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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)

(Stock Code: 0874)

2004 FIRST 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 Messrs. Zhou Yuejin and Feng Zansheng, directors of the Company, being unable to attend the 1st meeting of the Third Section of the Board of the Company held on 28 April 2004 due to other business commitments, have appointed Mr. Cai Zhixiang to attend and to vote on their behalf.
- 1.3 The Company’s financial reports for the first quarter of 2004 were prepared in accordance with PRC accounting standards and systems and were unaudited.
- 1.4 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 this quarterly report.
- 1.5 This first quarterly report is published in Hong Kong pursuant to Chapter 13.09(2) of the Listing Rules.

2. COMPANY PROFILE

2.1 Corporate Information

	A shares	B shares	H shares	Other shares	Other shares
Stock Abbreviation	GZ Phar.	—	GZ Phar.	—	—
Stock Abbreviation before Change	—	—	—	—	—
Stock Code	600332	—	0874	—	—

	Company secretary	Representative of securities affairs
Name	Mr. He Shuhua	Ms. Huang Xuezheng
Address	45 Sha Mian North Street Guangzhou City Guangdong Province, PRC	45 Sha Mian North Street Guangzhou City Guangdong Province, PRC
Telephone	(8620) 8121 8119	(8620) 8121 8086
Facsimile	(8620) 8121 6408	(8620) 8121 6408
E-mail	hesh@gpc.com.cn	huangxz@gpc.com.cn

2.2 Financial Information

2.2.1 Principal financial data and indicators

Items	As at 31 March 2004 (RMB)	As at 31 December 2003 (RMB)	Change as compared with the year ended 31 December 2003 (%)
Total assets	4,845,574,365.59	4,707,039,445.98	2.94
Shareholders' equity (excluding minority interests)	2,457,844,361.33	2,429,476,382.41	1.17
Net assets per share	3.031	2.996	1.17
Adjusted net assets per share	2.963	2.925	1.30

Items	1 January 2004 – 31 March 2004 (RMB)	1 January 2004 – 31 March 2004 (RMB)	Change as compared with the same period of 2003 (%)
Net cash flows generated from operating activities	229,210,189.93	229,210,189.93	91.82
Earnings per share	0.035	0.035	-45.82
Return on net assets	1.15	1.15	-47.36
Return on net assets after deducting non-operating items (%)	1.20	1.20	-47.39

Non-operating items	Amount (RMB)
Losses on disposal of long-term equity investment and fixed assets	-1,414,759.71
Net non-operating results	1,165,500.09
Non-operating expenses after deducting assets impairment	-1,729,155.19
Total	-1,978,414.81

2.2.2 Income statement

Items	1 January 2004 – 31 March 2004		1 January 2003 – 31 March 2003	
	Group (RMB)	Company (RMB)	Group (RMB)	Company (RMB)
Sales	2,075,357,874.28	—	1,821,563,470.06	—
Less: Costs of sales	1,709,578,534.55	—	1,444,233,257.26	—
Taxes and levies	7,886,956.97	—	7,841,881.28	—
Profit from principal operations				
(Loss was inserted with “-” sign)	357,892,382.76	—	369,488,331.52	—
Add: Profit from other operations				
(Loss was inserted with “-” sign)	8,813,167.59	-288,547.95	9,424,936.80	—
Less: Operating expenses	135,621,281.28	—	126,599,601.02	—
General and administrative expenses	157,241,243.92	4,551,910.11	148,822,614.99	5,237,973.28
Finance costs	8,997,329.90	-615,281.04	6,852,502.80	-472,394.10
Operating profit				
(Loss was inserted with “-” sign)	64,845,695.25	-4,225,177.02	96,638,549.51	-4,765,579.18
Add: Investment income (Loss was inserted with “-” sign)	-1,074,442.02	36,118,507.40	-1,069,057.24	57,493,554.32
Subsidy income	—	—	139,823.00	—
Net non-operating results	1,165,500.09	6,900.00	328,253.46	—
Less: Non-operating expenses	2,798,141.24	50,000.00	4,052,636.75	10,135.67
Total profit				
(Loss was inserted with “-” sign)	62,138,612.08	31,850,230.38	91,984,931.98	52,717,839.47
Less: Income tax	29,526,915.89	—	34,538,096.74	—
Less: Minority interests	4,243,717.27	—	5,090,647.63	—
Net profit				
(Loss was inserted with “-” sign)	28,367,978.92	31,850,230.38	52,356,187.61	52,717,839.47

2.3 Number of Shareholders as at 31 March 2004

As at 31 March 2004, there were 51,113 shareholders in total, including one shareholder holding the State-owned shares, 51,072 shareholders holding domestic listed RMB-denominated ordinary shares (A shares) and 40 shareholders holding overseas listed ordinary shares (H shares).

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Brief analysis of the Company’s overall operation during the Reporting Period

Applicable Not applicable

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.

During the period between 1 January 2004 and 31 March 2004 (the “Reporting Period”), though encountered with severe market conditions, the Group was able to maintain continuous growth in its turnover through strengthening the promotion of certain major products and improving marketing to end-users such as hospitals, communities and retail pharmacies. According to the consolidated accounts prepared in accordance with PRC accounting standards and systems, the Group’s turnover for the Reporting Period amounted to RMB2,075,358,000, representing an increase of 13.93% as compared with the corresponding period of 2003. Profit before taxation of the Group amounted to RMB62,139,000, representing a decrease of 32.45% as compared with the same period of 2003 and the Group’s net profit for the Reporting Period was RMB28,368,000, representing a decrease of 45.82% over that of the same period of 2003. The decrease in profit of the Group for the Reporting Period was mainly due to the following reasons: (1) as affected by the the State’s management policy on advertising of medicine, sales of certain prescription medicine manufactured by the Group decreased, which in turn resulted in the decrease in the turnover of the Group’s manufacturing operations for the Reporting Period; (2) the gross profit margin of the Group’s trading operations continued to drop; and (3) in response to market changes, the Company made provision of RMB10,760,000 for certain merchandise of the Company’s subsidiary, Guangzhou Chinese Medicine Corporation.

Turnover of the Group’s manufacturing operations for the Reporting Period amounted to RMB489,574,000, with a decrease of 9.09% as compared with the same period of 2003. Profit before taxation from the manufacturing operations was RMB57,908,000, with a decrease of 20.60% as compared with the corresponding period of 2003.

During the Reporting Period, sales of certain key products such as Wu Ji Bai Feng Wan and Hua Zhi Quan maintained a good upward trend. The sales of the above products increased by 60.46% and 63.97% respectively over that of the same period of 2003. However, due to the severe competition in the domestic pharmaceutical market, products such as Zhui Feng Tou Gu Wan, Mi Lian Chuan Bei Pi Pa Gao and Xia Sang Ju decreased by 60.43%, 31.97% and 24.97% respectively as compared with the corresponding period of 2003.

The Group's trading operations recorded a turnover of RMB1,585,784,000 for the Reporting Period, representing an increase of 23.59% as compared with the corresponding period of 2003. Profit before taxation attributed to the Group's trading operations amounted to RMB4,230,000, with a decrease of 77.80% over that of the same period of 2003. During the Reporting Period, the number of clients of the Group's trading operations increased by 66, products with distribution rights increased by 32 and products with exclusive distribution rights grew by 1. These have been crucial to the sales growth of the trading operations of the Group.

During the Reporting Period, there were no significant changes in the operation environment of the Group, the macro policies or regulations applicable to the Group.

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

Applicable Not applicable

By segment	Sales (RMB)	Costs of sales (RMB)	Gross profit margin (%)
Manufacturing operations	489,573,512.45	222,707,782.04	54.51
Trading operations	1,585,784,361.83	1,486,870,752.51	6.24
Including: connected transactions	23,004,378.07	21,215,965.83	7.77

By products	Sales (RMB)	Costs of sales (RMB)	Gross profit margin (%)
Heat clearing and Anti-toxic	127,941,655.54	66,137,665.05	48.31
Diabetes curing	98,362,088.99	32,366,109.21	67.09
Cough and phlegm clearing	67,549,688.59	39,680,605.09	41.26
Arthritis curing	58,609,212.37	20,834,812.79	64.45
Gastric	28,052,866.16	15,960,512.86	43.11
Including: connected transactions	1,261,296.56	873,801.73	30.72

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 (the significant change of the proportion of profit from principal operations, profit from other operations, expenses, investment income, subsidy income and net non-operating results of the total profit as compared with the previous reporting period and the explanation)

Applicable Not applicable

Items	The Reporting Period		The previous reporting period		Change
	Amount	Percentage	Amount	Percentage	
	(RMB)	(%)	(RMB)	(%)	(%)
Profit from principal operations	357,892,382.76	575.96	1,372,713,830.37	482.04	19.48
Profit from other operations	8,813,167.59	14.18	43,331,577.75	15.22	-6.79
Expenses	301,859,855.10	485.78	1,119,985,333.74	393.29	23.52
Investment income	-1,074,442.02	-1.73	2,714,764.17	0.95	-281.38
Subsidy income	—	—	276,208.28	0.10	-100.00
Net non-operating results	-1,632,641.15	-2.63	-14,277,603.45	-5.01	-47.59
Total profit	62,138,612.08	100.00	284,773,443.38	100.00	—

During the Reporting Period, the Group's profit decreased owing to factors such as the increase in provision for merchandise. As a result, the proportion of expenses and profit from principal operations of the total profit recorded a significant change respectively as compared with the figures of the previous reporting period.

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 operations (gross profit margin) as compared with that of the previous reporting period

Applicable Not applicable

Owing to the increasingly fierce competition in the domestic pharmaceutical market, the gross profit margin of the Group's trading operations for the Reporting Period was 6.24%, representing a decrease of 16.24% as compared with the previous reporting period.

3.2 Explanation and analysis on 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

During the Reporting Period, the Company acquired 51% equity interest in Guangzhou Guangyao Yingbang Marketing Company Limited (formerly known as Guangzhou Pharmaceutical Yingbang Marketing Company Limited). In addition, the Company's subsidiary, Guangzhou Pharmaceutical Corporation, set up Hubei Guangyao Ankang Pharmaceutical Company Limited (51% owned). The above companies were included in the scope of consolidation of the Group for the Reporting Period.

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 thereof 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 operation plans or budget

Applicable Not applicable

4. OTHER EVENTS

Appointments of Directors and Supervisors

At the Company's 2004 first Extraordinary General Meeting held on 26 March 2004, Messrs. Cai Zhixiang, Li Yimin, Zhou Yuejin and Feng Zansheng were elected as directors of the Third Section of the Board of the Company, Messrs. Wu Zhang, Wong Hin Wing and Zhang Heyong were elected as independent non-executive directors of the Third Section of the Board of the Company and Messrs. Ou Yang Qiang and Zhong Yugan were elected as supervisors of the Third Section of the Supervisory Committee of the Company. Mr. Chen Canying was elected as the staff representative supervisor of the Third Section of the Supervisory Committee of the Company by the staff of the Company. The above directors or supervisors shall have a term of office of 3 years, commencing from the date of appointment till the date of the members of the Fourth Section of the Board or the Supervisory Committee of the Company are elected.

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

On behalf of the Board
Cai Zhixiang
Chairman

Guangzhou, the PRC, 28 April 2004

This quarterly report is published in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.

As at the date of this report, the Board of Directors comprises Executive Director, Messrs. Cai Zhixiang, Li Yimin, Feng Zansheng and Zhou Yuejin and Independent Non-executive Directors, Messrs. Wong Hin Wing, Wu Zhang and Zhang Heyong.

**ANNOUNCEMENT OF THE RESOLUTIONS PASSED
AT THE FIRST MEETING OF THE THIRD SECTION
OF THE BOARD OF DIRECTORS**

The Company and all members of the Board 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 first meeting of the Third Section of the board of directors (the “Board”) of Guangzhou Pharmaceutical Company Limited (the “Company”) was held at the office of the Company at the Conference Room, 2nd Floor, 45 Sha Mian North Street, Guangzhou on 28 April 2004. Seven directors were eligible to attend the meeting and five of them attended the meeting. Messrs. Zhou Yuejin and Feng Zansheng, directors of the Company, were unable to attend the meeting due to other business commitments and have appointed Mr. Cai Zhixiang to attend and to vote on their behalf. The meeting was presided by Mr. Cai Zhixiang. The supervisors and senior management of the Company were present at the meeting. The meeting was in compliance with the requirements of the Company Law and the Articles of Association of the Company. After detailed discussions, the following matters were considered and unanimously approved and passed by the directors at the meeting: -

1. the first quarterly report of the Company for the year 2004;
2. the election of Mr. Cai Zhixiang as the Chairman of the Third Board of the Company;
3. the election of Mr. Li Yimin as the Vice Chairman of the Third Board of the Company;
4. the appointment of Mr. He Shuhua as the Secretary to the Board of the Company;
5. the appointment of Mr. Zhou Yuejin as the General Manager of the Company;
6. the appointment of Mr. He Shuhua as the Deputy General Manager of the Company;
7. the appointment of Mr. Gao Fang as the Financial Controller of the Company;
8. the appointment of Messrs. Wu Zhang, Wong Hin Wing and Zhang Heyong as the members of the Third Audit Committee and Mr. Wong Hin Wing as the Director of the Audit Committee;

9. the appointment of Messrs. Cai Zhixiang, Li Yimin, Wu Zhang, Wong Hin Wing and Zhang Heyong as the members of the Second Remuneration and Evaluation Committee, and Mr. Wu Zhang as the Director of the Remuneration and Evaluation Committee;
10. the appointment of Messrs. Cai Zhixiang, Li Yimin and Zhou Yuejin as the members of the Second Investment Management Committee, and Mr. Cai Zhixiang as the Director of the Investment Management Committee; and
11. the resolution regarding authorization of the Chairman of the Board to sign credit documents on behalf of the Board to guarantee loan credit facilities granted to the Company's direct wholly-owned subsidiaries or controlling subsidiaries, of which there will have no guarantee limit for credit facilities for wholly-owned subsidiaries whereas the limit for a single credit facility for the controlling subsidiaries with over 51% stake therein will be within RMB100,000,000.

Board of Directors
Guangzhou Pharmaceutical Company Limited

Guangzhou, the PRC, 28 April 2004

**ANNOUNCEMENT OF RESOLUTIONS PASSED AT THE FIRST
MEETING OF THE THIRD SECTION OF
THE SUPERVISORY COMMITTEE**

IT IS HEREBY ANNOUNCED THAT the first meeting of the Third Section of the Supervisory Committee of Guangzhou Pharmaceutical Company Limited (the “Company”) was held on 28 April 2004 at the Conference Room, 2nd Floor of the Company. The meeting was presided by Mr. Chen Canying and attended by all the supervisors and was in compliance with the requirements of the Company Law and the Articles of Association of the Company. The following resolutions were considered and unanimously passed at the meeting:

1. the first quarterly report of the Company for the year 2004;
2. the election of Mr. Chen Canying as the Chairman of the Third Section of the Supervisory Committee of the Company.

Supervisory Committee
Guangzhou Pharmaceutical Company Limited

Guangzhou, the PRC, 28 April 2004

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