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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)

2003 FIRST QUARTERLY REPORT

1. IMPORTANT NOTICE

- 1.1 The Board of Directors (“the Board”) of Guangzhou Pharmaceutical Company Limited (“Guangzhou Pharmaceutical” or “the Company”) and each director collectively and individually 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.
- 1.2 The Company's financial reports for the first quarter of 2003 were prepared under PRC accounting standards and systems and have not been audited.
- 1.3 Mr. Cai Zhixiang, Chairman of the Board, Mr. Zhou Yuejing, General Manager, Mr. Gao Fang, Financial Controller and Mr. Chen Binghua, Senior Finance Manager declared that they would ensure the authenticity and completeness of the financial reports contained in this quarterly report.
- 1.4 This first quarterly report is published in Hong Kong in accordance with paragraph 2(2) of the Listing Agreement.

Board of Directors

Guangzhou Pharmaceutical Company Limited

2. COMPANY PROFILE

2.1 The Company

Stock abbreviation	GZ Phar.	
Stock code	600332 (A share)	0874 (H Share)

	Company Secretary	Authorised securities dealers
Name	He Shuhua	No
Address	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	No
Telephone	(8620)8121 8117	No
Facsimile	(8620)8121 6408	No
E-mail	hesh@gpc.com.cn	No

2.2 Financial information

2.2.1 Principal financial data and indicators

	31 March 2003	31 December 2002	31 December 2002
	<i>Rmb</i>	<i>Rmb</i>	(%)
Total assets	4,489,123,528.83	4,173,194,491.19	7.57
Shareholders' equity (excluding minority interests)	2,339,284,866.28	2,286,928,678.67	2.29
Net assets per share	2.88	2.82	2.13
Adjusted net assets per share	2.81	2.74	2.55

	For the reporting period	1 January 2003 to 31 March 2003	Change compared with the data of the 3-month period ended 31 March 2002
	<i>Rmb</i>	<i>Rmb</i>	(%)
Net cash flows from operating activities	0.15	0.15	—
Earnings per share (fully diluted)	0.06	0.06	0.76
Earnings per share (weighted average)	0.06	0.06	0.76
Return on net assets	2.24%	2.24%	(4.02)
Return on net assets after deducting exceptional items	2.34%	2.34%	(1.28)
Exceptional items:			Rmb
Income from State Bond			178,518.10
Subsidy income			139,823.00
Net non-operating results			(3,724,383.29)
Income tax adjustment			1,123,993.92
Total			(2,282,048.27)

2.2.2 Profit and loss account

	3 months ended		3 months ended	
	31 March 2003		31 March 2002	
	Group	Company	Group	Company
	<i>Rmb</i>	<i>Rmb</i>	<i>Rmb</i>	<i>Rmb</i>
Revenues from main operations	1,821,563,470.06	—	1,490,135,111.21	—
Less: Cost of main operations	1,444,233,257.26	—	1,152,535,042.14	—
Tax and levies on main operations	7,841,881.28	—	7,334,193.89	—
Profit from main operations	369,488,331.52	—	330,265,875.18	—
Add: Profit from other operations	9,424,936.80	—	7,804,239.90	—
Less: Selling expenses	126,599,601.02	—	109,125,163.46	—
General and administrative expenses	148,822,614.99	5,237,973.28	132,794,972.55	3,092,821.04
Financial expenses	6,852,502.80	(472,394.10)	4,701,980.99	(1,749,964.91)
Operating profit	96,638,549.51	(4,765,579.18)	91,447,998.08	(1,342,856.13)
Add: Income from investment	(1,069,057.24)	57,493,554.32	47,470.51	55,412,266.04
Subsidy income	139,823.00	—	—	—
Non-operating income	328,253.46	—	887,962.88	—
Less: Non-operating expenses	4,052,636.75	10,135.67	2,018,726.86	—
Total Profit	91,984,931.98	52,717,839.47	90,364,704.61	54,069,409.91
Less: Income tax	34,538,096.74	—	34,028,926.20	—
Less: Minority interest	5,090,647.63	—	4,373,325.77	—
Net profit	52,356,187.61	52,717,839.47	51,962,452.64	54,069,409.91

2.3 Number of shareholders as at 31 March 2003

As at 31 March 2003, there were 54,269 shareholders in total. Only one shareholder held the State-owned shares for the State. There were 54,220 shareholders holding A shares and 48 shareholders holding H shares.

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Analysis of the Company's overall activities of its operation during the reporting period

The Company and its subsidiaries (the "Group") 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.

During the reporting period, the Group continued to strengthen its efforts in developing markets for key products; actively created new products with market potential and well-known branded products; accelerated the construction of projects using the proceeds from the issue of A shares; accelerated the enterprise's technology update and the pace of implementation of GMP; raised the enterprise's production capacity and production level; accelerated the research and development of new products and the process of new product industrialisation. All of these measures contributed to the sustaining increase of the Group's operating results.

According to the Group's consolidated accounts prepared in accordance with PRC accounting standards and systems, the Company's turnover for the three months ended 31 March 2003, was Rmb1,821,563,000, representing an increase of 22.24% over that during the same period of 2002. Profit before taxation amounted to Rmb91,985,000, representing an increase of 1.79% over that during the same period of 2002. Net profit amounted to Rmb52,356,000, representing an increase of 0.76% over that during the same period of 2002.

In the 1st quarter of 2003, turnover of the manufacturing operations was Rmb538,508,000, representing an increase of 12.90% over that during the same period of 2002. Profit before taxation of the manufacturing operations was Rmb72,930,000, representing an increase of 0.89% over that during the same period of 2002.

The manufacturing operations strengthened its efforts in monitoring the sales and analysing the market of key products. During the reporting period, sales of certain key products such as Xiao Ke Wan, Guangdong Liang Cha Granule, Mi Lian Cuan Bei Pi Pa Gao and Xu Han Ting maintained a good trend of increase. The sales of the above products had increased by 13.74%, 46.73%, 159.13% and 56.17% respectively over that during the same period of 2002.

The Group continued its efforts in the research and development of new products. Among these, Guangzhou Baidi Biological Pharmaceutical Co., Ltd. has succeeded in winning a biology project of a second category new medicine.

In the 1st quarter of 2003, turnover of the trading operations was Rmb1,283,055,000, representing an increase of 26.64% over that during the same period of 2002. Profit before taxation of the trading operations was Rmb19,055,000, representing an increase of 5.42% over that during the same period of 2002.

In accordance with changes in demand of domestic pharmaceutical market in the PRC, the trading operations adjusted its product portfolio, actively organized and explored sale market for new pharmaceutical products, popular products and well-known branded products. During the reporting period, the number of new customers increased by 213 and the number of new types of product traded increased by 201. These had a great impact on the increase in the sales volume.

During the reporting period, there were no significant changes in the production environment, macro economy and regulation applicable to the Group.

3.1.1 Details of operations and products of the Group which are above 10% of the Group's revenues and operating profit from main operations

Applicable Not applicable

	Revenues from main operations <i>Rmb</i>	Cost of main operations <i>Rmb</i>	Gross profit %
By segment			
Manufacturing operations	538,507,948.94	256,828,464.47	52.31
Trading operations	1,283,055,521.12	1,187,404,792.79	7.45
Including: related party transactions	21,498,437.13	17,881,060.38	16.83

	Revenues from main operations <i>Rmb</i>	Cost of main operations <i>Rmb</i>	Gross profit %
By products			
Heat clearing and Anti - toxic	132,892,715.11	66,869,630.23	49.68
Diabetes curing	102,240,183.29	39,168,692.20	61.69
Cough and phlegm clearing	75,392,831.15	33,060,019.45	56.15
Arthritis curing	58,998,003.02	21,909,678.26	62.86
Gastric	28,060,799.14	14,865,234.29	47.02
Including: related party transactions	5,498,483.55	2,699,935.44	50.90

3.1.2 Seasonal and periodical characteristics of the Company's operations

Applicable Not applicable

Some products of the Company are subject to seasonal and periodical elements such as the sales of Xia Shang Ju and Guangdong Liang Cha Granule are better in the 2nd and 3rd quarters of the year.

3.1.3 Composition of profit in reporting period

Applicable Not applicable

Items	3 months ended 31 March 2003		2002		Change (%)
	Amount <i>RMB</i>	Percentage of total profit(%)	Amount <i>RMB</i>	Percentage of total profit(%)	
Profit from main activities	369,488,331.52	401.68	1,289,409,278.17	448.48	(10.44)
Profit from other operations	9,424,936.80	10.25	31,799,024.38	11.06	(7.32)
Expenses	282,274,718.81	306.87	990,595,286.98	344.55	(10.94)
Loss from investment	(1,069,057.24)	(1.16)	(16,898,852.55)	(5.88)	(80.27)
Subsidy Income	139,823.00	0.15	314,068.00	0.11	36.36
Net operating results	(3,724,383.29)	(4.05)	(26,522,143.54)	(9.22)	(56.07)

3.1.4 Explanation on significant changes in principal activities and their compositions compared with the previous reporting period

Applicable Not applicable

3.1.5 Explanation on significant changes in profit from principal activities (gross profit ratios) in comparison to 2001

Applicable Not applicable

3.2 Explanation and analysis on other important matters and their influence and solutions

Applicable Not applicable

3.3 Changes in accounting policy, accounting estimation and consolidation range, and explanation on significant accounting errors and their causes

Applicable Not applicable

Explanation on change in consolidation scope: During the reporting period, there are three new companies, named Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd., Guangzhou Baidi Biological Pharmaceutical Co., Ltd. and Guangzhou Huanye Medicine Co., Ltd., are included in the consolidation compared with the same period of 2002. The above mentioned companies were also included in the consolidation scope of 2002.

3.4 Explanation of the Board and the Supervisory Committee on the qualified opinion issued by the auditors

Applicable Not applicable

3.5 Profit warning and explanation for a forecasted accumulated net loss for the period from 1 January 2003 to the next reporting period, or significant fluctuation compared with the same period of 2002

Applicable Not applicable

3.6 Adjustments to the business plan or budget disclosed to the public

Applicable Not applicable

Note: The full version of the Company's balance sheet, income statement and cash-flow statement is published on the website of the Shanghai Stock Exchange at <http://www.sse.com.cn>

Board of Directors
Guangzhou Pharmaceutical Company Limited
Chairman of the Board
Cai Zhixiang

25 April 2003

This quarterly report is published in both English and Chinese languages. The Chinese version shall prevail.

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