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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)

**MAJOR TRANSACTION:
DISPOSAL, DEEMED DISPOSAL AND MATERIAL DILUTION OF
EQUITY INTEREST IN A MAJOR SUBSIDIARY
AND
RESUMPTION OF TRADING IN SHARES
OF THE COMPANY**

Financial Adviser

CASH

Celestial Capital Limited

On 27 January 2007, Jingxiutang, Pangaoshou, the Individual Vendors and Alliance BMP entered into the Capital Transfer Contract, pursuant to which Jingxiutang, Pangaoshou and the Individual Vendors have conditionally agreed to sell and Alliance BMP has conditionally agreed to purchase in aggregate approximately 9.910% of the equity interests in GP Corp.

Also on 27 January 2007, the Company and Alliance BMP entered into (i) the Capital Increase Contract, pursuant to which the parties have conditionally agreed that the registered capital of GP Corp. shall be increased from RMB222,000,000 to RMB400,000,000 and Alliance BMP shall contribute the relevant increased registered capital in full; and (ii) the JV Contract and the Articles of Association to regulate the affairs relating to the business and management of, as well as the respective rights and obligations of the Company and Alliance BMP as owners of the equity interests in GP Corp. upon completion of the Capital Transfers and the Capital Increase.

GP Corp. is currently a non-wholly-owned subsidiary of the Company. Upon completion of the Capital Transfers and the Capital Increase, GP Corp. will be converted into a Sino-Foreign equity joint venture limited liability company, and it will cease to be a subsidiary of the Company but become its 50% owned joint venture.

Alliance BMP is a company incorporated in the United Kingdom which is owned as to 80% by Alliance UniChem Group Limited, which in turn is a wholly-owned subsidiary ultimately owned by Alliance Boots and as to 20% by Beijing Med-Pharm. To the best of the Directors' knowledge, information and belief, and after making all reasonable enquires, Alliance BMP and its ultimate beneficial owners, are Independent Third Parties.

GP Corp. will use the proceeds from the Capital Increase of approximately RMB485,089,000 (equivalent to approximately HK\$486,548,645.94) for such purposes as decided by the board of directors of GP Corp. subsequent to Alliance BMP's payment of its capital contribution to GP Corp. in full pursuant to the Capital Increase Contract.

Jingxiutang intends to use the net proceeds from the Capital Transfers of approximately RMB23,709,950 (equivalent to approximately HK\$23,781,293.88) as general working capital.

Pangaoshou intends to use the net proceeds from the Capital Transfers of approximately RMB23,709,950 (equivalent to approximately HK\$23,781,293.88) as general working capital.

The Capital Increase constitutes a deemed disposal of the Company's equity interest in respect of a subsidiary of the Company under Rule 14.29 of the Listing Rules. As the Capital Transfers and the Capital Increase as a whole (i) constitute a major transaction for the Company under the Listing Rules, and (ii) constitute a material dilution of the Group's equity interest in GP Corp., a major subsidiary of the Company, under Rule 19A.38 of the Listing Rules, the Company will obtain the approvals of the Transactions by a special resolution of the Shareholders at the EGM, and special resolutions of the Domestic Shareholders and the H Shareholders at separate class meetings.

A circular containing further information on the Transactions, together with a notice of each of the EGM, the H Shareholders' class meeting and the Domestic Shareholders' class meeting will be dispatched to the Shareholders, the H Shareholders and the Domestic Shareholders respectively in accordance with the requirements of the Listing Rules.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 29 January 2007 pending the release of this announcement. An application has been made to the Stock Exchange for resumption of the trading in the Shares with effect from 9:30 a.m. on 31 January 2007.

CAPITAL TRANSFER CONTRACT

Date

27 January 2007

Parties

Vendors: Jingxiutang, Pangaoshou and the Individual Vendors.

Purchaser: Alliance BMP.

Jingxiutang and Pangaoshou are non-wholly-owned subsidiaries of the Company which are owned as to approximately 88.40% and approximately 87.77% by the Company respectively.

Among the 33 Individual Vendors, (i) 32 of them are employees / ex-employees of the Group and, to the best knowledge, information and belief of the Directors and after making all reasonable enquires, are Independent Third Parties; and (ii) the remaining one, Mr. Feng Zansheng, is a Director.

To the best of the Directors' knowledge, information and belief and after making all reasonable enquires, Alliance BMP and its ultimate beneficial owners, are Independent Third Parties.

Capital to be transferred

GP Corp. is a limited liability company established in the PRC. At present, the registered capital of GP Corp. in the total amount of RMB222,000,000 is contributed as to approximately 90.090%, 3.919%, 3.919% and 2.072% by the Company, Jingxiutang, Pangaoshou and the Individual Vendors respectively.

The parties to the Capital Transfer Contract have conditionally agreed to the transfers of all of the interests of the Vendors in the registered capital of GP Corp., being RMB22,000,000 in total and representing approximately 9.910% of the equity interest in GP Corp., to Alliance BMP.

Terms of the Capital Transfer Contract

The aggregate consideration for the Capital Transfers is RMB59,955,500 (equivalent to approximately HK\$60,135,907.72), which will be paid by Alliance BMP to the Vendors in respect of their respective equity interests in GP Corp. as follows:

Vendors	Amount of consideration receivable under the Capital Transfers
Jingxiutang	RMB23,709,950
Pangaoshou	RMB23,709,950
Individual Vendors	RMB12,535,600

The terms of the Capital Transfer Contract, including the consideration payable thereunder, were determined after arm's length negotiation between the Vendors and Alliance BMP by taking into account the Adjusted Valuated NAV of approximately RMB605,000,000 (which was arrived at after taking into account, inter alia, the asset valuation report dated 10 December 2006 prepared by Guangdong Yangcheng Certified Public Accountants Company Limited (廣東羊城會計師事務所有限公司), a qualified independent asset valuer in the PRC) and the factors set out in the paragraph headed "Reasons for the Transactions" below. The Directors, including the independent non-executive Directors, consider that the proposed transfers by Jingxiutang and Pangaoshou, two non-wholly-owned subsidiaries of the Company, of their respective equity interests in GP Corp. under the Capital Transfers, together with the Capital Increase and the JV Establishment, are in the interest of the Group and the Shareholders as a whole, and the terms of the Capital Transfer Contract are fair and reasonable.

Conditions of the Capital Transfer Contract

Completion of the Capital Transfer Contract shall be conditional upon the parties thereto having obtained all necessary approvals, licences, consents and registrations from the relevant government authorities for the transactions contemplated under all the Transaction Documents.

Alliance BMP may waive all or any of the conditions of the Capital Transfer Contract at any time by notice in writing to the Vendors.

Completion of the Capital Transfer Contract

Subject to the fulfillment or waiver (as the case may be) of the conditions of the Capital Transfer Contract in full, completion of the Capital Transfers will take place upon full payment of the aggregate consideration for the Capital Transfers by Alliance BMP to the Vendors within ten (10) Business Days from the date of issuance of the JV Business Licence. In the event that the conditions are not fulfilled or waived (as the case may be) in full within nine (9) months from the signing date of the Capital Transfer Contract (or such later date as Alliance BMP may determine and notify the Vendors in writing), any party to the Capital Transfer Contract shall have the right to terminate the same by giving written notice to the other parties, in which case the Capital Transfers shall not proceed.

CAPITAL INCREASE CONTRACT

Date

27 January 2007

Parties

- (i) The Company; and
- (ii) Alliance BMP.

Increase in the registered capital of GP Corp.

At present, the registered capital of GP Corp. is RMB222,000,000 in total. Upon completion of the Capital Transfers, such amount of registered capital will be contributed as to RMB200,000,000 and RMB22,000,000 by the Company and Alliance BMP respectively, representing approximately 90.090% and approximately 9.910% of the equity interest in GP Corp. respectively.

Pursuant to the Capital Increase Contract, the Company and Alliance BMP have conditionally agreed that (i) the registered capital of GP Corp. shall be increased by RMB178,000,000 from RMB222,000,000 to RMB400,000,000, and (ii) Alliance BMP shall inject a total amount of RMB485,089,000 (equivalent to approximately HK\$486,548,645.94), of which RMB178,000,000 (equivalent to approximately HK\$178,535,606.82) will be contributed to the increased registered capital of GP Corp. and RMB307,089,000 (equivalent to approximately HK\$308,013,039.12) will be accounted for as capital surplus of GP Corp. (which may be used for payment of any increased registered capital of GP Corp. in future if so agreed by its shareholders).

Terms of the Capital Increase Contract

The terms of the Capital Increase Contract, including the total amount of increased registered capital and capital surplus of GP Corp. to be contributed by Alliance BMP, were determined after arm's length negotiation between the Company and Alliance BMP by taking into account the Adjusted Valuated NAV (which was arrived at after taking into account, inter alia, the asset valuation report dated 10 December 2006 prepared by Guangdong Yangcheng Certified Public Accountants Company Limited (廣東羊城會計師事務所有限公司), a qualified independent asset valuer in the PRC) and the factors set out in the paragraph headed "Reasons for the Transactions" below. The Directors, including the independent non-executive Directors, consider that the Capital Increase, together with the Capital Transfers and the JV Establishment, are in the interest of the Group and the Shareholders as a whole, and the terms of the Capital Increase Contract are fair and reasonable.

Conditions of the Capital Increase Contract

Completion of the Capital Increase Contract shall be conditional upon (i) obtaining all necessary approvals, licences, consents and registrations by the parties to the contracts from the relevant government authorities in relation to the transactions contemplated in the Transaction Documents; and (ii) obtaining the approval of the Shareholders at the EGM, and of the Domestic Shareholders and of the H Shareholders at separate class meetings, each by way of a special resolution, in respect of the transactions contemplated under all the Transaction Documents.

Subject to the applicable laws, statutes, rules and regulations (including the Listing Rules), Alliance BMP may waive all or any of the conditions of the Capital Increase Contract at any time by notice in writing to the Company.

Completion of the Capital Increase Contract

The total amount to be contributed by Alliance BMP under the Capital Increase, being RMB485,089,000 (equivalent to approximately HK\$486,548,645.94), shall be paid by it in foreign currency (i) as to 20% within ten (10) Business Days after all of the conditions of the Capital Increase Contract have been satisfied or waived (as the case maybe) and after GP Corp. has successfully opened a foreign currency bank account; and (ii) as to the remaining 80% (“Remaining Balance”) within ten (10) Business Days upon the issuance of the JV Business Licence. In the event that the conditions are not fulfilled or waived (as the case may be) in full or if the JV Business Licence is not issued to GP Corp. within nine (9) months from the signing date of the Capital Increase Contract (or such later date as Alliance BMP may determine and notify the Vendors in writing), any party to the Capital Increase Contract shall have the right to terminate the same by giving written notice to the other parties, in which case the Capital Increase shall not proceed. The Company further assumes to the following obligations and undertakes completion of the same before the date of payment of the Remaining Balance by Alliance BMP: (i) to obtain a written confirmation from GPHL in respect of the use of the trademark of GPHL by GP Corp. upon issuance of the JV Business Licence; and (ii) to obtain all necessary consents from third parties (other than the relevant government authorities), for instance the creditors and major suppliers of GP Corp., in respect of the transactions contemplated under the Transaction Documents. Alliance BMP shall have the right to unilaterally terminate the Capital Increase Contract and the other Transactions Documents if such issues are not dealt with by the Company in due course.

Upon completion of the Capital Transfers and the Capital Increase, each of the Company and Alliance BMP will hold 50% of the equity interest in GP Corp..

Financial Assistance and Guarantees to GP Corp.

At present, GP Corp. is a non-wholly-owned subsidiary of the Company. As at the date hereof, (i) the Relevant Financial Assistance from the Group (other than GP Corp. Group) to GP Corp. at the interest rates ranging from 0% to 4.896% amounts to RMB212,660,000 in total and will expire from July 2007 to January 2008; and (ii) the Company has agreed to provide the Relevant Guarantees in respect of banking facilities granted or to be granted to GP Corp. of up to RMB800,000,000 in total (as at the date of this announcement, banking facilities of RMB490,000,000 in total which have been guaranteed by the Company under the Relevant Guarantees have been granted to GP Corp., and a total of RMB220,000,000 under such banking facilities have been utilized).

Upon completion of the Capital Transfers and the Capital Increase, GP Corp. will become a 50% owned joint venture, hence an affiliated company of the Company. Accordingly, the grant by the Group (other than GP Corp. Group) of the Relevant Financial Assistance and the Relevant Guarantees will be regarded as a transaction of the Company as defined under Rule 14.04(1)(e) of the Listing Rules. As the relevant percentage ratio is more than 5% but less than 25%, the grant of the Relevant Financial Assistance and the Relevant Guarantees will be a discloseable transaction of the Company upon GP Corp. becoming a 50% owned joint venture company. In addition, the Relevant Financial Assistance and the Relevant Guarantees in total exceed and shall exceed 8% of the total assets of the unaudited consolidated total asset of the Group as at 30 June 2006, the same should be subject to the disclosure requirement under Rule 13.16 of the Listing Rules. Since GP Corp. will cease to be a subsidiary of the Company and become a 50% owned joint venture company, hence an affiliated company of the Company, the Company is now considering revising the terms of the Relevant Financial Assistance and the Relevant Guarantee, for example the interest rates charged by the Company and the expiry dates thereof, without increasing the total amount of the Relevant Financial Assistance of RMB212,600,000 and the Relevant Guarantee of up to RMB800,000,000 according to its current intention and no decision in relation thereto has been made as at the date of the announcement. The Company will disclose the relevant information as required under Rule 13.16 and Chapter 14 of the Listing Rules in a separate announcement upon determination of the revised terms (if any) of the Relevant Financial Assistance and the Relevant Guarantee before the issuance of the relevant circular in relation to the Transactions.

JV CONTRACT AND ARTICLES OF ASSOCIATION

Date of each of the JV Contract and the Articles of Association

27 January 2007

Parties to each of the JV Contract and the Articles of Association

- (i) The Company; and
- (ii) Alliance BMP.

The Company and Alliance BMP also entered into the JV Contract and the Articles of Association to regulate the affairs relating to the business and management of, as well as their respective rights and obligations as owners of the equity interests in, GP Corp. upon completion of the Capital Transfer Contract and the Capital Increase Contract. The principal terms of the JV Contract and/or the Articles of Association are as follows:

1. Operation term

The operation term of GP Corp. in the form of a Sino-foreign equity joint venture limited liability company shall be thirty (30) years from the date of issuance of the JV Business Licence and such term shall be extended upon agreement by the Company and Alliance BMP and subject to the approval by the relevant government authorities.

2. Business objective

The business objective of GP Corp. is to develop, establish and operate a high-quality pharmaceutical distribution enterprise and to obtain satisfactory economic benefits for the Company and Alliance BMP.

3. Transfer restrictions on the direct and indirect equity interest in GP Corp.

Within five (5) years upon the issuance of the JV Business Licence (“Lock-up Period”), the Company and Alliance BMP shall not transfer any of their respective equity interests in GP Corp., save for the transfer of equity interest by any of them (“Transferor”) to its Affiliates with the consent of the other party.

Upon expiry of the Lock-up Period, (i) unless consent is obtained from other party, neither the Company nor Alliance BMP shall transfer all or any of its equity interest in GP Corp. to any third party which is competing with GP Corp. by engaging in the business of wholesale and retail distribution of pharmaceutical products or to any Affiliates of such third party; and (ii) each of the Company and Alliance BMP shall have a pre-emptive right to acquire such equity interest of the other party on the same terms as those offered by a bona fide third party (other than any Affiliate of the other party).

Both the Company and Alliance BMP shall not mortgage, pledge or otherwise encumber all or any part of its capital contribution to the registered capital of GP Corp. without the prior written consent of the other.

In addition, (a) in the event of any proposed change in shareholder(s) of Alliance BMP, it shall notify the Company in writing and obtain the Company’s prior written consent; and (b) in the event of any proposed change in shareholder(s) of the Company, it shall notify Alliance BMP and if a competitor of Alliance BMP acquires control of the Company, Alliance BMP may have an option to sell to the Company its capital contribution to GP Corp. or to purchase the Company’s capital contribution to GP Corp. at fair market value.

4. Management of GP Corp.

The board of directors of GP Corp. will comprise eight directors, of which four will be nominated by the Company and four will be nominated by Alliance BMP. Alliance BMP and the Company will respectively nominate the chairman and the deputy chairman of the board of directors of GP Corp..The chairman of the board of directors of GP Corp. will not have the casting right to vote in the board meetings.

5. Non-competition (for the JV Contract only)

Each of the Company and Alliance BMP undertakes that it will not, and will procure its Affiliates controlled by it not to, directly compete with GP Corp. in the wholesale business of pharmaceutical products in the PRC.

INFORMATION ON GP CORP.

GP Corp. is a company established in the PRC which is owned as to approximately 90.090% by the Company, approximately 3.919% by Jingxiutang (an approximately 88.4% owned subsidiary of the Company), approximately 3.919% by Pangaoshou (an approximately 87.77% owned subsidiary of the Company) and approximately 2.072% by the Individual Vendors as at the date of this announcement. Accordingly, the Company as at the date of this announcement holds an effective equity interest of approximately 96.99% in GP Corp.. GP Corp. Group is principally engaged in trading of western pharmaceutical products and medical apparatus. Each of GPHL and Alliance UniChem IP Limited, intends to enter into agreements with GP Corp. in respect of the use of their respective trademarks after GP Corp. obtains its JV Business License and becomes a Sino-foreign equity joint venture limited liability company upon completion of the Transactions.

Set out below are (i) the audited consolidated net asset values of GP Corp. Group as at 31 December 2004 and 31 December 2005; and (ii) the audited consolidated net profits before and after taxation and minority interests of GP Corp. Group for each of the two years ended 31 December 2005:

	As at 31 December 2004 (RMB) Audited	As at 31 December 2005 (RMB) Audited
(Prepared in accordance with PRC GAAP)		
Net asset value	412,464,389.91	436,834,218.53

	For the year ended 31 December 2004 (RMB) Audited	For the year ended 31 December 2005 (RMB) Audited
(Prepared in accordance with PRC GAAP)		
Net profit before taxation and minority interests	66,217,211.37	68,735,107.67
Net profit after taxation and minority interests	41,600,007.20	47,741,993.11

EQUITY INTEREST STRUCTURE OF GP CORP.

The equity interest structure of GP Corp. as at the date of this announcement and immediately after completion of the Capital Transfers and the Capital Increase are set out below:

Name	As at the date of	Immediately after
	this announcement	completion of the
	%	Capital Transfers and the Capital Increase
		%
The Company	90.090	50.000
Jingxiutang	3.919	—
Pangaoshou	3.919	—
Individual Vendors	2.072	—
Alliance BMP	—	50.000
	<hr/>	<hr/>
Total	<u>100.000</u>	<u>100.000</u>

INFORMATION ON ALLIANCE BMP

Alliance BMP is a company incorporated in the United Kingdom in January 2007 which is owned as to 80% by Alliance UniChem Group Limited, which in turn is a wholly-owned subsidiary ultimately owned by Alliance Boots, and as to 20% by Beijing Med-Pharm. Alliance BMP was set up for the purpose of investing in GP Corp..

Alliance Boots is a company incorporated in the United Kingdom, the ordinary shares of which are listed on the London Stock Exchange, and it is a member of the FTSE-100 Index. Alliance Boots, together with its subsidiaries, is a leading health and beauty group offering a range of products and services to customers, working in partnership with manufacturers and pharmacists in more than 15 countries. The group companies of Alliance Boots are operating two core businesses, which are pharmaceutical wholesale and retail pharmacy.

Beijing Med-Pharm is a company incorporated in the State of Delaware of the United States, the common shares of which are listed on the NASDAQ. Beijing Med-Pharm offers end-to-end solutions to western pharmaceutical companies wishing to sell their products in the PRC.

INFORMATION ON THE GROUP

The Group is principally engaged in (1) the manufacture and sales of Chinese patent medicine; (2) the wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; and (3) the research and development of natural medicine and biological medicine.

PROCEEDS FROM THE TRANSACTIONS

GP Corp. will apply the net proceeds from the Capital Increase of approximately RMB485,089,000 (equivalent to approximately HK\$486,548,645.94) for such purposes to be decided by the board of directors of GP Corp. subsequent to Alliance BMP's payment of its capital contribution to GP Corp. in full pursuant to the Capital Increase Contract. Accordingly, no specific plan in respect of the use of such proceeds has been delineated yet. The Directors confirm that the relevant amount will be applied by GP Corp. for its business, development and/or general working capital.

Jingxiutang intends to use the net proceeds of approximately RMB23,709,950 (equivalent to approximately HK\$23,781,293.88) from its transfer of equity interest in GP Corp. pursuant to the Capital Transfer Contract as general working capital.

Pangaoshou intends to use the net proceeds of approximately RMB23,709,950 (equivalent to approximately HK\$23,781,293.88) from its transfer of equity interest in GP Corp. pursuant to the Capital Transfer Contract as general working capital.

REASONS FOR THE TRANSACTIONS

Upon completion of the Transactions, GP Corp. will cease to be a subsidiary of the Company and will become a 50% owned joint venture of the Company. The Directors consider that as a result of the Transactions, (i) GP Corp. is able to capitalize on the managerial experience, research and development of product, technology and know-how of Alliance Boots and the marketing skills of Beijing Med-Pharm to enhance its competitive position in the vast PRC market; and (ii) the capital contribution from Alliance BMP to GP Corp. will provide GP Corp. with additional funds for its future development. It is the vision of the Company and Alliance BMP to ultimately develop GP Corp. into a national pharmaceutical wholesale company and to serve as a platform for the entry into the international market of the products of the Group. In addition, the parties expect that basing on the foundation of their cooperation through the joint venture arrangement, the Group and Alliance BMP, together with the shareholders of Alliance BMP, are able to further cooperate in other areas in the course of development of their respective businesses. In the case of the Group, it may capitalize on such relationship with Alliance BMP in extending its distribution network to the European market. The Directors, including the independent non-executive Directors, consider that the Transactions are on normal commercial terms, fair and reasonable and are in the interest of the Group and the Shareholders as a whole.

FINANCIAL EFFECT OF THE TRANSACTIONS

Based on the consideration payable to Jingxiutang and Pangaoshou of RMB47,419,900 (equivalent to approximately HK\$47,562,587.76) in total under the Capital Transfer Contract, the capital contribution of RMB485,089,000 (equivalent to approximately HK\$486,548,645.94) by Alliance BMP to GP Corp. under the Capital Increase Contract and the unaudited consolidated net asset value of GP Corp. Group as at 30 June 2006 (based on PRC GAAP), the relevant preliminary capital gain before tax in relation to the Transactions is currently estimated to be of approximately RMB83,000,000.

Upon completion of the Transactions, GP Corp. will cease to be a non-wholly-owned subsidiary of the Company and will become a 50% owned joint venture of the Company and will not be consolidated into the Group's financial statements.

GENERAL

The Capital Increase constitutes a deemed disposal of the Company's equity interests in a subsidiary of the Company under Rule 14.29 of the Listing Rules. As the Capital Transfers and the Capital Increase as a whole (i) constitute a major transaction for the Company under the Listing Rules, and (ii) constitute a material dilution of the Group's equity interest in GP Corp., a major subsidiary of the Company, under Rule 19A.38 of the Listing Rules, the Company will obtain the approvals of the Transactions by a special resolution of the Shareholders at the EGM, and special resolutions of the Domestic Shareholders and the H Shareholders at separate class meetings.

To the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, Alliance BMP and its ultimate beneficial owners, are Independent Third Parties and none of the Shareholders has any material interest in the Transactions other than through their interest in the Company. No Shareholder is required to abstain from voting in respect of the proposed resolutions to approve the Transactions at the EGM and each of the class meetings of the Domestic Shareholders and the H Shareholders respectively.

A circular containing further information on the Transactions, together with a notice of each of the EGM, the H Shareholders' class meeting and the Domestic Shareholders' class meeting will be dispatched to the Shareholders, the H Shareholders and the Domestic Shareholders respectively in accordance with the requirements of the Listing Rules.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 29 January 2007 pending the release of this announcement. An application has been made to the Stock Exchange for resumption of the trading in the Shares with effect from 9:30 a.m. on 31 January 2007.

DEFINITIONS

“Adjusted Valuated NAV” the valuated net asset value of GP Corp. as at 30 September 2006 in the amount of approximately RMB563,150,000 (which was arrived at based on the asset valuation report dated 10 December 2006 prepared by Guangdong Yangcheng Certified Public Accountants Company Limited (廣東羊城會計師事務所有限公司), a qualified independent asset valuer in the PRC, and without taking into account a property (the “Property” net book value of which was approximately RMB35 million as at 30 June 2006) disposed of by GP Corp. to the Company for a consideration of approximately RMB41 million (being the market value of the Property based on the valuation prepared by Guangdong Yangcheng Assets and Land and Property Valuation Company Limited (廣東羊城資產與土地房地產估價有限公司)) after the valuation date of the net asset value of GP Corp.) being adjusted by (i) a premium of the Transactions which was agreed by the Company and Alliance BMP after arm's length negotiation, being RMB1,850,000 (which was arrived at after arm's length negotiation between the Company and Alliance BMP); and (ii) the net proceeds of approximately RMB40,000,000 in relation to the disposal of the Property by GP Corp. to the Company

“Affiliate(s)”	in respect of a party, means a company or an entity which (i) is owned and/or controlled as to over 49% interest therein by that party; or (ii) owns and/or controls, over 49% interest of that party; or (iii) is under common control with that party from time to time
“Alliance Boots”	Alliance Boots plc, a company incorporated in the United Kingdom, the ordinary shares of which are listed on the London Stock Exchange
“Alliance BMP”	Alliance BMP Limited, a company incorporated in the United Kingdom which is owned as to 80% by Alliance UniChem Group Limited, which in turn is a wholly-owned subsidiary ultimately owned by Alliance Boots and as to 20% by Beijing Med-Pharm Corporation
“Articles of Association”	the amended and restated articles of association of GP Corp. entered into between the Company and Alliance BMP
“Beijing Med-Pharm”	Beijing Med-Pharm Corporation, a company incorporated in the State of Delaware of the United States, the common shares of which are listed on the NASDAQ
“Board”	the board of Directors
“Business Day”	a day on which banks are generally open for business in the PRC and the United Kingdom, other than Saturday, Sunday and public holidays in both places
“Capital Increase”	the proposed contribution by Alliance BMP to GP Corp. of a total amount of RMB485,089,000 (equivalent to approximately HK\$486,548,645.94) under the Capital Increase Contract, of which RMB178,000,000 (equivalent to approximately HK\$178,535,606.82) will be contributed to the increased registered capital of GP Corp. and RMB307,089,000 (equivalent to approximately HK\$308,013,039.12) will be accounted for as capital surplus of GP Corp.
“Capital Increase Contract”	the capital increase contract dated 27 January 2007 and entered into between the Company and Alliance BMP in relation to the Capital Increase
“Capital Transfers”	the proposed transfers to Alliance BMP by Jingxiutang, Pangaoshou and the Individual Vendors of their respective interests in the registered capital of GP Corp., which represent approximately 3.919%, approximately 3.919% and approximately 2.072% of the equity interests therein respectively
“Capital Transfer Contract”	the capital transfer contract dated 27 January 2007 and entered into between Jingxiutang, Pangaoshou, the Individual Vendors and Alliance BMP in relation to the Capital Transfers
“Company”	Guangzhou Pharmaceutical Company Limited, a joint stock company with limited liability established in the PRC, the shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange

“Director(s)”	the directors of the Company
“Domestic Shareholders”	the holders of the domestic Shares
“EGM”	the extraordinary general meeting of the Company to be held for the purpose of approving and confirming, inter alia, the Transactions
“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 Jingxiutang, as to approximately 3.919% by Pangaoshou, and as to approximately 2.072% by the Individual Vendors as at the date of this announcement
“GP Corp. Group”	GP Corp. 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
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Shareholders”	the holders of the H Shares
“Independent Third Party(ies)”	third party(ies) which is (are) independent of the Company and connected persons of the Company and has the meaning ascribed thereto under the Listing Rules
“Individual Vendors”	33 individuals who in aggregate own approximately 2.072% interest in GP Corp., of which 32 of whom are employees / ex-employees of the Group and the remaining one, Mr. Feng Zansheng, is a Director
“Jingxiutang”	廣州敬修堂(藥業)股份有限公司 (Guangzhou Jing Xiu Tang (Pharmaceutical) Co., Ltd.), a company incorporated in the PRC which is owned as to approximately 88.40% by the Company and is principally engaged in manufacturing of Chinese patent medicine
“JV Contract”	the joint venture contract dated 27 January 2007 and entered into between the Company and Alliance BMP to regulate the affairs relating to the business and management of, as well as their respective rights and obligations as owners of the equity interests in GP Corp., upon completion of the Capital Transfers and the Capital Increase
“JV Business Licence”	the revised business licence of GP Corp. to be issued by the relevant State Administration for Industry and Commerce of the PRC following the consummation of the Transactions

“JV Establishment”	the establishment of a Sino-foreign equity joint venture of the Company and Alliance BMP by transforming GP Corp. into a Sino-foreign limited liability company upon completion of the Capital Transfers and the Capital Increase
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange and any amendments thereto
“NASDAQ”	NASDAQ Global Company
“Pangaoshou”	廣州潘高壽藥業股份有限公司 (Guangzhou Pangaoshou Pharmaceutical Co., Ltd.), a company incorporated in the PRC which is owned as to approximately 87.77% by the Company and is principally engaged in manufacturing of Chinese patent medicine
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region and Taiwan for the purpose of this announcement
“PRC GAAP”	the generally accepted accounting rules and regulations in the PRC
“Property”	Sui Kang Mansion (穗康大廈), situated at no. 82, Shang Jiu Road, Li Wan District, Guangzhou City (廣州市荔灣區上九路82號)
“Relevant Financial Assistance”	various amounts due from GP Corp. to the Group (other than GP Corp. Group) of approximately RMB212,600,000 in total as at the date of this announcement
“Relevant Guarantees”	guarantees provided or agreed to be provided by the Group (other than GP Corp. Group) in respect of banking facilities of up to RMB800,000,000 in total granted or to be granted to GP Corp. (as at the date of this announcement, banking facilities of up to RMB490,000,000 in total have been granted to GP Corp.)
“Share(s)”	the share(s) of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the Capital Transfers, the Capital Increase and the JV Establishment
“Transaction Documents”	the Capital Transfer Contract, the Capital Increase Contract, the JV Contract and the Articles of Association
“United States”	the United States of America
“Vendors”	Jingxiutang, Pangaoshou and the Individual Vendors, which are parties to the Capital Transfer Contract, pursuant to which they have agreed to sell their equity interests in GP Corp. to Alliance BMP, and the “Vendor” refers to any one of them

“HK\$” Hong Kong dollars, the lawful currency of Hong Kong

“RMB” Renminbi, the lawful currency of the PRC

In this announcement, unless otherwise specified, amounts in RMB are converted to HK\$ at a conversion rate of HK\$1.00 = RMB0.997 for the purpose of 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, 30 January 2007

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

Please also refer to the published version of this announcement in The Standard / Hong Kong Economic Times.