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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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this circular.

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**廣州藥業股份有限公司**

**Guangzhou Pharmaceutical Company Limited**

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

(H Share Stock Code: 0874)

**CONTINUING CONNECTED TRANSACTIONS**

**Financial adviser to the Company**

**CAOSH**

**Celestial Capital Limited**

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

**VINCO** 威高

**Grand Vinco Capital Limited**

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A letter from the Independent Board Committee of the Company is set out on page 11 of this circular.

A letter from Grand Vinco Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 20 of this circular.

A notice convening the AGM to be held at the conference room of the Company at 2nd Floor, 45 Sha Mian North Street, Guangzhou City, Guangdong, the PRC at 10.00 a.m. on 30 June 2005 is despatched to the Shareholders with this circular.

Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

13 May 2005

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## DEFINITIONS

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

“A Share(s)”	Renminbi-denominated domestic share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“AGM”	the annual general meeting of the Company convened to be held at the conference room of the Company at 2nd Floor, 45 Sha Mian North Street, Guangzhou City, Guangdong, the PRC at 10:00 a.m. on 30 June 2005 for the purposes of, inter alia, considering and, if thought fit, passing the resolution in relation to the approval of the Agreement together with the transactions contemplated thereunder, including the Trading Transactions
“Agreement”	the agreement dated 27 April 2005 entered into between the Company and GPLH 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. GPLH 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(s)”	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 GPLH 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

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## DEFINITIONS

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“Grand Vinco”	Grand Vinco Capital Limited, a licensed corporation for types 1 and 6 regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on the terms of the Agreement and the Trading Transactions
“Group”	the Company and its subsidiaries
“GPHL”	廣州醫藥集團有限公司 (Guangzhou Pharmaceutical Holdings Limited), a state-owned 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
“H Share(s)”	overseas listed foreign share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company formed to consider the terms of the Agreement and the Trading Transactions
“Independent Shareholders”	Shareholders other than GPHL and its associates
“Independent Third Party”	a person or entity who/which is not a connected person of the Company
“Latest Practicable Date”	11 May 2005, 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 which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of The People’s Republic of China and Taiwan

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## DEFINITIONS

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“Purchase Transactions”	purchases of pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials by the Group from the GPLH 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 GPLH Group which are regarded as continuing connected transactions under the Listing Rules
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws in Hong Kong)
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 circular, unless otherwise specified, amounts in Renminbi are converted to Hong Kong dollars at a conversion rate of HK\$1.00=RMB1.06 for illustration only. No representation is made that any amounts in Renminbi or Hong Kong dollars could have been or could be converted at such rate or any other rates.*

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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)*

(H Share Stock Code: 0874)

*Executive Directors*

Mr. YANG Rongming

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 Yangqiang

Mr. ZHONG Yugan

13 May 2005

To the Shareholders

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS

### 1. INTRODUCTION

On 27 April 2005, the Directors announced that on that date, the Company and GPLH had entered into the Agreement for the purpose of governing the Trading Transactions (being the Sale Transactions and the Purchase Transactions) for the three financial years ending 31 December 2007.

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## LETTER FROM THE BOARD

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Pursuant to the Agreement, the respective maximum aggregate values of the Sale Transactions and the Purchase Transactions for each of the three financial years ending 31 December 2007 shall be HK\$360,000,000 (equivalent to approximately RMB382,000,000) and HK\$741,000,000 (equivalent to approximately RMB785,000,000). The Trading Transactions between the Group and the GPLH Group 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. A resolution in relation to the approval of the Agreement and the Trading Transactions contemplated thereunder is proposed to be considered and, if thought fit, passed in the AGM. GPLH and its associates will abstain from voting at the AGM in relation to the Agreement and the Trading Transactions.

The Independent Board Committee, comprising Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong, the independent non-executive Directors, has been formed to consider the terms of the Agreement and the Trading Transactions and to give relevant recommendation to the Independent Shareholders. Each of the members of the Independent Board Committee does not have any interest in the Trading Transactions. Grand Vinco has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

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

## 2. THE AGREEMENT

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.

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## LETTER FROM THE BOARD

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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. GPLH will provide its relevant records to the Company's auditors during their course of review of the Trading Transactions.

### **3. 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.

GPLH is a state-owned enterprise in the PRC. GPLH is principally engaged in the development, manufacture and trading of pharmaceutical products. GPLH 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 GPLH, pursuant to which GPLH agreed that the GPLH 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.



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## LETTER FROM THE BOARD

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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 GPLH Group. The pharmaceutical products provided by the GPLH 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 GPLH 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:

### Sale Transactions

	Year ended 31 December 2002		Year ended 31 December 2003		Year ended 31 December 2004		Three months ended 31 March 2005		Annual cap under the Existing Agreement	Proposed annual cap for the three years ending 31 December 2007
	RMB'000 <i>(Audited)</i>	% to turnover <i>(Note 3)</i>	RMB'000 <i>(Audited)</i>	% to turnover <i>(Note 3)</i>	RMB'000 <i>(Audited)</i>	% to turnover <i>(Note 3)</i>	RMB'000 <i>(Unaudited)</i>	% to turnover <i>(Note 3)</i>	RMB'000 <i>(Note 5)</i>	RMB'000
The GPLH Group (excluding the BYSCL Group) <i>(Note 1)</i>	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>

## LETTER FROM THE BOARD

### Purchase Transactions

	Year ended 31 December 2002		Year ended 31 December 2003		Year ended 31 December 2004		Three months ended 31 March 2005		Annual cap under the Existing Agreement	Proposed annual cap for the three years ending 31 December 2007
	RMB'000 (Audited)	% to cost of sales (Note 4)	RMB'000 (Audited)	% to cost of sales (Note 4)	RMB'000 (Audited)	% to cost of sales (Note 4)	RMB'000 (Unaudited)	% to cost of sales (Note 4)	RMB'000 (Note 5)	RMB'000
The GPLH 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>

#### Notes:

- On 6 February 2004, the Company entered into an agreement with GPLH 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 GPLH 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 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 and 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).

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## LETTER FROM THE BOARD

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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 Latest Practicable Date, 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 products not manufactured by the Group (including the products of BYSCL mentioned above). 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 Sale 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; (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; (b) the growth for the three months ended 31 March 2005 after implementing the new strategy by the Group; and (c) orders and contracts on hand), 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). All the Trading Transactions are satisfied by cash or credit terms ranging from 30 days to 60 days.

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## LETTER FROM THE BOARD

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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.

#### 4. GENERAL

Pursuant to the Agreement, the respective maximum aggregate values of the Sale Transactions and the Purchase Transactions for each of the three financial years ending 31 December 2007 shall be HK\$360,000,000 (equivalent to approximately RMB382,000,000) and HK\$741,000,000 (equivalent to approximately RMB785,000,000). The Trading Transactions between the Group and the GPL Group constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Accordingly, upon obtaining the Independent Shareholders' approval of the Agreement, together with the Trading Transactions contemplated thereunder, by way of poll in the AGM, 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) and (b) 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;

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## LETTER FROM THE BOARD

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- (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 years 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) GPLH shall provide the Company with an undertaking that, for so long as the Company's shares are listed on the Stock Exchange and GPLH remains as a substantial shareholder 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.

### **5. INDEPENDENT SHAREHOLDERS' APPROVAL IN THE AGM**

Pursuant to the Agreement, the respective maximum aggregate values of the Sale Transactions and the Purchase Transactions for each of the three financial years ending 31 December 2007 shall be HK\$360,000,000 (equivalent to approximately RMB382,000,000) and HK\$741,000,000 (equivalent to approximately 785,000,000). The Trading Transactions between the Group and the GPLH Group constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Trading Transactions are subject to the Independent Shareholders' approval by way of poll in AGM.

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## LETTER FROM THE BOARD

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The Directors propose to seek the Independent Shareholders' approval of the Agreement and the Trading Transactions in the AGM. The notice convening the AGM to be held at the conference room of the Company at 2nd Floor, 45 Sha Mian North Guangzhou City, Guangdong, the PRC at 10:00 a.m. on 30 June 2005 for the purposes of, inter alia, considering and, if thought fit, approving the Agreement and the Trading Transactions, the proxy form applicable to the AGM, together with this circular, are despatched to the Shareholders. Whether or not Shareholders are able to attend the AGM in person, they are requested to complete and return the proxy form in accordance with the instructions printed thereon as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the AGM. Completion and return of the proxy form will not preclude Shareholders from attending and voting at the AGM or any adjournment thereof in person, if they so wish.

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

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

The demand for a poll may be withdrawn by the person(s) who made the demand.

In accordance with the requirement of the Listing Rules, the resolution to be proposed at the AGM to approve the Agreement and the Trading Transactions will be determined by way of poll. The result of the poll will be published in the newspapers on the next business day following the AGM.

As at the Latest Practicable Date, GPHL held a total of 491,000,000 Shares, representing approximately 60.55% of the existing issued share capital of the Company. GPHL and its associates will abstain from voting at the AGM in relation to the Agreement and the Trading Transactions.

## 6. RECOMMENDATION

The Independent Board Committee, comprising Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong, the independent non-executive Directors, has been formed to consider the terms of the Agreement and the Trading Transactions and to give relevant recommendation to the Independent Shareholders. Furthermore, Grand Vinco has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 11 of this circular which contains its recommendation to the Independent Shareholders; and (ii) the letter from Grand Vinco set out on pages 12 to 20 of this circular which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Agreement and the Trading Transactions.

The Independent Board Committee, after taking into account the advice and recommendation from Grand Vinco, has come to the view that the terms of the Agreement together with the transactions contemplated thereunder (including the Trading Transactions) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote for the resolution to be proposed at the AGM to approve the Agreement and the Trading Transactions.

### 7. FURTHER INFORMATION

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

Yours faithfully  
For and on behalf of the Board  
**Yang Rongming**  
*Chairman*



# 廣州藥業股份有限公司

**Guangzhou Pharmaceutical Company Limited**

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

(H Share Stock Code: 0874)

13 May 2005

To the Independent Shareholders

Dear Sir and Madam,

## CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 13 May 2005 (“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 form the Independent Board Committee to consider the terms of the Agreement and the transactions contemplated thereunder, including the Trading Transactions, and to advise the Independent Shareholders as to (i) the fairness and reasonableness of the terms of the Agreement and the Trading Transactions; and (ii) whether the terms of the Agreement and the Trading Transactions are in the interest of the Company and the Shareholders as a whole. Details of the terms of the Agreement and the Trading Transactions are set out in the “Letter from the Board” on pages 1 to 10 of the Circular.

Grand Vinco has been appointed as our independent financial adviser to advise the Independent Shareholders and us on the terms of the Agreement and the Trading Transactions. Details of the relevant advice and recommendation of Grand Vinco, together with the principal factors and reasons taken into account by it in arriving at its advice and recommendation, are set out on pages 12 to 20 of the Circular.

Having taken into account the advice and recommendation of Grand Vinco, we consider that the terms of the Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote for the resolution in relation to the Agreement and the transactions contemplated thereunder, including the Trading Transactions, at the AGM.

Yours faithfully,  
For and on behalf of  
Independent Board Committee

**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 dated 13 May 2005 from Grand Vinco to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Agreement and the Trading Transactions, which has been prepared for the purpose of incorporation in this circular.*



### **Grand Vinco Capital Limited**

Unit 4909-4910, 49/F, The Center  
99 Queen's Road Central, Hong Kong  
Tel: 2865 4388 Fax: (852) 2865 4339

13 May 2005

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

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the announcement (the "Announcement") issued by the Company dated 27 April 2005 in respect of the Trading Transactions. Details of the terms of the Trading Transactions are set out in the circular (the "Circular") issued by the Company to the Shareholders dated 13 May 2005 of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

The 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 the approval of the Independent Shareholders by way of poll at a general meeting of the Company at which GPHL and its associates shall abstain from voting in favour at the general meeting. 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 Agreement and the Trading Transactions and to give relevant recommendation to the Independent Shareholders. We, Grand Vinco, have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Agreement and the Trading Transactions. This letter contains our advice to the Independent Board Committee and the Independent Shareholders as to whether or not the terms of the Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM GRAND VINCO

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

We consider that we have received sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide a reasonable basis for our opinion and recommendation. We have no reason to suspect that any material information has been withheld by the Company or by the 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 TRANSACTIONS**

On 27 April 2005, the Company entered into the Agreement which governs the Trading Transactions for three financial years ending 31 December 2007. The Trading Transactions consist of the Purchase Transactions and the Sale Transactions. The purpose of entering into the Agreement is to revise the respective maximum aggregate values of the Sale Transaction and the Purchase Transactions as set out into the Existing Agreement to the level of HK\$360,000,000 and HK\$741,000,000 respectively per year while there is no change to other major terms of the Trading Transactions. Pursuant to the Existing Agreement, the maximum aggregate value for each of the Sale Transactions and Purchase Transactions between the Group and the GPHL, including the BYSCL Group, during each of the three financial years ending 31 December 2006 was HK\$160,000,000.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

### 1. Reasons for the Continuing Connected Transactions

*The business of the Group, GPHL Group (including the BYSCL 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.

GPHL is a state-owned enterprise in the PRC which is principally engaged in the development, manufacture and trading of pharmaceutical products. As GPHL is the controlling Shareholder of the Company holding approximately 60.55% of the issued share capital of the Company as at Latest Practicable Date, the Trading Transactions between the Company and the GPHL Group constitute continuing connected transactions for the Company under the Listing Rules.

BYSCL is listed on the Shenzhen Stock Exchange which is engaged in the development, manufacture and sale of pharmaceutical products. GPHL currently holds approximately 44.32% of the issued share capital of BYSCL.

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. For all sales to the GPHL Group, under both the terms of the Existing Agreement and the Agreement, the Trading Transactions were and should be entered into terms no less favorable than terms available to Independent Third Parties. According to the report of the Directors in the 2004 annual report, the Company's auditors have confirmed that the continuing connected transactions, which include the Trading Transactions performed under the Existing Agreement, were, among others things, entered into in accordance with the terms of the relevant agreements governing the Trading Transactions.

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.

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## LETTER FROM GRAND VINCO

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As the Trading Transactions capture mainly sale and purchase of pharmaceutical products or the related raw materials, we are of the opinion that the Trading Transactions are in line with the ambit of the businesses currently run by each party of the Trading Transactions and are entered in the ordinary and usual course of business of the Group. Furthermore, the entering of the “Non-competition and right of first refusal agreement” ensures that the current businesses run by the Group were not adversely affected by the other counter parties of the Trading Transactions.

### *The new strategy*

The Group regards the GPHL Group and the BYSCL Group as trading partners for selling and purchasing pharmaceutical products, pharmaceutical raw materials and medical apparatus.

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, 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. In 2005, the Group continued its efforts in the integration of its internal resources and the consolidated purchase of traditional Chinese herbs, raw materials, packing materials and imported materials in large bulks. Therefore, we concur with the Directors’ view 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 (including the products of BYSCL mentioned above). On the other hand, as the Group also sells pharmaceutical materials and packaging materials to the GPHL 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 above new strategy since 2005, the Sale Transactions and the Purchase Transactions increased to approximately RMB37 million and RMB78 million respectively for the three months ended 31 March 2005. The new strategy is a logical extension of the Group’s current businesses. In order to reinforce the cooperation among the Group, the GPHL Group (including BYSCL Group), we are of the opinion that the entering into the Agreement to govern and monitor the operation of the Trading Transactions is fair and reasonable.

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## LETTER FROM GRAND VINCO

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### 2. Terms

Since the execution and approval of the Existing Agreement, the Trading Transactions have been carried out according to the terms of the Existing Agreement. It was also set out in the Agreement that the Company and GPLH have agreed that, inter alia:

- 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. GPLH will provide its relevant records to the Company's auditors during their course of review of the Trading Transactions.

As the Trading Transactions would be entered into on terms to the Company no less favorable than terms available to or from Independent Third Parties and the continuing connected transactions would be reviewed by independent non-executive Directors and auditors annually, we are of the view that the terms of the Agreement are fair, reasonable and in the interest of the Company and the Shareholders as a whole.

### 3. Basis of determining the Cap

The proposed revised annual cap amount for the Sale Transactions and Purchase Transactions for each of the three year ending 31 December 2007 will not exceed HK\$360,000,000 (equivalent to about RMB382,000,000) and HK\$ 741,000,000 (equivalent to about RMB785,000,000) respectively. As stated in the Circular, these proposed annual cap amounts are determined by the Group with reference to 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 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 3 months ended 31 March 2005 after implementing the new strategy by the Group; and (c) orders and contracts on hand).

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## LETTER FROM GRAND VINCO

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The Directors anticipated that there will be a significant growth in both the Purchase Transactions and Sale Transactions in 2005 after the Group adopted the new strategy. As discussed with the Directors, the new strategy, apart from those described herein, will strengthen the partnership with the BYSCL Group in the area of purchasing, production, marketing and sales and supply chain management in order: (i) to increase the market share of the products through the Trading Transactions in particular in the areas of the southern part of PRC; (ii) to enhance the Group's trading business; and (iii) to consolidate the purchasing of materials, Chinese herbs and import and export materials to capture the benefits of large orders and enhance the bargaining power of the Group.

### *Purchase Transactions*

For the Trading Transactions, we have reviewed the purchase and sales analysis, which was conducted by the Company, between the Group and GPHL Group for the year ended 31 December 2004 and for three months ended 31 March 2005. According to the analysis, with the 13 major products purchased from BYSCL Group which include 小柴胡顆粒 (Xiaochaiwukeli), 一力感冒清膠囊 (Yiliganmaoqing capsules) and 清開靈顆粒 (Qingkailingkeli) for the 3 months ended 31 March 2005, the total amount of Purchase Transactions of these products had already exceeded that for the year ended 31 December 2004 by approximately 2.4 times. Moreover, these 13 products contributed only approximately 15.7% of the total Purchase Transactions with BYSCL Group for the year ended 31 December 2004. The corresponding percentage for the 3 months ended 31 March 2005 increased to 85.8%.

Furthermore, with the 8 major products purchased from GPHL Group (not including BYSCL Group) for the 3 months ended 31 March 2005, 6 are new products and have been purchased from 2005. The total amount of Purchase Transactions of these products for the period from January 2005 to 31 March 2005 had already exceeded their corresponding Purchase Transactions for the year ended 31 December 2004 by approximately 1.7 times. For the year ended 31 December 2004, the 2 products contributed approximately 33.8% of the total Purchase Transactions with the GPHL Group (not including BYSCL Group). The corresponding percentage for the 8 major products (2 products together with the 6 new products) for the 3 months ended 31 March 2005 increased to 93%. As the new strategy was just carried out, the Directors expect that the growth of Purchase Transactions in subsequent periods will increase continuously and significantly. Based on the anticipated growth for the Purchase Transactions with reference to the historical annual growth, the growth for the 3 months ended 31 March 2005, the anticipated growth in the subsequent periods and the orders and contracts on hand, the Directors expect that the annual value of the Purchase Transactions for each of the three years ending 31 December 2007 may exceed around 7 times of that for the year ended 31 December 2004. Accordingly the Purchase Transactions of the Company for the year ending 31 December 2007 would reach approximately RMB 785 million of which the cap of the Purchase Transactions is set.

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## LETTER FROM GRAND VINCO

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In view of the growth for the three months ended 31 March 2005 described above, the possible positive effect of the new strategy and the increase in number of new products purchased from 2005, and we have reviewed samples of the Group's order and contracts on hand regarding the Trading Transactions, we are of the view that the cap set for the Purchase Transactions of the Company is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *Sale Transactions*

For the Trading Transactions, we have reviewed the purchase and sales analysis, which was conducted by the Company, between the Group and GPHL Group for the year ended 31 December 2004 and for three months ended 31 March 2005. According to the analysis, among the 13 major raw materials sold to GPHL Group (which include BYSCL Group), 5 were new types of raw material of which their sales commenced in 2005. We note that the total amount of Sale Transactions of these products for the period from January 2005 to 31 March 2005 had already met 96% of that for the year ended 31 December 2004. The Sale Transactions relating to these 13 raw materials contributed approximately 23.1% of the total Sales Transactions for the year ended 31 December 2004. The corresponding percentage for the 3 months ended 31 March 2005 increased to approximately 55.7%. As the new strategy was just carried out, the Directors expect that the growth of Sale Transactions in subsequent periods will increase continuously and significantly. Based on the anticipated growth for the Sale Transactions with reference to the historical annual growth, the growth for the 3 months ended 31 March 2005, the anticipated growth in the subsequent periods and the orders and contracts on hand, the Directors expect that the annual value of the Sales Transactions for each of the three years ending 31 December 2007 may exceed around 4 times of that for the year ended 31 December 2004. Accordingly the Sale Transactions of the Company for the year ending 31 December 2007 would reach approximately RMB 382 million of which the cap of the Sale Transactions is set.

In view of the growth for the three months ended 31 March 2005 described above and the possible positive effect of the new strategy, we are of the view that the cap set for the Sale Transactions of the Company is fair and reasonable and in the interests of the Company and the Shareholders as a whole..

#### **4. Conditions for the Continuing Connected Transactions**

The Company will also have to comply with the following conditions in relation to the 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

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## LETTER FROM GRAND VINCO

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- (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 years 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).



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## LETTER FROM GRAND VINCO

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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 persons (within the meaning of the Listing Rules) in the future, the Company must re-comply with the Rules 14A.35(3) and 14A.35(4) of the Listing Rules dealing with continuing connected transactions, unless it applies for and obtains a separate waiver from the Stock Exchange.

These requirements are based on the guidelines for these types of continuing connected transactions as stipulated under the Listing Rules and are in compliance with the continuing connected transactions requirement under the Listing Rules. They are adequate in respect of subsequent review by the Company's auditors and the independent non-executive Directors and disclosure in the annual report. As such, we consider them reasonable and adequate.

### CONCLUSION

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

Yours faithfully  
For and on behalf of  
**Grand Vinco Capital Limited**  
**Alister Chung**  
*Managing Director*

## RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

## DISCLOSURE OF INTERESTS

### (a) Directors', supervisors' 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 and senior management of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors, the chief executive, the supervisors or the senior management were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules for Securities Transactions by Directors of Listed Companies were as follows:

#### Long position of the Directors:

Name	Type of interest	Company	Number of shares
Zhou Yuejin	Personal	The Company (A Shares)	28,900
	Trust (1)	Po Lian Development Co., Ltd. ("Po Lian")	200,000

#### Long position of the Supervisors:

Name	Type of interest	Company	Number of shares
Chen Canying	Personal	The Company (A Shares)	9,800
	Personal	Wanglaoji (2)	22,150
Ou Yangqiang	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
Xie Bin	Personal	The Company (A Shares)	1,000

- (1) Mr. Zhou Yuejin holds the said shares in Po Lian as trustees only. The above said shares, except those in Po Lian and the A Shares of the Company, are inner staff shares.
- (2) The name of Guangzhou Yang Cheng Pharmaceutical Co., Ltd was changed to Guangzhou Wanglaoji Pharmaceutical Co., Ltd with effect from 5 February 2004.

Save as disclosed above, as at the Latest Practical Date, none of the Directors, supervisors and senior management of the Company or their respective associates had any personal, family, corporate or other interests or short positions 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, the supervisors or the senior management were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules for Securities Transactions by Directors of Listed Companies.

**(b) Interests of substantial Shareholders**

So far as is known to any Director, supervisor and senior management of the Company, as at the Latest Practicable Date, the interests and short positions of persons or companies (not being a Director, supervisor and senior management of the Company) in the Shares and underlying Shares 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:**

<b>Shareholders</b>	<b>Nature and Shares held</b>	<b>Number of Shares held</b>	<b>% of total issued State-owned Shares</b>	<b>% of total issued H Shares</b>
GPHL ( <i>Note 1</i> )	State-owned Shares	491,000,000	95.71%	—
The Hong Kong and Shanghai Banking Corporation Limited ( <i>Note 2</i> )	H Shares	36,388,694	—	16.55%
HSBC Broking Securities (Hong Kong) Limited ( <i>Note 2</i> )	H Shares	23,268,000	—	10.58%
Guotai Junan Securities (Hong Kong) Limited ( <i>Note 2</i> )	H Shares	15,738,000	—	7.16%
Citibank N.A. ( <i>Note 2</i> )	H Shares	13,498,000	—	6.14%
Morgan Stanley Dean Witter Hong Kong Securities Limited ( <i>Note 2</i> )	H Shares	11,308,870	—	5.14%

*Notes:*

1. GPHL, disposed of part of its interests in the Company's state-owned Shares for the purpose of financing the debt restructuring of BYSCL. The total number of the state-owned Shares involved was 152,600,000 shares, including a proposed disposal of 12,480,000 state-owned Shares to BYSCL, and relevant procedures to complete the disposal are currently in progress. Relevant procedures in relation to the proposed disposal of 22,000,000 State-owned Shares to the Guangzhou Office of China Greatwall Asset Management Corporation was completed in December 2004. 15,160,000 state-owned Shares held by GPHL which were previously pledged had been released, while 102,960,000 state-owned Shares held by GPHL are still pledged.

Pursuant to the announcement of the Company dated 13 April 2005, the Company was informed by GPLH that, according to a ruling made by Guangzhou Intermediate People's Court of Guangdong province on 11 April 2005 ([2005] Sui Zhong Fa Zhi Zi Civil number 736), 56,010,000 state-owned Shares held by GPLH, representing approximately 6.91% of the Company's total issued share capital which has been pledged, has been frozen with effect from 11 April 2005. The frozen period is from 11 April 2005 to 10 April 2006.

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 any Director, 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:

Name of member of the Group	Name of substantial shareholder	% of issued share capital
Guangzhou Hanfang Modern Chinese Medicine Research and Development Limited	GPLH	20.06%
Guangzhou Pharmaceutical Yingbang Marketing Company Limited	GPLH	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 AND INTEREST OF EXPERT

Grand Vinco, the independent financial adviser to the Independent Board Committee and the Independent Shareholders who has given its opinion in this circular and whose name is included in this circular, is a licensed corporation for types 1 and 6 regulated activities under the SFO.

As at the Latest Practicable Date, Grand Vinco did not have any shareholding interest in any member of the Group nor any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Grand Vinco did not have any direct or indirect interest in any asset which has been, since 31 December 2004 being the date to which the latest audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

## **CONSENT**

Grand Vinco has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name included in this circular in the form and context in which they respectively included.

## **MATERIAL ADVERSE CHANGE**

As at the Latest Practical Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, the date to which the latest published audited consolidated accounts of the Group were made up.

## **GENERAL**

- (i) Mr. Yang Rongming entered into a service contract with the Company and for a term commencing from 1 November 2004 and will expire on the date of election of the 4th term of the Board. Mr. Zhou Yuejin and Mr. Feng Zansheng entered into service contracts with the Company and for a term commencing from 26 March 2004 and will expire on the date of election of the 4th term of the Board. Save as disclosed, none of the Directors has entered into, or proposed to enter into, any service contracts with any member of the Group which will not expire or is not determinable by the Company or any of the member of the Group within one year without payment of compensation;
- (ii) as at the Latest Practicable Date, non of the Directors had any direct or indirect interest in any asset which has been, since 31 December 2004 being the date to which the latest audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group;
- (iii) as at the Latest Practicable Date, none of the directors had any contract or arrangement subsisting at the date of this circular in which a Director is materially interested and which is significant in relation to the business of the Group;
- (iv) as at the Latest Practicable Date, none of the Directors and their respective associates had any competing interest with the Group; and
- (v) the English text of this circular shall prevail over the Chinese text.

**LITIGATION**

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the registered office of the Company at 45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC during normal business hours up to and including 30 June 2005:

- (a) the Agreement;
- (b) the letter dated 13 May 2005 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 11 of this circular;
- (c) the letter of advice dated 13 May 2005 from Grand Vinco to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 12 to 20 of this circular;
- (d) the written consent referred to in the paragraph headed “Consent” in this appendix; and
- (e) the service contracts of each of the executive Directors entered into with the Company as set out above under paragraph headed “General” in this appendix.