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# 廣州藥業股份有限公司

**Guangzhou Pharmaceutical Company Limited**

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

(Stock Code: 0874)

## CONNECTED TRANSACTIONS

On 23 February 2006, the Investors entered into the Agreement. Pursuant to the Agreement, the Investors have agreed to establish GPSC jointly and, upon establishment of GPSC, the GPC Investors, Wanglaoji and the BYSCL Investors will hold 42.5%, 7.5% and 50.0% equity interest in GPSC respectively. According to the Agreement, the registered capital of GPSC will be RMB20,000,000 (equivalent to approximately HK\$19,230,770), which shall be contributed by the Investors according to their respective equity interest in GPSC and will be settled by the Investors in cash within three business days upon the effective date of the Agreement. Accordingly, the GPC Investors shall contribute RMB8,500,000 (equivalent to approximately HK\$8,173,000) to the registered capital of GPSC, which represents an insignificant amount when comparing with the total annual advertising and promotional expenses incurred by the Group in recent years, and such amount shall be funded by internal resources of the GPC Investors.

Upon its establishment, GPSC, by running a professional soccer team based in Guangzhou, the PRC, will be principally engaged in (i) participation of soccer competition held by the national professional soccer league in the PRC; and (ii) conducting promotional and marketing activities which are related to the professional soccer team of GPSC.

The terms of the Agreement, including the amount of the registered capital of GPSC, were determined after arm's length negotiation of the Investors and after taking into account the factor set out in the paragraph headed "Reason for establishment of GPSC" below. It is the Investors' current intention that GPSC will finance its business and operation by GPSC's internal resources.

GPHL, the Company's controlling shareholder, currently holds approximately 44.32% shareholding interest in BYSCL. Accordingly, the Agreement (together to the transactions contemplated thereunder) constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. With regard to the total amount to the registered capital of GPSC to be contributed by the GPC Investors under the Agreement (being RMB8,500,000 (equivalent to approximately HK\$8,173,000)), as each of the applicable percentage ratios is less than 2.5%, such connected transaction is, according to Rule 14A.32 of the Listing Rules, only subject to the reporting and announcement requirements set out in the Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirement of Chapter 14A of the Listing Rules.

## **THE AGREEMENT**

### **Date of the Agreement:**

23 February 2006

### **The Investors:**

- (i) GPC Investors, which are subsidiaries of the Company;
- (ii) Wanglaoji, in which the Company currently holds approximately 48.0465% shareholding interest; and
- (iii) BYSCL Investors, being BYSCL and certain of its subsidiaries. BYSCL is currently held as to approximately 44.32% by GPHL, the controlling shareholder of the Company.

### **Establishment of GPSC**

Pursuant to the Agreement, the Investors have agreed to establish GPSC jointly and, upon establishment of GPSC, the GPC Investors, Wanglaoji and the BYSCL Investors will hold 42.5%, 7.5% and 50.0% equity interest in GPSC respectively.

Upon its establishment, GPSC, by running a professional soccer team based in Guangzhou, the PRC, will be principally engaged in (i) participation of soccer competition held by the national professional soccer league in the PRC; and (ii) conducting promotional and marketing activities which are related to the professional soccer team of GPSC.

The Agreement will become effective upon obtaining all necessary approval by each Investor.

According to the Agreement, the registered capital of GPSC will be RMB20,000,000 (equivalent to approximately HK\$19,230,770), which shall be contributed by the Investors according to their respective equity interest in GPSC and will be settled by the Investors in cash within three business days upon the effective date of the Agreement. Accordingly, the GPC Investors shall contribute RMB8,500,000 (equivalent to approximately HK\$8,173,000) to the registered capital of GPSC, which represents an insignificant amount when comparing with the total annual advertising and promotional expenses incurred by the Group in recent years, and such amount shall be funded by internal resources of the GPC Investors. In addition, the amount to be contributed by Wanglaoji and the BYSCL Investors pursuant to the Agreement shall be RMB1,500,000 (equivalent to approximately HK\$1,442,300) and RMB10,000,000 (equivalent to approximately HK\$9,615,400) respectively.

The terms of the Agreement, including the amount of the registered capital of GPSC, were determined after arm's length negotiation of the Investors and after taking into account the factors set out in the paragraph headed "Reason for establishment of GPSC" below. It is the Investors' current intention that GPSC will finance its business and operation by GPSC's internal resources. The Directors, including the independent non-executive Directors, consider that the establishment of GPSC is in the interest of the Company and its shareholders as a whole and the terms of the Agreement are fair and reasonable.

GPSC is expected to be legally established on the date when a business license is issued to it by 廣州市工商行政管理局 (Guangzhou Industrial and Commerce Administration Bureau). It is expected that the business license of GPSC will be issued around early March 2006.

### **Reason for the establishment of GPSC**

GPSC will be formed by the Investors pursuant to the Agreement for the purpose of running a professional soccer team based in Guangzhou, the PRC, which will participate in the national professional soccer league in the PRC. Through the promotion and broadcasting of the competitions played by the professional soccer team of GPSC in the media, including television and newspaper coverage, GPSC offers opportunities to promote the corporate image and products of the Group.

## **INFORMATION ON THE GROUP, WANGLAOJI AND BYSCL**

### **The Group**

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

### **Wanglaoji**

Wanglaoji is principally engaged in the production, processing and sales of Chinese pharmaceutical and healthcare products under the trademarks of Wanglaoji.

## **BYSCL**

BYSCL is principally engaged in the development, manufacture and sale of pharmaceutical products.

## **GENERAL**

GPHL, the Company's controlling shareholder, currently holds approximately 44.32% shareholding interest in BYSCL. Accordingly, the Agreement (together to the transactions contemplated thereunder) constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. With regard to the total amount to the registered capital of GPSC to be contributed by the GPC Investors under the Agreement (being RMB8,500,000 (equivalent to approximately HK\$8,173,000)), as each of the applicable percentage ratios is less than 2.5%, such connected transaction is, according to Rule 14A.32 of the Listing Rules, only subject to the reporting and announcement requirements set out in the Rules 14A.45 and 14A.47 of the Listing Rules and is exempt from the independent shareholders' approval requirement of Chapter 14A of the Listing Rules.

## **DEFINITIONS**

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

“Agreement”	the agreement dated 23 February 2006 entered into by the Investors in relation to the establishment of GPSC
“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 and remaining issued share capital of BYSCL is currently owned by independent third parties
“BYSCL Investors”	being BYSCL and certain subsidiaries of BYSCL entered into the Agreement as Investors
“Company”	廣州藥業股份有限公司 (Guangzhou Pharmaceutical Company Limited), a company incorporated in the PRC the securities of which are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries

“GPC Investors”	Guangzhou Zhongyi Pharmaceutical Co., Ltd (a 97.016% owned subsidiary of the Company), Guangzhou Xingqun Pharmaceutical Co., Ltd (a 88.99% owned subsidiary of the Company), Guangzhou Pangaoshou Pharmaceutical Co., Ltd (a 87.77% owned subsidiary of the Company), Guangzhou Qixing Pharmaceutical Co., Ltd. (a 75% owned subsidiary of the Company), Guangzhou Chen Li Ji Pharmaceutical Factory (a wholly-owned subsidiary of the Company) and Guangzhou Jing Xiu Tang (Pharmaceutical) Co., Ltd (a 88.4% subsidiary of the Company), all of which entered into the Agreement as Investors
“GPHL”	廣州醫藥集團有限公司 (Guangzhou Pharmaceutical Holdings Limited), a state-owned company incorporated in the PRC and the controlling shareholder of the Company which currently holds approximately 60.55% shareholding interest in the Company
“GPSC”	廣州醫藥足球俱樂部有限公司 (Guangzhou Pharmaceutical Soccer Club Limited), a limited company to be established and incorporated in the PRC pursuant to the Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	The Peoples’ Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Investor(s)”	being the GPC Investors, Wanglaoji and BYSCL Investors
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wanglaoji”	廣州王老吉藥業股份有限公司 (Wanglaoji Pharmaceutical Company Limited), a company incorporated in the PRC which is owned as to approximately 48.0465% by the Company, as to approximately 0.01% by Mr. Chen Canying, one of the supervisors of the Company, and as to approximately 51.9435% by independent third parties
“%”	per cent.

In this announcement, unless otherwise specified, amounts in RMB are converted to HK\$ at a conversion rate of HK\$1.00 = RMB1.04 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, 23 February 2006

*As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Zhou Yuejin, Mr. Xie Bin 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.