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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Guangzhou Pharmaceutical Company Limited (the “Company”), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
AND  
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF  
ASSOCIATION**

**Independent financial adviser to the Independent Board Committee  
and the Independent Shareholders**

**VINCO** 城高

**Grand Vinco Capital Limited**

*(a wholly-owned subsidiary of Vinco Financial Group Limited)*

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A letter from the independent board committee (the “Independent Board Committee”) of the Company is set out on page 12 of this circular.

A letter from Vinco Capital containing its advice to the Independent Board Committee is set out on pages 13 to 23 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC, at 10:00 a.m. on 30 December 2010 is despatched to the shareholders of the Company with this circular.

Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 24 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

15 November 2010

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## DEFINITIONS

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

“A Share(s)”	Renminbi-denominated domestic share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each
“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
“Articles of Association”	the existing articles of association of the Company
“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 person(s)”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company convened to be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou, PRC at 10:00 a.m. on 30 December 2010 for the purposes of, inter alia, considering and, if thought fit, passing (i) the ordinary resolution in relation to the approval of the New Agreement together with the transactions contemplated thereunder, including the Trading Transactions; and (ii) the special resolution in relation to the proposed amendments to the Articles of Association
“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 48.20% shareholding interest in the Company

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## DEFINITIONS

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“GPHL Group”	GPHL and its subsidiaries, together with their respective associates, other than the Group
“H Share(s)”	overseas listed foreign share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
“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
“Latest Practicable Date”	10 November 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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
“percentage ratios”	has the meaning ascribed thereto under the Listing Rules
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“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

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## DEFINITIONS

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“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws in Hong Kong)
“Share(s)”	share(s) of RMB1.00 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Trading Transactions”	the Purchase Transactions and the Sale Transactions
“Vinc Capital”	Grand Vinc Capital Limited, a wholly-owned subsidiary of Vinc Financial Group Limited (Stock Code: 8340), a licensed corporation which is engaged in types 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities under the SFO and is the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on the terms of the New Agreement and the Trading Transactions
“%”	per cent.

*In this circular, unless otherwise specified, amounts in Renminbi are converted to Hong Kong dollars at a conversion rate of HK\$1.00=RMB0.8564 for illustration purposes only. No representation is made that any amounts in Renminbi or Hong Kong dollars could have been or could be converted at such rate or any other rates.*

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LETTER FROM THE BOARD

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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)

*Executive Directors*

Mr. YANG Rongming  
Mr. LI Chuyuan  
Mr. SHI Shaobin  
Mr. WU Changhai

*Registered office and*

*principal place of business*  
45 Sha Mian North Street  
Liwan District, Guangzhou City  
Guangdong Province, the PRC

*Independent non-executive Directors*

Mr. LIU Jinxiang  
Mr. LI Shanmin  
Mr. ZHANG Yonghua  
Mr. WONG Lung Tak Patrick  
Mr. QIU Hongzhong

*Place of business in Hong Kong*

Room 2005, 20th Floor  
Tower Two, Lippo Center  
89 Queensway  
Hong Kong

*Supervisors*

Ms. YANG Xiuwei  
Mr. WU Quan  
Mr. ZHONG Yugan

15 November 2010

*To the Shareholders*

Dear Sir or Madam,

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
AND  
(2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 28 October 2010 in relation to the execution of the New Agreement by the Company and GPLH for the purpose of renewing the Trading Transactions for the period from 1 January 2011 to 31 December 2013.

GPLH is the controlling Shareholder which currently holds approximately 48.20% shareholding interest in the Company. The Trading Transactions constitute non-exempt continuing connected transactions of the Company and are subject to reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules. A resolution in relation to the approval of the New Agreement and the

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## LETTER FROM THE BOARD

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Trading Transactions contemplated thereunder is proposed to be considered and, if thought fit, passed at the EGM. GPHL and its associates will abstain from voting at the EGM in relation to the New Agreement and the Trading Transactions. The Independent Board Committee which comprises all independent non-executive Directors, namely Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, has been formed to consider the terms of the New Agreement and the Trading Transactions and to give relevant recommendations to the Independent Shareholders. As at the Latest Practicable Date, each of the members of the Independent Board Committee does not have any interest in the Trading Transactions. Vinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the New Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and whether the Trading Transactions are in the interests of the Company and the Shareholders as a whole.

Reference is also made to the announcement of the Company dated 27 August 2010 in relation to, inter alia, the proposed amendments to the Articles of Association.

The EGM is proposed to be held at 10:00 a.m. on 30 December 2010 at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou, PRC for the purposes of, inter alia, considering and, if thought fit, approving (i) the New Agreement and the Trading Transactions; and (ii) the proposed amendments to the Articles of Association. The purposes of this circular are (i) to provide you with details of the terms of the New Agreement and the Trading Transactions, and details of the proposed amendments to the Articles of Association; (ii) to set out the respective letters from the Independent Board Committee and Vinco Capital which set out their advices and recommendations in relation to the terms of the New Agreement and the Trading Transactions; (iii) to give you information on the Group; and (iv) to set out the notice of the EGM.

## II. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

### 1. The New Agreement

On 28 October 2010, the Company and GPHL entered into the New Agreement, pursuant to which the parties have agreed that during each of the three financial years ending 31 December 2013:

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

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## LETTER FROM THE BOARD

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It was also set out in the New Agreement that the Company and GPHL 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) GPHL will provide its relevant records for the Company's auditors during their course of review of the Trading Transactions.

### **2. 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 GPHL Group (i.e. the Purchase Transactions and Sale Transactions). The Purchase Transactions accounted for approximately 8.34% and 5.22% of the total cost of sales of the Group for the years ended 31 December 2008 and 31 December 2009 respectively, and approximately 6.28% of the total cost of sales of the Group for the six months ended 30 June 2010; the Sale Transactions accounted for approximately 4.41% and 4.16% of the sales of the Group for the years ended 31 December 2008 and 31 December 2009 respectively, and approximately 5.54% of the sales of the Group for the six months ended 30 June 2010. Other than the Trading Transactions, purchase and sale transactions of the Group are mainly conducted with Independent Third Parties. As such, the Directors consider that there are sufficient comparable transactions to determine whether the Trading Transactions are conducted on normal commercial terms. 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 and Japan, it also re-sells those materials at a margin to other manufacturers of pharmaceutical products, including the GPHL Group. By taking into account re-sale of pharmaceutical raw materials and packaging materials by the Group to the GPHL Group, both the Group and the GPHL Group will benefit from the synergy effect and the advantages of economy of scales resulting from the increased orders or production of certain pharmaceutical products and raw materials by the Group. On the other hand, the Group and the GPHL Group, when consider appropriate, are free to enter into transactions similar to the Trading Transactions with other parties.

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## LETTER FROM THE BOARD

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The Agreement which currently govern the Trading Transactions will expire on 31 December 2010. As the Trading Transactions are expected to continue after 31 December 2010, the Company and GPLH 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.

### 3. 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 financial years ending 31 December 2013
<b>Purchase Transactions</b>	RMB'000 (Note 3)	% to cost of sales (Note 1)	RMB'000 (Note 3)	% to cost of sales (Note 1)	RMB'000 (Note 3)	% to cost of sales (Note 1)	RMB'000
	204,027	8.34	145,664	5.22	104,775	6.28	450,000
<b>Sale Transactions</b>	RMB'000 (Note 3)	% to turnover (Note 2)	RMB'000 (Note 3)	% to turnover (Note 2)	RMB'000 (Note 3)	% to turnover (Note 2)	RMB'000
	152,249	4.41	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).
3. The transaction amounts for the Purchase Transactions and Sale Transactions during each of the two years ended 31 December 2009 were audited figures extracted from the notes to the Company's audited accounts and the transaction amounts for the Purchase Transactions and Sale Transactions during the six months ended 30 June 2010 were unaudited figures extracted from the notes to the Company's unaudited accounts, which were prepared in accordance with the Hong Kong Financial Reporting Standards.

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## LETTER FROM THE BOARD

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The basis of the respective annual caps of the Purchase Transactions and the Sale Transactions for the three financial years ending 31 December 2013 set out above 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.

#### **4. Information on the Group**

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 shareholding interest in the Company.

#### **5. Listing Rules Implications and Independent Shareholders' Approval in the EGM**

GPLH is a substantial shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Pursuant to the New Agreement, the respective maximum aggregate values of the Purchase Transactions and Sale Transactions for each of the three financial years ending 31 December 2013 shall be RMB450,000,000 (equivalent to approximately HK\$525,455,395) and RMB650,000,000 (equivalent to approximately HK\$758,991,126). On that basis, 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. Therefore, the Trading Transactions constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Trading Transactions are subject to reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules. In addition, the New Agreement and the Trading Transactions shall be approved by the Independent Shareholders by way of poll in the EGM.

In the event that the respective annual caps for the Purchase Transactions and Sale Transactions for the three financial years ending 31 December 2013 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.

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## LETTER FROM THE BOARD

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### III. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Articles of Association is now proposed to be amended in accordance with the actual situation of the Company. Reference is made to the announcement of the Company dated 27 August 2010. As set out in that announcement, the Board passed resolutions in relation to, inter alia, the proposed amendments to the Articles of Association.

The proposed amendments to the Articles of Association are subject to the approval of the Shareholders by way of special resolutions at the EGM. Details of the proposed amendments are set out in Appendix I to this circular.

### IV. RECOMMENDATIONS

The Independent Board Committee, comprising Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, the independent non-executive Directors, has been formed to consider the terms of the New Agreement and the Trading Transactions and to give relevant recommendations to the Independent Shareholders. Vinco Capital has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders to advise on whether the terms of the New Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and whether the Trading Transactions are in the interests of the Company and the Shareholders as a whole.

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 12 of this circular which contains its recommendation to the Independent Shareholders; and (ii) the letter from Vinco Capital set out on pages 13 to 23 of this circular which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the terms of the New Agreement and the Trading Transactions.

The Independent Board Committee, after taking into account the advice and recommendation from Vinco Capital, has come to the view that the terms of the New Agreement together with the transactions contemplated thereunder (including the Trading Transactions) are fair and reasonable so far as the Independent Shareholders are concerned and the Trading Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote for the resolution to be proposed at the EGM to approve the New Agreement and the Trading Transactions.

With regard to the proposed amendments to the Articles of Association, the Board considers that such amendments are required for the Company's business and operations, and are in the interests of the Company and the Shareholders as a whole, and recommends the Shareholders to vote for the special resolutions to be proposed at the EGM to adopt the amendments to the Articles of Association.

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## LETTER FROM THE BOARD

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### V. EGM

The EGM will be held at the Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou, PRC at 10:00 a.m. on 30 December 2010. A notice convening the EGM is set out in pages 30 to 34 of this circular. The relevant proxy form is also enclosed herewith.

Whether or not Shareholders are able to attend the EGM in person, they are requested to complete and return the proxy form in accordance with the instructions printed thereon as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the EGM. Completion and return of the proxy form will not preclude Shareholders from attending and voting at the EGM or any adjournment thereof in person, if they so wish.

Pursuant to Article 69 of the Articles of Association of the Company, a resolution put to the vote of a general meeting of the Shareholders shall be determined in the first instance by a show of hands of the Shareholders present in person or by proxy, but a poll may be demanded (before or after the vote by a show of hands) by:

- (a) the chairman of such meeting; or
- (b) at least two Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) a Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting.

The demand for a poll may be withdrawn by the person(s) who made the demand.

In accordance with the requirement of the Listing Rules, the resolution to be proposed at the EGM to approve the New Agreement and the Trading Transactions will be determined by way of a poll. The result of the poll will be published in the newspapers on the next business day following the EGM.

As at the Latest Practicable Date, GPLH held a total of 390,833,391 Shares, representing approximately 48.20% of the shareholding interest in the Company. GPLH and its associates will abstain from voting at the EGM of the Company in relation to the New Agreement and the Trading Transactions. None of the Directors have a material interest in the Trading Transactions. In addition, Mr. Yang Rongming, Mr. Li Chuyuan and Mr. Shi Shaobin, directors of both the Company and GPLH, abstained from voting on the board resolution approving the New Agreement and the Trading Transactions in the Board meeting held on 28 October 2010.

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## LETTER FROM THE BOARD

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### VI. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully  
For and on behalf of the Board  
**Yang Rongming**  
*Chairman*



# 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)

15 November 2010

*To the Independent Shareholders*

Dear Sir and Madam,

## RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular of the Company dated 15 November 2010 (“the Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider the terms of the New Agreement and the transactions contemplated thereunder, including the Trading Transactions, and to advise the Independent Shareholders as to (i) the fairness and reasonableness of the terms of the New Agreement and the Trading Transactions; and (ii) whether the Trading Transactions are in the interests of the Company and the Shareholders as a whole. Details of the terms of the New Agreement and the Trading Transactions are set out in the “Letter from the Board” on pages 4 to 11 of the Circular.

Vinco Capital has been appointed as our independent financial adviser to advise the Independent Shareholders and us on the terms of the New Agreement and the Trading Transactions. Details of the relevant advice and recommendation of Vinco Capital, together with the principal factors and reasons taken into account by it in arriving at its advice and recommendation, are set out on pages 13 to 23 of the Circular.

Having taken into account the advice and recommendation of Vinco Capital, we consider that the terms of the New Agreement and the Trading Transactions are fair and reasonable so far as the Independent Shareholders are concerned and the Trading Transactions are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote for the resolution in relation to the New Agreement and the transactions contemplated thereunder, including the Trading Transactions, at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**LIU**  
**Jinxiang**

**LI**  
**Shanmin**

**ZHANG**  
**Yonghua**

**WONG**  
**Lung Tak Patrick**

**QIU**  
**Hongzhong**

*Independent non-executive Directors*

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## LETTER FROM VINCO CAPITAL

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*The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in connection with the New Agreement and the Trading Transactions contemplated thereunder which has been prepared for the purpose of incorporation in this circular:*



**Grand Vinco Capital Limited**  
Units 4909-4910, 49/F., The Center  
99 Queen's Road Central, Hong Kong

15 November 2010

*To the Independent Board Committee and the Independent Shareholders of  
Guangzhou Pharmaceutical Company Limited*

Dear Sirs,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the New Agreement and the Trading Transactions, details of which are set out in the "Letter from the Board" of the circular of the Company dated 15 November 2010 ("Circular") to the Shareholders, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

On 28 October 2010, the Company 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. Pursuant to the New Agreement, the parties thereto have agreed that the maximum aggregate value of the Purchase Transactions and the Sale Transactions during each of the three financial years ending 31 December 2013 shall be RMB450,000,000 (equivalent to approximately HK\$525,455,395) and RMB650,000,000 (equivalent to approximately HK\$758,991,126). 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.

GPLH is a state-owned company incorporated in the PRC and the controlling Shareholder of the Company holding approximately 48.20% of the shareholding interest in the Company. Thus, GPLH is a connected person of the Company under the Listing Rules and the Trading Transactions constitute non-exempt continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The New Agreement and the Trading Transactions contemplated thereunder are subject to the approval of the Independent Shareholders at EGM of the Company and GPLH and its associates are required to abstain

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## LETTER FROM VINCO CAPITAL

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from voting at the EGM in relation to the New Agreement and the Trading Transactions. None of the Directors have a material interest in the Trading Transactions. In addition, Mr. Yang Rongming, Mr. Li Chuyuan and Mr. Shi Shaobin, directors of both the Company and GPHL, abstained from voting on the board resolution approving the New Agreement and the Trading Transactions in the Board meeting held on 28 October 2010.

The Independent Board Committee comprising Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders on the terms of the New Agreement and the Trading Transactions. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the New Agreement and the Trading Transactions. In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purposes of the Listing Rules, our role is to give you an independent opinion as to whether the terms of the New Agreement and the Trading Transactions are on normal commercial terms, in the ordinary course of business, fair and reasonable and whether the Trading Transactions are in the interests of the Company and the Shareholders as a whole.

### **BASIS OF OUR OPINION AND RECOMMENDATION**

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

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## LETTER FROM VINCO CAPITAL

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Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the New Agreement and the Trading Transactions contemplated thereunder as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the New Agreement and the Trading Transactions contemplated thereunder and, except for its inclusion in the Circular and for the purpose of the EGM, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions under the New Agreement and the Trading Transactions, we have considered the following principal factors and reasons:

#### 1. Background of the continuing connected transactions

The Company and GPLH entered into the Agreement, which will be expired on 31 December 2010. Since the Trading Transactions are expected to continue after 31 December 2010, the New Agreement was entered on 28 October 2010. Pursuant to the New Agreement, the parties have agreed that during each of the three financial years ending 31 December 2013, (i) the maximum aggregate value of the Purchase Transactions shall be RMB450,000,000 (equivalent to approximately HK\$525,455,395); and (ii) the maximum aggregate value of the Sale Transactions shall be RMB650,000,000 (equivalent to approximately HK\$758,991,126).

#### *Information of the Company*

	For the six months ended 30 June		For the year ended 31 December	
	2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)	2009 RMB'000 (Audited)	2008 RMB'000 (Audited)
Revenue	2,282,766	1,903,008	3,802,423	3,450,586

As calculated from the above table, the Group's revenue for the year ended 31 December 2009 increased by approximately 10.20% as compared with that for the year ended 31 December 2008. The increase in the revenue of the Group demonstrates that the Group manages to maintain a reasonable growth in the year of 2009 after the global financial crisis. It is reasonable to expect that the growth rate of the Group's revenue will be further increased in view of the worldwide economic recovery in the year of 2010 and thereafter. In order to assess the reasonableness of the proposed annual caps in 2011, 2012 and 2013, we have considered different factors for the proposed annual caps, which have been stated below.

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## LETTER FROM VINCO CAPITAL

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### 2. Reasons for the continuing connected transactions

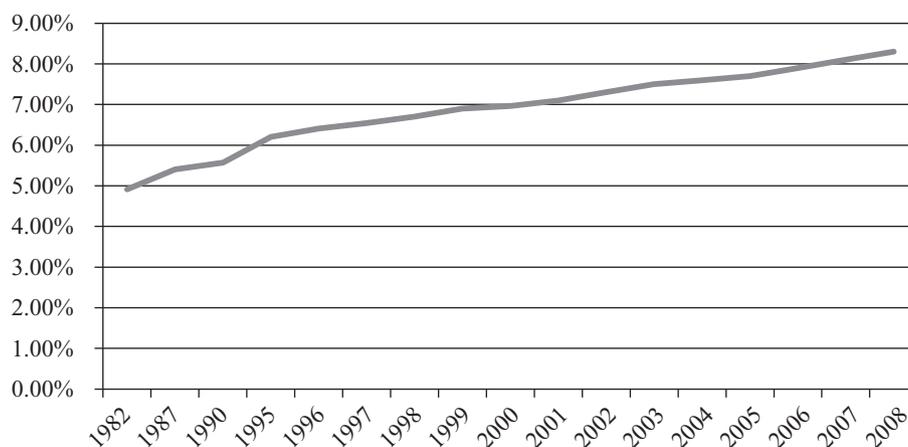
The Group is principally engaged in (i) the manufacture and sale of Chinese patent medicine, research and development of natural medicine and biological medicine; and (ii) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

GPHL is a state-owned enterprise in the PRC which is principally engaged in the development, manufacture and trading of pharmaceutical products. As GPHL is the controlling Shareholder of the Company holding approximately 48.20% of the shareholding interests in the Company as at the Latest Practicable Date, the Trading Transactions between the Group and the GPHL Group constitute non-exempt continuing connected transactions for the Company under the Listing Rules.

As set out in the Letter from the Board, 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. Additionally, 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 GPHL Group.

In addition, the aging population problem becomes serious in accordance with the China Statistics Yearbook 2009. The table below shows the portion of the population over aged sixty-five to the total population of the PRC from 1982 till 2008:

**Aging Population Trend**



Source: China Statistic Yearbook 2009

From the table above, we noted that the aging population was under a growing trend during the years from 1982 to 2008, represented by from 4.91% to 8.30% respectively. The aging population problem has caused the PRC government to emphasize its policies in the

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## LETTER FROM VINCO CAPITAL

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protection of the medical treatment to the public, which enhanced the public awareness in this regard. In 2009, the PRC government had announced a new medical reform. The reform targeted at (i) providing the medical treatments as public goods so that the public may enjoy the fundamental medical treatment, instead of spending a great deal of money on consultation of doctors; (ii) enhancing the coverage of medical insurance to cover 90% of the total population in the PRC within 3 years; and (iii) establishing equipped medical treatment and hygiene systems to provide with the public a safe, effective, convenient and low cost medical services in both rural and urban areas. We also noted that medical reform would be one of the major topic to be addressed by the PRC government in the twelfth five-year plan (the “Plan”). The Plan outlines that retirement and medical systems in both rural and urban areas will be one of the major issues due to the aging population problem and the public awareness of their health conditions. In order to provide all population in the PRC a fundamental medical treatment in both rural and urban areas, the Plan also suggested (i) the provision of the medical systems as public goods to all the public; (ii) the enhancement of the medical standards in both rural and urban areas; (iii) the development of the medical protection systems to the public especially to the population in rural areas; and (iv) the refinement of the systems of public hospitals to have synergies effects. Since the Group’s business strategy is in line with the PRC government policies, the proposed annual caps are accordingly required to rise for satisfying the expected increase in demand for the pharmaceutical products.

On the other hand, State Food and Drug Administration (國家食品藥品監督管理局) has imposed additional rules and regulations on Management of Pharmaceutical Products (藥品管理法) to govern pharmaceutical industry in the PRC, including a detail disclosure of the descriptions of the pharmaceutical products and the tight supervisions on the sales of pharmaceutical products, which regulations will improve the quality of the pharmaceutical products. As a result of the adoption of the new rules and regulations on Management of Pharmaceutical Products, small-scaled pharmaceutical companies without strong financial position will then be eliminated and the market share of the Company will improve. Thus, we concur with the Directors’ view that it is necessary to increase the annual caps for the Trading Transactions to accommodate the expected increase in sales and enhance the bargaining power with suppliers. It was also set out in the terms of the New Agreement, the Trading Transactions will be conducted on terms no less favorable to the Group than terms available to or from (as appropriate) Independent Third Parties.

According to the report of the Board from the annual report for the year ended 31 December 2008, the Company’s auditors confirmed that the continuing connected transactions, which include the Trading Transactions carried out under the Agreement dated 28 March 2008 between the Company and GPLH, were, among others things, entered into in accordance with the relevant pricing policies and the terms of the relevant agreements governing the Trading Transactions. The entering into the New Agreement is in line with the Company’s intention of expanding its business to become one of the leading pharmaceutical developers in the PRC. Further, as the Trading Transactions being set out in the New Agreement is intended to capture mainly sale and purchase of pharmaceutical products or the related raw materials, we are of the opinion that the Trading Transactions are in line with the intention of the Company and are entered into under the ordinary and usual course of business of the Group. As such, we are of the view that the revision of the annual caps is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM VINCO CAPITAL

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### 3. Terms of the New Agreement and the Trading Transactions

Since the Trading 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. 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.

Save as the above and after our discussion with the Directors, we understood that (i) the Directors would also make their best endeavor to ensure that the Trading Transactions would be entered into on terms no less favorable to the Group than terms available to or from Independent Third Parties; (ii) the Directors ensure that the purchase prices and the selling prices will be set at market price; and (iii) the Company ensures that the Trading Transactions would be reviewed by independent non-executive Directors and auditors annually. Based on the foregoing, we are of the view that the terms of the New Agreement and the Trading Transactions are fair and reasonable and the Trading Transactions are in the interests of the Company and the Shareholders as a whole.

### 4. The proposed annual caps

#### *Historical annual caps*

Pursuant to the New Agreement, the respective maximum aggregate values of the Purchase Transactions and the Sale Transactions during each of the three financial years ending 31 December 2013 between the Company and the GPLH Group were RMB450,000,000 (equivalent to approximately HK\$525,455,395) and RMB650,000,000 (equivalent to approximately HK\$758,991,126). The table below sets out the historical annual amounts and the utilisation rates (as compared with the existing annual caps for each of the three financial years ending 31 December 2010 under the Agreement) of the Trading Transactions which took place during the respective periods:

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## LETTER FROM VINCO CAPITAL

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(a) *Purchase Transactions*

Year ended 31 December 2008 RMB'000 (approximately)		Year ended 31 December 2009 RMB'000 (approximately)		Six months ended 30 June 2010 RMB'000 (approximately)		Proposed annual cap for each of the three financial years ending 31 December 2013 RMB'000
Utilisation rate	Utilisation rate	Utilisation rate	Utilisation rate	Utilisation rate	Utilisation rate	
32.39%		23.12%		16.63%		450,000
204,027		145,664		104,775		

(b) *Sale Transactions*

Year ended 31 December 2008 RMB'000 (approximately)		Year ended 31 December 2009 RMB'000 (approximately)		Six months ended 30 June 2010 RMB'000 (approximately)		Proposed annual cap for each of the three financial years ending 31 December 2013 RMB'000
Utilisation rate	Utilisation rate	Utilisation rate	Utilisation rate	Utilisation rate	Utilisation rate	
39.44%		40.98%		32.74%		650,000
152,249		158,187		126,387		

*Note:*

The transaction amounts for the Purchase Transactions and the Sale Transactions during the years ended 31 December 2008 and 2009 were the audited figures extracted from the Company's audited accounts for the years ended 31 December 2008 and 2009 respectively and the transaction amounts for the Purchase Transactions and the Sale Transactions during the six months ended 30 June 2010 were the unaudited figures 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.

As illustrated on the abovementioned table, the Trading Transactions did not exceed the existing annual caps granted in respect of the aforementioned continuing connected transactions for each of the two financial years ending 31 December 2009 and the six months ended 30 June 2010. We noted that the Company has utilised the historical annual caps for the Purchase Transactions with the utilisation rates, calculated by dividing the respective transaction amounts with the annual caps for the specific period, amounted to 32.39% and 23.12% in 2008 and 2009, and 16.63% for the six months ended 30 June 2010 respectively. For the Sale Transactions, we noted the transaction amounts in 2008, 2009 and 2010 were lower than the existing annual caps, the utilisation rates were 39.44% and 40.98% in 2008 and 2009, and 32.74% for the six months ended 30 June 2010 respectively. As discussed with the Directors, the low utilisation rates of the annual caps were due to (i) the existing annual caps were taken into account of the financial data of Guangzhou Pharmaceutical Corporation ("GP Corp."), which is held as to 50% by the Company, and Guangzhou Wang Lao Ji Pharmaceutical Company Limited ("Wang Lao Ji"), which is held as to 48.0465% by the Company, being joint venture companies, which were required to be excluded in the Group's consolidated financial statements, pursuant to the requirements of Accounting Standard for Business Enterprises Interpretation No. 2 promulgated by the Ministry of Finance in August 2008, therefore the contribution of GP Corp. and Wang Lao Ji were excluded from the transaction amounts shown in the table above; (ii) the deterioration of the global financial environment in the second half of 2008 which led to a substantial

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## LETTER FROM VINCO CAPITAL

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decrease in the demands for the Group's products; and (iii) the Group had adjusted the original marketing and distribution strategies and models based on the market changes since the second quarter of 2008, which had certain impact on product sales of the Company. As at the Latest Practicable Date, the Directors were of the view that the Sale Transactions are expected to increase due to the economic recovery and the completion of the adjustment of sales promotion. Further, after our discussion with the Directors, we understood that the Directors would make their best endeavor to achieve the target transaction amounts of the Company for strengthening the income base and expanding the business volume of the Company.

### *Basis of determining the Cap*

The proposed revised annual caps for the Purchase Transactions and the Sale Transactions for each of the three years ending 31 December 2013 are RMB450,000,000 (equivalent to approximately HK\$525,455,395) and RMB650,000,000 (equivalent to approximately HK\$758,991,126) respectively. We have reviewed the relevant information, including (i) the new medical reform was released by and the twelfth five-year plan will be released by the PRC government and both will boost the pharmaceutical industry; (ii) aging population problem becomes serious in the PRC which has caused the PRC government to confront with it (iii) the public awareness of the importance of medical treatment; and (iv) the existing annual caps for each of three years ending 31 December 2010 were determined after taking into consideration of the trading contributions by GP Corp. and Wang Lao Ji. We have also discussed with the Directors in relation to the assessment of the fairness and reasonableness of the proposed annual caps for the New Agreement in forming our opinion as below.

We have reviewed the amounts of Sale Transactions and the Purchase Transactions for 2010 to 2013 projected by the Company and its underlying assumptions. After discussion with the Directors, we understood that the proposed annual caps for the Trading Transactions were 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; (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 GPL Group through increased utilisation of the Group's extensive distribution network; and (iii) the anticipated inflation in the PRC and other countries in the coming future.

Further to our discussion with the Directors, one of the bases of determining the proposed annual caps for the New Agreement is related to the existing annual caps for each of the three years ending 31 December 2010. Although the utilisation rates are low, which are showed in the tables set out in the section "Historical annual caps", the existing annual caps were determined after taking into consideration of the financial data of GP Corp. and Wang Lao Ji. In addition, as confirmed by the Directors, the Company has built an extensive network throughout the PRC due to its long-established history and there are approximately 2,000 hospitals, approximately 1,000 retails pharmacies and approximately 10,000 distributors which are long-term customers with the Company. We consider the proposed annual caps are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM VINCO CAPITAL

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Moreover, the National Bureau of Statistics of China (the “Bureau”) in 2009 announced that there was an increase of approximately 29.40% in the turnover of the pharmaceutical products as compared to the previous year. The Bureau also showed that the standard and the quality of the fundamental medical facilities were enhanced according to the PRC government policies, which will educate the public regarding the importance of the medical and consideration of spending more on the pharmaceutical products. On the other hand, the PRC government mainly reforms the pharmaceutical systems in order to perfect the pharmaceutical industry and the Ministry of Finance of the PRC spent approximately RMB850 billion in the reform on the manufacturing of pharmaceutical industry in 2009.

Furthermore, according to the medical reform announced by the PRC government in 2009, it aggressively reformed and refined the medical systems in both rural and urban areas in order to provide all population in the PRC a medical treatment in both rural and urban areas. Also, according to the Plan, it suggested to well develop the medical systems which would enlarge the public hygienic services and reallocate the medical resources in the rural and urban areas so as to enhance the medical systems in the PRC and provide the medical services to all population in the PRC. The medical reform released by the PRC government would lead to an increase in demand for the pharmaceutical products; meanwhile, the Company would like to take the opportunity to expand its business by producing more pharmaceutical products as well as enhancing its sale on trading of pharmaceutical raw materials. Thus, the Company may benefit from the PRC government’s policies as mentioned above. Accordingly, we are of the opinion that the demand for the Group’s pharmaceutical products are expected to increase as the results of the PRC government policies are in line with the Group’s business strategy. As a result, the proposed annual caps for each of the three financial years ending 31 December 2013 are required to increase for the Company’s business operations.

On the other hand, there are new viruses and diseases emerged in recent years such as swine flu and virus contained on an insect, named tick, which is a parasite. An article from BBC news announced on 17 October 2009 stated that swine flu spread throughout the PRC, and there were an aggregate total of 26,348 confirmed cases as at 16 October 2009, of which 22,746 patients had recovered while 13 patients were in severe conditions. Another article also from BBC news dated 3 November 2009 stated that the PRC government had a tight supervision on the virus control by providing the anti-H1N1 virus injections to the citizens who are easy to be infected. In addition, there is a news article from Mingpao announced on 11 September 2010 confirmed that fatal virus contained on ticks had killed at least 33 people, who were bitten by ticks, in 12 different provinces. Since the new viruses and diseases continuously emerged, the PRC government and the public are much more aware of the infection of the virus and diseases and then tend to spend more on the pharmaceutical products. Thus, we are of the opinion that the demand for pharmaceutical products will increase.

As confirmed by the Directors, we also noted that the Group has been conducting a research on anti-virus of New Delhi-Metallo-1, a fatal virus spread over the global. We have reviewed a news article released by Takungpao dated 12 September 2010 announced that the Group is undertaking a research and development on Chinese anti-virus medicine against New Delhi-Metallo-1 which was recognised by the PRC government. The research is fully supported by the PRC government which a special research funding will be granted to the Group in relation to the Chinese anti-virus medicine research. With support from the PRC government the Directors intend to position the Group as a leading pharmaceutical developer and establish the world largest Chinese anti-virus medicine production base and launch various Chinese anti-virus medicines within the next five years. Hence, we are of the view that the new development mentioned above will boost the sale and the demand for the Group’s pharmaceutical products.

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## LETTER FROM VINCO CAPITAL

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Based on the above analysis, we are of the view that the assumptions for determining the proposed annual caps are justifiable and the proposed annual caps for the Trading Transactions of the Company are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### 5. Conditions for the continuing connected transactions

The Company will also have to comply with the following conditions 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) on an arm's length basis;
  - (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 favorable to the Group than terms available to or from (as appropriate) Independent Third Parties;
  - (iv) 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 person's interest in the transactions, shall be disclosed in the Company's next annual report and accounts following the occurrence of the transactions 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 report 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 years ending 31 December 2013 have not exceeded the respective annual caps of RMB450,000,000 (equivalent to approximately HK\$525,455,395) and RMB650,000,000 (equivalent to approximately HK\$758,991,126);

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## LETTER FROM VINCO CAPITAL

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- (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 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 Company's shares are listed on the Stock Exchange and GPHL remains as a substantial shareholder 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 Sale Transactions and the Purchase Transactions as stated above is exceeded or if the New Agreement is renewed or there is a material change to its terms, the Company must re-comply with the Rules 14A.35(3) and 14A.35(4) of the Listing Rules dealing with continuing connected transactions. These requirements are based on the guidelines for these types of continuing connected transactions as stipulated under the Listing Rules and are in compliance with the continuing connected transactions requirement under the Listing Rules. They are adequate in respect of subsequent review by the Company's auditors and the independent non-executive Directors and disclosure in the annual report. Following our review, we consider these terms of the New Agreement are proper and conventional as compared with other similar transactions in the market and we are of the view of they are fair and reasonable and the Trading Transactions are in the interests of the Company and the Independent Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the New Agreement and Trading Transactions contemplated thereunder are entered into under the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable, and the Trading Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to, vote in favour of the relevant resolutions to be proposed at the EGM for approving the New Agreement and the Trading Transactions.

Yours faithfully,  
For and on behalf of  
**Grand Vinco Capital Limited**  
**Alister Chung**  
*Managing Director*

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## APPENDIX I PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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The proposed amendments to the Articles of Association are subject to the approval of the Independent Shareholders by way of special resolution at the EGM. Details of the proposed amendments are set out below:

### 1. Article 6

*Article 6 prior to the proposed amendments is as follows:*

“These Articles of Association are amended by way of special resolution passed at the general meeting of 2008 of the Company and come into effect thereupon, with the existing related Articles of Association voided on the same day.

These Articles of Association shall be, with effect from their effective date, taken as the instrument with binding effect in governing the Company’s organisation and corporate behaviour, the rights and obligations between the Company and shareholders and among shareholders.”

*Article 6 post the proposed amendments is as follows:*

“These Articles of Association are amended by way of special resolution passed at the general meeting of the Company and come into effect thereupon, with the existing related Articles of Association voided on the same day.

These Articles of Association shall be, with effect from their effective date, taken as the instrument with binding effect in governing the Company’s organisation and corporate behaviour, the rights and obligations between the Company and shareholders and among shareholders.”

### 2. Articles 23

*Article 23 prior to the proposed amendments is as follows:*

“Shares held by the promoters in the Company shall not be transferred within one year from the date of incorporation of the Company. Shares issued by the Company before the share offering shall not be transferred within one year from the date on which the shares of the Company are listed on a stock exchange.

Directors, supervisors and senior management of the Company shall declare their shareholdings in the Company and the changes therein to the Company; and shall not transfer more than 25% of their shareholdings in the Company during their respective term of office or transfer their shares within one year from the date on which the shares of the Company are listed on a stock exchange. The aforesaid persons shall not transfer their shares in the Company within half a year after leaving their offices.

In the event that any director, supervisor or senior management of the Company sells the Company’s shares within six months after the acquisition of the same or repurchases the Company’s shares within six months after sale of the same, any proceed arising therefrom shall be attributed to the Company and the Company’s board

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## APPENDIX I PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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of directors shall retrieve such proceed. In the case that the board of directors fails to comply with the requirements under this paragraph, the responsible director(s) shall assume joint liability according to the law.

In the case that the board of directors fails to comply with the requirements under the aforesaid paragraph, a shareholder shall have the right to request the board of directors to comply within thirty days. In case of the board of directors' failure to comply with the same within the aforesaid period, such shareholder shall have the right to institute a legal proceeding directly with the people's court in its own name for the benefit of the Company.

Unless otherwise required by the laws, administrative regulations and these Articles of Association, the shares of the Company may be freely transferred free from any lien. The Company shall not accept its shares being held as security under a pledge.”

*Article 23 post the proposed amendments is as follows:*

“Shares held by the promoters in the Company shall not be transferred within one year from the date of incorporation of the Company. Shares issued by the Company before the share offering shall not be transferred within one year from the date on which the shares of the Company are listed on a stock exchange.

Directors, supervisors and senior management of the Company shall declare their shareholdings in the Company and the changes therein to the Company; and shall not transfer more than 25% of their shareholdings in the Company during their respective term of office or transfer their shares within one year from the date on which the shares of the Company are listed on a stock exchange. The aforesaid persons shall not transfer their shares in the Company within half a year after leaving their offices.

In the event that any director, supervisor or senior management of the Company or any person who holds more than 5% of the shares in the Company sells the Company's shares within six months after the acquisition of the same or repurchases the Company's shares within six months after sale of the same, any proceed arising therefrom shall be attributed to the Company and the Company's board of directors shall retrieve such proceed. In the case that the board of directors fails to comply with the requirements under this paragraph, the responsible director(s) shall assume joint liability according to the law.

In the case that the board of directors fails to comply with the requirements under the aforesaid paragraph, a shareholder shall have the right to request the board of directors to comply within thirty days. In case of the board of directors' failure to comply with the same within the aforesaid period, such shareholder shall have the right to institute a legal proceeding directly with the people's court in its own name for the benefit of the Company.

Unless otherwise required by the laws, administrative regulations and these Articles of Association, the shares of the Company may be freely transferred free from any lien. The Company shall not accept its shares being held as security under a pledge.”

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Directors', supervisors' and senior management's interests and short position in the Shares, underlying Shares and Debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and senior management of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (a) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors, the chief executive, the supervisors or the senior management were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules for Securities Transactions by Directors of Listed Issuers were as follows:

#### Directors:

Name	Type of interest	Company	Number of Shares
Shi Shaobin	Family	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	11,000

#### Senior Management:

Name	Type of interest	Company	Number of Shares
Chen Binghua	Personal	A shares of the Company	6,240

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors and senior management of the Company and their associates had any personal, family, corporate or other interests in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) (a) which were notified to the Company and the Stock Exchange

pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors, the chief executive, the supervisors or the senior management were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were notified to the Company and the Stock Exchange pursuant to the Model Code of the Listing Rules for Securities Transactions by Directors of Listed Issuers.

**(b) Interests of substantial Shareholders**

So far as is known to any Director, supervisor and senior management of the Company, as at the Latest Practicable Date, the interests and short positions of persons or companies (not being a Director, supervisor and senior management of the Company) in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Class of Shares	Number of Shares/ underlying Shares, capacity and nature of interests (Long position)	Number of Shares/ underlying Shares, capacity and nature of interests (Short position)	Approximate % of the Company's issued domestic Shares (%)	Approximate % of total issued H Shares (%)
GPHL	Domestic Shares	390,833,391 Beneficial Owner	–	66.13	–
FIL Limited	H Shares	25,956,000 Investment manager	–	–	11.80

As far as the Directors are aware and other than those listed above, as at the Latest Practicable Date there was no other person or corporation having an interest or short position in the Shares and underlying Shares of the Company which represents 5% or more of the any class of the issued share capital of the Company.

**3. QUALIFICATION AND INTEREST OF EXPERT**

Vinco Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders who has given its opinion in this circular and whose name is included in this circular, is a licensed corporation for types 1 and 6 regulated activities under the SFO.

As at the Latest Practicable Date, Vinco Capital did not have any shareholding interest in any member of the Group nor any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Vinco Capital did not have any direct or indirect interest in any asset which has been, since 31 December 2009 being the date to which the latest audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group.

#### **4. CONSENT**

Vinco Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the references to its name included in this circular in the form and context in which they respectively included.

#### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, the date to which the latest published audited consolidated accounts of the Group were made up.

#### **6. GENERAL**

- (i) None of the Directors has entered into, or proposed to enter into, any service contracts with any member of the Group which will not expire or is not determinable by the Company or any of the member of the Group within one year without payment of compensation other than statutory compensation;
- (ii) as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which has been, since 31 December 2009 being the date to which the latest audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group;
- (iii) as at the Latest Practicable Date, none of the Directors have any contract or arrangement subsisting at the date of this Circular in which the Director is materially interested and which is significant in relation to the business of the Group;
- (iv) as at the Latest Practicable Date, none of the Directors and their respective associates had any competing interest with the Group; and
- (v) the English text of this Circular shall prevail over the Chinese text.

#### **7. LITIGATION**

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the registered office of the Company at 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, PRC during normal business hours up to and including Date of EGM:

- (a) the New Agreement;
- (b) The letter dated 15 November 2010 from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 12 of this Circular;
- (c) the letter of advice dated 15 November 2010 from Vinco Capital to the Independent Board Committee, the text of which is set out on pages 13 to 23 of this Circular; and
- (d) the written consent referred to in the paragraph headed “Consent” in this appendix.

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## NOTICE OF EGM

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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)

### IMPORTANT NOTICE

- Date and time of the extraordinary general meeting (“EGM”): Thursday, 30 December 2010, at 10:00 a.m.
- Place of the EGM: Conference Room of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”), 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the People’s Republic of China (the “PRC”)
- Manner of holding the EGM: present
- Significant items to be considered:
  1. Provision of guarantees by Guangzhou Bai Di Bio-technology Co., Ltd, a subsidiary of the Company, to secure bank loans for Guangzhou Nuo Cheng Bio-technology Co., Ltd;
  2. Resolution in relation to the Purchase and Sale Agreement relating to Connected Transactions entered into between the Company and Guangzhou Pharmaceutical Holdings Limited and the transactions contemplated thereunder;
  3. Resolution in relation to the Purchase and Sale Agreement relating to Connected Transactions entered into between the Company, Guangzhou Pharmaceutical Corporation and Guangzhou Wang Lao Ji Pharmaceutical Company Limited and the transactions contemplated thereunder;
  4. Resolution in relation to amendment to the Rules of Procedures for the board of directors of the Company;
  5. Resolution in relation to amendments to the Articles of Association of the Company.

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## NOTICE OF EGM

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### I. INFORMATION REGARDING THE CONVENING OF THE EGM

1. The resolution to convene the EGM was considered and passed at the 4th meeting of the fifth session of the board of directors of the Company;
2. Date and time of the EGM: Thursday, 30 December 2010 at 10:00 a.m.;
3. Place of the EGM: Conference Room of the Company, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC.

### II. MATTERS TO BE CONSIDERED AT THE EGM

1. To be considered and approved by way of ordinary resolution:
  - (1) Provision of guarantees by Guangzhou Bai Di Bio-technology Co., Ltd, a subsidiary of the Company, to secure bank loans for Guangzhou Nuo Cheng Bio-technology Co., Ltd;
  - (2) Resolution in relation to the Purchase and Sale Agreement relating to Connected Transactions entered into between the Company and Guangzhou Pharmaceutical Holdings Limited and the transactions contemplated thereunder;
  - (3) Resolution in relation to the Purchase and Sale Agreement relating to Connected Transactions entered into between the Company, Guangzhou Pharmaceutical Corporation and Guangzhou Wang Lao Ji Pharmaceutical Company Limited and the transactions contemplated thereunder;
  - (4) Resolution in relation to amendment to the Rules of Procedures for the board of directors of the Company.
2. To be considered and approved by way of special resolution:

Resolution in relation to amendments to the Articles of Association of the Company. Details are set out as follows:

*The existing Article 6 is amended as follows:*

These Articles of Association are amended by way of special resolution passed at the general meeting of the Company and come into effect thereupon, with the existing related Articles of Association voided on the same day.

These Articles of Association shall be, with effect from their effective date, taken as the instrument with binding effect in governing the Company's organization and corporate behavior, the rights and obligations between the Company and shareholders and among shareholders.

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## NOTICE OF EGM

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*The existing Article 23 is amended as follows:*

Shares held by the promoters in the Company shall not be transferred within one year from the date of incorporation of the Company. Shares issued by the Company before the share offering shall not be transferred within one year from the date on which the shares of the Company are listed on a stock exchange.

Directors, supervisors and senior management of the Company shall declare their shareholdings in the Company and the changes therein to the Company; and shall not transfer more than 25% of their shareholdings in the Company during their respective term of office or transfer their shares within one year from the date on which the shares of the Company are listed on a stock exchange. The aforesaid persons shall not transfer their shares in the Company within half a year after leaving their offices.

In the event that any director, supervisor or senior management of the Company or any person who holds more than 5% of the shares in the Company sells the Company's shares within six months after the acquisition of the same or repurchases the Company's shares within six months after sale of the same, any proceed arising therefrom shall be attributed to the Company and the Company's board of directors shall retrieve such proceed. In the case that the board of directors fails to comply with the requirements under this paragraph, the responsible director(s) shall assume joint liability according to the law.

In the case that the board of directors fails to comply with the requirements under the aforesaid paragraph, a shareholder shall have the right to request the board of directors to comply within thirty days. In case of the board of directors' failure to comply with the same within the aforesaid period, such shareholder shall have the right to institute a legal proceeding directly with the people's court in its own name for the benefit of the Company.

Unless otherwise required by the laws, administrative regulations and these Articles of Association, the shares of the Company may be freely transferred free from any lien. The Company shall not accept its shares being held as security under a pledge.

The above resolutions were considered and passed at the 2<sup>nd</sup> meeting of the fifth session of the board of directors and the 2<sup>nd</sup> meeting of the fifth session of the Supervisory Committee held on 27 August 2010, and the 4<sup>th</sup> meeting of the fifth session of the board of directors and the 3<sup>rd</sup> meeting of the fifth session of the Supervisory Committee held on 28 October 2010.

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## NOTICE OF EGM

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### III. ATTENDEES OF THE EGM

1. Holders of domestic shares and overseas listed foreign capital shares whose names appeared on the Register of Members of the Company at the close of business in the afternoon on Monday, 29 November 2010 (including those overseas shareholders who have already successfully submitted documents of shareholding transfer applications on or before 29 November 2010) are entitled to attend the EGM. The Register of Members of the Company will be closed from Tuesday, 30 November 2010 to Thursday, 30 December 2010 (both days inclusive) during which no transfer of H shares will be effected.
2. Any shareholder of the Company (“Shareholder”) entitled to attend and vote at the EGM is entitled to appoint one or more proxies (whether he/she is a Shareholder or not) to attend and vote at the meeting on his/her behalf. If any Shareholder appoints more than one proxy, the proxy(ies) can only vote by poll. To be valid, the proxy form and the notarially certified power of attorney or other documents of authorization (if any) must be delivered to the address of the Company no less than 24 hours before the time appointed for the holding of the EGM or its any adjournment thereof.
3. The directors, supervisors and senior management of the Company.

### IV. REGISTRATION FOR THE EGM

1. To attend the EGM, an individual Shareholder should bring along his/her identity card, the Shareholder account card; a proxy should bring along the proxy form, his/her identity card and the identity card of the principal and the Shareholder account card. A legal person Shareholder shall bring along a copy of the business license, the proxy form signed by the legal entity, the Shareholder account card and the identity card of the attendee. Shareholders outside Guangzhou can register by mail, telephone or fax.

2. Place and time of registration:

Registration date and time: 8:30 a.m. to 11:30 a.m. and 2:00 p.m. to 4:30 p.m. on 9 December 2010 (Thursday)

Place of registration: The Secretariat of the Company, 2<sup>nd</sup> Floor, 45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC

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## NOTICE OF EGM

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### V. OTHERS

1. Address: Guangzhou Pharmaceutical Company Limited, 2nd Floor,  
45 Sha Mian North Street, Liwan District, Guangzhou  
City, Guangdong Province, the PRC  
  
Postal code: 510130  
  
Contact person: Pang Jianhui  
Tel: 8620-8121 8117/8121 8119  
Fax: 8620-8121 6408
2. Address of Shanghai Branch Company of China Securities Depository and Clearing Corporation Limited: 3/F., China Insurance Building, No. 166 Lujiazui Road East, Shanghai, the PRC  
  
Address of Hong Kong Registrars Limited: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
3. The EGM is expected to last for a half day. Shareholders attending the meeting shall be responsible for their own travelling and accommodation expenses.

### VI. DOCUMENTS AVAILABLE FOR INSPECTION

1. Resolutions and announcements of resolutions passed at the 2<sup>nd</sup> and the 4<sup>th</sup> meetings of the fifth session of the board of directors of the Company.
2. Resolutions and announcements of resolutions passed at the 2<sup>nd</sup> and the 3<sup>rd</sup> meetings of the fifth session of the Supervisory Committee of the Company.

The Board of  
**Guangzhou Pharmaceutical Company Limited**