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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)

2002 Third Quarter Report

IMPORTANT NOTICE

The Board of Directors of Guangzhou Pharmaceutical Company Limited (“the Company”) severally and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and believe that there are no material omissions from, or misrepresentations or misleading statements contained in this report.

As occupied by business matters, directors of the Company, including Messrs. Mr. Li Yimin, Zhang Bohua, Liu Jinxiang and Huang Buren, submitted their leave applications and appointed Mr. Cai Zhixiang, Chairman, to exercise their voting rights on behalf of them.

The Company’s financial reports for the third quarter of 2002 prepared under PRC accounting standards and systems have not been audited.

This announcement is made in accordance with the paragraph 2(2) of the Listing Agreement.

Board of Directors

Guangzhou Pharmaceutical Company Limited

COMPANY PROFILE

1. Place of listing of shares

A shares:

Shanghai Stock Exchange

Stock name: GZ Phar Stock code: 600332

H shares:

The Stock Exchange of Hong Kong Limited

Stock name: GZ Phar Stock code: 0874

2. Company Secretary

Name:

He Shuhua

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3. Major financial data and indicators

	Nine months ended 30th September 2002	
	<i>Rmb</i>	
Net profit		149,514,737.36
Net profit after deducting non-operating items		181,969,205.49
Return on net assets		6.42%
Earnings per share		0.184
	At 30th September 2002	At 31st December 2001
	<i>Rmb</i>	<i>Rmb</i>
Shareholders' equity (before minority interests)	2,327,685,619.80	2,172,909,782.86
Net assets per share	2.87	2.68
Adjusted net assets per share	2.75	2.53
Non-operating items included:		
Non-operating income		2,143,295.90
Non-operating expenses		15,557,771.59
Subsidies income		137,637.00
Provision for diminution in long-term investments		20,817,317.00
Income tax adjustment		1,639,687.56
Total		32,454,468.13

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

1. Change in share capital

During the reporting period, there was no change in the share capital of the Company.

2. As at 30th September 2002, there were 54,375 shareholders in total. Only one shareholder holds the State-owned shares for the State. There were 54,333 shareholders holding the A shares and 42 shareholders holding the H shares.

3. As at 30th September 2002, major shareholders of the Company were as follows:

Shareholders	Type of shares	No. of shares	%
Guangzhou Pharmaceutical Holdings Limited ("GZPHL")	State-owned share	513,000,000	63.26
HKSCC Nominees Limited	H Share	218,301,000	26.92
Hansheng Trust Fund	A share	999,938	0.12
HSBC Nominees (Hong Kong) Limited	H Share	800,000	0.10
Tongde Trust Fund	A share	630,795	0.08
Penghua Trust Fund	A share	596,243	0.07
Hongta Securities	A share	567,000	0.07
Northeast Securities	A share	471,271	0.06
Kerui Trust Fund	A share	380,639	0.05
Shangtou Trust Fund	A share	330,800	0.04

Note:

- (1) GZPHL is not connected with the other nine shareholders listed above. The Company has also not been informed of any connection among other remaining shareholders.
- (2) During the reporting period, 105,790,000 State-owned shares were still pledged by GZPHL as guarantee for the debt restructuring of Guangzhou Baiyunshan Pharmaceutical Co., Ltd.

DISCUSSION AND ANALYSIS OF OPERATION STATUS

1. The Company's operation during the reporting period

Scope of business: The Company and its subsidiaries ("the Group") are principally engaged in (1) the manufacture and sale of Chinese patent medicine ("CPM"); (2) the wholesale, retail, import and export of Western and Chinese pharmaceutical products and various medical apparatus and (3) research and development of natural medicine and biological medicine.

According to the accounts prepared in accordance with PRC accounting standards and systems, the Group's consolidated turnover from principal activities for the nine months ended 30th September 2002 was Rmb4,586,483,000, representing an increase of 13.78% over that of the same period of 2001. Profit before taxation amounted to Rmb230,477,000, representing an increase of 9.98% over that of the same period of 2001. Net profit amounted to Rmb149,515,000, representing an increase of 10.69% over that of the same period of 2001.

During the reporting period, the Group's CMP manufacturing business (the "manufacturing operations") and its trading operations contributed to 29.4% and 70.6% of the Group's turnover respectively and contributed to 77.65% and 22.35% of the Group's profit before taxation respectively.

Turnover of the Group's manufacturing operations for the nine months ended 30th September 2002 was Rmb1,348,646,000, representing an increase of 9.25% over that of the same period of 2001. Profit before taxation was Rmb178,962,000, representing an increase of 13.4% over that of the same period of 2001.

During the reporting period, the manufacturing operations have accelerated the progress of those construction projects relating to the utilization of A share proceeds and have expedited GMP construction. Certain projects including the technology upgrade of Xiaohewan for Guangzhou First Chinese Medicine Company Limited have been completed during the reporting period.

The Group continued to expand its research and development activities including second phase exploration on major products and research into development of new products. Products under research and development included the second phase of clinical study on Feng Shi Ping Jiao Nang and a dactylogram pattern study on Qing Er Xiao Yan Ning. Research into developing a DNA hepatitis vaccine has been approved as the State's technology innovation project.

The establishment of a modernized research center, to be undertaken by Guangzhou Hanfang Modern Chinese Medicine Research and Development Company Limited, which is to be used as a base for the study of extraction and purification of Chinese medicine, was approved by the State. Currently, substantial foundation work has been undertaken on the center, including the layout design of a demonstration base for testing and industrialization of Chinese medicine.

The Company continued to expand its sales network of major products and exploring market potential outside Guangdong Province, including certain rural areas, in order to secure its market share. In response to certain new regulations introduced by the State on the advertisement of pharmaceutical products, the Company has taken measures to adjust and perfect their product promotion strategies. There was a prominent increase in sales of major products such as Xiao Ke Wan, Hua Tuo Zai Zhao Wan and Guangdong Cooling Tea. The increase in sales of the above products is 14.71%, 15.59% and 28.09% respectively over that of the same period of 2001.

The ERP management system is operating in six manufacturing subsidiaries.

Turnover of the Group's trading operations for the nine months ended 30th September 2002 was Rmb3,237,837,000, representing an increase of 15.78% over that of the same period of 2001. Profit before taxation of the trading operations was Rmb51,515,000, representing a decrease of 0.45% over that of the same period of 2001.

During the reporting period, the trading operations continued to emphasize the expansion of its wholesale and distribution operations as well as the dealership operations of brand-name products. The trading operations have secured more than 44 new customers, have obtained distribution rights for 424 new products, and have exclusive distribution rights for 1 new product. Such measures contributed to the increase in turnover of the trading operations. Due to severe competition in the pharmaceutical market, the Company has slowed the process of expanding retail chain stores. In comparison to the last reporting period, the Group only increased 6 retail chain stores in total.

2 The Company's investments

Proceeds from the issuing of A shares have been utilised according to their proposed use as disclosed in the prospectus for issue of A shares. Projects completed during the reporting period included the Xiao Ke Wan upgrade, Bao Ji Wan upgrade, automation of pill production, flu granules for children upgrade, tablets workshop upgrade, etc. Other than these projects, there has been a delay in the import of technology for the syrup production project and Gao Lu upgrade due to restructuring of the related workshops; the logistics centre upgrade is behind schedule due to road construction in Guangzhou City; the expansion of retail chain stores was slowed due to severe competition in the pharmaceutical market. Other projects have progressed according to the budget.

3 Condensed analysis on operating results and financial status

(1) Operating results

(a) Sales, profit from principal operations, and net profit

	9 months ended 30 September		Changes (%)
	2002 Rmb'000	2001 Rmb'000	
Sales	4,586,483	4,030,925	13.78%
Profit from principal operations	981,702	879,154	11.66%
Net profit	149,515	135,078	10.69%

(b) Percentage of revenue and expenses to net profit

	Rmb'000		% to net profit	
	9 months ended 30th September 2002	6 months ended 30th June 2002	9 months ended 30th September 2002	6 months ended 30th June 2002
Profit from principal operations	981,702	670,378	425.94%	362.87%
Profit from other operations	26,094	17,415	11.32%	9.43%
Operating expenses	742,049	490,400	321.96%	265.45%
Investment income	-21,993	-539	-9.54%	-0.29%
Subsidy income	138	69	0.06%	0.04%
Net non-operating result	-13,414	-12,178	-5.82%	-6.59%

Note: The Company did not have any significant seasonal income or expenditures during the reporting period.

(2) Financial status

	Rmb'000		% to net assets	
	At the end of the reporting period	At the beginning of the year	At the end of the reporting period	At the beginning of the year
Cash and bank	846,941	867,408	21.28%	23.46%
Accounts receivable	846,218	547,183	21.26%	14.80%
Inventories	690,328	833,328	17.34%	22.54%
Short term investments	84,226	67,988	2.14%	1.84%
Fixed assets (net)	716,295	707,983	18.00%	19.15%
Intangible assets	101,692	102,138	2.55%	2.76%
Accounts payable	613,668	558,202	15.42%	15.10%
Short term loans	454,320	387,680	11.41%	10.49%
Share capital	810,900	810,900	20.37%	21.93%
Capital reserve	1,114,540	1,110,457	28.00%	30.03%

Reasons for changes:

- (i) The increase in short-term investments by 23.88% was due to the addition of an open-end fund amounting to Rmb30,000,000 and the addition of national debt amounting to Rmb50,000,000.
 - (ii) The increase in accounts receivable by 54.65% was due to an extension of credit terms from 1 month to 2-3 months on pharmaceutical products, which were introduced to hospitals under a tendering system.
- (3) The Company had no occurrence of significant assets held on trust or significant loan contracts during the reporting period.
- (4) The Company had no occurrence of significant overdue liabilities during the reporting period.
- (5) Connected transactions
- During the reporting period, the Group had no significant connected party transactions. The connection transaction, in which Guangzhou Baidi Biological Pharmaceutical Company Limited, a subsidiary of the Company, purchased assets from one of its shareholders, Guangzhou Pharmaceutical Industrial Research Institute, has been approved by relevant government authorities. The transfer of legal title is under process.
- (6) Contingencies and post balance sheet date events
- (a) The Company had no significant litigation or arbitration during the reporting period.
 - (b) The Company did not provide guarantees for any other company outside the Group during the reporting period.

The Company has provided guarantees totaling Rmb217,300,000 for its subsidiaries, including Rmb175,000,000 for Guangzhou Pharmaceutical Corporation, Rmb30,000,000 for Guangzhou Chinese Medicine Corporation and Rmb12,300,000 for Guangzhou Pharmaceutical Import & Export Corporation.
 - (c) The Company had no significant post balance sheet date events during the reporting period.

- (d) Other matters
- There were no changes in the production environment or rules and regulations, which would have a material impact on the Company's financial position and operating results. There were no material purchases, sales of assets, or merger and acquisition activities during the reporting period.
- (7) Disclosure of significant events
- (a) During the reporting period, the Company and other investment companies including Guangzhou Security Company Limited have jointly established a company named Jinying Trust Fund Management Company Limited ("Jinying Trust Fund"). The capital contributed by the Company to the Jinying Trust Fund was Rmb20,000,000, representing 20% of its paid-up capital. Currently, the application for establishment of Jinying Trust Fund has been approved by the China Securities Regulatory Commission and establishment procedures have commenced.
- (b) During the reporting period, the Company received enterprise income tax refunds amounting to Rmb22,940,000, which were levied in 2001, from the Guangzhou Finance Bureau.
- (c) During the reporting period, the Company made a provision for diminution in long-term investments amounting to Rmb20,820,000 and a provision for impairment in fixed assets amounting to Rmb8,310,000.

FINANCIAL REPORTS (UNAUDITED)

Prepared in accordance with PRC accounting standards and systems

1 Financial report

Condensed consolidated balance sheet

At 30th September 2002

	At the end of the period	At the beginning of the year
	<i>Rmb'000</i>	<i>Rmb'000</i>
Current assets	2,751,352	2,575,671
Long term investments	166,265	107,467
Fixed assets (net)	929,556	882,194
Intangible assets and other assets	133,286	131,906
Total assets	3,980,459	3,697,239
Current liabilities	1,481,548	1,389,689
Long term liabilities	53,345	23,854
Total liabilities	1,534,892	1,413,544
Minority interests	117,881	110,785
Shareholders' equity	2,327,686	2,172,910
Total of liabilities and shareholders' equity	3,980,459	3,697,239

Condensed consolidated profit and loss account
Ended 30th September 2002

	3 months ended 30th September 2002	9 months ended 30th September 2002
	<i>Rmb'000</i>	<i>Rmb'000</i>
Sales	1,585,600	4,586,483
Profit from principal operations	311,325	981,702
Profit from other operations	8,679	26,094
Operating expenses	251,649	742,049
Investment income	-21,454	-21,993
Net of non-operating items	-1,237	-13,414
Income tax	348	69,492
Net profit	42,541	149,515

2 Notes to financial statements

- (a) The Company had no material changes in accounting policies or the scope of consolidation when compared with the prior reporting period.
- (b) There were no material changes to accounting policies adopted in the preparation of the quarterly report in comparison with those applied in the annual report.
- (c) Subsidiaries in which the Company held more than a 50% equity interest, but were not included in the consolidation scope are as follows:

The Company holds a 90%, 92.80% and an 80% equity interest respectively in Guangzhou Hanfang Modern Chinese Medicine Research and Development Company Limited, Guangzhou Baidi Biological Pharmaceutical Company Limited, and Guangzhou Medicine Commodities Exhibition Store, but does not include them in the consolidation based on the materiality principle since their total assets, sales and net profit to which the Company is entitled to for each period are all below 10% of those of the total of the Company and its subsidiaries.

The Company holds a 53% equity interest in Guangdong Xinhua Health Drink Company Limited, but does not include it in the consolidation as the Company does not have substantial control over this company.

Guangzhou Xing Qun Trading and Development Company Limited, being an investment under Guangzhou Xing Qun Pharmaceutical Company Limited, a subsidiary of the Company, had been liquidated during the reporting period.

Guangzhou Pharmaceutical Company Limited

On behalf of the Board

Cai Zhixiang

Chairman

25 October 2002

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