



# 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)

## Summary of 2004 Annual Report

### 1. IMPORTANT NOTICE

- 1.1 The Board of Directors (the “Board”) and all the Directors of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this annual report and confirm that there are no false information, misleading statements or material omissions in this annual report.
- 1.2 The Company held the 11th meeting of the 3rd session of the Board of Directors on 27 April 2005. Mr. Yang Rongming, the Chairman, was not able to attend this meeting because of official business and had appointed Mr. Zhou Yuejin, the Vice Chairman to exercise the voting right on his behalf.
- 1.3 Guangdong Yangcheng Certified Public Accountants Co., Ltd. (formerly known as “Guangzhou Yangcheng Certified Public Accountants Co., Ltd.”), the domestic auditors, and PricewaterhouseCoopers, the Hong Kong auditors, have issued unqualified auditors’ reports.
- 1.4 Mr. Yang Rongming, Chairman of the Board, Mr. Xie Bin, General Manager, Mr. Gao Fang, Financial Controller and Mr. Chen Binghua, Senior Manager of the Finance Department, individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this annual report.
- 1.5 Unless otherwise stated, the financial data contained in this report is extracted from the accounts prepared in accordance with PRC accounting standards and systems.

- 1.6 This annual report is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the accounts prepared in accordance with the accounting principles generally accepted in Hong Kong (“HK GAAP”) and the Hong Kong auditors’ report thereon, the Chinese version shall prevail.

## **2. COMPANY PROFILE**

### **2.1 General Information**

Stock Abbreviation:	GZ Phar.
Stock Code:	600332 (A share)
Stock Exchange:	The Shanghai Stock Exchange
Stock Abbreviation:	GZ Phar.
Stock Code:	0874 (H share)
Stock Exchange:	The Stock Exchange of Hong Kong Limited
Registered address:	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>
E-mail address:	sec@gpc.com.cn

### **2.2 Contacts**

	<b>Company secretary</b>	<b>Representative of securities affairs</b>
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### 3. FINANCIAL DATA AND FINANCIAL INDICATORS

#### 3.1 Principal Financial Data

Principal Financial Data	2004	2003	Changes	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>
Sales	7,708,314	6,971,963	10.56	5,943,823
Total profit	167,642	284,773	(41.13)	287,506
Net profit	55,292	139,795	(60.45)	158,478
Net profit after non-operating items	63,170	144,460	(56.27)	162,296
	<b>As at 31</b>	<b>As at 31</b>		<b>As at 31</b>
	<b>December 2004</b>	<b>December 2003</b>	<b>Changes</b>	<b>December 2002</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>
Total assets	5,182,878	4,707,039	10.11	4,173,194
Shareholders' funds	2,440,230	2,429,476	0.44	2,335,583
Net cash inflows from operating activities	200,542	(6,830)	3036.20	169,014

#### 3.2 Principal Financial Indicators

Principal Financial Indicators	2004	2003	Changes (%)	2002
Earnings per share (RMB)	0.07	0.17	(60.45)	0.20
The latest earnings per share (RMB)	0.07	0.17	(60.45)	0.20
Return on net assets (weighted average) (%)	2.27	5.87	(61.33)	6.96
Return on net assets after deducting non-operating items (weighted average) (%)	2.63	6.06	(56.60)	7.12
Net cash inflows from operating activities per share (RMB)	0.25	(0.01)	3,036.20	0.21
	<b>As at 31</b>	<b>As at 31</b>		<b>As at 31</b>
	<b>December</b>	<b>December</b>	<b>Changes</b>	<b>December</b>
	<b>2004</b>	<b>2003</b>	<b>Changes</b>	<b>2002</b>
Net assets per share (RMB)	3.01	3.00	0.44	2.88
Adjusted net assets per share (RMB)	2.96	2.92	1.37	2.80

Non-operating items

Applicable       Not applicable

Non-operating items included:

<b>Non-operating items</b>	<b>Amount</b> <i>(RMB'000)</i>
Losses on disposal of long-term equity investments, fixed assets, construction in progress, intangible assets and other long-term assets	(3,705)
Government grants and subsidies:	589
Gain from short-term investments (excluding losses/gain from short term investments entrusted to qualified financial institutions)	632
Net non-operating results	6,519
Non-operating expenses after deducting provision for value impairment of assets made in accordance with the Enterprise Accounting Regulations	13,795
Reversal of provisions for impairments made in the previous years	457
Income tax effect	(983)
Minority interests	(443)
Total	(7,878)

**3.3 Differences between the accounts for the year ended 31 December 2004 prepared in accordance with PRC accounting standards and systems and HK GAAP**

Applicable       Not applicable

	Notes	Under PRC accounting standards and systems (RMB'000)	Under HK GAAP (RMB'000)
Net profit		55,292	42,829
<b>Explanations for the difference</b>			
<b>Net profit under PRC accounting standards and systems</b>			55,292
Less: Amortisation of intangible assets	1		10,446
Additional depreciation on revalued fixed assets	2		1,975
Deferred taxation, net impact	3		6,727
Appropriation to staff bonus and welfare fund charged as expenses	4		2,693
Losses arising from delution of minority interests in a subsidiary	5		1,908
Add: Government grant recognised as income	6		361
Reversal of difference in provision for employee benefits in medical insurance	7		5,476
Unsettled long outstanding payables written off recognised as income	8		5,113
Differences in minority interests	9		336
<b>Profit attributable to shareholders under HK GAAP</b>			42,829

**Explanations for differences:**

- 1) This was the costs of renovation for staff quarters and was the losses incurred in 2000 for Guangzhou Pharmaceutical Company Limited and its subsidiaries (the “Group”) in relation to the purchase of staff quarters by its employees. Under HK GAAP, such cost are recognised as an intangible asset and are subject to amortisation on a straight line basis over a period of 10 years for the estimated remaining average service life of its employees. Under PRC accounting standards and systems, the relevant losses adjusted the undistributed profit of the then beginning of the year.

- 2) The Group's assets were revalued by an international valuer in 1997 for the purpose of listing of the Company's H Shares. The said revaluation has been reflected in the accounts prepared under HK GAAP instead of the accounts prepared under PRC accounting standards and systems. The depreciation charged in the accounts prepared under HK GAAP was higher than that calculated under PRC accounting standards and systems as the former was calculated on the basis of revalued amount of fixed assets.
- 3) The Group has not made provision for deferred tax in the accounts prepared in accordance with PRC accounting standards and systems. For accounts prepared under HK GAAP, liability method was used to make full provision for the deferred tax liability in relation to all the temporary time differences, which made it possible to offset against the recognized deferred tax assets by future assessable profit and utilizable temporary time differences.
- 4) This was the staff bonus and welfare fund appropriated from profit after taxation in the accounts prepared under PRC accounting standard and systems. Under HK GAAP, it was recognised as expenses in the profit and loss account of the period.
- 5) Loss arising from the increase in capital by the Group in a subsidiary was recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, it was recognised in the profit and loss account in the then period and is transferred from profit after taxation to capital reserve.
- 6) Government subsidies transferred to fixed assets were recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, income of government subsidies were deferred and were charged in the profit and loss account and calculated by straight line method in accordance with estimated useful life of the relevant assets.

- 7) On 1st December 2001, the Group has participated in a medical insurance scheme set up and managed by the Guangzhou People's Municipal Government as required by the Pilot Scheme of Basic Medical Insurance for Employees of Guangzhou issued by the Guangzhou People's Municipal Government. Under the requirement of HK GAAP, the medical insurance for the past services of the retired and would-be retired staff was recognised as costs in the previous years. However, in the accounts prepared under PRC Accounting Standards and Systems, such medical insurance was recognised as expenses on an reimbursement basis. Cash reimbursement is not acceptable by HK GAAP.
- 8) Write-off of payables was recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, it was recognised in the profit and loss account and was transferred from profit after tax to capital reserve.
- 9) As there were differences between net profit/profit attributable to shareholders prepared under HK GAAP and that prepared under the PRC Accounting Standards and Systems due to the above adjustments, resulting in the differences in minority interest.

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

Indicators	2004	2003	As restated		
			2002	2001	2000
1. Turnover(RMB'000)	<b>7,709,565</b>	6,973,113	5,943,823	5,334,029	4,222,857
2. Profit before taxation (RMB'000)	<b>161,675</b>	307,829	196,360	205,987	204,572
3. Profit attributable to shareholders (RMB'000)	<b>42,829</b>	146,667	101,155	95,868	135,250
4. Total assets (RMB'000)	<b>5,413,438</b>	4,954,091	4,410,210	3,877,969	3,256,426
5. Total liabilities (Including minority interests) (RMB'000)	<b>2,867,846</b>	2,402,674	1,956,130	1,469,539	1,657,609
6. Shareholders' funds (RMB'000)	<b>2,545,592</b>	2,551,417	2,454,080	2,408,430	1,598,817
7. Earnings per share (RMB)	<b>0.053</b>	0.181	0.125	0.119	0.185
8. Net assets per share (RMB)	<b>3.14</b>	3.15	3.03	2.97	2.18
9. Return on net assets (%)	<b>1.68</b>	5.75	4.12	3.98	8.46
10. Ratio of shareholders' funds (%)	<b>47.02</b>	51.50	55.65	62.11	49.10
11. Gearing ratio (%) (Note)	<b>52.98</b>	48.50	44.35	37.89	50.90

*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 capitalized	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	513,000,000	—	—	—	—	—	—	—	513,000,000
B. Listed shares									
1. RMB denominated ordinary shares	78,000,000	—	—	—	—	—	—	—	78,000,000
2. Domestic listed foreign capital shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign capital shares (H shares)	219,900,000	—	—	—	—	—	—	—	219,900,000
4. Others	—	—	—	—	—	—	—	—	—
Total listed shares	297,900,000	—	—	—	—	—	—	—	297,900,000
C. Total shares	810,900,000	—	—	—	—	—	—	—	810,900,000

## 4.2 The top ten shareholders and the top ten shareholders holding listed shares of the Company as at 31 December 2004

Number of shareholders as at the end  
of the Reporting Period 47,042

### The top ten shareholders

Shareholders	Change during the year	Shares held		Type of shares (listed or unlisted)	No. of shares pledged or frozen	Nature of shareholders
		as at 31 December 2004	Percentage (%)			
Guangzhou Pharmaceutical Holdings Limited ("GPHL")	-22,000,000	491,000,000	Approximately 60.55	Unlisted	102,960,000 pledged	State-owned shareholder
HKSCC Nominees Limited	44,000	218,214,999	Approximately 26.91	Listed	Unknown	Shareholder of overseas foreign capital shares
China Greatwall Asset Management Corporation	22,000,000	22,000,000	Approximately 2.71	Unlisted	Unknown	State-owned shareholder
Bank of Communications — Xiang Cai He Feng Growth Sector Fund	1,499,897	1,499,897	Approximately 0.18	Listed	Unknown	Shareholder of domestic shares
HSBC Nominees (Hong Kong) Limited	0	862,000	Approximately 0.11	Listed	Unknown	Shareholder of overseas foreign capital shares
Bank of Communications — Xing Ke Securities Investment Fund	365,500	365,500	Approximately 0.05	Listed	Unknown	Shareholder of domestic shares
Wong Chung King	0	308,000	Approximately 0.04	Listed	Unknown	Shareholder of domestic shares
Xu Wei Ping	220,746	220,746	Approximately 0.03	Listed	Unknown	Shareholder of domestic shares
Xing He Securities Investment Fund	-86,061	216,354	Approximately 0.03	Listed	Unknown	Shareholder of domestic shares
Xing Gui Song	144,420	144,420	Approximately 0.02	Listed	Unknown	Shareholder of domestic shares

## The top ten shareholders of listed shares

Shareholders	No. of listed shares held as at 31 December 2004 (share)	Nature of shares (A/B/H shares or others)
HKSCC Nominees Limited	218,214,999	H shares
Bank of Communications — Xiang Cai He Feng Growth Sector Fund	1,499,897	A shares
HSBC Nominees (Hong Kong) Limited	862,000	H shares
Bank of Communications — Xing Ke Securities Investment Fund	365,500	A shares
Wong Chung King	308,000	H shares
Xu Wei Ping	220,746	A shares
Xing He Securities Investment Fund	216,354	A shares
Xing Gui Song	144,420	A shares
Lian Yuan Jie	121,600	A shares
Liu Zhi Zhong	120,000	A shares

Explanation on the connection among the above ten shareholders

- 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 listed above, 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 Controlling Shareholder and the Beneficial Owner

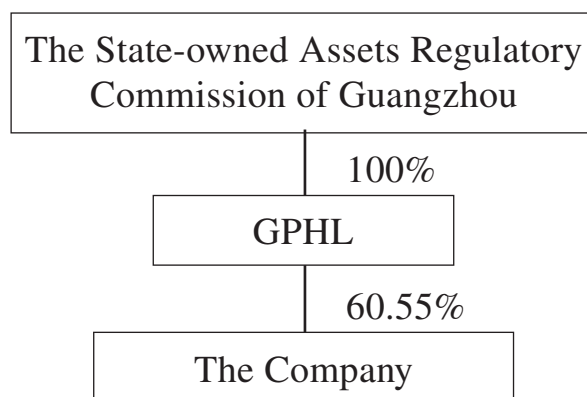
4.3.1 Change in the controlling shareholder and beneficial owner of the Company.

Applicable       Not applicable

#### 4.3.2 Information of the shareholder holding 10% or more of the Company's total issued shares

Name of shareholder	% of shares held	Legal representative	Date of establishment	Registered capital	Business scope
Guangzhou Pharmaceutical Holdings Limited	60.55%	Mr. Yang Rongming	7 August 1996	RMB1,007.7 million	To invest in and manage State-owned assets, to sell and manufacture chemical medicine, Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine-related import and export affairs and to develop real estate.

#### 4.3.3 Relationship between the Company and the beneficial owner



4.3.4 Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Year.

#### 4.3.5 Public Float

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this annual report.

#### 4.3.6 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 the existing shareholders on a pro-rata basis.

### 5. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

#### 5.1 Directors', Supervisors' and Senior Management's interest in shares (A shares)

Name	Position	Gender	Age	Terms of office	Shares	Shares	Reason for change
					held as at 1 January 2004	held as at 31 December 2004	
Mr. Yang Rongming	Chairman	Male	51	1 November 2004-present	—	—	—
Mr. Zhou Yuejin	Vice Chairman	Male	47	26 March 2004-present	28,900	28,900	—
Mr. Feng Zansheng	Executive Director	Male	54	26 March 2004-present	—	—	—
Mr. He Shuhua	Executive Director	Male	48	1 November 2004-present	—	—	—
	Deputy General Manager and Company Secretary			28 April 2004-present	27,700	27,700	—
Mr. Wu Zhang	Independent Non-executive Director	Male	47	26 March 2004-present	—	—	—
Mr. Wong Hin Wing	Independent Director Non-executive	Male	42	26 March 2004-present	—	—	—

Name	Position	Gender	Age	Terms of office	Shares	Shares	Reason for change
					held as at 1 January 2004	held as at 31 December 2004	
Mr. Zhang Heyong	Independent Director Non-executive	Male	64	26 March 2004-present	—	—	—
Mr. Cai Zhixiang	Chairman	Male	55	26 March 2004- 9 September 2004	—	—	—
Mr. Li Yimin	Vice Chairman	Male	54	26 March 2004- 22 June 2004	14,700	14,700	—
Mr. Chu Youlin	Independent Non-executive Director	Male	60	18 October 2000- 26 March 2004	14,700	14,700	—
Mr. Zhang Bohua	Independent Non-executive Director	Male	72	18 October 2000- 26 March 2004	—	—	—
Mr. Liu Jinxiang	Independent Non-executive Director	Male	65	18 October 2000- 26 March 2004	—	—	—
Mr. Huang Buren	Independent Non-executive Director	Male	69	18 October 2000- 26 March 2004	—	—	—
Mr. Chen Canying	Chairman of the Supervisory Committee	Male	55	26 March 2004-present	—	—	—
Mr. Ou Yangqiang	Supervisor	Male	42	26 March 2004-present	9,800	9,800	—
Mr. Zhong Yugan	Supervisor	Male	48	26 March 2004-present	10,100	10,100	—
Mr. Tan Sima	Supervisor	Male	41	18 October 2000- 26 March 2004	—	—	—
Mr. Luo Jidong	Supervisor	Male	51	18 October 2000- 26 March 2004	—	—	—
Mr. Xie Bin	General Manager	Male	47	26 November 2004-present	—	—	—
Mr. Gao Fang	Financial Controller	Male	46	28 April 2004-present	1,000	1,000	—
Mr. Li Decheng	Deputy General Manager	Male	44	18 October 2000- 19 February 2004	—	—	—

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

Applicable       Not applicable

Name	Shareholders	Position	Terms of office	Whether received remuneration or allowance
Mr. Yang Rongming	Guangzhou Pharmaceutical Holdings Limited	Chairman and General Manager	July 2004-present	Yes
Mr. Chen Canying	Guangzhou Pharmaceutical Holdings Limited	Chairman of the Labour Union	February 2001-present	Yes

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

	<i>Rmb'000</i>
Aggregate annual emoluments	3,164
Total emoluments of the three highest paid Directors	2,232
Total emoluments of the three highest paid Senior Management	1,523
Allowances to Independent Directors	278
Other emoluments to Independent Directors	Nil
Directors and Supervisors who did not receive emoluments or allowance from the Company	Mr. Yang Rongming, Mr. Zhong Yugan, Mr. Chen Canying, Mr. Cai Zhixiang and Mr. Li Yimin

Range of emoluments	Number
Over RMB400,000	4
RMB100,000~RMB400,000	1
Below RMB100,000	9

## **6. REPORT OF THE DIRECTORS**

### **6.1 Management Discussion and Analysis**

#### **Scope of business**

The Company and its subsidiaries (collectively the “Group”) is principally engaged in (1) manufacture and sales of Chinese Patern Medicine (“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 2004 prepared under the PRC accounting standards and systems, the turnover of the Group was approximately RMB7,708,314,000, representing an increase of 10.56% over that of 2003. Total profit was approximately RMB167,642,000, representing a decrease of 41.13% over that of 2003 and net profit was approximately RMB55,292,000, representing a decrease of 60.45% over that of 2003. According to the Group’s consolidated accounts for the year prepared under HK GAAP, the Group’s turnover amounted to approximately RMB7,709,565,000, representing an increase of 10.56% over that of 2003. Its profit before taxation was approximately RMB161,675,000, representing a decrease of 47.48% over that of 2003, and profit attributable to shareholders was approximately RMB42,829,000, representing a decrease of 70.80% over that of 2003.

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

Chinese Patent Medicine manufacturing business (the “Manufacturing Operations”)

During the year 2004, due to the implementation of the national policy regarding the administration on advertisement of pharmaceuticals and their price-restriction, the amortization of fixed assets and higher operating cost upon completion of GMP renovation and the increase in the price of raw material all resulted in a decline of the operating results of the Company’s certain manufacturing subsidiaries.



According to the Group's consolidated accounts prepared under the PRC accounting standards and systems, turnover of the Manufacturing Operations for the Year was RMB1,918,980,000, representing an increase of 1.58% over that of 2003. Total profit was RMB180,314,000, representing a decrease of 15.38% over that of 2003, and net profit was RMB94,211,000. According to the Group's consolidated accounts prepared under HK GAAP, turnover of the Manufacturing Operations for the Year was RMB1,920,231,000, representing an increase of 1.58% over that of 2003. Profit before taxation was RMB177,976,000, representing a decrease of 25.44% over that of 2003, and profit attributable to shareholders was RMB87,478,000.

In 2004, the Group has taken the following measures in its Manufacturing Operations: (i) it has endeavored to improve the promotion and marketing in its major products such as Xiao Ke Wan, Hua Tuo Zai Zao Wan, and the series of Wang Lao Ji Liao Cha and Hua Zhi Shuan and further strengthened the marketing and promotion of products so as to expand the market share of its major products; (ii) it has strengthened the cooperation with large pharmaceutical companies in major cities, and enhanced the marketing and promotion in the retail market; (iii) it continued to strengthen the brand promotions to the academy and end-users market such as hospitals and medical institutions. During the Year, certain large promotions and academic exchange activities were conducted, by which the corporate identity and the brand popularity were improved; (iv) it has strengthened the contact and connection with major customers in marketing, and improved the credit management on customers and market control as well as accelerated the collection of the accounts receivable.

After the implementation of the aforesaid measures, there were 34 products whose sales income exceeded RMB10 million in 2004, of which annual sales income exceeding RMB100 million included Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xia Shang Ju and the series of Wang Lao Ji Liang Cha, the annual sales income of 10 products ranged from RMB30 million to RMB100 million and the annual sales income of 20 products ranged from RMB10 million to RMB30 million. The sales income of certain key products such as Xiao Ke Wan, the series of Wang Lao Ji Liang Cha, Hua Zhi Shuan , Bao Ji Wan, Ru He San Jie Pian, Qing Re An Chuang Pian and An Shen Bu Nao Ye increased significantly by 11.88%, 73.20%, 18.21%, 17.32%, 24.86%, 20.60% and 53.46% respectively as compared with 2003.

As affected by the market environment, the turnover of the cough medicines decreased by 24.54% as compared with 2003, among which the series of She Dan Chuan Bei Pi Pa and Mi Lian Chuan Bei Pi Pa Gao decreased by 25.15% and 27.28% respectively as compared with 2003.

In 2004, the Company made its best efforts to accelerate its subsidiaries to pass the GMP and GAP examination to obtain the certifications smoothly. Currently, the Company's nine manufacturing subsidiaries have all passed the GMP examination. In addition, the Company has also aggressively promoted the progress of GAP examination.

During the year, the Group continued to accelerate the construction of technology platforms and to strengthen the research and development of new products. In 2004, there was one new medicine that obtained the new medicine certificate and production approval, four obtained the clinical research approvals and four under the clinical research, among which, Fu Li Tong Capsules (previously named as Feng Shi Ping Capsules), a new key product of the Group, has passed the third phase of clinical researches and the production of Ganoderma Lucidum Spore Oil, Gan Jin Pian and Yi Sheng Jun, etc. has been approved and started. Such items have established a solid foundation for the future development of the Group's principal business.

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

According to the consolidated financial accounts prepared in accordance with PRC accounting standards and systems, turnover of the Group’s Trading Operations for the year was about RMB5,789,334,000, representing an increase of 13.90% over that of the previous year. Loss before taxation was about RMB12,672,000, representing a sharp decrease of 117.68% year-on-year, and net loss was RMB38,920,000. According to the consolidated accounts prepared in accordance with HK GAAP, the turnover of the Group’s Trading Operations this year was about RMB5,789,334,000, representing an increase of 13.90% over that of the previous year. Loss before taxation was about RMB16,302,000, representing a decrease of 123.58% year-on-year, and net loss was RMB44,649,000.

According to the market changes, the Trading Operations mainly focused on the following aspects: (i) they continued its active development well as agent and distributor for prestigious pharmaceutical products, actively seeking and developing products with characteristics and promising market prospect, and try to expand sales in the wholesale market. (ii) additional efforts were made to expand the sales market of hospitals by enhancing the capability of the hospital marketing teams. In addition, they also made an earnest effort in improving the bidding and supplying for hospitals with a wider range of medicines to increase the sales volume through hospital channels. (iii) they expedited the process of resource integration within the Group, and facilitated the purchases, supplies and services of traditional Chinese medicine and raw materials in large bulks. (iv) they timely adjusted the development strategies on the retail network with focus on the core retail business. (v) they speeded up the construction of medicine logistics center to accelerate the delivery speed and inventory capital turnover. (vi) they strengthened the credit management control of the clients and the monitoring on accounts receivable, and standardized the management flow of accounts receivable in order to reduce the risks of bad debts arising from accounts receivable. (vii) they enhanced the service consciousness, focused on all-rounded services for major customers and promoted the operation of our brand series products.

During the year, the number of the new customers of the Trading Operations increased by 633, products with distribution rights increased by 26 types and products with exclusive distribution rights grew by 24 types. During the Year, the Company has undertaken a re-shifting of its retail pharmacies and closed retail outlets that operated at a loss. As at 31 December 2004, the Group had 163 chain pharmacies, including 89 “Cai Zhi Lin” which specializes in traditional chinese medicine and 73 “Jian Min” which specializes in chemical medicine.

The pharmaceutical logistics center of the Group has been put into operation in May 2004. During the year, the pharmaceutical products wholesale companies under the Group have also passed the GSP examination on schedule, and passed the re-examination of the state pharmacy supervision authority.

In the year 2004, the operating results of the Trading Operations of the Group decreased. This was mainly due to the following reasons: (i) affected by the market entry of a large number of pharmacies offering lower selling prices and the implementation of national pricing policy on pharmaceutical products and policy on restricting the sales of antibiotics, the gross profit margin of the Trading Operations continued to decline. In 2004, the gross profit margin of the Trading Operations was 6.76%, representing a decrease of 11.40% as compared with 7.63% in 2003. To a certain extent, this affected the increase of profit of the Trading Operations; (ii) the Company’s trading subsidiary, Guangzhou Chinese Medicine Corporation, recorded a significant loss due to provision for price reduction of inventories it made and other extraordinary factors, which affected the annual operation results significantly.

## 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 2003 (%)	cost of sales as compared with 2003 (%)	gross profit margin as compared with 2003 (%)
CPM manufacturing	1,918,980	913,874	52.38	1.58	3.82	(1.93)
Trading	5,789,334	5,398,188	6.76	13.90	14.97	(11.40)
Include: Connected transactions	84,146	78,045	7.25	(3.75)	(3.52)	(2.98)
Heat clearing and anti-toxic	484,136	260,543	46.18	1.79	9.05	(7.20)
Diabetes curing	348,513	111,440	68.02	11.88	6.80	2.29
Cough and phlemgh clearing	187,574	100,380	46.49	(24.54)	(20.76)	(5.21)
Anthritis curing	209,206	75,548	63.89	(0.82)	(13.89)	9.38
Gastric	91,671	51,795	43.50	(10.73)	(5.64)	(6.54)
Other products	597,880	314,168	47.45	10.74	17.35	(5.87)
Including: connected transactions	3,059	2,133	30.26	(20.67)	5.64	(36.46)

**Pricing policy for connected transactions** The sale 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 and market development.

**Explanation on the necessity and continuousness of connected transactions** Guangzhou Pharmaceutical Import & Export Corporation, a subsidiary of the Coompany, is engaged in import and export of medicine, related raw materials and medical apparatus for enterprises including enterprises under the same group. Other trading subsidiaries of the Company are engaged in the trading of pharmaceutical products, including sales and purchases to/from enterprises under the same group. Sales and purchases of pharmaceutical products from the Group are necessary.

The total amount of sales of products from the Company to GPLH, its subsidiaries and their respective associates was RMB84,146,000.

Note: (i) The above products are CPM products.

(ii) The basis for the calculation of the comparison in relation to connected transactions were adjusted accordingly based on the changes in connected parties.

### 6.3 Geographical analysis of sales arising from the manufacturing operations and trading operations is set out as follows:

<b>Region</b>	<b>Turnover RMB'000</b>	<b>Change as compared with 2003 (%)</b>
Southern China	6,102,676	10.67
Eastern China	537,056	14.32
Northern China	298,738	10.90
North-Eastern China	214,293	15.61
South-Western China	301,937	10.70
North-Western China	159,762	12.02
Exports	93,852	(20.22)

### 6.4 Particulars of customers and suppliers

Purchases of goods and services from the 5 largest suppliers	RMB949,599,000
% of total purchases (%)	14.80
Goods and services sold to the 5 largest customers	RMB511,695,000
% of total sales(%)	6.64

### 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 2003**

Applicable       Not applicable

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

Applicable       Not applicable

The Group's total profit for the Year decreased by 41.13% as compared with last year, and its net profit decreased by 60.45% as compared with last year, which was mainly due to: (i) as affected by the market entry of a number of chain pharmacies offering lower selling prices and the implementation of the national pricing policy on pharmaceutical products and policy on restricting the sales of antibiotics, the gross profit margin of the Trading Operations continued to decline. To a certain extent, this affected the increase of profit of the Trading Operations; (ii) the Company's trading subsidiary, Guangzhou Chinese Medicine Corporation recorded a significant loss due to provision for price reduction of inventories it made and other extraordinary factors, which affected the Group's annual operating results significantly; and (iii) due to the implementation of the national policy regarding the administration on advertisement of pharmaceuticals and the national pricing policy on medicine, the amortization of fixed assets and higher operating cost upon completion of GMP renovation and the increase in the price of raw material altogether resulted in a decline of the operating results of the Company's certain manufacturing subsidiaries.

Analysis on significant changes in overall financial position in comparison with 2003

Applicable       Not applicable

- (1) Notes receivable of the Group as at 31 December 2004 increased by 254.26% as compared with 1 January 2004, which was because major customers of the Group used notes to settle the debtor as the business of the Group grew.



- (2) Advances to suppliers of the Group as at 31 December 2004 increased by 33.42% as compared with 1 January 2004, because purchases of Group's trading subsidiaries increased significantly as a result of the growth in their business, and more downpayments were required accordingly.
- (3) As at 31 December 2004, the cost of fixed assets increased by 31.56% over that of 1 January 2004, which was mainly because several projects had been transferred to fixed assets on completion during the year, such as relocation and renovation of Yunpu Plant by Guangzhou Zhong Yi Pharmaceutical Co., Ltd, the Huangjinwei Logistics Center by Guangzhou Pharmaceutical Corporation and the GMP renovation projects by each of the subsidiaries of the Company. Therefore, the construction on progress decreased accordingly;
- (4) Short-term borrowings as at 31 December 2004 of the Group increased by 41.13% over those as at 1 January 2004, which was mainly due to the discount of the undue notes payable to banks for cash by the Company's subsidiaries. Meanwhile, the revenue from the principal businesses of Guangzhou Pharmaceutical Corporation in 2004 recorded a significant increase over that of 2003, and its short-term borrowings increased in line with increasing requirement of liquidity;
- (5) The accounts payable as at 31 December 2004 increased by 31.59% over that of 1 January 2004, which was mainly due to the increase of purchase as a result of the business growth of the Group;



- (6) Other amounts payable as at 31 December 2004 increased by 33.04% over those of 1 January 2004, which was mainly due to: (i) the increase in the amounts receivable entrusted to be collected by and payable to Bank of Communications, Guangzhou Branch as the transfer of accounts receivable of Guangzhou Pharmaceuticals Corporation, a subsidiary of the Company, increased with the growth of its sales volume; (ii) the accounts due and payable to GPHL Hanfang Contemporary Medicine Research & Development Co., Ltd, a subsidiary of the Company, was granted by the Ministry of Finance of PRC, with the support from GPHL, special funds for pharmaceutical research and development.
- (7) Finance cost of the Group for the Year increased by 70.60% over that of 2003, which was mainly due to the increase of interest expenses as a result of increase in short-term borrowings for the Year; and the increase of handling expenses charged by financial institutes as the funds were mainly financed by way of discounting of notes receivable and transfer of accounts receivable.
- (8) Income from other operations of the Group for the Year increased by 161.35% as compared with last year, mainly due to the compensation fee of RMB4,565,000 for relocation received by Guangzhou Chinese Medicine Corporation, a subsidiary of the Company.
- (9) Net cash inflows from operating activities of the Group for the Year increase by 3,036.20% as compared with last year, which was mainly due to the substantial growth of cash inflows from operating activities over the cash outflows from operating activities during the Reporting Period.

**6.9 Explanation on the impact of the change in production environment and macro economy which has caused or will cause on the Company's financial status and operating results**

Applicable       Not applicable

Factors such as the implementation of the national regulations on the pricing policy of pharmaceutical products and the market entry of a number of pharmacies offering lower selling price led to the increasingly fierce competition in the domestic pharmaceutical market have caused certain impact on the Group's results for the year 2004.

**6.10 Achievement compared with profit forecast**

Applicable       Not applicable

**6.11 Achievement compared with operation targets**

Applicable       Not applicable

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

Applicable       Not applicable

Total proceeds raised	737,990,000
Total amount of proceeds utilized in 2004	76,610,000
Accumulated amount of proceed utilized	660,380,000

Projects	Budgeted injection	Change	Funds	Investment return	Agreed with
	from proceeds	in projects	injected		the planned stage
	<i>RMB'000</i>		<i>RMB'000</i>		of completion
Xiao Ke Wan upgrade	29,800	No	29,800	Turnover increased by 123,480 Gross profit increased by 83,990	Yes
Bao Ji Wan upgrade	11,000	No	11,000	Turnover increased by 8,300 Gross profit increased by 2,310	Yes
Industrilisation of Wei Re Qing	29,000	No	23,780	No increase in turnover or gross profit	No
Automation of pill production	11,000	No	11,000	Turnover increased by 15,270 Gross profit increased by 9,620	Yes
Technology upgrade of Hua Tuo Zai Zao Wan	17,000	No	17,000	Turnover increased by 68,940 Gross profit increased by 45,260	Yes
Technology upgrade of throat, spleen and intestine pills	29,100	No	18,430	Turnover increased by 29,060 Gross profit increased by 12,210	Yes
Technology upgrade for syrup production	29,500	No	29,500	No increase in turnover or gross profit	No
Industrialisation of Ke Gan Li Yan Syrup	19,600	No	19,600	Turnover increased by 11,180 Gross profit increased by 6,480	No
Technology upgrade of Xu Han Ting Granules	12,000	No	12,000	Turnover increased by 25,200 Gross profit increased by 18,140	Yes
Automation of granules upgrade	29,900	No	29,900	Turnover increased by 40,220 Gross profit increased by 16,590	Yes
Technology upgrade of flu granules for children	23,000	No	23,000	Turnover increased by 7,670 Gross profit increased by 4,710	Yes
Industrilisation of Fu Yan Soluble Tablets	29,500	No	23,300	No increase in turnover or gross profit	No
Technology upgrade of spleen, intestine and pimples tablets	17,800	No	17,800	Turnover increased by 20,360 Gross profit increased by 14,810	Yes
Technology upgrade of syrup workshops	29,500	No	29,500	Turnover increased by 1,220 Gross profit increased by 600	Yes
Technology upgrade of suppository workshops	12,000	No	12,000	Turnover increased by 36,710 Gross profit increased by 29,370	Yes

Modernisation of extraction and purification technology	29,900	No	29,900	Turnover increased by 1,730 Gross profit increased by 1,120	Yes
Critical purification of CO2 technology foundation	29,900	No	29,900	No increase in turnover or gross profit	Yes
Expansion of Jian Min chain pharmacies	89,300	No	88,630	No increase in turnover or gross profit	No
Expansion of Cai Zhi Lin chain pharmacies	59,500	No	24,880	No increase in turnover or gross profit	No
Logistics centre upgrade	20,000	No	20,000	Turnover increased by 965,200 Gross profit increased by 64,480	Yes
ERP upgrade for the Trading Operations	20,000	No	16,020	No increase in turnover or gross profit	No
Bio-tech research centre	80,000	No	63,750	No increase in turnover or gross profit	No
Additional working capital	79,690	No	79,690	—	Yes
Total	737,990	—	660,380	Turnover increased by 1,354,540 Gross profit increased by 309,690	—

Explanation on return on projects and the state 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 2005, while the expansion of chain pharmacies slowed as a result of fierce competition in the domestic pharmaceutical market.

Reasons and procedures of change (on individual project)

No change

### **Change in the proposed use of the proceeds from the issue of A shares**

Applicable       Not applicable

### 6.13 Investments through use of funds generated from the Group's operations

Applicable       Not applicable

Projects	Funds injected <i>RMB'000</i>	State of completion	Return on projects
The acquisition of 51% equity interest in Guangzhou Guangyao Yingbang Marketing Co., Ltd. held by GPLH	3,889	Completed	247
Investment injection to Guangzhou Jinshen Medical Co., Ltd	90	Completed	No return generated
Investment in the establishment of Guangxi Ying Kang Pharmaceutical Co., Ltd	21,717	The company has been established	No return generated
Cash investment in Guangzhou Lian Jie Computer Technology Co., Ltd by Guangzhou Pharmaceutical Corporation, a subsidiary of the Company	250	Completed	No return generated
Additional investment in Jihua Bio-chemical Co., Ltd.	1,200	Completed	No return generated
Cash investment in Beijing Gugong Gongyuan Cultural Development Co., Ltd	1,000	RMB200,000 has been injected	No return generated
Total	28,146	—	247

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

Applicable       Not applicable

### 6.15 Operation plans for 2005

Applicable       Not applicable

In the new year, the Group will adhere to its strategy of “To strengthen basic management, control cost and expenditure, expand product marketing and enhance profit-making capacity”. While optimizing corporate governance and enhancing internal management and monitoring, the Company will make every effort to develop and make stronger the main business by sourcing and developing new profit-making points to achieve the operation targets set for 2005. The plans for 2005 mainly include:

- (1) To further strengthen market planning and monitoring of our pillar products such as Xiao Ke Wan and Hua Tuo Zai Zao Wan while at the same time make a good market planning of our key nurturing products such as Xu Han Ting, Hua Zhi Shuan, Wu Ji Bai Feng Wan and An Shen Bu Nao Ye, with a view to developing several mainstay products with cutting edge in the shortest time. Meanwhile we need to do a good marketing on our key products like Fu Li Tong Capsule and Ganoderma Lucidum Spore Oil featured by high content of science and technology, high value-added and promising prospect so as to increase the profit of our principal business.
- (2) To continue strengthening the core business of Guangzhou Chinese Medicine Corporation and do our best to reverse the loss position of Guangzhou Chinese Medicine Corporation.
- (3) To strengthen fund attraction and continuously seek opportunities for cooperation with outstanding pharmaceutical enterprises at home and abroad and to strengthen our efforts in merging with appropriate domestic pharmaceutical enterprises.
- (4) To continue to expedite integration of internal resources within the Group, to better the uniform purchase of traditional Chinese medicine, raw materials in large bulks, packing materials and import resources. At the same time, to enlarge the market share of the Group's products by leveraging on the advantages of wholesale and retail networks of the Group's Trading Operations.
- (5) To strengthen basic management and reasonable operating cost saving, and to increase the capital utilization rate, reduce operation risks by further strengthening management of account receivable.

The Company faces both new opportunities and challenges in 2005. We will continue to exercise the spirit of industry, progress, pragmatics and innovation so as to generate a better return for our shareholders.

Profit forecast for 2005

Applicable       Not applicable

## **6.16 Proposed scheme of profit distribution and increase in share capital from capital reserves**

The amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with RPC accounting standards and systems and the amount determined in accordance with HK GAAP. The Board recommended a final dividend of RMB0.025 per share (including withholding tax for A Shares) for the year ended 31 December 2004 (2003: RMB0.06). The proposed final dividend will be submitted to the forthcoming 2004 AGM for consideration and approval (the notice to convene the 2004 AGM will be otherwise published).

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

Explanation on proposal for undistribution of profit

Applicable             Not applicable

## **6.17 Liquidity**

As at 31 December 2004, the current ratio of the Company was 1.46, and its quick ratio was 0.97. Accounts receivable turnover rate was 9.77 times, representing a decrease of 4.48% as compared with that of 2003. Inventory turnover rate was 5.58 times, representing an increase of 1.11% as compared with last year.

## **6.18 Financial resources**

As at 31 December 2004, cash and cash equivalents of the Group amounted to RMB880,825,000, out of which 96.59% and 3.41% were denominated in Renminbi and Hong Kong dollars respectively.

As at 31 December 2004, the Group had bank borrowings of RMB1,094,639,000 in total. The long-term borrowings of the Group amounted to RMB157,180,000 (31 December 2003: RMB137,180,000), which was fixed interest loans denominated in RMB (out of which RMB47,680,000 is due in 2005 and RMB109,500,000 will be due in 2006). The short-term borrowings of the Group was RMB937,459,000 (31 December 2003: RMB664,230,000).

## **6.19 Capital structure**

As at 31 December 2004, the Group's current liabilities amounted to RMB2,398,058,000 (31 December 2003: RMB1,948,139,000), representing an increase of 23.09% over that of 31 December 2003, and its long-term liabilities was RMB148,330,000 (31 December 2003: RMB162,691,000), with a decrease of 8.83% as compared with that of 31 December 2003. The shareholders' funds of the Group as at 31 December 2004 amounted to RMB2,440,230,000 (31 December 2003: RMB2,429,476,000), with an increase of 0.44% as compared with that of 31 December 2003.

## **6.20 Capital expenditure**

The Group expects the capital expenditure for 2005 to amount to approximately RMB258,000,000 (2004: RMB329,000,000), which will be mainly applied in GMP renovation and other technology upgrades. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

## **6.21 Gearing ratio**

Up to 31 December 2004, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 49.13%, with an increase of 9.56% as compared with that of 31 December 2003.

## **6.22 Exposure to fluctuations in exchange rates**

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.

## **6.23 Cash flows and its application**

As at 31 December 2004, cash and cash equivalents of the Group amounted to RMB880,825,000, with an increase of RMB64,386,000 as compared with last year. The net increase in cash and cash equivalents of the Group from operating activities amounted to RMB200,542,000, with an increase of RMB207,373,000 as compared with last year, which is mainly due to the substantial growth of cash inflows from operating activities over cash outflows from operating activities during the Reporting Period



## **6.24 Contingent liabilities**

Up to 31 December 2004, the Group has no significant contingent liabilities.

## **6.25 Charge on Group assets**

At 31 December 2004, part of the Group's bank loans were secured by fixed assets with a net book value of fixed assets RMB130,344,000.

## **6.26 Other matters**

6.26.1 During the Reporting Period, the Company had no significant purchase and disposal of assets (including subsidiaries or associated companies) nor merger and acquisition activities.

6.26.2 Compliance with the Code of Best Practice

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of Securities on the Stock Exchange of Hong Kong Limited ("HKEX").

## **6.27 Employees of the Group**

As at 31 December 2004, the number of employees on the payroll register of the Group was 8,879, including:

	<b>No. of employees</b>
Production and supporting staff	4,526
Sales personnel	1,695
Technical and engineering	1,257
Finance and statistics staff	279
Other administrative staff	1,122

77 of the employees of the Group are holders of a master degree and 893 are holders of a bachelor degree. The number of retirees was 4,498. The total salary payment for the Year was approximately RMB399,000,000.

The remuneration of the employees of the Group includes salaries, bonuses and other fringe benefits. The Group applied different rates of remuneration to different employees, based on the employees' performance, experience, position and other factors and is in compliance with the relevant PRC rules and regulations.

## 7. MAJOR EVENTS

### 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 of the signing of agreements	Guarantees provided to parties other than the Company's subsidiaries				Executed or not	Guarantees for connected parties
		Amount involved RMB'000	Type of guarantee	Term of guarantee			
—	—	—	—	—	—	—	
Accumulated amount of guarantees provided during the Reporting Period							Nil
Amount of guarantees as at 31 December 2004							Nil
<b>Guarantees provided to the Company's subsidiaries</b>							
Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period							652,650
Amount of guarantees provided to the Company's subsidiaries as at 31 December 2004							652,650
<b>The Company's guarantess (including those provided to its subsidiaries)</b>							
Total amount of guarantees provided							652,650
% of the net assets of the Company							26.76%
<b>Deregulatory guarantees of the Company</b>							
Amount of guarantees provided to the Company's controlling shareholder and other connected parties in which the Company held less than 50% equity interest							Nil
Direct or indirect guarantees provided to parties with a gearing ratio of over 70%							Nil
Whether the total amount of the gurarantees provided amounts to 50% of the net assets of the Company							Nil
Amount of deregulatory guarantees provided							Nil

Save as disclosed above, the Company had not provide any guarantees to any parties in which the Company held less than 50% equity interest.

## 7.4 Material Connected Transactions

### 7.4.1 Sale and purchase connected transactions

Applicable       Not applicable

Connected parties	Sales of products and services to connected parties		Purchase of products and services from connected parties	
	Amount RMB'000	% of the total same type of connected transactions	Amount RMB'000	Amount RMB'000
Guangzhou Qiao Guang Pharmaceutical Factory	47,021	0.61%	26,595	0.41%
Guangzhou Ming Xing Pharmaceutical Factory	1,626	0.02%	22,484	0.35%
Guangzhou Tian Xin Pharmaceutical Co., Ltd	18,537	0.24%	6,769	0.11%
Guangzhou He Ji Gong Pharmaceutical Factory	1,154	0.01%	2,439	0.04%
Guangzhou Guang Hua Pharmaceutical Co., Ltd	3,692	0.05%	32,568	0.51%
Guangzhou Wei Cai Factory	5	—	2,089	0.03%
Po Lian Development Co., Ltd	—	—	9,607	0.15%
Guangzhou Zhong Fu Medical Co., Ltd	—	—	108	—
Guangzhou Pharmaceutical Industrial Institute	7	—	—	—
Guangzhou Baiyunshan Chinese Medicine Factory	1,392	0.02%	1,744	0.03%
Guangzhou Baiyunshan Pharmaceutical Factory	7,580	0.10%	155	—
Guangzhou Chemical Pharmaceutical Factory	3,132	0.04%	—	—
Total	84,146	1.09%	104,558	1.63%

### 7.4.2 Funds to/from connected parties

Applicable       Not applicable

Connected parties	Funds to connected parties		Funds from connected parties	
	Initial amount	Balance	Initial amount	Balance
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts receivable and payable				
Guangzhou Qiao Guang Pharmaceutical Factory	55,014	17,232	31,116	240
Guangzhou Ming Xing Pharmaceutical Factory	1,903	739	26,306	274
Guangzhou Tian Xin Pharmaceutical Co., Ltd	21,688	5,481	7,920	(87)
Guangzhou He Ji Gong Pharmaceutical Factory	1,351	432	2,854	106
Guangzhou Guang Hua Pharmaceutical Co., Ltd	4,320	1,573	38,104	394
Guangzhou Wei Cai Factory	5	—	2,445	70
Po Lian Development Co., Ltd	—	—	74,097	20,201
Guangzhou Zhong Fu Medical Co., Ltd	—	—	127	42
Guangzhou Pharmaceutical Industrial Institute	1,628	1,154	2,040	621
Guangzhou Baiyunshan Chinese Medicine Factory	8,868	1,753	181	202
Guangzhou Baiyunshan Pharmaceutical Factory	3,665	423	—	—
Total	98,442	28,786	185,188	22,063
Other receivables and payables				
GPHL	436	6,312	18,798	27,428
Guangzhou He Ji Gong Pharmaceutical Factory	25	25	—	—
Guangzhou Hua Nan Medical Apparatus Co., Ltd	—	100	—	—
Po Lian Development Co., Ltd	13,437	14,854	—	—
Guangzhou Zhong Fu Medical Co., Ltd	—	—	—	207
Guangzhou Baiyunshan Pharmaceutical Factory	—	—	101	101
Guangzhou Material Supply Corporation	—	—	—	1,724
Shenzhen Qixing Lanzao Biological Co., Ltd	—	2,631	—	—
Total	13,899	23,923	18,900	29,461
Prepaid expenses and advances from customers				
Guangzhou Qiao Guang Pharmaceutical Factory	—	—	17,462	30
Guangzhou Ming Xing Pharmaceutical Factory	—	—	690	48
Guangzhou He Ji Gong Pharmaceutical Factory	—	—	74	24
Guangzhou Guang Hua Pharmaceutical Co., Ltd	—	—	2,197	1
Guangzhou Baiyunshan Chinese Medicine Factory	—	—	4,032	18
Guangzhou Baiyunshan Pharmaceutical Factory	—	—	498	(69)
Guangzhou Baiyunshan Chemical Factory	—	—	876	36
Total	—	—	25,828	88

The initial amount of funds provided to the Company's controlling shareholder and its subsidiaries during the Reporting Period amounted to RMB112,341,000, and the balance was RMB52,709,000.

#### 7.5 Trusted fund management

Applicable       Not applicable

#### 7.6 Commitments

Applicable       Not applicable

#### 7.7 Material Litigation and Arbitration

Applicable       Not applicable

#### 7.8 Performance of duties by Independent Non-executive Directors

During the Reporting Period, all the Independent Non-executive Directors of the Company worked diligently and attended meetings held by the Board of Directors punctually and expressed their independent views on connected transactions made during the Reporting Period and earnestly discharged their duties.

##### 7.8.1 Attendance of Board meetings by Independent Non-executive Directors

Name	Meetings supposed to attend	Meetings attended in person (times)	Meetings attended by proxy (times)	Absence
Mr. Chu Youlin, David	3	3	/	/
Mr. Liu Jinxiang (*)	3	3	1	/
Mr. Zhang Bohua	3	3	/	/
Mr. Huang Buren	3	3	/	/
Mr. Wu Zhang	12	12	/	/
Mr. Wong Hin Wing (*)	9	8	1	/
Mr. Zhang Heyong	9	9	/	/

*Note:*

Independent Non-executive Directors marked with (\*) has appointed other Directors to attend and vote on his behalf respectively.

7.8.2 During the Reporting Period, the Independent Non-executive Directors of the Company made no opposition to all the Board's resolutions and additional matters other than Board's resolutions of the Company for the Year.

7.8.3 Independence of the Independent Non-executive Directors

The Board has confirmed its receipt from each of the Independent Non-executive Directors a confirmation letter in regards to his independence pursuant to Rule 3.13 of the Listing Rules of The Stock Exchange of Hong Kong Limited ("HKEX"). The Board considers the existing Independent Non-executive Directors to be independent in which all of them are in compliance with the relevant provisions of Rule 3.13 of the Listing Rules of HKEX.

During the Reporting Period, no loan or guarantee for any loan were made by the Group, directly or indirectly, to the Directors, Supervisors and Senior Management or their respective connected persons of the Company and our controlling shareholders.

7.8.4 Audit Committee

The Audit Committee of the Company had reviewed the accounting policies, accounting regulations and methods adopted by the Company, and discussed with the Company's management about the audit, internal controls and financial reporting. The Committee also reviewed the audited accounts for the year ended 31 December 2004.

## **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 2004 were audited by Guangzhou Yangcheng Certified Public Accountants Co., Ltd, who issued an unqualified audited report [2004 Yang Cha Zi No. 5161] signed by the two Chinese certified public accountants, Mr. Huang Wei Cheng and Mr. Yi Xusheng.

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 2004.

### 9.2 Balance sheet of the Group and the Company as at 31 December 2004, profit and loss account of the Group and the Company for the year ended 31 December 2004 and cash flow statement of the Group and the Company for the year ended 31 December 2004

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

Items	The Group		The Company	
	As at 1	As at 31	As at 1	As at 31
	January 2004	December 2004	January 2004	December 2004
	RMB	RMB	RMB	RMB
<b>Current assets</b>				
Cash	816,439,041.14	880,824,597.90	231,542,044.04	201,807,672.50
Short-term investments	49,499,310.37	18,562,000.00	49,499,310.37	18,562,000.00
Notes receivable	52,280,755.19	185,209,600.23	—	—
Dividends receivable	6,316,510.00	—	6,316,510.00	—
Interest receivable	—	—	—	—
Accounts receivables	878,361,678.85	967,659,441.43	—	—
Other receivables	130,980,738.37	111,782,083.42	319,285,854.82	345,237,748.98
Advances to suppliers	120,102,331.41	160,243,931.81	—	—
Subsidy receivable	10,325,834.50	2,224,155.35	—	—
Inventories	1,067,439,529.10	1,077,924,756.16	—	—
Prepaid expenses	91,300,355.06	89,835,431.99	—	—
Long-term debt investments				
maturing within one year	—	—	—	—
Other currents assets	—	—	—	—
<b>Total currents assets</b>	<b>3,223,046,083.99</b>	<b>3,494,265,998.29</b>	<b>606,643,719.23</b>	<b>565,607,421.48</b>

<b>Long-term investment</b>				
Long-term equity investment	74,867,192.97	74,610,894.56	1,853,732,823.78	1,877,883,028.41
Long-term debt investment	—	—	—	—
<b>Total long-term investment</b>	<b>74,867,192.97</b>	<b>74,610,894.56</b>	<b>1,853,732,823.78</b>	<b>1,877,883,028.41</b>
Include: Difference in consolidation	2,461,219.14	4,175,432.85	—	—
Include: Difference in equity investment	2,461,219.14	4,175,432.85	—	—

Items	The Group		The Company	
	As at 1	As at 31	As at 1	As at 31
	January 2004	December 2004	January 2004	December 2004
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Fixed assets</b>				
Fixed assets-cost	1,505,442,749.56	1,980,499,364.41	37,407,029.02	41,005,158.52
Less: Accumulated depreciation	498,586,610.77	583,351,522.12	10,215,684.50	13,438,004.00
Fixed assets-net book value	1,006,856,138.79	1,397,147,842.29	27,191,344.52	27,567,154.52
Less: Fixed assets impairment provision	25,786,824.47	25,352,941.92	7,109,752.25	7,109,752.25
Fixed assets-net book value	981,069,314.32	1,371,794,900.37	20,081,592.27	20,457,402.27
Construction supplies	—	—	—	—
Construction in progress	305,928,588.83	119,645,075.10	—	—
Fixed assets pending for disposal	—	—	—	—
<b>Total fixed assets</b>	<b>1,286,997,903.15</b>	<b>1,491,439,975.47</b>	<b>20,081,592.27</b>	<b>20,457,402.27</b>
<b>Intangible assets and other assets</b>				
Intangible assets	93,715,205.21	103,345,329.75	—	—
Long-term prepaid expenses	28,413,060.66	19,215,827.64	1,997,842.14	1,492,460.43
Other long-term assets	—	—	—	—
Total intangible assets and other assets	122,128,265.87	122,561,157.39	1,997,842.14	1,492,460.43
Deferred taxation				
Deferred tax debits	—	—	—	—
<b>Total assets</b>	<b>4,707,039,445.98</b>	<b>5,182,878,025.71</b>	<b>2,482,455,977.42</b>	<b>2,465,440,312.59</b>



<b>Current liabilities</b>				
Short-term loans	664,230,000.00	937,458,830.03	—	—
Notes payable	212,533,538.69	137,052,834.12	—	—
Accounts payable	644,880,577.38	848,628,472.16	—	—
Advances from customers	34,182,508.08	22,901,240.89	—	—
Accrued payroll	77,634,473.67	50,994,217.94	2,485,598.66	2,430,269.38
Welfare benefits payable	56,334,037.21	51,590,272.62	3,074,976.99	3,346,137.21
Dividends payable	11,178.03	26,383.04	11,137.00	25,980.20
Taxes payable	21,605,390.47	24,041,244.06	716,641.71	424,662.76
Other levies payable	2,651,595.11	2,880,392.94	13,161.85	21,220.74
Other payables	199,619,096.28	265,572,457.79	40,995,862.85	18,585,121.28
Accrued expenses	4,456,292.55	9,231,282.20	2,000,000.00	2,150,000.00
Provision for foreseeable liabilities	—	—	—	—
Portion of long-term liabilities due within one year	30,000,000.00	47,680,000.00	—	—
Other current liabilities	—	—	—	—
<b>Total current liabilities</b>	<b>1,948,138,687.47</b>	<b>2,398,057,627.79</b>	<b>49,297,379.06</b>	<b>26,983,391.57</b>
<b>Long-term liabilities</b>				
Long-term loans	107,180,000.00	109,500,000.00	—	—
Debentures payable	—	—	—	—
Payables after one year	3,616,783.17	5,020,012.56	—	—
Government grants payable	46,893,897.48	33,810,171.91	1,000,000.00	—
Other long-term payables	5,000,000.00	—	—	—
<b>Total long-term liabilities</b>	<b>162,690,680.65</b>	<b>148,330,184.47</b>	<b>1,000,000.00</b>	<b>—</b>
<b>Deferred tax</b>				
Deferred tax credits	—	—	—	—
<b>Total liabilities</b>	<b>2,110,829,368.12</b>	<b>2,546,387,812.26</b>	<b>50,297,379.06</b>	<b>26,983,391.57</b>
Minority interests	166,733,695.45	196,260,508.34	—	—

<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	1,126,381,425.35	1,119,405,462.95	1,125,595,838.66
Reserved fund	416,445,683.07	480,442,389.26	145,803,875.54	153,118,167.58
Include: statutory				
welfare fund	134,458,560.41	153,572,065.40	59,176,788.16	61,614,885.51
Retained earnings	82,558,496.93	22,505,890.50	356,049,259.87	348,842,914.78
Include: dividends	48,654,000.00	20,272,500.00	48,654,000.00	20,272,500.00
Difference in				
foreign currency	—	—	—	—
Less: unrecognized				
investment loss	—	—	—	—
<b>Total shareholders' fund</b>	<b>2,429,476,382.41</b>	<b>2,440,229,705.11</b>	<b>2,432,158,598.36</b>	<b>2,438,456,921.02</b>
<b>Total liabilities and</b>				
<b>shareholders' fund</b>	<b>4,707,039,445.98</b>	<b>5,182,878,025.71</b>	<b>2,482,455,977.42</b>	<b>2,465,440,312.59</b>

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

Items	The Group		The Company	
	2004	2003	2004	2003
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Sales</b>	7,708,313,589.34	6,971,963,246.21	—	—
Less: Costs of sales	6,312,061,516.70	5,575,381,494.57	—	—
Taxes and levies	23,762,977.68	23,867,921.27	—	—
<b>Profit from principal operations</b>				
(Loss was inserted with “( )” sign)	1,372,489,094.96	1,372,713,830.37	—	—
Add: Profit from other operations	39,007,734.82	43,331,577.75	8,408,475.17	4,267,200.40
Less: Operating expenses	533,614,941.06	480,112,918.89	—	—
General and administrative				
expenses	656,588,252.79	617,672,250.86	24,568,843.51	31,534,143.01
Finance costs	37,872,578.65	22,200,163.99	(2,129,172.49)	(4,365,400.55)

<b>Operating profit</b>				
(Loss was inserted with “( )” sign)	183,421,057.28	296,060,074.38	(14,031,195.85)	(22,901,542.06)
Add: Investment income	(4,735,840.64)	2,714,764.17	62,978,959.10	166,528,032.74
Subsidy income	588,921.00	276,208.28	—	—
Non-operating income	6,838,595.53	2,616,643.99	10,807.00	725.46
Less: Non-operating expenses	18,470,362.19	16,894,247.44	196,623.30	110,957.22
<b>Total profit</b>				
(Loss was inserted with “( )” sign)	167,642,370.98	284,773,443.38	48,761,946.95	143,516,258.92
Less: Income tax	103,569,528.75	134,425,044.95	—	—
Less: Minority interests	8,781,241.46	10,552,991.99	—	—
Add: Investment loss unrecognized	—	—	—	—
<b>Net profit</b>				
(Loss was inserted with “( )” sign)	55,291,600.77	139,795,406.44	48,761,946.95	143,516,258.92
Add: retained earnings brought forward transfer from others	82,558,496.93 153,385.06	74,594,593.92 —	356,049,259.87 —	282,714,439.79 —
<b>Profit distributable</b>				
138,003,482.76	214,390,000.36	404,811,206.82	426,230,698.71	
Less: Transfer to to statutory surplus reserves				
21,697,098.56	32,076,133.21	4,876,194.69	14,351,625.89	
Transfer to statutory public welfare				
19,113,504.99	24,892,774.22	2,438,097.35	7,175,812.95	
Transfer to staff bonuses and welfare fund				
2,693,501.02	2,507,077.69	—	—	
Transfer to reserved fund				
1,010,062.88	940,154.13	—	—	
Transfer to expansion fund				
1,010,062.88	940,154.13	—	—	
Profit returned to investment				
—	—	—	—	
<b>Profit distributable to shareholders</b>				
92,479,252.44	153,033,706.98	397,496,914.78	404,703,259.87	
Less: Dividend for preferred shares				
—	—	—	—	
Transfer to discretionary surplus reserves				
21,319,361.94	21,821,210.05	—	—	
Dividend for ordinary shares				
48,654,000.00	48,654,000.00	48,654,000.00	48,654,000.00	
Dividend for ordinary shares transferred to share capital				
—	—	—	—	
Retained earnings				
(Loss was inserted with “( )” sign)	22,505,890.50	82,558,496.93	348,842,914.78	356,049,259.87

## Supplementary information

1. Gain from sale, disposal of a business unit	(522,942.99)	969,762.78	—	—
2. Loss due to natural disaster	—	—	—	—
3. Increase/decrease in total profit as a result of change in accounting policies	—	—	—	—
4. Increase/decrease in total profit as a result of change in accounting estimates	—	—	—	—
5. Losses from debt restructuring	—	—	—	—
6. Others	—	—	—	—

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

Items	2004	
	The Group	The Company
<b>Cash flows from operating activities</b>		
Cash received from sales of goods or rendering services	8,914,281,463.31	—
Refund of tax and levies	18,540,083.82	—
Other cash received relating to operating activities	78,958,875.02	11,954,078.34
<b>Sub-total of cash inflows</b>	<b>9,011,780,422.15</b>	<b>11,954,078.34</b>
Cash paid for goods or services	7,139,659,628.54	—
Cash paid to and on behalf of employees	576,229,016.66	7,416,248.88
Payments of all type of taxes	456,071,929.74	504,669.44
Other cash paid relating to operating activities	639,277,649.21	10,401,505.41
<b>Sub-total of cash outflows</b>	<b>8,811,238,224.15</b>	<b>18,322,423.73</b>
<b>Net cash flows from operating activities</b>	<b>200,542,198.00</b>	<b>(6,368,345.39)</b>

Items	2004	
	The Group	The Company
<b>Cash flows from investing activities</b>		
Cash received from disposal of investments	46,803,573.16	40,344,197.13
Include: Cash received from disposal of a subsidiary	6,459,376.03	—
Cash received from investment income	8,402,627.39	122,319,276.02
Net cash received from disposal of fixed assets, intangible Assets and other long-term assets	1,010,598.15	690.00
<b>Sub-total of cash inflows</b>	70,838,603.89	380,319,651.34
Cash paid to acquire fixed assets, intangible assets and other long-term assets	308,690,297.77	1,554,975.55
Cash paid to acquire investments	16,499,805.39	81,575,713.99
Other cash paid relating to investing activities	1,520,000.00	236,270,697.60
<b>Sub-total of cash outflows</b>	326,710,103.16	319,401,387.14
<b>Net cash flows from investing activities</b>	(255,871,499.27)	60,918,264.20
<b>Cash flows from financing activities</b>		
Cash received from capital contributions	5,014,795.47	—
Include: Cash received from capital contributions from minority shareholders	5,014,795.47	—
Cash received from borrowings	936,498,816.40	—
Cash received relating to financing activities	401,729,801.27	—
<b>Sub-total of cash inflows</b>	1,343,243,413.14	—
Cash repayments of amounts borrowed	766,678,816.40	—
Cash payments for distribution of dividends, profit or interest expenses	96,121,136.72	49,222,454.75
Include: Cash payments for distribution of dividends to minority shareholders by subsidiaries	10,282,963.03	—
Other cash payments relating to financing activities	360,666,766.39	35,000,000.00
Include: Cash payments to minority shareholders by subsidiaries as a result of reduction in investments	—	—
<b>Sub-total of cash outflows</b>	1,223,466,719.51	84,222,454.75
<b>Net cash flows from financing activities</b>	119,776,693.63	(84,222,454.75)
<b>Effect of foreign exchange rate changes on cash</b>	(61,835.60)	(61,835.60)
<b>Net increase in cash and cash equivalents</b>	64,385,556.76	(29,734,371.54)

## Supplemental information

### Reconciliation of profit to cash flows

#### from/(to) operating activities

Net profit	55,291,600.77	48,761,946.95
Add: Minority interests (Loss was inserted with “-” sign)	8,781,241.46	—
Less: Investment losses unrecognized	—	—
Add: Provision for asset impairment	31,304,538.30	—
Depreciation of fixed assets	104,725,490.30	3,334,302.86
Amortization of intangible assets	4,077,196.86	—
Amortization of long-term expenses	14,538,987.42	759,324.26
Decrease in prepaid expenses (less: increase)	1,464,923.07	—
Increase in accrued expenses (less: decrease)	4,774,989.65	150,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	177,188.37	5,742.70
Losses on scrapping of fixed assets	3,324,459.40	26,959.14
Finance costs	37,199,378.70	—
Losses on investment (less: gain)	4,735,840.64	(62,978,959.10)
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	(34,941,011.89)	—
Decrease in operating receivables (less: increase)	(83,578,581.34)	1,800,677.81
Decrease in operating payables (less: increase)	48,665,956.29	1,771,659.99
Others	—	—
Net cash flows from operating activities	200,542,198.00	(6,368,345.39)

#### 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	—	—
<b>Net increase/(decrease) in cash and cash equivalents</b>		
Cash at the end of year	880,824,597.90	201,807,672.50
Less: cash at the beginning of year	816,439,041.14	231,542,044.04
Add: cash equivalents at the end of year	—	—
Less: cash equivalents at the beginning of year	—	—
<b>Net increase/(decrease) in cash and cash equivalents</b>	64,385,556.76	(29,734,371.54)

### 9.3 The accounting policy, accounting estimates and auditing of the Company remained unchanged as compared with the last annual report.

**9.4 During the year, the Company did not have any accounting errors.**

**9.5 During the year, new subsidiaries of Guangxi Ying Kang Pharmaceutical Co., Ltd. Guangzhou Pharmaceutical Yingbang Marketing Co., Ltd. and Fujian Guangyao Jieda Co., Ltd. have been consolidated.**

**9.6 Consolidated profit and loss account (audited)**  
(prepared in accordance with HK GAAP)

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2004**

	<i>Note</i>	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	1	<b>7,709,565</b>	6,973,113
Cost of sales		<b>(6,313,633)</b>	(5,576,164)
Gross profit		<b>1,395,932</b>	1,396,949
Other revenues		<b>65,146</b>	74,923
Distribution costs		<b>(557,377)</b>	(504,230)
Administrative expenses		<b>(666,716)</b>	(606,298)
Other operating expenses		<b>(27,555)</b>	(19,807)
Operating profit	2	<b>209,430</b>	341,537
Finance costs		<b>(47,194)</b>	(34,172)
Operating profit after finance costs		<b>162,236</b>	307,365
Share of profits less losses of associated companies/ joint ventures		<b>(561)</b>	464
Profit before taxation		<b>161,675</b>	307,829
Taxation	3	<b>(110,295)</b>	(148,393)
Profit after taxation		<b>51,380</b>	159,436
Minority interests		<b>(8,551)</b>	(12,769)

Profit attributable to shareholders		<b>42,829</b>	146,667
		<u><u>42,829</u></u>	<u><u>146,667</u></u>
Dividend	4	<b>20,273</b>	48,654
		<u><u>20,273</u></u>	<u><u>48,654</u></u>
Earnings per share	5	<b>Rmb0.053</b>	Rmb0.181
		<u><u>Rmb0.053</u></u>	<u><u>Rmb0.181</u></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:

	2004	2003
	<i>Rmb'000</i>	<i>Rmb'000</i>
Turnover:		
Sales of goods	<b>7,709,565</b>	6,973,113
Other revenues:		
Government grants	<b>375</b>	290
Gain on dilution of interest in a subsidiary	—	3,565
Gain on disposal of a joint venture	—	934
Gain on disposal of a subsidiary	—	1,786
Interest income	<b>9,326</b>	11,210
Gross rental income from investment properties	<b>21,883</b>	21,286
Gross rental income from other properties	<b>13,147</b>	9,201
Promotional income from suppliers	<b>9,433</b>	12,947
Royalty income	<b>2,032</b>	1,600
Realised income on disposal of trading securities	<b>1,666</b>	—
Dividend income from investment securities	—	4,880
Others	<b>7,284</b>	7,224
	<u><u>65,146</u></u>	<u><u>74,923</u></u>
Total revenue	<b>7,774,771</b>	7,048,036
	<u><u>7,774,771</u></u>	<u><u>7,048,036</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 investments in securities, neither of which are of a sufficient size to be separately reported.

Year ended 31 December 2004						
	Manufacturing	Wholesale	Retail	Import 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	1,920,231	5,339,957	278,830	170,547	—	7,709,565
Internal	16,656	261,155	9	23,114	(300,934)	—
Total	<u>1,936,887</u>	<u>5,601,112</u>	<u>278,839</u>	<u>193,661</u>	<u>(300,934)</u>	<u>7,709,565</u>
Segment results	<u>205,990</u>	<u>49,599</u>	<u>(17,006)</u>	<u>3,790</u>	<u>(10,012)</u>	<u>232,361</u>
Unallocated costs						(22,931)
Operating profit						209,430
Finance costs						(47,194)
Share of profits less losses of associated companies/ joint ventures	(561)					(561)
Profit before taxation						161,675
Taxation						(110,295)
Profit after taxation						51,380
Minority interests						(8,551)

Profit attributable to shareholders						42,829
Segment assets	2,562,404	2,368,736	162,165	103,114	(338,484)	4,857,935
Interests in associated companies	6,066					6,066
Unallocated assets						549,437
Total assets						5,413,438
Segment liabilities	766,297	2,018,186	69,252	69,194	(338,484)	2,584,445
Unallocated liabilities						71,114
Total liabilities						2,655,559
Capital expenditure	307,879	16,200	4,085	366		328,530
Depreciation	89,529	26,031	2,362	509		118,431
Amortisation	7,863	3,206	—	30		11,099
Impairment charge of fixed assets	2,521	—	—	—		2,521

Year ended 31 December 2003

	Manufacturing	Wholesale	Retail	Import 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	1,918,012	4,733,805	371,453	217,745	(267,902)	6,973,113
Segment results	280,038	95,055	5,205	1,565	(12,445)	369,418
Unallocated costs						(27,881)
Operating profit						341,537
Finance costs						(34,172)
Share of profits less losses of associated companies/ joint ventures	464					464

Profit before taxation						307,829
Taxation						(148,393)
Profit after taxation						<u>159,436</u>
Minority interests						(12,769)
Profit attributable to shareholders						<u><u>146,667</u></u>
Segment assets	2,193,747	2,004,166	179,183	120,949	(309,913)	4,188,132
Interests in associated companies	5,292					5,292
Unallocated assets						<u>760,667</u>
Total assets						<u><u>4,954,091</u></u>
Segment liabilities	658,459	1,642,500	63,367	71,444	(309,913)	2,125,857
Unallocated liabilities						<u>94,190</u>
Total liabilities						<u><u>2,220,047</u></u>
Capital expenditure	303,812	54,732	4,145	665		363,354
Depreciation	80,901	20,481	4,064	209		105,655
Amortisation	7,469	3,015	—	30		10,514
Impairment charge of fixed assets	<u>1,186</u>	<u>—</u>	<u>—</u>	<u>—</u>		<u><u>1,186</u></u>

## 2. Operating profit

Operating profit is stated after charging and crediting the following:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
<b>Charging:</b>		
Depreciation and amortisation of fixed assets	118,431	105,655
Amortisation of intangible assets	11,099	10,514
Impairment charge of fixed assets	2,521	1,186
Impairment charge of investment securities	3,788	4,671
Provision for bad debts	5,095	—
Write-down of inventories to net realisable value	25,148	—
Impairment charge of trading securities	1,191	—
Outgoings in respect of investment properties	3,749	4,030
Outgoings in respect of other properties	2,629	1,840
Loss on disposal of fixed assets	7,852	4,917
Research and development costs	30,984	35,536
Auditors' remuneration	3,324	3,180
Staff costs:		
Pension benefit	61,455	58,311
Housing fund	30,538	22,113
Medical insurance	25,143	24,244
Housing allowances	12,132	19,290
Salaries, wages and other staff benefits	483,343	436,145
Operating leases for land and buildings	36,172	30,716
	<u>          </u>	<u>          </u>
<b>Crediting:</b>		
Reversal of impairment charge of trading securities	—	690
Recovery of bad debts previously written off	—	9,437
	<u>          </u>	<u>          </u>

### 3. Taxation

The PRC enterprise income tax has been provided at the principal rate of 33% (2003: 33%) on the estimated assessable profit for the year, except for a subsidiary which is a foreign investment production enterprise established in a coastal economic development zone, with an applicable enterprise income tax rate at 27%.

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Current taxation:		
- PRC enterprise income tax	103,569	134,425
Deferred taxation relating to the origination and reversal of temporary differences	6,726	13,882
	<u>110,295</u>	<u>148,307</u>
Share of taxation attributable to associated companies	—	86
	<u>—</u>	<u>86</u>
Taxation charges	<u><b>110,295</b></u>	<u><b>148,393</b></u>

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>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation	<u>161,675</u>	<u>307,829</u>
Calculated at a taxation rate of 33% (2003: 33%)	53,353	101,584
Effect of different taxation rates applicable to a subsidiary	(2,120)	(2,488)
Income not subject to taxation	(2,081)	(13,350)
Expenses not deductible for taxation purposes	63,374	63,995
Tax refund (Note)	<u>(2,231)</u>	<u>(1,348)</u>
Taxation charge	<u><b>110,295</b></u>	<u>148,393</u>

#### **4. Dividend**

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Final, proposed, of RMB0.025 (2003: RMB0.06) per share	<u><b>20,273</b></u>	<u>48,654</u>

At a meeting held on 27 April 2005, the directors declared a final dividend of RMB0.025 per share. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

## 5. Earnings per share

The calculation of earnings per share for the year ended 31 December 2004 is based on the profit attributable to shareholders of RMB42,829,000 (2003: RMB146,667,000) and the 810,900,000 (2003: 810,900,000) shares in issue.

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the years ended 31 December 2004 and 2003.

By order of the Board  
**Yang Rongming**  
Chairman

Guangzhou, the PRC, 27 April 2005

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Zhou Yuejin, Mr. Feng Zansheng and Mr. He Shuhua (resigned on 27 April 2005) as Executive Directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as Independent Non-executive Directors.

*A detailed annual results announcement containing all the information required by Paragraph 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) in due course.*

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## **Announcement of Resolutions Passed at The Third Meeting of the Fourth Supervisory Committee**

Guangzhou Pharmaceutical Company Limited (the “Company”) hereby announced that the third meeting of the fourth Supervisory Committee was held on 27 April 2005 at the conference room, the second floor of the office of the Company. The meeting was presided by Mr. Chen Canying, the chairman of the Supervisory Committee. All supervisors attended the meeting. The meeting was in compliance with the requirements of Company Law and the Articles of Association of the Company. The following resolutions were considered and passed at the meeting:

1. The report of the work of the Supervisory Committee for the year 2004;
2. The audited financial report of the Company for the year 2004;
3. The resolution in relation to the provision made for the impairment of inventory in Guangzhou Chinese Medicine Corporation;
4. The resolution in relation to the revised Agreement on the Purchase and Sale Connected Transactions and the transactions contemplated thereunder;
5. The resolution in relation to the amendment to the Articles of Association of the Company;
6. The resolution in relation to the amendment to the Rules of Procedures of the Supervisory Committee (Please refer to the website of Shanghai Stock Exchange for the full texts);
7. The resolution in relation to the report of the first quarter of the Company in 2005;
8. The resolution in relation to the convening of the Annual General Meeting of 2004.



This announcement is made in accordance with Rule 13.09(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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

Guangzhou, PRC, 27 April 2005

As at the date of this announcement, the Board comprises Mr. Yang Yongming, Mr. Zhou Yuejin, Mr. Feng Zansheng and Mr. He Shuhua (resigned on 27 April 2005) as executive directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as independent non-executive directors.

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## **Announcement of Improvement in Results Forecast for the First Half of 2005**

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

Guangzhou Pharmaceutical Company Limited (the “Company”) hereby announced that as the Company hastened its pace of business development by adopting a series of measures, the income from principal operations of the Company and its subsidiaries (the “Group”) in the first quarter of 2005 increased significantly. The Company expected that the net profit of the Group in the first half of 2005 will increase by over 50% as compared with the first half of 2004 (a net profit of RMB31.809 million was realized in the first half of 2004).

This announcement is made in accordance with Rule 13.09(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The Board of Directors  
**Guangzhou Pharmaceutical Company Limited**

Guangzhou, PRC, 27 April 2005

As at the date of this announcement, the Board comprises Mr. Yang Yongming, Mr. Zhou Yuejin, Mr. Feng Zansheng and Mr. He Shuhua (resigned on 27 April 2005) as executive directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as independent non-executive directors.

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## Announcement of the Resignation of Director

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

Guangzhou Pharmaceutical Company Limited (the “Company”) hereby announces that Mr. He Shuhua tendered his resignation to the board of directors (the “Board”) as the director of the Company for reason of work. The resolution passed at the eleventh meeting of the third Board of the Company convened on 27 April 2005 agreed on the resignation of Mr. He Shuhua as the director of the Company and which came into effect on the same day.

Mr. He Shuhua confirmed that there were no matters in relation to his resignation which needed to be brought to the attention of all the shareholders of the Company. The Board of the Company and Mr. He Shuhua confirmed that they are not aware of any personal obligation left for the Company and its subsidiaries (the “Group”) or any impact on such obligation that may be posed by his resignation. There were no disagreements between Mr. He Shuhua and the Company which caused to the resignation of Mr. He Shuhua.

Mr. He Shuhua has been the Secretary to the Board of the Company since the establishment of the Company in 1997. Since 2001, he took up the position of deputy general manager of the Company and has been the director of the Company since November 2004. Mr. He Shuhua has been working diligently and has fulfilled all his duties and responsibilities as well as contributed to the development of the Company during his terms of office. The Board of the Company wished to express its thankful gratitude to the dedications and contributions made by Mr. He Shuhua to the Group.

The Board of Directors  
**Guangzhou Pharmaceutical Company Limited**

Guangzhou, PRC, 27 April 2005

As at the date of this announcement, the Board comprises Mr. Yang Yongming, Mr. Zhou Yuejin, Mr. Feng Zansheng and Mr. He Shuhua (resigned on 27 April 2005) 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.