

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

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

(H Share Stock Code: 0874)

2006 FIRST QUARTERLY REPORT

1. IMPORTANT NOTICE

- 1.1 The Board of Directors (the “Board”), the Supervisory Committee (the “Supervisory Committee”) of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) and its Directors, Supervisors and Senior Management collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this quarterly report and confirm that there are no false information, misleading statements or material omission in this quarterly report.
- 1.2 All Directors of the Board were present at the 22nd meeting of the third session of the Board (the “Board Meeting”).
- 1.3 The Company’s financial reports for the first quarter of 2006 (the “Reporting Period”) contained in this quarterly report 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, and Mr. Chen Binghua, the Financial Controller and 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 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 | G Guanyao | Stock Abbreviation | GZ Phar. 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 |
| Address | 45 Sha Mian North Street Guangzhou City Guangdong Province, PRC | | 45 Sha Mian North Street Guangzhou City Guangdong Province, PRC |
| Telephone | (8620)8121 8119 | | (8620)8121 8086 |
| Facsimile | (8620)8121 6408 | | (8620)8121 6408 |
| E-mail | hesh@gpc.com.cn | | huangxz@gpc.com.cn |

2.2 Financial Information

2.2.1 Principal financial data and indicators

| | As at 31 March 2006 <i>(unaudited)</i> | As at 31 December 2005 <i>(audited)</i> | Changes as compared with 31 December 2005 (%) |
|--|---|--|---|
| Total assets (RMB'000) | 5,449,943.40 | 5,098,094.54 | 6.90 |
| Shareholders' funds (excluding minority interests) (RMB'000) | 2,681,548.61 | 2,621,436.75 | 2.29 |
| Net assets per share (RMB) | 3.31 | 3.23 | 2.29 |
| Adjusted net assets per share (RMB) | 3.26 | 3.17 | 2.84 |
| | 1 January 2006 - 31 March 2006 <i>(unaudited)</i> | 1 January - 31 March 2006 <i>(audited)</i> | Change as compared with the same period of 2005 (%) |
| Net cash flows generated from operating activities (RMB'000) | (37,202.41) | (37,202.41) | (144.45) |
| Earnings per share (RMB) | 0.074 | 0.074 | 15.05 |
| Return on net assets (%) | 2.24 | 2.24 | An increase of 0.16 percentage point |
| Return on net assets after deducting non-operating items (%) | 2.28 | 2.28 | An increase of 0.20 percentage point |

| Non-operating items (1 January 2006 - 31 March 2006) | Amount (RMB) |
|---|-------------------------------|
| Losses on disposal of fixed assets | (99,350.32) |
| Government grants and subsidies | 259,644.02 |
| Losses from entrusted investments | (265,247.62) |
| Non-operating income/expenses after deducting assets impairment | (2,096,820.89) |
| Reversal of provisions for impairments made in the previous years | 1,048,000.00 |
| Income tax effect | 96,723.40 |
| Minority interests | 102,014.97 |
| Total | 1,159,066.38 |

2.2.2 Income statement (unaudited)

| Items | <i>Unit: RMB</i> | | | |
|--|-----------------------------------|----------------|-----------------------------------|---------------|
| | 1 January 2006 - 31 March 2006 | | 1 January 2005 - 31 March 2005 | |
| | The Group | The Company | The Group | The Company |
| 1. Sales | 2,617,702,387.61 | 76,546,957.75 | 2,347,782,173.11 | — |
| Less: Costs of sales | 2,165,076,752.85 | 73,727,778.89 | 1,941,660,096.12 | — |
| Taxes and levies | 7,868,495.92 | 117,438.05 | 7,707,278.32 | — |
| 2. Profit from principal operations | 444,757,138.84 | 2,701,740.81 | 398,414,798.67 | — |
| Add: Profit from other operations | 12,722,722.34 | 2,014,350.33 | 11,337,940.15 | 2,907,826.43 |
| Less: Operating expenses | 189,459,397.33 | 1,369,993.24 | 145,936,366.38 | — |
| General and administrative expenses | 159,250,993.56 | 7,364,720.36 | 161,212,044.27 | 3,826,188.02 |
| Finance costs | 12,080,231.74 | (249,152.73) | 12,793,270.66 | (687,754.50) |
| 3. Operating profit | 96,689,238.55 | (3,769,469.73) | 89,811,057.51 | (230,607.09) |
| Add: Investment income | 4,508,988.08 | 78,430,716.24 | (755,070.90) | 59,151,970.97 |
| Subsidy income | 259,644.02 | — | 130,226.00 | — |
| Non-operating income | 393,095.26 | 8,786.80 | 324,781.26 | 150.00 |
| Less: Non-operating expenses | 2,589,266.47 | — | 603,334.19 | 153.00 |

| | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|
| 4. Total profit | 99,261,699.44 | 74,670,033.31 | 88,907,659.68 | 58,921,360.88 |
| Less: Income tax | 33,581,146.92 | — | 31,884,488.46 | — |
| Less: Minority interests | 5,656,538.66 | — | 4,852,304.42 | — |
| Add: Investment loss unrecognized | — | — | — | — |
| 5. Net profit | 60,024,013.86 | 74,670,033.31 | 52,170,866.80 | 58,921,360.88 |

2.3 Number of Shareholders and the Top Ten Shareholders holding Listed Shares of the Company as at 31 March 2006 (with the Share Reform Plan uncompleted)

As at 31 March 2006, there were 39,396 shareholders in total, including 2 shareholders holding the state-owned shares, 39,362 shareholders holding the domestic listed Renminbi-denominated ordinary shares (A shares) and 32 shareholders holding the overseas listed ordinary shares (H shares).

As at 31 March 2006, the top ten shareholders holding the listed shares of the Company are set out below:

| Shareholders | No. of listed shares held as at the end of the Reporting Period | <i>Unit: Share</i> |
|---|---|---|
| | | Nature of shares (A/B/H shares or other shares) |
| HKSCC Nominees Limited | 218,240,999 | H shares |
| Shenyin Wanguo-Citi Group-UBS Limited | 1,836,200 | A shares |
| China Everbright Bank Co., Ltd-Taixin Strategic Open Securities Investment Fund | 1,677,560 | A shares |
| China Merchants Securities - Standchart-ING Bank N.V. | 1,662,332 | A shares |

| | | |
|---|-----------|----------|
| Guotai Junan-CCB - The Hong Kong and Shanghai Banking Corporation Limited | 1,395,037 | A shares |
| Shenyi Wanguo-HSBC - Merrill Lynch International | 1,369,339 | A shares |
| The State Social Insurance Fund Portfolio 109 | 1,143,314 | A shares |
| HSBC Nominees (Hong Kong) Limited | 862,000 | H shares |
| The State Social Insurance Fund Portfolio 601 | 567,600 | A shares |
| Xinhua Life Insurance Co., Ltd - Dividend - Group Dividend - 018L - FH001 Shanghai | 547,130 | 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 taken the following measures: (i) it continued to improve the promotion and marketing in its major products such as Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xia Sang Ju, the series of Wang Lao Ji Liang Cha and the series of Pan Gao Shou cough and phlegm clearing, increased its efforts on advertisement and promotion of its products, increasingly built up professional reputation as well as improved the consolidation and integral influence of GPC in the markets; (ii) it aggressively expanded distribution networks and further developed the markets in rural and out of the province, expedited the construction of networks of end -markets by aggressively expanding the distribution networks outside the province and exploring end-markets such as key hospitals, retail pharmacies, communities and rural areas in the market. (iii) it facilitated the process of resource integration and uniformity operation within the Group by focusing on a centralized purchasing of traditional Chinese medicine, raw materials in large bulks, packaging material for import and advertisement and strengthening the business cooperation between the industrial and commercial businesses within the Group and enlarging the market share of the Group's products by leveraging on the advantages of wholesale and retail networks of the Group's trading operations; and (iv) it actively sought and developed featured products with promising market prospect, and tried to expand sales of branded products in the market and sales of its trading operations.

According to the accounts prepared in accordance with PRC accounting standards and systems, turnover of the Group for the period from January to March 2006 was approximately RMB2,617,702,000, representing an increase of 11.50% over that of the same period of 2005. Total profit was approximately RMB99,262,000, representing an increase of 11.65% over that of the same period of last year. Net profit was approximately RMB60,024,000, representing an increase of 15.05% over that of the same period of last year.

The turnover of the Group's manufacturing operations for the period from January to March 2006 amounted to approximately RMB621,272,000, representing an increase of 8.82% over the same period of the previous year. Total profit of the manufacturing operations was approximately RMB77,378,000, representing an increase of 3.95% over the same period of the previous year and net profit of the manufacturing operations amounted to RMB46,148,000, with an increase of 3.06% as compared with the corresponding period of the previous year.

From January to March 2006, sales of cough and phlegm clearing medicine, diabetes curing medicine, heat clearing medicine and arthritis curing medicine for the manufacturing operations increased respectively by 11.61%, 7.27%, 2.86% and 14.96% as compared with the corresponding period of the previous year.

From January to March 2006, turnover of the Group's trading operations was approximately RMB1,996,430,000, representing an increase of 12.36% over the same period of the previous year. Total profit of its trading operations was approximately RMB21,884,000, representing an increase of 51.24% over the same period of the previous year and net profit of its trading operations amounted to approximately RMB13,876,000, with an increase of 87.70% as compared with the same period of last year.

As at 31 March 2006, the Group had 152 chain pharmacies, including 84 "Cai Zhi Lin" chain pharmacies which specialize in traditional Chinese medicine, 67 "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

Unit: RMB

| By segment | Sales | Costs of sales | Gross profit margin ratio (%) |
|-----------------------------------|------------------|-----------------------|--------------------------------------|
| Manufacturing operations | 621,272,091.40 | 287,969,833.10 | 53.65 |
| Trading operations | 1,996,430,296.21 | 1,877,106,919.75 | 5.98 |
| Including: connected transactions | 73,935,192.90 | 69,093,841.42 | 6.55 |

| By products | Sales | Costs of sales | Gross profit margin ratio (%) |
|-----------------------------------|----------------|-----------------------|--------------------------------------|
| Heat clearing and Anti-toxic | 142,804,296.30 | 74,175,652.08 | 48.06 |
| Diabetes curing | 111,315,376.65 | 36,767,133.67 | 66.97 |
| Cough and phlegm clearing | 91,721,681.84 | 38,291,007.93 | 58.25 |
| Arthritis curing | 69,944,252.32 | 28,246,005.75 | 59.62 |
| Gastric | 23,226,052.39 | 12,700,636.12 | 45.32 |
| Other products | 182,260,431.90 | 97,789,397.55 | 46.35 |
| Including: connected transactions | 1,603,571.28 | 1,113,577.58 | 30.56 |

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 | 444,757,138.84 | 448.07 | 1,528,752,190.52 | 498.39 | (10.10) |
| Profit from other operations | 12,722,722.34 | 12.82 | 43,301,531.41 | 14.12 | (9.21) |
| Expenses | 360,790,622.63 | 363.47 | 1,263,739,999.64 | 411.99 | (11.78) |
| Investment income | 4,508,988.08 | 4.54 | (8,063,080.65) | (2.63) | 272.62 |
| Subsidy income | 259,644.02 | 0.26 | 720,456.65 | 0.23 | 13.04 |
| Net non-operating results | (2,196,171.21) | (2.21) | 5,769,686.17 | 1.88 | (217.55) |
| Total profit | 99,261,699.44 | 100.00 | 306,740,784.46 | 100.00 | — |

During the Reporting Period, the great change in the proportion of investment income out of the total profit as compared with the same period of 2005 is mainly due to the investment income amounting to RMB4,486,000 from Nanfang Packaging Co., Ltd and reversal of impairment of short-term investment for 2005 because of the rising market value, which amounted to RMB1,048,000, while investment loss for the previous reporting period amounted to RMB8,063,000, due to the provision on impairment of short-term investment amounting to RMB7,126,000 for the previous Reporting Period.

During the Reporting Period, the great change in the proportion of the net non-operating results out of total profit is mainly due to the reversal of impairment on fixed assets amounting to RMB7,110,000 as a result of the rising value of the Group's property located in Hong Kong in 2005.

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

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

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 April 2006

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 (resigned on 27 April 2006), 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.