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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 TRANSACTION

On 15 June 2006, the Company and GPSC entered into the Agreement, pursuant to which the parties have agreed to the provision of advertising and promotional services by GPSC to the Group through GPSC's professional soccer team and the soccer team's participation in the professional soccer league in the PRC for the promotion of the Group's corporate image and products at fees of not more than HK\$30,000,000 (equivalent to approximately RMB30,900,000) per annum during the three years ending 31 December 2008.

The terms of the Agreement were determined after arm's length negotiation between the Company and GPSC and after taking into account the factors set out in the paragraph headed "Reason for entering into the Agreement" below. The Directors, including the independent non-executive Directors, consider that the promotion of the corporate image and products of the Group through GPSC's professional soccer team pursuant to the Agreement is in the interest of the Company and its shareholders as a whole, and the terms of the Agreement are fair and reasonable.

GPHL, the Company's controlling shareholder, currently holds approximately 35.37% shareholding interest in BYSCL, while BYSCL and certain subsidiaries of it holds an aggregate of 50% equity interest in GPSC. Accordingly, the Agreement, together with the transactions contemplated thereunder, constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. With regard to the total fees payable under the Agreement of not more than HK\$30,000,000 (equivalent to approximately RMB30,900,000) per annum, as each of the applicable percentage ratios is less than 2.5%, such continuing connected transaction is, according to Rule 14A.34 of the Listing Rules, only subject to the reporting and announcement requirements set out in the Rules 14A.45 to 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:

15 June 2006

The parties to the Agreement:

- (i) The Company; and
- (ii) GPSC, a company the equity interest of which is owned (i) as to 42.5% by certain subsidiaries of the Company; (ii) as to 7.5% by Wanglaoji; and (iii) as to 50% by BYSCL and certain subsidiaries of it.

Terms of the Agreement:

Pursuant to the Agreement, the parties have agreed to the provision of advertising and promotional services by GPSC to the Group through GPSC's professional soccer team, which is based in Guangzhou, the PRC and the soccer team's participation in the professional soccer league in the PRC at fees of not more than HK\$30,000,000 (equivalent to approximately RMB30,900,000) per annum (i.e. the annual cap under the Agreement) during the three years ending 31 December 2008. The annual cap under the Agreement was determined by the Group based upon the nature of the promotional and advertising services offered by GPSC, the fees charged by GPSC for its services, and the extent of the services that are expected to be employed by the Group during the 3 years ending 31 December 2008. The annual cap represents less than 15% of the total advertising and promotion expenses incurred by the Group in 2005. The transaction between the Group and GPSC in relation to the provision of the promotional and advertising services from 1 March 2006 until the date of the announcement amounts to approximately HK\$2,500,000 in total where each of the percentage ratios is on an annual basis less than 0.1% and should therefore be exempted from the reporting, announcement and independent shareholders' approval.

It was set out in the Agreement that the provision of advertising and promotional services by GPSC to the Group should be conducted (I) in the ordinary and usual course of the business of the Group; (II) on 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 (i) terms available to the Group from independent third parties or (ii) terms available to independent third parties from GPSC.

The terms of the Agreement, including the determination of the terms of provision of advertising and promotional services by GPSC to the Group pursuant to the terms of the Agreement, were determined after arm's length negotiation between the Company and GPSC and after taking into account the factors set out in the paragraph headed "Reason for entering into the Agreement" below. The Directors, including the independent non-executive Directors, consider that the promotion of the corporate image and products of the Group through GPSC's professional soccer team pursuant to the Agreement is in the interest of the Company and its shareholders as a whole, and the terms of the Agreement are fair and reasonable.

REASONS FOR ENTERING INTO THE AGREEMENT

GPSC is formed by certain subsidiaries of the Group, Wanglaoji, and BYSCL (together with certain of its subsidiaries) for the purpose of running a professional soccer team based in Guangzhou, the PRC, which participates in the professional soccer league in the PRC and to provide its equity owners, including the Group, with a platform for the promotion of the Group's corporate image and products. The relationship between the Group and GPSC under the Agreement is one of a client and service provider relationship where the Group pays consideration for the promotional and advertising services provided by GPSC which includes, the display of the Group's advertisements on the soccer field and adoption of the name of the Group to name the soccer games. GPSC also provides similar promotional and advertising services to other third parties for the purpose of generating income. The Directors consider that, through the promotional and advertising services by GPSC, including the promotion and broadcasting of the competition played by the professional soccer team of GPSC through media, the Group can further promote its corporate image and products, which is in the interest of the Group.

INFORMATION ON THE GROUP AND GPSC

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.

GPSC, by running a professional soccer team based in Guangzhou, the PRC, is 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.

GENERAL

GPHL, the Company's controlling shareholder, currently holds approximately 35.37% shareholding interest in BYSCL, while BYSCL and certain subsidiaries of it holds an aggregate of 50% equity interest in GPSC. Accordingly, the Agreement, together with the transactions contemplated thereunder, constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. With regard to the fees payable under the Agreement of not more than HK\$30,000,000 (equivalent to approximately RMB30,900,000) per annum (i.e. the annual cap under the Agreement), as each of the applicable percentage ratios is less than 2.5%, such continuing connected transaction is, according to Rule 14A.34 of the Listing Rules, only subject to the reporting and announcement requirements set out in the Rules 14A.45 to 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 15 June 2006 entered into by the Company and GPSC in relation to the provision of the advertising and promotional services by GPSC to the Group for the three financial years ending 31 December 2008
“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. The issued share capital of BYSCL is currently owned as to 35.37% by GPHL and approximately 64.63% by independent third parties
“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
“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 57.79% 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 which was established and incorporated in the PRC on 24 February 2006 and is owned as to (i) 42.5% by certain subsidiaries of the Company; (ii) 7.5% by Wanglaoji; and (iii) 50% by BYSCL and certain subsidiaries of it
“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 People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Wanglaoji”

廣州王老吉藥業股份有限公司 (Guangzhou 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, a supervisor of the Company, and as to approximately 51.9435% by independent third parties

In this announcement, unless otherwise specified, amounts in RMB are converted to HK\$ at a conversion rate of HK\$1.00=RMB1.03 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, 15 June 2006

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Xie Bin (resigned on 15 June 2006), Mr. Chen Zhinong (appointed on 15 June 2006) 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.