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# 廣州藥業股份有限公司

**Guangzhou Pharmaceutical Company Limited**

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

(Stock Code: 0874)

## CONTINUING CONNECTED TRANSACTIONS

The Directors announce that on 27 April 2005, the Company and GPLH entered into the Agreement which governs the Trading Transactions (being the Purchase Transactions and the Sale Transactions) for the three financial years ending 31 December 2007.

The Trading Transactions constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Trading Transactions are subject to disclosure requirements and Independent Shareholders' approval by way of poll in a general meeting of the Company. GPLH and its associates will abstain from voting at the general meeting of the Company in relation to the Agreement and the Trading Transactions.

The Independent Board Committee will be formed to consider the terms of the Agreement and the Trading Transactions. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Agreement and the Trading Transactions. A circular containing, inter alia, details of the Agreement and the Trading Transactions, and the recommendation of the Independent Board Committee as well as the advice of the independent financial adviser in relation thereto will be despatched to the Shareholders as soon as possible.

### THE AGREEMENT

The Directors announce that on 27 April 2005, the Company and GPLH, for the purpose of revising the respective maximum aggregate values of the Sale Transactions and the Purchase Transactions per year as set out in the Existing Agreement (while there is no change to other major terms of the Trading Transactions), entered into the Agreement, pursuant to which the parties have agreed that during each of the three financial years ending 31 December 2007,

- (1) the maximum aggregate value of the Sale Transactions shall be HK\$360,000,000 (equivalent to approximately RMB382,000,000); and
- (2) the maximum aggregate value of the Purchase Transactions shall be HK\$741,000,000 (equivalent to approximately RMB785,000,000).

The Agreement, once approved by the Independent Shareholders, will replace the Existing Agreement.

It was also set out in the Agreement that the Company and GPLH have agreed that:

- a. each Trading Transaction will be conducted (i) in the ordinary and usual course of the business of the Group; (ii) on an individual and arm's length basis; and (iii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms to the Group no less favourable than terms available to or from (as appropriate) Independent Third Parties;

- b. the Trading Transactions will be reviewed by the independent non-executive Directors and the auditors of the Company annually, and their respective relevant reports, together with information on the Trading Transactions, will be set out in the Company's next annual report following the occurrence of the relevant Trading Transactions; and
- c. GPHL will provide its relevant records to the Company's auditors during their course of review of the Trading Transactions.

## **REASONS FOR THE AGREEMENT**

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.

GPHL is a state-owned enterprise in the PRC. GPHL is principally engaged in the development, manufacture and trading of pharmaceutical products. GPHL is the controlling Shareholder holding approximately 60.55% of the total issued share capital of the Company.

It was set out in the paragraph headed "Non-competition and right of first refusal agreement" under the section headed "Particulars of the Group" of the prospectus of the Company dated 21 October 1997 that a non-competition agreement had been entered into between the Company and GPHL, pursuant to which GPHL agreed that the GPHL Group would not engage directly or indirectly in any businesses that would compete with those of the Group. In addition, it was announced by the Company on 9 February 2004 that another non-competition agreement had been entered into between the Company and BYSCL on 6 February 2004, pursuant to which each of the Group and the BYSCL Group agreed that it would not research, develop or manufacture new products that have been researched, developed or manufactured by the other party.

The Group, in its ordinary and usual course of business, sells / purchases pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials to/from the GPHL Group. The pharmaceutical products provided by the GPHL Group, including the BYSCL Group, which are not the same as those pharmaceutical products manufactured by the Group, are distributed by the Group through its extensive sales network. On the other hand, as the Group is able to source a variety of pharmaceutical raw materials and packaging materials from different markets, including Germany, the United States of America and Japan, it also re-sells those materials at a margin to other manufacturers of pharmaceutical products, including the GPHL Group (which includes the BYSCL Group). In addition, having taken into account the increased orders as a result of re-sale of pharmaceutical raw materials and packaging materials by the Group, the Directors consider that the Group's bargaining power with suppliers will be enhanced. Since the execution and approval of the Existing Agreement, the Trading Transactions have been carried out according to the terms of the Existing Agreement.

Set out below is a summary of the Trading Transactions which took place during the three financial years ended 31 December 2004 and the three months ended 31 March 2005:

## Purchase Transactions

	Year ended		Year ended		Year ended		Three months ended		Annual cap for the three years ending	
	31 December 2002		31 December 2003		31 December 2004		31 March 2005		the Existing Agreement 2007	
	RMB'000	% to cost of sales (Note 4)	RMB'000	% to cost of sales (Note 4)	RMB'000	% to cost of sales (Note 4)	RMB'000	% to cost of sales (Note 4)	RMB'000	RMB'000
The GPHL Group (excluding the BYSCL Group) (Note 1)	35,735	0.77	53,210	0.96	9,607	0.15	9,494	0.49		
The BYSCL Group (Note 2)	75,155	1.62	99,978	1.79	94,843	1.50	68,859	3.55		
<b>Total</b>	<b>110,890</b>	<b>2.39</b>	<b>153,188</b>	<b>2.75</b>	<b>104,450</b>	<b>1.65</b>	<b>78,353</b>	<b>4.04</b>	<b>169,600</b>	<b>785,000</b>

## Sale Transactions

	Year ended		Year ended		Year ended		Three months ended		Annual cap for the three years ending	
	31 December 2002		31 December 2003		31 December 2004		31 March 2005		the Existing Agreement 2007	
	RMB'000	% to turnover (Note 3)	RMB'000	% to turnover (Note 3)	RMB'000	% to turnover (Note 3)	RMB'000	% to turnover (Note 3)	RMB'000	RMB'000
The GPHL Group (excluding the BYSCL Group) (Note 1)	30,055	0.51	20,054	0.29	7	0.00	3	0.00		
The BYSCL Group	49,038	0.82	85,753	1.23	84,139	1.09	37,098	1.58		
<b>Total</b>	<b>79,093</b>	<b>1.33</b>	<b>105,807</b>	<b>1.52</b>	<b>84,146</b>	<b>1.09</b>	<b>37,101</b>	<b>1.58</b>	<b>169,600</b>	<b>382,000</b>

### Notes:

- On 6 February 2004, the Company entered into an agreement with GPHL to acquire 51% equity interest in 廣州醫藥集團盈邦營銷有限公司 (Guangzhou Pharmaceutical Yingbang Marketing Company Limited) ("Yingbang") (details of which were disclosed in the Company's announcement dated 6 February 2004). Upon completion of that transaction, Yingbang ceased to be a subsidiary of GPHL and is currently a 51% owned subsidiary of the Company. During the financial years ended 31 December 2002 and 2003, the aggregate values of purchase of products by the Group from Yingbang were approximately RMB34,074,000 and approximately RMB46,395,000 respectively and the aggregate values of sale of products by the Group to Yingbang were approximately RMB29,767,000 and approximately RMB19,839,000 respectively.
- On 8 November 2004, 廣州王老吉藥業股份有限公司 (Guangzhou WangLaoJi Pharmaceutical Company Limited) ("Wanglaoji") entered into an agreement with a third party in relation to the issue of new shares in Wanglaoji to that third party (that transaction was regarded as a deemed disposal of equity interest in Wanglaoji by the Company, details of which were disclosed in the Company's announcement dated 8 November 2004). Upon completion of that transaction, Wanglaoji ceased to be a subsidiary of the Company and the Company currently holds 48.0465% equity interest in Wanglaoji. During the financial years ended 31 December 2002 and 2003, the aggregate values of purchase of products by Wanglaoji from the BYSCL Group were approximately RMB2,814,000, approximately RMB7,263,000 respectively.
- Audited turnover of the Group during the financial years ended 31 December 2002, 2003 and 2004 were approximately RMB5,943,823,000, RMB6,973,113,000, and RMB7,709,565,000 respectively, while unaudited turnover for the three months ended 31 March 2005 was RMB2,347,782,000 (the audited figures were extracted from the Company's audited accounts, which were prepared in accordance with accounting principles generally accepted in Hong Kong, and the unaudited figure was extracted from the management accounts of the Company, which were prepared in accordance with accounting principles generally accepted in the PRC).

4. Audited cost of sales of the Group during the financial years ended 31 December 2002, 2003 and 2004 were approximately RMB4,630,443,000, RMB5,576,164,000 and RMB6,313,633,000 respectively, while the unaudited cost of sales for the three months ended 31 March 2005 was RMB1,941,660,000 (the audited figures were extracted from the Company's audited accounts, which were prepared in accordance with accounting principles generally accepted in Hong Kong, and the unaudited figure was extracted from the management accounts of the Company, which were prepared in accordance with accounting principles generally accepted in the PRC).
5. Pursuant to the Existing Agreement, the maximum aggregate value for each of the Sale Transactions and Purchase Transactions between the Group and the GPHL Group (including the BYSCL Group) during each of the three financial years ending 31 December 2006 was HK\$160,000,000 (equivalent to approximately RMB169,600,000).

Having reviewed the operations of the Group, the Directors consider that the GPHL Group, including the BYSCL Group, can increasingly utilize the Group's extensive sales network, which comprises (i) 12 branches of Guangzhou Pharmaceutical Corporation (廣州醫藥有限公司), a subsidiary of the Company; (ii) more than 1,000 sales agents in the South China region which have long term business relationship with the Group; (iii) more than 1,700 hospitals in the South China region which are long term customers of the Group; and (iv) more than 400 retail sales outlets, including 161 retail sales outlets of the Group to distribute and sell more products of the BYSCL Group. The major products of the BYSCL Group include 小柴胡顆粒 (Xiaochaiwukeli), 一力感冒清膠囊 (Yiliganmaoqing capsules) and 清開靈顆粒 (Qingkailingkeli), and all products of the BYSCL Group are not the same as the Group's pharmaceutical products. As at the date of this announcement, GPHL owns approximately 44.32% equity interest of BYSCL. The Directors consider that it is in the Group's interest to utilize its well established extensive sales network as far as possible by distributing and selling more products, including those products not manufactured by the Group. On the other hand, as the Group also sells pharmaceutical materials and packaging materials to the GPHL Group (including the BYSCL Group), sales of those products by the Group to the GPHL Group would increase as a result of increase in its production and sale levels. After implementing the new strategy by the Group since 2005, the Sales Transactions and the Purchase Transactions increased to approximately RMB37 million and RMB78 million respectively for the three months ended 31 March 2005. Having taken into account (i) the respective annual aggregate values of the Sale Transactions and the Purchase Transactions during each of the three years ended 31 December 2004 and the three months ended 31 March 2005; and (ii) the anticipated growth in the respective values of the Sale Transactions and the Purchase Transactions for the three-year period ending 31 December 2007 (with reference to (a) the historical annual growth since 1999; and (b) the growth for the three months ended 31 March 2005 after implementing the new strategy by the Group), the Directors propose that in each of the three financial years ending 31 December 2007, (I) the aggregate value of the Sale Transactions shall not exceed HK\$360,000,000 (equivalent to approximately RMB382,000,000); and (II) the aggregate value of Purchase Transactions shall not exceed HK\$741,000,000 (equivalent to approximately RMB785,000,000).

The Directors (including the independent non-executive Directors) consider that the Trading Transactions will be conducted in the ordinary and usual course of the business of the Group. In addition, each Trading Transaction will be negotiated on an individual and arm's length basis and will be conducted on normal commercial terms and on terms to the Group no less favourable than those available to or from (as appropriate) Independent Third Parties. Therefore, the Directors (including the independent non-executive Directors) consider that the terms of the Trading Transactions are fair and reasonable so far as the Shareholders are concerned and in the interests of the Shareholders as a whole.

## **GENERAL**

The Trading Transactions between the Group and the GPHL Group constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Accordingly, the Company will comply with the following conditions in relation to the Trading Transactions:

- (a) the Trading Transactions shall be entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms to the Group no less favourable than terms available to or from (as appropriate) Independent Third Parties; and

- (iii) in accordance with the terms of the agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) details of the Trading Transactions, including the transaction dates, the parties to the transactions and a description of their connected relationship, a brief description of the transactions and their purpose, the total consideration and terms of the transactions, and the nature and extent of the connected person's interest in the transactions, shall be disclosed in the Company's next annual report and accounts following the occurrence of the transactions in accordance with rule 14A.45 of the Listing Rules;
- (c) the Company's independent non-executive Directors shall review annually the Trading Transactions and confirm in the Company's next annual report following the occurrence thereof that the Trading Transactions have been conducted in the manner as stated in paragraphs (a), (b) and (c) above, and if, for whatever reasons, the Company's independent non-executive Directors decline or are unable to provide the confirmation mentioned in this paragraph, the Directors shall notify the Stock Exchange promptly and an announcement shall be published by the Company as soon as practicable;
- (d) the Company's auditors shall review the Trading Transactions annually, and provide the Board with a letter confirming that:
  - (i) the Trading Transactions have received the approval of the Directors;
  - (ii) the aggregate amount of the Sale Transactions and the aggregate amount of the Purchase Transactions during each of the financial year ending 31 December 2007 have not exceeded the respective annual caps of HK\$360,000,000 (equivalent to approximately RMB382,000,000) and HK\$741,000,000 (equivalent to approximately RMB785,000,000);
  - (iii) the Trading Transactions have been entered into in accordance with the terms of the relevant agreements governing the transactions;
  - (iv) the Sale Transactions are in accordance with the pricing policies of the Company;where, for whatever reasons, the Company's auditors decline to accept the engagement or are unable to provide the auditors' letter, the Directors shall notify the Stock Exchange promptly and an announcement shall be published by the Company as soon as practicable; and
- (e) GPHL shall provide the Company with an undertaking that, for so long as the Company's shares are listed on the Stock Exchange and GPHL remains as a substantial shareholder of the Company, it will provide the Company's auditors with full access to its relevant records to carry out the auditors' review of the Trading Transactions and the Directors must state in the annual report whether the Company's auditors have confirmed the matters stated in paragraph (d).

In the event that any of the respective annual caps applicable to the Sale Transactions and the Purchase Transactions as stated above is exceeded or if the Group enters into any new agreement with any connected person in the future, the Company must re-comply with Rules 14A.35(3) and 14A.35(4) of the Listing Rules dealing with continuing connected transactions.

According to Chapter 14A of the Listing Rules, the Agreement is subject to Independent Shareholders' approval, by way of poll, in a general meeting of the Company. The Independent Board Committee will be formed to consider the terms of the Agreement and the Trading Transactions. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Agreement and the Trading Transactions. A circular containing, inter alia, details of the Agreement and the Trading Transactions, and the recommendation of the Independent Board Committee as well as the advice of the independent financial adviser in relation thereto will be despatched to the Shareholders as soon as possible.

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



## DEFINITIONS

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

“Agreement”	the agreement dated 27 April 2005 entered into between the Company and GPHL in relation to the Trading Transactions
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“BYSCL”	廣州白雲山製藥股份有限公司(Guangzhou Baiyunshan Pharmaceutical Manufacturing Company Limited), a company incorporated in the PRC the securities of which are listed on the Shenzhen Stock Exchange. GPHL currently holds approximately 44.32% of the issued share capital of BYSCL
“BYSCL Group”	BYSCL and its subsidiaries
“Company”	廣州藥業股份有限公司 (Guangzhou Pharmaceutical Company Limited), a company incorporated in the PRC the securities of which are listed on the Stock Exchange and the Shanghai Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Existing Agreement”	the agreement dated 26 March 2004 entered into between the Company and GPHL and approved by the Independent Shareholders during the annual general meeting of the Company held on 11 June 2004, details of which were set out in the Company’s announcement dated 26 March 2004 and circular dated 16 April 2004
“Group”	the Company and its subsidiaries
“GPHL”	廣州醫藥集團有限公司 (Guangzhou Pharmaceutical Holdings Limited), a state-owned enterprise incorporated in the PRC and the controlling Shareholder which currently holds approximately 60.55% shareholding interest in the Company
“GPHL Group”	GPHL and its subsidiaries and their associates, other than the Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company to be formed to consider the terms of the Agreement
“Independent Shareholders”	Shareholders other than GPHL and its associates
“Independent Third Party”	a person or entity who/which is not a connected person of the Company
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	The Peoples’ Republic of China
“Purchase Transactions”	purchases of pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials by the Group from the GPHL Group which are regarded as continuing connected transactions under the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Transactions”	sales of pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials by the Group to the GPHL Group which are regarded as continuing connected transactions under the Listing Rules

“Shareholders”	holders of shares of RMB1 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Trading Transactions”	the Sale Transactions and the Purchase Transactions
“%”	per cent.

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

By order of the Board  
**He Shuhua**  
*Company Secretary*

Guangzhou, the PRC, 27 April 2005

*As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Zhou Yuejin, Mr. He Shuhua (who resigned on 27 April 2005) 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.