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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 THIRD QUARTERLY REPORT

1. IMPORTANT NOTICE

- 1.1 The Board of Directors of Guangzhou Pharmaceutical Company Limited (“Guangzhou Pharmaceutical” or the “Company”) and each director collectively and individually accept full responsibility for the truthfulness, 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 third quarter of 2003 were prepared in accordance with the PRC accounting standards and systems and were unaudited.
- 1.3 Mr. Cai Zhi Xiang, Chairman of the Board, Mr. Zhou Yue Jin, General Manager, Mr. Gao Fang, Financial Controller and Mr. Chen Bing Hua, Senior Finance Manager confirm the truthfulness and completeness of the financial reports contained in this quarterly report.
- 1.4 This 2003 third quarterly report is published in Hong Kong pursuant to Paragraph 2(2) of the Listing Agreement.

2. COMPANY PROFILE

2.1 Corporate Information

Stock Abbreviation GZ Phar.

Stock Code	600332 (A Shares)	0874 (H Shares)
	Company Secretary	Securities Officer
Name	He Shu Hua	N/A
Address	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	N/A
Telephone	(8620) 8121 8117	N/A
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Website	http://www.gpc.com.cn	

2.2 Financial Information

2.2.1 Principal financial data and indicators

Items	As at 30	As at 31	Change as compared with the year ended 31 December 2002 (%)
	September 2003 (RMB)	December 2002 (RMB)	
Total assets	4,638,108,951.97	4,173,194,491.19	11.14
Shareholders' funds (excluding minority interests)	2,421,555,291.89	2,286,928,678.67	5.89
Net assets per share	2.99	2.82	6.03
Adjusted net assets per share	2.91	2.74	6.20

Items	1 July 2003 ~ 30 September 2003 <i>(RMB)</i>	1 January 2003 ~ 30 September 2003 <i>(RMB)</i>	Change as compared with the same period of 2002 (%)
Net cash flows from operating activities	77,144,535.39	94,984,568.05	—
Earnings per share	0.047	0.162	-7.84
Return on net assets (%)	1.54	5.41	-15.65
Return on net assets after deducting exceptional items (%)	1.51	5.61	-19.68
Exceptional items			Amount (RMB)
Income from government bonds			178,518.10
Net non-operating expenses			7,709,612.60
Subsidy income			276,208.28
Income tax adjustment			2,453,023.43
Total			4,801,862.79

2.2.2 Income statement

Items	1 July 2003 ~ 30 September 2003		1 July 2002 ~ 30 September 2002	
	The Company (RMB)	The Group (RMB)	The Company (RMB)	The Group (RMB)
Sales	0.00	1,779,288,921.04	0.00	1,585,599,790.77
Less: Costs of sales	0.00	1,445,669,753.17	0.00	1,268,136,382.77
Taxes and levies	0.00	5,821,856.97	0.00	6,138,593.79
Profit from principal operations				
(Loss was inserted with “-” sign)	0.00	327,797,310.90	0.00	311,324,814.21
Add: Profit from other operations	-174,015.76	10,110,056.72	0.00	8,679,099.58
Less: Operating expenses	0.00	121,614,919.12	0.00	113,974,971.81
General and administrative expenses	5,496,059.17	147,506,415.70	6,103,304.64	133,149,107.93
Finance costs	-369,479.20	7,111,419.04	-1,090,141.17	4,525,024.72
Operating profit				
(Loss was inserted with “-” sign)	-5,300,595.73	61,674,613.76	-5,013,163.47	68,354,809.33
Add: Investment income	39,377,507.34	997,840.63	45,449,247.15	-21,453,837.28
Subsidy income	0.00	95,281.00	0.00	68,319.00
Non-operating income	0.00	1,279,083.40	215,520.00	1,092,528.81
Less: Non-operating expenses	43,713.74	140,868.33	0.00	2,329,459.45
Total profit				
(Loss was inserted with “-” sign)	34,033,197.87	63,905,950.46	40,651,603.68	45,732,360.41
Less: Income tax	0.00	25,215,417.77	-282,956.00	347,668.13
Less: Minority interests	0.00	1,295,658.84	0.00	2,843,346.87
Net profit				
(Loss was inserted with “-” sign)	34,033,197.87	37,394,873.85	40,934,559.68	42,541,345.41

Items	1 January 2003 ~ 30 September 2003		1 January 2002 ~ 30 September 2002	
	The Company (RMB)	The Group (RMB)	The Company (RMB)	The Group (RMB)
Sales	0.00	5,356,721,400.00	0.00	4,586,482,694.14
Less: Costs of sales	0.00	4,306,463,900.57	0.00	3,585,058,400.72
Taxes and levies	0.00	18,442,625.37	0.00	19,721,859.96
Profit from principal operations				
(Loss was inserted with “-” sign)	0.00	1,031,814,874.06	0.00	981,702,433.46
Add: Profit from other operations	-275,111.68	29,557,967.06	0.00	26,093,873.46
Less: Operating expenses	0.00	371,507,945.33	0.00	338,614,669.76
General and administrative expenses	14,992,540.66	439,743,709.04	16,507,135.07	391,374,919.29
Finance costs	-2,406,757.67	16,857,373.61	-4,307,773.18	12,059,823.86
Operating profit				
(Loss was inserted with “-” sign)	-12,860,894.67	233,263,813.14	-12,199,361.89	265,746,894.01
Add: Investment income	145,047,515.48	874,466.92	154,516,103.69	-21,992,558.72
Subsidy income	0.00	276,208.28	0.00	137,637.00
Non-operating income	0.00	1,943,727.93	215,520.00	2,143,295.90
Less: Non-operating expenses	54,846.36	9,653,340.53	0.00	15,557,771.59
Total profit				
(Loss was inserted with “-” sign)	132,131,774.45	226,704,875.74	142,532,261.80	230,477,496.60
Less: Income tax	0.00	85,972,498.41	581,635.02	69,491,800.77
Less: Minority interests	0.00	9,724,116.29	0.00	11,470,958.47
Net profit				
(Loss was inserted with “-” sign)	132,131,774.45	131,008,261.04	141,950,626.78	149,514,737.36

2.3 Number of shareholders as at 30 September 2003

As at 30 September 2003, there were 54,253 shareholders in total, including one shareholder holding the State-owned shares for the State, 54,204 shareholders holding domestic listed Renminbi-denominated ordinary shares (A shares) and 48 shareholders holding overseas listed ordinary shares (H shares).

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Brief analysis of the Group's overall operation during the reporting period

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

According to the consolidated accounts prepared in accordance with the PRC accounting standards and systems, the Group's turnover for the period between 1 January and 30 September 2003 amounted to RMB5,356,721,000, representing an increase of 16.79% as compared with the corresponding period of 2002. Profit before taxation was RMB226,705,000, a decrease of 1.64% as compared with the same period of 2002. Net profit of the Group for the period between 1 January and 30 September 2003 was RMB131,008,000, a decrease of 12.38% as compared with the same period of 2002.

The outbreak of Severe Acute Respiratory Syndrome (“SARS”) and its aftermath have caused considerable impact on the domestic pharmaceutical market. In this connection, great efforts were made by the Group's manufacturing operations (the “Manufacturing Operations”) in improving the planning and marketing of certain marketable products. Secondly, it strengthened the promotion and marketing of some major products such as Xiao Ke Wan and Hua Tuo Zai Zao Wan, endeavoring to alleviate the adverse impact of the post-SARS factors on the Group's key OTC medicine. Thirdly, the sales of some major products with high market potential such as Hua Zhi Quan, Xu Han Ting, Mi Lian Chuan Bei Pi Pa Gao and Wu Ji Bai Feng Wan. Fourthly, the projects funded by the proceeds raised from the issue of A Shares were further advanced and the technology upgrade and the implementation of GMP were also accelerated. The aforesaid measures have contributed to stabilise the Group's operating results during the reporting period.

The Group's turnover attributed to the Manufacturing Operations for the period between 1 January and 30 September 2003 amounted to RMB1,416,038,000, a growth of 5.00% as compared with the same period of 2002. Profit before taxation from the Manufacturing Operations was RMB169,462,000, a decrease of 5.31% as compared with the corresponding period of 2002.

During the period between 1 January and 30 September 2003, sales of certain key products such as the Wang Lao Ji Liang Cha line of products, Mi Lian Chuan Bei Pi Pa Gao, Che Dan Chuan Bei Pi Pa Lu, Xu Han Ting, Bu Pi Yi Chang Wan 130G and Zhuang Yao Jian Shen Wan maintained a good upward trend. The sales revenue of the above products increased by 30.54%, 83.45%, 54.70%, 37.91%, 43.68% and 19.80% respectively over that of the same period of 2002. Affected by factors such as the SARS epidemic, the sales revenue of diabetes curing drugs manufactured by the Company recorded a decrease of 17.62% as compared with the same period of 2002.

The Group has taken the following measures in its trading operations (the "Trading Operations") in response to the changes in the domestic pharmaceutical market. Firstly, it made timely adjustments to its marketing policies and proceeded to open up the new markets. Secondly, it took full advantage of its sales network in securing product distribution rights and actively increasing the market share of the products it traded. Thirdly, it strived to increase sales to hospitals through enhancing the quality of services provided to medical institutions. Fourthly, it strengthened the adjustments of its retail outlets and improved its business through focusing on its well-known branded products. During the period between 1 January 2003 and 30 September 2003, the number of new clients increased by 588, the number of new types of products it traded increased by 26, and the number of new types of exclusively distributed products increased by 6. The above measures have been crucial to the increase in sales revenue of the Group.

Turnover attributed to the Trading Operations for the period between 1 January and 30 September 2003 amounted to RMB3,940,683,000, with a growth of 21.71% as compared with the same period of 2002. Profit before taxation from the Trading Operations was RMB57,243,000, with an increase of 11.12% as compared with the corresponding period of 2002.

During the reporting period, there were no significant changes in the business environment of the Group, the macro policies and regulations applicable to the Group.

3.1.1 Details of operations or products accounting for 10% or more of the Group's revenue or profit from principal operations

Applicable Not applicable

For the nine months ended 30 September 2003

By segment	Sales <i>(RMB)</i>	Costs of Sales <i>(RMB)</i>	Gross profit <i>(%)</i>
Manufacturing operations	1,416,038,037.91	662,481,199.03	53.22
Trading operations	3,940,683,362.09	3,643,982,701.54	7.53
Including: connected transactions	71,263,462.32	59,124,495.11	17.03

By products	Sales <i>(RMB)</i>	Costs of Sales <i>(RMB)</i>	Gross profit <i>(%)</i>
Heat clearing and Anti-toxic	388,188,092.42	195,678,790.64	49.59
Diabetes curing	225,888,689.19	76,977,766.25	65.92
Cough and phlegm clearing	181,226,165.84	93,151,889.08	48.60
Arthritis curing	144,837,683.69	61,473,735.53	57.56
Gastric	77,183,114.47	41,024,411.67	46.85
Including: connected transactions	18,373,019.57	9,417,849.34	48.74

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 patterns. The sales of Xia Sang Ju and Guangdong Liang Cha Granule are better in the 2nd and 3rd quarters of the year, while cough and phlegm clearing medicine have higher demand in the fall and winter of the year.

3.1.3 Composition of profit of the reporting period

Applicable Not applicable

Items	1 July 2003 ~ 30 September 2003		1 January 2003 ~ 30 June 2003		Change (%)
	Amount RMB	Percentage of total profit (%)	Amount RMB	Percentage of total profit (%)	
Profit from principal activities	327,797,310.90	512.94	704,017,563.16	432.45	18.61
Profit from other operations	10,110,056.72	15.82	19,447,910.34	11.95	32.38
Expenses	276,232,753.86	432.25	551,876,274.12	338.99	27.51
Investment income	997,840.63	1.56	-123,373.71	-0.08	2,050.00
Subsidy income	95,281.00	0.15	180,927.28	0.11	36.36
Net amount from non-operating activities	1,138,215.07	1.78	-8,847,827.67	-5.43	132.78

Note: The proportion of profit from principal operations, profit from other operations and expenses over the total profit for the reporting period increased as compared with the last reporting period because the total profit for the reporting period recorded a higher decrease than the decrease recorded by the said profits and expenses as compared with the last reporting period. The increase in the proportion of investment income, subsidy income and net amount from non-operating activities over the total profit for the reporting period was mainly due to the increase in income and the sharp decrease in non-operating expenses.

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

Applicable Not applicable

3.1.5 Explanation on significant changes in profit from principal activities (gross profit margin) as compared with that of the last reporting period

Applicable Not applicable

3.2 Explanation and analysis on other major events and their impact and solutions

Applicable Not applicable

3.3 Changes in accounting policies, accounting estimates, scope of consolidation and significant accounting errors and their causes

Applicable Not applicable

The Group disposed of 90% equity interest of its wholly owned subsidiary namely Guangzhou Yongxin Trade Company Limited in early September 2003. The balance sheet of the above subsidiary was not consolidated in its consolidated balance sheet as at 30 September 2003, but the income statement and cash flow statement of the above subsidiary for the period between 1 January 2003 and 31 August 2003 were consolidated into the Group's consolidated income statement and cash flow statement.

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

Applicable Not applicable

3.5 Warning with reasons on a possible reversal of the accumulated net profit to losses from the beginning of the year to the end of the next reporting period or a substantial change of profit when compared to the corresponding period in the previous year

Applicable Not applicable

3.6 Ongoing adjustments by the Company on its disclosed annual business plan or budget

Applicable Not applicable

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

On behalf of the Board of Directors
Guangzhou Pharmaceutical Company Limited
Cai Zhi Xiang
Chairman

28 October 2003

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

RESOLUTIONS PASSED AT THE 26TH MEETING OF THE 2ND BOARD OF DIRECTORS

The Company and all the members of the Board confirm that the contents of this announcement are true, accurate and complete, and jointly and severally accept responsibility for any false representation or misleading statement herein or material omission herefrom.

NOTICE IS HEREBY GIVEN THAT the 26th meeting of the 2nd board of directors (the “Board”) of Guangzhou Pharmaceutical Company Limited (the “Company”) was held at the Company’s registered address at the Conference Room, 2nd Floor, 45 Shamian North Street, Guangzhou on 28 October 2003. 9 directors were eligible to attend the meeting and all of them attended. Of these directors, Mr. Chu You Lin and Mr. Wu Zhang, independent non-executive directors, attended the meeting by means of teleconferencing. The meeting was presided by Mr. Cai Zhixiang, Chairman of the Board and attended by the supervisors and senior management staff of the Company who had no voting rights. This was in compliance with the requirements of the Company Law and the articles of association of the Company. After detailed discussion, the following matters were unanimously approved and passed by the directors at the meeting:

1. The third quarterly report of the Company for 2003 was considered and approved;
2. The resolution to take out liability insurance for the directors and senior management staff of the Company was considered and approved, and the same will be submitted to the shareholders’ meeting of the Company for approval (the specific proposal and the date for convening such meeting will be notified in further announcement);
3. The Implementing Rules of the Audit Committee of the Board were considered and approved (please refer to the website of the Shanghai Stock Exchange <http://www.sse.com.cn> for details);

4. The Implementing Rules of the Remuneration and Appraisal Committee of the Board were considered and approved (please refer to the website of the Shanghai Stock Exchange <http://www.sse.com.cn> for details); and
5. The Implementing Rules of the Investment Management Committee of the Board were considered and approved (please refer to the website of the Shanghai Stock Exchange <http://www.sse.com.cn> for details);

Board of Directors
Guangzhou Pharmaceutical Company Limited

28 October 2003

RESOLUTIONS PASSED AT THE 15TH MEETING OF THE 2ND SUPERVISORY COMMITTEE

NOTICE IS HEREBY GIVEN THAT the 15th meeting of the 2nd supervisory committee (the “Supervisory Committee”) of Guangzhou Pharmaceutical Company Limited (the “Company”) was held at the Conference Room, 2nd floor of the Company’s registered address on 28 October 2003. The meeting was presided by Mr. Chen Canying, Chairman of the Supervisory Committee and attended by all of the supervisors. This was in compliance with the requirements of the Company Law and the articles of association of the Company. The following matters were considered and unanimously approved at the meeting:

1. The third quarterly report of the Company for 2003 was considered and approved;

2. The resolution to take out liability insurance for the directors and senior management staff of the Company was considered and approved, and the same will be submitted to the shareholders' meeting of the Company for approval (the specific proposal and the date for convening such meeting will be notified in further announcement);

Supervisory Committee
Guangzhou Pharmaceutical Company Limited

28 October 2003

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