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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

References are made to the announcement and circular of the Company dated 28 March 2008 and 14 April 2008 respectively in relation to the Agreement which will be expiring on 31 December 2010.

As the Trading Transactions (being the Purchase Transactions and the Sale Transactions) pursuant to the Agreement are expected to continue after the expiration, the Company, on 28 October 2010, entered into the New Agreement in relation to the Trading Transactions for a term of three years from 1 January 2011 to 31 December 2013 with GPHL.

As each of the applicable percentage ratios for the Trading Transactions, on an annual basis, exceed 5% and the annual caps for the Trading Transactions are more than HK\$10,000,000, the Trading Transactions constitute non-exempt continuing connected transactions and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

The approval of the Independent Shareholders will be sought at the EGM by way of poll in respect of the New Agreement and the Trading Transactions contemplated thereunder. GPHL and its associates will abstain from voting at the EGM of the Company in relation to the New Agreement and the Trading Transactions.

Grand Vinco Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee (which will be formed and will comprise all independent non-executive Directors) and the Independent Shareholders to consider the terms of the New Agreement and the Trading Transactions. The Circular containing, inter alia, details of the New Agreement and the Trading Transactions, the recommendations of the Independent Board Committee and the advice of Grand Vinco Capital Limited in relation to the New Agreement and the Trading Transactions will be despatched to the Shareholders on or before 18 November 2010.

## **INTRODUCTION**

References are made to the announcement and circular of the Company dated 28 March 2008 and 14 April 2008 respectively in relation to the Agreement which will be expiring on 31 December 2010.

As the Trading Transactions (being the Purchase Transactions and the Sale Transactions) pursuant to the Agreement are expected to continue after the expiration, the Company, on 28 October 2010, entered into the New Agreement in relation to the Trading Transactions for a term of three years from 1 January 2011 to 31 December 2013 with GPLH.

## **THE NEW AGREEMENT**

Date: 28 October 2010

Parties: The Company and GPLH

Pursuant to the New Agreement, the parties thereto have agreed that during each of the three financial years ending 31 December 2013:

- (1) the maximum aggregate value of the Purchase Transactions shall be RMB450,000,000 (equivalent to approximately HK\$525,455,395); and
- (2) the maximum aggregate value of the Sale Transactions shall be RMB650,000,000 (equivalent to approximately HK\$758,991,126).

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

- (a) each of the Trading Transactions 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 no less favourable to the Group 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) GPLH will provide its relevant records for the Company's auditors during their course of review of the Trading Transactions.

## ANNUAL CAPS

Set out below is a summary of the Trading Transactions, which took place during each of the two financial years ended 31 December 2009 and the six months ended 30 June 2010 between the Group and the GPLH Group:

### Trading Transactions

	Year ended 31 December 2008		Year ended 31 December 2009		Six months ended 30 June 2010		Proposed annual cap for each of the three years ending 31 December 2013
<b>Purchase Transactions</b>	RMB'000	% to cost of sales (Note 1)	RMB'000	% to cost of sales (Note 1)	RMB'000	% to cost of sales (Note 1)	RMB'000
	152,249	6.22	145,664	5.22	104,775	6.28	450,000
<b>Sale Transactions</b>	RMB'000	% to turnover (Note 2)	RMB'000	% to turnover (Note 2)	RMB'000	% to turnover (Note 2)	RMB'000
	204,027	5.91	158,187	4.16	126,387	5.54	650,000

#### Notes:

1. Cost of sales of the Group during the financial years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 were approximately RMB2,446,620,000, RMB2,791,437,000 and RMB1,667,490,000 respectively (the audited figures for the years ended 31 December 2008 and 2009 were extracted from the Company's audited accounts for the two years ended 2009 and the unaudited figure for the six months ended 30 June 2010 was extracted from the Company's unaudited accounts for the six months ended 30 June 2010, which were prepared in accordance with the Hong Kong Financial Reporting Standards).
2. Turnover of the Group during the financial years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 were approximately RMB3,450,586,000, RMB3,802,423,000 and RMB2,282,766,000 respectively (the audited figures for the years ended 31 December 2008 and 2009 were extracted from the Company's audited accounts for the two years ended 2009 and the unaudited figure for the six months ended 30 June 2010 was extracted from the Company's unaudited accounts for the six months ended 30 June 2010, which were prepared in accordance with the Hong Kong Financial Reporting Standards).

The basis of the above annual caps for the three financial years ending 31 December 2013 are determined with reference to (i) the respective historical values of the Purchase Transactions and the Sale Transactions during each of the two years ended 31 December 2009 and the six months ended 30 June 2010 as shown in the table above; (ii) the anticipated growth in the respective aggregate values of the Purchase Transactions and the Sale Transactions, due to the expected growth in the Group's business over the three years ending 31 December 2013 and increasing sales in the products of the GPLH Group as the Group utilizes its extensive distribution network; and (iii) the anticipated inflation in the PRC and other countries in the coming future.

## **REASONS FOR THE NEW AGREEMENT**

The Group, in its ordinary and usual course of business, purchases and/or sells pharmaceutical products, pharmaceutical raw materials, medical apparatus and packaging materials from or to the GPLH Group. The pharmaceutical products provided by the GPLH 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 and Japan, it also re-sells those materials at a margin to other manufacturers of pharmaceutical products, including the GPLH 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.

The Directors, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in the Circular, consider that the Trading Transactions will be (i) conducted in the ordinary and usual course of the business of the Group; (ii) negotiated on an arm's length basis; and (iii) 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, other than the independent non-executive Directors, consider that the terms (including the annual caps) of the New Agreement and the Trading Transactions are fair and reasonable so far as the Shareholders are concerned and the Trading Transactions are in the interests of the Group and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

GPLH is a substantial shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. As each of the applicable percentage ratios for the Trading Transactions, on an annual basis, exceed 5% and the annual caps for the Trading Transactions are more than HK\$10,000,000, the Trading Transactions constitute non-exempt continuing connected transactions and are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules.

In the event that the annual caps to the Trading Transactions as stated above are exceeded or if the New Agreement is renewed or there is a material change to its terms, the Company must re-comply with Rules 14A.35(3) and 14A.35(4) of the Listing Rules dealing with continuing connected transactions.

The approval of the Independent Shareholders will be sought at the EGM by way of poll in respect of the New Agreement and the Trading Transactions contemplated thereunder. GPLH and its associates will abstain from voting at the EGM of the Company in relation to the New Agreement and the Trading Transactions.

Grand Vinco Capital Limited has been appointed as the independent financial adviser to the Independent Board Committee (which will be formed and will comprise all independent non-executive Directors) and the Independent Shareholders to consider the terms of the New Agreement and the Trading Transactions. The Circular containing, inter alia, details of the New Agreement, the recommendations of the Independent Board Committee and the advice of Grand Vinco Capital Limited in relation to the New Agreement and the Trading Transactions will be despatched to the Shareholders on or before 18 November 2010.

## **GENERAL**

The Group is principally engaged in (i) the manufacture and sales of Chinese patent medicine, research and development of natural medicine and biological medicine; and (ii) wholesale, retail, import and export of Western and Chinese pharmaceutical products and various medical apparatus.

GPLH is a state-owned enterprise in the PRC. GPLH is principally engaged in the development, manufacture and trading of pharmaceutical products. GPLH is the controlling Shareholder holding approximately 48.20% 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 for the three years ending 31 December 2010
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of the Directors
“Circular”	the circular containing, inter alia, details of the New Agreement, the recommendations of the Independent Board Committee and the advice of Grand Vinco Capital Limited in relation to the New Agreement and the Trading Transactions will be despatched to the Shareholders on or before 18 November 2010

“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 person(s)”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“EGM”	extraordinary general meeting of the Company to be held to approve the New Agreement and the Trading Transactions
“Group”	the Company and its subsidiaries
“GPHL”	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 48.20% shareholding interest in the Company
“GPHL Group”	GPHL 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 New Agreement and the Trading Transactions
“Independent Shareholders”	Shareholders other than GPHL 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
“New Agreement”	the agreement dated 28 October 2010 entered into by the Company and GPHL in relation to the Trading Transactions for the three years ending 31 December 2013
“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 GPLH 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 GPLH Group which are regarded as continuing connected transactions under the Listing Rules
“Shareholders”	holders of shares of RMB1.00 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 = RMB0.8564 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.*

The Board of  
**Guangzhou Pharmaceutical Company Limited**

Guangzhou, the PRC, 28 October 2010

*As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Li Chuyuan, Mr. Shi Shaobin and Mr. Wu Changhai as executive directors, and Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong as independent non-executive directors.*