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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)

**DISCLOSEABLE TRANSACTION:
DEEMED DILUTION OF
SHAREHOLDING INTEREST IN
WANGLAOJI PHARMACEUTICAL COMPANY LIMITED
AND
CONTINUING CONNECTED TRANSACTION**

The Subscription

On 8 November 2004, WLJ and Golden Force entered into the Subscription Agreement whereby Golden Force agreed to subscribe for the Subscription Shares, being 98,378,439 WLJ Shares, for a total consideration of RMB168,880,000, representing RMB1.71664 per Subscription Share. The Subscription Shares represent about 92.48% of the existing registered capital of WLJ and about 48.0465% of the registered capital of WLJ as enlarged by the Subscription. The Company currently holds about 92.48% interest in WLJ. Immediately upon completion of the Subscription, the Company's interest in WLJ will decrease to about 48.0465%. In addition, on 8 November 2004, the WLJ Shareholders and Golden Force entered into the Shareholders' Agreement and the Articles of Association to record the arrangements agreed between them with regard to, inter alia, the Subscription and the management and business of WLJ.

The consideration of RMB1.71664 per Subscription Share represents a premium of 30.74% over the audited net asset value per WLJ Share of about RMB1.313 as at 31 July 2004.

The Subscription Agreement, the Shareholders' Agreement and the Articles of Association are conditional on the fulfillment of the following conditions: (i) the approval by the board of directors of WLJ and the WLJ Shareholders of the Subscription, the Subscription Agreement and the matters referred to therein; (ii) the approval of the Subscription by a special resolution of the Shareholders at the EGM; (iii) approval of the Subscription by special resolutions of the Domestic Shareholders and the H Shareholders respectively at separate class meetings; (iv) the approval by the Ministry of Commerce of the PRC (中華人民共和國商務部) of the Subscription, the change of WLJ to a sino-foreign joint stock company upon Subscription, the Subscription Agreement, the Shareholders' Agreement and the change of the Articles of Association; (v) the provision by WLJ of the audited financial statements of WLJ for the period from 1 January 2004 to 31 July 2004 to Golden Force; and (vi) Golden Force provides a performance guarantee WLJ by a registered bank in Hong Kong which is acceptable to WLJ.

Golden Force and its beneficial owners are Independent Third Parties. The Subscription constitutes a discloseable transaction of the Company as defined in the Listing Rules. As WLJ is a major subsidiary of the Group and the Subscription constitutes a material dilution under Rule 19A.38 of the Listing Rules, the Company will obtain the approvals of the Subscription by a special resolution of the Shareholders at the EGM, and special resolutions of the Domestic Shareholders and the H Shareholders at separate class meetings.

The trademark of Wanglaoji

Pursuant to the Trademark Licence Agreement, GPHL has granted to the Group, an exclusive right to use, in connection with all existing and future products manufactured and to be manufactured by the Group, 38 Licensed Trademarks owned by GPHL for an initial term of 10 years commencing from the date of the Trademark Licence Agreement. The Trademark Licence Agreement will be automatically renewable for a further term of 10 years by the Company upon expiry of the Trademark Licence Agreement unless GPHL gives a notice of termination three months prior to the expiry date of the initial term. Pursuant to the Trademark Licence Agreement, the Company has to pay an annual Licence Fee for the use of the Licensed Trademarks, which is calculated on the basis of 0.1% of the aggregate net sales of the Company reflected in its consolidated accounts prepared in accordance with the applicable PRC accounting standards and payable on a quarterly basis in arrear. Upon completion of the Subscription Agreement, WLJ will no longer be a subsidiary of the Company and will become an associated company of the Company and therefore will not be allowed to use the Licensed Trademarks under the Trademark Licence Agreement. On 8 November 2004, the Company entered into the Supplemental Licence Agreement with GPHL pursuant to which the Company has agreed to terminate the exclusive right to use the WLJ Trademarks that are currently used for the products of WLJ. On 8 November 2004, GPHL and WLJ entered into the WLJ Trademark Licence Agreement pursuant to which GPHL will grant to WLJ an exclusive right to use the WLJ Trademarks together with 5 additional WLJ trademarks, which WLJ will have an exclusive right to use, and 3 additional WLJ trademarks, which WLJ will have a non-exclusive right to use, for the existing products manufactured in the PRC for the period from the date upon which the WLJ Trademark Licence Agreement becoming effective to the date until GPHL is no longer the owner of the WLJ Trademarks. According to the WLJ Trademark Licence Agreement, WLJ will pay an annual licence fee to GPHL equivalent to 0.1% of the aggregate net sales of WLJ as shown in its audited consolidated accounts prepared in accordance with the applicable PRC accounting standards and payable on a quarterly basis in arrear. Upon (i) Golden Force becomes a shareholder of WLJ; and (ii) WLJ becomes a sino-foreign joint stock company, WLJ will pay an annual licence fee to GPHL of 2.1% of the aggregate net sales of WLJ as shown in its consolidated accounts prepared in accordance with the applicable PRC accounting standards and payable on a quarterly basis in arrear. In addition, under the Supplemental Licence Agreement, upon WLJ's conversion into a sino-foreign joint stock company, the Company will be entitled to 47% of the annual licence fee receivable by GPHL from WLJ.

Furthermore, under the Supplemental Licence Agreement, GPHL has granted to the Group an exclusive right to use an additional 36 trademarks in connection with the products that may be developed and manufactured by the Group.

Since GPHL holds about 63.26% shareholding interest in the Company, the Supplemental Licence Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. After reviewing the turnover of WLJ for last 3 years, the Directors estimate that the consideration on annual basis under the Supplemental Licence Agreement does not exceed HK\$10,000,000 (equivalent to RMB10,600,000). On such basis, the Supplemental Licence Agreement will only be subject to disclosure requirements and are exempt from the independent Shareholders' approval requirements pursuant to Rule 14A.34 of the Listing Rules. In the event that the consideration on annual basis under the Supplemental Licence Agreement exceeds HK\$10,000,000 (equivalent to RMB10,600,000) in the future, the Company must comply with the provisions under Chapter 14A of the Listing Rules.

General

A circular containing, inter alia, further details of the Subscription, the notice of the EGM, the notice of the H Shareholders' class meeting and the notice of the Domestic Shareholders' class meeting will be sent to the Shareholders, the H Shareholders and the Domestic Shareholders respectively, as soon as practicable.

SUBSCRIPTION AGREEMENT DATED 8 NOVEMBER 2004

Parties:

- (i) Subscriber of the Subscription Shares: Golden Force
- (ii) Issuer of the Subscription Shares: WLJ

The Subscription

Pursuant to the Subscription Agreement, WLJ has agreed to increase its registered capital by way of subscription by Golden Force for the Subscription Shares, being 98,378,439 new WLJ Shares for a consideration of RMB168,880,000. The Subscription Shares represent about 92.48% of the existing registered capital of WLJ and about 48.0465% of the registered capital of WLJ as enlarged by the Subscription Shares. The Company's interest in WLJ will decrease from the current level of 92.48% to about 48.0465% as a result of the Subscription. Currently, the board of directors of WLJ comprises 6 directors and the Company has nominated 6 directors of WLJ. Pursuant to the Shareholders' Agreement and the Articles of Association, the board of directors of WLJ will comprise 9 directors. The Company will nominate 3 directors to the board of directors of WLJ. Golden Force will nominate 3 directors to the board of directors of WLJ. The Company and Golden Force will jointly nominate 3 non-executive directors to the board of directors of WLJ.

In addition, on 8 November 2004, the WLJ Shareholders and Golden Force entered into the Shareholders' Agreement and the Articles of Association to record the arrangements agreed between them with regard to, inter alia, the Subscription and the management and business of WLJ.

Upon completion of the Subscription, WLJ will be converted into a sino-foreign joint stock company for a period of 10 years from the date when the approval for the conversion have been obtained from relevant authorities of the PRC. Upon completion of the Subscription, WLJ will become an associated company of the Company.

Accordingly, the Subscription which involves Golden Force acquiring interest in WLJ constitutes a discloseable transaction of the Company and a deemed dilution of the Company's shareholding interest in WLJ as set out in the Listing Rules. As WLJ is a major subsidiary of the Group and the Subscription constitutes a material dilution under Rule 19A.38 of the Listing Rules, therefore, the Company shall obtain the approval of the Subscription by a special resolution of the Shareholders at the EGM, and special resolutions of the Domestic Shareholders and the H Shareholders at separate class meetings.

Consideration

The consideration for the Subscription Shares is RMB168,880,000, representing RMB1.71664 per Subscription Share. The total consideration in the amount of RMB168,880,000 will be settled by Golden Force in cash within 90 days after fulfillment of all the conditions set out in the Subscription Agreement.

WLJ intends to apply the proceeds of the Subscription in the manner that (i) approximately RMB45,000,000 will be applied for the expansion and strengthening of existing sales and distribution network of the products of WLJ in the provinces, cities and regions other than Guangdong province of the PRC and development of the sales and distribution network of the products of WLJ in overseas markets; (ii) approximately RMB90,000,000 will be applied for the improvement in the production capacity of WLJ; and (iii) the remaining balance will be designated as additional working capital of WLJ.

The Directors estimate that there will be a gain of approximately RMB17,000,000 arisen from the deemed dilution of the Company's shareholding interest in WLJ as a result of the Subscription.

The terms of the Subscription Agreement, the Shareholders' Agreement and the Articles of Association, including the consideration for the Subscription Shares, were arrived at after arm's length negotiation between the Company, WLJ, the WLJ Shareholders and Golden Force after taking into account (i) the factors set out in the paragraph headed "Reasons for the Subscription" below; (ii) the audited net asset value per WLJ Share as at 31 December 2003 of approximately RMB1.329 per WLJ Share; (iii) the audited net asset value per WLJ Share as at 31 July 2004 of approximately RMB1.313 per WLJ Share; and (iv) the nominal value of WLJ Share of RMB1 each; and (vi) the valuation of approximately RMB172,000,000 as at 31 July 2004 by GZAA Incorporated (廣州中天衡評估有限公司), which is an Independent Third Party. Since 1999, GZAA Incorporated has obtained approval from State Asset Administration Bureau (國家國有資產管理局) and China Securities Regulatory Commission (中國證券監督管理委員會) for conducting asset valuation for public companies in the PRC. The consideration of RMB1.71664 per Subscription Share represents a premium of approximately 30.74% over the audited net asset value per WLJ Share of about RMB1.313 as at 31 July 2004.

Pursuant to the Subscription Agreement, Golden Force has to place a deposit of RMB8,880,000 with a designated bank account of the Company within 7 days from the date of the Subscription Agreement. The deposit and the interest accrued therefrom will be refunded to Golden Force by the third day before settlement of the final instalment of the consideration for the Subscription Shares. If Golden Force fails to pay the consideration for the Subscription Shares within 30 working days after the time it is required to pay the consideration pursuant to the Subscription Agreement, WLJ will forfeit the deposit.

The consideration for the Subscription Shares will be satisfied in the following manner: (i) 30% of the consideration, being RMB50,664,000 (equivalent to approximately HK\$47,796,000), will be settled within 30 days after fulfillment of all conditions set out in the Subscription Agreement; (ii) 35% of the consideration, being RMB59,108,000 (equivalent to approximately HK\$55,762,000), will be settled within 60 days after fulfillment of all conditions set out in the Subscription Agreement; and (iii) the remaining 35% of the consideration, being RMB59,108,000 (equivalent to approximately HK\$55,762,000), will be settled within 90 days after fulfillment of all conditions set out in the Subscription Agreement.

The Directors consider that the terms of the Subscription Agreement are fair and reasonable. The Directors are of the opinion that the Subscription is in the interest of the Company and the Shareholders as a whole.

Restriction on the transfer of the Subscription Shares and the restriction on the issue of new shares of Golden Force

According to the Subscription Agreement, Golden Force has agreed that, during the lifespan of WLJ, it should obtain the prior written consent from the Company before it can transfer, pledge or create other form of charges against some or all of the Subscription Shares.

According to the Shareholders' Agreement, Golden Force has further undertaken, within 3 years from the conversion of WLJ; not to issue any new shares of Golden Force to any individuals other than the existing shareholders of Golden Force and not to accept the registration of any share transfer by the existing beneficial owners of Golden Force.

Intention of the acquisition of the WLJ trademarks and their rights to use

Pursuant to the Shareholders' Agreement, Golden Force has undertaken to assist WLJ to acquire the trademarks of Wanglaoji registered in Hong Kong or overseas, which are currently held by Independent Third Parties and their rights to use in Hong Kong or overseas at a fair market value or independent valuation from professional valuers.

Conditions of the Subscription

Completion of the Subscription is conditional upon:

- (i) the approval by the board of directors of WLJ and the WLJ Shareholders of the Subscription, the Subscription Agreement and the matters referred to therein;
- (ii) the approval by a special resolution of the Shareholders at the EGM;

- (iii) approval by special resolutions of the Domestic Shareholders and the H Shareholders at separate class meetings respectively;
- (iv) the approval by the Ministry of Commerce of the PRC (中華人民共和國商務部) of the Subscription, the change of WLJ to a sino-foreign joint stock company upon Subscription, the Subscription Agreement and the change of the Articles of Association;
- (v) the provision by WLJ of the audited financial statements of WLJ for the period from 1 January 2004 to 31 July 2004 to Golden Force;
- (vi) Golden Force provides to WLJ a performance guarantee by a registered bank in Hong Kong which is acceptable by WLJ.

Completion

Subject to the fulfillment of all relevant conditions of the Subscription Agreement, completion of the Subscription Agreement is expected to take place on the date when the new business licence of WLJ (reflecting its new registered capital and its new shareholding structure) is issued by Guangzhou Administration of Industrial and Commerce Bureau (廣州市工商行政管理局). It is expected that the new business licence of WLJ will be issued not later than 30 business days from the date when the verification report (驗資報告) issued by an accountancy firm, which is an Independent Third Party.

Shareholding structure of WLJ

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

WLJ Shareholders	Immediately before the completion of the Subscription		Immediately after the completion of the Subscription	
	No. of WLJ Shares	Approximate%	No. of WLJ Shares	Approximate%
The Company	98,378,439	92.48	98,378,439	48.0465
Staff of WLJ	8,000,000	7.52	8,000,000	3.9070
Golden Force	—	—	98,378,439	48.0465
Total	106,378,439	100.00	204,756,878	100.000

INFORMATION ON THE GROUP, WLJ AND GOLDEN FORCE

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.

WLJ

WLJ is a non wholly-owned subsidiary of the Company. It is principally engaged in the production, processing and sales of Chinese pharmaceutical products, such as 保濟丸 (Bao Ji Wan) and 小兒七星茶 (Xiao Er Qi Xing Cha), and health care products, such as 廣東涼茶顆粒 (Guangdong Liang Cha Ke Li) in the PRC. Set out below is the financial information of WLJ (which is prepared in accordance with the PRC accounting standards):

	As at 31 December 2002 RMB'000 (Audited)	As at 31 December 2003 RMB'000 (Audited)	As at 31 July 2004 RMB'000 (Audited)
Net asset value	133,511	141,373	139,694

	Year ended 31 December 2002 RMB'000 (Audited)	Year ended 31 December 2003 RMB'000 (Audited)	7 months ended 31 July 2004 RMB'000 (Audited)
Profits before tax	24,573	33,542	18,305
Profits after tax	15,639	18,810	11,487

Golden Force

Golden Force is a company incorporated in Hong Kong and is beneficially owned by Independent Third Parties. The beneficial owners of the issued shares of Golden Force have extensive experience in retail industry and Chinese pharmaceutical products. The sole purpose of Golden Force is to hold the Subscription Shares.

REASONS FOR THE SUBSCRIPTION

The beneficial owners of Golden Force have in-depth experience in the sales of Chinese medicine overseas and have an extensive overseas marketing network in the sales of Chinese medicine in Hong Kong and South East Asia. WLJ can leverage on the overseas marketing network of Golden Force to develop international markets of the products of WLJ. In view of the strength of the beneficial owners of the issued shares of Golden Force, the Directors consider that the Subscription is in the interest of the Shareholders as a whole.

WLJ TRADEMARKS

Pursuant to the Trademark Licence Agreement, GPHL has granted to the Group, an exclusive right to use in connection with all existing and future products manufactured and to be manufactured by the Group 38 trademarks (the "Licensed Trademarks") owned by GPHL for an initial term of 10 years commencing from the date of the Trademark Licence Agreement. The Trademark Licence Agreement will be automatically renewable for a further term of 10 years by the Company upon expiry of the Trademark Licence Agreement unless GPHL gives a notice of termination three months prior to the expiry date of the initial term. Pursuant to the Trademark Licence Agreement, the Company has to pay an annual fee (the "Licence Fee") for the use of the Licensed Trademarks, which is calculated on the basis of 0.1% of the aggregate net sales of the Company reflected in its consolidated accounts prepared in accordance with the applicable PRC accounting standards and payable on a quarterly basis in arrear. Upon completion of the Subscription Agreement, WLJ will no longer be a subsidiary of the Company and will become an associated company of the Company and therefore will not be allowed to use the Licensed Trademarks under the Trademark Licence Agreement. On 8 November 2004, the Company entered into the Supplemental Licence Agreement with GPHL pursuant to which the Company has agreed to terminate the exclusive right to use the 5 trademarks that are currently used for the products of WLJ ("WLJ Trademarks"). On 8 November 2004, GPHL and WLJ entered into the WLJ Trademark Licence Agreement pursuant to which GPHL will grant to WLJ an exclusive right to use the WLJ Trademarks together with 5 additional WLJ trademarks, which WLJ will have an exclusive right to use, and 3 additional WLJ trademarks, which WLJ will have a non-exclusive right to use, for the existing products manufactured in the PRC for the period from the date upon which the WLJ Trademark Licence Agreement becoming effective to the date until GPHL is no longer the owner of the WLJ Trademarks. According to the WLJ Trademark Licence Agreement, WLJ will pay an annual licence fee equivalent to 0.1% of the aggregate net sales of WLJ as shown in its audited consolidated accounts prepared in accordance with the applicable PRC accounting standards and payable on a quarterly basis in arrear. Upon (i) Golden Force becomes a shareholder of WLJ; and (ii) WLJ becomes a sino-foreign joint stock company, WLJ will pay an annual licence fee of 2.1% of the aggregate net sales of WLJ as shown in its consolidated accounts prepared in accordance with the applicable PRC accounting standards and payable on a quarterly basis in arrear. In addition, under the Supplemental Licence Agreement, upon WLJ's conversion into a sino-foreign joint stock company, the Company will be entitled to 47% of an annual licence fee receivable by GPHL from WLJ.

Furthermore, under the Supplemental Licence Agreement, GPLH has granted to the Group an exclusive right to use an additional 36 trademarks in connection with the products that may be developed and manufactured by the Group.

Since GPLH, holds about 63.26% shareholding interest in the Company, the Supplemental Licence Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. After reviewing the turnover of WLJ in the last 3 years, the Directors estimate that the consideration on annual basis under the Supplemental Licence Agreement does not exceed HK\$10,000,000 (equivalent to RMB10,600,000). On such basis, the Supplemental Licence Agreement will only be subject to disclosure requirements and are exempt from the independent Shareholders' approval requirements pursuant to Rule 14A.34 of the Listing Rules. In the event that the consideration on annual basis under the Supplemental Licence Agreement exceeds HK\$10,000,000 (equivalent to RMB10,600,000) in the future, the Company must comply with the provisions under Chapter 14A of the Listing Rules.

GENERAL

A circular containing, inter alia, further details of the Subscription, the notice of the EGM, the notice of the H Shareholders' class meeting and the notice of the Domestic Shareholders' class meeting will be sent to the Shareholders, the H Shareholders and the Domestic Shareholders respectively as soon as practicable.

DEFINITIONS

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

“Articles of Association”	The articles of association dated 8 November 2004 entered into by the WLJ Shareholders and Golden Force
“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
“Domestic Shareholders”	the holders of the domestic shares
“EGM”	the extraordinary general meeting of the Shareholders to be convened to consider and approve the Subscription Agreement
“Golden Force”	Golden Force Pharmacy Limited, a company incorporated in Hong Kong and its beneficial owners are Independent Third Parties
“Group”	the Company and its subsidiaries
“GPLH”	廣州醫藥集團有限公司 (Guangzhou Pharmaceutical Holdings Limited), a state-owned company incorporated in the PRC and the controlling shareholder of the Company which currently holds about 63.26% shareholding interest in the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong Dollars, the official currency of Hong Kong
“H Shareholders”	the holders of the H Shares
“Independent Third Party (Parties)”	an independent third party (parties) which is (are) not connected with the Company, its subsidiaries, the directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates (as defined in the Listing Rules)
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People's Republic of China

“RMB”	Renminbi, the official currency of the PRC
“Shares”	the shares of the Company
“Shareholders”	the shareholders of the Company
“Shareholders’ Agreement”	the shareholders’ agreement dated 8 November 2004 entered into by the WLJ Shareholders and Golden Force
“Subscription”	the subscription of the Subscription Shares by Golden Force pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 8 November 2004 entered into between Golden Force and WLJ
“Subscription Shares”	98,378,439 new WLJ Shares agreed to be subscribed by Golden Force pursuant to the Subscription Agreement
“Supplemental Licence Agreement”	the supplemental licence agreement dated 8 November 2004 entered into between the Company and GPHL
“Trademark Licence Agreement”	the trademark licence agreement dated 1 September 1997 entered into between GPHL and the Company
“WLJ”	廣州王老吉藥業股份有限公司 (WangLaoJi Pharmaceutical Company Limited), a company incorporated in the PRC and currently a 92.48% owned subsidiary of the Company
“WLJ Share(s)”	a unit (units) of RMB1 in the registered capital of WLJ
“WLJ Shareholders”	the existing shareholders of WLJ, namely the Company and the staff of WLJ who are Independent Third Parties
“WLJ Trademark Licence Agreement”	the trademark licence agreement dated 8 November 2004 entered into by WLJ and GPHL
“%”	per cent.

By order of the Board
He Shuhua
Company Secretary

Guangzhou, the PRC, 8 November 2004

Note:

In this announcement, RMB has been translated into Hong Kong dollar at the rate of HK\$1=RMB1.06 for reference purpose. As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Zhou Yuejin, Mr. He Shuhua and Mr. Feng Zansheng as executive Directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as independent non-executive Directors.

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