grinding of herbs. These traditional methods of Chinese medicine production the medicine is produced with redundant ingredients that are naturally present in the herbs, which in turn causes inconsistency in the quality of the medicine since the traditional methods of production cannot control the proportion of useful and redundant ingredients. The aim of the Project is to develop new production methods that can extract the useful ingredients from the herbs without the redundant ingredients such that the medicine produced will be of higher and consistent quality. Currently, the Project has commenced and the construction of buildings and installation of equipment for research and development and production of the products being developed by the Project has been completed. Guangzhou Hanfang has successfully developed the extraction and purification technology mainly for two Chinese medicines, namely, Ganoderma Lucidum Spore Oil (靈芝孢子油) and Feng Shi Ping Jiao Nang (風濕平膠囊). Currently, Ganoderma Lucidum Spore Oil is awaiting product certification from relevant authority of the PRC. Feng Shi Ping Jiao Nang has successfully passed the third phase of clinical testing and is awaiting product certification from relevant authority of the PRC. At present, Ganoderma Lucidum Spore Oil has been sold in Hong Kong since the second half of 2003 and Guangzhou Hanfang is in the process of applying patent for the product. The sale of Feng Shi Ping Jiao Nang has not yet commenced as the product is awaiting the product certification from relevant authority of the PRC and Guangzhou Hanfang has applied patent for the product. The sale of Feng Shi Ping Jiao Nang is expected to commence in 2005.

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## LETTER FROM THE BOARD

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In view of the two Chinese medicines being successfully developed by the Project, the Directors consider that the Project can broaden the products of the Group. In addition, the Directors are of the view that continuous research and development in Chinese medicine and their production methods currently conducted by Guangzhou Hanfang, are of strategic importance to the Group. In order to stay competitive in the market in the long run, continuous research and development is essential for the Group. In view of the above, the Directors consider that the Subscription strengthens the Group's ability in research and development and the Group can benefit from commercialization of the products being developed by the Project. The Directors consider that the Subscription is in the interest of the Shareholders as a whole.

Setting out below is the financial information of Guangzhou Hanfang (which is prepared in accordance with the PRC accounting standards):

	<b>As at</b> <b>31 December</b> <b>2002</b> <i>RMB'000</i> (Audited)	<b>As at</b> <b>31 December</b> <b>2003</b> <i>RMB'000</i> (Audited)	<b>As at</b> <b>30 June</b> <b>2004</b> <i>RMB'000</i> (Unaudited)
Net asset value	42,052	71,205	71,109
Loss before tax	7,123	4,130	96
Loss after tax	7,123	4,130	96

Guangzhou Hanfang recorded audited net loss of about RMB4.1 million for the year ended 31 December 2003, which represented a decrease of about 42.3% as compared with the audited net loss of about RMB7.1 million for the year ended 31 December 2002. The unaudited net loss of Guangzhou Hanfang for the six months ended 30 June 2004 amounted to about HK\$0.01 million, which represented a decrease of about 99.7% as compared with the unaudited net loss of about RMB3.6 million of the corresponding period in 2003. The Directors consider that such improvement in the financial results of Guangzhou Hanfang was mainly due to commercialization of Ganoderma Lucidum Spore Oil during the second half of 2003.

Guangzhou Hanfang intends to apply the proceeds of the Subscription to further research and development and commercialization of the products being developed by the Project.

Having considered the factors set out in this paragraph, the Directors consider that the terms of the Subscription are fair and reasonable and are under normal commercial terms. The Directors are of the opinion that the Subscription is in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### 5. INFORMATION ON THE GROUP, GUANGZHOU HANFANG AND GPLH

#### The Group

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

#### Guangzhou Hanfang

Guangzhou Hanfang commenced its business operations in 2002. Guangzhou Hanfang is a non wholly-owned subsidiary of the Company and is the main research and development arm of the Group. It is principally engaged in the research and development of Chinese patent medicine. As at 31 December 2003 and 30 June 2004, the audited net asset value and unaudited net asset value of Guangzhou Hanfang were about RMB71.2 million and about RMB71.1 million, respectively. For the year ended 31 December 2003 and the six months ended 30 June 2004, Guangzhou Hanfang recorded audited net loss of about RMB4.1 million and unaudited net loss of about RMB0.01 million, respectively.

#### GPLH

GPLH is a state-owned enterprise in the PRC. Since its establishment in 1983, GPLH has been principally engaged in the development, manufacture and trading of pharmaceutical products.

### 6. GENERAL

GPLH, the Company's controlling shareholder which holds about 63.26% shareholding interest in the Company, is a substantial shareholder of Guangzhou Hanfang by holding about 30.78% of its existing registered capital. Accordingly, the Subscription which involves the Company acquiring further interest in Guangzhou Hanfang constitutes a connected transaction of the Company as defined in the respective listing rules of the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The Subscription Agreement will become effective upon approval by the Shareholders at the Company's general meeting. According to the Listing Rules, the Subscription Agreement is subject to the Independent Shareholders' approval. The Directors propose to seek the Independent Shareholders' approval of the Subscription Agreement at the EGM. GPLH and its associates will abstain from voting at the EGM in relation to the Subscription Agreement.

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## LETTER FROM THE BOARD

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The notice convening the EGM to be held at 45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC at 10:00 a.m. on 1 November 2004 for the purposes of, inter alia, considering and, if thought fit, approving the Subscription Agreement and the proxy form applicable to the EGM are despatched to the Shareholders together with this circular. Whether or not Shareholders are able to attend the EGM 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 EGM. Completion and return of the proxy form will not preclude Shareholders from attending and voting at the EGM or any adjournment thereof in person, if they so wish.

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

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

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 EGM to approve the subscription 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 EGM.

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 EGM in relation to the Subscription.

### **7. RECOMMENDATION**

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

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 13 of this circular which contains its recommendation to the Independent Shareholders; and (ii) the letter from Grand Vinco set out on pages 14 to 20 of this circular which contains its advice and recommendation to the Independent Board Committee in relation to the Subscription.

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## LETTER FROM THE BOARD

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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 Subscription 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 EGM to approve the Subscription.

### **8. FURTHER INFORMATION**

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

For and on behalf of the Board

**Zhou Yuejin**

*Vice Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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# 廣州藥業股份有限公司

**Guangzhou Pharmaceutical Company Limited**

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

(Stock Code: 0874)

15 September 2004

To the Independent Shareholders

Dear Sir and Madam,

**CONNECTED TRANSACTION  
SUBSCRIPTION OF NEW SHARES  
IN A NON WHOLLY-OWNED SUBSIDIARY**

We refer to the circular of the Company dated 15 September 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 Subscription, and to advise the Independent Shareholders as to (i) the fairness and reasonableness of the terms of the Subscription; and (ii) whether the Subscription are in the interest of the Company and the Shareholders as a whole. Details of the Subscription are set out in the “Letter from the Board” on pages 3 to 12 of the Circular.

Grand Vinco has been appointed as our independent financial adviser to advise us on the Subscription. 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 14 to 20 of the Circular.

Having taken into account the advice and recommendation of Grand Vinco, we consider that the terms of the Subscription 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 Subscription at the EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

**WU Zhang**

*Independent*

*non-executive Director*

**WONG Hin Wing**

*Independent*

*non-executive Director*

**ZHANG Heyong**

*Independent*

*non-executive Director*

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## LETTER FROM GRAND VINCO

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



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

15 September 2004

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

Dear Sirs

### **CONNECTED TRANSACTION SUBSCRIPTION OF NEW SHARES IN A NON WHOLLY-OWNED SUBSIDIARY**

We refer to the announcement (the "Announcement") issued by the Company dated 27 August 2004 in respect of the subscription of aggregate of 44,800,000 new Hanfang Shares in cash by the Company. Details of the terms of the Subscription are set out in the circular (the "Circular") issued by the Company to the Shareholders dated 15 September 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.

According to the listing rules of the Stock Exchange of Hong Kong and the Shanghai Stock Exchange, the Subscription will constitute a connected transaction of the Company and will be subject to, among other things, the approval of the Independent Shareholders. The Independent Board Committee, comprising Mr. Wong Hin Wing, Mr. Wu Zhang and Mr. Zhang Heyong, all being the independent non-executive Directors, has been established by the Company to advise the Independent Shareholders in relation to the Subscription. We, Grand Vinco, have been appointed by the Company to advise the Independent Board Committee on the Subscription. This letter contains our advice to the Independent Board Committee as to whether or not the Subscription is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In formulating our opinion and recommendation to the Independent Board Committee in relation to the Subscription, we have relied on the accuracy of the information and representations contained in the Circular which have been provided to us by the executive Directors and which the executive 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 executive Directors are solely responsible, were untrue and incorrect in all respects at the time they



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## LETTER FROM GRAND VINCO

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were made and continued to be so as at the Latest Practicable Date. We are also not aware that any statements of belief, opinion and intention made by the executive 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 executive Directors and we have been advised by the executive 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 executive Directors. We have not, however, carried out any independent in-depth investigation into the affairs of the Company and its subsidiaries.

### **BACKGROUND OF THE TRANSACTION**

On 27 August 2004, Hanfang Shareholders entered into the Subscription Agreement with the Company, pursuant to which the Company have conditionally agreed to subscribe for and Hanfang Shareholders has conditionally agreed to allot and issue an aggregate of 44,480,000 new Hanfang Shares in cash at a subscription price of RMB 1 per Subscription Share.

GPHL, the Company's controlling shareholder which holds 63.26% shareholding interest in the Company, is a substantial shareholder of Guangzhou Hanfang by holding about 30.78% of its existing registered capital. Accordingly, the Subscription which involves the Company acquiring further interest in Guangzhou Hanfang shall constitute connected transaction of the Company under Rule 14.23 of the Listing Rules and the listing rules of the Shanghai Stock Exchange.

The Subscription Shares represent approximately 53.00% of the existing registered capital of the Guangzhou Hanfang and approximately 35.00% of the registered capital of Guangzhou Hanfang as enlarged by issue of Subscription Shares. The Company's interest in Guangzhou Hanfang will increase from the current level of 54.03% to about 70.04% as a result of the subscription. Currently, the board of directors of Guangzhou Hanfang comprises 7 directors and the Company has appointed 4 directors to the existing board of directors of Guangzhou Hanfang. Pursuant to the Subscription Agreement, the composition of the board of directors will remain unchanged.

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## LETTER FROM GRAND VINCO

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. Reasons for and benefits of the Subscription

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. Guangzhou Hanfang is a non wholly-owned subsidiary of the Company and is the main research and development arm of the Group. It is principally engaging in the research and development of Chinese patent medicine. Guangzhou Hanfang is conducting research for the Project (i.e. “modernized methods for extracting the useful ingredients of Chinese medicine”). The aim of the Project is to develop new production methods that can extract the useful ingredients from the herbs without the redundant ingredients such that the medicine produced will be of higher and consistent quality. By entering into the Subscription, Guangzhou Hanfang intends to apply the proceeds of the Subscription of about RMB44,480,000 to further research and development and commercialization of the products being developed by the Project, and the executive Directors consider that the Project can also broaden the products of the Group.

In 2002, Guangzhou Hanfang commenced its business and focused primarily on the research and development of Chinese medicine. As the Project has commenced, Guangzhou Hanfang has successfully developed the extraction and purification technology for its first new product, Ganoderma Lucidum Spore Oil, which has been sold in Hong Kong since the second half of 2003. In the view of the Directors, commercialization of Ganoderma Lucidum Spore Oil has improved the financial results of Guangzhou Hanfang. Guangzhou Hanfang recorded audited turnover of about RMB2.44 million and audited net loss of about RMB4.1 million for the year ended 31 December 2003, which represented a decrease of about 42.30% as compared with the audited net loss of about RMB7.1 million for the year ended 31 December 2002. The unaudited turnover and net loss of Guangzhou Hanfang for the six months ended 30 June 2004 amounted to about RMB1.4million and RMB0.096 million respectively, which represented a decrease of about 99.70% as compared with the unaudited net loss of about RMB3.6 million of the corresponding period in 2003. According to the letter from the Board, the second product, Feng Shi Ping Jiao Nang, which will be launched in 2005, will further enhance the turnover of Guangzhou Hanfang; therefore, it is reasonable to believe that the business of Guangzhou Hanfang is growing. The executive Directors are of the view that continuous research and development in Chinese medicine and their production methods, which are currently conducted by Guangzhou Hanfang, are of strategic importance to the Group.

Taking into account the principal business activities of the Group, the improvement in the financial result of Guangzhou Hanfang due to the commercialization of the products developed by the Project, and the financing requirement of Guangzhou Hanfang for future continuous research and development, we are of the opinion that the Subscription is in the interests of the Group and the Shareholders as a whole.

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## LETTER FROM GRAND VINCO

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### 2. The consideration

The consideration payable by the Company to Guangzhou Hanfang for the Subscription is RMB44,480,000 which will be settled in cash within five business days upon the effective date of the Subscription Agreement. The total consideration will be funded by the internal resources of the Group. According to the terms of the Subscription Agreement, it will become effective upon approval by the Independent Shareholders and there is no long stop date for the Subscription.

As stated in the letter from the board, the consideration was arrived at after arm's length negotiation between the Company and the other Hanfang Shareholders after taking into account (i) the factors set out in the paragraph headed "Reasons for the Subscription" in the letter from the board; (ii) the subscription by seven Hanfang Shareholders, being GPLL, Huadong Chinese Medicine, Ms. Liu Ju Yan, Mr. Mo Shang Zhi, Mr. Cai Xing Chun, Mr. Zhao Xiang Yong and Mr. Ge Fa Huan, for Hanfang Shares in February 2003 at a consideration of RMB1 per Hanfang Share, which represented a premium of about 18.9% over the audited net asset value per Hanfang Share of approximately RMB0.841 as at 31 December 2002; (iii) the net asset value per Hanfang Share of approximately RMB0.85 as at 31 December 2003; and (iv) the nominal value of Hanfang Shares of RMB1 each. The executive Directors consider that the terms of the Subscription are on normal commercial terms and the consideration is fair and reasonable so far as the Independent Shareholders are concerned.

#### **Price per net asset multiples attributed to Hanfang**

The consideration of RMB1 per Subscription Share represents a premium of about 17.6% over the net asset value per Hanfang share of about RMB0.85 as at 31 December 2003 according to its PRC audited accounts.

We have examined the price per net assets multiples of a sample of 22 similar listed companies in Hong Kong in the same industry as to the Group (calculated based on the basic net asset per share as per their respective latest published financial statement and the closing prices of such companies as quoted on the 3 September 2004) which are set out in the following table:

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**LETTER FROM GRAND VINCO**

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<b>Stock Code</b>	<b>Stock Name</b>	<b>Share Price at 3/9/2004 (HKD)</b>	<b>Latest net asset value per share</b>	<b>Price per net asset multiple</b>
1093	China Pharmaceutical Group Ltd	1.780	1.379	1.327
2348	Dawnrays Pharmaceutical (Holdings) Ltd.	0.510	0.441	1.157
1164	Vital Biotech Holdings Ltd.	0.355	0.18	1.976
719	Shandong Xinhua Pharmaceutical Co. Ltd.	1.310	2.968	0.441
182	Hong Kong Pharmaceutical Holdings Ltd.	0.194	0.006	32.333
329	Golden Dragon Group (Holdings) Ltd.	0.210	0.358	0.587
358	Extrawell Pharmaceutical Holdings Ltd.	0.196	0.145	1.348
2898	Long Far Pharmaceutical Holdings Ltd.	0.400	0.145	2.768
8151	Essex Bio-Technology Ltd.	0.105	0.061	1.718
1149	Broad Intelligence International Pharmaceutical Holdings Ltd.	0.360	0.504	0.714
8067	Changchun Da Xing Pharmaceutical Co. Ltd.	0.300	0.349	0.860
8197	Northeast Tiger Pharmaceutical Co. Ltd.	0.092	0.186	0.49
8221	Lee's Pharmaceutical Holdings Ltd.	0.230	0.1004	2.29
8085	New Chinese Medicine Holdings Ltd.	0.035	0.0289	1.21
8225	Venturepharm Laboratories Ltd.	0.470	0.2363	1.99
8231	Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co. Ltd.	0.320	0.2319	1.38
1177	Sino Biopharmaceutical Ltd.	1.040	0.2560	4.06
1180	Lifetec Group Ltd.	0.075	0.0992	0.76
2327	Jiwa Bio-Pharm Holdings Ltd.	0.360	0.3283	1.10
8069	Tong Ren Tang Technologies Co. Ltd.	16.900	3.3644	4.89
8049	Jilin Province Huinan Changlong Bio-pharmacy Co. Ltd.	0.212	0.3260	0.35
897	Wai Yuen Tong Medicine Holdings Ltd.	0.120	0.4914	0.24

As shown in the above table, the price per net asset multiples of the 22 comparable companies are in the range of 0.240 times to 32.333 times. The average and median of these price per net asset multiples are 2.909 times and 1.2685 times respectively. The executive Directors confirmed that the net assets value of Guangzhou Hanfang as at 31 December 2003 was approximately RMB71,205,000 prepared under Hong Kong Statement of Standard Accounting Practice, which is the same as the one disclosed in the letter from the board. Under the Subscription, the price per net asset multiple of Guangzhou Hanfang, calculated based on the consideration of RMB1 per Subscription Share and the net asset value per Hanfang Share of RMB0.85 as 31 December 2003 of its PRC audited accounts, is 1.17 times. This price per net asset multiple of approximately 1.17 times not only falls within the range of the 22 comparable companies' price per net asset multiples but also below their average and median.

In addition, taking into accounts that Hanfang Shares are unlisted and restriction on transfers of Guangzhou Hanfang as described below was imposed, we are of the view that the consideration is fair and reasonable as to the Shareholders of the Company as a whole.

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## LETTER FROM GRAND VINCO

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### 3. Restriction on the transfer of Shares of Guangzhou Hanfang

The Company and Huadong Chinese Medicine, which are interested in approximately 70.04% and approximately 3.91% of the registered capital of Guangzhou Hanfang, respectively, following completion of the Subscription Agreement, are restricted from disposing of, transferring or pledging the Hanfang Shares owned by them within 3 years from the date of the Subscription Agreement, being 27 August 2004, unless otherwise agreed by all the Hanfang Shareholders. The remaining Hanfang Shareholders are not subject to such restriction on disposal, transfer or pledge of their Hanfang Shares.

The Company provides resources, other than technical know-how, and Huadong Chinese Medicine provides technical know-how for the research and development of the Chinese medicines for the Project. The Directors consider that both parties are critical for the successful implementation of the Project and continuous research and development in Chinese medicines and their production methods conducted by Guangzhou Hanfang are of strategic importance to the Group. In view of the above and in order to demonstrate commitments to the Project by the Company and Huadong Chinese Medicine, the Directors consider that the restriction on the transfer of the Subscription Shares is fair and reasonable and in the interest of the Company and the Shareholders as a whole. GPLH, through GPLH's shareholding in the Company provides resources, other than technical know-how, to Guangzhou Hanfang. Therefore, the Directors consider that it is fair and reasonable not to apply restriction on the transfer of GPLH's holding of Hanfang Shares. As the shareholdings of shareholders of Guangzhou Hanfang other than the Company, Huadong Chinese Medicine and GPLH, are insignificant, the Directors consider that it is fair and reasonable not to apply the restriction on the transfer of their respective shareholdings in Guangzhou Hanfang.

We note that such restriction limits the flexibility of the Group to sell the Hanfang Shares with a view to, including but not limited to, raise monies or realize investment returns through selling of shares. However, it also restricts the Group to sell its shareholding in Guangzhou Hanfang at a discount which may be detrimental to the Shareholders of the Company. Furthermore, it also reflects the confidence of the executive Directors that the investment would be prosperous of which the Shareholders of the Company will benefit in the long run.

In addition, both the Group and Guangzhou Hanfang are critical for the successful implementation of the Project and continuous research and development in Chinese medicines and their production methods conducted by Guangzhou Hanfang are of strategic importance to the Group. By considering all the above factors as a whole, we are of the view that such restriction on transfer is fair and reasonable as to the shareholders as a whole.

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## LETTER FROM GRAND VINCO

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#### 4. Funding for the consideration

As stated in the letter from the board of the Circular, the consideration will be satisfied by cash in full and will be financed by internal resources of the Group. The executive Directors are of the view that the Group will have sufficient working capital to satisfy the cash payments approximately of RMB44,480,000 towards Guangzhou Hanfang, for the Subscription. We note that the Group had substantial cash and cash equivalents as at 30 June 2004, amounted to approximately RMB861,010,000. The Consideration would represent only about 5.17% of the cash and cash equivalents of the Group. The Group currently is well posed in a strong cash position.

The gearing ratio of the Group was approximately 7.48% as at 31 December 2003. Assuming the consideration of RMB44,480,000 will be paid by cash, there would not be any material change in gearing ratio of the Group. Therefore, we are of the view that the Subscription would not have any material adverse effect on the Group's working capital position.

Having taken into account the above, we are of the view that the Subscription and the Consideration are in the interests of the Company and the Shareholders as a whole.

#### 5. Shareholding change

Following completion of the Subscription, the Company will hold approximately 70.04% in aggregate of the enlarged issued share capital of Guangzhou Hanfang. Since Guangzhou Hanfang is a non wholly owned subsidiary of the Company and is the main research and development arm of the Group, the Subscription would result in increasing the control of Guangzhou Hanfang in the Group which would strengthen the Group's research and development function of the Group. Therefore, the increase in shareholding in Guangzhou Hanfang will benefit the Shareholders of the Company as a whole.

### CONCLUSION

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

Yours faithfully,  
For and on behalf of  
**GRAND VINCO CAPITAL LIMITED**

**Kevin Miu**  
*Director*

*The following is an extract from the valuation reports prepared for the purpose of incorporation in this circular received from Greater China Appraisal Limited, an independent valuer, in connection with their valuation as at 30 June 2004 of the Tangible Assets, comprising (i) land, buildings and ancillary structures; and (ii) machinery and equipment.*

## **1. LAND, BUILDINGS AND ANCILLARY STRUCTURES**

### **GREATER CHINA APPRAISAL LIMITED**

**漢 華 評 值 有 限 公 司**

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Room 2407  
Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

15 September 2004

The Directors  
Guangzhou Pharmaceutical Company Limited  
No. 45 Sha Mian Bei Street  
Liwan District  
Guangzhou  
Guangdong Province  
The People's Republic of China

Dear Sirs,

In accordance with the instructions from Guangzhou Pharmaceutical Company Limited (the "Company") to value the property interest in the People's Republic of China (referred to as the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purposes of providing you with our opinion of the value of such interest as at 30 June 2004 (referred to as the "valuation date").

This letter which forms parts of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, titleship of properties and the limiting conditions.

**Basis of Valuation**

The valuation of the property interest is our opinion of the market value which we would define as intended to mean:

“The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

In the course of our valuation, we have valued the property interest in its designed uses with the understanding that the property will be used as such (hereafter referred to as “continued use”).

**Valuation Methodology**

Due to the nature of buildings and structures constructed, there are no readily identifiable market comparable for them. Therefore, we have applied the depreciated replacement cost method in assessing the property. It is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the valuation date.

This method of valuation requires an estimate of the market value of the existing use of the land, plus the current gross replacement (reproduction) costs of the improvement, less allowances for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on market comparable.

Valuation of land is made by comparison method where land comparables were analysed and adjusted for application in the valuation.

Physical deterioration is the loss in value resulting from wear and tear in operation and exposure to the elements.

Functional obsolescence is the loss in value caused by conditions within the assets such as changes in design, materials, or process that result in inadequacy, overcapacity, lack of utility, or excess operating costs.

Economic/external obsolescence is an incurable loss in value caused by unfavorable conditions external to the asset such as the local economy, economics of the industry, availability of financing, encroachment of objectionable enterprises, loss of material and labour sources, lack of efficient transportation, shifting of business centers, passage of new legislation and changes in ordinances.



### Assumptions

Our valuation has been made on the assumption that the owner sells the relevant property interest in its continued use on the market without the benefit of deferred term contracts, leaseback, joint ventures, management agreements or any similar arrangements which would serve to increase the value of such interest. In addition, no forced sale situation in any manner is assumed in our valuation.

For the property interests which has been assessed by reference to the 'Depreciated Replacement Cost' approach, our opinion of values are subject of the fact that prospective earnings would provide a reasonable return on the appraised property, plus the value of any assets not included in the appraisal, and adequate net working capital.

Continued use assumes the property will be used for the purposes for which the property is designed and built, or to which it is currently adapted. The valuation on the property in continued use does not represent the amount that might be realized from piecemeal disposition of the property on the open market.

For the property which is held under long term land use rights, we have assumed that the owner of the property interests has free and uninterrupted rights to use the property for the whole of the unexpired term of its respective land use rights. Furthermore, we have valued it on the assumption that it can be freely disposable and transferable for its existing use to third parties in the open market without paying any premium to the PRC government. Unless stated as otherwise, vacant possession is assumed for the property concerned.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures fall within the site are held by the owner or permitted to be occupied by the owner.

It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the appraisal report. Moreover, it is assumed that the utilization of the land and improvements is within the boundaries of the property described and that no encroachment or trespass exists, unless noted in the report.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

We believed that the assumptions so made by us are reasonable in the circumstances. We have also assumed that all consents, approvals and licenses from relevant government authorities for the properties have been granted without any onerous conditions or undue time delay which might affect the value.

Other special assumptions of each property, if any, have been stated out in the footnotes of the valuation certificate for the respective properties.

### **Title Investigation**

For the property interests located in the PRC, we have been provided with copy of title documents regarding the properties under valuation. However, due to the current registration system of the PRC, no investigations have been made for the legal title or any liabilities attached to the properties.

As far as the land and buildings in the PRC are concerned, we have relied upon the legal opinion (the “Legal Opinion”) dated 29 August 2004 given by 廣東正平天成律師事務所 (Z & T Law Firm) (referred to as the “PRC Legal Advisers”) in relation to the legal title to and the nature of the interest in the Land and Buildings (as defined in the valuation certificate) concerned. Summary of the Legal Opinion is listed in the footnote no. 4 of the valuation certificate.

All legal documents disclosed in this report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property described in this report.

### **Limiting Conditions**

We have not carried out detailed site measurement to verify the correctness of the site areas in respect of the relevant properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the property. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other structural defects. No tests were carried out in any of the services.

No site investigations have been carried out to determine the suitability of the ground conditions or the services for any property development. Our valuation is made on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

No soil analysis or geological studies were order or made in conjunction with this report, nor were any water, oil, gas or other subsurface mineral use rights or conditions investigated.

Substance such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic waste or other potentially hazardous materials could, if present, adversely affect the value of the property. Unless otherwise stated in this report, its existence on the property was not considered by the appraiser in the development of the conclusion of market value. The stated value estimate is predicated on the assumption that there is no material on or in the property that would cause such a loss in value. No responsibility is assumed for any such conditions, and the client has been advised that the appraiser is not qualified to detect such substances, quantify their impact on values, or develop the remedial cost.

We do not investigate any industrial safety environmental and health related regulations in association any particular manufacturing process. It is assumed that all necessary licenses, procedures, and measures were implemented in accordance with Government legislation and guidance.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the interests are free of encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

The valuation contained in this report specifically excludes the impact of structural damage or environmental contamination resulting from earthquakes or other causes. It is recommended that the reader of this report consult a qualified structural engineer and/or environmental auditor for the evaluation of possible structural/ environmental defects, the existence of which could have a material impact on market value.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Company and has accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, construction costs, rentals, site and floor areas and in the identification of the property in which the Company have valid interests. We have had no reason to doubt the truth and accuracy of the information. We were also advised that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

**Opinion of Value**

In view of all relevant circumstances, we are of the opinion that the market value of the subject property in its existing state as at 30 June 2004, with the assumption of free of all encumbrances, is in the region of **RENMINBI YUANS THIRTY NINE MILLION AND THREE HUNDRED THOUSAND ONLY (RMB39,300,000)**.

We enclose herewith the valuation certificate.

We hereby certify that we have neither present nor prospective interest in the appraised assets or the value reported.

This valuation report is issued subject to our general service conditions.

Yours faithfully,

For and on behalf of

**GREATER CHINA APPRAISAL LIMITED**

**K. K. Ip**

*BLE, LLD*

*Chartered Valuation Surveyor*

*Registered Professional Surveyor*

*Managing Director*

*Note:* Mr. K. K. Ip, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in the PRC since 1992.

## VALUATION CERTIFICATE

Property	Description and tenure	Particulars of Occupancy	Market value in Existing state as at 30 June 2004
Land, buildings and structures located at No. 268 Yun Xing Da Road Tao Yuan Town Cong Hua Guangzhou Guangdong Province The PRC	<p>The property comprises a parcel of land (the "Land"), 6 blocks of 1 to 4-storey industrial buildings (the "Buildings"), ancillary structures (the "Structures") and construction-in-progress (the "CIP") erected upon the Land. The Buildings were completed in 1999.</p> <p>The land area of the Land is approximately 59,017 square metres and the total construction floor area of the Buildings is approximately 5,779.07 square metres. Structures consist of boundary walls, bridge, internal road and civil works within the Land.</p> <p>CIP consist of a 4-storey industrial building, namely the extraction workshop, with gross floor area of approximately 12,672 square metres and a waste water treatment plant.</p> <p>The property is held under a State-owned Land Use Certificate and 6 Real Estate Ownership Certificates for a term expiring on 21 December, 2043 for industrial use.</p>	<p>As at the date of inspection, the Land, Buildings and Structures were occupied by 廣州漢方現代中藥研究開發有限公司 (Guangzhou Hanfang Modern Chinese Medicine Research and Development Limited) (referred to as "Guangzhou Hanfang") as a research center.</p> <p>For the CIP, as at the date of inspection, the superstructures of the 4-storey extraction workshop and the waste water treatment plant have been completed. Internal decoration and installation of equipment was in progress.</p>	RMB39,300,000

## Notes:

1. In April 2003, the property was injected into Guangzhou Hanfang by 廣州醫藥集團有限公司 (Guangzhou Pharmaceutical Holdings Limited) (referred to as “GPHL”) as consideration for its subscription in the shares in Guangzhou Hanfang. After completion of the subscription by GPHL, together with other subscribers, Guangzhou Hanfang becomes an approximately 54.03% owned subsidiary of the Company.
2. According to a State-owned Land Use Right Certificate dated 26 August, 2003 and 6 Real Estate Ownership Certificates dated 27 August, 2003 issued by the People’s Government of Cong Hua City and the People’s Government of Guangdong Province respectively, the Land and the Buildings, with a total land area of approximately 59,017 square metres and a total construction floor area of approximately 5,779.07 square metres, are held by Guangzhou Hanfang for a term expiring on 21 December, 2043 for industrial use.
3. In accordance with a Construction Works Planning Approval dated 25 December 2003 issued by Cong Hua City Planning Bureau, the construction of a workshop with gross floor area of 12,672 square metres was approved.
4. It is stated in the Legal Opinion given by the PRC Legal Advisers, inter alia, that:

- (a) The Land and the Buildings were held by Guangzhou Hanfang under the following title documents:

Title Documents	Document No.	No. of Storey	Land Area	Construction Floor Area	Term Expiry Date
State-owned Land Use Right Certificate	Cong Fu Guo Yong (2003) Zi Di No. 00212	/	59,017.00 sq.m.	/	21 December, 2043
Real Estate Ownership Certificate (Block 2)	Yue Fang Di Zheng Zi Di No. C1547961	4	/	3,456.00 sq.m.	21 December, 2043
Real Estate Ownership Certificate (Block 5)	Yue Fang Di Zheng Zi Di No. C1547964	1	/	130.56 sq.m.	21 December, 2043
Real Estate Ownership Certificate (Block 4)	Yue Fang Di Zheng Zi Di No. C1547963	2	/	1,472.00 sq.m.	21 December, 2043
Real Estate Ownership Certificate (Block 6)	Yue Fang Di Zheng Zi Di No. C1547965	1	/	161.92 sq.m.	21 December, 2043
Real Estate Ownership Certificate (Block 1)	Yue Fang Di Zheng Zi Di No. C1547960	1	/	300.05 sq.m.	21 December, 2043
Real Estate Ownership Certificate (Block 3)	Yue Fang Di Zheng Zi Di No. C1547962	1	/	258.54 sq.m.	21 December, 2043
Total:			59,017.00 sq.m.	5,779.07 sq.m.	

- (b) The CIP being built on the Land has been approved by the relevant planning authority. Construction Works Planning Approval over the new workshop has been obtained.
- (c) Guangzhou Hanfang has legally obtained ownership of the Land and the Buildings by means of asset injection from GPHL.
- (d) Guangzhou Hanfang has the right to transfer, lease and mortgage the Land and the Buildings during the unexpired term of the use without paying any additional land premium to the relevant government authorities.

**2. MACHINERY AND EQUIPMENT****GREATER CHINA APPRAISAL LIMITED**  
**漢華評值有限公司**

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Room 2407  
Shui On Centre  
6-8 Harbour Road  
Wanchai  
Hong Kong

15 September 2004

The Directors  
Guangzhou Pharmaceutical Company Limited  
No. 45 Sha Mian Bei Street  
Liwang District  
Guangzhou  
Guangdong Province  
The People's Republic of China

Dear Sirs,

In accordance with the instructions from Guangzhou Pharmaceutical Company Limited (referred to as the "Company"), we have completed the appraisal of certain machinery and equipment (the "Equipment") exhibited to us as those located at research centre of 廣州漢方現代中藥研究開發有限公司 (Guangzhou Hanfang Modern Chinese Medicine Research and Development Limited) (referred to as "Guangzhou Hanfang") in Cong Hua, Guangdong Province, the People's Republic of China (the "PRC") and submit our findings in this report.

We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the market value of the Equipment as of 30 June 2004. It is understood that this appraisal is being used for a connected transaction.

**Introduction**

Guangzhou Hanfang is principally engaged in the development of new Chinese medicine and research and development in new production methods for Chinese medicine.

### **Description of the Equipment**

The appraised Equipment comprises various production equipment including supercritical extraction system, filtration system, spectrometers, extraction tanks, reaction tanks, storage tanks, vacuum dryer, spray dryer, electronic scales, evaporation devices, laboratory testing instruments, motors, filters, water softener, pumps, water purifier, water supply system and supported with ancillary equipment.

The Equipment is located in the research center of Guangzhou Hanfang at No. 268 Yun Xing Da Road, Tao Yuan Town, Cong Hua, Guangdong Province, the PRC.

Excluded from this investigation are land improvements, improvements to leased property, real estate property, buildings, spare parts, supplies, inventories, materials on hand and all other tangible assets of current nature and intangible assets that might exist.

### **Basis of Valuation**

The valuation is our opinion of the “Value of Plant & Machinery to the Business” which we would define as intended to mean “an option of the price at which an interest in the plant and machinery utilized in a business would have been transferred at the date of valuation assuming:

- (a) that the plant and machinery will continue in its present use in the business;
- (b) adequate potential profitability of the business, or continuing viability of the undertaking, both having due regard to the value of the total assets employed and the nature of the operation;
- (c) that the transfer is part of an arm’s length sale of the business wherein both parties acted knowledgeably, prudently and without compulsion.”

### **Valuation Methodology**

Before arriving at our opinion of value, we personally inspected the Equipment and studied market conditions. To develop our opinion of value, we considered the three generally accepted approaches to value: the depreciated replacement cost, market comparable and income capitalization. The theory of these approaches is outlined as follows:

#### *The depreciated replacement cost approach*

The depreciated replacement cost approach establishes value based on the cost of reproducing or replacing the assets, less depreciation from physical deterioration, and functional and economic/external obsolescence.



Reproduction Cost, New is defined as the estimated current cost of reproducing a new replica of an asset with the same or closely similar materials.

Replacement Cost, New is defined as the estimated current cost of the new asset having the nearest equivalent utility as the asset being appraised.

Physical Deterioration is the loss in value of an asset from wear and tear of asset in operation and exposure to various elements.

Functional Obsolescence is the loss in value is due to factors inherent in the asset itself and changes in design, materials, or process that result in inadequacy, over capacity, excess construction, lack of functional utility or excess operating costs, etc.

Economic Obsolescence is an incurable loss in value caused by unfavorable external conditions.

When market transactions of comparable assets are not available, when data cannot be extrapolated from larger transactions, or when transactions are non-existent, under premise of continued use, assuming adequate earnings the depreciated replacement cost approach is the preferred valuation procedure.

*The market comparable approach*

The market comparable approach involves the collection of market data pertaining to the subject assets being appraised. The primary intent of the market comparable approach is to determine the desirability of the assets through recent sales or offerings of similar assets currently on the market in order to arrive at an indication of the most probable selling price for the assets being appraised.

If the comparable sales are not exactly similar to the asset being appraised, adjustments must be made to bring them as closely in line as possible with the subject asset.

Under the premise of continued use assuming adequate earnings, consideration is given to the cost to acquire similar equipment in the used-equipment market; an allowance then is made to reflect the costs for freight and installation.

*The income capitalization approach*

In the income capitalization approach considers value in relation to the present worth of future benefits derived from ownership and is usually measured through the capitalization of a specific level of income. This approach is most applicable to investment and general-use properties where there is an established and identifiable rental market.

In any appraisal study, all three approaches to value must be considered, as one or more may be applicable to the subject Equipment. In some situations, elements of two or three approaches may be combined to reach an opinion of value.

**Investigation and Analysis**

In valuing the Equipment, since there is no identified active used-equipment market in China that provides information on recent transactions of comparable items, the market comparable approach was not applied. On the other hand, since no identifiable income stream can be attributed to a specific piece of equipment or a group of equipment, the income capitalization approach to value was not applied. Therefore, we conclude that the depreciated replacement cost approach is deemed to be the most appropriate method of valuing the Equipment under premise of continued use.

For the Equipment of standard manufacture, we used current manufacturers' price lists, price quotations and price catalogs to determine the cost of replacement new. Allowances for freight and installation were sometimes required.

For the Equipment of special design or fabrication, we used current market price for labor, current market price for materials, manufactured components, design fees, engineering fees and contractors' overhead, profit and fee to determine the cost of replacement new. Allowances for freight and installation were sometimes required.

Also, we adopted the index factor to estimate the cost of reproduction new of special design or fabrication Equipment, an index factor is applied to the historical cost of appraised equipment in order to estimate the current cost of the Equipment.

The deductions for physical deterioration, functional obsolescence, and economic / external obsolescence reflected observed condition; past maintenance and rebuilding history, if any; current use; and planned future utilization.

**Valuation Comments**

We have inspected the Equipment on 11 August 2004. At the time of our inspection, the appraised Equipment was found to be in good condition. The construction of the new supercritical extraction workshop was almost completed and was under internal decoration. Certain machinery and equipment has been transported to the new workshop but not installed yet.

We have assumed that the Equipment can perform efficiently according to the purposes for which they were designed and built.

For those items of equipment with purchasing date before April 2003, they were injected into Guangzhou Hanfang by 廣州醫藥集團有限公司 (Guangzhou Pharmaceutical Holdings Limited) (referred to as "GPHL") as consideration for its subscription in the shares in Guangzhou Hanfang. As confirmed by the legal opinion dated 29 August, 2003 given by 廣東正平天成律師事務所 (Z&T Law Firm), the equipment, of which the purchasing date before April, 2003, is owned by Guangzhou Hanfang, and Guangzhou Hanfang has the right to use and dispose of the equipment, of which the purchasing date before April, 2003.

Subsequent to April 2003, additional items of equipment were purchased by Guangzhou Hanfang. These items are not covered by any legal opinions. However, we have physically inspected those items to verify their existence with reference to the asset lists and book values as provided by Guangzhou Hanfang. In some cases, we have checked the sales contracts and payment slips, which we believe, are good evidence of title.

In the course of our investigation, we have not investigated the title or any liabilities against the Equipment.

We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the appraised assets are used. It was assumed that prospective earnings would provide a reasonable return on the market value of the appraised assets, plus the value of any assets not included in the appraisal, and adequate net working capital.

We accepted Equipment records furnished by the Company as properly describing the assets to be appraised, their original costs and their acquisition dates. We have relied to a very considerable extent on such records, listings, specifications and documents in arriving at our opinion of value. We visited the location to verify the existence of the assets and to gather information relating to the condition and utility of these assets.

Any deferred maintenance, physical wear and tear, operating malfunctions, lack of utility, or other observable conditions distinguishing the appraised equipment from equipment of like kind in new condition were noted and made part of our judgment in arriving at the value.

We do not investigate any industrial safety environmental and health related regulations in association with this particular manufacturing process. It is assumed that all-necessary license, procedures, and measures were implemented in accordance with the Government legislation and guidance.

It is assumed that there are no hidden or unapparent conditions of the equipment which would render it more or less valuable.

**Opinion of Value**

After a thorough analysis of the Equipment and review of the information made available to us, it is our opinion that as at 30 June 2004, the Value of Plant & Machinery to the Business of the Equipment is reasonably represented by the amount of **RENMINBI YUANS NINETEEN MILLION AND SIX HUNDRED THOUSAND ONLY (RMB19,600,000)**.

We enclosed herewith the list of machinery and equipment.

We hereby certify that we have neither present nor prospective interest in the appraised assets or the value reported.

The valuation report is issued subject to our General Service Conditions.

Yours faithfully,

For and on behalf of

**GREATER CHINA APPRAISAL LIMITED**

**K. K. Ip**

*BLE, LLD*

*Chartered Valuation Surveyor*

*Registered Professional Surveyor*

*Managing Director*

*Investigation and report by*

*Andy H.F. Chu*

*BENG (Hons)*

*Senior Manager*

**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', senior management's and chief executive'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, senior management and chief executive 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 had taken or deemed to have taken 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:**

<b>Name</b>	<b>Type of interest</b>	<b>Company</b>	<b>of Shares</b>
Zhou Yuejin	Personal	The Company (A Shares)	28,900
	Trust (Note 1)	Po Lian Development Company Limited	200,000

**Long position of the supervisors:**

<b>Name</b>	<b>Type of interest</b>	<b>Company</b>	<b>Number of Shares</b>
Chen Canying	Personal	The Company (A Shares)	9,800
	Personal	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	22,150
Ou Yang Qiang	Personal	The Company (A Shares)	10,100

**Long position of the senior management:**

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

*Note:*

- (1) Mr. Zhou Yuejin is holding the said shares in Po Lian Development Company Limited as trustee only.

Save as disclosed above, as at the Latest Practical Date, none of the Directors, supervisors, senior management or the chief executive 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 had taken or deemed to have taken 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 substantial Shareholders**

So far as is known to any Director, supervisor, senior management or the chief executive 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	% of total issued share capital
GPHL (Note 1)	State-owned shares	513,000,000	100%	—	63.26%
The Hongkong and Shanghai Banking Corporation Limited (Note 2)	H Shares	41,029,694	—	18.66%	5.06%
Guotai Junan Securities (Hong Kong) Limited (Note 2)	H Shares	22,384,000	—	10.18%	2.76%
HSBC Broking Securities (Hong Kong) Limited (Note 2)	H Shares	20,302,000	—	9.23%	2.50%
Bank of China (Hong Kong) Limited (Note 2)	H Shares	15,059,000	—	6.85%	1.86%
Citibank N.A. (Note 2)	H Shares	12,772,000	—	5.81%	1.58%
Hang Seng Bank Limited (Note 2)	H Shares	11,088,274	—	5.04%	1.37%

*Note:*

1. GPHL disposed of part of its interests in the Company's state-owned shares for the purpose of financing the debt restructuring of Guangzhou Baiyunshan Pharmaceutical Co. Ltd. ("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 BYSCL and 22,000,000 state-owned shares to the Guangzhou Office of China Greatwall Asset Management Corporation. The relevant procedures for the proposed disposal are currently in process. As at the Latest Practical Date, 15,160,000 shares of the Company held by GPHL which were previously pledged had been released while 102,960,000 shares of the Company held by GPHL are still pledged.
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.

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

<b>Name of member of the Group</b>	<b>Name of substantial shareholder</b>	<b>% of issued share capital</b>
Guangzhou Hanfang	GPHL	30.78%
Guangzhou Pharmaceutical Yingbang Marketing Company Limited	GPHL	49%

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

The following is the qualification of the experts who have given an opinion or advice which is contained in this circular:—

<b>Name</b>	<b>Qualification</b>
Grand Vinco	A licensed corporation for types 1 and 6 regulated activities under the SFO
Greater China Appraisal Limited	Registered professional surveyors

## CONSENT

Each of Grand Vinco, being the independent financial adviser to the Independent Board Committee and Greater China Appraisal Limited, being the independent valuer, has given and has not withdrawn its written consent to the issue of this circular with the reference to its name and the inclusion herein of a copy of its letter or reports in the form and context in which it appears.



As at the Latest Practicable Date, none of Grand Vinco and Greater China Appraisal Limited had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in any member of the Group nor did they have any interest, either direct or indirect, in any assets which had been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

### **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 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 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;
- (v) the English text of this circular shall prevail over the Chinese text;
- (vi) the company secretary of the Company is Mr. He Shuhua; and
- (vii) the qualified accountant of the Company is Mr. Gao Fang, *Member of CICPA*.

**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 1 November 2004:

- (a) the Subscription Agreement;
- (b) the letter dated 15 September 2004 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 13 of this circular;
- (c) the letter of advice dated 15 September 2004 from Grand Vinco to the Independent Board Committee, the text of which is set out on pages 14 to 20 of this circular;
- (d) the written consent referred to in the paragraph headed “Consent” in this appendix;
- (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;
- (f) the valuation reports on the Tangible Assets prepared by Greater China Appraisal Limited, the text of which is set out in Appendix I to the circular;
- (g) the annual reports of the Group for the two financial years ended 31st December 2002 and 2003; and
- (h) the interim report of the Group for the 6 months ended 30 June 2004.