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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)

## **Announcement in relation to the Proposed Share Reform Plan and Resumption of trading**

The Board hereby, on behalf of GPLH and Great Wall Corporation, the Holders of Non-circulating Shares of the Company, announces the Share Reform Plan. According to the Share Reform Plan, the Holders of Non-circulating Shares of the Company propose to offer 2.6 Non-circulating Shares to each holder of A Shares for every ten A Shares held by such holder of A Shares as at the close of business on the Record Date as the Consideration. Holders of Non-circulating Shares of the Company have no intention to make similar arrangement and proposal to the holders of H shares of the Company with reference to the Share Reform Plan.

The Board will apply for further suspension of trading in A Shares on the SSE with effect from the trading day immediately following the Record Date of the Relevant A Shareholders' Meeting. Trading in A Shares is expected to be resumed on the first trading day after implementation of the Share Reform Plan.

Trading in the H shares was suspended at 9:30a.m. on 6 March 2006 at the request of the Company. Application has been made to the Stock Exchange for resumption of trading in the H shares with effective from 9:30a.m. on 15 March 2006.

This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on the Stock Exchange.

The board of directors (the “Board”) of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) hereby, on behalf of Guangzhou Pharmaceutical Holdings Limited (“GPHL”), the controlling shareholder of the Company which holds approximately 60.55% shareholding interest in the issued share capital of the Company, and China Great Wall Asset Management Corporation (“Great Wall Corporation”), the shareholder of the Company which holds approximately 2.71% interest in the issued share capital of the Company, (collectively referred to as the “Holders of Non-circulating Shares”), announces that the Company issued a notice on 15 March 2006 to the holders of Renminbi-denominated domestic shares of the Company (the “Relevant A Shareholders”) for a meeting of the Relevant A Shareholders to be held on 12 April 2006 (the “Relevant A Shareholders’ Meeting”), to seek approval from the Relevant A Shareholders of the proposal made by Holders of Non-circulating Shares for the proposed conversion of the non-circulating shares of the Company (“Non-circulating Shares”) into circulating shares (the “A Shares”) listed and traded on the Shanghai Stock Exchange (the “SSE”) (the “Share Reform Plan”). Holders of Non-circulating Shares of the Company have no intention to make similar arrangement and proposal to the holders of the H share(s) of the Company with reference to the Share Reform Plan.

Set out below is a summary of the Share Reform Plan. Copies of all other relevant documents required to be filed under the rules of the SSE are posted on the website of the SSE at <http://www.sse.com.cn>.

## **1. SHARE REFORM PLAN**

### **(1) Grant of right of listing and circulation of the Non-circulating Shares**

Pursuant to the Share Reform Plan, Holders of Non-circulating Shares propose to offer 2.6 Non-circulating Shares, as consideration, to the Relevant A Shareholders whose names shall appear on the register of members kept by Shanghai Branch of China Securities Depository and Clearing Corporation Limited as at the close of business on the Record Date (as defined below) for every ten A Shares held by such holders (the “Consideration”). The Non-circulating Shares (including those shares to be offered as the Consideration) originally held by the Holders of Non-circulating Shares shall be granted the right of listing and circulation on the SSE on the first trading day immediately following the implementation of the Share Reform Plan, subject to a lock-up period as described below.

### **(2) The Consideration**

In the event that the Non-circulating Shares owned by GPHL, which are subject to share pledge and share freeze, are successfully auctioned or transfer of such shares has been completed before holding of the Relevant A Shareholders’ Meeting, the Consideration for such portion of the Non-circulating Shares shall be settled after negotiations among GPHL, relevant creditors and transferees. In the event that no agreement is arrived, the Consideration for such portion of Non-circulating Shares shall be settled by GPHL. Listing and circulation of the portion of the A Shares shall be subject to the prior approval of GPHL and the application for such listing and circulation shall be lodged by GPHL to the SSE.

A share transfer agreement has been entered into between GPHL and Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (“GBPC”) for proposed transfer of 12,480,000 shares of the Company held by GPHL to GBPC. As at the date of this announcement, the transfer of such shares has not been completed. In the event that the transfer of such shares has been completed prior to the Relevant A Shareholders’ Meeting, the relevant portion of the Consideration shall be borne by GBPC. If such transfer is not completed prior to the Relevant A Shareholders’ Meeting, the relevant portion of the Consideration will be borne by GPHL on behalf of GBPC and GBPC has undertaken in writing to repay the relevant portion of the Consideration upon completion of transfer of such shares.

### (3) Costs of the Share Reform Plan

All costs to be incurred in relation to the Share Reform Plan shall be borne by the Holders of Non-circulating Shares.

### (4) Structure of shareholding

	Immediately before the implementation of the Share Reform Plan			Immediately after the implementation of the Share Reform Plan	
	Number of shares	Percentage of registered share capital		Number of shares	Percentage of registered share capital
1. Non-circulating Shares	513,000,000	63.26%	1. Total number of shares in circulation that are subject to selling restrictions ( <i>Note 1</i> )	492,720,000	60.76%
– GPLH ( <i>Note 2</i> )	491,000,000	60.55%	– GPLH ( <i>Note 2</i> )	471,589,708	58.16%
– Great Wall Corporation	22,000,000	2.71%	– Great Wall Corporation	21,130,292	2.60%
2. Listed shares	297,900,000	36.74%	2. Listed shares	318,180,000	39.24%
– A Shares	78,000,000	9.62%	– A Shares	98,280,000	12.12%
– H shares	219,900,000	27.12%	– H shares	219,900,000	27.12%
3. Total	<u>810,900,000</u>	<u>100.00%</u>	3. Total	<u>810,900,000</u>	<u>100.00%</u>

*Note 1:* The Non-circulating Shares (excluding those shares to be offered to the holders of A Shares) held by GPLH shall not be listed and traded on the SSE, or transferred within 12 months from the date of implementation of the Share Reform Plan. Upon expiry of that 12 month period, GPLH will not dispose of its shares (which are originally Non-circulating Shares) which exceeds 5% and 10% of the total number of the issued shares of the Company in the following 12 months and 24 months respectively.

*Note 2:* As at the date of this announcement, GPLH holds in an aggregate 491,000,000 Non-circulating Shares of the Company, among which 12,480,000 Non-circulating Shares will be transferred to GBPC pursuant to a share transfer agreement with GBPC (such transfer has not completed), and 102,960,000 Non-circulating Shares are pledged (of which 77,440,000 Non-circulating Shares are frozen).

## 2. CONDITIONS FOR COMPLETION OF THE SHARE REFORM PLAN AND RISKS OF THE SHARE REFORM PLAN

The completion of the Share Reform Plan is subject to the satisfaction of the following conditions numbered (1) to (4) enlisted:

- (1) Change of shareholding of the Company, as a result of the Share Reform Plan, will be subject to the approval by the State-owned Assets Supervision and Administration Commission (the “SASAC”) of the State Council of the People’s Republic of China (the “PRC”). Such approval may or may not be obtained prior to date of on-line voting of the Relevant A Shareholders’ Meeting. If this situation occurs, the Company may postpone the Relevant A Shareholders’ Meeting in accordance with relevant rules and regulations of the PRC.

- (2) As at the date of this announcement, GPHL holds in an aggregate 491,000,000 Non-circulating Shares of the Company, among which 12,480,000 Non-circulating Shares will be transferred to GBPC pursuant to a share transfer agreement with GBPC (such transfer has not completed), and 102,960,000 shares are pledged (of which 77,440,000 shares are frozen). Apart from GPHL, the Non-circulating Shares held by Great Wall Corporation, another Holder of Non-circulating Shares, are not subject to share pledge and freeze. If, during the period from the date of this announcement to the date of implementation of the Share Reform Plan, the pledge and freeze of the Non-circulating Share cannot be settled and leads to the non-settlement of the Consideration and at the request of the Company, the Holder of Non-circulating Shares cannot resolve the issue before implementation of the Share Reform Plan, the Share Reform Plan will be terminated.
- (3) Change of shareholding of the Company, as a result of the Share Reform Plan, will be subject to the approval of the Ministry of Commerce of the PRC. It is uncertain whether the Ministry of Commerce of the PRC will approve the Share Reform Plan. There is a risk that such approval may not be obtained and the Share Reform Plan will be terminated.
- (4) The implementation of the Share Reform Plan is subject to the approval of at least two-thirds of the holders of A Shares attending the Relevant A Shareholders' Meeting and the approval of at least two-thirds of the holders of A Shares and the Holders of the Non-Circulating Shares attending the Relevant A Shareholders' Meeting. Such approvals may or may not be obtained in the Relevant A Shareholders' Meeting. The Share Reform Plan may not proceed if such approvals cannot be obtained.

The Share Reform Plan may cause fluctuations in share prices of the Company and may affect the interests of the holders of A Shares.

### **3. UNDERTAKINGS BY THE HOLDERS OF NON-CIRCULATING SHARES**

#### **(1) GPHL undertakes that:**

The Non-circulating Shares (excluding those shares to be offered to the holders of A Shares) held by GPHL shall not be listed and traded on the SSE, or transferred within 12 months from the date of implementation of the Share Reform Plan. Upon expiry of that 12 month period, GPHL will not dispose of its shares (which are originally Non-circulating Shares) which exceeds 5% and 10% of the total number of the issued shares of the Company in the following 12 months and 24 months respectively.

Upon implementation of the Share Reform Plan, in the event that GPHL disposes of its shares which represent 1% or more of the total issued shares of the Company, an announcement shall be made within two business days from the date on which such disposal occurs.

With a view to enhancing the enterprise value of the Company, upon completion of the Share Reform Plan, GPHL will work with the Company to establish an incentive option scheme for the Company's management, which shall be correlated to the Company's performance. The incentive option scheme will be set up in accordance with relevant laws and regulations of the PRC.

#### **(2) Great Wall Corporation undertakes that:**

The Non-circulating Shares held by Great Wall Corporation shall not be listed and traded, or transferred within 12 months from the implementation of the Share Reform Plan.

#### **4. OPINIONS OF THE SPONSOR AND THE PRC LEGAL ADVISER**

- (1) Guotai Junan Securities Company Limited, the sponsor of the Share Reform Plan, considers that the Consideration is fair and reasonable.
- (2) Z&T Law Firm, the legal adviser to the Company in relation to the Share Reform Plan, is of the opinion that: The Share Reform Plan of the Company is in compliance with the prevailing laws, regulations and rules of the PRC, including the Company Laws, the Securities Laws, The Guidelines on Share Reform Plan of the Listed Companies and Provisions on Management of Share Reform Plan of the Listed Companies. The Share Reform Plan will be subject to the approvals of SASAC of Guangdong Province, the State Ministry of Finance, the Relevant A Shareholder's Meeting and the Shanghai Stock Exchange. The Share Reform Plan will be filed with the Ministry of Commerce of the PRC for record.

#### **5. OPINIONS OF THE BOARD AND THE INDEPENDENT NON-EXECUTIVE DIRECTORS OF THE COMPANY**

- (1) The Board is of the opinion that implementation of the Share Reform Plan will initiate the incentive of the shareholders of the Company to protect interests of the Company and positively contribute the establishment of a market for the Non-circulating Shares which can preserve and enhance the value of the shares of the Company. The legal rights of investors, the legal rights of the public investors in particular, are protected. The Company will benefit from the Share Reform Plan in long run.
- (2) Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong, being the independent non-executive directors of the Company, are of the opinion that the Share Reform Plan is in compliance with the principals of transparency and fairness and the requirements of the prevailing laws and regulations of the PRC. They agree to submit the Share Reform Plan to the Relevant A Shareholders' Meeting for approval.

#### **6. TIMETABLE FOR THE RELEVANT A SHAREHOLDERS' MEETING**

- (1) Record date for the purpose of determining rights to attend the Relevant A Shareholders' Meeting ("Record Date"): 29 March 2006
- (2) Date and time of the Relevant A Shareholders' Meeting: 12 April 2006
- (3) On-line voting period for Relevant A Shareholders' Meeting: from 10 April 2006 to 12 April 2006.

#### **7. SUSPENSION AND RESUMPTION OF TRADING IN SHARES OF THE COMPANY**

The Company has applied to the SSE for suspension of trading in A Shares on SSE with effect from 6 March 2006. Trading in the A Shares will remain suspended on the SSE until the publication of an announcement containing the final terms of the Share Reform Plan which is expected to be no later than 24 March 2006. Resumption of trading in A Shares is expected to be on no later than 27 March 2006.

The Board will apply for further suspension of trading in A Shares on the SSE with effect from the trading day immediately following the Record Date of the Relevant A Shareholders' Meeting. Trading in A Shares is expected to be resumed on the first trading day after implementation of the Share Reform Plan.

Trading in the H Shares was suspended at 9:30a.m. on 6 March 2006 at the request of the Company. Application has been made to The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for resumption of trading in the H shares with effective from 9:30a.m. on 15 March 2006.

By order of the Board

**Yang Rongming**

*Chairman*

Guangzhou, the PRC, 14 March 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.