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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 TRANSACTIONS: INCREASE IN EQUITY INTEREST IN A NON-WHOLLY OWNED SUBSIDIARY AND MERGER OF TWO SUBSIDIARIES OF THE COMPANY**

On 10 January 2007, the Company and the Vendors entered into the Share Transfer Agreement, pursuant to which the Company has agreed to acquire and the Vendors have agreed to sell an aggregate of approximately 26.04% interest in the registered share capital of Hanfang at an aggregate consideration of RMB23,299,010 (equivalent to approximately HK\$22,620,398.06).

Following the execution of the Share Transfer Agreement, the Merger Agreement was also entered into by Hanfang and Huanye on 10 January 2007, pursuant to which the parties have agreed to the merger of Hanfang and Huanye through the injection of the entire business, assets and liabilities of Huanye into Hanfang. Huanye will cease to be in existence whereas the enlarged Hanfang will continue its existing practice and take up the businesses of Huanye after the Merger.

The respective terms of the Share Transfer Agreement and the Merger Agreement, were determined after arm's length negotiation between the parties thereto and after taking into account the respective valuated net asset values of Hanfang as at 31 August 2006 and the audited net asset values of Huanye as at 31 August 2006 and the factors set out in the paragraph headed "Reasons for entering into the Share Transfer Agreement and the Merger Agreement" below. The Directors, including the independent non-executive Directors, consider that the Share Transfer and the Merger are in the interest of the Company and its shareholders as a whole, and the respective terms of the Share Transfer Agreement and Merger Agreement are fair and reasonable.

Hanfang is currently a non-wholly owned subsidiary of the Company, and an aggregate of approximately 20.96% equity interest of which is held by GPLH, the controlling shareholder of the Company, and its wholly-owned subsidiary. The Connected Vendors are or were either controlling shareholder of the Company, supervisors or directors of Hanfang 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, each of the Share Transfer and the Merger constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Although some of the applicable percentage ratios (other than the profits ratio) in relation to each of the Share Transfer and the Merger are more than 0.1% and the total consideration is more than HK\$10,000,000, as each of the applicable percentage ratios (other than the profits ratio) in relation to each of the Share Transfer and the Merger is less than 2.5%, the transactions contemplated under the Share Transfer Agreement and the Merger Agreement are exempt from the independent shareholders' approval requirements and are only subject to the reporting and announcement requirements in accordance with 14A.32 of the Listing Rules.

## **THE SHARE TRANSFER AGREEMENT**

### **Date of the Share Transfer Agreement:**

10 January 2007

### **The parties to the Share Transfer Agreement:**

Purchaser: The Company.

Vendors: (i) The Connected Vendors; and  
(ii) Anhui Hua Dong.

### **Subject to be acquired by the Company:**

The Company will purchase from the Vendors in aggregate approximately 26.04% equity interest in Hanfang, which is a non-wholly owned subsidiary of the Company and the equity interest of which is currently directly owned as to approximately 70.04% by the Company, approximately 2.35% by two wholly-owned subsidiaries of the Company, approximately 0.67% by a 88% owned subsidiary of the Company, approximately 0.90% by a wholly-owned subsidiary of GPLH, and approximately 26.04% by the Vendors. Upon completion of the Share Transfer, the effective equity interest of the Company in Hanfang will increase from approximately 72.98% to approximately 99.02%.

Hanfang commenced its business operations in 2002 and is a company incorporated in the PRC with a registered and paid up capital of RMB127,764,300. It is principally engaged in manufacturing of Chinese patent medicine and is the Group's platform for the research and development on the techniques for the extraction technology applied to Chinese medicine. Its (i) audited net asset values as at 31 December 2004 and 31 December 2005; (ii) valuated net asset value as at 31 August 2006; and (iii) audited net losses before and after tax of the two years ended 31 December 2005 are set out as follows:

	<b>Extracted from the audited accounts</b> (Prepared in accordance with PRC GAAP)		<b>According to the</b> <b>valutaion report</b>
	<b>As at</b> <b>31 December 2004</b> (RMB)	<b>As at</b> <b>31 December 2005</b> (RMB)	<b>As at</b> <b>31 August 2006</b> (RMB)
Net asset value	110,500,670.54	97,370,801.46	82,269,100
	<b>Extracted from the audited accounts</b> (Prepared in accordance with PRC GAAP)		
		<b>For the year ended</b> <b>31 December 2004</b> (RMB)	<b>For the year ended</b> <b>31 December 2005</b> (RMB)
Net losses before and after tax		5,184,793.67	13,252,344.08

#### **Terms of the Share Transfer Agreement:**

The aggregate consideration for the Share Transfer is RMB23,299,010 (equivalent to approximately HK\$22,620,398.06), equivalent to approximately RMB0.7 (equivalent to approximately HK\$0.68) per registered capital of RMB1 of Hanfang, which will be paid by the Company to the Vendors within 30 days upon the execution of the Share Transfer Agreement. Among the aggregate consideration for the Share Transfer, RMB19,799,010 is payable to the Connected Vendors for their approximately 22.13% equity interest in Hanfang, which was subscribed by the Connected Vendors at a total establishment/ investment cost of RMB28,284,300. The consideration for the Share Transfer will be financed by the Company's internal resources.

The terms of the Share Transfer Agreement, including the consideration for the Share Transfer, were determined after arm's length negotiation between the Company and the Vendors and after taking into account the valuated net asset value of RMB 82,269,100 or equivalent to approximately RMB0.64 per registered capital of RMB1 of Hanfang as at 31 August 2006 and the factors set out in the paragraph headed "Reasons for entering into the Share Transfer Agreement and the Merger Agreement" below. The Directors, including the independent non-executive Directors, consider that the Share Transfer is in the interest of the Company and its shareholders as a whole, and the terms of the Share Transfer Agreement are fair and reasonable.

## Conditions to and completion of the Share Transfer Agreement

The Share Transfer Agreement is conditional upon (i) the parties to the Share Transfer Agreement having agreed to the sale and purchase of the relevant equity interest in Hanfang; and (ii) the transfer of the relevant equity interest in Hanfang having been approved at the meeting of the shareholders of Hanfang. As at the date of this announcement, all such conditions have been fulfilled. Hanfang will arrange for registration with the relevant authorities in respect of the transfer of the approximately 26.04% equity interest in Hanfang and upon completion of such registration (which is expected to take place by the end of January or early February 2007, the Company will become holder of such equity interest.

## THE MERGER AGREEMENT

### Date of the Merger Agreement:

10 January 2007

### The parties to the Merger Agreement:

Hanfang and Huanye

### The Merger

Pursuant to the Merger Agreement, the parties have agreed to the merger of Hanfang and Huanye through the injection of all the business, assets and liabilities of Huanye into Hanfang. Upon completion of the Merger, Huanye will cease to be in existence whereas the enlarged Hanfang will continue its existing practice and take up the businesses of Huanye.

Huanye is currently a wholly-owned subsidiary of the Company and it is incorporated in the PRC in 1979 with a registered and paid up capital of RMB6,000,000. It is principally engaged in manufacturing and sales of natural herbal medicine by employing the extraction technology applied to Chinese medicine. Its (i) audited net asset values as at 31 December 2004 and 31 December 2005; and (ii) audited net asset value as at 31 August 2006; and (iii) audited net profits before and after taxation for each of the two years ended 31 December 2005 are set out as follows:

**Extracted from the audited accounts**  
(Prepared in accordance with PRC GAAP)

	<b>As at 31 December 2004 (RMB)</b>	<b>As at 31 December 2005 (RMB)</b>	<b>As at 31 August 2006 (RMB)</b>
Net asset value	24,018,741.49	24,270,398.18	24,015,600

**Extracted from the audited accounts**  
(Prepared in accordance with PRC GAAP)

	<b>For the year ended 31 December 2004</b>	<b>For the year ended 31 December 2005</b>
	<i>(RMB)</i>	<i>(RMB)</i>
Net profit before taxation	297,083.07	469,478.49
Net profit after taxation	33,979.91	251,656.69

### **Terms of the Merger Agreement**

The audited net asset value of Huanye was RMB24,015,600 (equivalent to approximately HK\$23,316,116.50) as at 31 August 2006. As a result of the Merger, the Company, being the holder of all the equity interest of Huanye, will receive equity interest in Hanfang, the percentage of which is determined according to the valuated net asset value of Hanfang as at 31 August 2006 of RMB82,269,100 and the audited net asset value of Huanye as at 31 August 2006 of RMB24,015,600. Accordingly, the Company will receive approximately 22.60% equity interest in Hanfang as a result of the Merger, while the equity interest of the shareholders of Hanfang will be diluted also by approximately 22.60%. As at the date of this announcement, the Company directly holds 70.04% equity interest in Hanfang. Upon transfer of 26.04% equity interest in Hanfang to the Company pursuant to the Share Transfer Agreement, it will directly hold 96.08% equity interest in Hanfang. Upon dilution of such 96.08% equity interest to 74.37% and the issue of 22.60% equity interest to the Company upon completion of the Merger Agreement, the Company's direct equity interest in the enlarged Hanfang will become 96.97%.

### **Completion of the Merger Agreement**

Hanfang and Huanye will arrange for registration with the relevant authorities in respect of the alteration of the registered capital and the shareholding structure of the enlarged Hanfang. The Directors estimate that the completion of such registration and the Merger Agreement will be expected to take place in March 2007.

## EQUITY INTEREST IN HANFANG

The following table sets out the equity interest in Hanfang (i) immediately before completion of the Share Transfer Agreement and the Merger Agreement; (ii) immediately upon completion of the Share Transfer Agreement (but before completion of the Merger Agreement); and (iii) immediately upon completion of the Merger Agreement:

Holders of equity interest in Hanfang	Immediately before completion of the Share Transfer Agreement and the Merger Agreement (%)	Immediately upon completion of the Share Transfer Agreement (but before completion of the Merger Agreement) (%)	Immediately upon completion of the Merger Agreement (%)
The Company	70.04	96.08	96.97
廣州中一藥業有限公司 (Guangzhou Zhong Yi Pharmaceutical Co., Ltd) *	0.78	0.78	0.61
廣州陳李濟藥廠 (Guangzhou Chen Li Ji Pharmaceutical Factory) *	1.57	1.57	1.21
廣州敬修堂(藥業)股份有限公司 (Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd) **	0.67	0.67	0.51
廣州市醫藥工業研究所 (Guangzhou Pharmaceutical Industrial Research Institute) ***	0.90	0.90	0.70
Vendors:			
The Connected Vendors	22.13	—	—
Anhui Hua Dong	3.91	—	—
	<hr/>	<hr/>	<hr/>
Total	<u>100</u>	<u>100</u>	<u>100</u>

\* wholly-owned subsidiary of the Company

\*\* 88% owned subsidiary of the Company

\*\*\* wholly-owned subsidiary of GPL. The Directors believe that Guangzhou Pharmaceutical Industrial Research Institute, which is principally engaged in the research and development of medical new products, can assist the enlarged Hanfang in the future research and development on the extraction technology applied to Chinese medicine and the production of Chinese medicine, thus the Company did not consider to acquire its shareholding interest in the Share Transfer Agreement.

## **REASONS FOR ENTERING INTO THE SHARE TRANSFER AGREEMENT AND THE MERGER 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.

Hanfang is principally engaged in manufacturing of Chinese patent medicine and is the Group's platform for the research and development on the techniques for the extraction technology applied to Chinese medicine.

Huanye is principally engaged in manufacturing and sales of natural herbal medicine by employing the extraction technology applied to Chinese medicine.

Since the businesses of both Hanfang and Huanye relate to the extraction technology applied to Chinese medicine, the Directors believe that, as a result of the Merger, synergy will be achieved by combining the strengths and resources of Hanfang and Huanye to facilitate the future research and development on the extraction technology applied to Chinese medicine and the production of Chinese medicine by the enlarged Hanfang. This will better equip the enlarged Hanfang for its future development and will enhance Hanfang to become a self-contained enterprise which possess the capabilities in research and development, production and sales of Chinese medicine by employing the extraction technology applied to Chinese medicine. Accordingly the Directors consider that the Merger is in the interest of the Company and its shareholders as a whole. In addition, following completion of the Share Transfer and the Merger, the direct equity interest of the Company in Hanfang will increase from approximately 70.04% to approximately 96.97%, and the effective equity interest of the Company in Hanfang will also increase from approximately 72.98% to approximately 99.24%. The Group will benefit from the greater degree of flexibility in control over the management and the development plan of Hanfang, and the Directors expect that the business and future development of Hanfang will be carried out in a more effective and efficient way. Accordingly the Directors consider that the Share Transfer and the Merger are in the interest of the Company and its shareholders as a whole.

## **GENERAL**

Hanfang is currently a non-wholly owned subsidiary of the Company, and an aggregate of approximately 20.96% equity interest of which is held by GPLH, the controlling shareholder of the Company, and a wholly-owned subsidiary of it. The Connected Vendors are or were either controlling shareholder of the Company, supervisors or directors of Hanfang 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 Share Transfer and the Merger pursuant to the Share Transfer Agreement and the Merger Agreement respectively constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Although some of the applicable percentage ratios (other than the profits ratio) in relation to each of the Share Transfer and the Merger are more than 0.1% and the total consideration is more than HK\$10,000,000, as each of the applicable percentage ratios (other than the profits ratio) in relation to each of the Share Transfer and the Merger is less than 2.5%, the transactions contemplated under the Share Transfer Agreement and the Merger Agreement are exempt from the independent shareholders' approval requirements and are only subject to the reporting and announcement requirements in accordance with 14A.32 of the Listing Rules.

## DEFINITIONS

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

“Anhui Hua Dong”	安徽華東中藥工程集團有限責任公司 (Anhui Hua Dong Chinese Medical Engineering Corporation Limited), which is (i) a company incorporated in the PRC and a third party independent of the Company and connected persons of the Company pursuant to the Listing Rules; and (ii) holder of approximately 3.91% equity interest in Hanfang
“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”	(i) GPHL, the controlling shareholder of the Company, which owns approximately 57.79% of the Company and in aggregate hold approximately 20.06% equity interest in Hanfang; and  (ii) Ms. Liu Ju Yan (劉菊妍), Mr. Mo Shang Zhi (莫尚志), Mr. Cai Xing Chun (蔡杏春), Mr. Zhao Xiang Yong (趙向勇) and Mr. Ge Fa Huan (葛發歡), who (a) are connected persons of the Company pursuant to the Listing Rules as they are or were either supervisors or directors of Hanfang or other subsidiaries of the Company at present or within 12 month-period immediately before the date of the Share Transfer Agreement; and (b) in aggregate hold approximately 2.07% equity interest in Hanfang
“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 limited liability company incorporated in the PRC and the controlling shareholder of the Company, which owns approximately 57.79% of the Company
“Hanfang”	廣州漢方現代中藥研究開發有限公司 (Guangzhou Hanfang Contemporary Chinese Medicine Research & Development Co., Limited), a non-wholly owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC



“Huanye”	廣州環葉製藥有限公司 (Guangzhou Huanye Pharmaceutical Co., Ltd.), a limited liability company incorporated in the PRC which is a wholly-owned subsidiary of the Company
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Merger”	the merger of Hanfang and Huanye through the injection of all the business, assets and liabilities of Huanye into Hanfang pursuant to the Merger Agreement
“Merger Agreement”	the agreement dated 10 January 2007 entered into by Hanfang and Huanye in relation to the Merger
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share Transfer”	the acquisition by the Company of approximately 26.04% equity interest in Hanfang from the Vendors pursuant to the Share Transfer Agreement
“Share Transfer Agreement”	the agreement dated 10 January 2007 entered into by the Company and the Vendors in relation to the Share Transfer
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendors”	the Connected Vendors and Anhui Hua Dong

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, 10 January 2007

*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.