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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)

CONNECTED TRANSACTION

On 26 July 2006, the Company and the Vendors entered into the Agreement, pursuant to which the Company has agreed to acquire and the Vendors have agreed to sell an aggregate of approximately 9.64% interest in the registered share capital of Zhong Yi at an aggregate consideration of RMB36,814,400 (equivalent to approximately HK\$35,742,135.92).

The terms of the Agreement, including the consideration for the Acquisition, were determined after arm's length negotiation between the Company and the Vendors and after taking into account the audited net asset value of Zhong Yi as at 30 June 2006 and the factors set out in the paragraph headed "Reasons for entering into the Agreement" below. The Directors, including the independent non-executive Directors, consider that the Acquisition is in the interest of the Company and its shareholders as a whole, and the terms of the Agreement are fair and reasonable.

Zhong Yi is currently a non-wholly owned subsidiary of the Company. The Connected Vendors are or were either directors, supervisors or chief executives of Zhong Yi or other subsidiaries of the Company, and they are regarded as connected persons of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the acquisition of the equity interest in Zhong Yi from the Connected Vendors by the Company pursuant to the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) in relation to the acquisition of equity interest in Zhong Yi by the Company from the Connected Vendors pursuant to the Agreement in aggregate is less than 2.5%, the transactions contemplated under the Agreement are exempt from the independent shareholders' approval requirements and is only subject to the reporting and announcement requirements in accordance with rule 14A.32 of the Listing Rules.

THE AGREEMENT

Date of the Agreement

26 July 2006

The parties to the Agreement

Purchaser: The Company.

Vendors: (i) GP Corp., a company incorporated in the PRC which is owned as to approximately 90.09% by the Company;

(ii) the Connected Vendors; and

(iii) the Other Vendors.

Subject to be acquired

The Company will purchase from the Vendors in aggregate approximately 9.64% equity interest in Zhong Yi, which is currently a 90.36% owned subsidiary of the Company. Upon completion of the Acquisition, Zhong Yi will become a wholly-owned subsidiary of the Company.

Zhong Yi is a company incorporated in the PRC in 2001 with a registered and paid up capital of RMB166,000,000. Since its incorporation and up to the date of this announcement, Zhong Yi has been owned as to 90.36% by the Company, 6.86% by GP Corp., 1.1006% by the Connected Vendors, and 1.6794% by the Other Vendors. It is principally engaged in manufacturing of Chinese patent medicine. Its audited net asset values as at 31 December 2004, 31 December 2005 and as at 30 June 2006 and audited net profits before and after taxation for each of the two years ended 31 December 2005 and the six months ended 30 June 2006 are set out as follows:

(Prepared in accordance with PRC GAAP)	As at 31 December 2004 (RMB)	As at 31 December 2005 (RMB)	As at 30 June 2006 (RMB)
Net asset value	354,846,985.42	384,527,981.78	381,943,811.68
Net asset value per registered capital of RMB1	2.14	2.32	2.30

(Prepared in accordance with PRC GAAP)	For the year ended 31 December 2004 (RMB)	For the year ended 31 December 2005 (RMB)	For the six months ended 30 June 2006 (RMB)
Net profit before taxation	90,022,929.09	103,266,486.31	69,147,014.12
Net profit after taxation	57,858,347.58	68,633,921.50	47,102,440.24

Terms of the Agreement

The aggregate consideration for the Acquisition is RMB36,814,400 (equivalent to approximately HK\$35,742,135.92), equivalent to approximately RMB2.30 (equivalent to approximately HK\$2.23) per registered capital of RMB1 of Zhong Yi, which will be paid by the Company to the Vendors within 10 days upon the execution of the Agreement. Among the aggregate consideration for the Acquisition, RMB4,203,744.30 is payable to the Connected Vendors for their approximately 1.1006% equity interest in Zhong Yi, which was subscribed by the Connected Vendors at a total establishment / investment cost of RMB2,791,656 in 2001 when Zhong Yi was established. The consideration for the Acquisition will be financed by the Company's internal resources.

The terms of the Agreement, including the consideration for the Acquisition, were determined after arm's length negotiation between the Company and the Vendors and after taking into account the audited net asset value per registered capital of RMB1 of Zhong Yi as at 30 June 2006 and the factors set out in the paragraph headed "Reasons for entering into the Agreement" below. The Directors, including the independent non-executive Directors, consider that the Acquisition is in the interest of the Company and its shareholders as a whole, and the terms of the Agreement are fair and reasonable.

Conditions to and completion of the Agreement

Completion of the Agreement is conditional upon the full payment of the aggregate consideration for the Acquisition which amounts to RMB36,814,400 (equivalent to approximately HK\$35,742,135.92) and payable by the Company to the Vendors within 10 days upon the execution of the Agreement. The Directors estimate that the Acquisition will be completed in August 2006.

The following table sets out the equity interest held by the Company and the Vendors in Zhong Yi (i) immediately before completion of the Acquisition ; and (ii) immediately upon completion of the Acquisition:

Holders of equity interest in Zhong Yi	Immediately before the completion of the Acquisition	Immediately upon the completion of the Acquisition
The Company	90.36%	100%
GP Corp.	6.86%	—
The Connected Vendors	1.1006%	—
The Other Vendors	1.6794%	—
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Total	<u>100%</u>	<u>100%</u>

REASONS FOR ENTERING INTO 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.

Zhong Yi is principally engaged in manufacturing of Chinese patent medicine.

As a result of the Acquisition, Zhong Yi will become a wholly-owned subsidiary of the Company and the Group will benefit from the greater degree of flexibility in control over the management and the development plan of Zhong Yi, and the Directors expect that the business and future development of Zhong Yi will be carried out in a more effective and efficient way. Accordingly the Directors consider that the Acquisition is in the interest of the Company and its shareholders as a whole.

GENERAL

Zhong Yi is a non-wholly owned subsidiary of the Company. The Connected Vendors are or were either directors, supervisors or chief executives of Zhong Yi or other subsidiaries of the Company at present or within 12 month-period immediately before the date of the Agreement, and they are regarded as connected persons of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the acquisition of the equity interest in Zhong Yi from the Connected Vendors by the Company pursuant to the Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) in relation to the acquisition of the equity interest in Zhong Yi by the Company from the Connected Vendors pursuant to the Agreement in aggregate is less than 2.5%, the transactions contemplated under the Agreement are exempt from the independent shareholders' approval requirements and is only subject to the reporting and announcement requirements in accordance with rule 14A.32 of the Listing Rules.

DEFINITIONS

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

“Acquisition”	the acquisition by the Company of 9.64% equity interest in Zhong Yi from the Vendors pursuant to the Agreement
“Agreement”	the agreement dated 26 July 2006 entered into by the Company and the Vendors pursuant to which the Company has agreed to acquire and the Vendors have agreed to sell an aggregate of 9.64% equity interest in Zhong Yi
“Board”	the board of the Directors
“Company”	廣州藥業股份有限公司 (Guangzhou Pharmaceutical Company Limited), a company incorporated in the PRC and the securities of which are listed on the Stock Exchange and the Shanghai Stock Exchange
“Connected Vendors”	Mr. Mai Qijie, Ms. Guo Jieling, Mr. Huang Zhaoyuan, Ms. Chen Bin, Ms. Liang Huiyi, Ms. Li Cuiwei and Ms. He Xiaoming, who (i) are connected persons of the Company pursuant to the Listing Rules as they are or were either directors, supervisors or chief executives of Zhong Yi or other subsidiaries of the Company at present or within 12 month-period immediately before the date of the Agreement; and (ii) in aggregate hold approximately 1.1006% equity interest in Zhong Yi
“Directors”	the directors of the Company
“GP Corp.”	廣州醫藥有限公司 (Guangzhou Pharmaceutical Corporation), a company incorporated in the PRC which is owned as to approximately 90.09% by the Company and as to approximately 3.919% by 廣州敬修堂藥業股份有限公司 (Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.) (approximately 88.40% owned by the Company and is principally engaged in manufacturing of Chinese patent medicine), approximately 3.919% by 廣州潘高壽藥業股份有限公司 (Guangzhou Pangaoshou Pharmaceutical Co., Ltd.) (approximately 87.77% by the Company and is principally engaged in manufacturing of Chinese patent medicine), and approximately 2.072% by thirty-three individuals, of which 32 individuals are employees / ex-employees of the Group who are third parties independent of the Company and connected persons of the Company pursuant to the Listing Rules and 1 individual is a Director of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Other Vendors”	a total of twenty-six employees / ex-employees of the Group who in aggregate hold approximately 1.6794% equity interest in Zhong Yi and are third parties independent of the Company and connected persons of the Company pursuant to the Listing Rules
“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
“Vendors”	GP Corp., the Connected Vendors and the Other Vendors
“Zhong Yi”	廣州中一藥業有限公司 (Guangzhou Zhong Yi Pharmaceutical Company Limited), a company incorporated in the PRC which is owned as to approximately 90.36% by the Company, as to approximately 6.86% by GP Corp., as to approximately 1.1006% by the Connected Vendors and as to approximately 1.6794% by the Other Vendors

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, 26 July 2006

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Chen Zhinong and Mr. Feng Zansheng as executive Directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as independent non-executive Directors.

ANNOUNCEMENT OF RESOLUTIONS PASSED AT THE 24TH MEETING OF THE THIRD SESSION OF THE BOARD

Guangzhou Pharmaceutical Company Limited (the “Company”) held the 24th meeting of the third session of the Board of the Directors (the “Board”) on 26 July 2006 at the conference room of the Company at 2nd floor, 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC, notice of which was dispatched on 17 July 2006 by way of fax and email. 6 out of the 6 eligible directors attended the meeting, among whom Mr. Wu Zhang attended the meeting by means of telephone. The meeting was presided by Mr. Yang Rongming, the Chairman. Some of the supervisors, senior management and the lawyer of the Company attended the meeting, which was in compliance with the requirements of the Company Law and the Articles of Association of the Company.

After due consideration at the meeting, the resolution in relation with the acquisition of part of the equity interest in Guangzhou Zhong Yi Pharmaceutical Company Limited (廣州中一藥業有限公司) was passed with 5 affirmative votes, 0 dissenting vote and 0 vote abstaining from voting. Mr. Feng Zangsheng, a director, abstained from voting from the above resolution.

By order of the Board
He Shuhua
Company Secretary

Guangzhou, the PRC, 26 July 2006

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Chen Zhinong 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.