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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)

**FURTHER ANNOUNCEMENT
IN RELATION TO
MAJOR TRANSACTION:
DISPOSAL, DEEMED DISPOSAL AND MATERIAL DILUTION
OF
EQUITY INTEREST IN A MAJOR SUBSIDIARY**

Further to the announcement of the Company dated 30 January 2007, the Board hereby announces that the Company has determined the revised terms of the Relevant Financial Assistance and the Relevant Guarantees to GP Corp. which shall become effective upon the issuance of GP Corp's JV Business Licence and GP Corp. becoming the Company's 50% owned Sino-foreign equity joint venture limited liability company.

The Directors are of the view that the Revised terms of the Relevant Financial Assistance and the Relevant Guarantees, which have been determined based on normal commercial terms, are fair and reasonable and the continuous provision of the Relevant Financial Assistance and the Relevant Guarantees by the Group to GP Corp. after it ceasing to be the Company's subsidiary and becoming a 50% owned joint venture company of the Company are in the interest of the Group and the Shareholders as a whole.

Reference is made to the announcement of the Company dated 30 January 2007 (the "Announcement"). Terms used herein have the same meanings as those defined in the Announcement unless otherwise stated.

THE RELEVANT FINANCIAL ASSISTANCE AND THE RELEVANT GUARANTEES

As stated in the Announcement, upon completion of the Capital Transfers and the Capital Increase, GP Corp. will become the Company's 50% owned equity joint venture company, hence an affiliated company of the Company. Currently, the Group (other than GP Corp.) has been providing GP Corp. with the Relevant Financial Assistance and the Relevant Guarantees. Upon the issuance of the JV Business Licence of GP Corp. and GP Corp. becoming the Company's 50% owned joint venture company, the Relevant Financial Assistance and the Relevant Guarantees will continue to be provided by the Group under a set of revised terms ("**Revised Terms**"), details of which are set out in this announcement. The Company has agreed with Alliance BMP that the Company will continue to provide the Relevant Financial Assistance and the Relevant Guarantee under the Revised Terms to GP Corp. and relevant agreement(s) setting out the Revised Terms will be entered into between the Company and GP Corp. after issuance of the JV Business Licence to GP Corp. and GP Corp. becoming the Company's 50% owned Sino-foreign equity joint venture limited liability company.

The Group will continue to grant the Relevant Financial Assistance to GP Corp. which shall (i) amount to not more than HK\$212,660,000 (being the total amount of the Relevant Financial Assistance as at the date of this announcement); (ii) bear interests at the rate that equals to the benchmark interest rate set by The People's Bank of China ("**PBOC Interest Rate**") from time to time; (iii) be unsecured; and (iv) be for a term ending on the second anniversary of the issuance of the JV Business License.

The Company will also continue 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 until the respective expiry dates of the relevant banking facilities. As at the date of this announcement, banking facilities granted to GP Corp. in the total amount of RMB490,000,000 have been guaranteed by the Company under the Relevant Guarantees (a total of RMB220,000,000 under such banking facilities have been utilized), and the latest expiry date of such guarantees will be on 1 December 2007. The Company will also provide guarantee(s) in respect of new banking facilities, if any, of up to a total of RMB310,000,000 granted to GP Corp. before the issuance of the JV Business Licence until the expiry date(s) of those newly granted banking facility(ies), if any, under the Relevant Guarantees. The Company will not provide any new guarantees in respect of bank loans or facilities of GP Corp. Group after the issuance of the JV Business Licence and will not renew the guarantees then in effective after their expiry.

The respective maximum amounts of the Relevant Financial Assistance and the Relevant Guarantees of RMB212,660,000 and RMB800,000,000 (equivalent to approximately HK\$213,299,899.70 and HK\$802,407,221.66 respectively) mentioned above represent (i) approximately 3.89% and 14.63% of the unaudited consolidated total assets of the Group as at 30 June 2006 respectively; and (ii) 3.90% and 14.65% of the market capitalization of the Company of HK\$5,458,978,800 (based on a total of 810,900,000 Shares in issued as at the date of this announcement and the average of the closing prices of the Shares as quoted on the Stock Exchange for the five business days immediately preceding the date of this announcement, being HK\$6.732 per Share, respectively.)

The Transactions as detailed in the Announcement, the completion of which will result in GP Corp. ceasing to be the Company's subsidiary and becoming its affiliated company, together with the continuous provision of the Relevant Financial Assistance and the Relevant Guarantees constitute a major transaction for the Company under the Listing Rules. In addition, as the Relevant Financial Assistance and the Relevant Guarantees in aggregate exceed and shall exceed 8% of the unaudited consolidated total assets of the Group as at 30 June 2006, the same should also be subject to the disclosure requirement under Rule 13.13 and Rule 13.16 of the Listing Rules.

In accordance with Rule 13.13 and Rule 13.16 of the Listing Rules, details of the Relevant Financial Assistance and the Relevant Guarantees based on the Revised Terms are set out as follows:

Amount of the financial assistance (RMB)	Interest rate %	Maturity date	Notes	Guarantees given		Of which utilized (RMB)
				Facility granted (RMB)	Maturity Date	
31,000,000	PBOC Interest Rate	On the second anniversary of the date of issuance of the JV Business Licence	1 & 2	—	—	—
31,660,000	PBOC Interest Rate	On the second anniversary of the date of issuance of the JV Business Licence	1 & 2	—	—	—
50,000,000	PBOC Interest Rate	On the second anniversary of the date of issuance of the JV Business Licence	1 & 2	—	—	—
50,000,000	PBOC Interest Rate	On the second anniversary of the date of issuance of the JV Business Licence	1 & 2	—	—	—
50,000,000	PBOC Interest Rate	On the second anniversary of the date of issuance of the JV Business Licence	1 & 2	—	—	—
—	Interest free	—	1 & 3	30,000,000	March 2007	30,000,000
—	Interest free	—	1 & 3	100,000,000	December 2007	—
—	Interest free	—	1 & 3	100,000,000	November2007	60,000,000
—	Interest free	—	1 & 3	20,000,000	November2007	20,000,000
—	Interest free	—	1 & 3	50,000,000	November2007	50,000,000
—	Interest free	—	1 & 3	100,000,000	November2007	60,000,000
—	Interest free	—	1 & 3	90,000,000	November2007	—
Total: 212,660,000				Total: 490,000,000		Total: 220,000,000

Note:

1. There will be no committed capital injection to GP Corp. by the Company.
2. The Relevant Financial Assistance (i) will be unsecured; and (ii) will be repaid to the Group in cash.
3. No fees will be received by the Company in relation to the Relevant Guarantees granted.
4. Relevant Financial Assistance has the same meaning as it was defined in the Announcement, that is various amounts due from GP Corp. to the Group (other than GP Corp. Group) of approximately RMB212,660,000 in total as at the date of this announcement.

The Company will fulfil the continuing disclosure obligation under Rule 13.14, Rule 13.20 and Rule 13.22 of the Listing Rules so long as circumstances giving rise to such disclosure obligation continue to exist.

Save for the Relevant Financial Assistance and Relevant Guarantees disclosed above, the Company has not granted any other financial assistance and guarantees to other affiliated companies.

REASONS FOR AND BENEFITS OF THE ENTERING INTO THE RELEVANT FINANCIAL ASSISTANCE AND RELEVANT GUARANTEES

As present, the Company holds an effective equity interest of approximately 96.99% in GP Corp., which is a subsidiary of the Company. Upon completion of the Transactions, GP Corp. will become a 50% owned joint venture of the Company. The Directors consider that it is in the interest of the Group to ensure that GP Corp. will be transformed from a wholly Chinese-owned limited liability company into a Sino-foreign equity joint venture smoothly and the business and operation of GP Corp. will not be affected as a result of such transformation. The Directors are therefore of the view that the Group should continue to provide the Relevant Financial Assistance and the Relevant Guarantees subject to the Revised Terms, which have been determined on normal commercial terms. The Directors also consider that the Revised Terms are fair and reasonable, and the continuous provision of the Relevant Financial Assistance and the Relevant Guarantees by the Group to GP Corp. after it ceasing to be the Company's subsidiary but becoming its 50% owned joint venture company are in the interest of the Group and the Shareholders as a whole.

GENERAL

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.

As stated in the Announcement, GP Corp. is a company established in the PRC which is owned as to approximately 90.09% 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. Upon completion of the Capital Transfers and the Capital Increase, GP Corp. will become the Company's 50% owned joint venture company, hence an affiliated company of the Company. GP Corp. Group is principally engaged in trading of western pharmaceutical products and medical apparatus.

As set out in the Announcement, a circular in relation to the Transactions and the continuous provision of the Relevant Financial Assistance and the Relevant Guarantees by the Group to GP Corp., which as a whole constitute a major transaction for the Company, will be despatched to the Shareholders as soon as practicable.

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, 9 February 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.