



# 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 Annual Results Announcement

### 1 IMPORTANT NOTICE

- 1.1 The Board of Directors of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) and each Director collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this results announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, that there are no material omissions from, or misrepresentations or misleading statements contained in this results announcement. This announcement is a summary of the 2003 annual report of the Company. Investors are advised to read the full text of the 2003 annual report of the Company for details.
- 1.2 Mr. Cai Zhixiang, Chairman of the Board, Mr. Zhou Yuejin, 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 Mr. Liu Jinxiang, an Independent Non-executive Director of the Company, being unable to attend the Board meeting held on 26 March 2004 due to other business commitment, has appointed Mr. Zhang Bohua to vote on his behalf.

- 1.4 Unless otherwise stated, the financial data contained in this summary is extracted from the accounts prepared in accordance with PRC accounting standards and systems.

## 2 COMPANY PROFILE

### 2.1 General information

Stock Abbreviation	GZ Phar.	GZ Phar.
Stock code	600332 (A shares)	0874(H shares)
Place of listing	The Shanghai Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered address	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	
Principal place of business	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	
Postal code	510130	
Website	<a href="http://www.gpc.com.cn">http://www.gpc.com.cn</a>	
Email address	sec@gpc.com.cn	

## 2.2 Contacts

	<b>Company secretary</b>	<b>Representative of securities affairs</b>
Name	He Shuhua	Huang Xuezhen
Address	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC
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### 3 PRINCIPAL FINANCIAL DATA AND INDICATORS

#### 3.1 Principal financial data

	2003	2002		Change in 2003 as compared with 2002 (%)	2001	
		Before adjustment	After adjustment		Before adjustment	After adjustment
		<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>
Sales	6,971,963	5,943,823	5,943,823	17.30	5,334,029	5,334,029
Total profit	284,773	287,506	287,506	-0.95	260,081	260,081
Net profit	139,795	158,478	158,478	-11.79	146,134	146,134
Net profit after deducting non- operating items	144,460	162,296	162,296	-10.99	147,580	147,580

  

	As at 31 December 2003	As at 31 December 2002		Change in 2003 as compared with 2002 (%)	As at 31 December 2001	
		Before adjustment	After adjustment		Before adjustment	After adjustment
		<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>
Total assets	4,707,039	4,173,194	4,173,194	12.79	3,702,113	3,702,113
Shareholders' equity (excluding minority interests)	2,429,476	2,286,929	2,335,583	4.02	2,172,916	2,221,570
Net cash inflows/ (outflows) generated from operating activities	-6,830	169,014	169,014	-104.04	140,154	140,154

### 3.2 Principal financial indicators

	2003	2002		Change in 2003 as compared with 2002	2001	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Earnings per share (RMB)	0.17	0.20	0.20	-15.00	0.18	0.18
Return on net assts (%)	5.75	6.93	6.79	-15.32	6.73	6.58
Return on net assets after deducting non-operating items (%)	5.95	7.10	6.95	-14.39	6.79	6.64
Net cash inflows/(outflows) from operating activities per share (RMB)	-0.01	0.21	0.21	-104.76	0.17	0.17

	As at 31 December 2003	As at 31 December 2002		Change in 2003 as compared with 2002 (%)	As at 31 December 2001	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Net assets per share (RMB)	3.00	2.82	2.88	4.17	2.68	2.74
Adjusted net assets per share (RMB)	2.92	2.74	2.80	4.29	2.59	2.65

### 3.3 Differences between the accounts for the year ended 31 December 2003 prepared in accordance with PRC accounting standards and systems and the accounting principles generally accepted in Hong Kong (“HK GAAP”)

Applicable       Not applicable

	Under PRC accounting standards and systems	Under HK GAAP
	<i>RMB'000</i>	<i>RMB'000</i>
Net profit	139,795	146,667
Explanations for the differences		
Net profit under PRC accounting standards and systems		139,795
Less: Amortisation of intangible assets capitalised ( <i>note 1</i> )		10,446
Additional depreciation on revalued fixed assets ( <i>note 2</i> )		1,975
Research and development cost undercharged ( <i>note 3</i> )		4,228
Deferred taxation charges ( <i>note 4</i> )		13,882
Provision for staff bonus and welfare fund ( <i>note 5</i> )		2,507
Difference in minority interests ( <i>note 11</i> )		2,216
Add: Government subsidies recognised as income ( <i>note 6</i> )		290
Reversal of employee benefits ( <i>note 7</i> )		4,980
Reversal of bad debts provision ( <i>note 8</i> )		26,067
Income arising from dilution of interest in a subsidiary ( <i>note 9</i> )		3,565
Payables written off recognised as income ( <i>note 10</i> )		7,224
Net profit under HK GAAP		146,667

Notes: Explanations for differences:

1. This is an amortisation of staff quarter reform costs incurred by the Group prior to 2000 in relation to purchases of staff quarters by its employees. Under HK GAAP, such cost are recognised as an asset and are subject to amortisation on a straight line basis over a period of not more than 10 years to reflect the estimated remaining average service life of its employees in which the related economic benefits are recognised. Under PRC accounting standards and systems, the staff quarter reform costs are written off against retained earnings when it incurred.

2. The Group's fixed assets were revalued by the international valuers in 1997 for the purpose of listing of the Company's H shares. Although the revaluation has been taken into the accounts of the Group prepared under HK GAAP, this is not acceptable to the accounts prepared under PRC accounting standards and systems. Accordingly, the depreciation charge under HK GAAP is higher than that calculated under PRC accounting standards and systems as the depreciation charge under HK GAAP is based on the revalued amount of fixed assets.
3. Prior to 2000, the Company made provision for research and development cost based on certain percentage on turnover in the accounts prepared in accordance with PRC accounting standards and systems. In 2003, the Company changed its accounting policy in respect of provision for research and development cost, which is to recognise a provision in light of a legal or constructive obligation and reliable estimate. This is consistent with HK GAAP. Provision for research and development cost made under PRC accounting standards and systems in 2002 but used in 2003 has been taken up in the profit and loss account prepared under HK GAAP in 2003.
4. The Group has not made provision for deferred tax in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, deferred tax is accounted for using the balance sheet liability method on all taxable temporary differences for deferred tax liability, and to recognise deferred tax assets to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.
5. This is staff bonus and welfare fund appropriated from profit after taxation in the accounts prepared under PRC accounting standards and systems. Under HK GAAP, it is recognised as expenses in the profit and loss account.
6. Government subsidies are recognised as capital reserve in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, government subsidies are recognised as other income in the profit and loss account and is transferred from profit after taxation to capital reserve.
7. On 1 December 2001, the Group has participate in a medical insurance scheme set up and managed by the Guangzhou People's Municipal Government as required by the Provisional Rules of Medical Insurance issues by the Guangzhou People's Municipal Government. Medical insurance relating to contributions accrued for the past service rendered by the retired and retiring employees are recognized as expenses in prior years under HK GAAP. However, in the accounts prepared under PRC accounting standards and systems, medical insurance for the past service is recognised as expenses on cash basis. Cash basis is not acceptable to HK GAAP.
8. This is the provision for bad debts made under HK GAAP in prior years. It has been taken up in the accounts prepared under PRC accounting standards and systems in 2003 or it has an indication to prove that bad debts previously written-off can be recovered. Therefore, provision for bad debts was released under HK GAAP in 2003.
9. Income arising from dilution of interest in a subsidiary is recognised as capital reserve in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, it is recognised as other income in the profit and loss account and is transferred from profit after taxation to capital reserve.
10. Payables write-off is recognised as capital reserve in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, it is recognised as other income in the profit and loss account and is transferred from profit after taxation to capital reserve.

11. This is resulted from the above difference in the accounts prepared under PRC accounting standards and systems and HK GAAP

### 3.4 Extracted from the accounts prepared in accordance with HK GAAP

Indicators	As restated				
	2003	2002	2001	2000	1999
Turnover (RMB'000)	<b>6,973,113</b>	5,943,823	5,334,029	4,222,857	3,454,492
Profit before taxation (RMB'000)	<b>307,829</b>	196,360	205,987	204,572	178,115
Profit attributable to shareholders (RMB'000)	<b>146,667</b>	101,155	95,868	135,250	128,688
Total assets (RMB'000)	<b>4,954,091</b>	4,410,210	3,877,969	3,256,426	3,072,057
Total liabilities (RMB'000)	<b>2,402,674</b>	1,956,130	1,469,539	1,657,609	1,593,832
Shareholders' funds (RMB'000)	<b>2,551,417</b>	2,454,080	2,408,430	1,598,817	1,478,225
Earnings per share (RMB)	<b>0.181</b>	0.125	0.119	0.185	0.176
Net assets per share (RMB)	<b>3.15</b>	3.03	2.97	2.18	2.02
Return on net assets (%)	<b>5.75</b>	4.12	3.98	8.46	8.71
Ratio of shareholders' funds (%)	<b>51.50</b>	55.65	62.11	49.10	48.12
Gearing ratio (%)	<b>48.50</b>	44.35	37.89	50.90	51.88

*Note:* Gearing ratio is calculated according to the following formula: total liabilities/total assets x 100%



## 4 CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

### 4.1 Movement in share capital

*Unit: share*

	Before change	Right issued	Bonus issues	Change (+/-)			Others	Sub-total	After the change
				Reserves to shares	New issues				
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. Collective legal entities' shares	—	—	—	—	—	—	—	—	—
3. Inner staff shares	—	—	—	—	—	—	—	—	—
4. Preferred shares or others	—	—	—	—	—	—	—	—	—
Total unlisted shares	<u>513,000,000</u>								<u>513,000,000</u>
B. Listed shares									
1. RMB denominated ordinary shares	78,000,000	—	—	—	—	—	—	—	78,000,000
2. Domestic listed foreign capital invested shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign capital shares (H Shares)	219,900,000	—	—	—	—	—	—	—	219,900,000
4. Others	—	—	—	—	—	—	—	—	—
Total listed shares	<u>297,900,000</u>								<u>297,900,000</u>
C. Total Shares	<u>810,900,000</u>								<u>810,900,000</u>

## 4.2 The top ten shareholders of the Company and the top ten shareholders holding listed shares of the Company

Number of shareholders at end of the Reporting Period 52,718

The top ten shareholders of the Company and their shareholding

Shareholders	Change in shares held during the year	Shares held as at 31 December 2003 (share)	Percentage of the issued share capital (%)	Class of shares (listed or unlisted)	Number of shares pledged or as collateral (share)	Nature of shares (state-owned or foreign shares)
Guangzhou Pharmaceutical Holdings Limited (“GPHL”)	—	513,000,000	Approximately 63.26	Unlisted	152,600,000	State-owned shares
HKSCC Nominees Limited	82,000	218,170,999	Approximately 26.90	Listed	unknown	H shares
HSBC Nominees (Hong Kong) Limited	62,000	862,000	Approximately 0.11	Listed	unknown	H shares
Wong Chung King	—	308,000	Approximately 0.04	Listed	unknown	H shares
Deng Da Kai	—	305,746	Approximately 0.04	Listed	unknown	A shares
Xing He Securities Investment Fund	—	302,415	Approximately 0.04	Listed	unknown	A shares
Chen Yu Liang	—	166,557	Approximately 0.02	Listed	unknown	A shares
Zhang La	—	123,000	Approximately 0.02	Listed	unknown	A shares
Liu Zhi Zhong	—	120,000	Approximately 0.01	Listed	unknown	A shares
Xie Feng Hua	—	115,000	Approximately 0.01	Listed	unknown	A shares

Connection among the top ten shareholders of the Company

- (1) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- (2) GPLH is not connected with the other nine shareholders listed above. The Company is not aware of any connection among the other nine shareholders, or whether they are persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

The top ten shareholders holding listed shares of the Company and their shareholding

<b>Shareholders</b>	<b>Number of shares held as at 31 December 2003</b>	<b>Nature of shares</b>
HKSCC Nominees Limited	218,170,999	H shares
HSBC Nominees (Hong Kong) Limited	862,000	H shares
Wong Chung King	308,000	H shares
Deng Da Kai	305,746	A shares
Xing He Securities Investment Fund	302,415	A shares
Chen Yu Liang	166,557	A shares
Zhang La	123,000	A shares
Liu Zhi Zhong	120,000	A shares
Xie Feng Hua	115,000	A shares
Jiangsu Jianghai Grain and Oil Trade Company	100,000	A shares

Connection among the top ten shareholders holding listed shares of the Company

According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.

The Company is not aware of any connection among the ten shareholders, or whether they are persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

### 4.3 Particulars of the controlling shareholder and beneficial owner

#### 4.3.1 Change in the controlling shareholder and beneficial owner

Applicable       Not applicable

#### 4.3.2 Particulars of the controlling shareholder and beneficial owner

Name of the controlling shareholder	:	Guangzhou Pharmaceutical Holdings Limited
Legal representative	:	Cai Zhixiang
Date of establishment	:	7 August 1996
Registered capital	:	RMB1,007,700,000
Type of legal entity	:	State-owned enterprise with limited liability
Shareholding structure	:	100% state-owned

GPHL's business scope is to invest in and manage State-owned assets, to sell and manufacture chemical medicine, Chinese Patent 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 Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

#### 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 right 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 Change in shares held by Directors, Supervisors and Senior Management of the Company

Name	Position	Gender	Age	Terms of office	Shares	Shares	Reason for change
					held as at 1 January 2003	held as at 31 December 2003	
Mr. Cai Zhixiang	Chairman	Male	54	18 Oct 2000-present	14,700	14,700	—
Mr. Li Yimin	Vice Chairman	Male	53	18 Oct 2000-present	14,700	14,700	—
Mr. Feng Zansheng	Director	Male	53	18 Oct 2000-present	—	—	—
Mr. Zhou Yuejin	Director and General Manager	Male	46	27 Mar 2002 -present	3,700	28,900	—
Mr. Chu Youlin	Independent Director	Male	59	18 Oct 2000-present	—	—	—
Mr. Zhang Bohua	Independent Director	Male	71	18 Oct 2000-present	—	—	—
Mr. Liu Jinxiang	Independent Director	Male	63	18 Oct 2000-present	—	—	—
Mr. Wu Zhang	Independent Director	Male	46	18 Oct 2000-present	—	—	—
Mr. Huang Buren	Independent Director	Male	68	18 Oct 2000-present	—	—	—
Mr. Chen Canying	Chairman of the Supervisory Committee	Male	54	18 Oct 2000-present	9,800	9,800	—
Mr. Tan Sima	Supervisor	Male	40	18 Oct 2000-present	—	—	—
Mr. Luo Jidong	Supervisor	Male	50	18 Oct 2000-present	—	—	—
Mr. He Shuhua	Deputy General Manager and Company Secretary	Male	47	18 Oct 2000-present	11,200	27,700	—
Mr. Li Decheng	Deputy General Manager	Male	43	18 Oct 2000-present	—	—	Note
Mr. Gao Fang	Financial Controller	Male	45	20 Jun 2002-present	—	—	—

*Note:* Subsequent to the Reporting Period as approved at the 28th meeting of the 2nd Section of the Board, Mr. Li Decheng resigned as the Deputy General Manager of the Company due to work relocation.

### 5.2 Details of Directors and Supervisors working in the Company's corporate shareholder

Applicable       Not applicable

Name	Name of corporate shareholder	Position held in the corporate shareholder	Term of office	Received emoluments or allowances or not
Mr. Cai Zhixiang	Guangzhou Pharmaceutical Holdings Limited	Chairman	March 1998 ~ present	No
Mr. Li Yimin	Guangzhou Pharmaceutical Holdings Limited	Vice Chairman/ General Manager	March 1998 ~ present	No
Mr. Chen Canying	Guangzhou Pharmaceutical Holdings Limited	Secretary of the Disciplinary Committee and Chairman of the Labour Union	December 2001 ~ present	No

### 5.3 Annual emoluments of the Directors, Supervisors and Senior Management

Aggregate annual emoluments	RMB5,130,000
Total emoluments of the three highest paid Directors	RMB2,700,000
Total emoluments of the three highest paid Senior Management	RMB890,000
Allowance to Independent Directors	RMB310,000
Other emoluments to Independent Directors	Nil
Directors and Supervisors who did not receive emoluments or allowance from the Company	Nil

Range of Emoluments	Number
Over RMB 400,000	6
RMB 100,000 -RMB 400,000	2
Below RMB100,000	7

## **6 REPORT OF THE DIRECTORS**

### **6.1 Management discussion and analysis**

#### **Scope of business**

The Company and its subsidiaries (collectively the “Group”) are principally engaged in (1) manufacture and sales of CPM; (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 Group’s consolidated accounts for the year ended 31 December 2003, turnover of the Group under PRC accounting standards and systems was RMB6,971,963,000, representing an increase of 17.30% over that of 2002. Turnover under HK GAAP amounted to RMB6,973,113,000, representing an increase of 17.32% as compared with 2002. Profit before taxation under PRC accounting standards and systems amounted to RMB284,773,000, representing a decrease of 0.95% over that of 2002. Profit before taxation under HK GAAP amounted to RMB307,829,000, representing an increase of 56.77% as compared with 2002.

#### **(1) CPM manufacturing business (the “Manufacturing Operations”)**

Turnover of the Manufacturing Operations in 2003 under PRC accounting standards and systems was RMB1,889,215,000, representing an increase of 8.36% over that of 2002. Turnover of the Manufacturing Operations in 2003 under HK GAAP was RMB1,890,364,000, representing an increase of 8.43% over that of 2002. Profit before taxation of the Manufacturing Operations under PRC accounting standards and systems was RMB213,086,000, representing a drop of 0.23% over that of 2002. Profit before taxation of the Manufacturing Operations under HK GAAP was RMB238,690,000, representing an increase of 61.82% over that of 2002.

In 2003, the Group has taken the following measures in its Manufacturing Operations: (i) it has strengthened the connection and cooperation with large pharmaceutical enterprises. During the year, several large exhibitions and technical promotion meetings were conducted, which has effectively improved the brand image of the Group and increased its sale; (ii) it has done its best to improve the promotion and marketing in some major products such as Xiao Ke Wan and Hua Tuo Zai Zao Wan, set up manager responsibility system for major products and strengthened its market control and management on certain major products; (iii) it has further improved the marketing 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, striving to explore new profit source for the Group; (iv) it further strengthened promotions of pharmaceutical products to end-users such as hospitals and medical institutions, endeavouring to make up for the loss caused by the decrease in sales to hospitals.

The implementation of the aforementioned strategies have good impact. In 2003, the sales of certain key products such as Mi Lian Chuan Bei Pi Pa Gao, the series of Wang Lao Ji Liang Cha, Hua Zhi Quan and Xu Han Ting increased significantly by 59.95%, 33.25%, 54.67% and 51.08% respectively as compared with 2002.

As affected by SARS, the turnover of the Company's diabetes curing medicine decreased by 14.58% as compared with 2002.

- (2) Pharmaceutical trading business, including wholesale, retail, import and export (the "Trading Operations")



Turnover of the Group's Trading Operations in 2003 under both PRC accounting standards and systems and HK GAAP was RMB5,082,749,000, representing an increase of 20.01% over that of 2002. According to the accounts prepared in accordance with PRC accounting standards and systems, profit before taxation of the Trading Operations amounted to RMB71,687,000, with a decrease of 3.02% over that of 2002. According to the accounts prepared in accordance with HK GAAP, profit before taxation was RMB69,139,000, representing an increase of 41.51% over that of 2002.

In 2003, due to the impact caused by changes in the pricing policy for pharmaceutical products and the tendering system adopted by hospitals, gross profit margin of the Trading Operations for 2003 continued to decline and accounts receivable as at the end of the Reporting Period climbed. The trading subsidiaries of the Company carried out effective measures to react to the above market conditions. Firstly, they made timely adjustments to its marketing strategies according to market changes, focused on the logistics management for the SARS related medicines and tried to maintain their market share. They also strengthened the promotion on the SARS related medicines, especially to end-users such as hospitals and retail pharmacies, so as to ensure a continuous sales growth. Secondly, they continued to seek and develop new famous pharmaceutical products and their agency and distribution rights, and tap up the market in major cities and rural areas outside Guangdong Province. Thirdly, they strengthened its wholesale business and tried to maintain its rapid growth. Fourthly, they made timely adjustments to their development strategies in the retail business according to the market changes. Fifthly, they made efforts to accelerate the construction of the pharmaceutical logistics center, further streamlined their business, accelerated delivery speed and shortened inventory turnover days.

As at 31 December 2003, the Group had 224 chain pharmacies, including 124 “Cai Zhi Lin” Traditional Chinese Medicine (TCM) chain pharmacies and 100 “Jian Min” chemical medicine chain pharmacies. The number of the clients of the Trading Operations increased by 2,103, products with distribution rights increased by 2,077 types and products with exclusive distribution rights grew by 36 types. That has been crucial to the sales growth of the Trading Operations of the Group.

## 6.2 Analysis of principal activities of the Company by business and by product

Business/ product	Turnover <i>RMB'000</i>	Cost of sales <i>RMB'000</i>	Gross profit margin (%)	Change in	Change in	Change in
				turnover as compared with 2002 (%)	cost of sales as compared with 2002 (%)	gross profit margin as compared with 2002 (%)
CPM Manufacturing	1,889,215	880,274	53.41	8.36	11.52	-2.40
Trading	5,082,749	4,695,107	7.63	21.01	22.23	-10.80
Include: connected transactions	107,266	90,929	15.23	22.58	34.95	-33.84
Heat clearing and anti-toxic	475,617	238,910	49.77	16.42	17.67	-1.06
Diabetes curing	311,501	104,341	66.50	-14.58	-23.25	6.03
Cough and phlegm clearing	248,569	126,674	49.04	25.31	26.41	-0.89
Arthritis curing	210,935	87,731	58.41	10.85	21.62	-5.93
Gastric	102,690	54,894	46.54	23.82	19.48	4.36
Include: connected transactions	23,587	12,054	48.89	-17.33	-19.16	-4.95

### Pricing policy for connected transactions

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

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 medicine, related raw materials and medical apparatus for enterprises including enterprises under the same group.

Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd, a fellow subsidiary of the Company during the year ended 31 December 2003, is engaged in the trading of medicine. Purchases of medicine from the Group are necessary.

*Note:* The above products are CPM products.

### 6.3 Geographical analysis of sales arising from the manufacturing and trading operations

<b>Region</b>	<b>Turnover</b> <i>RMB'000</i>	<b>Change as</b> <b>compared with 2002</b> <i>(%)</i>
Southern China	5,514,420	21.12
Eastern China	469,802	4.42
Northern China	269,378	5.06
North-eastern China	185,356	-9.87
South-western China	272,754	20.68
North-western China	142,619	33.51
Exports	117,634	-19.46
<b>Total</b>	<b>6,971,963</b>	<b>17.30</b>

### 6.4 Particulars of customers and suppliers

Purchases of goods and services from the 5 largest suppliers	RMB972,248,000	% of total purchases	16.51%
Goods and services sold to the 5 largest customers	RMB388,693,000	% of total sales	5.58%

**6.5 Operation of the Group's invested companies (applicable to the Group's invested companies derived to the Group of any investment income which equals to 10% or more of the Group's net profit)**

Applicable       Not applicable

**6.6 Explanation on significant changes in principal activities and their composition**

Applicable       Not applicable

**6.7 Explanation on significant changes in profit from principal activities (gross profit margin) as compared with 2002**

Applicable       Not applicable

**6.8 Explanation on significant changes in operating results and their composition**

Applicable       Not applicable

<b>Items</b>	<b>2003</b>	<b>2002</b>	<b>Change</b>
	<i>RMB</i>	<i>RMB</i>	<i>(%)</i>
Profit from other operations	43,331,577.75	31,799,024.38	36.27

Explanation:

Profit from other operations for the year increased by RMB11,533,000, representing an increase of 36.27% as compared with that of 2002, which was contributed by market research for new products on behalf of the manufacturers, and rental income from warehouses leased to others.

Analysis on significant changes in overall financial position in comparison with 2002

Applicable       Not applicable

- (1) Notes receivable as at 31 December 2003 increased by RMB52,101,000 as compared with 1 January 2003, which was because major customers of the Group used notes to settle the debtor.
- (2) Advances to suppliers of the Group as at 31 December 2003 increased by RMB39,402,000, with an increase of 49% as compared with 1 January 2003, because more downpayments are required for obtaining the sole agent of some medicines..
- (3) The Group's inventory as at 31 December 2003 increased by RMB219,091,000, representing an increase of RMB25.80% over that of 1 January 2003, due to more merchandise purchased for the peak season in Spring Festival.
- (4) Construction in progress as at 31 December 2003 increased by RMB69,392,000, representing an increase of 29.33% as compared with that at 1 January 2003, which was mainly due to the increase in progress payment in projects such as the relocation of the plant located in Yupu of Guangzhou Zhong Yi Pharmaceutical Co., Ltd in Yupu, the construction of the foundation in Cong Hua of Guangzhou Han Fang Natural medicine Research & Development Co., Ltd and the logistics center in Huangjin Wei of Guangzhou Pharmaceutical Coporation.
- (5) Notes payable as at 31 December 2003 increased by RMB134,355,000, representing an increase of 172% as compared with 1 January 2003, because the Group used notes to settle the creditors for purpose of better working capital management..
- (6) Government grants payable as at 31 December 2003 increased by RMB24,001,000, representing an increase of 105% as compared with 1 January 2003, which was due to RMB22,292,000 received from the Guangzhou Finance Bureau during the year.
- (7) Cash and cash equivalents during the year decreased by RMB327,249,000, representing a decrease of 259.29% as compared with 2002, which was mainly due to the significant increase of capital expenditure into GMP of the Group during the year.

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

Applicable       Not applicable

The implementation of GMP in the Manufacturing Operations will lead to an increase in monetarily costs of the Company. In addition, gross profit margin of the Trading Operations will keep decreasing due to keen competition in domestic pharmaceutical market. The above will have an effect on the operation results of the Group for 2004.

**6.10 Achievement compared with profit forecast**

Applicable       Not applicable

**6.11 Achievement compared with operation budget**

Applicable       Not applicable

**6.12 Details of use of proceeds from issue of A shares**

Applicable       Not applicable

Total proceeds received	RMB737,990,000
Total amount of proceeds utilised in 2003	RMB154,220,000
Accumulated amount of proceed utilised	RMB583,770,000

Projects	Budgeted		Investment return			Agreed with the expected returns and the planned stage of completion
	injection from	Change	Funds	Turnover	Gross profit	
	proceeds	in projects	injected	increased by	increased by	
	RMB'000		RMB'000	RMB'000	RMB'000	
Xiao Ke Wan upgrade	29,800	No	29,800	86,470	57,500	Yes
Bao Ji Wan upgrade	11,000	No	11,000	4,080	960	Yes
Industrialisation of						
Wei Re Qing Capsules	29,000	No	7,990	56	40	No
Automation of pill production	11,000	No	11,000	23,900	15,920	Yes
Hua Tuo Zhai Zao Wan upgrade	17,000	No	17,000	65,370	36,450	Yes
Throat, spleen and intestine pills						
technology upgrade	29,100	No	17,580	28,690	13,200	Yes
Technology upgrade for						
syrup production	29,500	No	29,500	10,390	4,480	Yes
Industrialisation of						
Ke Gan Li Yan Syrup	19,600	No	19,600	N/A	N/A	Yes
Xu Han Ting granules upgrade	12,000	No	12,000	30,520	21,670	Yes
Automation of granules upgrade	29,900	No	29,900	53,170	24,010	Yes
Upgrade of flu granules for children	23,000	No	23,000	12,510	5,700	Yes
Industrialisation of						
Fu Yan Xiao Soluble Tablets	29,500	No	8,640	18.8	16.5	No
Spleen, intestine and pimples						
tablets upgrade	17,800	No	17,800	16,370	10,690	Yes
Syrup workshop upgrade	29,500	No	29,500	39,220	19,490	Yes
Tablets workshop upgrade	12,000	No	12,000	29,050	24,040	Yes
Modernisation of extraction and						
purification technology	29,900	No	23,720	N/A	N/A	Yes
Critical purification of CO <sub>2</sub>						
technology foundation	29,900	No	13,180	N/A	N/A	Yes

Expansion of Jian Min						
chain pharmacies	89,300	No	84,230	37,780	9,470	No
Expansion of Cai Zhi Lin						
chain pharmacies	59,500	No	20,840	N/A	2,610	No
Logistics centre upgrade	20,000	No	20,000	N/A	N/A	Yes
Upgrade of ERP for trading section	20,000	No	15,620	N/A	N/A	Yes
Bio-tech medicine research centre	80,000	No	50,180	N/A	N/A	Yes
Additional working capital	5,000	No	79,690	N/A	N/A	Yes
Total	708,300	—	583,770	437,594.8	246,246.5	—

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

Due to plant relocation, the completion of the technology upgrade for Fu Yan Xiao Soluble Tablets and Wei Re Qing Capsules was delayed till the end of 2004 while the expansion of chain stores slowed owing to the fierce competition in the domestic pharmaceutical market.

### **Reasons and procedures of change (on individual project)**

Applicable       Not applicable

### **Change in the proposed use of the proceeds from the issue of 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	Stage of completion	Returns on projects
Investment in Guangzhou Financial Information Control Platform	RMB1,200,000	Guangzhou Economic Commission has approved the project and agreed to provide grants for the project	—
Investment in Guangzhou Jin Shen Pharmaceutical Technology Co., Ltd.	RMB675,000	The joint venture has been established	—
Investment in Guangzhou Hua Yin Bio-Technology Co., Ltd	RMB1,000,000	The joint venture has been established	—
Investment in Guangyao An Kang Pharmaceutical Co., Ltd in Hubei Province	RMB3,060,000	The joint venture was established in early 2004	—
Increase in investment in Guangzhou Bai Di Bio-Technology Pharmaceutical Co., Ltd	RMB20,100,000	—	—
Total	RMB26,035,000	—	—

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

Applicable       Not applicable

#### 6.15 Operation plans for 2004

Applicable       Not applicable

The Company's operation plans for 2004 include:

1. To further strengthen the marketing and promotion of certain major products and products with high market potential, and to explore more major products with great competitiveness, seeking to increase the Company's turnover and profit to a higher level;
2. To accelerate the construction of technology platforms, and to push the production and marketing of new products such as Feng Shi Ping Capsules. In addition, it will continue to also make great efforts to enhance its competitiveness in technology;

3. To further regulate and perfect the SAP system of the Company and to accomplish the upgrading of SAP system in the Manufacturing Operations, at the same time to accelerate the implementation and training of the ERP system in the Trading Operations;
4. To continue seeking opportunities for cooperations with quality domestic pharmaceutical enterprises through acquisition and merger, with a view to broaden the profit base of the Company; and
5. To gradually improve its existing evaluation mechanism and long-term incentive scheme so as to enhance the activity and creativity of the key staff.

Profit forecast for 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 PRC 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 2003. The proposed final dividend will be submitted to the forthcoming 2003 AGM for consideration and approval (the notice to convene the 2003 AGM will be published separately).

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

### **6.17 Liquidity, financial resources and capital structure**

As at 31 December 2003, long-term borrowings of the Group amounted to RMB107,180,000 (2002: RMB89,680,000). These borrowings were fixed interest loans denominated in RMB and repayable within two to three years. As at 31 December 2003, the cash and cash equivalents of the Group amounted to RMB816,440,000 (2002: RMB1,019,903,000), out of which approximately 95.66% was denominated in RMB and 4.34% was denominated in Hong Kong dollars.

### **6.18 Charge on Group assets**

At 31 December 2003, the net book value of fixed assets pledged as collateral for the Group's bank loans amounted to RMB118,400,000 (2002: RMB118,030,000).

### **6.19 Capital expenditure**

The Group's capital expenditure for 2004 is around RMB367,000,000 (2002: RMB363,000,000). The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

### **6.20 Gearing ratio**

Up to 31 December 2003, there has been no material adverse changes in the gearing ratio of the Group.

### **6.21 Exposure to fluctuations in exchange rate**

As majority of the revenue, expenses, assets and liabilities of the Group are denominated in RMB, the Group does not have significant risks in exposure to fluctuations in exchange rates

### **6.22 Contingent liabilities**

Up to 31 December 2003, the Group has no significant contingent liabilities.

## 6.23 Other matters

During the Reporting Period, there were no significant disposal of assets (including subsidiaries and associated companies), merger or acquisition.

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 2003, the number of employees on the payroll register of the Group was 8,772, including:

	<b>No. of employees</b>
Production	4,883
Sales	1,756
Technical engineering	870
Finance	273
Administration	990

Among the employees, 66 of the employees hold a master degree and 735 hold a bachelor degree. The number of retirees was 4,362. The total salary payment for the year were approximately RMB381 million.

The remuneration of the employees of the Company includes salaries, bonuses and other fringe benefits. The Group has different rates of remuneration for different employees, based on the employees’ performance, experience, position and other factors and in compliance with the relevant PRC rules and regulations.

## 7 OTHER MATTERS

### 7.1 Acquisition of assets

Applicable       Not applicable

### 7.2 Disposal of assets

Applicable       Not applicable

### 7.3 Material guarantees

Applicable       Not applicable

Guaranteed parties	Date	Amount involved (RMB'000)	Type of guarantee	Term of guarantee	Executed or not	Guarantee for connected parties or not
	(date of the signing of the agreement)					
Guangzhou Pharmaceutical Corporation	30 May 2003 ~ 12 November 2003	431,500	Credit	1 year	No	No
Guangzhou Chinese Medicine Corporation	29 May 2003 ~ 27 October 2003	64,520	Credit	1 year	No	No
Guangzhou Pharmaceutical Improt & Export Corporation	24 April 2003 ~ 15 August 2003	25,110	Credit	1 year	No	No
Total of the amount involved				521,130		
Balance of guarantees				521,130		
Include: balance of guarantees provided to connected parties				Nil		
Amount of guarantees provided to the Company's subsidiaries				521,130		
Amount of deregulatory guarantees				Nil		
% of the net assets of the Company				21.43%		

Save as the above, the Company did not provide any guarantees to any parties other than its subsidiaries in which it holds 50% or more of equity interest during the year.

## 7.4 Connected transactions

Applicable       Not applicable

Connected parties	Funds to connected parties		Funds from connected parties	
	Initial amount	Balance	Initial amount	Balance
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accounts receivable:				
Guangzhou Qiao Guang Pharmaceutical Factory	35,816	5,572	25,625	987
Guangzhou Ming Xing Pharmaceutical Factory	1,666	288	24,186	487
Guangzhou Tian Xin Pharmaceutical Co., Ltd.	17,528	3,140	6,168	438
Guangzhou He Ji Gong Pharmaceutical Factory	121	18	1,899	106
Guangzhou Guang Hua Pharmaceutical Co., Ltd.	3,238	434	27,002	782
Guangzhou Wei Cai Factory	1,806	329	3,319	962
Guangzhou Hua Nan Medical Instrument Co., Ltd.	—	—	55	23
Guangzhou Pharmaceutical Materials Supply Company	—	—	22	22
Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd.	22,499	1,763	42,332	844
Guangzhou Pharmaceutical Economic Development Company	26	26	17	17
Po Lian Development Co., Ltd.	—	—	6,244	361
Guangzhou Zhong Fu Pharmaceutical Co., Ltd.	1,416	188	—	—
Guangzhou Baiyunshan Enterprise Group	—	—	12	—
Guangzhou Baiyunshan Pharmaceutical Manufacturing Factory	22,743	7,766	490	47
Guangzhou Baiyunshan Chinese Medicine Factory	1,582	852	2,996	297

Other receivables:				
Guangzhou Pharmaceutical Holdings Limited	—	7,227	4,864	13,814
Guangzhou Hua Nan Medical Instrument Co., Ltd.	—	100	—	—
Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd.	—	5,000	—	—
Po Lian Development Co., Ltd.	4,089	8,222	—	—
Guangzhou Zhong Fu Pharmaceutical Co., Ltd.	227	3	207	207
Guangzhou Pharmaceutical Industrial Research Institute	—	—	831	831

#### **7.5 Trusted fund management**

Applicable       Not applicable

#### **7.6 Commitments**

Applicable       Not applicable

At end of 2003,, capital commitments and lease commitments which have been contracted but not provided for amount to RMB231,100,000 and RMB69,360,000 respectively. During the Reporting Period, the contracted projects were completed as scheduled.

#### **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 2003 were audited by Guangzhou Yangcheng Certified Public Accountants Co., Ltd, who issued an unqualified audited report 2004 Yang Cha Zi No.2297 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 2003.

### **9.2 Audited accounts**

*(Prepared in accordance with PRC accounting standards and systems)*

Balance sheet of the Group and the Company as at 31 December 2003;

Profit and loss account of the Group and the Company for the year ended 31 December 2003;

Cash flow statement of the Group and the Company for the year ended 31 December 2003;

(see appendix)



## Balance sheet of the Group and the Company (audited)

Assets	As at 31 December 2003		As at 31 December 2002	
	The Group <i>Rmb</i>	The Company <i>Rmb</i>	The Group <i>Rmb</i>	The Company <i>Rmb</i>
<b>Current assets</b>				
Cash	816,439,041.14	231,542,044.04	1,019,903,178.95	204,624,119.72
Short-term investments	49,499,310.37	49,499,310.37	61,194,385.90	61,194,385.90
Notes receivable	52,280,755.19	—	180,000.00	—
Dividends receivable	6,316,510.00	6,316,510.00	5,474,684.92	5,106,895.00
Interest receivable	—	—	—	—
Accounts receivable	878,361,678.85	—	716,482,532.62	—
Other receivables	130,980,738.37	319,285,854.82	122,975,499.77	285,792,292.21
Advances to suppliers	120,102,331.41	—	80,700,451.50	—
Subsidy receivable	10,325,834.50	—	10,064,712.63	—
Inventories	1,067,439,529.10	—	848,519,074.31	—
Prepaid expenses	91,300,355.06	—	81,727,619.19	—
Long-term debt investments maturing within one year	—	—	—	—
Other current assets	—	—	—	—
<b>Total current assets</b>	<b>3,223,046,083.99</b>	<b>606,643,719.23</b>	<b>2,947,222,139.79</b>	<b>556,717,692.83</b>
<b>Long-term investment</b>				
Long-term equity investment	74,867,192.97	1,853,732,823.78	86,789,969.55	1,772,278,585.65
Long-term debt investment	—	—	—	—
<b>Total long-term investment</b>	<b>74,867,192.97</b>	<b>1,853,732,823.78</b>	<b>86,789,969.55</b>	<b>1,772,278,585.65</b>
<b>Fixed assets</b>				
Fixed assets-cost	1,505,442,749.56	37,407,029.02	1,247,479,589.50	31,605,410.76
Less: accumulated depreciation	498,586,610.77	10,215,684.50	442,207,260.76	7,279,372.15
Fixed assets-net amount	1,006,856,138.79	27,191,344.52	805,272,328.74	24,326,038.61
Less: fixed assets impairment provision	25,786,824.47	7,109,752.25	29,564,343.45	7,109,752.25
Fixed assets-net book value	981,069,314.32	20,081,592.27	775,707,985.29	17,216,286.36
Construction supplies	—	—	—	—
Construction in progress	305,928,588.83	—	236,616,437.79	4,330,352.17
Fixed assets pending for disposal	—	—	—	—
<b>Total fixed assets</b>	<b>1,286,997,903.15</b>	<b>20,081,592.27</b>	<b>1,012,324,423.08</b>	<b>21,546,638.53</b>
<b>Intangible assets and other assets</b>				
Intangible assets	93,715,205.21	—	93,768,566.32	—
Long-term prepaid expenses	28,413,060.66	1,997,842.14	33,089,392.45	2,404,510.41
Other long-term assets	—	—	—	—

Total intangible assets and other assets	122,128,265.87	1,997,842.14	126,857,958.77	2,404,510.41
Deferred taxation				
Deferred tax debits	—	—	—	—
<b>Total assets</b>	<b>4,707,039,445.98</b>	<b>2,482,455,977.42</b>	<b>4,173,194,491.19</b>	<b>2,352,947,427.42</b>
<b>Current liabilities</b>				
Short-term loans	664,230,000.00	—	555,340,000.00	—
Notes payable	212,533,538.69	—	78,178,584.40	—
Accounts payable	644,880,577.38	—	580,755,642.12	—
Advances from customers	34,182,508.08	—	46,266,805.26	—
Accrued payroll	77,634,473.67	2,485,598.66	81,003,162.42	2,629,148.66
Welfare benefits payable	56,334,037.21	3,074,976.99	57,057,212.15	2,568,305.87
Dividends payable	11,178.03	11,137.00	470,722.36	22,917.14
Taxes payable	21,605,390.47	716,641.71	48,773,628.89	408,494.06
Other levies payable	2,651,595.11	13,161.85	3,954,085.03	9,880.96
Other payables	199,619,096.28	40,995,862.85	124,069,695.90	11,947,614.68
Accrued expenses	4,456,292.55	2,000,000.00	4,625,106.82	3,250,000.00
Provision for foreseeable liabilities	—	—	—	—
Portion of long-term liabilities due within one year	30,000,000.00	—	—	—
Other current liabilities	—	—	—	—
<b>Total current liabilities</b>	<b>1,948,138,687.47</b>	<b>49,297,379.06</b>	<b>1,580,494,645.35</b>	<b>20,836,361.37</b>
<b>Long-term liabilities</b>				
Long-term loans	107,180,000.00	—	89,680,000.00	—
Debouchures payable	—	—	—	—
Payables due after one year	3,616,783.17	—	3,619,897.61	—
Government grants payable	46,893,897.48	1,000,000.00	22,893,288.18	—
Other long-term payables	5,000,000.00	—	5,000,000.00	—
<b>Total long-term liabilities</b>	<b>162,690,680.65</b>	<b>1,000,000.00</b>	<b>121,193,185.79</b>	<b>—</b>
<b>Deferred tax</b>				
Deferred tax credits	—	—	—	—
Total liabilities	2,110,829,368.12	50,297,379.06	1,701,687,831.14	20,836,361.37
Minority interests	166,733,695.45	—	135,923,981.38	—
<b>Shareholders' fund</b>				
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	1,119,572,202.41	1,119,405,462.95	1,114,334,224.64	1,114,220,189.56
Reserved fund	416,445,683.07	145,803,875.54	336,429,845.16	124,276,436.70
Include: statutory welfare fund	134,458,560.41	59,176,788.16	109,728,912.38	52,000,975.21
Retained earnings	82,558,496.93	356,049,259.87	73,918,608.87	282,714,439.79
Include: dividends	48,654,000.00	48,654,000.00	48,654,000.00	48,654,000.00
<b>Total shareholders' fund</b>	<b>2,429,476,382.41</b>	<b>2,432,158,598.36</b>	<b>2,335,582,678.67</b>	<b>2,332,111,066.05</b>
<b>Total liabilities and shareholders' fund</b>	<b>4,707,039,445.98</b>	<b>2,482,455,977.42</b>	<b>4,173,194,491.19</b>	<b>2,352,947,427.42</b>

## Profit and loss account for the Group and the Company (audited)

Assets	2003		2002	
	The Group <i>Rmb</i>	The Company <i>Rmb</i>	The Group <i>Rmb</i>	The Company <i>Rmb</i>
<b>Sales</b>	6,971,963,246.21	—	5,943,823,330.51	—
Less: Cost of sales	5,575,381,494.57	—	4,630,442,992.22	—
Less: Sales and taxes	23,867,921.27	—	23,971,060.12	—
<b>Profit from principal operations</b>	1,372,713,830.37	—	1,289,409,278.17	—
Add: Profit from other operations	43,331,577.75	4,267,200.40	31,799,024.38	3,299,534.99
Less: Operating expenses	480,112,918.89	—	418,080,004.45	—
Less: General and administrative expenses	617,672,250.86	31,534,143.01	557,186,117.00	27,642,298.17
Less: Financial expenses (income)	22,200,163.99	-4,365,400.55	15,329,165.53	-5,006,323.96
<b>Operating profit</b>	296,060,074.38	-22,901,542.06	330,613,015.57	-19,336,439.22
Add: Investment income (losses)	2,714,764.17	166,528,032.74	-16,898,852.55	178,636,602.10
Add: Subsidy income	276,208.28	—	314,068.00	—
Add: Non-operating income	2,616,643.99	725.46	2,858,663.60	216,632.01
Less: Non-operating expenses	16,894,247.44	110,957.22	29,380,807.14	7,141,463.06
<b>Total profit</b>	284,773,443.38	143,516,258.92	287,506,087.48	152,375,331.83
Less: Income tax	134,425,044.95	—	113,122,444.16	581,635.02
Less: Minority interest	10,552,991.99	—	15,905,895.38	—
<b>Net profit</b>	139,795,406.44	143,516,258.92	158,477,747.94	151,793,696.81
Add: Retained earnings brought forward	74,594,593.92	282,714,439.79	49,655,627.95	201,269,113.29
Add: Transfer from others	—	—	3,972,143.34	1,074,684.21
<b>Profit distributable</b>	214,390,000.36	426,230,698.71	212,115,519.23	354,137,494.31
Less: Transfer to statutory surplus reserves	32,076,133.21	14,351,625.89	34,419,291.99	15,179,369.68
Less: Transfer to statutory public welfare	24,892,774.22	7,175,812.95	26,812,654.95	7,589,684.84

Less: Transfer to staff bonuses and welfare fund	2,507,077.69	—	2,144,451.47	—
Less: Transfer to reserve fund	940,154.13	—	804,169.31	—
Less: Enterprise expansion fund	940,154.13	—	804,169.31	—
Less: Profit returned to investment	—	—	—	—
<b>Profit distributable to shareholders</b>	<b>153,033,706.98</b>	<b>404,703,259.87</b>	<b>147,130,782.20</b>	<b>331,368,439.79</b>
Less: Dividend for preferred shares	—	—	—	—
Less: Transfer to discretionary surplus reserves	21,821,210.05	—	24,558,173.33	—
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	—	—	—	—
Retained earnings	82,558,496.93	356,049,259.87	73,918,608.87	282,714,439.79

## Supplementary 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	969,762.78	—	—	—
2	Loss due to natural disaster	—	—	—	—
3	Increase/(decrease) in total profit	—	—	—	—
4	Increase/(decrease) in total profit as a result of changes in accounting estimates	—	—	—	—
5	Losses from debt restructuring	—	—	—	—

## Cash Flow Statement of the Group and the Company (audited)

Item	2003	
	The Group <i>Rmb</i>	The Company <i>Rmb</i>
<b>Cash flows from operating activities</b>		
Cash received from sales of goods or rendering services	7,949,850,555.19	—
Refund of tax and levies	7,702,554.51	—
Other cash received relating to operating activities	76,171,204.49	6,267,728.25
Sub-total of cash inflows	8,033,724,314.19	6,267,728.25
Cash paid for goods or services	6,463,193,346.47	—
Cash paid to and on behalf of employees	491,208,618.60	10,467,841.34
Payments of all type of taxes	439,393,768.03	233,370.03
Other cash paid relating to operating activities	646,758,977.06	8,449,750.42
<b>Sub-total of cash outflows</b>	<b>8,040,554,710.16</b>	<b>19,150,961.79</b>
<b>Net cash flows from operating activities</b>	<b>-6,830,395.98</b>	<b>-12,883,233.54</b>
<b>Cash flows from investing activities</b>		
Cash received from disposal of investments	24,138,436.81	20,000,000.00
Include: cash received from disposal of subsidiaries	3,077,200.00	—
Cash received from investment income	4,900,136.83	109,477,064.46
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	2,777,805.04	2,600.00
Other cash received relating to investing activities	—	225,941,418.07
<b>Sub-total of cash inflows</b>	<b>31,816,378.68</b>	<b>355,421,082.53</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	367,176,513.22	1,824,350.35
Cash paid to acquire investments	9,825,000.00	29,775,000.00
Include: cash paid to acquire subsidiary	—	—
Other cash paid relating activities	—	235,496,743.73
<b>Sub-total of cash outflows</b>	<b>377,001,513.22</b>	<b>267,096,094.08</b>
<b>Net cash flows from investing activities</b>	<b>-345,185,134.54</b>	<b>88,324,988.45</b>

<b>Cash flows from financing activities</b>		
Cash received from capital contribution	—	—
Cash received from capital contribution from minority shareholders	7,650,000.00	—
Cash received from borrowings	678,230,000.00	—
Cash received relating to financing activities	107,687,857.13	—
<b>Sub-total of cash inflows</b>	793,567,857.13	—
Cash repayments of amounts borrowed	521,840,000.00	—
Cash payments for distribution of dividends, profits or interest expenses	81,376,182.62	48,677,066.35
Cash payments for distribution of dividends to minority shareholders by subsidiaries	9,105,010.88	—
Other cash payments relating to financing activities	30,422,628.06	—
<b>Sub-total of cash outflows</b>	642,743,821.56	48,677,066.35
<b>Net cash flows from financing activities</b>	150,824,035.57	-48,677,066.35
<b>Effect of foreign exchange rate changes on cash</b>	153,235.76	153,235.76
<b>Net (decrease)/increase in cash and cash equivalents</b>	-201,038,259.19	26,917,924.32

## Supplemental Information

	2003	
	The Group	The Company
	<i>RMB</i>	<i>RMB</i>
<b>Reconciliation of net profit to cash flows</b>		
<b>from/(to) operating activities</b>		
Net profit	139,795,406.44	143,516,258.92
Add: Minority interest	10,552,991.99	—
Provision for asset impairment	32,743,975.65	100,408.71
Depreciation of fixed assets	88,008,290.55	3,137,038.85
Amortization of intangible assets	3,684,535.13	—
Amortization of long-term prepaid expenses	10,506,483.88	1,186,247.13
Decrease in prepaid expenses (less: increase)	-9,572,735.87	—
Increase in accrued expenses (less: decrease)	-168,814.27	-1,250,000.00
Losses on disposal of fixed assets, intangible assets and Other long-term assets (less: gains)	1,311,332.19	—
Losses on scrapping of fixed assets	3,606,761.89	43,703.78
Financial expenses (less: income)	32,678,736.34	153,235.76
Losses on investment (less: gain)	-2,714,764.17	-166,528,032.74
Deferred tax credit (less: debit)		
Decrease in inventories (less: increase)	-218,920,454.79	—
Decrease in operating receivables (less: increase)	-292,781,383.90	5,225,701.10
Increase in operating payables (less: decrease)	190,126,875.89	1,532,204.95
Others	4,312,367.07	—
<b>Net cash flows from operating activities</b>	<b>-6,830,395.98</b>	<b>-12,883,233.54</b>

**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	—	—

**Net increase/(decrease) in cash and cash equivalents**

Cash at the end of year	816,439,041.14	231,542,044.04
Less: cash at the beginning of year	1,019,903,178.95	204,624,119.72
Add: cash equivalents at the end of year	—	—
Less: cash equivalents at the beginning of year	—	—
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>-203,464,137.81</b>	<b>26,917,924.32</b>

Note: The cash and cash equivalents in the above cash flow statement differs from that in the supplementary information by RMB2,425,878.62, owing to change in the consolidation scope (please refer to note 4 to the consolidated financial accounts) resulting in the difference in subsidiaries included in the consolidation scope as compared with 1 January 2003. Net increase in cash and cash equivalents did not include the cash inflow from the subsidiaries which were not included in the consolidation scope as at 31 December 2003 and the cash inflow from the disposed subsidiary for the period from the transfer date till 31 December 2003.

**Change in the consolidation scope as compared with 2002**

- (1) The Group holds 65% and 72% of equity interest in Guangzhou Chen Li Ji Xing Ma Health Drinks Co., Ltd and Qi Xing Lan Zhao Biological Co., Ltd. respectively. Because the mentioned subsidiaries are in the process of liquidation, they are not included in the consolidation scope in 2003 pursuant to Provisionary Regulations on Consolidated Financial Statements.

In accordance with HK GAAP, the above subsidiary of the Company was included in the consolidation scope for the year 2003.

- (2) The Group's subsidiary, Guangzhou Pharmaceutical Import & Export Co., Ltd transferred 90% of equity interest in its originally wholly owned subsidiary, Guangzhou Yong Xin Pharmaceutical Trading Co., Ltd in August 2003. Therefore, the revenue, costs and profit of the disposed subsidiary for the period from 1 January 2003 till the date of transfer were included in the consolidated profit and loss account of the Company, while its assets, liabilities and shareholders' funds were not included in the consolidated balance sheet for the year.



### 9.3 Consolidated profit and loss account (audited)

For the year ended 31 December 2003

(prepared in accordance with HK GAAP)

		<b>2003</b>	As restated <b>2002</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1	6,973,113	5,943,823
Cost of sales		<u>(5,576,164)</u>	<u>(4,630,443)</u>
Gross profit		1,396,949	1,313,380
Other revenue	1	74,923	68,373
Distribution costs		(504,230)	(442,051)
Administrative expenses		(606,298)	(677,678)
Other operating expenses		<u>(19,807)</u>	<u>(13,735)</u>
Operating profit	2	341,537	248,289
Finance costs	3	(34,172)	(28,804)
Share of profits less losses of			
Jointly controlled entities		—	(23,435)
Associated companies		<u>464</u>	<u>310</u>
Profit before taxation		307,829	196,360
Taxation	4	<u>(148,393)</u>	<u>(82,892)</u>
Profit after taxation		159,436	113,468
Minority interests		<u>(12,769)</u>	<u>(12,313)</u>
Net profit for the year		<u>146,667</u>	<u>101,155</u>
Dividends		<u>48,654</u>	<u>48,654</u>
Earnings per share	6	<u>Rmb0.181</u>	<u>Rmb0.125</u>

## 1. Turnover, revenue and segment information

The Group is principally engaged in the manufacture and sales of Chinese Patent Medicine (“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:

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover:		
Sales of goods	6,973,113	5,943,823
Other revenues:		
Government grants and subsidies	290	8,432
Income arising from dilution of interest in a subsidiary	3,565	—
Income arising from disposal of a joint venture	934	—
Income arising from disposal of a subsidiary	1,786	—
Interest income	11,210	13,475
Gross rental income from investment properties	21,286	21,347
Gross rental income from other properties	9,201	11,060
Promotional income from suppliers	12,947	8,556
Royalty income	1,600	851
Dividend income from unlisted investments	4,880	4,652
Others	7,224	—
	<u>74,923</u>	<u>68,373</u>
Total revenue	<u><u>7,048,036</u></u>	<u><u>6,012,196</u></u>

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.

Year ended 31 December 2003						
	Import					Group
	Manufacturing	Wholesale	Retail	and export	Elimination	Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover						
External	1,890,364	4,544,134	354,438	184,177	—	6,973,113
Internal	27,648	189,671	17,015	33,568	(267,902)	—
Total	<u>1,918,012</u>	<u>4,733,805</u>	<u>371,453</u>	<u>217,745</u>	<u>(267,902)</u>	<u>6,973,113</u>
Segment results	<u>280,038</u>	<u>95,055</u>	<u>5,205</u>	<u>1,565</u>	<u>(12,445)</u>	369,418
Unallocated costs						(27,881)
Operating profit						341,537
Finance costs						(34,172)
Share of profits less losses of - Associated companies	464					464
Profit before taxation						307,829
Taxation						(148,393)
Profit after taxation						159,436
Minority interests						(12,769)
Net profit						<u>146,667</u>
Segment assets	2,193,747	2,004,166	179,183	120,949	(309,913)	4,188,132
Interests in associated companies	2,644					2,644
Unallocated assets						763,315
Total assets						<u>4,954,091</u>

Segment liabilities	658,459	1,642,500	63,367	71,444	(309,913)	2,125,857
Unallocated liabilities						94,190
Total liabilities						<u>2,220,047</u>
Capital expenditure	303,812	54,732	4,145	665		363,354
Depreciation	80,901	20,481	4,064	209		105,655
Amortisation charge	7,469	3,015	—	30		10,514
Impairment charge	1,186	—	—	—		1,186

Year ended 31 December 2002 (As restated)

	Import					Group
	Manufacturing	Wholesale	Retail	and export	Elimination	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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						(82,892)
Profit after taxation						113,468
Minority interests						(12,313)
Net profit						<u>101,155</u>
Segment assets	2,006,187	1,684,881	180,333	80,524	(271,614)	3,680,311

Interests in						
joint ventures	6,208					6,208
Interests in associated						
companies	2,930					2,930
Unallocated assets						720,761
Total assets						<u>4,410,210</u>
Segment liabilities	506,391	1,322,774	65,997	69,765	(271,614)	1,693,313
Unallocated liabilities						113,745
Total liabilities						<u>1,807,058</u>
Capital expenditure	219,521	26,174	6,487	311		252,493
Depreciation	67,337	16,295	5,408	201		89,241
Amortisation charge	7,401	3,015	—	30		10,446
Impairment charge	18,099	1,930	—	—		20,029

## 2. Operating profit

Operating profit is stated after charging and crediting the following:

	<b>2003</b>	<b>2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Charging:		
Depreciation and amortisation		
of fixed assets	105,655	89,241
Amortisation of intangible assets	10,514	10,446
Impairment charge of		
fixed assets (Note a)	1,186	20,029
Impairment charge of		
investment securities (Note c)	4,671	—
Outgoings in respect of		
investment properties	4,030	4,037
Outgoings in respect		
of other properties	1,840	2,212
Loss on disposal of fixed assets	4,917	3,696
Loss on disposal of a joint venture	—	16
Realised losses on disposal		
of trading securities	—	1,929

Unrealised losses on trading securities	—	1,714
Research and development costs	35,536	26,500
Auditors' remuneration	3,180	3,187
Staff costs:		
Pension benefit	58,311	50,537
Housing fund	22,113	12,066
Medical insurance	24,244	97,233
Housing allowances	19,290	7,817
Salaries, wages and other staff benefits	436,145	412,808
Operating leases for land and buildings	<u>30,716</u>	<u>27,315</u>
Crediting:		
Reversal of impairment charge of trading securities (Note b)	690	—
Recovery of bad debts previously written off	9,437	—
Reversal of write-down of inventories	<u>—</u>	<u>785</u>

Note:

- (a) Impairment charge mainly arose as a result of technology upgrade, modernisation of production facilities and significant decline in market value of the assets.
- (b) Reversal of impairment charge of trading securities was a result of the increase in market values of the securities.
- (c) Impairment charge of investment securities was a result of the decrease in fair value at balance sheet date.

### 3. Finance costs

	<b>2003</b>	<b>2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans	37,385	27,918
Other incidental borrowing costs	1,966	1,244
	<hr/>	<hr/>
Total borrowing costs incurred	39,351	29,162
Less: interest capitalised in construction in progress	(5,179)	(358)
	<hr/>	<hr/>
	<u>34,172</u>	<u>28,804</u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is approximately 5.49% (2002: 5.49%).

### 4. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	<b>2003</b>	<b>2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation:		
- PRC enterprise income tax	134,425	113,123
Deferred taxation relating to the origination and reversal of temporary differences	13,882	(30,341)
	<hr/>	<hr/>
	148,307	82,782
Share of taxation attributable to:		
- Jointly controlled entities	—	—
- Associated companies	86	110
	<hr/>	<hr/>
Taxation charges	<u>148,393</u>	<u>82,892</u>

The PRC enterprise income tax has been provided at the principal rate of 33% (2002: 33%) on the estimated assessable profit for the year.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the PRC enterprise income tax as follows:

	<b>2003</b>	<b>2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	307,829	196,360
Calculated at a taxation rate of 33%		
(2002: 33%)	101,584	64,799
Effect of different taxation rates in a subsidiary	(2,488)	(2,666)
Income not subject to taxation	(13,350)	(6,371)
Expenses not deductible for taxation purposes	63,995	50,217
Tax refund	(1,348)	(23,087)
Taxation charges	<u>148,393</u>	<u>82,892</u>

An amount of RMB1,348,000 relating to income tax credits granted for a reason of qualified purchase of domestic equipment has been net off against the taxation charges for the year 2003.

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 relating to the said tax refund for tax paid during the second half of 2001 was received and net off against the taxation charges for the year 2002.

There is no such income tax refund since 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. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB67,000,000 (2002: RMB 42,910,000).

## 6. Earnings per share

The calculation of earnings per share for the year ended 31 December 2003 is based on the net profit of RMB146,667,000 (2002: RMB 101,155,000) and the 810,900,000 shares (2002: 810,900,000) in issue.

## 7. Retained earnings

	<i>RMB'000</i>
At 1 January 2002, as previously reported	125,953
Changes in accounting policy	
- provision for deferred taxation	44,281
	<hr/>
At 1 January 2002, as restated	170,234
2001 Final dividend paid	(48,654)
Profit for the year	101,155
Transfers	(87,290)
	<hr/>
At 31 December 2002	<u>135,445</u>
Representing:	
2002 Final dividend proposed	48,654
Others	86,791
	<hr/>
Retained earnings at 31 December 2002	<u>135,445</u>
The Company and subsidiaries	172,394
Jointly controlled entities	(35,602)
Associated companies	(1,347)
	<hr/>
	<u>135,445</u>

At 1 January 2003, as restated	135,445
Profit for the year	146,667
2002 Final dividend paid	(48,654)
Transfers	(88,110)
	<hr/>
At 31 December 2003	<u>145,348</u>
Representing:	
2003 Final dividend proposed	48,654
Others	96,694
	<hr/>
Retained earnings at 31 December 2003	<u>145,348</u>
	<hr/>
The Company and subsidiaries	150,904
Associated companies	(5,556)
	<hr/>
	<u>145,348</u>
	<hr/>

## 10. REQUIRED INFORMATION

The Company will publish in the website of The Stock Exchange of Hong Kong Limited all the information related to the Company's results announcement for the year ended 31 December 2003, as required by the paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules.

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*The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*

*The following announcement is made pursuant to paragraph 2(2) of the Listing Agreement.*

**ANNOUNCEMENT FOR THE RESOLUTIONS PASSED AT THE 29TH MEETING OF THE SECOND BOARD OF DIRECTORS**

The Company and all members of the Board of Directors hereby confirm the truthfulness, accuracy and completeness of the contents of this announcement and jointly accept full responsibility for any false representation, misleading statement or material omission herein contained.

IT IS HEREBY ANNOUNCED THAT the 29th meeting of the 2nd board of directors of Guangzhou Pharmaceutical Company Limited (the “Company”) was held at the premises of the Company at the Conference Room, 2nd Floor, 45 Shamian North Street, Guangzhou on 26 March 2004. Nine directors attended the meeting, of which Mr. Chu Youlin attended the meeting by means of teleconferencing. A director, Mr Liu Jinxiang, was not able to attend the meeting due to other work arrangements so that he appointed an independent non-executive director, Mr Zhang Bohua, to attend and vote at the meeting on his behalf. The meeting was presided by Mr. Cai Zhixiang, chairman of the Board with the supervisors and senior management staff of the Company sitting in which 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 considered and unanimously approved and passed by the directors at the meeting:-

1. the directors’ report for the year 2003;
2. the audited accounts for the Company for the year 2003;
3. the auditors’ reports for the year 2003;

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 2003;
  - a) the distribution of the after tax profit 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, and no transfer is to be made to the discretionary surplus reserve.
  - b) the full year dividend for 2003 is recommended to be Rmb0.06 per share (inclusive of tax for A shares), the total amount of dividends to be distributed amounts to Rmb48.654 million.
6. the projected net profit distribution policy for the Company in 2004:

The Company proposes that there will be only one dividend distribution in 2004; 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 transfer from surplus reserve to capital in 2004.
7. the amount of emoluments to be paid to the directors of the Company;

It is proposed that in 2004, the emoluments for the Company's directors will be Rmb4.33 million (excluding the emoluments of directors of the subsidiaries).

8. the amount of emoluments to be paid to the supervisors of the Company;

It is proposed that in 2004, the emoluments for the Company's directors will be Rmb0.68 million (excluding the emoluments of supervisors of the subsidiaries).

9. the Company's agreement for connected transactions in respect of purchases and sales;

10. the amendment of the Articles of Associations of the Company.

- (1) Addition of Paragraph (14) to the original Article 52 of the Articles of Association of the Company:

(14) to approve guarantees provided by the Company for other parties who satisfy certain conditions, which represents more than 10% of the latest audited consolidated net asset value of the Company ;

The original Paragraphs (14) and (15) of the Article is re-numbered as Paragraphs (15) and (16) respectively.

- (2) Original Article 62 of the Articles of Association of the Company be amended to:

Article 62 Any shareholder entitled to attend and vote at a shareholders' general meeting of the Company shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxy to attend and vote on his behalf, and a proxy so appointed may exercise the following rights according to his entrustment by the shareholder:

- (i) the shareholder's right to speak at the shareholders' general meeting;
- (ii) the right to require by himself or in conjunction with others to demand a poll in respect of a resolution;

- (iii) the right to vote by a show of hands or a poll, but a proxy of a shareholder who has appointed more than one proxy may only exercise their voting rights by poll.

If a shareholder is required to abstain from voting or restricted to vote only in favour or against a resolution and the vote cast by that shareholder or his proxy is in contravention of such requirement and restriction, the vote will be regarded as ineffective.

- (3) Addition of Paragraph (5) to the original Article 73 of the Articles of Association of the Company:

(5) to approve guarantees provided by the Company for other parties who satisfy certain conditions, which represents more than 10% of the latest audited consolidated net asset value of the Company ;

The original Paragraph (5) of the Article is re-numbered as Paragraph (6).

- (4) Original Article 92 of the Articles of Association of the Company be amended to:

Article 92 The board of directors is responsible to the shareholders' general meeting and may exercise the following powers:

- (i) to convene shareholders' general meetings and report on its work to the shareholders;
- (ii) to implement resolutions passed by shareholders in shareholder's general meetings;
- (iii) to decide on the Company's business plans and investment plans;
- (iv) to formulate annual budgets and accounts of the Company;
- (v) to formulate profit distribution plans and plans for recovery of losses;
- (vi) to formulate plans for the increase or decrease in registered capital or plans for issue of bonds;

- (vii) to formulate plans for the merger, demerger or dissolution of the Company;
- (viii) to decide on the internal management structure of the Company;
- (ix) to appoint or dismiss the manager of the Company, and at the recommendation of the manager, employ or dismiss deputy managers, financial controllers and other senior management staff of the Company and to fix their remuneration;
- (x) to decide on a basic management control system of the Company;
- (xi) to formulate proposals for amending the Articles of Association of the Company;
- (xii) to approve guarantees provided by the Company for other parties who satisfy certain conditions, which represents more than 10% of the latest audited consolidated net asset value of the Company ;
- (xiii) to exercise other powers as set out in the Articles of Association of the Company or conferred by the shareholders' general meeting.

Except the resolutions by the board of directors in respect of the matters specified in the above paragraphs (vi), (vii), (xi) and (xii), which shall be passed by two-thirds or more of the directors, the resolutions by the board of directors in respect of all other matters may be passed by more than one half of the directors.

- (5) Original Article 97 of the Articles of Association of the Company be amended to:

Article 97 Meetings of the board of directors shall be held only if more than half of the directors are present.

Each director shall have one vote. The resolutions by the board of directors must be passed by more than one half of the directors.

Where the number of votes cast for and against a resolution are equal, the chairman of the board of directors shall have a casting vote.

A director shall not vote on any resolution approving any transaction in which he or his associates has a material interest.

- (6) Addition of Paragraph (6) to the original Article 111(1) of the Articles of Association of the Company:

6. the Company's guarantee to other parties;

At the same time, the original Paragraph (6) of the Article is re-numbered as Paragraph (7).

- (7) Original Article 146 of the Articles of Association of the Company be amended to:

Article 146 Requirements in respect of the Company's guarantees are as follows:

- (i) The Company is prohibited from directly or indirectly making a loan or a guarantee for a loan to directors, supervisors, general manager and other senior management staff of the Company and its holding company; and is prohibited from making a loan or a guarantee for a loan to persons connected to those directors, supervisors, general manager and senior management staff.

The following transactions are not subject to the prohibition set out above:

- (1) the provision of a loan or a guarantee for a loan by the Company to a company which is a subsidiary of the Company;



- (2) the provision of a loan or a guarantee for a loan or other funds by the Company under a service contract with any of its directors, supervisors, general manager and other senior management staff as approved by shareholders in shareholders' general meeting to meet expenditure incurred or to be incurred by them for the purposes of the Company or for the purposes of enabling them to properly perform their duties;
  - (3) where the ordinary course of business of the Company includes the lending of money or the provision of guarantees, the Company may make a loan to or provide a guarantee to any of its directors, supervisors, general manager and other senior management staff or persons connected to them on normal commercial terms,
- (ii) Guarantee to other parties
- (1) The Company is prohibited from providing a guarantee for a loan to controlling shareholder, a subsidiary of a shareholder, a fellow subsidiary of a shareholder and other related parties in which the Company holds less than 50% equity interests, any non-legal persons or individuals;
  - (2) The total amount of guarantee provided by the Company shall not be more than 50% of the latest audited consolidated net asset value of the Company;
  - (3) The Company shall carry a credit review of the parties for which the Company provides guarantee and the Company is prohibited from, directly or indirectly, providing guarantee for a loan to any party whose debt to assets ratio is higher than 70%;
  - (4) For any guarantee to be provided by the Company, the Company must request the party for which the guarantee is given to give a counter guarantee to the Company and the party who gives the counter guarantee must have the actual capability to fulfil the counter guarantee.

11. resolution of the Company to amend the “Rules Governing the Procedures for Operating the Shareholders’ General Meeting” (refer to the website of the Shanghai Securities Exchange for the full text);
12. resolution of the Company to amend the “Rules Governing the Procedures for Operating the Meeting of the Board of Directors” (refer to the website of the Shanghai Securities Exchange for the full text);
13. the resolution to convene the 2003 Annual General Meeting, of which separate announcement will be made relating to the date of the meeting.

*Board of directors of*  
**Guangzhou Pharmaceutical Company Limited**

26 March 2004

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*The following announcement is made pursuant to paragraph 2(2) of the Listing Agreement.*

**GUANGZHOU PHARMACEUTICAL COMPANY LIMITED  
RESOLUTIONS PASSED AT THE FIRST  
EXTRAORDINARY GENERAL MEETING IN 2004**

The Company and all members of the Board of Directors hereby confirm the truthfulness, accuracy and completeness of the contents of this announcement and jointly accept full responsibility for any false representation, misleading statement or material omission herein contained.

Guangzhou Pharmaceutical Company Limited (the “Company”) held its first Extraordinary General Meeting in 2004 (“EGM”) at 11:30 a.m. on 26 March 2004 at the Conference Room, 2nd Floor, 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the People’s Republic of China. Two shareholders and proxies attended the meeting, representing a total of 513,216,000 shares, or approximately 63.29 % of the total number of shares of the Company, (of which 513,000,000 shares were State-owned shares, representing approximately 63.26% of the total number of shares of the Company, and 216,000 shares were H shares, representing approximately 0.03% of the total number of shares of the Company). The meeting was held in compliance with the Company Law of the People’s Republic of China and the provisions of the Company’s Articles of Association with respect to the holding of Annual General Meeting.

Upon discussion and consideration, the following resolutions were passed at the meeting by means of individual ballot:

A. By way of ordinary resolutions:

1. Mr. Cai Zhixiang, Mr. Li Yimin, Mr. Feng Zansheng and Mr. Zhou Yuejin were elected as the directors of the third board of directors of the Company; Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang He Yong were elected as the independent non-executive directors of the third Board of Directors of the Company; and Mr. Ou Yang Qiang and Mr. Zhong Yu Gan were elected as the supervisors of the third Supervisory Committee of the Company. The tenure of each of the directors and supervisors of the next board of directors appointed is three years, and will be terminated until the directors of the next Board and supervisors of the next Supervisory Committee are elected.

(1) Members of the board of directors:

Mr Cai Zhixiang: 513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

Mr Li Yimin: 513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

Mr Feng Zansheng: 513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

Mr Zhou Yuejin: 513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

Mr Wu Zhang: 513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

Mr Wong Hin Wing: 513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

Mr Zhang He Yong: 513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

The above 7 elected persons form the third board of directors of the Company.

The former directors of the second board of directors Messrs Zhu Youlin, Zhang Bohua, Liu Jinxiang and Huang Buren ceased to be the directors of the Company.

(2) Members of the supervisory committee:

Mr Ou Yang Qiang: 513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

Mr Zhong Yu Gan : 513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

The above two elected persons and Mr Chen Canying who was elected as supervisor by the general meeting of labour representatives form the third supervisory committee.

The former supervisors of the second supervisory committee Messrs Tan Sima and Luo Jidong ceased to be the supervisors of the Company.

2. The purchase of insurance of liability for the directors and senior management of the Company and the granting of mandate to the board of directors to handle the procedures thereof.

513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0% and 0 shares abstain votes, representing 0%.

B. By way of special resolutions:

1. The amendment of the Articles of Associations of the Company.

To amend the former Article 90 of the Articles of Associations of the Company as:

“The Board of Directors shall be established by the Company (the “Board”). The Board shall comprise 7 directors consisting of one chairman and one vice-chairman.”

513,216,000 shares vote in favour, representing 100% of the total number of shares held by shareholders present at the EGM carrying voting rights; 0 shares vote against the resolution, representing 0 % and 0 shares abstain votes, representing 0%.

The EGM was witnessed by Zhang Zhengya, a lawyer from Z & T Law Firm, which issued its legal opinion that the assembly and the procedures for convening the EGM complied with the Company Law of the People's Republic of China and the provisions of the Company's Articles of Association, and the eligibility of persons attending the meeting was lawful and valid. No new motions were proposed by shareholders at the EGM. The voting procedures of the meeting complied with the laws and regulations and the provisions of the Company's Articles of Association. The resolutions passed at the EGM were lawful and valid.

**Guangzhou Pharmaceutical Company Limited**

26 March 2004

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*The following announcement is made pursuant to paragraph 2(2) of the Listing Agreement.*

**GUANGZHOU PHARMACEUTICAL COMPANY LIMITED  
ANNOUNCEMENT OF RESOLUTIONS PASSED  
AT THE SEVENTEENTH MEETING  
OF THE SECOND SUPERVISORY COMMITTEE**

It is hereby announced that the seventeenth Meeting of the second Supervisory Committee of Guangzhou Pharmaceutical Company Limited (the “Company”) was held on 26 March 2004 at the Conference Room, 2nd Floor of the Company. The meeting was chaired by Mr. Chen Can Ying , chairman of the Supervisory Committee. All of the supervisors of the Company attended the meeting which complied with the Company Law and the Articles of Association of the Company. The following resolutions were considered and passed unanimously at the meeting:

1. The report of Supervisory Committee for the year 2003 was approved.
2. The auditors’ report for the year 2003 was reviewed.

**Guangzhou Pharmaceutical Company Limited**  
*Supervisory Committee*

26 March 2004

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