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廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

(a joint stock company with limited liability established in the People's Republic of China)

(Stock Code: 0874)

2005 FIRST QUARTERLY REPORT

1. IMPORTANT NOTICE

- 1.1 The Board of Directors of Guangzhou Pharmaceutical Company Limited (“Guangzhou Pharmaceutical” or the “Company”) and each director collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report and believes that there are no material omissions from, or misrepresentations or misleading statements contained in this report.
- 1.2 The Directors of the Board were present at the 11th meeting of the Third Session of the Board. Mr. Yang Rongming, the Chairman, was unable 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 The Company’s financial reports for the first quarter of 2005 were prepared in accordance with PRC accounting standards and systems and were unaudited.
- 1.4 Mr. Yang Yongming, the Chairman, 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 quarterly report.
- 1.5 This first quarterly report is published in Hong Kong pursuant to 13.09 (2) of the Rules Governing the Listing of Securities at the Stock Exchange of Hong Kong Limited.

2. COMPANY PROFILE

2.1 Corporate Information

Stock Abbreviation	GZ Phar.	Stock Abbreviation before change (if any)	—
Stock Code	600332 (A shares)		
Stock Abbreviation	GZ Phar.	Stock Abbreviation before change (if any)	—
Stock Code	0874 (H shares)		
	Company secretary	Representative of securities affairs	
Name	Mr. He Shuhua	Ms. Huang Xuezhen	
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2.2 Financial Information

2.2.1 Principal financial data and indicators

Items	As at 31 March 2005 RMB	As at 31 December 2004 RMB	Changes (%)
Total assets	5,516,630,863.87	5,182,878,025.71	6.44
Shareholders' funds (excluding minority interests)	2,512,310,757.81	2,440,229,705.11	2.95
Net assets per share	3.10	3.01	2.95
Adjusted net assets per share	3.04	2.96	2.70
Items	1 January 2005- 31 March 2005 RMB	1 January 2005- 31 March 2005 RMB	Change as compared with the same period of 2003 (%)
Net cash flows generated from operating activities	83,703,392.54	83,703,392.54	(63.48)
Earnings per share	0.06	0.06	83.91
Return on net assets (%)	2.08	2.08	0.93 percentage points
Return on net assets after deducting non-operating items (%)	2.08	2.08	0.88 percentage points

Non-operating items (1 January 2005-31 March 2005)	Amount (RMB)
Losses on disposal of fixed assets	(207,637.71)
Government grants and subsidies	130,226.00
Non-operating income/expenses after deducting assets impairment	(70,915.22)
Income tax effect	(33,320.47)
Minority interests	(22,484.04)
Total	(92,522.42)

2.2.2 Income statement

Items	1 January 2005 - 31 March 2005		1 January 2004 - 31 March 2004	
	The Group RMB	The Company RMB	The Group RMB	The Company RMB
Sales	2,347,782,173.11	—	2,075,357,874.28	—
Less: Costs of sales	1,941,660,096.12	—	1,709,578,534.55	—
Taxes and levies	7,707,278.32	—	7,886,956.97	—
Profit from principal operations	398,414,798.66	—	357,892,382.76	—
Add: Profit from other operations	11,337,940.15	2,907,826.43	8,813,167.59	(288,547.95)
Less: Operating expenses	145,936,366.38	—	135,621,281.28	—
General and administrative expenses	161,212,044.27	3,826,188.02	157,241,243.92	4,551,910.11
Finance costs	12,793,270.66	(687,754.50)	8,997,329.90	(615,281.04)
Operating profit	89,811,057.51	(230,607.09)	64,845,695.25	(4,225,177.02)
Add: Investment income	(755,070.90)	59,151,970.97	(1,074,442.02)	36,118,507.40
Subsidy income	130,226.00	—	—	—
Non-operating income	324,781.26	150.00	1,165,500.09	6,900.00
Less: Non-operating expenses	603,334.19	153.00	2,798,141.24	50,000.00
Total profit	88,907,659.68	58,921,360.88	62,138,612.08	31,850,230.38
Less: Income tax	31,884,488.46	—	29,526,915.89	—
Less: Minority interests	4,852,304.42	—	4,243,717.27	—
Add: Investment loss unrecognized	—	—	—	—
Net profit	52,170,866.80	58,921,360.88	28,367,978.92	31,850,230.38

2.3 Number of Shareholders as at 31 March 2005

As at 31 March 2005, there were 46,239 shareholders in total, including 2 shareholders holding the State-owned shares, 46,198 shareholders holding domestic listed RMB-denominated ordinary shares (A shares) and 39 shareholders holding overseas listed ordinary shares (H shares).

As at 31 March 2005, 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	218,240,999	H Shares
HSBC Nominees (Hong Kong) Limited	862,000	H Shares
Shenyin Wanguo-HSBC-Merrill Lynch International	376,638	A Shares
Wong Chung King	308,000	H Shares
Xu Wei Ping	220,000	A Shares
Shenyi Wanguo-Citibank-UBS Limited	217,440	A Shares
Xing He Securities Investment Fund	216,354	A Shares
Shanghi Tongyuan Taiye Investment Management Co., Ltd	213,800	A Shares
Beijing Jiaxin Tiandi Technology Co., Ltd	144,800	A Shares
Lin Zhenjiang	137,100	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.

During the Reporting Period, the Group adopted the following measures: Firstly, we strengthened our front-line sales team for active marketing of our major products and key nurturing products, and in the meantime we put more emphasis on advertisements and focused our advertising resources on driving up the sales volume of our end-user market and increasing the market share for our products. Secondly, we strengthened the basic management of the Group companies by tightening the control over the production cost and operating expenses in a bid to improve the Company's scale of efficiency. At the same time, the Group strengthened the management of accounts receivable in order to reduce operation risks. Thirdly, the Group continued its efforts in the integration of its internal resources and the centralized purchase of traditional Chinese herbs, raw materials, packing materials and imported materials in large bulks. We have taken the advantage of our comprehensive wholesales and retail network to expand the market share for the Group's products. In addition, the Group actively improved the management of its internal funds to reduce the financial cost of the Company. Fourthly, the Group speeded up the progress of reform of Guangzhou Chinese Medicine Corporation ("Chinese Medicine Corporation"), a subsidiary of the Company, by reshuffling its management team and its key personnel responsible for its core business. Furthermore, we optimized its internal resources through standardizing the workflow and putting more efforts on its core business to strive to bring Chinese Medicine Corporation to return to profitability.

The above-mentioned measures have achieved good results. According to the consolidated accounts prepared in accordance with PRC accounting standards and systems, the Group posted a turnover of approximately RMB 2,347,782,000 from January to March 2005, representing an increase of 13.13 % over the same period of the previous year. The total profit was approximately RMB 88,908,000, representing an increase of 43.08 % over the same period of the previous year and net profit amounted to approximately RMB 52,171,000, an increase of 83.91 % compared to that in the same period of the previous year.

The turnover of the the Group's manufacturing operations for the period from January to March 2005 amounted to approximately RMB 570,894,000, representing an increase of 16.61 % over the same period of the previous year. Total profit of the manufacturing operations recorded approximately RMB 74,438,000, representing an increase of 28.54 % over the same period of the previous year and net profit of the manufacturing operations amounted to RMB 44,778,000, with an increase of 45.39% as compared with the corresponding period of the previous year.

From January to March 2005, the sales volume of medicines for cough and phlegm clearing medicine, gastric medicine and heat clearing and antitoxic medicine increased by 10.53 %, 18.92 % and 14.03% respectively as compared with the same period of last year.

From January to March 2005, the Group recorded a turnover of approximately RMB 1,776,888,000 in its trading operations, representing an increase of 12.05 % over the same period of the previous year. Profit before taxation of its trading operations recorded approximately RMB 14,470,000, representing an increase of 242.06 % over the same period of the previous year and net profit of its trading operations amounted to approximately RMB 7,393,000, with an increase of 404.12 % as compared with the same period of the previous year.

As at 31 March 2005, the Group had 161 chain pharmacies in total, including 88 “Cai Zhi Lin” chain pharmacies which specializes in traditional Chinese medicine and 72 “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
	<i>RMB</i>	<i>RMB</i>	<i>(%)</i>
Manufacturing operations	570,893,902.45	267,664,424.98	53.11
Trading operations	1,776,888,270.66	1,673,995,671.14	5.79
Including: connected transactions	37,101,518.46	34,421,080.36	7.22

By products	Sales	Costs of sales	Gross profit margin
	<i>RMB</i>	<i>RMB</i>	<i>(%)</i>
Heat clearing and Anti-toxic	138,839,572.93	71,386,119.47	48.58
Diabetes curing	103,774,263.71	36,687,176.91	64.65
Cough and phlegm clearing	82,177,411.13	34,391,502.96	58.15
Arthritis curing	60,841,426.78	21,828,779.59	64.12
Gastric	33,361,072.48	18,795,012.43	43.66
Other products	151,900,155.42	84,575,833.62	44.32
Including: connected transactions	1,153,470.08	784,162.10	32.02

3.1.2 Seasonal and periodical characteristics of the Company'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 2nd and 3rd quarters of the year, while cough and phlegm clearing medicine have higher demand in the fall and winter of the year.

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

Applicable Not applicable

Items	The Reporting Period (1 January - 31 March 2005)		The previous reporting period (1 January - 31 March 2004)		Change (%)
	Amount RMB	Percentage of	Amount RMB	Percentage of	
		total profit (%)		total profit (%)	
Profit from principal operations	398,414,798.66	448.12	1,372,489,094.96	818.70	(45.26)
Profit from other operations	11,337,940.15	12.75	39,007,734.82	23.27	(45.19)
Expenses	319,941,681.31	359.86	1,228,075,772.50	732.56	(50.88)
Investment income	(755,070.90)	(0.85)	(4,735,840.64)	(2.82)	69.94
Subsidy income	130,226.00	0.15	588,921.00	0.35	(58.30)
Net non-operating results	(278,552.93)	(0.31)	(11,631,766.66)	(6.94)	95.48
Total profit	88,907,659.68	100.00	167,642,370.98	100.00	—

Note:

During the reporting the period, the reasons for the material changes in various constituents of profit as a percentage to total profit as compared with that of the previous reporting period are: on the basis of prudent principle, Guangzhou Chinese Medicine Corporation, the subsidiary of the Company, made substantial provision for the price decline of its inventory, together with the impact of other factors, leading to the rise of costs in the period as well as the increase in non-operating expenses, which resulted in the significant fall in profit.

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

The amount of sale connected transactions and purchase connected transactions between the Group and GPLH as well as its associates for 2005 are estimated to be approximately RMB482 million and approximately RMB270 million.

Details of the sale and purchase connected transactions between the Group and GPLH as well as its associates during the Reporting Period are set out as follows:

Connected transactions		Related parties	Pricing policy	Amount for the period between 1 January to 31 March 2005	% of the same type transactions
1. Purchases	Pharmaceutical products, bulk pharmaceutical raw materials, medical equipment and pharmaceutical packaging materials	GPLH and its associates	Normal commercial terms	78,284,056.54	3.90%
2. Sales	Pharmaceutical products, bulk pharmaceutical raw materials, medical apparatus and pharmaceutical packaging materials	GPLH and its associates	Normal commercial terms	37,101,518.46	1.58%
Total				115,385,575.00	

During the Reporting Period, the amounts of connected transactions between the Group and GPLH as well as its associates had no significant difference from the estimated annual amounts for 2005.

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

Applicable Not applicable

During the Reporting Period, Golden Force Pharmacy Limited in Hong Kong has, pursuant to the Subscription Agreement entered into, injected RMB168,880,000 into the Company's subsidiary, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd, and acquired 48.0465% equity interest of

Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd as enlarged by the subscription. Upon the completion of the subscription, the Company's shareholding in equity of the said company decreased from 92.48% to 48.0465%. Therefore, the said company was consolidated into the accounts for the Reporting Period on the basis of the new shareholding percentage the Company holds therein.

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

During the Reporting Period, the Group accelerated its development in business. Its turnover increased 13.13% as compared with the same period of 2004, and its net profit recorded a significant increase of 83.91% as compared with the same period of 2004. It is expected that the net profit for the first half of 2005 will increase by 50% or above as compared with the same period of 2004.

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

Applicable Not applicable

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>

For and on behalf of the Board
Yang Yongming
Chairman

Guangzhou, the PRC, 27 April 2005

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. 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.

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