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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 TRANSACTIONS

On 28 March 2008, the Company and GPLH entered into the Agreement, which governs the Trading Transactions (being the Purchase Transactions and the Sale Transactions) for the three financial years ending 31 December 2010.

The Trading Transactions constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As all of the applicable percentage ratios for the Agreement on an aggregated basis exceed 2.5% and the aggregated annual consideration is more than HK\$10 million, the Trading Transactions contemplated in the Agreement constitute non-exempt continuing connected transactions for the Company under the Listing Rules and are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the Independent Shareholders' approval requirements under Rules 14A.48 to 14A.54 of the Listing Rules and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules. GPLH and its associates will abstain from voting at the general meeting of the Company in relation to the Agreement and the Trading Transactions.

The Board has appointed Grand Vinco Capital Limited as the independent financial adviser to the Independent Board Committee, which shall be formed to consider the terms of the Agreement and the Trading Transactions. A circular containing, inter alia, details of the Agreement and the Trading Transactions, and the recommendation of the Independent Board Committee as well as the advice of Grand Vinco Capital Limited in relation thereto will be despatched to the Shareholders as soon as possible.

THE AGREEMENT

The Directors announce that on 28 March 2008, the Company and GPHL entered into the Agreement, pursuant to which the parties have agreed that during each of the three financial years ending 31 December 2010,

- (1) the maximum aggregate value of the Purchase Transactions shall be RMB630,000,000 (equivalent to approximately HK\$690,000,000); and
- (2) the maximum aggregate value of the Sale Transactions shall be RMB386,000,000 (equivalent to approximately HK\$423,000,000).

The Agreement is subject to the Independent Shareholders' approval by way of poll in a general meeting of the Company.

It was also set out in the Agreement that the Company and GPHL have agreed that:

- a. each Trading Transaction will be conducted (i) in the ordinary and usual course of the business of the Group; (ii) on an 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 terms available to or from (as appropriate) Independent Third Parties;
- b. the Trading Transactions will be reviewed by the independent non-executive Directors and the auditors of the Company annually, and their respective relevant reports, together with information on the Trading Transactions will be set out in the Company's next annual report following the occurrence of the relevant Trading Transactions; and
- c. GPHL will provide its relevant records for the Company's auditors during their course of review of the Trading Transactions.

REASONS FOR THE AGREEMENT

The Group, in its ordinary and usual course of business, purchases/sells pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials from/to the GPHL Group. The pharmaceutical products provided by the GPHL Group are not the same as those pharmaceutical products manufactured by the Group and are distributed by the Group through its extensive network. On the other hand, as the Group is able to source a variety of pharmaceutical raw materials and packaging materials from different markets, including Germany, the United States of America and Japan, it also re-sells those materials at a margin to other manufacturers of pharmaceutical products, including the GPHL Group. In addition, having taken into account the increased orders as a result of re-sale of pharmaceutical raw materials and packaging materials by the Group, the Directors consider that the Group's bargaining power with suppliers will be enhanced.

ANNUAL CAPS

Set out below is a summary of the Trading Transactions which took place during the three financial years ended 31 December 2007 between the Company and the GPLH Group:

Purchase Transactions

Year ended 31 December 2005		Year ended 31 December 2006		Year ended 31 December 2007		Proposed annual cap for each of the three years ending 31 December 2010
<i>RMB'000</i>	% to cost of sales (Note 1)	<i>RMB'000</i>	% to cost of sales (Note 1)	<i>RMB'000</i>	% to cost of sales (Note 1)	<i>RMB'000</i>
456,861	6.11	555,962	6.56	522,716	5.1	630,000

Sale Transactions

Year ended 31 December 2005		Year ended 31 December 2006		Year ended 31 December 2007		Proposed annual cap for each of the three years ending 31 December 2010
<i>RMB'000</i>	% to turnover (Note 2)	<i>RMB'000</i>	% to turnover (Note 2)	<i>RMB'000</i>	% to turnover (Note 2)	<i>RMB'000</i>
201,295	2.23	196,786	1.92	160,072	1.31	386,000

Notes:

1. Audited cost of sales of the Group during the financial years ended 31 December 2005, 2006 and 2007 were approximately RMB7,472,974,000, RMB8,472,228,000 and RMB10,245,291,000 respectively (the audited figures were extracted from the Company's audited accounts, which were prepared in accordance with the Hong Kong Financial Reporting Standards).
2. Audited turnover of the Group during the financial years ended 31 December 2005, 2006 and 2007 were approximately RMB9,026,340,000, RMB10,241,004,000 and RMB12,260,744,000 respectively (the audited figures were extracted from the Company's audited accounts, which were prepared in accordance with the Hong Kong Financial Reporting Standards).
3. The transaction amounts for the Purchase Transactions and Sale Transactions during the period from 1 January 2008 to 21 March 2008 were approximately RMB2,050,000 and RMB1,740,000, respectively.

The Directors estimate that in each of the three financial years ending 31 December 2010, (i) the aggregate value of the Purchase Transactions will not exceed RMB630,000,000 (equivalent to about HK\$690,000,000); and (ii) the aggregate value of the Sale Transactions will not exceed RMB386,000,000 (equivalent to about HK\$423,000,000), respectively. The basis of these values are determined with reference to (a) the respective annual values of the Purchase Transactions and Sale Transactions during each of the three years ended 31 December 2007 as shown in the tables above; (b) the anticipated growth in the respective aggregate values of the Purchase Transactions and the Sale Transactions since it is expected that the business of the Group, inter alia, the export of the Group's products, will further grow during the three years ending 31 December 2010, hence it is expected that the respective volumes of purchases and sales of pharmaceutical products, pharmaceutical raw materials and medical apparatus to be made by the Group from/to the GPL Group will increase; (c) the parties' intention that the Group will act as the integrated purchasing platform for the purpose of strengthening the parties' bargaining power with the suppliers; and (d) the anticipated inflation in the PRC and other countries in the coming future.

The Directors, including the independent non-executive Directors, consider that the Trading Transactions will be conducted in the ordinary and usual course of the business of the Group. In addition, each Trading Transaction will be negotiated on an arm's length basis and will be conducted on normal commercial terms and on terms to the Group no less favourable than those available to or from (as appropriate) Independent Third Parties. Therefore, the Directors, including the independent non-executive Directors, consider that the terms of the Trading Transactions are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Trading Transactions between the Group and the GPL Group constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As all of the applicable percentage ratios for the Agreement on an aggregated basis exceed 2.5% and the aggregated annual consideration is more than HK\$10 million, the Trading Transactions contemplated in the Agreement constitute non-exempt continuing connected transactions for the Company under the Listing Rules and is subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the Independent Shareholders' approval under Rules 14A.48 to 14A.54 of the Listing Rules at the Company's general meeting and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 to 14A.41 of the Listing Rules. GPL and its associates will abstain from voting at the general meeting of the Company in relation to the Agreement and the Trading Transactions.

Accordingly, upon obtaining the Independent Shareholders' approval of the Agreement, together with the Trading Transactions contemplated thereunder, by way of poll in a general meeting of the Company, the Company will comply with the following requirements in relation to the Trading Transactions:

- (a) the Trading Transactions shall be entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) 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 terms available to or from (as appropriate) Independent Third Parties; and
 - (iii) in accordance with the terms of the agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) details of the Trading Transactions, including the transaction dates, the parties to the transactions and a description of their connected relationship, a brief description of the transactions and their purpose, the total consideration and terms of the transactions, and the nature and extent of the connected persons' interest in the transactions, shall be disclosed in the Company's next annual reports and accounts following the occurrence of the transaction in accordance with Rule 14A.45 of the Listing Rules;
- (c) the Company's independent non-executive Directors shall review annually the Trading Transactions and confirm in the Company's next annual reports following the occurrence thereof that the Trading Transactions have been conducted in the manner as stated in paragraphs (a) and (b) above, and if, for whatever reasons, the Company's independent non-executive Directors decline or are unable to provide the confirmation mentioned in this paragraph, the Directors shall notify the Stock Exchange promptly and an announcement shall be published by the Company as soon as practicable;
- (d) the Company's auditors shall review the Trading Transactions annually, and provide the Board with a letter confirming that:
 - (i) the Trading Transactions have received the approval of the Directors;
 - (ii) the aggregate amount of the Purchase Transactions and the aggregate amount of the Sale Transactions during each of the financial year ending 31 December 2010 have not exceeded the respective annual caps of RMB630,000,000 (equivalent to approximately HK\$690,000,000) and RMB386,000,000 (equivalent to approximately HK\$423,000,000);

- (iii) the Trading Transactions have been entered into in accordance with the terms of the relevant agreements governing the transactions;
- (iv) the Sale Transactions are conducted in accordance with the pricing policies of the Company;

and the Directors must state in the annual report whether the Company's auditors have confirmed the matters stated in this paragraph. If, for whatever reasons, the Company's auditors decline to accept the engagement or are unable to provide the auditors' letter, the Directors shall notify the Stock Exchange promptly and an announcement shall be published by the Company as soon as practicable; and

- (e) GPHL shall provide the Company with an undertaking that, for so long as the Shares are listed on the Stock Exchange and GPHL remains as a substantial shareholder (has the meaning ascribed thereto under the Listing Rules) of the Company, it will provide the Company's auditors with full access to its relevant records to carry out the auditors' review of the Trading Transactions.

In the event that any of the respective annual caps applicable to the Purchase Transactions and the Sale Transactions as stated above is exceeded or if the Group enters into any new agreement relating to any continuing connected transactions with any connected persons in the future, the Company must re-comply with Rules 14A.35(3) and 14A.35(4) of the Listing Rules dealing with continuing connected transactions.

The Board has appointed Grand Vinco Capital Limited as the independent financial adviser to the Independent Board Committee, which shall be formed to consider the terms of the Agreement and the Trading Transactions. A circular containing, inter alia, details of the Agreement and the Trading Transactions, and the recommendation of the Independent Board Committee as well as the advice of Grand Vinco Capital Limited in relation thereto will be despatched to the Shareholders as soon as possible.

GENERAL

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.

GPHL is a state-owned enterprise in the PRC. GPHL is principally engaged in the development, manufacture and trading of pharmaceutical products. GPHL is the controlling Shareholder holding approximately 47.77% of the total issued share capital of the Company.

DEFINITIONS

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

“Agreement”	the agreement dated 28 March 2008 entered into by the Company and GPLH in relation to the Trading Transactions
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“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 of Hong Kong Limited and the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“GPLH”	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 which currently holds approximately 47.77% shareholding interest in the Company
“GPLH Group”	GPLH and its subsidiaries and their respective associates, other than the Group
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company to be formed to consider the terms of the Agreement
“Independent Shareholders”	Shareholders other than GPLH and its associates
“Independent Third Party”	a person or entity who/which is not a connected person of the Company

“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	The People’s Republic of China
“Purchase Transactions”	purchases of pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials by the Group from the GPHL Group which are regarded as continuing connected transactions under the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Transactions”	sales of pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials by the Group to the GPHL Group which are regarded as continuing connected transactions under the Listing Rules
“Shareholders”	holders of shares of RMB1 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Trading Transactions”	the Purchase Transactions and the Sale Transactions
“%”	per cent

In this announcement, unless otherwise specified, amounts in RMB are converted to HK\$ at a conversion rate of HK\$1.00=RMB0.9131 for illustration purposes 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, 28 March 2008

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Shi Shaobin and Mr. Feng Zansheng as executive Directors, and Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua as independent non-executive Directors.