



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)

Summary of Annual Report for 2002

1. IMPORTANT NOTICE

- 1.1 The Board of Directors of Guangzhou Pharmaceutical Company Limited (“the Board”) and each director collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this summary of annual report and believe that there are no material omissions from, or misrepresentations or misleading statements contained in this summary of annual report. This announcement is a summary of the 2002 annual report. In order to have a complete understanding, investors are advised to refer to the 2002 annual report.
- 1.2 Mr. Cai Zhixiang, Chairman of the Board, Mr. Zhou Yuejing, General Manager, Mr. Gao Fang, Financial Controller and Mr. Chen Binghua, Senior Finance Manager, individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in the annual report.
- 1.3 Unless otherwise stated, financial data contained in this announcement is extracted from the accounts prepared by the Group in accordance with PRC accounting standards and systems.

2. COMPANY PROFILE

2.1 The Company

Stock abbreviation	GZ Phar.	GZ Phar.
Stock code	600332 (A share)	0874 (H Share)
Place of listing of shares	Shanghai Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered office address	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	
Business address	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	
Postal code	510130	
Website	http://www.gpc.com.cn	
E-mail	sec@gpc.com.cn	

2.2 Contacts

	Company Secretary	Authorised securities dealers
Name	Mr. He Shuhua	No
Address	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	No
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Facsimile	(8620) 8121 6408	No
E-mail	hesh@gpc.com.cn	No

3. PRINCIPAL FINANCIAL DATA AND INDICATORS

3.1 Principal financial data

	2002 Rmb'000	2001 Rmb'000	Change (%)	2000 Rmb'000
Profit from principal operations	5,943,823	5,334,029	11.43	4,222,857
Total profit	287,506	260,081	10.54	219,935
Net profit	158,478	146,134	8.45	141,214
Net profit after non-operating items	162,295	147,580	9.97	126,528
Total assets	4,173,194	3,702,113	12.72	3,017,797
Shareholders' equity (excluding minority interests)	2,286,929	2,172,916	5.25	1,326,404
Net cash inflows generated from operating activities	169,014	140,154	20.59	286,951

3.2 Principal financial indicators

	2002 Rmb	2001 Rmb	Change (%)	2000 Rmb
Earning per share	0.20	0.18	11.11	0.20
Return on net assets	6.93%	6.73%	2.97	10.65%
Return on net assets after deducting exceptional items	7.10%	6.79%	4.57	9.54%
Net cash inflows from operating activities per share	0.21	0.17	23.53	0.39
Net assets per share	2.82	2.68	5.22	1.81
Adjusted net assets per share	2.74	2.59	5.79	1.68

3.3 Differences between the accounts prepared in accordance with PRC accounting standards and systems and accounting principles generally accepted in Hong Kong (“HK GAAP”)

Applicable Not applicable

	PRC accounting standards and systems <i>Rmb'000</i>	HK GAAP <i>Rmb'000</i>
Net profit	158,478	94,561
Explanations for the differences		
Net profit under PRC accounting standards and systems		158,478
Less: Amortisation of intangible asset capitalised		10,446
Additional depreciation on revalued fixed assets		1,975
Reversal of over provided research and development cost		8,530
Staff welfare fund under-transferred from net profit		2,144
Provision for medical insurance scheme		71,762
Add: Deferred taxation		23,387
Subsidy income		3,600
Minority interests		3,953
Net profit under HK GAAP		94,561

3.4 Extracted from the accounts prepared in accordance with HK GAAP

Items	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>	2000 <i>Rmb'000</i>	1999 <i>Rmb'000</i>	1998 <i>Rmb'000</i>
Turnover	5,943,823	5,334,029	4,222,857	3,454,492	3,326,658
Profit before taxation	196,360	205,987	204,572	178,115	161,921
Profit attributable to shareholders	94,561	95,868	135,250	128,688	123,724
Total assets	4,361,135	3,877,969	3,256,426	3,072,057	2,998,567
Total liabilities	1,906,069	1,469,539	1,657,609	1,593,832	1,612,385
Shareholders' fund	2,455,066	2,408,430	1,598,817	1,478,225	1,386,182
Earnings per share	Rmb0.117	Rmb0.119	Rmb0.185	Rmb0.176	Rmb0.169
Net assets per share	Rmb3.03	Rmb2.97	Rmb2.18	Rmb2.02	Rmb1.89
Return on net assets	3.85%	3.98%	8.46%	8.71%	8.93%
Ratio of shareholders' funds	56.29%	62.11%	49.10%	48.12%	46.23%
Gearing ratio	43.71%	37.89%	50.90%	51.88%	53.77%

Note: Gearing ratio is calculated based on: Total liabilities / Total assets x 100%

4. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

4.1 Movement in share capital

	Before this change	Change(+,-)					<i>Unit: share</i>	
		Right issued	Bonus issues	Reserves to shares	New issues	Others	Sub-total	After the change
A. Unlisted shares								
1. Founders' shares including:								
State-owned shares	513,000,000	—	—	—	—	—	—	513,000,000
Domestic legal entities' shares	—	—	—	—	—	—	—	—
Foreign legal entities' shares	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—
2. Collected legal entities' shares	—	—	—	—	—	—	—	—
3. Inner staff shares	—	—	—	—	—	—	—	—
4. Preferred shares or others	—	—	—	—	—	—	—	—
Total unlisted shares	<u>513,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>513,000,000</u>
B. Listed shares								
1. RMB ordinary shares	78,000,000	—	—	—	—	—	—	78,000,000
2. Domestic listed foreign invested shares	—	—	—	—	—	—	—	—
3. Foreign listed foreign invested shares (H Shares)	219,900,000	—	—	—	—	—	—	219,900,000
4. Others	—	—	—	—	—	—	—	—
Total listed shares	<u>297,900,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>297,900,000</u>
C. Total Shares	<u>810,900,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>810,900,000</u>

4.2 Top ten major shareholders

Total number of shareholders at the end of reporting period 53,926

Details of the top 10 major shareholders

Name of Shareholders (in full)	Changes in shares held	Number of shares held	Percentage %	Class of shares (listed or unlisted)	Number of shares pledged or as collateral	Nature of shareholders (state-owned or foreign invested)
Guangzhou Pharmaceutical Holdings Limited	—	513,000,000	63.26	unlisted	118,120,000	State-owned
HKSCC Nominees Limited	(594,001)	218,088,999	26.89	listed	N/A	H shares
Hansheng Securities Investment Fund	967,338	967,338	0.12	listed	N/A	A shares
HSBC Nominees (Hong Kong) Limited	800,000	800,000	0.10	listed	N/A	H shares
Tongde Securities Investment Fund	630,795	630,795	0.08	listed	N/A	A shares
Penghua Industrial Growing Securities Investment Fund	596,243	596,243	0.07	listed	N/A	A shares
Hongta Securities Co., Ltd.	567,000	567,000	0.07	listed	N/A	A shares
Northern Securities Co., Ltd.	492,971	492,971	0.06	listed	N/A	A shares
Kerui Securities Investment Fund	345,000	345,000	0.04	listed	N/A	A shares
Shanghai Securities Co., Ltd.	330,800	330,800	0.04	listed	N/A	A shares

Details of the connection among the top ten major shareholders

Among the top 10 major shareholders, Guangzhou Pharmaceutical Holdings Limited (“GZPHL”) is not connected with the other nine shareholders listed above. The Company is not aware of any connection among these nine shareholders, nor whether these nine shareholders are for the same interest as described by the Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies.

4.3 Particulars of controlling shareholders and beneficial owners

4.3.1 Change in controlling shareholders and beneficial owners

Applicable Not applicable

4.3.2 Particulars of controlling shareholders and other controllers

Name of shareholder: GZPHL

Legal representative: Mr. Cai Zhixiang

Date of establishment: 7 August 1996

Registered capital: Rmb1,007,700,000

Type of legal entity: State-owned enterprise with limited liability

Business scope: The business scope of GZPHL is to invest in and manage State-owned assets, to sell and manufacture Western pharmaceutical medicine, CPM, Chinese raw medicine, biological products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and medicine-related merchandise; to undertake medicine-related import and export affairs and to develop real estate.

4.3.3 During the reporting period, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's securities.

4.3.4 Pre-emptive rights

According to the laws of the PRC and the Articles of Association of the Company, there is no pre-emptive rights which would oblige the Company to issue new shares to existing shareholders on a pro-rata basis.

5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Changes in the number of shares held by directors, supervisors and senior management

Name	Position	Gender	Age	Duration of appointment	Number of shares held as at 1 January 2002	Number of shares held as at 31 December 2002	Reason for change
Cai Zhixing	Chairman	Male	53	2000.10.18-2003.10.18	—	—	—
Li Yiming	Vice chairman	Male	52	2000.10.18-2003.10.18	—	—	—
Feng Zansheng	Director	Male	52	2000.10.18-2003.10.18	—	—	—
Zhou Yuejin	Director and General Manager	Male	45	2002.3.27-2003.10.18	—	—	—
Zhu Youling	Independent non-executive directors	Male	58	2000.10.18 - 2003.10.18	—	—	—
Zhang Baihu	Independent non-executive directors	Male	70	2000.10.18-2003.10.18	—	—	—
Liu Jingxiang	Independent non-executive directors	Male	62	2000.10.18-2003.10.18	—	—	—
Wu Zhang	Independent non-executive directors	Male	45	2000.10.18-2003.10.18	—	—	—
Huang Boren	Independent non-executive directors	Male	67	2000.10.18-2003.10.18	—	—	—
Chen Canying	Chairman of the Supervisory Committee	Male	53	2000.10.18-2003.10.18	—	—	—
Tan Sima	Supervisor	Male	39	2000.10.18-2003.10.18	—	—	—
Luo Jidong	Supervisor	Male	49	2000.10.18-2003.10.18	—	—	—
He Shuhua	Vice General Manager and Secretary of the Board	Male	46	2000.10.18-2003.10.18	—	—	—
Li Decheng	Vice General Manager	Male	42	2000.10.18-2003.10.18	—	—	—
Gao Fang	Financial Controller	Male	44	2002.6.20-2003.10.18	—	—	—
Jiang Shijie	Prior Financial Controller	Male	67	2000.10.18-2002.6.19	—	—	Resigned due to retirement

5.2 Details of directors and supervisors working in the Company's corporate shareholders

Applicable Not applicable

Name	Name of corporate shareholders	Position held in the corporate shareholders	Duration of appointment	Remuneration received?
Cai Zhixnag	GZPHL	Chairman	2000.10.18-2003.10.18	No
Li Yiming	GZPHL	Vice chairman and general manager	2000.10.18-2003.10.18	No
Chen Canying	GZPHL	Secretary of the Disciplinary Committee and chairman of the Labour Union	2000.10.18-2003.10.18	No

5.3 Annual remuneration of directors, supervisors and senior management

Aggregate annual remuneration	Rmb4,195,000
Aggregate remuneration of the three highest paid directors	Rmb2,520,000
Aggregate remuneration of the three highest paid senior management	Rmb1,240,000
Allowance to independent directors	Rmb312,600
Other emoluments to independent directors	—
Directors and supervisors who do not receive any remuneration and allowance from the Company	—
Bands of remuneration	Number
Over Rmb400,000	6
Between Rmb100,000-400,000	2
Below Rmb100,000	8

6. REPORT OF THE DIRECTORS

6.1 Management discussion and analysis

Scope of business

The Company and its subsidiaries are principally engaged in (1) the manufacturing and sales of Chinese patent medicine (“CPM”); (2) the wholesales, retail, import and export of Western and Chinese pharmaceutical products and medical apparatus and (3) research and development of natural medicine and biological medicine.

(1) CPM manufacturing business

Turnover of the manufacturing operations in 2002 under both HK GAAP and PRC accounting standards and systems was Rmb1,743,449,000, representing an increase of 6.64% over that of 2001. Profit before taxation of the manufacturing operations was Rmb213,587,000, representing an increase of 14.51% over that of 2001. Profit before taxation of the manufacturing operations under HK GAAP was Rmb147,502,000, representing a decrease of 2.13% over that of 2001.

In 2002, the manufacturing business had the following achievements. Firstly, the manufacturing business endeavored to introduce modern marketing mechanisms and attract marketing experts to push the sales of major products. Secondly, the manufacturing operations conducted a number of product promotion campaigns in certain major cities to enhance the marketing of special techniques to the end-user market. By these means, the Company is fully exposed to hospitals, retail and consumer markets. Thirdly, the manufacturing business integrated the present sales network and strived to develop new distributors in the second and third level of the market and in rural areas. Fourthly, the manufacturing operations continued to expand its sales network in Eastern Europe. Fifthly, it adjusted its promotion campaign strategy timely after the issuance of State's regulations on advertisement of pharmaceutical products. All of these measures contributed to the increase in sales of key products.

The aforementioned strategies were formulated successfully. In 2002, sales of certain key products, i.e. Xiao Ke Wan, Hua Tuo Zai Zao Wan, the series of Wang Lao Ji Liang Cha and Xu Han Ting, significantly increased by 17.28%, 24.57%, 21.07% and 63.71% respectively over that of 2001.

The manufacturing operation placed emphasis on manufacturing costs and expenses controls and technology innovation and strengthened purchase management. In 2002, the average unit cost of major products decreased by 2.66% and the operating expenses decreased by 0.06% in comparison with last year. The decrease in these costs made significant contributions to the growth in profit of the manufacturing operations.

(2) Pharmaceutical trading business, including wholesaling, retailing, import and export

Turnover of the Group's trading operations in 2002, under both PRC accounting standards and systems and HK GAAP, was Rmb4,200,374,000, representing an increase of 13.55% over that of 2001. Profit before taxation of the trading operations was Rmb73,919,000, representing an increase of 0.49% over that of 2001. Profit before taxation under HK GAAP was Rmb48,858,000, representing a decrease of 11.60% over that of 2001.

In 2002, under the impact of tendering system adopted by the hospital and changes in the pricing policy for pharmaceutical products, gross profit margin of the trading operation decreased by 0.33% over that of 2001. The trading operations made all effort to maintain its core competitive advantage in order to face the severe market competition. Firstly, the trading operations set up a new department responsible for hospitals' tendering system; Secondly, the trading operations continued to seek and develop new famous pharmaceutical products and their distribution rights in order to maintain the market share. Thirdly, the trading operations put more promotion efforts on markets outside of Guangdong Province and strengthened its monitoring of the end-use markets and chained stores within the Guangdong Province. Fourthly, the trading operations, through the result of co-operation with the manufacturing operations, adopted a win-win strategy for the Group's famous brand name products.

Because of the severe market competition in the retailing sector, the Group adjusted its business development strategy for chained stores. As at 31 December 2002, the Group has 268 chained stores, including 163 Cai Zhi Lin shops, which mainly carry CPM, and 105 Jian Min shops, which mainly carry western pharmaceutical products.

In order to ensure improvement on profitability, the trading operations also worked on the controls over operational overheads. In addition, the trading operations have successfully improved its inventory control through sales statistic study. Furthermore, management has paid attention to the credit control and customer scanning policy. The decrease in operational overheads and increase in sales as well as the improvement on operating cash flows contributed to a sustained growth of the trading operations' profit.

6.2 Analysis of principal activities by business and by product

Business/Product	Turnover <i>Rmb'000</i>	Cost of sales <i>Rmb'000</i>	Gross profit ratio %	Changes in turnover over that of 2001 %	Changes in	Change in
					cost of sales over that of 2001 %	gross profit ratio over that of 2001 %
CPM manufacturing	1,743,449	789,366	54.72	6.64	(0.49)	6.29
Trading	4,200,374	3,841,078	8.55	13.55	13.96	(3.72)
Include: connected transactions	87,504	67,380	23.02	47.67	41.14	18.29
Heat clearing and anti toxic	408,546	203,037	50.30	12.06	11.32	0.66
Diabetes curing	364,660	135,950	62.72	17.28	12.77	2.43
Cough and phlegm clearing	198,365	100,210	49.48	(9.32)	(17.28)	10.89
Arthritis curing	190,281	72,138	62.09	15.55	4.86	4.00
Gastric	82,937	45,946	44.60	0.73	3.04	(2.71)
Include: connected transactions	28,533	14,912	51.44	91.34	83.56	3.98

Pricing policy for connected transactions

The sales and purchases transactions with connected parties were at the terms similar to those transactions with other third parties. The prices are decided on arm's length after considering the relevant government pricing policy and market development trend.

Explanation on the necessity and continuousness of connected transactions

Guangzhou Pharmaceutical Import & Export Corporation, a subsidiary of the Company, is engaged in import and export of medicines, related raw materials and medical apparatus for enterprises including enterprises under the same group.

Guangzhou Yingbang Trading Co., Ltd. ("Yingbang"), a fellow subsidiary of the Company, is engaged in the trading of medicines. Purchases of medicines from the Group are necessary.

Note: The above products are all CPM products.

6.3 Geographical analysis

Region	Turnover Rmb'000	Change in turnover over that of 2001 %
Southern China	4,552,948	7.00
Eastern China	449,925	16.43
Northern China	256,394	25.57
North-Eastern China	205,657	34.42
South-Western China	226,016	47.63
North-Western China	106,825	9.66
Export	146,058	72.42
Total	5,943,823	11.43

6.4 Particulars of suppliers and customers

	Rmb'000		%
Total purchases from top 5 suppliers	833,534	Percentage of total purchase	19.63
Total sales to top 5 customers	304,964	Percentage of total sales	5.13

6.5 Details of operations of the Company's subsidiaries (applicable for the Group's investee companies derived to the Group any investment income equal to 10% or above of the Group's net profit)

Applicable Not applicable

6.6 Explanation on significant changes in principal activities and their compositions

Applicable Not applicable

6.7 Explanation on significant changes in profit from principal activities(gross profit ratios)in comparison with 2001

Applicable Not applicable

6.8 Analysis on significant changes in operating results and their composition in comparison with 2001

Applicable Not applicable

Analysis on significant changes in overall financial position in comparison with 2001

Applicable Not applicable

Cash and cash equivalents decreased by 66.7%. The major reasons for the decrease were: (1) proceeds of Rmb73,799,000 from issue of A shares received in 2001; (2) the increase in accounts receivable by Rmb169,300,000 leading to a significant decrease in operating cash inflows.

6.9 Impact of the changes in production environment and macro economy on the Company

Applicable Not applicable

As required by the Provisional rules of Medical Insurance promulgated by the Guangzhou People's Municipal Government effective on 1 December 2001, the local enterprises shall be responsible for taking out medical insurance for their retired and retiring employees. Accordingly, the 21st meeting of the Board of the 2nd term on 23 January 2003 approved a resolution to adopt the accounting treatment under HK GAAP in relation to the medical insurance for retired and retiring employees on accrual basis.

According to the requirement of HK GAAP, payment to be made by the Group in relation to medical insurance for past services of its retired and retiring employees should be recognised as an expense in 2002. Based on the estimation by the Company, the net present value of the aggregate payments for medical insurance in 2002 and the next nine years is approximately Rmb78.9 million, representing about 3.34% of the Group's net tangible assets as at 31 December 2002.

6.10 Achievement compared with profit forecast

Applicable Not applicable

6.11 Achievement compared with operational budget

Applicable Not applicable

6.12 Details of use of proceeds from issue of A shares

Applicable Not applicable

Total proceeds received	737,990,000
Total amount of proceeds utilised in 2002	131,190,000
Accumulated amount of proceeds utilised	417,800,000

Projects	Budgeted injection from proceeds of issue <i>Rmb'000</i>	Change in projects	Funds injected <i>Rmb'000</i>	Investment proceeds		Agreed with the expected returns and the planned stage of completion
				Turnover increased by <i>Rmb'000</i>	Gross profit increased by <i>Rmb'000</i>	
Xiao Ke Wan upgrade	29,800	No	29,800	204,930	127,050	Yes
Bao Ji Wan upgrade	11,000	No	11,000	1,370	—	Yes
Commercialisation of Wei Re Qing	29,000	No	4,780	N/A	N/A	Yes
Automation of pill production	11,000	No	10,770	5,630	3,830	Yes
Technology upgrade of Hua Tuo pills	17,000	No	14,130	25,850	15,770	Yes
Throat, spleen and intestine pills technology upgrade	29,100	No	14,170	1,490	800	Yes
Technology upgrade for syrup production	29,500	No	1,540	N/A	N/A	No
Commercialisation of Keli syrup	19,600	No	4,320	N/A	N/A	Yes
Anti- perspiration granules upgrade	12,000	No	10,350	11,090	7,980	Yes
Automation of granules upgrade	29,900	No	29,900	4,460	2,040	Yes
Flu granules for children upgrade	23,000	No	23,000	1,530	760	Yes
Commercialisation of Xiao Yin tablets	29,500	No	5,160	N/A	N/A	Yes
Spleen, intestine and pimples tablets upgrade	17,800	No	7,050	7,420	4,580	Yes
Gao Lu upgrade	29,500	No	12,760	N/A	N/A	Yes
Tablets workshop upgrade	12,000	No	12,000	950	750	Yes
Modernisation of extraction and purification technology	29,900	No	9,960	N/A	N/A	Yes
Critical purification of CO ₂ technology foundation	29,900	No	—	N/A	N/A	Yes
Expansion of Jian Min chain stores	89,300	No	62,910	80,370	11,760	Yes
Expansion of Cai Zhi Lin chain stores	59,500	No	19,000	N/A	N/A	No
Logistic centre upgrade	20,000	No	9,290	N/A	N/A	No
ERP for trading section upgrade	20,000	No	10,220	N/A	N/A	Yes
Bio- medicine research centre	80,000	No	36,000	N/A	N/A	Yes
Additional working capital	79,690	No	79,690	N/A	N/A	Yes
Total	737,990	—	417,800	345,090	175,320	—

Explanatory note on returns on projects and the stage of completion (on individual project)

Due to the plant relocation, technology upgrade for syrup production was delayed. Expansion of chain stores was also slowed down because of the severe competition in the retailing sector. The traffic re-construction in Guangzhou City led to the delay of the development of the logistic centre but related stages of sourcing the materials for the logistic center are in progress.

Reasons and procedures of change (on individual project)

Applicable Not applicable

Change in the proposed use of the proceeds from issuing A shares

Applicable Not applicable

6.13 Major investments through use of funds generated from the Group's operation

Applicable Not applicable

Projects	Funds injected <i>Rmb'000</i>	Stage of completion	Returns on projects <i>Rmb'000</i>
Investment in Guoyao Group Industry Co., Ltd.	8,000	Completed	—
Investment in Guangzhou Huanye Pharmaceutical Co., Ltd.	15,331.2	Completed	570
Investment in Guangzhou JinYing Fund Management Company	20,000	Completed	—
Total	43,331.2	—	570

6.14 The Board's explanation on the qualified opinion issued by the auditors

Applicable Not applicable

6.15 New business plan

Applicable Not applicable

The Group will emphasize on promotion and advertisement to cultivate certain well-known branded products. In addition, the Group will engage professional marketing consultants to assist the Company in formulating and implementing certain modern marketing strategies. Meanwhile, the Group will ally with other enterprises to share advantages and resources.

The Group will put more efforts in research and development by cooperating with certain advanced research institutions. In addition, the Group will accelerate the commercialization of certain products with market potential and increase their economic scale.

The Group will accelerate the construction of the new factory plant for Guangzhou First Medicine Company Limited and put more efforts on the GMP re-engineering for Guangzhou Xing Qun Pharmaceutical Co., Ltd. and Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. in order to have the full scale GMP re-engineering completed in 2003.

In addition to the core business, the Company will actively seek promising business related investment projects, such as bio-chemical projects, medicine commercialisation projects, etc and attract domestic and overseas strategy investors. Through merger, acquisition and restructuring, the Company will diversify its business and explore new profitable business.

Profit forecast of 2003

Applicable Not applicable

6.16 Proposed scheme of profit distribution and increase in share capital from capital reserve

According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the RPC accounting standards and systems and the amount determined in accordance with HK GAAP. The Board recommended a final dividend of Rmb0.06 per share (including withholding tax for A Shares) for the year ended 31 December 2002.

The proposed final dividend, if passed at the AGM on 16 May 2003, will be paid on or before 30 May 2003 to H shares shareholders who appear on the Company's register of members at the close of trading in the afternoon on 24 April 2003 (Thursday). The registration day of A shares shareholders, date of payment of the dividend, and the method of payment will be announced separately.

During the year, there was no increase in share capital from the capital reserve.

6.17 Liquidation, financial resources and capital structure

As at 31 December 2002, long-term borrowings of the Group amounted to Rmb89,680,000. These borrowings are fixed interest loans denominated in Rmb and repayable in 2004. As at 31 December 2002, the cash and cash equivalents of the Group amounted to Rmb1,019,900,000, of which approximately 89.46% is denominated in Rmb and 10.54% denominated in Hong Kong dollars.

6.18 Charge on Group assets

At 31 December 2002, the net book value of fixed assets pledged as collateral for the Group's bank loans amounted to Rmb118,030,000.

6.19 Capital expenditure

The Group expects that capital expenditure during 2003 would be approximately Rmb291 million. The Group has sufficient financial resources to meet the demand for capital expenditure and daily working capital.

6.20 Gearing ratio

Up to 31 December 2002, there have been no material adverse changes in the gearing ratio of the Group.

6.21 Exposure to fluctuations in exchange rate

As the majority of the revenue, expenses, assets and liabilities of the Group are denominated in Rmb, the Group does not have significant risk in exposure to fluctuations in exchange rate.

6.22 Contingent liabilities

Up to 31 December 2002, the Group has no significant contingent liabilities.

6.23 Other matters

During the reporting period, there are no significant disposal of assets (including joint ventures and associated companies), or merger and acquisition activities occurred.

Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

6.24 Employees of the Group

As at 31 December 2002, the number of employees on the payroll register of the Group was 8,413, including:

	No. of employees
Production	3,046
Sales	2,536
Technical	1,767
Finance	278
Administration	786

Among the employees, there are 45 holding a master degree, 540 holding a bachelor degree, and 4,139 retirees. The total salaries and welfare for the year were approximately Rmb354 million.

The remuneration of the employees of the Group includes their salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

7. OTHER MATTERS

7.1 Acquisition of assets

Applicable Not applicable

7.2 Disposal of assets

Applicable Not applicable

7.3 Significant guarantees

Applicable Not applicable

7.4 Connected transactions

Applicable Not applicable

Connected parties	Amount due from connected parties		Amount due to connected parties	
	Net	Ending	Net	Ending
	movement	balance	movement	balance
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
GZPHL	—	—	—	10,806
Guangzhou Qiaoguang Pharmaceutical Factory	4,863	7,434	—	56
Guangzhou Mingxing Pharmaceutical Factory	2	2	—	59
Guangzhou Hejigong Factory	17	17	36	127
Guangzhou Tianxin Pharmaceutical Co., Ltd.	—	918	—	—
Guangzhou Guanghua Pharmaceutical Co., Ltd.	337	337	—	584
Guangzhou Southern China Medical Apparatus Co., Ltd.	—	100	—	—
Guangzhou Sanitation Production Factory	1,142	1,142	93	345
Guangzhou Yingbang Trading Co., Ltd.	2,510	8,537	408	517
Guangzhou Zhongfu Medical Co., Ltd.	475	477	—	—
Guangdong Xinhua Health Drinks Co., Ltd.	4,780	4,780	—	—
Guangzhou Baiyunshan Enterprise Group	6,414	6,414	—	—
Guangzhou Baiyunshan Chinese Medicine Factory	370	370	—	24
Guangzhou Baiyunshan Pharmaceutical Factory	—	—	—	—
Guangzhou Baiyunshan External Use Medicine Factory	—	—	—	—
Guangzhou Pharmaceutical Holdings Limited	1,424	8,130	—	—
Po Lian Development Co., Ltd.	2,794	5,796	3,311	3,311
Guangzhou Pharmaceutical Goods and Supply Company	—	—	1,019	1,024

7.5 Trusted fund management

Applicable Not applicable

Fund management company	Amount <i>Rmb'000</i>	Period	Guaranteed investment yield	Actual investment yield <i>Rmb'000</i>	Actual recovered amount <i>Rmb'000</i>
Northeastern Securities Co., Ltd. (note 1)	20,000	Up to 26 July 2002	—	2,000	22,000
Dapeng Securities Co., Ltd. (note 2)	20,000	Up to 26 July 2002	—	1,400	21,400
Dapeng Securities Co., Ltd. (note 3)	25,000	Up to 26 July 2002	—	1,750	26,750
Total	65,000	Until the announcement, the Group did not have any trusted fund management activities	—	5,150	70,150

Note 1: In 2001, Guangzhou Chen Li Ji Chinese Medicine Factory entrusted Northeastern Securities Co., Ltd. to manage the fund of Rmb20,000,000.

Note 2: In 2001, Guangzhou Yang Cheng Pharmaceutical Co., Ltd. entrusted Dapeng Securities Co., Ltd. to invest in government bonds and the entrusted amount was Rmb20,000,000.

Note 3: In 2001, Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. entrusted Dapeng Securities Co., Ltd. to invest in government bonds and the entrusted amount was Rmb25,000,000.

7.6 Commitments

Applicable Not applicable

As at 1 January 2002, capital commitments and lease commitments that were contracted but not provided for by the Company amounted to Rmb76,174,000 and Rmb61,601,000 respectively. During the reporting period, the contracted projects were completed at planned stages and rentals were paid in accordance with the contract terms.

7.7 Material litigation and arbitration

Applicable Not applicable

7.8 Independent non-executive directors' fulfilment of duties

Independent non-executive directors have fulfilled their duties by actively safeguarding the overall interests of the Company and its minority shareholders, and providing constructive advice towards the Company's development in accordance with the relevant laws and regulations. In fulfilling their duties, the independent directors were independent from the major shareholders, ultimate controlling person and other persons or companies with relevant interests in the Company.

8. REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is of the opinion that the Company has been operating legally and properly with respect to the financial conditions, use of proceeds raised, transactions of acquisition and disposal of assets and connected transactions.

9. FINANCIAL REPORTS

9.1 Audit opinion

The Company's accounts for the year ended 31 December 2002 were audited by Guangzhou Yangcheng Certified Public Accountants Co., Ltd, who issued an unqualified audited report [2003 Yang Cha Zi No.439] signed by the two Chinese certified public accountants, Mr. Huang Wei Cheng and Mr. Zhang Ning.

PricewaterhouseCoopers are the Company's international auditors, who issued an unqualified audit opinion on the Company's HK GAAP accounts for the year ended 31 December 2002.

9.2 Audited accounts

Balance sheets of the Group and the Company as at 31 December 2002

Profit and loss account of the Group and the Company for the year ended 31 December 2002

Cash flow statement of the Group and the Company for the year ended 31 December 2002

9.3 Accounting policies, accounting estimates and method for preparation of accounts

Guangzhou Qi Xing Pharmaceutical Company Limited, a subsidiary of Guangzhou Qi Xing Pharmaceutical Factory, is an enterprise with foreign investment, which applies "Accounting Regulation of PRC for Enterprises with Foreign Investment" to prepare its accounts for the year ended 31 December 2001. Effective 1 January 2002, Guangzhou Qi Xing Pharmaceutical Company Limited has adopted the "Accounting Standards for Business Enterprises" and "Accounting Systems for Business Enterprises" to prepare its accounts. During the reporting period, there is no any other change in accounting policies and accounting estimates of the Company.

9.4 During the reporting period the consolidation scope was extended.

Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd., Guangzhou Baidi Biological Pharmaceutical Co., Ltd and Guangzhou Huanye Medicine Co., Ltd were included in the consolidation scope in 2002.

Balance Sheet of the Group and the Company

As at 31 December 2002

(prepared under PRC accounting standards and systems)

Assets	31 December 2002		31 December 2001	
	The Group Rmb	The Company Rmb	The Group Rmb	The Company Rmb
Current assets				
Cash	1,019,903,178.95	204,624,119.72	893,692,642.58	333,582,586.83
Short-term investments	61,194,385.90	61,194,385.90	67,988,074.44	3,051,935.55
Notes receivable	180,000.00	—	46,710.00	—
Dividends receivable	5,474,684.92	5,106,895.00	6,080,075.49	20,710,385.91
Interest receivable	—	—	—	—
Accounts receivable	716,482,532.62	—	547,182,576.57	—
Other receivables	122,975,499.77	285,792,292.21	136,366,773.61	340,009,236.97
Advances to suppliers	80,700,451.50	—	41,166,801.83	—
Subsidy receivable	10,064,712.63	—	5,673,006.90	—
Inventories	848,519,074.31	—	833,327,684.61	—
Prepaid expenses	81,727,619.19	—	72,498,655.55	—
Long-term debit investments maturing within one year	—	—	—	—
Other current assets	—	—	—	—
Total current assets	2,947,222,139.79	556,717,692.83	2,604,023,001.58	697,354,145.26
Long-term investment				
Long-term equity investment	86,789,969.55	1,772,278,585.65	81,085,615.01	1,511,555,585.50
Long-term debt investment	—	—	—	—
Total long-term investment	86,789,969.55	1,772,278,585.65	81,085,615.01	1,511,555,585.50
Fixed assets				
Fixed assets - cost	1,247,479,589.50	31,605,410.76	1,121,946,619.83	30,074,896.76
Less: accumulated depreciation	442,207,260.76	7,279,372.15	387,682,106.69	4,833,509.98
Fixed assets - net amount	805,272,328.74	24,326,038.61	734,264,513.14	25,241,386.78
Less: fixed assets impairment provision	29,564,343.45	7,109,752.25	24,753,795.66	—
Fixed assets - net book value	775,707,985.29	17,216,286.36	709,510,717.48	25,241,386.78
Construction supplies	0.00	—	0.00	—
Construction in progress	236,616,437.79	4,330,352.17	174,211,477.32	—
Fixed assets pending for disposal	—	—	—	—
Total fixed assets	1,012,324,423.08	21,546,638.53	883,722,194.80	25,241,386.78

Intangible assets and other assets				
Intangible assets	93,768,566.32	—	102,137,518.11	—
Long-term prepaid expenses	33,089,392.45	2,404,510.41	31,145,005.93	2,209,641.77
Other long-term assets	—	—	—	—
Total intangible assets and other assets	126,857,958.77	2,404,510.41	133,282,524.04	2,209,641.77

Liabilities and shareholders' equity	31 December 2002		31 December 2001	
	The Group	The Company	The Group	The Company
	Rmb	Rmb	Rmb	Rmb
Deferred tax				
Deferred tax debits	—	—	—	—
Total assets	4,173,194,491.19	2,352,947,427.42	3,702,113,335.43	2,236,360,759.31
Current Liabilities				
Short-term loans	555,340,000.00	—	387,680,000.00	—
Notes payable	78,178,584.40	—	682,237.50	—
Accounts payable	580,755,642.12	—	558,201,710.52	—
Advances from customers	46,266,805.26	—	40,126,980.26	—
Accrued payroll	81,003,162.42	2,629,148.66	78,160,241.50	2,629,148.66
Welfare benefits payable	57,057,212.15	2,568,305.87	42,505,336.32	2,098,445.50
Dividends payable	49,124,722.36	48,676,917.14	49,198,495.25	48,676,906.39
Taxes payable	48,773,628.89	408,494.06	28,914,107.23	316,535.72
Other levies payable	3,954,085.03	9,880.96	3,443,865.85	11,116.36
Other payables	124,069,695.90	11,947,614.68	149,781,248.00	6,230,507.00
Accrued expenses	4,625,106.82	3,250,000.00	4,553,878.05	2,300,000.00
Provision for foreseeable liabilities	—	—	—	—
Portion of long-term liabilities due within one year	—	—	45,000,000.00	—
Other current liabilities	—	—	—	—
Total current liabilities	1,629,148,645.35	69,490,361.37	1,388,248,100.48	62,262,659.63
Long-term liabilities				
Long-term loans	89,680,000.00	—	10,000,000.00	—
Debouchures payable	—	—	—	—
Payables due after one year	3,619,897.61	—	8,854,221.43	—
Government grants payable	22,893,288.18	—	1,600,000.00	—
Other long-term payables	5,000,000.00	—	5,000,000.00	—
Total long-term liabilities	121,193,185.79	—	25,454,221.43	—
Deferred tax:				
Deferred tax credits	—	—	—	—
Total liabilities	1,750,341,831.14	69,490,361.37	1,413,702,321.91	62,262,659.63

Minority shareholders' equity	135,923,981.38	—	115,494,935.97	—
Shareholders' equity				
Share capital	810,900,000.00	810,900,000.00	810,900,000.00	810,900,000.00
Less: investment returned	—	—	—	—
Net share capital	810,900,000.00	810,900,000.00	810,900,000.00	810,900,000.00
Capital surplus	1,114,334,224.64	1,114,220,189.56	1,109,075,604.20	1,109,075,604.20
Reserved fund	336,429,845.16	124,276,436.70	251,928,845.40	101,507,382.18
Including: public welfare fund	109,728,912.38	52,000,975.21	82,925,402.32	44,411,290.37
Retained earnings	25,264,608.87	234,060,439.79	1,011,627.95	152,615,113.29
Total shareholders' equity	2,286,928,678.67	2,283,457,066.05	2,172,916,077.55	2,174,098,099.68
Total liabilities and shareholders' equity	4,173,194,491.19	2,352,947,427.42	3,702,113,335.43	2,236,360,759.31

Profit and Loss Account for the Group and the Company

For the year ended 31 December 2002

(prepared under PRC accounting standards and systems)

Item	2002		2001	
	The Group Rmb	The Company Rmb	The Group Rmb	The Company Rmb
1 Sales	5,943,823,330.51	—	5,334,028,710.18	—
Less: Cost of sales	4,630,442,992.22	—	4,163,902,618.51	—
Less: Sales tax and levies	23,971,060.12	—	22,101,346.38	—
2 Profit from principal operations	1,289,409,278.17	—	1,148,024,745.29	—
Add: Profit from other operations	31,799,024.38	3,299,534.99	36,060,658.31	5,102,306.96
Less: Operating expenses	418,080,004.45	—	392,784,996.09	—
Less: General and administrative expenses	557,186,117.00	27,642,298.17	522,102,842.79	22,771,419.12
Less: Financial expenses (income)	15,329,165.53	-5,006,323.96	7,157,170.38	-15,726,448.75
3 Operating profit	330,613,015.57	-19,336,439.22	262,040,394.34	-1,942,663.41
Add: Investment income (losses)	-16,898,852.55	178,636,602.10	-505,681.27	152,275,101.82
Add: Subsidy income	314,068.00	—	3,511,998.57	—
Add: Non-operating income	2,858,663.60	216,632.01	6,524,440.99	83.13
Less: Non-operating expenses	29,380,807.14	7,141,463.06	11,490,010.07	216,817.78
4 Total profit	287,506,087.48	152,375,331.83	260,081,142.56	150,115,703.76
Less: Income tax	113,122,444.16	581,635.02	103,209,535.64	—
Less: Minority interests	15,905,895.38	—	10,737,766.32	—
5 Net profit	158,477,747.94	151,793,696.81	146,133,840.60	150,115,703.76
Add: Retained earnings brought forward	1,011,627.95	152,615,113.29	-26,958,138.43	73,670,765.10
Add: Transfer from others	3,972,143.34	1,074,684.21	0.00	—

6. Profit distributable	163,461,519.23	305,483,494.31	119,175,702.17	223,786,468.86
Less: Transfer to statutory surplus reserves	34,419,291.99	15,179,369.68	26,095,588.94	15,011,570.38
Less: Transfer to statutory public welfare	26,812,654.95	7,589,684.84	18,589,803.77	7,505,785.19
Less: Transfer to staff bonus and welfare fund	2,144,451.47	—	1,334,327.55	—
Less: Transfer to reserve fund	804,169.31	—	667,163.78	—
Less: Enterprise expansion fund	804,169.31	—	667,163.78	—
Less: Profit returned to investment	—	—	—	—
7. Profit distributable to shareholders	98,476,782.20	282,714,439.79	71,821,654.35	201,269,113.29
Less: Dividend for preferred shares	—	—	—	—
Less: Transfer to discretionary surplus reserves	24,558,173.33	—	22,156,026.40	—
Less: Dividend for ordinary shares	48,654,000.00	48,654,000.00	48,654,000.00	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital	—	—	—	—
8. Retained earnings	25,264,608.87	234,060,439.79	1,011,627.95	152,615,113.29

Supplemental information

No.	Item	2002		2001	
		The Group Rmb	The Company Rmb	The Group Rmb	The Company Rmb
1	Profit from sale, disposal of a business unit or investments	—	—	—	—
2	Loss due to natural disaster	—	—	595,612.56	—
3	Increase / (decrease) in total profit as a result of changes in accounting policies	—	—	—	—
4	Increase / (decrease) in total profit as a result of changes in accounting estimas	—	—	—	—
5	Losses from debt reconstructing	—	—	—	—
6	Others	—	—	—	—

Cash Flow Statement of the Group and the Company
For the year ended 31 December 2002
(prepared under PRC accounting standards and systems)

Item	2002	
	The Group Rmb	The Company Rmb
I. Cash flows from operating activities		
Cash received from sales of goods or rendering services	6,836,654,545.10	—
Refund of tax and levies	23,950,106.62	282,956.00
Other cash received relating to operating activities	171,486,216.26	8,501,708.79
Sub-total of cash inflows	7,032,090,867.98	8,784,664.79
Cash paid for goods or services	5,447,547,606.85	—
Cash paid to and on behalf of employees	437,112,281.08	8,207,747.79
Payments of all type of taxes	431,020,632.94	4,274,962.90
Other cash paid relating to operating activities	547,396,057.19	20,099,227.62
Sub-total of cash outflows	6,863,076,578.06	32,581,938.31
Net Cash flows from operating activities	169,014,289.92	-23,797,273.52
II. Cash flows from investing activities		
Cash received from disposal of investments	84,601,477.24	18,071,261.69
Cash received from investment income	10,965,522.69	77,008,658.92
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	7,665,519.93	—
Other cash received relating to investing activities	2,220,526.10	64,079,943.80
Sub-total of cash inflows	105,453,045.96	159,159,864.41
Cash paid to acquire fixed assets, intangible assets and other long-term assets	173,698,559.80	6,881,866.17
Cash paid to acquire investments	99,603,800.00	188,109,203.12
Other cash paid relating investing activities	—	20,720,000.00
Sub-total of cash outflows	273,302,359.80	215,711,069.29
Net Cash flows from investing activities	-167,849,313.84	-56,551,204.88

III. Cash flows from financing activities		
Cash received from capital contribution	—	—
Cash received from capital contribution from minority shareholders	940,000.00	—
Cash received from borrowings	787,340,000.00	—
Cash received relating to financing activities	945,646.75	—
Sub-total of cash inflows	789,225,646.75	—
Cash repayments of amounts borrowed	585,000,000.00	—
Cash payments for distribution of dividends, profits or interest expenses	75,599,561.31	48,653,989.25
Cash payments for distribution of dividends to minority shareholders	3,511,469.89	—
Other cash payments relating to financing activities	113,085.74	—
Sub-total of cash outflows	664,224,116.94	48,653,989.25
Net Cash Flows from Financing Activities	125,001,529.81	-48,653,989.25
IV. Effect of foreign exchange rate changes on cash	44,030.48	44,000.54
V. Net increase / (decrease) in cash and cash equivalents	126,210,536.37	-128,958,467.11

Supplemental Information

	2002	
	The Group	The Company
	Rmb	Rmb
1. Reconciliation of net profit to cash flows from / (to) operating activities		
Net profit	158,477,747.94	151,793,696.81
Add: Minority interests	15,905,895.38	—
Provision for asset impairment	8,209,190.93	150,613.06
Depreciation of fixed assets	79,526,037.16	2,533,349.99
Amortization of intangible assets	20,102,638.91	—
Amortization of long-term prepaid expenses	21,487,381.52	826,131.36
Decrease in prepaid expenses (less: increase)	-9,228,963.64	—
Increase in accrued expenses (less: decrease)	71,228.77	950,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gains)	171,994.44	-203,520.00
Losses on scrapping of fixed assets	3,392,710.26	27,112.18
Financial expenses (less: income)	27,390,219.39	10,460.57
Losses on investment (less: gain)	-16,898,852.55	-178,636,602.10
Deferred tax credit (less: debit)		
Decrease in inventories (less: increase)	-15,191,389.70	—
Decrease in operating receivables (less: increase)	-244,802,016.08	-1,809,098.70
Increase in operating payables (less: decrease)	120,400,467.21	560,583.31
Others	0.00	0.00
Net cash flows from operating activities	169,014,289.92	-23,797,273.52
2. Investing and financing activities that don't involve in cash receipts or payments		
Conversion of debt into capital	—	—
Convertible bonds due within one year	—	—
Fixed assets acquired under finance leases	—	—
3. Net increase / (decrease) in cash and cash equivalents		
Cash at the end of year	1,019,903,178.95	204,624,119.72
Less: cash at the beginning of year	893,692,642.58	333,582,586.83
Add: Cash equivalents at the end of year	—	0.00
Less: Cash equivalents at the beginning of year	—	0.00
Net increase / (decrease) in cash and cash equivalents	126,210,536.37	-128,958,467.11

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2002**

(Prepared under HK GAAP)

		2002	2001
	<i>Note</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover	1	5,943,823	5,334,029
Cost of sales		(4,630,443)	(4,165,306)
Gross profit		1,313,380	1,168,723
Other revenues	1	68,373	73,734
Distribution costs		(442,051)	(414,876)
Administrative expenses		(677,678)	(575,151)
Other operating expenses		(13,735)	(7,320)
Operating profit	2	248,289	245,110
Finance costs	3	(28,804)	(29,726)
Share of profits less losses of			
Jointly controlled entities		(23,435)	(9,906)
Associated companies		310	509
Profit before taxation		196,360	205,987
Taxation	4	(89,846)	(105,084)
Profit after taxation		106,514	100,903
Minority interests		(11,953)	(5,035)
Net profit for the year		94,561	95,868
Dividends	5	48,654	48,654
Earnings per share	6	Rmb0.117	Rmb0.119

Notes:

1. Turnover, revenue and segment information

The Group is principally engaged in the manufacture and sales of CPM and the wholesale, retail, import and export of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus. Revenues recognised during the year are as follows:

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Turnover:		
Sales of goods	5,943,823	5,334,029
Other revenues:		
Government grants and subsidies (Note)	8,432	3,061
Interest income	13,475	22,523
Gross rental income from investment properties	21,347	20,932
Gross rental income from other properties	11,060	8,608
Promotional income from suppliers	8,556	8,755
Royalty income	851	1,127
Income from unlisted investments	4,652	8,728
	68,373	73,734
Total revenues	6,012,196	5,407,763

Note: Flood prevention contribution of Rmb4,832,000 (2001: Nil) has been refunded as an incentive to a subsidiary from local tax authority.

An amount of Rmb3,600,000 payable to local government (2001: Nil) has been waived as subsidies to a subsidiary. According to the approval documents, the Group is required to transfer from profit after taxation an amount equal to the subsidies entitled to the capital reserve account.

The government grants and subsidies of 2001 were subsidies received from local government for technical development which were also transferred to the 2001 capital reserve account according to the relevant approval documents.

The Group is organised into the following business segments:

- Manufacturing of CPM
- Wholesale of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus
- Retail of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus
- Import and export of western pharmaceutical products

Other operations of the Group mainly comprise holding of investment properties and investment securities, neither of which are of a sufficient size to be separately reported.

No geographical analysis of turnover and operating profit is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributed to markets outside PRC.

	Year ended 31 December 2002					
	Manufacturing RMB'000	Wholesale RMB'000	Retail RMB'000	Import and export Rmb'000	Elimination Rmb'000	Group Rmb'000
Turnover						
External	1,743,449	3,794,686	307,501	98,187	—	5,943,823
Internal	25,585	250,757	8,944	28,280	(313,566)	—
Total	<u>1,769,034</u>	<u>4,045,443</u>	<u>316,445</u>	<u>126,467</u>	<u>(313,566)</u>	<u>5,943,823</u>
Segment results	<u>194,804</u>	<u>74,691</u>	<u>7,653</u>	<u>2,670</u>	<u>(11,625)</u>	268,193
Unallocated costs						(19,904)
Operating profit						248,289
Finance costs						(28,804)
Share of profits less losses of						
Jointly controlled entities	(23,435)	—	—	—	—	(23,435)
Associated companies	310	—	—	—	—	310
Profit before taxation						196,360
Taxation						(89,846)
Profit after taxation						106,514
Minority interests						(11,953)
Net profit						<u>94,561</u>
Segment assets	1,976,902	1,669,439	180,333	80,012	(271,614)	3,635,072
Investments in						
joint ventures	6,208	—	—	—	—	6,208
Investments in						
associated companies	2,930	—	—	—	—	2,930
Unallocated assets						716,925
Total assets						<u>4,361,135</u>
Segment liabilities	504,996	1,322,774	65,997	69,765	(271,614)	1,691,918
Unallocated liabilities						69,267
Total liabilities						<u>1,761,185</u>
Capital expenditure	202,219	26,174	6,487	311	—	235,191
Depreciation	67,337	16,295	5,408	201	—	89,241
Amortisation charge	7,401	3,015	—	30	—	10,446
Impairment charge	<u>18,099</u>	<u>1,930</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,029</u>

	Year ended 31 December 2001					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Turnover						
External	1,634,887	3,281,570	357,170	60,402	—	5,334,029
Internal	29,711	274,911	—	—	(304,622)	—
Total	<u>1,664,598</u>	<u>3,556,481</u>	<u>357,170</u>	<u>60,402</u>	<u>(304,622)</u>	<u>5,334,029</u>
Segment results	<u>176,984</u>	<u>66,287</u>	<u>7,449</u>	<u>1,513</u>	<u>(10,970)</u>	241,263
Unallocated costs						<u>3,847</u>
Operating profit						245,110
Finance costs						(29,726)
Share of profits less losses of						
Jointly controlled entities	(9,906)	—	—	—	—	(9,906)
Associated companies	509	—	—	—	—	509
Profit before taxation						205,987
Taxation						(105,084)
Profit after taxation						100,903
Minority interests						(5,035)
Net profit						<u>95,868</u>
Segment assets	1,597,486	1,253,447	183,256	64,784	(85,017)	3,013,956
Investments in						
joint ventures	29,832	—	—	—	—	29,832
Investments in						
associated companies	2,912	—	—	—	—	2,912
Unallocated assets						<u>831,269</u>
Total assets						<u>3,877,969</u>
Segment liabilities	340,910	935,140	75,382	47,746	(85,017)	1,314,161
Unallocated liabilities						<u>31,680</u>
Total liabilities						<u>1,345,841</u>
Capital expenditure	84,230	56,706	8,364	218	—	149,518
Depreciation	58,882	24,457	2,101	239	—	85,679
Amortisation charge	7,401	3,015	—	30	—	10,446
Impairment charge	<u>37,947</u>	<u>9,807</u>	<u>2,365</u>	<u>—</u>	<u>—</u>	<u>50,119</u>

2. Operating profit

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Charging:		
Depreciation and amortization of fixed assets	89,241	85,679
Amortisation of intangible asset	10,446	10,446
Impairment charge (Note)	20,029	50,119
Outgoings in respect of investment properties	4,037	3,971
Outgoings in respect of other properties	2,212	—
Loss on disposal of fixed assets	3,696	655
Loss on disposal of a joint venture	16	—
Realized losses on disposal of trading securities	1,929	—
Unrealized losses on trading securities	1,714	—
Research and development costs	26,500	17,624
Auditors' remuneration	3,187	3,400
Staff costs:		
Pension benefit	50,537	49,022
Housing fund	12,066	9,379
Medical insurance	97,233	26,414
Housing allowances	7,817	—
Salaries, wages and other staff benefits	412,808	376,147
Operating leases for land and buildings	27,315	26,327
	<u> </u>	<u> </u>
Crediting:		
Write off negative goodwill arising on increase in interest of subsidiaries	—	4,526
Reversal of write-down of inventories	785	—
	<u> </u>	<u> </u>
<i>Note: Impairment charge included:</i>		
	<i>Rmb'000</i>	<i>Rmb'000</i>
<i>Fixed assets</i>	20,029	38,191
<i>Construction in progress</i>	—	11,928
	<u> </u>	<u> </u>
	<u>20,029</u>	<u>50,119</u>

Impairment charge mainly arose as a result of technology upgrade, modernization of production facilities and significant decline in market value of the assets.

3. Finance costs

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Interest on bank loans and overdrafts	27,918	30,504
Other incidental borrowing costs	1,244	513
	<u> </u>	<u> </u>
Total borrowing costs incurred	29,162	31,017
Less: interest capitalised in construction in progress	(358)	(1,291)
	<u> </u>	<u> </u>
	<u>28,804</u>	<u>29,726</u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is approximately 5.49% (2001: 5.94%).

4. Taxation

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
The amount of taxation charged to the consolidated profit and loss account represents:		
Current taxation		
PRC enterprise income tax	113,123	104,912
Deferred taxation	(23,387)	—
	<u>89,736</u>	<u>104,912</u>
Share of taxation attributable to		
Jointly controlled entities	—	—
Associated companies	110	172
	<u>89,846</u>	<u>105,084</u>

The PRC enterprise income tax has been provided at the rate of 33% (2001: 33%) on the estimated assessable profit for the year.

Pursuant to a document [2000] 1063 issued by the Guangzhou Finance Bureau, enterprise income tax of listed companies in Guangzhou city in 2001 was initially based on the unified tax rate of 33% and the portion over 15% of the tax attributable to local government (i.e., 60% of the 18% of tax) was refunded. Accordingly, the effective income tax refund rate of 2001 was 10.8%. The Company and its major subsidiaries were effectively taxed at 22.2% in the year 2001.

An amount of Rmb23,087,000 (2001: Rmb13,016,000) relating to the said tax refund for tax paid during the second half of 2001 has been received and net off against the tax charge for the year.

There is no such income tax refund scheme for the year 2002.

Companies comprising the Group that are incorporated outside the PRC are liable to pay income tax on their taxable income in accordance with the tax laws of the countries in which they operated.

5. Dividends

	2002 <i>Rmb'000</i>	2001 <i>Rmb'000</i>
Final, proposed, of Rmb0.06 (2001: Rmb0.06) per share	<u>48,654</u>	<u>48,654</u>

At a meeting held on 21 March 2003 the directors declared a final dividend of Rmb0.06 per ordinary share. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

6. Earnings per share

The calculation of earnings per share for the year ended 31 December 2002 is based on the net profit of Rmb94,561,000 (2001: Rmb95,868,000) and the 810,900,000 shares (2001: 808,976,712 shares-weighted average) in issue.

7. Retained earnings

	<i>Rmb'000</i>
At 1 January 2001, as previously reported	89,905
Effect of adopting SSAP 9 (Revised)	24,327
At 1 January 2001, as restated	<u>114,232</u>
2000 Final dividend paid	(24,327)
Net profit for the year	95,868
Transfer to reserves	(76,339)
Transfer to retained earnings	<u>16,519</u>
At 31 December 2001	<u><u>125,953</u></u>
Representing:	
2001 Final dividend proposed	48,654
Others	77,299
Retained earnings as at 31 December 2001	<u><u>125,953</u></u>
The Company and subsidiaries	139,777
Jointly controlled entities	(12,167)
Associated companies	(1,657)
	<u><u>125,953</u></u>
At 1 January 2002	125,953
2001 Dividends paid	(48,654)
Profit for the year	94,561
Transfer to reserves	(88,613)
At 31 December 2002	<u><u>83,247</u></u>
Representing:	
2002 Final dividend proposed	48,654
Others	34,593
Retained earnings as at 31 December 2002	<u><u>83,247</u></u>
The Company and subsidiaries	120,196
Jointly controlled entities	(35,602)
Associated companies	(1,347)
	<u><u>83,247</u></u>

10. REQUIRED INFORMATION

The Company will publish in the website of The Stock Exchange of Hong Kong Limited all the information related to Company's results announcement for the year ended 31 December 2002, as required by the paragraphs 45(5) of Appendix 16 of the Listing Rules.

ANNOUNCEMENT OF THE RESOLUTIONS PASSED AT THE 22nd MEETING OF THE 2nd TERM OF THE BOARD OF DIRECTORS TOGETHER WITH THE NOTICE OF THE 2002 ANNUAL GENERAL MEETING

Guangzhou Pharmaceutical Company Limited's (the "Company") 22nd meeting of the 2nd term of the Board of Directors, which was held on 21 March 2003 in the conference room of the Company's premises at 2nd Floor, 45 Sha Mian North Street, Guangzhou Province, the People's Republic of China (the "PRC") was attended by nine directors out of nine eligible directors; Mr. Cai Zhixiang, the Chairman of the Company presided over the meeting; and the Company's supervisors and senior management have also attended the meeting. The meeting was in accordance with the Company Law of the PRC and the Company's Articles of Association. After detailed discussion, all of the directors at the meeting unanimously agreed on the following resolutions:

1. the directors' report for the year 2002;
2. the audited accounts for the Company for the year 2002;
3. the auditors' reports for the year 2002;
4. the reappointment of the retiring auditors' (Guangzhou Yangcheng Certified Public Accountants Co. Ltd.) and the international auditors (PricewaterhouseCoopers) and to authorise the Board to determine their respective remunerations;
5. the resolution of profit distribution and dividend payment for the year 2002;
 - a) the profit distribution of the Company and its subsidiaries are to be as follows:
 - i) among its subsidiaries, manufacturing business is to transfer 10% to the statutory surplus reserve fund; 10% to the statutory public welfare reserve; 10% to the discretionary surplus reserve: Trading business is to transfer 10% to the statutory surplus reserve fund; 10% to the statutory public welfare reserve; 20% to the discretionary surplus reserve.
 - ii) the Company is to transfer 10% to the statutory surplus reserve fund; 5% to the statutory public welfare reserve; no transfer is to be made to the discretionary surplus reserve.
 - ii) the full year dividend for 2002 is recommended to be Rmb0.06 per share (inclusive of tax for A shares), the total amount of dividends to be distributed amounts to Rmb48.65 million.
6. the projected net profit distribution policy for the Company in 2003:

the Company proposes that there will be only one dividend distribution in 2003; the amount to be apportioned as dividend will not be lower than 30% of the net profit and this will be distributed in the form of cash; the Company does not plan to make any conversions from surplus reserve into capital in 2003.

7. the amount of emoluments to be paid to the directors and supervisors of the Company;
- it is proposed that in 2003, the emoluments for the Company's directors and supervisors will be Rmb2.7 million and Rmb0.6 million respectively, a total of Rmb3.3 million (excluding the emoluments of directors of the subsidiaries).
8. the proposal to authorise the directors to allot and issue new shares:
- a) subject to paragraphs c) and d) and pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (as amended from time to time) and the Company Law of the PRC, the exercise by the directors of all the powers of the Company granted by the general and unconditional mandate to allot and issue new overseas listed foreign shares and domestic shares, either separately or concurrently once every twelve months, during the Relevant Period and the exercise of powers by the directors to determine the terms and conditions for the allotment and issue of new shares including the following terms:
 - i) class and number of new shares to be issued;
 - ii) issue price of new shares;
 - iii) the starting and closing time for the issue;
 - iv) class and number of the new shares to be issued to existing shareholders; and
 - v) the making or granting of offers, agreements and options which might require the exercise of such powers.
 - b) the approval in paragraph (a) shall authorise the directors during the Relevant Period to make or grant offers, agreements and options which would or might be exercised after the end of the Relevant Period.
 - c) the aggregate nominal amount of overseas listed foreign shares and domestic shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors pursuant to the approval in paragraph a), otherwise than pursuant to issue of shares by conversion of the statutory surplus reserve into capital in accordance with the Company Law of the PRC and the Articles of Association of the Company and other relevant regulations, shall not exceed twenty per cent (20%) of each of the existing overseas listed foreign shares and domestic shares of the Company.
 - d) in exercising the powers granted under paragraph (a), the directors must (1) comply with the Company Law of the PRC and other relevant regulations and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time); and (2) obtain approval from the China Securities Regulatory Commission.

- e) for the purpose of this Resolution:
“Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
 - i) twelve months from the date of passing this resolution;
 - ii) the conclusion of the next annual general meeting of the company; and
 - iii) the revocation or variation of the mandate granted under this resolution by special resolution of the shareholders in general meeting.
- f) the directors, subject to the approval of the relevant authorities and in accordance with the Company Law of the PRC, be and is hereby authorised to increase the registered share capital of the Company to the respective amount upon the exercise of the powers pursuant to paragraph a) above, provided that the registered share capital shall not exceed Rmb973,080,000.
- g) subject to the approval of the relevant PRC authorities, the Board be and is hereby authorised to make appropriate and necessary amendments to the articles of association (including Article 18 and Article 21) to reflect the alteration of the registered share capital of the Company pursuant to the exercise of this mandate.

9. the resolution to convene the 2002 Annual General Meeting with details as follows:
- a) notice is hereby given that the Company will hold its Annual General Meeting (AGM) at 10 am on Friday, 16 May 2003 at the Company’s premises at 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the People’s Republic of China to deal with the following matters:
 - i) By way of ordinary resolutions:
 - (1) to consider and approve the directors’ report for the year 2002;
 - (2) to consider and approve the report of the Supervisory Committee for the year 2002;
 - (3) to consider and approve the audited accounts for the Company for the year 2002;
 - (4) to consider and approve the auditors’ reports for the year 2002;
 - (5) to consider and approve the reappointment of the retiring auditors (Guangzhou Yangcheng Certified Public Accountants Co. Ltd.) and the international auditors (PricewaterhouseCoopers) and to propose to the Annual General Meeting to grant the mandate to the board of directors (the “Board”) to determine their remunerations;

- (6) to consider and approve the resolution of profit distribution and dividend payment for the year 2002;
 - (7) to consider and approve the projected net profit distribution policy for the Company in 2003;
 - (8) to consider and approve the amount of emoluments to be paid to the directors of the Company for the year 2003 and to authorise the Board to decide the amount for each directors;
 - (9) to consider and approve the amount of emoluments to be paid to the supervisors of the Company for the year 2003 and to authorise the Board to decide the amount for each supervisors; and
- ii) by way of special resolutions:
- to consider and approve the proposal to authorise the Board to allot and issue new shares.
- b) attendees:
- i) foreign shareholders whose names appear on the Register of Members of the Company at the close of trading in the afternoon on Thursday, 24 April 2003 and domestic shareholders whose names appear on the Register of Members of the Company at the close of trading in the afternoon on Wednesday, 16 April 2003, are entitled to attend the meeting. The Register of Members of the Company will be closed from Thursday, 17 April 2003 to Friday, 16 May 2003 (both days inclusive) during which period no transfer of H shares will be effected;
 - ii) each shareholder can appoint his/her proxy to attend the meeting on his/her behalf; and
 - iii) the directors, supervisors and senior management of the Company.
- c) Registration for the meeting:
- i) registration procedures: to attend the meeting, an individual shareholder should bring along his/her identity card, shareholder account card; a proxy should bring along his/her identity card, the power of attorney issued by the unit, shareholder account card of the legal person and a copy of the business licence of the legal person. Overseas shareholders can make registration by mail, telephone or fax.
 - ii) registration time: 8:30 am - 11:30 am and 2:00 pm - 4:30 pm on Friday, 25 April 2003
 - iii) place of registration: Company Secretary Office

- d) in order to qualify for the final dividend, the shareholders of the Company's H shares should prepare all of the necessary transfer documentation for the distribution of the final dividend and lodge with HKSCC Registrars Limited by 4:00 pm on 16 April 2003. A further notice will be made in relation to the share registration date, payment date and distribution arrangements for holders of A shares.
- e) others:
- (1) shareholders attending the meeting shall be responsible for their own travelling and accommodation expenses.
 - (2) contact person: Mr. He Shuhua
Tel: 020-81218117
Fax: 020-81216408

**Guangzhou Pharmaceutical Company
Limited**

21 March 2003

**NOTICE OF THE RESOLUTIONS PASSED AT THE 12th
MEETING OF THE 2nd SUPERVISORY COMMITTEE**

Guangzhou Pharmaceutical Company Limited's (the "Company") 12th meeting of the 2nd Supervisory Committee was held on 21 March 2003 at 2nd Floor, conference room of the Company's premises; Mr Chen Canying, the Chairman of the Supervisory Committee presided over the meeting; and the meeting was attended by all of the Company's supervisors. The meeting was in accordance with Company Law and the Company's own Articles of Association. After voting, the following items were approved:

1. the annual report of the Company for the year 2002;
2. the report of the Supervisory Committee for the year 2002;
3. the audited accounts of the Company for the year 2002;
4. the auditors' reports for the year 2002;
5. the reappointment of the retiring auditors' (Guangzhou Yangcheng Certified Public Accountants Co. Ltd.) and the international auditors (PricewaterhouseCoopers) and to propose to the Annual General Meeting to grant the mandate to the Board to determine their respective remunerations;

6. considered and approved the resolution of profit distribution and dividend payment for the year 2002;
 - a) the profit distribution of the Company and its subsidiaries are to be as follows:
 - i) among its subsidiaries, manufacturing business is to transfer 10% to the statutory surplus reserve fund; 10% to the statutory public welfare reserve; 10% to the discretionary surplus reserve: Trading business is to transfer 10% to the statutory surplus reserve fund; 10% to the statutory public welfare reserve; 20% to the discretionary surplus reserve.
 - ii) the Company is to transfer 10% to the statutory surplus reserve fund; 5% to the statutory public welfare reserve; no transfer is to be made to the discretionary surplus reserve.
 - b) the full year dividend for 2002 is recommended to be Rmb0.06 per share (inclusive of tax for A shares), the total amount of dividends to be distributed amounts to Rmb48.65 million.
7. the projected net profit distribution policy for the Company in 2003;

the Company proposes that there will be only one dividend distribution in 2003; the amount to be apportioned as dividend will not be lower than 30% of the net profit and this will be distributed in the form of cash; the Company does not plan to make any conversions from surplus reserve into capital in 2003.
8. the resolution to determine the amount of emoluments to be paid to the directors and supervisors of the Company;

it is proposed that in 2003, the emoluments for the Company's directors and supervisors will be Rmb2.7 million and Rmb0.6 million respectively, a total of Rmb3.3 million (excluding the emoluments of directors of the subsidiaries).
9. the proposal to authorise the directors to allot and issue new shares;
10. the holding of the annual general meeting for 2002 and proposing the aforesaid resolutions to the general meeting.

**Guangzhou Pharmaceutical Company
Limited**

21 March 2003

Proxy Form:

I/We hereby appoint Mr./Ms. _____ as my/our proxy to attend and vote on behalf of me/us at the Annual General Meeting for 2002 of Guangzhou Pharmaceutical Company Limited.

Signature of Appointor: _____

Identity card number of Appointor: _____

Number of shares held by Appointor: _____

Shareholder account number of Appointor: _____

Signature of Proxy: _____

Identity card number of Proxy: _____

Date of appointment: _____

Reply slip for attending to the Annual General Meeting of Guangzhou Pharmaceutical Company Limited

According to the Company Law of the PRC, the Company's Articles of Association and the relevant regulations, all shareholders of the Company intended to attend the Annual General Meeting of Guangzhou Pharmaceutical Company Limited (the "Company") are required to complete the following confirmation form:

Name: _____

Holders of: _____ shares

Identity card number: _____

Telephone number: _____

Address: _____

Date: _____

Signature: _____

Notes:

1. According to the Board resolution passed on 21 March 2003, domestic shareholders, whose names appear on the Register of Members of the Company on 16 April 2003, are entitled to complete this confirmation form and attend the meeting.
2. Please insert full name(s) in block letters (copies of this confirmation form are valid).
3. Please present copies of identity card.
4. Please present copy of documents indicating the number of shares held by you.
5. To be valid, this form must be delivered to the Company in person, by post or fax on or before 25 April 2003.
6. (1) To obtain this form by hand or post, the address is:

2nd Floor, 45 Sha Mian North Street, Guangzhou City, Guangdong province,
the People's Republic of China (the "PRC")

Postal code: 510130

The Secretary Office of the Board of Guangzhou Pharmaceutical Company Limited

(2) To obtain this form by fax, the fax number is:

The Secretary Office of the Board of Guangzhou Pharmaceutical Company Limited
Fax number: 8620-81216408

The Board of Directors
Guangzhou Pharmaceutical Company Limited

21 March 2003

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