

*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.*



# 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 THIRD QUARTERLY REPORT

### 1. IMPORTANT NOTICE

- 1.1 The Board of Directors of Guangzhou Pharmaceutical Company Limited (“Guangzhou Pharmaceutical” or the “Company”) and each director collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report and believe that there are no material omissions from, or misrepresentations or misleading statements contained in this report.
- 1.2 The Company’s financial reports for the third quarter of 2004 were prepared in accordance with PRC accounting standards and systems and were unaudited.
- 1.3 Mr. Zhou Yuejin, Vice Chairman and 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.
- 1.4 This third quarterly report is published in Hong Kong pursuant to 13.09 (2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

## 2. COMPANY PROFILE

### 2.1 Corporate Information

Stock Abbreviation	GZ Phar.	
Stock Code	600332 (A shares)	0874 (H shares)
	<b>Company secretary</b>	<b>Representative of securities affairs</b>
Name	Mr. He Shuhua	Ms. Huang Xuezhen
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
Website	Http: // www.gpc.com.cn	

### 2.2 Financial Information

#### 2.2.1 Principal financial data and indicators

Items	As at 30 September 2004 (RMB)	As at 31 December 2003 (RMB)	Change as compared with the year ended 31 December 2003 (%)
Total assets	4,987,408,076.83	4,707,039,445.98	5.96
Shareholders' equity (excluding minority interests)	2,423,136,737.03	2,429,476,382.41	-0.26
Net assets per share	2.99	3.00	-0.26
Adjusted net assets per share	2.92	2.92	—

Items	1 July ~ 30 September 2004 (RMB)	1 January ~ 30 September 2004 (RMB)	Change as compared with the same period of 2003 (%)
Net cash flows generated from operating activities	102,843,857.74	227,434,070.32	33.31
Earnings per share	0.0114	0.0506	-75.35
Return on net assets (%)	0.37	1.69	-75.00
Return on net assets after deducting non-operating items (%)	0.45	1.89	-70.29

<b>Extraordinary items</b> <b>(1 January ~ 30 September 2004)</b>	<b>Amount</b> <b>(RMB)</b>
Loss on disposal of long-term equity investments and fixed assets	-3,131,443.51
Subsidies	511,142.00
Non-operating income	6,657,804.82
Short-term investment income	909,511.75
Non-operating expenses excluding provision of assets	-9,871,676.66
Reversal of provision	148,629.98
Income tax effect	120,757.01
Total	-4,655,274.61

## 2.2.2 Income statement

Items	1 July ~ 30 September 2004		1 July ~ 30 September 2003	
	Company (RMB)	Group (RMB)	Company (RMB)	Group (RMB)
<b>Sales</b>	—	1,984,829,293.22	—	1,779,288,921.04
Less: Costs of sales	—	1,654,334,501.25	—	1,445,669,753.17
Taxes and levies	—	5,141,394.43	—	5,821,856.97
<b>Profit from principal operations</b>				
(Loss was inserted with “-” sign)	—	325,353,397.54	—	327,797,310.90
Add: Profit from other operations	2,381,495.93	9,749,935.73	-174,015.76	10,110,056.72
Less: Operating expenses	—	131,787,936.36	—	121,614,919.12
General and administrative expenses	6,998,154.58	159,868,854.21	5,496,059.17	147,506,415.70
Finance costs	-647,888.55	9,812,240.45	-369,479.20	7,111,419.04
<b>Operating profit</b>				
(Loss was inserted with “-” sign)	-3,968,770.10	33,634,302.25	-5,300,595.73	61,674,613.76
Add: Investment income	18,213,532.94	-459,294.94	39,377,507.34	997,840.63
Subsidy income	—	511,142.00	—	95,281.00
Non-operating income	3,907.00	2,458,002.89	—	1,279,083.40
Less: Non-operating expenses	75,863.15	3,922,359.29	43,713.74	140,868.33
<b>Total profit</b>				
(Loss was inserted with “-” sign)	14,172,806.69	32,221,792.91	34,033,197.87	63,905,950.46
Less: Income tax	—	21,079,012.98	—	25,215,417.77
Less: Minority interests	—	1,917,172.04	—	1,295,658.84
Add: Investment loss unrecognized	—	—	—	—
<b>Net profit</b>				
(Loss was inserted with “-” sign)	14,172,806.69	9,225,607.89	34,033,197.87	37,394,873.85

Items	1 January ~ 30 September 2004		1 January ~ 30 September 2003	
	Company (RMB)	Group (RMB)	Company (RMB)	Company (RMB)
Sales	—	5,975,523,425.34	—	5,356,721,400.00
Less: Costs of sales	—	4,926,600,628.94	—	4,306,463,900.57
Taxes and levies	—	18,835,693.94	—	18,442,625.37
<b>Profit from principal operations</b>				
(Loss was inserted with “-” sign)	—	1,030,087,102.46	—	1,031,814,874.06
Add: Profit from other operations	4,176,351.95	28,138,088.01	-275,111.68	29,557,967.06
Less: Operating expenses	—	410,446,927.21	—	371,507,945.33
General and administrative expenses	15,332,950.01	490,316,472.11	14,992,540.66	439,743,709.04
Finance costs	-1,432,176.61	27,497,221.22	-2,406,757.67	16,857,373.61
<b>Operating profit</b>				
(Loss was inserted with “-” sign)	-9,724,421.45	129,964,569.93	-12,860,894.67	233,263,813.14
Add: Investment income	58,578,524.96	-1,236,735.44	145,047,515.48	874,466.92
Subsidy income	—	511,142.00	—	276,208.28
Non-operating income	10,807.00	6,746,074.21	—	1,943,727.93
Less: Non-operating expenses	172,331.72	12,709,799.24	54,846.36	9,653,340.53
<b>Total profit</b>				
(Loss was inserted with “-” sign)	48,692,578.79	123,275,251.46	132,131,774.45	226,704,875.74
Less: Income tax	—	74,017,656.67	—	85,972,498.41
Less: Minority interests	—	8,223,342.19	—	9,724,116.29
Add: Investment loss unrecognized	—	—	—	—
<b>Net profit</b>				
(Loss was inserted with “-” sign)	48,692,578.79	41,034,252.60	132,131,774.45	131,008,261.04

### 2.3 Number of Shareholders as at 30 September 2004

As at 30 September, there were 48,583 shareholders in total, including one shareholder holding the State-owned shares, 48,540 shareholders holding domestic listed Renminbi-denominated ordinary shares (A shares) and 42 shareholders holding overseas listed ordinary shares (H shares).

As at 30 September 2004, the top ten shareholders holding the listed shares of the Company are set out below:

Shareholders	No. of listed shares held (share)	Nature of shares (A\B\H share or other shares)
HKSCC Nominees Limited	218,148,999	H Shares
HSBC Nominees (Hong Kong) Limited	862,000	H Shares
Wong Chung King	308,000	H Shares
Deng Dakai	230,046	A Shares
Xu Weiping	220,000	A Shares
Xing He Securities Investment Fund	216,354	A Shares
Xing Guisong	144,420	A Shares
Zhang La	123,000	A Shares
Liu Zhizhong	120,000	A Shares
Zhang Hongyin	120,000	A Shares

Notes: As notified by HKSCC Nominees Limited, the H shares under its name were held on behalf of its several clients.

### **3. MANAGEMENT DISCUSSION AND ANALYSIS**

#### **3.1 Brief analysis of the Company's overall operation**

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

According to the consolidated accounts prepared in accordance with PRC accounting standards and systems, the Group's turnover for the period between 1 January 2004 and 30 September 2004 amounted to RMB5,975,523,000, representing an increase of 11.55% as compared with the corresponding period of 2003. Profit before taxation of the Group for the same period amounted to RMB123,275,000, representing a decrease of 45.62% as compared with the same period of 2003 and the Group's net profit for the same period was RMB41,034,000, representing a decrease of 68.68% over that of the same period of 2003. The decrease in profit of the Group for the period between 1 January and 30 September 2004 was mainly due to the following reasons: (1) as affected by the fierce competition in the domestic pharmaceutical market and the State's management policy on advertising of medicine, sales of certain products manufactured by the Group decreased as compared with the corresponding period of 2003; (2) the gross margin ratio of the Group's trading operations continued to drop, as affected by the market entry of large number of pharmacies offering lower selling price, the national pricing policy on pharmaceutical products and the national restrictive policy on sales of antibiotics; and (3) during the period from 1 January to 30 September 2004, Guangzhou Pharmaceutical Corporation, a subsidiary of the Company, has made a provision of RMB24,699,000 for inventories and redundancy payments to laid-off employees as compensation amounting to RMB13,694,000. The above factors have caused significant impact to the Group's operating results.

Turnover of the Group's manufacturing operations for the period from 1 January to 30 September 2004 amounted to RMB1,434,449,000, with an increase of 1.30% as compared with the same period of 2003. Profit before taxation from the manufacturing operations was RMB135,267,000, with a decrease of 20.18% as compared with the corresponding period of 2003.

During the period from 1 January to 30 September 2004, diabetic medicine, arthritic medicine and heat clearing and anti-toxic medicine of the manufacturing operations increased by 17.49%, 4.85% and 0.18% respectively as compared with the same period of 2003, while cough and phlegm clearing medicine and gastric medicine decreased by 25.95% and 5.11% respectively as compared with the same period of 2003.

For the period from 1 January to 30 September 2004, the Group's trading operations recorded a turnover of RMB4,541,074,000, representing an increase of 15.24% as compared with the corresponding period of 2003. Loss before taxation of the Group's trading operations amounted to RMB11,992,000.

As at 30 September 2004, the number of the Group's chain pharmacies totaled 203, including 115 “Cai Zhi Lin” chain pharmacies which specializes in traditional Chinese medicine and 88 “Jian Min” chain pharmacies which specializes in western medicine.

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	Costs of sales	Gross margin ratio
	(RMB)	(RMB)	(%)
Manufacturing operations	452,060,702.62	219,518,889.60	51.44
Trading operations	1,532,768,590.60	1,434,815,611.65	6.39
Including: connected transactions	24,487,233.78	22,350,501.26	8.73
By products	Sales	Costs of sales	Gross margin ratio
	(RMB)	(RMB)	(%)
Heat clearing and Anti-toxic	148,242,251.08	83,657,984.81	43.57
Diabetes curing	83,891,078.09	26,461,264.40	68.46
Cough and phlegm clearing	38,125,862.21	20,668,082.02	45.79
Arthritis curing	44,108,835.72	15,125,203.41	65.71
Gastric	22,358,068.53	13,195,036.46	40.98
Including: connected transactions	516,342.71	402,885.17	21.97

3.1.2 Seasonal and periodical characteristics of the Group's operations

Applicable     Not applicable

Some products of the Group are subject to seasonal and periodical patterns. The sales of Xia Sang Ju and Guangdong Liang Cha Granule are better in the second and third 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 (1 July ~ 30 September 2004)		The previous reporting period (1 January ~ 30 June 2004)		Change (%)
	Amount	Percentage of total profit	Amount	Percentage of total profit	
	(RMB)	(%)	(RMB)	(%)	
Profit from principal operations	325,353,397.54	1009.73	704,733,704.92	773.98	30.46
Profit from other operations	9,749,935.73	30.26	18,388,152.28	20.19	49.83
Expenses	301,469,031.02	935.61	626,791,589.52	688.38	35.91
Investment income	-459,294.94	-1.43	-777,440.50	-0.85	-66.94
Subsidy income	511,142.00	1.59	—	—	—
Net non-operating results	-1,464,356.40	-4.54	-4,499,368.63	-4.94	-8.03

Note:

During the period from 1 July to 30 September 2004, the proportions of profit from principal operations, profit from other operations and expenses of the Group out of total profit increased, mainly due to significant decrease in total profit for the third quarter as compared with the average profit of the first and the second quarters of 2004.

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 margin ratio) as compared with that of the previous reporting period

Applicable  Not applicable

### 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 period from 1 January to 30 September 2004, two more subsidiaries were included in the Group's consolidation scope. In accordance with the rules of Ministry of Finance [1998] No.66 "Questions and Answers concerning implementing Accounting Standards and Accounting Systems of Joint Stock Company", the injection date of Guangxi Ying Kang Pharmaceutical Co., Ltd or acquisition date of Guangzhou Guangyao Yingbang Pharmaceutical Marketing Co., Ltd were determined by the date when the control on the investees' net assets and operations was substantially transferred to the investor.

Name of investee	Date of acquisition or injection	% of equity interest held as at 30 September 2004
Guangxi Ying Kang Pharmaceutical Co., Ltd	1 April 2004	51%
Guangzhou Guangyao Yingbang Pharmaceutical Marketing Co., Ltd (Formerly known as Guangzhou Pharmaceutical Yingbang Marketing Co., Ltd)	27 February 2004	51%

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

Applicable  Not applicable

### 3.5 Early warning and explanation for negative impact on profit for the next reporting period, or significant profit fluctuation in comparison to the same period of 2003

Applicable  Not applicable

Due to severe competition in the domestic pharmaceutical market, the significant decrease in the operating result of Guangzhou Chinese Medicine Corporation, a subsidiary of the Company and the provision made for part of inventories of the above subsidiary, the Group's net profit for the first nine months of the year decreased by 68.68% as compared with the same period of 2003. It is expected that the above factors will continue to have significant impact on the Group's operating results for the next reporting period.

### 3.6 Ongoing adjustments by the Company on its disclosed annual operation plans or budget

Applicable  Not applicable

#### 4. OTHER EVENTS

Appointment and Resignation of Directors during the reporting period

- (1) At the Fourth Meeting of the Third Session of Board of Directors of Company held on 9 September 2004, Mr. Zhou Yuejin was elected as the Vice Chairman of the Company.
- (2) At the Fourth Meeting of the Third Session of Board of Directors of Company held on 9 September 2004, it was resolved that Mr. Cai Zhixiang resigned as chairman and director of the Company with effect from the same date, and Mr. Zhou Yuejin was appointed to be the acting chairman of the Company until the date of the new chairman of the Company is 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>

By order of the Board

**Zhou Yuejin**

*Vice Chairman*

Guangzhou, the PRC, 28 October 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 announcement, the Board comprises Mr. Zhou Yuejin and Mr. Feng Zansheng as executive directors and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as independent non-executive directors.

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