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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)

(H Share Stock Code: 0874)

2006 THIRD QUARTERLY REPORT

1. IMPORTANT NOTICE

- 1.1 The Board of Directors (the “Board”) of Guangzhou Pharmaceutical Company Limited (the “Company”) and its Directors collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and confirm that there are no false information, misleading statements or material omission in the report.
- 1.2 Mr. Chen Zhinong, the Director, was unable to attend the 26th Meeting of the Third Session of the Board held on 26 October 2006 due to business, and has appointed Mr. Yang Rongming to attend and vote on his behalf at the meeting. The other five Directors attended the board meeting, among whom Messrs Wong Hin Wing and Zhang Heyong, Independent Non-executive Directors, attended the meeting by means of telephone communication.
- 1.3 The Company’s financial reports for the third quarter of 2006 (the “Reporting Period”) were prepared in accordance with PRC accounting standards and systems and were unaudited.
- 1.4 Mr. Yang Rongming, the Chairman, Mr. Shi Shao Bin, the 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.

1.6 This quarterly report is published in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.

2. COMPANY PROFILE

2.1 Corporate information

Stock Abbreviation	GZ Phar.	Stock abbreviation before change (if any)	G Guanyao.
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
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2.2 Financial information

2.2.1 Principal financial data and indicators

Items	As at 30 September 2006 <i>(unaudited)</i>	As at 31 December 2005 <i>(audited)</i>	Changes as compared with 31 December 2005 <i>(%)</i>
Total assets (RMB'000)	5,656,340	5,098,095	10.95
Shareholders' equity (excluding minority interests) (RMB'000)	2,734,084	2,621,437	4.30
Net assets per share (RMB)	3.37	3.23	4.30
Adjusted net assets per share (RMB)	3.33	3.17	5.05

	The Reporting Period (unaudited)	1 January- 30 September 2006 (unaudited)	Change of the Reporting Period as compared with the same period of 2005 (%)
Net cash flows generated from			
operating activities (RMB'000) (<i>Note</i>)	(54,424)	4,579	(499.25)
Earnings per share (RMB)	0.060	0.208	13.53
Return on net assets (%)	1.79	6.18	An increase of 0.12 percentage point
Return on net assets after deducting non-operating items (%)	1.91	6.12	An increase of 0.25 percentage point

Note: Bank acceptances receivable as at 30 September 2006 increased by RMB131,004,000 as compared with that of 1 January 2006, which was not included in net cash flows generated from operating activities for the period from 1 January to 30 September 2006. Having taken the effect of the increase in bank acceptances receivable mentioned above, net cash flows generated from operating activities for the period from 1 January to 30 September 2006 amounted to RMB135,583,000.

Non-operating items (1 January ~ 30 September 2006)	Amount (RMB'000)
Losses/gains on disposal of long term investment in equity, fixed assets, construction under progress, intangible assets and other long term assets	(1,579)
Government grants and subsidies	522
Losses/gains from short-term investments	4,977
Losses/gains from entrusted investments	(852)
Other non-operating income and expenses after deducting provision for impairment of assets	(2,727)
Reversal of provisions for impairments made in the previous years	1,560
Income tax effect	(1,093)
Minority interests	73
Total	881

2.2.2 Income statement (unaudited)

Items	The Reporting Period		The corresponding period of 2005	
	The Group (RMB)	The Company (RMB)	The Group (RMB)	The Company (RMB)
1. Sales	2,634,299,662.52	81,469,441.80	2,302,276,183.18	—
Less: Costs of sales	2,191,730,204.81	77,941,743.85	1,925,942,188.32	—
Less: Taxes and levies	6,436,920.50	—	5,853,563.10	—
2. Profit from principal operations	436,132,537.21	3,527,697.95	370,480,431.76	—
Add: Profit from other operations	8,526,552.23	3,745,633.42	12,682,426.32	1,525,043.24
Less: Operating expenses	185,901,994.83	2,376,580.51	146,808,108.99	—
Less: General and administrative expenses	171,455,742.00	7,328,999.47	155,334,174.71	4,612,193.69
Less: Finance costs	9,959,520.80	(201,781.95)	9,738,917.04	(92,551.70)
3. Operating profit	77,341,831.81	(2,230,466.66)	71,281,657.34	(2,994,598.75)
Add: Investment income	(337,606.65)	50,137,584.95	(857,752.87)	53,972,754.28
Add: Subsidy income	124,711.02	—	141,626.50	—
Add: Non-operating income	310,509.66	—	995,752.54	—
Less: Non-operating expenses	3,157,589.49	4,171.65	624,467.93	10,234.07
4. Total profit	74,281,856.35	47,902,946.64	70,936,815.58	50,961,621.46
Less: Income tax	23,914,877.54	—	25,027,813.83	—
Less: Minority interests	1,454,515.56	—	2,826,829.62	—
Add: Investment loss unrecognized	—	—	—	—
5. Net profit	48,912,463.25	47,902,946.64	43,082,172.13	50,961,621.46

Items	1 January ~ 30 September 2006		1 January ~ 30 September 2005	
	The Group	The Company	The Group	The Company
	(RMB)	(RMB)	(RMB)	(RMB)
1. Sales	7,828,292,004.96	233,324,149.27	6,898,448,194.45	—
Less: Costs of sales	6,466,952,942.87	223,401,276.34	5,707,054,422.28	—
Less: Taxes and levies	21,113,867.45	320,618.24	19,454,742.70	—
2. Profit from principal operations	1,340,225,194.64	9,602,254.69	1,171,939,029.47	—
Add: Profit from other operations	32,851,009.98	12,602,407.82	33,724,013.87	5,899,311.65
Less: Operating expenses	590,528,539.20	5,363,165.85	448,246,702.11	—
Less: General and administrative expenses	488,496,574.23	20,999,943.03	474,671,778.85	17,777,123.05
Less: Finance costs	31,754,329.66	(293,709.23)	34,561,524.23	(958,045.32)
3. Operating profit	262,296,761.53	(3,864,737.14)	248,183,038.15	(10,919,766.08)
Add: Investment income	6,848,586.06	206,678,622.90	(4,833,797.24)	176,693,040.77
Add: Subsidy income	521,652.06	—	331,147.50	—
Add: Non-operating income	3,235,485.53	9,870.43	1,643,909.07	3,150.02
Less: Non-operating expenses	6,812,305.66	21,635.50	3,682,566.52	10,487.07
4. Total profit	266,090,179.52	202,802,120.69	241,641,730.96	165,759,637.64
Less: Income tax	87,349,727.02	—	85,032,384.75	—
Less: Minority interests	9,779,363.59	—	9,936,734.85	—
Add: Investment loss unrecognized	—	—	—	—
5. Net profit	168,961,088.91	202,802,120.69	146,672,611.36	165,759,637.64

2.3 Number of shareholders and the top ten shareholders holding listed shares of the Company as at 30 September 2006 (with the Share Reform Plan completed)

As at 30 September 2006, there were 33,292 shareholders in total, including 2 shareholders holding the state-owned shares, 33,261 shareholders holding domestic listed Renminbi-denominated ordinary shares (A shares) and 29 shareholders holding overseas listed ordinary shares (H shares).

As at 30 September 2006, the top ten shareholders holding the Company's shares not subject to selling restrictions are set out below:

Shareholders	Number of listed shares held as at the end of the Reporting Period	Nature of shares (A/B/H shares or other shares)
HKSCC Nominees Limited	218,692,299	H Shares
ICBC-Kai Yuan Securities Investment Fund	4,893,473	A Shares
Western Securities Co., Ltd.	3,669,124	A Shares
National Social Security Fund 109 Group	1,034,508	A Shares
ICBC-Long Yuan Securities Investment Fund	1,009,333	A Shares
China Everbright Bank Co., Ltd.		
-Taixin Strategic Open Securities Investment Fund	900,000	A Shares
HSBC Nominees (Hong Kong) Limited	866,000	H Shares
ICBC-Southern Active Allocation Securities Investment Fund	744,539	A Shares
Lin Yan Ming	704,980	A Shares
Xu Shao Chong	702,521	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 during the Reporting Period

During the Reporting Period, the Company and its subsidiaries (collectively the "Group") have taken the following measures: (i) actively promoted the integration of internal resources and continued to strengthen the supervision and controls on the operation of its subordinated enterprises, so as to enhance the operational efficiency of its enterprises; (ii) strengthened marketing efforts in end-markets, aggressively expanded distribution channels and end-market network, improved its marketing for major products such as medicine for diabetes, cardio-cerebral, cough and phlegm clearing, heat clearing and anti-toxic medicine and arthritic medicine and exerted full effort in exploring markets for key nurturing products such as Wang Lao Ji herb tea, Xiao Er Qi Xing Cha Ke Li and Ru He San Jie Pian, with a view to increasing market shares of its major products and (iii) in response to the changes in the state policies and the pharmaceutical market, adjustments to operating strategies were made for the Group's trading operations. While endeavoring to increase the sales of its distributed products, the Group actively developed and nurtured normal pharmaceutical products with market potential. In addition, it strengthened network building and endeavored to develop market distribution channels and the end market outside Guangdong Province.

Turnover of the Group for the period from January to September 2006 amounted to approximately RMB7,828,292,000, representing an increase of 13.48% over that of the same period of 2005. Total profit was approximately RMB266,090,000, representing an increase of 10.12% over that of the same period of 2005. Net profit was approximately RMB168,961,000, representing an increase of 15.20% over that of the same period of last year.

The turnover of the Group's manufacturing operations for the period from January to September 2006 amounted to approximately RMB1,890,104,000, representing an increase of 14.34% over the same period of 2005. Total profit of the manufacturing operations was approximately RMB216,362,000, representing an increase of 14.36% over the same period of 2005.

From January to September 2006, sales of heat clearing and anti-toxic medicine, arthritic medicine, cough and phlegm clearing medicine, and diabetes curing medicine for the manufacturing operations increased by 24.57%, 20.61%, 10.62% and 2.34% as compared with the corresponding period of last year, respectively. Sales of certain major products, such as Wang Lao Ji herb tea, Hua Zhi Shuan, Zhui Feng Tou Gu Wan, Mi Lian Chuan Bei Pi Pa Gao, Ru He San Jie Pian and Xia Sang Ju Ke Li have significantly increased by 107.28%, 91.62%, 59.99%, 44.14%, 23.49% and 17.66% respectively as compared with the corresponding period of last year.

From January to September 2006, turnover of the Group's trading operations was approximately RMB5,938,188,000, representing an increase of 13.21% over the same period of 2005 and the total profit was approximately RMB49,728,000, representing a decrease of 5.20% over the same period of 2005 .

As at 30 September 2006, the Group had 147 chain pharmacies, including 82 "Cai Zhi Lin" chain pharmacies which specialize in traditional Chinese medicine, 64 "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 (For the period from 1 January to 30 September 2006)

Applicable Not applicable

By segments	Revenue from principal operations (RMB)	Costs from principal operations (RMB)	Profit margin of principal operations (%)
The Manufacturing Operations	1,890,103,636.13	899,396,320.63	52.42
The Trading Operations	5,938,188,368.83	5,567,556,622.24	6.24
Include: connected transactions	184,466,960.33	173,076,541.51	6.17

By products	Revenue from principal operations (RMB)	Costs of principal operations (RMB)	Profit margin of principal operations (%)
Heat clearing and anti-toxic medicine	539,374,719.88	279,397,432.88	48.20
Including: herb tea series (<i>note</i>)	167,893,747.89	95,338,999.41	43.21
Diabetes curing medicine	331,609,775.50	103,164,968.54	68.89
Cough and phlegm clearing medicine	211,153,701.72	90,814,983.61	56.99
Arthritic medicine	210,050,507.82	86,707,981.82	58.72
Gastric medicine	92,116,009.34	49,620,743.50	46.13
Other products	505,798,921.87	289,690,210.29	42.73
Including: connected transactions	3,219,306.84	2,249,993.94	30.11

Note: Herb tea series includes Wang Lao Ji herb tea and Xing Qun Xia Sang Ju drinks. In this report, the sales of products produced by Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. is calculated by the percentage of interests held by the Company therein (i.e. 48.0465%).

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 Ke Li, Wang Lao Ji herb tea and Guangdong Liang Cha Ke Li 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	Percentage of total profit	Amount	Percentage of total profit	
	(RMB)	(%)	(RMB)	(%)	(%)
Profit from principal operations	436,132,537.21	587.13	904,092,657.43	471.35	24.56
Profit from other operations	8,526,552.23	11.48	24,324,457.75	12.68	(9.49)
Expenses	367,317,257.63	494.49	743,462,185.46	387.61	27.58
Investment income (note)	(337,606.65)	(0.45)	7,186,192.71	3.75	(112.13)
Subsidy income	124,711.02	0.17	396,941.04	0.21	(18.87)
Net non-operating results (note)	(2,847,079.83)	(3.83)	(729,740.30)	(0.38)	(907.43)
Total profit	74,281,856.35	100.00	191,808,323.17	100.00	—

Notes:

- (1) The percentage of the investment income out of the total profit for the Reporting Period decreased significantly, because the Company disposed of its funds and received an income of approximately RMB6,000,000 during the previous reporting period, while it had no such income during the Reporting Period.
- (2) The percentage of the net non-operating results out of the total profit for the Reporting Period witnessed a great decrease as compared with the previous reporting period, which resulted from the increase in disposal of fixed assets, donation of pharmaceutical products and late fees 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

During the period from January to September 2006, the Group's purchase connected transactions amounted to RMB478,923,000, and its sale connected transactions were RMB184,467,000, accounting for 61.01% of the annual aggregate value of the purchase connected transactions and 48.29% of the annual aggregate value of the sale connected transactions as set out in the Agreement on the Purchase and Sale Connected Transactions signed by the Company and Guangzhou Pharmaceutical Holdings Limited ("GPHL") on 27 April 2005. In addition, the Group's advertising connected transactions for the first three quarters of 2006 amounted to RMB13,750,000 representing 44.50% of the annual aggregate value of the advertising connected transactions as set out in the Agreement in relation to Advertising Connected Transactions entered into by the Company and Guangzhou Pharmaceutical Soccer Club Limited on 15 June 2006. The aforementioned continuing connected transactions have been conducted in strict compliance with the clauses set out in the agreements entered into by related parties.

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 2005

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 originally holding unlisted shares of the Company made for the purpose of state-owned shares reform

Applicable Not applicable

Name of shareholders	Special commitments	Performance
GPHL	The non-circulating shares held by GPHL shall not be listed and traded, nor transferred within 12 months from the date of implementation of the share reform plan. Upon the expiry of that 12 months period, GPHL will not dispose of its shares (which are originally non-circulating shares) which exceeds 5% and 10% of the total number of the issued shares of the Company in the following 12 months and 24 months respectively.	Executed
China Greatwall Asset Management Corporation	The non-circulating shares held by China Greatwall Asset Management Corporation shall not be listed and traded nor transferred within 12 months from the implementation of the share reform plan.	Executed

3.8 Timetable of share reform plan for companies which haven't been in the process of share reform as at the date of this quarterly report

Applicable Not applicable

Explanation on not undergoing share reform plan as at the date of this quarterly report

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, 26 October 2006

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Feng Zansheng and Mr. Chen Zhinong 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.