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2005 THIRD QUARTERLY REPORT

1. IMPORTANT NOTICE

- 1.1 The Board of Directors (the “Board”) of Guangzhou Pharmaceutical Company Limited (“GPC” 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 15th Meeting of the Third Session of the Board held on 27 October 2005 (the “Board Meeting”). Mr. Xie Bin, Director & General Manager of the Company, was unable to attend the Board Meeting because of a business trip and had appointed Mr. Zhou Yuejin, the Vice Chairman, to exercise the voting right on his behalf.
- 1.3 The Company’s financial report for the third quarter of 2005 (the “Reporting Period”) were prepared in accordance with PRC accounting standards and systems and were unaudited.
- 1.4 Mr. Yang Rongming, 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 report contained in this quarterly report.
- 1.5 This third 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 Code	600332 (A shares)	
Stock Abbreviation	GZ Phar.	
Stock Code	0874 (H Shares)	
	Company secretary	Representative of securities affairs
Name	Mr. He Shuhua	Ms. Huang Xuezheng
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2.2 Financial information

2.2.1 Principal financial data and indicators

	As at 30 September 2005 (RMB) (Unaudited)	As at 31 December 2004 (RMB) (Audited)	Changes as compared with 31 December 2004 (%)
Total assets	5,376,625,825.57	5,182,878,025.71	3.74
Shareholders' equity (excluding minority interests)	2,588,149,951.26	2,440,229,705.11	6.06
Net assets per share	3.19	3.01	6.06
Adjusted net assets per share	3.15	2.96	6.42

	1 July 2005 to 30 September 2005 <i>(Unaudited)</i>	1 January 2005 to 30 September 2005 <i>(Unaudited)</i>	Change as compared with the same period of 2004
Net cash flows generated			
from operating activities (RMB)	13,631,731.80	127,280,004.65	-86.75%
Earnings per share (RMB)	0.05	0.18	400%
Return on net assets (%)	1.60	5.67	An increase of 1.23 percentage points
Return on net assets after deducting non-operating items (%)	1.59	5.91	An increase of 1.13 percentage points
Non-operating items			Amount
(1 January 2005 to 30 September 2005)			(RMB)
Losses on disposal of fixed assets			-517,768.31
Government grants and subsidies			331,147.50
Losses from short-term investments			-6,111,000.00
Non-operating income/expenses after deducting assets impairment			-1,520,889.14
Reversal of provisions for impairments made in the previous years			1,010,579.04
Income tax effect			-168,803.97
Minority interests			-229,247.76
Total			-6,409,879.18

2.2.2 Income statement (unaudited)

Items	1 July 2005 to		1 July 2004 to	
	30 September 2005		30 September 2004	
	The Group	The Company	The Group	The Company
	(RMB)	(RMB)	(RMB)	(RMB)
1. Sales	2,302,276,183.18	—	1,984,829,293.22	—
Less: Costs of sales	1,925,942,188.32	—	1,654,334,501.25	—
Taxes and levies	5,853,563.10	—	5,141,394.43	—
2. Profit from principal operations				
(loss was inserted with “-” sign)	370,480,431.76	—	325,353,397.54	—
Add: Profit from other operations	12,682,426.32	1,525,043.24	9,749,935.73	2,381,495.93
Less: Operating expenses	146,808,108.99	—	131,787,936.36	—
General and administrative expenses	155,334,174.71	4,612,193.69	159,868,854.21	6,998,154.58
Finance costs	9,738,917.04	-92,551.70	9,812,240.45	-647,888.55
3. Operating profit				
(loss was inserted with “-” sign)	71,281,657.34	-2,994,598.75	33,634,302.25	-3,968,770.10
Add: Investment income	-857,752.87	53,972,754.28	-459,294.94	18,213,532.94
Subsidy income	141,626.50	—	511,142.00	—
Non-operating income	995,752.54	—	2,458,002.89	3,907.00
Less: Non-operating expenses	624,467.93	10,234.07	3,922,359.29	75,863.15
4. Total profit				
(loss was inserted with “-” sign)	70,936,815.58	50,967,921.46	32,221,792.91	14,172,806.69
Less: Income tax	25,027,813.83	—	21,079,012.98	—
Less: Minority interests	2,826,829.62	—	1,917,172.04	—
Add: Investment loss unrecognized	—	—	—	—
5. Net profit				
(loss was inserted with “-” sign)	43,082,172.13	50,967,921.46	9,225,607.89	14,172,806.69

Items	1 January 2005 to 30 September 2005		1 January 2004 to 30 September 2004	
	The Group (RMB)	The Company (RMB)	The Group (RMB)	The Company (RMB)
1. Sales	6,898,448,194.45	—	5,975,523,425.34	—
Less: Costs of sales	5,707,054,422.28	—	4,926,600,628.94	—
Taxes and levies	19,454,742.70	—	18,835,693.94	—
2. Profit from principal operations				
(loss was inserted with “-” sign)	1,171,939,029.47	—	1,030,087,102.46	—
Add: Profit from other operations	33,724,013.87	5,899,311.65	28,138,088.01	4,176,351.95
Less: Operating expenses	448,246,702.11	—	410,446,927.21	—
General and administrative expenses	474,671,778.85	17,777,123.05	490,316,472.11	15,332,950.01
Finance costs	34,561,524.23	-958,045.32	27,497,221.22	-1,432,176.61
3. Operating profit				
(loss was inserted with “-” sign)	248,183,038.15	-10,919,766.08	129,964,569.93	-9,724,421.45
Add: Investment income	-4,833,797.24	176,693,040.77	-1,236,735.44	58,578,524.96
Subsidy income	331,147.50	—	511,142.00	—
Non-operating income	1,643,909.07	3,150.02	6,746,074.21	10,807.00
Less: Non-operating expenses	3,682,566.52	10,487.07	12,709,799.24	172,331.72
4. Total profit				
(loss was inserted with “-” sign)	241,641,730.96	165,765,937.64	123,275,251.46	48,692,578.79
Less: Income tax	85,032,384.75	—	74,017,656.67	—
Less: Minority interests	9,936,734.85	—	8,223,342.19	—
Less: Investment loss unrecognized	—	—	—	—
5. Net profit				
(loss was inserted with “-” sign)	146,672,611.36	165,765,937.64	41,034,252.60	48,692,578.79

2.3 Number of shareholders and the top ten shareholders holding listed shares of the Company as at 30 September 2005 (for non-G Share Companies)

As at 30 September 2005, there were 40,195 shareholders in total, including 2 shareholder holding the state-owned shares, 40,157 shareholders holding domestic listed RMB-denominated ordinary shares (A shares) and 36 shareholders holding overseas listed ordinary shares (H shares).

As at 30 September 2005, the top ten shareholders holding the listed shares of the Company are set out below:

Shareholders (in full)	No. of listed shares held as at the end of the Reporting Period	Nature of shares (A\B\H share or other shares)
HKSCC Nominees Limited	218,262,999	H Shares
Yu Long Securities Investment Fund	2,420,842	A Shares
Shenyin Wanguo-Citi Group-UBS Limited	1,795,469	A Shares
China Merchants Securities- Standchart-ING Bank N.V.	1,662,332	A Shares
Guotai Junan-CCB-The Hongkong and Shanghai Banking Corporation Limited	1,395,037	A Shares
Shenyi Wanguo-HSBC-Merrill Lynch International	1,369,339	A Shares
China Everbright Bank Co., Ltd-Taixin Strategic Open Securities Investment	868,739	A Shares
HSBC Nominees (Hong Kong) Limited	866,000	H Shares
The State Social Insurance Fund Portfolio 109	811,203	A Shares
Jiu Jia Securities Investment Fund	550,000	A Shares

Note: 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 has, firstly, endeavoured to further strengthen the promotion and marketing in its major products and key products, continued its efforts on integration of brand-names, sales network and resources for sales fleet, increased its efforts on advertisement and promotion of its products, actively developed the market outside Guangdong Province and the end market of key hospitals, retail drugstores, communities and countryside so as to increase the market share of its products. Secondly, it has worked aggressively to speed up the progress of internal resources integration and amalgamation. The Group has strived for the best on the uniform procurement of traditional Chinese medicine, raw materials in bulk, packing materials, imported materials and advertisements, enhanced the cooperation between the Company's manufacturing enterprises and trading enterprises and took full advantage of the wholesale and retail network of trading business with a view of expanding the Group's market share. Thirdly, it has strengthened supervision on and management of the business operations of its subordinate enterprises. The Company voluntarily participated in the decision-making process regarding significant business policies of its subordinate enterprises, strengthened and standardized the capital management of its subordinate enterprises, carried out regularly the analysis on the operation conditions of its subordinated enterprises and adjusted its marketing strategies according to the market changes on a timely basis, thus enhancing the quality of operations and economies of scale of these subordinate enterprises.

The implementation of the above-mentioned measures has achieved good results. According to the consolidated accounts prepared in accordance with PRC accounting standards and systems, turnover of the Group for the period from January to September 2005 was approximately RMB6,898,448,000, representing an increase of 15.45% over that of the same period of last year. Total profit was approximately RMB241,642,000, representing an increase of 96.02% over that of the same period of last year. Net profit was approximately RMB146,673,000, representing an increase of 257.44% over that of the same period of last year.

The turnover of the Group's manufacturing operations for the period from January to September 2005 amounted to approximately RMB1,652,993,000, representing an increase of 15.24 % over the same period of the previous year. Total profit of the manufacturing operations was approximately RMB182,908,000, representing an increase of 35.22 % over the same period of the previous year and net profit of the manufacturing operations amounted to RMB 106,993,000, with an increase of 55.99% as compared with the corresponding period of the previous year.

From January to September 2005, the sales volume of cough and phlegm clearing medicine, diabetes medicine and gastric medicine increased by 42.02 %, 22.10 % and 10.38% respectively as compared with the same period of last year.

From January to September 2005, turnover of the Group's trading operations was approximately RMB 5,245,455,000, representing an increase of 15.51 % over the same period of last year. Total profit of its trading operations was approximately RMB 58,734,000, while loss before tax of its trading operations for the same period of 2004 was approximately RMB11,992,000. Net profit of its trading operations amounted to approximately RMB 39,680,000, while it recorded a loss of approximately RMB27,557,000 in its trading operations for the same period of 2004.

As at 30 September 2005, the Group had 161 chain pharmacies in total, including 88 “Cai Zhi Lin” chain pharmacies which specialize in traditional Chinese medicine, 72 “Jian Min” chain pharmacies which specialize in western medicine and 1 Yingbang Pharmacy.

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	1,652,993,586.27	784,769,761.41	52.52
Trading operations	5,245,454,608.18	4,922,284,660.87	6.16
Including: connected transactions	153,768,600.83	143,380,078.44	6.76

By products	Sales	Costs of sales	Gross margin ratio
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(%)</i>
Heat clearing and Anti-toxic	421,176,058.01	217,935,376.26	48.26
Diabetes curing	324,043,174.66	109,193,533.12	66.30
Cough and phlegm clearing	191,591,928.95	82,815,533.97	56.78
Arthritis curing	161,652,998.45	59,846,227.61	62.98
Gastric	80,843,877.07	43,968,172.11	45.61
Other products	473,685,549.13	271,010,918.34	42.79
Including: connected transactions	3,102,172.65	2,189,996.91	29.40

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		The previous reporting period		Change (%)
	Amount (RMB)	Percentage of total profit	Amount (RMB)	Percentage of total profit	
		(%)		(%)	
Profit from principal operations	370,480,431.76	522.27	801,458,597.71	469.50	11.24
Profit from other operations	12,682,426.32	17.88	21,041,587.55	12.33	45.04
Expenses	311,881,200.74	439.66	645,598,804.45	378.20	16.25
Investment income	-857,752.87	-1.21	-3,976,044.37	-2.33	48.09
Subsidy income	141,626.50	0.20	189,521.00	0.11	79.83
Net non-operating results	371,284.61	0.52	-2,409,942.06	-1.41	137.07
Total profit	70,936,815.58	100.00	170,704,915.38	100.00	—

During the Reporting Period, the significant change in the proportion of profit from other operations out of total profit as compared with the previous reporting period was mainly due to the increase in rents received for the Reporting Period.

3.1.4 Explanation on significant changes in principal activities and their compositions as compared with the previous reporting period

Applicable Not applicable

3.1.5 Explanation on significant changes in profit from principal operations (gross margin ratio) as compared with that of the previous reporting period

Applicable Not applicable

3.2 Explanation and analysis on major events and their impact and solutions

Applicable Not applicable

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

Applicable Not applicable

In March 2005, Golden Force Pharmacy Co., Ltd from Hong Kong has, pursuant to the Subscription Agreement, completed its capital injection of RMB168,880,000 into Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd (“Wang Lao Ji”) and acquired a 48.0465% equity interest of Wang Lao Ji. Such capital injection has diluted the Company’s interest in Wang Lao Ji from 92.48% to 48.0465%. Therefore, Wang Lao Ji has changed from a subsidiary to a jointly controlled entity. When preparing the consolidated financial statements, consolidation by proportion instead of full consolidation has been adopted for Wang Lao Ji with effect from April 2005.

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 2004

Applicable Not applicable

According to the relevant regulations of the Shanghai Stock Exchange, the Company discloses the following:

Profit forecast It is expected that the net profit of the Group for 2005 will increase by 100% or above as compared with 2004.

Explanation on profit forecast During the period from January to September 2005, the Group accelerated its development in business. Its profit from principal operations increased by 96.02% as compared with 2004, and its net profit recorded a significant increase of 257.44% as compared with 2004. It is expected that the net profit of the Group for 2005 will increase by 100% or above as compared with the year of 2004.

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

Applicable Not applicable

3.7 Performance of special commitments of the shareholders holding unlisted shares of the Company made for the purpose of state-owned shares reform

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 Rongming

Chairman

Guangzhou, the PRC, 27 October 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. Xie Bin and Mr. Feng Zansheng as Executive Directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as Independent Non-executive Directors.

Announcement of Improvement in Results Forecast for 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 operating results of the Company and its subsidiaries (the “Group”) for the period from January to September 2005 increased significantly. The Company expected that the net profit of the Group for 2005 will increase by 100% or above as compared with 2004.

This announcement is made in accordance with Rule 13.09(02) 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, the PRC, 27 October 2005

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Zhou Yuejin, Mr. Xie Bin and Mr. Feng Zansheng as Executive Directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as Independent Non-executive Directors.

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