

Interim Report 2007

二零零七年中期業績報告



**廣州藥業股份有限公司**  
Guangzhou Pharmaceutical Company Limited

( Stock code : 0874 )

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## I. IMPORTANT NOTICE

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 interim report and confirm that there are no false information, misleading statements or material omissions in this interim report.
2. Mr. Yang Rongming, the Chairman, Mr. Shi Shaobin, Director & General Manager, and Mr. Chen Binghua, Financial Controller and Senior Manager of the Finance Department, warrant and confirm the authenticity and completeness of the financial reports contained in this interim report.
3. The financial reports of the Company and its subsidiaries (collectively the “Group”), and the Company for the six months ended 30 June 2007 (the “Reporting Period”) are unaudited.
4. This interim report is prepared in both English and Chinese. In the event of different interpretations, with the exception of the condensed consolidated financial data prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, the Chinese version shall prevail.

## II. COMPANY PROFILE

### 1. COMPANY PROFILE

- |     |  |  |
|-----|--|--|
| (1) | Legal Chinese name:<br>Chinese name abbreviation:<br>English name:<br>English name abbreviation:   | 廣州藥業股份有限公司<br>廣州藥業<br>Guangzhou Pharmaceutical Company Limited<br>GPC  |
| (2) | Name of stock exchanges and<br>stock codes of the listed shares:   | A Shares: The Shanghai Stock Exchange<br>Stock code: 600332 Stock abbreviation: GZ Phar.<br><br>H Shares: The Stock Exchange of Hong Kong Limited<br>Stock code: 0874 Stock abbreviation: GZ Phar.   |
| (3) | Registered address and office:<br><br>Postal code:<br>Telephone:<br>Fax:<br>Internet website:<br>E-mail:<br>Principal place of<br>business in Hong Kong:   | 45 Sha Mian North Street, Guangzhou City<br>Guangdong Province, the PRC<br>510130<br>(8620) 8121 8103<br>(8620) 8121 6408<br><a href="http://www.gpc.com.cn">http://www.gpc.com.cn</a><br><a href="mailto:sec@gpc.com.cn">sec@gpc.com.cn</a><br>Room 2005, 20th Floor, Tower Two Lippo Center<br>89 Queensway, Hong Kong   |
| (4) | Legal representative:  | Yang Rongming  |
| (5) | Secretary to the Board:<br>Representative of securities affairs:<br>Address:<br><br>Telephone:<br>Fax:<br>E-mail:  | He Shuhua<br>Huang Xuezheng<br>45 Sha Mian North Street, Guangzhou City<br>Guangdong Province, the PRC<br>(8620) 8121 8117 / 8121 8119<br>(8620) 8121 6408<br><a href="mailto:hesh@gpc.com.cn">hesh@gpc.com.cn</a> / <a href="mailto:huangxz@gpc.com.cn">huangxz@gpc.com.cn</a>  |
| (6) | Designated newspapers for<br>information disclosure:<br><br>Internet websites for publishing<br>this interim report designated by:<br>The China Securities<br>Regulatory Commission<br>The Stock Exchange<br>of Hong Kong Limited<br><br>Place where this interim report is<br>available for inspection: | Mainland China – Shanghai Securities News<br>Hong Kong, China – Hong Kong Economic Times<br>– The Standard<br><br><a href="http://www.sse.com.cn">http://www.sse.com.cn</a><br><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a><br><br>The Secretariat to the Board<br>Guangzhou Pharmaceutical Company Limited<br>2nd Floor, 45 Sha Mian North Street, Guangzhou City<br>Guangdong Province, the PRC |



## 2. PRINCIPAL FINANCIAL DATA AND INDICATORS

(Note: In this Interim report, the comparative figures of the corresponding period and the year-end figures of last year prepared in accordance with the PRC Accounting Standards have been adjusted and restated in accordance with the "Standard No.7 Regarding the Rules on Information Disclosure for Companies that Publicly Offer Securities — Compilation and Disclosure of Comparative Financial and Accounting Information During the Transition Period between the New and Old Accounting Standards". The Group changed its accounting policy for jointly controlled entities from proportionate consolidation to equity method. The comparative figures of the corresponding period and the year-end figures of last year prepared in accordance with HKFRS in this interim report have been retrospectively adjusted for this change in accounting policy.)

### (1) Financial data and financial indicators prepared in accordance with PRC Accounting Standards

Items	As at 30 June 2007 (Unaudited) (RMB'000)	As at 31 December 2006 (Restated) (RMB'000)	Changes as compared with 31 December 2006 (%)
Total assets	6,134,317	5,453,284	12.49
Shareholders' equity	2,880,047	2,790,365	3.21
Net assets per share (RMB)	3.55	3.44	3.21

  

Items	The Reporting Period (Unaudited) (RMB'000)	The corresponding period of 2006 (Restated) (RMB'000)	Changes as compared with the corresponding period of 2006 (%)
Operating profit	251,622	199,478	26.14
Total profit	253,093	199,214	27.05
Net profit	157,798	137,644	14.64
Net profit after deducting non-operating items	154,807	135,506	14.24
Earnings per share (basic) (RMB)	0.195	0.170	14.64
Earnings per share (diluted) (RMB)	0.195	0.170	14.64
Return on net assets (diluted) (%)	5.48	5.11	(An increase of 0.37 percentage point)
Return on net assets (weighted average) (%)	5.50	5.13	(An increase of 0.37 percentage point)
Net cash flows from operating activities	117,516	34,447	241.15
Net cash flows per share from operating activities (RMB)	0.14	0.04	241.15



Notes:

- (a) The above financial data and indicators are computed based on the consolidated financial statements.
- (b) Non-operating items include:

**(1) Financial data and financial indicators prepared in accordance with PRC Accounting Standards (Continued)**

Items	Amount (RMB'000)
Gain/ (Loss) on disposal of non-current assets	2,689
Government subsidies recognized as gain/(loss)	1,920
Income/ (Loss) of entrusted loans	(561)
Non-operating expenses after deducting the above items	457
Income tax effect	(1,333)
Effect on minority interests	(181)
	<hr/>
Total	<u>2,991</u>

**(2) Financial data and indicators prepared in accordance with HKFRS**

**Summary of assets and liabilities**

Items	As at 30 June 2007 (Unaudited) (RMB'000)	As at 31 December 2006 (Restated) (RMB'000)	Changes as compared with 31 December 2006 (%)
Current assets	4,385,713	3,690,763	18.83
Current liabilities	3,043,206	2,459,387	23.74
Total assets	6,299,473	5,630,139	11.89
Total liabilities	3,116,457	2,549,759	22.23
Capital and reserves attributable to equity holders of the Company	2,995,579	2,897,389	3.39
Net assets per share (RMB)	3.69	3.57	3.39

**Summary of results**

Items	The Reporting Period (Unaudited) (RMB'000)	The corresponding period of 2006 (Restated) (RMB'000)	Changes as compared with the corresponding period of 2006 (%)
Profit before income tax	245,510	189,835	29.33
Profit attributable to equity holders of the Company	151,191	128,848	17.34
Earnings per share (RMB)	0.186	0.159	17.34



## (3) Reconciliation between the accounts prepared in accordance with PRC Accounting Standards and HKFRS

	As at	
	30 June 2007 (RMB'000) (Unaudited)	31 December 2006 (RMB'000) (Restated)
<b>Net assets under PRC Accounting Standards</b>	<b>2,880,047</b>	2,790,365
Intangible assets capitalised	21,864	27,006
Difference arising from fixed assets revaluation	124,064	126,547
Deferred government grants generated prior to the adoption of the new PRC Accounting Standards	(3,057)	(3,279)
The unrealised gains on transactions between the Group and jointly controlled entities	—	(1,231)
Provision for deferred tax liabilities arising from fixed assets revaluation	(29,348)	(41,870)
Impairment of goodwill	—	1,729
Revaluation of investment properties	16,516	13,104
Depreciation of investment properties	546	—
Difference in minority interest	(15,053)	(14,982)
<b>Capital and reserves attributable to equity holders of the Company under HKFRS</b>	<b>2,995,579</b>	<b>2,897,389</b>
	(Unaudited)	
	Six months ended 30 June	
	2007 (RMB'000)	2006 (RMB'000) (Restated)
<b>Net profit under PRC Accounting Standards</b>	<b>157,798</b>	137,644
Amortisation of intangible assets	(5,142)	(5,142)
Additional depreciation on revalued fixed assets	(2,483)	(2,402)
Amortisation of government grants recognised as deferred income prior to the adoption of the new PRC Accounting Standards	222	220
The unrealised gains on transactions between the Group and jointly controlled entities	1,231	(2,075)
Provision for deferred tax liabilities arising from fixed assets revaluation	819	326
Impairment of goodwill	(1,729)	—
Depreciation of investment properties	546	—
Unsettled long outstanding payables written off recognised as income	—	250
Difference in minority interest	(71)	27
<b>Profits attributable to equity holders of the Company under HKFRS</b>	<b>151,191</b>	<b>128,848</b>



### III. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

#### 1. CHANGES IN SHARE CAPITAL

	Before change		Change (+/-)					After change	
	Number (share)	Percentage (%)	New issues (share)	Bonus issues (share)	Reserves capitalized (share)	Others (listing and trading of tradable shares subject to selling restrictions) (share)	Sub-total (share)	Number (share)	Percentage (%)
1. Shares subject to selling restrictions	489,600,000	60.38	—	—	—	(61,541,491)	(61,541,491)	428,058,509	52.79
(1) State-owned shares	—	—	—	—	—	—	—	—	—
(2) Shares held by State-owned legal entities	—	—	—	—	—	—	—	—	—
(3) Other domestic shares									
Including: Shares held by domestic legal entities	—	—	—	—	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
(4) Shares held by foreign capital									
Including: Shares held by overseas legal entities	—	—	—	—	—	—	—	—	—
Shares held by overseas natural persons	—	—	—	—	—	—	—	—	—
Total shares subject to selling restrictions	489,600,000	60.38	—	—	—	(61,541,491)	(61,541,491)	428,058,509	52.79
2. Tradable shares not subject to selling restrictions									
(1) Renminbi-denominated ordinary shares	101,400,000	12.50	—	—	—	61,541,491	61,541,491	162,941,491	20.09
(2) Domestically listed foreign capital shares									
(3) Overseas listed foreign capital shares	219,900,000	27.12	—	—	—	—	—	219,900,000	27.12
(4) Others	—	—	—	—	—	—	—	—	—
Total tradable shares not subject to selling restrictions	321,300,000	39.62	—	—	—	61,541,491	61,541,491	382,284,191	47.21
3. Total shares	810,900,000	100	—	—	—	—	—	810,900,000	100

Approval of the above changes of shares:

- On 12 April 2006, the relevant shareholders' meeting of A share market of the Company approved the share reform plan, pursuant to which the holders of tradable A shares would be offered 3 shares for every 10 A shares held.
- Pursuant to the undertakings in the share reform, as at 24 April 2007, among the shares of GPC held by the controlling shareholder of the Company, namely Guangzhou Pharmaceutical Holdings Limited ("GPHL"), 40,545,000 shares originally subject to selling restrictions (accounting for 5% of total shares of GPC) were listed. 20,996,491 shares of GPC held by another shareholder, China Great Wall Asset Management Corporation ("Great Wall Corporation"), originally subject to selling restrictions, were listed on the same day.



## 2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS

- (1) As at 30 June 2007, there were 29,616 shareholders in total, among which, 29,588 shareholders holding the Renminbi-denominated domestic ordinary shares (A shares) and 28 shareholders holding the overseas listed foreign capital shares (H shares).
- (2) As at 30 June 2007, the top ten shareholders of the Company and their shareholdings were as follows:

Name of shareholders	Nature of shares	% of the total share capital (%)	Number of shares held as at the end of the Reporting Period (share)	Changes in the number of shares held during the Reporting Period (share)	Number of shares held subject to selling restrictions (share)	Number of pledged or frozen shares (share)
GPHL	Domestic shares	49.76	403,493,509	(65,110,000)	362,948,509	37,850,000
HKSCC Nominees Limited	Foreign capital shares	26.97	218,702,299	(58,000)	Nil	Unknown
Guangzhou Beicheng Rural Credit Cooperative	Domestic shares	5.70	46,670,000	46,670,000	46,670,000	Unknown
Great Wall Corporation	Domestic shares	2.59	20,996,491	—	Nil	Unknown
Guangzhou Huangshi Rural Credit Cooperative	Domestic shares	1.11	9,020,000	9,020,000	9,020,000	Unknown
Industrial Bank — Lombarda China New Trends Equity Fund (LOF)	Domestic shares	0.74	6,002,454	6,002,454	Nil	Unknown
ICBC — Nanfang Listed Open-ended Fund	Domestic shares	0.62	5,000,000	5,000,000	Nil	Unknown
Guangzhou Xinjiao Rural Credit Cooperative	Domestic shares	0.52	4,220,000	4,220,000	4,220,000	Unknown
Guangzhou Xinfeng Rural Credit Cooperative	Domestic shares	0.43	3,480,000	3,480,000	3,480,000	Unknown
ICBC— E Fund Value Growth Balanced Securities Investment Fund	Domestic shares	0.35	2,866,997	2,866,997	Nil	Unknown

### Notes:

- (a) According to the information provided by HKSCC Nominees Limited, the H shares held under its name were held on behalf of its several clients.
- (b) The Company is not aware of any connection among the above-mentioned ten shareholders, or whether they are persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

Change in shareholdings of shareholders holding shares subject to selling restrictions during the Reporting Period were as follows:

Name of shareholders	Shareholding before change (share)	Shareholding in relation to change (share)	Reason of change	Date of change	Shareholding after change (share)
GPHL	468,603,509	(65,110,000)	Transferred by order of court ruling	—	403,493,509
Guangzhou Xinjiao Rural Credit Cooperative	0	4,220,000	Transferred by way of court ruling	9 February 2007	4,220,000
Guangzhou Xinfeng Rural Credit Cooperative	0	3,480,000	Transferred by way of court ruling	9 February 2007	3,480,000
Guangzhou Beicheng Rural Credit Cooperative	0	46,670,000	Transferred by way of court ruling	23 March 2007	46,670,000
Guangzhou Baiyun Rural Credit Cooperative	0	1,720,000	Transferred by order of judge	23 March 2007	1,720,000
Guangzhou Huangshi Rural Credit Cooperative	0	9,020,000	Transferred by way of court ruling	21 May 2007	9,020,000



- (3) As at 30 June 2007, the interests and short positions of any persons (not being the Directors, Supervisors or Senior Management of the Company) in the shares and underlying shares of the Company, which were notified to the Company and The Stock Exchange of Hong Kong Limited (the “HKEx”) pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the “SFO”) (Chapter 571 of the Laws in Hong Kong) and as recorded in the register as required to be maintained by the Company under section 336 of the SFO were as follows:

Name of shareholders	Nature of shares	Number of shares held (share)	% of issued domestic shares (%)	% of issued foreign capital shares (%)
GPHL	Domestic shares	403,493,509	68.27	—
Guangzhou Beicheng Rural Credit Cooperative	Domestic shares	46,670,000	7.90	—
The Hongkong and Shanghai Banking Corporation Limited (note)	Foreign capital shares	76,192,760	—	34.65
Standard Chartered Bank (Hong Kong) Limited (note)	Foreign capital shares	56,552,743	—	25.72
Greenwoods Asset Management Limited (note)	Foreign capital shares	16,780,900	—	7.63
Wellington Management Company, LLP (note)	Foreign capital shares	15,434,000	—	7.02
The Hamon Investment Group Pte Limited (note)	Foreign capital shares	13,402,000	—	6.09
Fidelity International Limited (note)	Foreign capital shares	11,219,000	—	5.10
Morgan Stanley Dean Witter Hong Kong Securities Ltd (note)	Foreign capital shares	11,159,000	—	5.07

Notes: As notified by HKSCC Nominees Limited, as at 30 June 2007, the H shares held by each corporation in its securities account with the Central Clearing and Settlement System amounted to more than 5% of the total issued foreign capital shares (H shares) of the Company.

As far as the Directors are aware and other than those listed above, as at 30 June 2007, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company which represents 5% or more of any class of the issued share capital of the Company.

- (4) As at 30 June 2007, the top ten shareholders of the Company holding shares not subject to selling restrictions and their shareholdings were as follows:

Name of shareholders	Number of shares held not subject to selling restrictions (share)	Nature of shares
HKSCC Nominees Limited	218,702,299	Foreign capital shares
GPHL	40,545,000	Domestic shares
Great Wall Corporation	20,996,491	Domestic shares
Industrial Bank — Lombarda China New Trends Equity Fund (LOF)	6,002,454	Domestic shares
ICBC - Nanfang Listed Open-ended Fund	5,000,000	Domestic shares
ICBC- E Fund Value Growth Balanced Securities Investment Fund	2,866,997	Domestic shares
Bank of China-E Fund Steady Growth Securities Investment Fund	2,300,000	Domestic shares
Meng Xiangtong	1,115,900	Domestic shares
National Social Security Fund 109 Group	1,034,508	Domestic shares
Xing He Securities Investment Fund	999,940	Domestic shares



Notes:

- (a) According to the information provided by HKSCC Nominees Limited, the H shares under its name were held on behalf of its several clients.
- (b) The Company is not aware of any connection among the above-mentioned ten shareholders holding the shares not subject to selling restrictions, or whether they are persons acting in concert as stipulated in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

**(5) Number of shares subject to selling restrictions held by the top ten shareholders of the Company and terms of the selling restrictions**

Number	Name of shareholders holding shares subject to selling restrictions	Number of shares held subject to selling restrictions (share)	Listing and trading of shares subject to selling restrictions		Undertakings
			Listing/to be listed and trading date	Number of additional tradable shares (share)	
1	GPHL	412,513,509	24 April 2007	40,545,000	Note (1)
		362,948,509	24 April 2008	40,545,000	
		322,403,509	24 April 2009	322,403,509	
2	Great Wall Corporation	20,996,491	24 April 2007	20,996,491	Note (2)

Notes:

- (a) The non-tradable 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, the shares disposed of by GPHL (which are originally non-tradable shares) shall not exceed 5% and 10% of the total issued shares of the Company in the following 12 months and 24 months respectively.

Pursuant to the undertakings in the share reform, the shares held by GPHL originally subject to selling restrictions accounting for 5% of total shares of GPC were listed on 24 April 2007;

On 21 May 2007, 9,020,000 shares of the Company held by GPHL subject to selling restrictions were transferred to Guangzhou Huangshi Rural Credit Cooperative.

- (b) The non-tradable shares held by Great Wall Corporation shall not be listed and traded nor transferred within 12 months from the implementation of the share reform plan.

Pursuant to the undertakings in the share reform, all the shares of GPC held by Great Wall Corporation were listed on 24 April 2007.

**(6) During the Reporting Period, there was no change in the controlling shareholder of the Company.**

### 3. 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 interim report.

### 4. 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. NEITHER THE COMPANY NOR ANY OF ITS SUBSIDIARIES HAD PURCHASED, SOLD OR REDEEMED ANY OF THE SHARES OF THE COMPANY DURING THE REPORTING PERIOD.



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

##### 1. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTEREST IN SHARES

- (1) As at the end of the Reporting Period, Directors', Supervisors' and Senior Management's interest in the A Shares of the Company were as follows:

Name	Position	Number of shares held as at the beginning of the Reporting Period (share)	Number of shares changed during the Reporting Period (share)
Yang Rongming	Chairman	Nil	Nil
Shi Shaobin	Executive Director and General Manager	Nil	Nil
Feng Zansheng	Executive Director	Nil	Nil
Wong Hin Wing	Independent Non-executive Director	Nil	Nil
Liu Jinxiang	Independent Non-executive Director	Nil	Nil
Li Shanmin	Independent Non-executive Director	Nil	Nil
Zhang Yonghua	Independent Non-executive Director	Nil	Nil
Chen Zhinong	Executive Director (ceased to be the director on 15 June 2007)	Nil	Nil
Wu Zhang	Independent Non-executive Director (ceased to be the director on 15 June 2007)	Nil	Nil
Zhang Heyong	Independent Non-executive Director (ceased to be the director on 15 June 2007)	Nil	Nil
Yang Xiuwei	Chairman of the Supervisory Committee	Nil	Nil
Wu Quan	Supervisor	Nil	Nil
Zhong Yugan	Supervisor	Nil	Nil
Chen Canying	Chairman of the Supervisory Committee (ceased to be the supervisor on 15 June 2007)	12,740	Nil
Ouyang Qiang	Supervisor (ceased to be the supervisor on 15 June 2007)	13,130	Nil
He Shuhua	Deputy General Manager and Secretary to the Board	36,010	Nil
Su Guangfeng	Deputy General Manager	Nil	Nil
Chen Binghua	Financial Controller	6,240	Nil



(2) **Directors', Supervisors' and Senior Management's interests and short positions in the shares, underlying shares and debentures of the Company**

- (a) As at 30 June 2007, the interests or short positions of the Directors, Supervisors and Senior Management in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Rules Governing the Listing of Securities on Stock Exchange (the "Listing Rules") to be notified to the Company and HKEx were as follows:

**Directors**

Name	Type of interest	Company	Number of shares (share)
Shi Shaobin	Personal	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd ("Jing Xiu Tang")	25,000
Feng Zansheng	Personal	Guangzhou Pharmaceuticals Corporation ("Pharmaceuticals Corporation")	700,000

**Supervisors**

Name	Type of interest	Company	Number of shares
Chen Canying	Personal	A shares of the Company	12,740
Ouyang Qiang	Personal	A shares of the Company	13,130

**Senior Management**

Name	Type of interest	Company	Number of shares
He Shuhua	Personal	A shares of the Company	36,010
Chen Binghua	Personal	A shares of the Company	6,240

\* The shares above, except the A shares of the Company, are staff shares.

- (b) Save as disclosed above, as at 30 June 2007, none of the Directors, Supervisors, Senior Management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and HKEx.



## 2. APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

- (1) At the first extraordinary general meeting of 2007 held on 2 April 2007, Mr. Shi Shaobin was elected as an executive director of the Third Session of the Board of the Company, with a term from the date of his appointment to the date when members of the Fourth session of the Board were elected.
- (2) At the 2006 annual general meeting held on 15 June 2007, Mr. Yang Rongming, Mr. Shi Shaobin and Mr. Feng Zansheng were elected as executive directors of the Fourth Session of the Board of the Company; Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua were elected as independent non-executive directors of the Fourth Session of the Board of the Company; Ms. Yang Xiuwei and Mr. Zhong Yugan were elected as supervisors representing the shareholders of the Fourth Session of the Supervisory Committee of the Company; and Mr. Wu Quan was elected as the supervisor representing the staff of the Fourth Session of the Supervisory Committee of the Company. The aforesaid directors and supervisors have been appointed for a term commencing from the date of appointment to the date when members of the new session of the Board and the Supervisory Committee are elected.

Mr. Chen Zhinong, Mr. Wu Zhang and Mr. Zhang Heyong, members of the Third Session of the Board, ceased to be directors of the Company on 15 June 2007, and Mr. Chen Canying and Mr. Ouyang Qiang, members of the Third Session of the Supervisory Committee, ceased to be supervisors of the Company on the same day.

- (3) At the first meeting of the Fourth Session of the Board of the Company held on 15 June 2007, Mr. Yang Rongming was elected as the Chairman of the Company, with a term of office commencing from the date of his appointment up to the date when members of the new session of the Board are elected.
- (4) At the first meeting of the Fourth Session of the Board of the Company held on 15 June 2007, Mr. Shi Shaobin was appointed as the General Manager of the Company; Mr. He Shuhua was appointed as the Deputy General Manager and Secretary to the Board of the Company; Mr. Su Guangfeng was appointed as the Deputy General Manager of the Company; and Mr. Chen Binghua was appointed as the Financial Controller of the Company, each with a term of office commencing from their date of appointment up to the date when the members of the new session of the Board are elected.
- (5) At the first meeting of the Fourth Session of the Supervisory Committee of the Company held on 15 June 2007, Ms. Yang Xiuwei was elected as the Chairman of the Fourth Session of the Supervisory Committee of the Company, with a term of office commencing from the date of appointment up to the date when the members of the new session of the Supervisory Committee are elected.

## 3. AS AT THE END OF THE REPORTING PERIOD, THE NUMBER OF THE GROUP'S EMPLOYEES WAS APPROXIMATELY 7,999. THERE WAS NO MATERIAL CHANGE TO THE REMUNERATION POLICY OF THE EMPLOYEES WHEN COMPARED WITH THE PREVIOUS REPORTING PERIOD. THE TOTAL REMUNERATION FOR THE STAFF OF THE GROUP IN THE FIRST HALF OF 2007 WAS RMB218 MILLION.

## V. REPORT OF THE BOARD OF DIRECTORS

(Unless otherwise stated, the financial data contained in this interim report is extracted from the Group's accounts prepared in accordance with PRC Accounting Standards)

The Group is principally engaged in (1) the manufacture and sales of Chinese Patent 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.



## 1. ANALYSIS OF OPERATING RESULTS

### (1) Operations review

During the Reporting Period, the Group focused on production operations, while enhancing foundation management, and strived to expand its business and speed up the work in technology R&D and resources integration, which in turn maintained a rapid and steady growth of the operating results of the Group.

In accordance with PRC Accounting Standards, Revenue from the Group's principal operations for the Reporting Period was approximately RMB5,987,481,000, representing an increase of 17.36% over that of the same period of last year. The profit before tax was approximately RMB253,093,000, representing an increase of 27.05% over that of the same period of last year. The net profit was approximately RMB157,798,000, representing an increase of 14.64% over that of the same period of last year. According to HKFRS, the turnover of the Group for the Reporting Period was approximately RMB5,987,481,000, representing an increase of 17.36% over that of the same period of last year. The profit before income tax was approximately RMB245,510,000, representing an increase of 29.33% over that of the same period of last year. The profit attributable to equity holders of the Company was approximately RMB151,191,000, representing an increase of 17.34% over that of the same period of last year.

A breakdown of the overall operating results and the results of each principal activity of the Group during the Reporting Period is set out as follows:

#### Prepared in accordance with PRC Accounting Standards

Items	The Reporting Period (RMB'000)	The corresponding period of 2006 (RMB'000)	Growth/ (Decrease) (YoY) (%)
<b>Turnover</b>	<b>5,987,481</b>	5,101,873	17.36
Include: Manufacturing	<b>1,275,785</b>	1,105,826	15.37
Trading	<b>4,711,696</b>	3,996,047	17.91
<b>Profit before tax</b>	<b>253,093</b>	199,214	27.05
Include: Manufacturing	<b>202,889</b>	161,136	25.91
Trading	<b>50,204</b>	38,078	31.84
<b>Net profit</b>	<b>157,798</b>	137,644	14.64
Include: Manufacturing	<b>127,514</b>	112,650	13.19
Trading	<b>30,284</b>	24,994	21.17

#### Prepared in accordance with HKFRS

<b>Turnover</b>	<b>5,987,481</b>	5,101,873	17.36
Include: Manufacturing	<b>1,275,785</b>	1,105,826	15.37
Trading	<b>4,711,696</b>	3,996,047	17.91
<b>Profit before income tax</b>	<b>245,510</b>	189,835	29.33
Include: Manufacturing	<b>182,075</b>	141,795	28.41
Trading	<b>63,435</b>	48,040	32.05
<b>Profit attributable to equity holders of the Company</b>	<b>151,191</b>	128,848	17.34
Include: Manufacturing	<b>107,336</b>	93,414	14.90
Trading	<b>43,855</b>	35,434	23.77



An analysis of the Group's turnover and profit from principal activities for the first half year of 2007 is set out as follows:

	Turnover		Profit from principal activities	
	Under PRC Accounting Standards (RMB'000)	Under HKFRS (RMB'000)	Under PRC Accounting Standards (RMB'000)	Under HKFRS (RMB'000)
Principal activities:				
Manufacturing and sales	1,275,785	1,275,785	640,196	656,575
Trading	4,711,696	4,711,696	263,022	267,623
Include: Wholesale	4,406,399	4,406,399	220,463	224,022
Retail	176,453	176,453	35,851	36,686
Import and export	128,844	128,844	6,708	6,915
<b>Total</b>	<b>5,987,481</b>	<b>5,987,481</b>	<b>903,218</b>	<b>924,198</b>

For the first half of 2007, a geographical analysis of sales arising from the manufacturing operations and the trading operations of the Group is set out as follows:

Region	Manufacturing		Trading		Total	
	Turnover (RMB'000)	Percentage of the manufacturing turnover (%)	Turnover (RMB'000)	Percentage of the trading turnover (%)	Turnover (RMB'000)	Percentage of the total turnover (%)
Southern China	837,623	65.66	4,077,747	86.55	4,915,370	82.09
Eastern China	175,561	13.76	225,264	4.78	400,825	6.69
Northern China	81,383	6.38	83,552	1.76	164,936	2.75
North-Eastern China	69,967	5.48	56,190	1.19	126,157	2.11
South-Western China	67,729	5.31	165,195	3.51	232,923	3.89
North-Western China	34,896	2.74	50,229	1.07	85,125	1.42
Exports	8,626	0.67	53,519	1.14	62,145	1.05
<b>Total</b>	<b>1,275,785</b>	<b>100.00</b>	<b>4,711,696</b>	<b>100.00</b>	<b>5,987,481</b>	<b>100.00</b>

(1) **The Manufacturing Operations of Chinese Patent Medicine**

During the Reporting Period, the Group continued its marketing work for its core products such as Wang Lao Ji herb tea, Xing Qun An Shen Bu Nao Ye, Zhong Yi Xiao Ke Wan and Qi Xing Hua Tuo Zai Zao Wan, and timely adjusted its marketing strategies according to the market changes. Distribution channels and retail networks of hospitals were also actively expanded. Secondly, the Group also enhanced its strategic cooperation with the major customers throughout China to timely obtain the data of its clients' purchases, sales, inventory and selling prices. The Group actively maintained and stabilized the retail prices of its core products so as to promote its distributors' confidence and initiatives. Thirdly, the Group put more efforts and resources in the research and development and commercial production of new products. During the Reporting Period, the Group actively followed up the application for production approval for Rabies Bacterin and clinical study of HBV-DNA vaccines. Fourthly, the Group reinforced the internal foundation management to enhance the quality of its corporate management. In 2007, a fundamental management working team was established and professional consultants were engaged to commence research projects and process analysis and improvement. According to the Enterprise Internal Control Standards issued by the Ministry of Finance, the Group commenced the preparation of its internal control manual. In addition, various effective measures such as improvement of operation processes, standardization of enterprise business operations, implementation of accountability system and enhancement of review of efficiency were implemented to enhance the business efficiency and minimize the business risks.

For the first half of 2007, there were 36 products which generated sales income exceeding RMB5 million. Sales of certain major products, including Xiao Ke Wan, Xia Sang Ju Ke Li, An Shen Bu Nao Ye, Hua Zhi Shuan, Qing Re Xiao Yan Ning Jiao Nang, Qian Lie Tong Pian and Ke Chuan Shun Wan etc., significantly increased by 21.26%, 8.85%, 64.98%, 12.95%, 26.76%, 47.20% and 211.44% respectively when compared with the corresponding period of last year.

An analysis of major products of the Manufacturing Operations for the Reporting Period is as follows:

Products	Revenue from principal operations		Costs of principal operations		Profit margin of principal operations	Change from principal operations (percentage point)
	Amount (RMB'000)	Change (%)	Amount (RMB'000)	Change (%)	Profit margin (%)	
Heat clearing and anti-toxic medicine	213,001	2.03	115,309	4.50	44.68	(2.74)
Diabetic medicine	276,855	21.26	95,414	31.82	64.35	(4.09)
Cough and phlegm clearing medicine	178,855	11.36	80,509	17.18	53.80	(3.96)
Arthritic medicine	161,895	10.21	68,616	14.53	56.43	(2.73)
Gastric medicine	38,546	—	19,360	19.33	48.59	(14.32)
Other products	406,633	26.00	241,233	18.43	39.49	10.67

*Note:* In accordance with the new PRC Accounting Standards, equity method has been used for interests in jointly controlled entities of the Company since the year 2007. Therefore, the revenue from principal operations of the Group and its Manufacturing Operations for the Reporting Period did not include that of Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd (“Wang Lao Ji”), and the comparative figures of the corresponding period have been retrospectively adjusted accordingly.

During the Reporting Period, the rate of expenses of the Manufacturing Operations was 37.19%, a decrease by 2.87 percentage points over that of the corresponding period of last year, mainly due to the fact that during the Reporting Period the Group made greater marketing efforts for the sales to increase sales income and strengthened foundation management to control costs and expenditure strictly.

## (2) Pharmaceutical trading operations (including wholesale, retail, import and export)

During the Reporting Period, active adjustments to operating strategies were made for the Trading Operations following the deepening of health care reform, medicine circulation system reform by the State and changes in the pharmaceutical market. Firstly, the Group’s trading companies actively cooperated with its manufacturing companies and suppliers regarding the Guangdong Provincial Medicine Internet Bidding Purchases. Pharmaceuticals Corporation consolidated the information channels for interactive information exchanges between drug manufacturers and hospitals’ professionals, which ensured successful bidding by the Group’s subordinate enterprises, which also helped lay a solid foundation for our exploration of the hospital markets. Secondly, resources integration was accelerated. In the first half of 2007, Guangzhou Chinese Medicine Corporation (“Chinese Medicine Corporation”) enhanced the collection and analysis of market information of Chinese raw medicines. It initiated pilot projects of on-site purchases and manufacturing at major medicine production places. With this, purchases, immediate processing and storage were conducted right at the production places so that the whole process could be streamlined and thus costs could be effectively controlled. Thirdly, fixed assets were revitalized. Besides, the Group centralized the leasing activities of the Company and its subordinate enterprises so as to increase the revenues from the intensive resources.

As at 30 June 2007, the Group had 118 retail chain pharmacies, including 88 “Cai Zhi Lin” which specialized in traditional Chinese medicines, 27 “Jian Min” which specialized in chemical medicines, 1 pharmacy named Ying Bang and 2 other retail chain pharmacies.



## 2. THE OPERATING RESULTS OF THE COMPANY AND ITS MAJOR ENTERPRISES DURING THE REPORTING PERIOD

Name of enterprises	Equity directly held by the Company (%)	Sales (RMB'000)	Profit (RMB'000)	Net profit (RMB'000)
<b>(1) Subsidiaries</b>				
Guangzhou Xing Qun Pharmaceutical Co., Ltd	88.99	209,494	25,458	16,401
Guangzhou Zhong Yi Pharmaceutical Co., Ltd ("Zhong Yi")	100.00	379,971	82,661	52,351
Guangzhou Chen Li Ji Pharmaceutical Factory	100.00	127,139	20,027	13,681
Guangzhou Qi Xing Pharmaceutical Co., Ltd	75.00	207,538	36,754	27,664
Jing Xiu Tang	88.40	123,680	25,498	17,304
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd ("Pan Gao Shou")	87.77	167,245	15,350	6,786
Guangzhou Huan Ye Pharmaceutical Co., Ltd ("Guangzhou Huan Ye")	100.00	17,491	(1,609)	(1,454)
Guangxi Ying Kang Pharmaceutical Co., Ltd	51.00	13,183	(657)	(657)
Guangzhou Bai Di Bio-technology Co., Ltd ("Guangzhou Bai Di")	95.69	302	(4,596)	(4,596)
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd ("Guangzhou Han Fang")	70.04	5,522	(7,014)	(7,014)
Pharmaceuticals Corporation Chinese Medicine Corporation	90.09	4,252,987	50,175	32,592
100.00	659,585	3,304	3,262	
Guangzhou Pharmaceutical Import & Export Corporation ("Pharmaceutical Import & Export Corporation")	100.00	169,128	1,919	1,088
<b>(2) Branch company</b>				
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	—	202,467	2,392	2,392
<b>(3) Joint venture</b>				
Wang Lao Ji (note)	Approximately 48.05	528,174	60,195	52,937

*Note:* During the Reporting Period, Wang Lao Ji, a joint venture of the Company, achieved significant operating growth when compared with the same period of last year. During the period from January 2007 to June 2007, Wang Lao Ji achieved sales revenue of RMB528,174,000, increased by 59.49% when compared with the same period of last year. The gross profit was RMB60,195,000, increased by 50.48% when compared with that of the same period of last year. The net profit was RMB52,937,000, increased by 32.34% when compared with the same period of last year. During the Reporting Period, products such as Wang Lao Ji herb tea, Bao Ji Kou Fu Ye, Xiao Er Qi Xing Cha Chong Ji and Guang Dong Liang Cha Ke Li increased significantly and their sales revenue increased by 105.21%, 28.52%, 28.44% and 18.84% respectively when compared with the same period of last year.



3. **DURING THE REPORTING PERIOD, THE COMPANY DID NOT ENGAGE IN ANY OTHER OPERATIONS WHICH HAD SIGNIFICANT IMPACT ON THE NET PROFIT OF THE GROUP.**
4. **DURING THE REPORTING PERIOD, THE COMPANY DID NOT DERIVE AN INVESTMENT INCOME FROM AN INVESTEE COMPANY EQUAL TO 10% OR MORE OF THE NET PROFIT OF THE COMPANY.**
5. **USE OF PROCEEDS FROM THE ISSUANCE OF A SHARES**

(1) **Use of proceeds from the issuance of A shares**

As at the end of the Reporting Period, the actual applications of the proceeds from the issuance of A shares in the Company were in line with the undertakings made in the prospectus for the issuance of A shares.

The net proceeds from the issuance of A shares in the Company were approximately RMB737,990,000. The portion exceeding the budgeted proceeds (amounting to approximately RMB29,690,000) was used as supplementary corporate working capital. As at 30 June 2007, the actual capital utilized was RMB703,350,000, leaving a capital of RMB34,640,000 unutilized. Save as the projects set out in the following table, other projects were completed for investment as scheduled.

Category	Name of Projects	Budgeted injection under the offering plan (RMB'000)	Accumulated amount injected as at the end of the Reporting Period (RMB'000)	Stages of completion (%)
Pills	Commercial production of Wei Re Qing	29,000	26,010	100
	Technology upgrade of throat, spleen and intestine pills	29,100	28,600	100
Tablets	Commercial production of Fu Yan Xiao Soluble Tablets	29,500	24,090	100
Sales network Expansion project	Expansion of "Cai Zhi Lin" chained pharmacies	59,500	34,220	80

(2) **Explanatory note on the return from projects and off-target projects:**

Among projects financed by proceeds from the issuance of A shares, additional sales and gross profit from projects amounted to RMB2,941,480,000 and RMB402,690,000 respectively.

Projects on Fu Yan Xiao Pao Teng Pian and Wei Re Qing capsule were delayed due to the market changes, and the sales network expansion projects were slowed down due to keen market competition.



## 6. FINANCIAL POSITION (PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

### (1) Changes in major accounting items

Items	30 June 2006 (RMB'000)	1 January 2007 (RMB'000)	Changes (%)	Reasons for the change
Accounts Receivable	1,797,115	1,355,139	32.61	During the Reporting Period, while striving for business expansion and continuous sales growth, the Group extended credit terms to certain customers as appropriate for higher market shares.
Investment Properties	55,120	18,025	205.81	During the Reporting Period, the Company accounted Guangzhou Sui Kang Mansion as an investment property instead of a self-use property.
Taxes Payable	73,922	38,456	92.23	The increase in income and profit during the Reporting Period resulted in increase in the value-added taxes payable and enterprise income taxes.

Items	The Reporting Period (RMB'000)	The corresponding period of 2006 (RMB'000)	Changes (%)	Reasons for the change
Net cash flows from operating activities	117,516	34,447	241.15	During the Reporting Period, the Group endeavored to boost sales and the ROE and reduce inventories.

### (2) Liquidity, financial resources and capital structure

As at 30 June 2007, the current ratio of the Group was 1.47 (as at 30 June 2006: 1.48) and the quick ratio was 1.08 (as at 30 June 2006: 1.01). During the Reporting Period, annual turnover rate for accounts receivable was 8.89 times, representing a decrease of 9.55% when compared with the corresponding period of last year, and annual inventory turnover rate was 8.21 times, representing an increase of 5.10% when compared with the corresponding period of last year.

As at 30 June 2007, the cash and cash equivalents of the Group amounted to RMB525,037,000 (as at 30 June 2006: RMB526,839,000), of which approximately 97.06% is denominated in RMB and 2.94% is denominated in foreign currencies such as Hong Kong dollars.

As at 30 June 2007, the current liabilities of the Group amounted to RMB2,969,843,000, and its short-term borrowings were RMB 971,631,000 (as at 30 June 2006: RMB841,449,000).

### (3) Capital expenditure

The Group expected that capital expenditure for the year 2007 will be approximately RMB227 million (2006: RMB102 million) and actual expenditure in the first half of 2007 amounted to RMB39,159,000 (the corresponding period in 2006: RMB47,680,000), which was mainly utilized for constructing plants infrastructures and purchasing machinery and equipment. The Group has sufficient financial resources to meet the demand for capital expenditure and daily working capital requirements.



**(4) Foreign exchange risk**

As the majority of revenues, expenses, assets and liabilities of the Group are denominated in RMB, the Group does not have significant exposure to fluctuations in exchange rate.

**(5) Contingent liabilities**

As at 30 June 2007, the Group has no significant contingent liabilities.

**(6) Charge on Group assets**

As at 30 June 2007, the net book value of fixed assets pledged as security for bank loans granted to the Group amounted to RMB53,634,000.

## **7. THE ISSUES AND DIFFICULTIES ENCOUNTERED IN OPERATIONS AND OPERATION PLANS FOR THE SECOND HALF OF 2007**

Factors such as the adjustment of the national policy regarding the prices of pharmaceutical products, the ever-rising prices of raw materials and ancillary materials, the strengthened regulation for domestic pharmaceutical industry and the increasingly fierce competition in the domestic pharmaceutical industry have caused certain impact on the Group's operating results.

In the second half of 2007, the Group will continue to focus on “spending the best efforts in production operating and marketing and strengthening foundation management”, continue to implement the brand-oriented strategy, to develop new market and new products and cultivate new economic growth area, and thus achieve sustainable, stable and healthy growth of the Group.

The business plans for the second half of 2007 mainly include:

- (1) To continuously enhance the marketing of its core products, strengthen the strategic study on market expansion and improve the market segmenting as well as product redevelopment of our key products such as Wang Lao Ji Liang Cha series, Xiao Ke Wan, Hua Tuo Zai Zao Wan and Xia Sang Ju Ke Li so as to cultivate new economic growth for the enterprise;
- (2) To continuously expedite the technology research and development, and accelerate the marketing of Kun Xian Capsule and the application of and commercial production of our new products such as Rabies Bacterin, and endeavor to nurture and develop new second-line products;
- (3) To expedite the progress of the Group's resources integration, further implement centralized purchases of Chinese raw medicines. In the meantime, to cope with the issue of rising prices of raw materials, we will employ purchases via bidding and centralized purchases so as to minimize purchase costs; and
- (4) To continuously improve foundation management capabilities through strengthening the governance over the enterprises subordinated to the Group and better control of clients' credit and receivables. Hence, operating risks can be minimized.



## VI. MAJOR EVENTS

### 1. CORPORATE GOVERNANCE OF THE COMPANY

During the Reporting Period, the Company has been in strict compliance with the provisions under the PRC Company Law (the “Company Law”), the PRC Securities Law (the “Securities Law”), the Code on Corporate Governance Practices for Listed Companies and the supervisory systems newly issued by the China Securities Regulatory Commission (“CSRC”), and has gradually consummated our corporate governance structure and relevant documents concerning internal control systems with reference to The Guidelines for Internal Control System of Listed Companies on the Shanghai Stock Exchange and other related regulations.

Details of the works commenced during the Reporting Period are set out as follows:

- (1) In order to regulate the dealings in securities of the Company by its directors, supervisors and senior management and to prevent unlawful transactions, the Company developed the Measures for Administration of Dealings in Securities of the Company by the Directors, Supervisors and Senior management in January 2007, which was implemented subject to the approval at the 30th Meeting of the Third Session of the Board of the Company.
- (2) In accordance with the requirements of Decree 33 “Corporate Accounting Standards - Basic Standards” issued by the Ministry of Finance of the PRC, the Company has applied the new accounting standards since 1 January 2007. Accordingly, the Company reviewed and revised the principle accounting policies and estimates applicable to the periods before 2007, which were adopted subject to the approval at the 31st Meeting of the Third Session of the Board of the Company.
- (3) In accordance with the requirements under the Notice on Performance of the Special Activities regarding Enhancement of Corporate Governance of Listed Companies (《關於開展加強上市公司治理專項活動有關事項的通知》) (Zheng Jian Gong Si Zi [2007] No. 28) issued by CSRC and the Notice on How to Successfully Perform the Special Activities regarding Corporate Governance of Listed Companies issued by Guangdong Securities Regulatory Bureau of CSRC (《關於做好上市公司治理專項活動有關工作的通知》) (Guangdong Zheng Jian [2007] No. 48), in April 2007, the Company established a work leader team specially responsible for special activities regarding corporate governance, which examined and solved the problems in respect of corporate governance within the Company, and developed the Self-Examination Report and Restructure Programs on the Special Activities regarding Enhancement of Corporate Governance of Listed Companies of Guangzhou Pharmaceutical Company Limited, which was disclosed publicly subject to the approval at the 1st Meeting of the Forth Session of the Board. At present, the Company is in the process of adjustment and correction of the problems and mistakes appearing during self-examination of corporate governance as scheduled.
- (4) In accordance with the provisions and requirements under the Company Law, Securities Law, Administrative Measures for Disclosure of Information of Listed Companies issued by CSRC and other relevant laws and regulations such as the Guidelines for Administration Systems regarding Disclosure of Information of Listed Companies issued by Shanghai Stock Exchange, the former Administration Systems regarding Disclosure of Information were revised in a full range and were duly implemented subject to the approval at the 2nd Meeting of the Forth Session of the Board, according to the actual circumstances of the Company.
- (5) In accordance with Corporate Internal Control Standards - Basic Standards and 26 specific standards (a consultation draft) issued by the Ministry of Finance of the PRC, we are committing to revise the Guidelines for Internal Control Standards regulating the Company and its subsidiaries, so as to improve the system of internal control standards and establishment of the re-assessment system of the Company and strengthen the examination of implementation of internal control systems, with compensation for the deficiency and elimination of potential troubles, and thus effectively control and reduce the operation risks, according to the actual circumstances of the Company.

As at the end of the Reporting Period, the corporate governance of the Company was in compliance with the requirements regarding normal operation of listed companies, and there were no material discrepancies from the requirements stipulated in the relevant documents issued by CSRC.



## 2. IMPLEMENTATION OF PROFIT DISTRIBUTION SCHEME AND INCREASE IN SHARE CAPITAL FROM CAPITAL RESERVE OR ISSUE OF NEW SHARES OF THE COMPANY FOR 2006

- (1) Pursuant to the resolutions on profit and dividend distribution passed at the 2006 annual general meeting held on 15 June 2007, 2006 final dividend of RMB0.84 (including withholding tax for A shares) for every 10 shares held was approved and paid, in cash, to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2006;
- (2) The final dividend of RMB0.084 per share for 2006 was paid to the Company's H shareholders whose names appeared on the register of the Company as at 15 May 2007 on 29 June 2007;
- (3) According to the announcement for 2006 final dividend published in Shanghai Securities News in the PRC on 26 June 2007, the registration date for A shares was 29 June 2007, the ex-dividend date was 30 June 2007 and the dividend payment date was 10 July 2007;
- (4) During the Reporting Period, the Company did not propose any new issue of shares.

## 3. INTERIM DIVIDENDS

The Board does not recommend the payment of interim dividends for the six months ended 30 June 2007 nor propose any increase in share capital from the capitalization of capital reserve.

## 4. DURING THE REPORTING PERIOD, THE GROUP HAS NO SIGNIFICANT LITIGATION OR ARBITRATION.

## 5. DURING THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS (INCLUDING SUBSIDIARIES OR JOINT VENTURES) OR BUSINESS COMBINATION AND OTHER TRANSACTIONS

- (1) Pursuant to the Equity Transfer Agreement entered into among the Company, GPHL, Anhui Huadong Chinese Medical Engineering Corporation Limited and five natural persons including Ms. Liu Ju Yan on 10 January 2007, a 26.04% equity interest in aggregate held by GPHL, Anhui Huadong Chinese Medical Engineering Corporation Limited and the above five natural persons in Guangzhou Han Fang was transferred to the Company.

On the same day, Guangzhou Han Fang entered into a merger Agreement (the "Agreement") with Guangzhou Huan Ye, a wholly-owned subsidiary of the Company. Pursuant to the Agreement, the parties agreed to the merger of Guangzhou Han Fang and Guangzhou Huan Ye through the injection of all the businesses, assets and liabilities of Guangzhou Huan Ye into Guangzhou Han Fang. Upon completion of the merger, Guangzhou Han Fang would be maintained with the dissolution of Guangzhou Huan Ye. Pursuant to the relevant requirements of Listing Rules on HKEx, the transfer of equity of Guangzhou Han Fang held by GPHL and five natural persons including Ms. Liu Ju Yan and the merger of Guangzhou Han Fang and Guangzhou Huan Ye constituted connected transactions of the Company. The Company considered the above connected transactions at the 29th Meeting of the Third Session of the Board on 10 January 2007. Currently, the procedures of approval in relation to the above transaction are under way.

Please refer to the published version of the announcement of the Company on Shanghai Securities News in the PRC, The Hong Kong Economic Times and Standard in Hong Kong, the PRC on 11 January 2007.

- (2) The Company agreed to transfer 10% of the equity of China National Medicines Corporation Ltd. held by the Company at the First Investment Management Committee Meeting on 12 January 2007. The procedures of the above transfer of equity were completed in May 2007.
- (3) On 17 January 2007, the Company purchased Sui Kang Mansion from Pharmaceuticals Corporation, a holding subsidiary of the Company, in consideration of RMB41,116,178. The relevant transfer procedures were completed on 29 March 2007.



- (4) On 27 January 2007, Contract for the Transfer of Capital Contribution of Guangzhou Pharmaceuticals Corporation was entered into between Jing Xiu Tang and Pan Gao Shou, both of which are subsidiaries of the Company, and 33 individuals and Alliance BMP Limited (“Alliance BMP”). On the same day, the Company and Alliance BMP entered into Capital Increase Contract for Guangzhou Pharmaceuticals Corporation, JV Contract and the Articles of Association of Guangzhou Pharmaceuticals Corporation (revised and restated). The Board of the Company considered the equity transfer and capital increase (the “Transactions”) at the 30th Meeting of the Third Session of the Board on 26 January 2007. The Transactions were submitted at the First EGM for 2007 and the First Class Meetings of the holders of overseas listed foreign capital shares and the holders of domestic shares for 2007 and was passed. Currently, the relevant procedures of the Transactions are under way.

Please refer to the published version of the announcement of the Company in Shanghai Securities News in the PRC on 29 January 2007, and The Hong Kong Economic Times and Standard in Hong Kong, the PRC on 31 January 2007.

- (5) The Company resolved at the Second Investment Management Committee Meeting for 2007 on 27 June 2007, to agree the capital injection of RMB 135 million to Zhong Yi by installments as the construction funds for GMP II.

## 6. MAJOR CONTRACTS AND THEIR PERFORMANCE

- (1) During the Reporting Period, the Company did not hold on trust, sub-contract or lease any assets of other companies or vice versa, which generated profit that accounted for 10% or more of the total profits for the period.
- (2) During the Reporting Period, the Company was not engaged in any entrusted fund management activities.

## 7. DURING THE REPORTING PERIOD, NO COMMITMENT WAS MADE, OR HAD BEEN MADE IN THE PREVIOUS PERIODS AND SUBSISTED IN THE REPORTING PERIOD, BY THE COMPANY OR ANY OF ITS SHAREHOLDERS HOLDING SHARES OF 5% OR MORE, WHICH HAD SIGNIFICANT IMPACT ON THE OPERATION RESULTS AND THE STATE OF AFFAIRS OF THE COMPANY.

## 8. BANK LOANS, OVERDRAFT AND OTHER BORROWINGS

As at 30 June 2007, the short-term borrowings of the Group were RMB971,631,000 (31 December 2006: RMB902,613,000), an increase by RMB69,018,000 as compared with those at the beginning of the Reporting Period.

## 9. GEARING RATIO

As at 30 June 2007, the Group’s gearing ratio (total liabilities/total assets x 100%) was 50.24% (31 December 2006: 45.78%).

## 10. COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Having reviewed the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the “Code”), the Company had complied with the requirements as set out in the Code during the Reporting Period and no material deviations from the Code occurred.



**11. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS**

The Company had adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules and Measures for the Administration of Trading Shares of the Company by Directors, Supervisors and Senior Management as stipulated by the Company as the standards and criteria for securities transactions entered into by Directors and Supervisors. After specific enquiries made to all Directors and Supervisors, the Company has confirmed that all the Company's Directors and Supervisors complied with the standards relating to Directors' and Supervisors' dealing in securities as set out in the above code and criteria during the Reporting Period.

- 12. THE AUDIT COMMITTEE OF THE FOURTH SESSION OF THE BOARD IS COMPRISED OF FOUR INDEPENDENT NON-EXECUTIVE DIRECTORS, ONE OF WHOM HAS APPROPRIATE PROFESSIONAL QUALIFICATION. THE AUDIT COMMITTEE OF THE COMPANY HAS REVIEWED THE ACCOUNTING POLICIES, ACCOUNTING STANDARDS AND TREATMENTS ADOPTED BY THE GROUP, AND DISCUSSED WITH THE MANAGEMENT ABOUT THE AUDIT, INTERNAL CONTROLS AND FINANCIAL REPORTING MATTERS. THE AUDIT COMMITTEE HAS ALSO REVIEWED THE UNAUDITED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2007.**
- 13. THE FINANCIAL REPORTS FOR THE REPORTING PERIOD OF THE COMPANY WERE UNAUDITED.**
- 14. DURING THE REPORTING PERIOD, NO INVESTIGATION, PUNISHMENT OR PUBLIC REPRIMAND BY THE CSRC, AND NO PUNISHMENT OR PUBLIC REPRIMAND BY OTHER REGULATORY BODIES AND THE HKEX WERE MADE AGAINST AND IMPOSED ON THE COMPANY, THE BOARD AND DIRECTORS.**
- 15. DURING THE REPORTING PERIOD, THERE WAS NO OTHER SIGNIFICANT EVENT OCCURRED WHICH MIGHT SIGNIFICANTLY AFFECT THE COMPANY.**



16. INDEX TO THE IMPORTANT INFORMATION DISCLOSED DURING THE REPORTING PERIOD

Disclosed information	Newspaper	Date	Website and the link
Announcement of Guangzhou Pharmaceutical on increasing in equity interest in a subsidiary and the merger of two subsidiaries, announcement of resolutions passed at the meeting of the Board and announcement of resolutions passed at the meeting of the Supervisory Committee		11 January 2007	
Announcement of Guangzhou Pharmaceutical		16 January 2007	
Announcement of Guangzhou Pharmaceutical on transferring equity interest in another subsidiary (Guangzhou Pharmaceuticals Corporation) by two subsidiaries and the capital increase of Guangzhou Pharmaceuticals Corporation and announcement of resolutions passed at the meeting of the Board and resolutions passed at the meeting of the Supervisory Committee		30 January 2007	
Announcement of Guangzhou Pharmaceutical	Shanghai Securities News		
Announcement of Guangzhou Pharmaceutical	Hong Kong Economic Times	12 February 2007	
Notices of Guangzhou Pharmaceutical of the first extraordinary general meeting, the class meeting of the holders of domestic shares and the class meeting of the holders of overseas listed foreign capital shares in 2007	The Standard	14 February 2007	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://gpc.wsfg.hk">http://gpc.wsfg.hk</a>
Second notice of Guangzhou Pharmaceutical of the first class meeting of overseas listed foreign capital shares in 2007		16 March 2007	
Report of equity changes of Guangzhou Pharmaceutical in respect of decreasing equity interest in the Company's shares by Guangzhou Pharmaceutical Holdings Limited and brief report of equity changes in Guangzhou Beicheng Rural Credit Cooperative in respect of its shareholding		21 March 2007	
Amendment announcement of Guangzhou Pharmaceutical in respect of report of equity changes of its shareholder		29 March 2007	
Announcement of Guangzhou Pharmaceutical		30 March 2007	



Disclosed information	Newspaper	Date	Website and the link
Announcement of Guangzhou Pharmaceutical to convene the first extraordinary general meeting in 2007, the class meeting of holders of domestic shares and the class meeting of holders of overseas listed foreign capital shares	Shanghai Securities News Hong Kong Economic Times The Standard	3 April 2007	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://gpc.wsfg.hk">http://gpc.wsfg.hk</a>
Announcement of Guangzhou Pharmaceutical on the Listing of Shares subject to Selling Restrictions		19 April 2007	
Notice of Guangzhou Pharmaceutical on the summary of 2006 report, report of the first quarter of 2007, announcement of resolutions passed at the meeting of the Board of Directors and announcement of resolutions passed at the meeting of the Board of Supervisory Committee in 2006		30 April 2007	
Announcement of resolutions passed at the 2006 general meeting, announcement of resolutions passed at the meeting of the Board of Directors and announcement of resolutions passed at the meeting of the Board of Supervisory Committee		18 June 2007	
Announcement of Guangzhou Pharmaceutical on dividend distribution in 2006		26 June 2007	
Announcement of Guangzhou Pharmaceutical on the resolutions passed at the meeting of the Board of Directors, governance and self-examination report and reconstruction plan of Guangzhou Pharmaceutical and the regulatory system of disclosed information on Guangzhou Pharmaceutical	Shanghai Securities News	30 June 2007	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://gpc.wsfg.hk">http://gpc.wsfg.hk</a>



## 17. OTHER MATTERS

- (1) During the Reporting Period, the Company strictly controlled the fund transactions with its controlling shareholder and other related parties, in accordance with Notice of CSRC [2003] No.56. During the Reporting Period, the total amount of capital utilized by the Company's controlling shareholder and its subsidiaries was as below:

Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the Company	Capital	Accumulated	Accumulated	Capital amount appropriated as at 30 June 2007 (RMB'000)	Reasons of appropriation	Nature of appropriation
			balance appropriated at the beginning of 2007 (RMB'000)	amount appropriated during January to June 2007 (RMB'000)	amount repaid during January to June 2007 (RMB'000)			
GPHL	Parent Company	Other receivables	4,071	—	366	3,705	Prepaid rental payments and payments in ordinary course of business	Operational appropriation
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	34,767	41,701	40,685	35,783	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	1,081	13,865	11,578	3,368	Payments for goods	Operational appropriation
		Prepayments	8,376	11,707	18,843	1,240	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	1,413	5,295	4,836	1,872	Payments for goods	Operational appropriation
		Prepayments	1,543	—	1,543	—	Payments for goods	Operational appropriation
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	701	1,475	1,976	200	Payments for goods	Operational appropriation
		Prepayments	109	2,720	109	2,720	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	6,901	19,891	18,361	8,431	Payments for goods	Operational appropriation
		Prepayments	8,748	21,459	6,206	24,001	Payments for goods	Operational appropriation
Guangzhou Huanan Medical Apparatus Co., Ltd	Fellow subsidiary	Other receivables	100	—	—	100	Payments for goods	Operational appropriation
Po Lian Development Co., Ltd	Fellow subsidiary	Accounts receivable	—	630	173	457	Payments for goods	Operational appropriation
		Prepayments	9,369	—	448	8,921	Payments for goods	Operational appropriation



Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the listed company	Capital	Accumulated	Accumulated	Capital	Reasons of appropriation	Nature of appropriation
			balance appropriated at the beginning of 2007 (RMB'000)	amount appropriated during January to June 2007 (RMB'000)	amount repaid during January to June 2007 (RMB'000)	amount appropriated as at 30 June 2007 (RMB'000)		
Hutchison Whampoa	Fellow subsidiary	Accounts receivable	693	7,272	6,970	995	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Chinese Medicine Co., Ltd		Prepayments	291	1	287	5	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Pharmaceutical Factory	Fellow subsidiary	Accounts receivable	3,919	11,797	11,438	4,278	Payments for goods	Operational appropriation
		Prepayments	—	142	—	142	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Chemical Medicine Factory	Fellow subsidiary	Accounts receivable	3,266	9,370	11,604	1,032	Payments for goods	Operational appropriation
Guangzhou Baiyunshan External Use Medicine Factory	Fellow subsidiary	Accounts receivable	858	1,030	1,394	494	Payments for goods	Operational appropriation
Guangzhou Pharmaceutical Goods and Supply Company	Fellow subsidiary	Accounts receivables	26	—	26	—	Payments for goods	Operational appropriation
Sub-total	—	—	86,232	148,355	136,843	97,744		Operational appropriation
Wang Lao Ji	Joint venture	Accounts receivable	980	69,365	66,888	3,457	Payments for goods	Operational appropriation
		Other receivables	697	—	697	—	Cost of right to use a trademark	Operational appropriation
		Prepayments	—	4,777	352	4,425	Payments for goods	Operational appropriation
Guangzhou Nuocheng Bio-technology Co., Ltd.	Joint venture	Other receivables	—	272	176	96	Payments on other party's behalf	Operational appropriation
Guangzhou Pharmaceutical Soccer Club Co., Ltd.	Joint venture	Accounts receivable	—	108	—	108	Payments for goods	Operational appropriation
		Other recivables	—	900	900	—	Payments on other party's behalf	Operational appropriation
Sub-total			1,677	75,422	69,013	8,086		
Grand total			87,909	223,777	205,856	105,830		



(2) **Explanation and independent opinions from Independent Directors in respect of accumulated and current external guarantees granted by the Company, and in respect of the amount of capital used by the controlling shareholder of the Company and other connected parties.**

According to CSRC [2003] No.56 the “Notice Concerning the Regulation on the Flow of Funds Between Listed Companies and Their Related Parties and the Provision of Guarantees by Listed Companies to External Parties”, we have conducted serious examination and implementation for the purpose of seeking truth from facts. The relevant information is as follows:

<b>Names of companies guaranteed</b>	<b>Amounts (RMB'000)</b>	<b>Guarantees</b>	<b>Terms of guarantee</b>
Pharmaceuticals Corporation	310,000.00	Borrowings as working capital	1 year
Chinese Medicine Corporation	10,000.00	Borrowings as working capital	1 year
Pharmaceutical Import & Export Corporation	10,000.00	Borrowings as working capital	1 year
Guangzhou Han Fang	51,920.00	Borrowings as working capital	1 year
Guangzhou Bai Di	10,000.00	Borrowings as working capital	1 year
Pharmaceuticals Corporation	45,580.00	Bills	1 year
Chinese Medicine Corporation	19,800.00	Bills and letters of credit	1 year
Pharmaceutical Import & Export Corporation	15,710.00	Bills	1 year
Total	<u>473,010.00</u>		

As at the date of the Reporting Period, except for the guarantees provided for holding subsidiaries, the Group had not provided any guarantees to the controlling shareholder and other connected parties.

## VII. FINANCIAL REPORTS *(see annex)*

- 1. THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH HONG KONG ACCOUNTING STANDARD 34 IS SET OUT FROM PAGES 34 TO 45.**
- 2. RECONCILIATION BETWEEN THE ACCOUNTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND HKFRS.**



## CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH HONG KONG ACCOUNTING STANDARDS 34 (UNAUDITED)

(FOR THE SIX MONTHS ENDED 30 JUNE 2007)

(ALL AMOUNTS IN RMB THOUSANDS UNLESS OTHERWISE STATED)

### CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

ASSETS	Note	As at	
		30 June 2007 Unaudited	31 December 2006 Restated
<b>Non-current assets</b>			
Property, plant and equipment	5	1,358,363	1,416,353
Investment properties	5	76,389	35,413
Land use rights	5	125,464	126,421
Intangible assets	5	34,816	38,045
Investments in associates		19,557	43,277
Interests in jointly controlled entities		221,894	185,131
Available-for-sale financial assets		11,900	30,098
Deferred income tax assets		65,377	64,638
<b>Total non-current assets</b>		<b>1,913,760</b>	<b>1,939,376</b>
<b>Current assets</b>			
Inventories		1,173,335	1,301,366
Trade and other receivables	6	2,687,341	1,980,256
Cash and cash equivalents		525,037	409,141
<b>Total current assets</b>		<b>4,385,713</b>	<b>3,690,763</b>
<b>Total assets</b>		<b>6,299,473</b>	<b>5,630,139</b>



## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)

	Note	As at	
		30 June 2007 Unaudited	31 December 2006 Restated
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	7	1,592,034	1,592,034
Reserves		1,049,988	1,064,980
Retained earnings		353,557	240,375
		<u>2,995,579</u>	<u>2,897,389</u>
Minority interest		187,437	182,991
		<u>3,183,016</u>	<u>3,080,380</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities		30,485	41,870
Employee benefits		42,766	48,502
		<u>73,251</u>	<u>90,372</u>
<b>Current liabilities</b>			
Trade and other payables	8	2,019,702	1,514,297
Current income tax liabilities		51,873	42,477
Borrowings	9	971,631	902,613
		<u>3,043,206</u>	<u>2,459,387</u>
<b>Total liabilities</b>		<u>3,116,457</u>	<u>2,549,759</u>
<b>Total equity and liabilities</b>		<u>6,299,473</u>	<u>5,630,139</u>
<b>Net current assets</b>		<u>1,342,507</u>	<u>1,231,376</u>
<b>Total assets less current liabilities</b>		<u>3,256,267</u>	<u>3,170,752</u>

The notes on pages 34 to 45 form an integral part of this condensed interim financial information.



## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited Six months ended 30 June	
		2007	2006 Restated
Sales	4	5,987,481	5,101,873
Cost of goods sold		(5,063,283)	(4,275,109)
<b>Gross profit</b>		<b>924,198</b>	826,764
Other gains (net)		39,215	44,122
Distribution costs		(445,596)	(391,636)
Administrative expenses		(260,471)	(275,376)
Other operating expenses		(3,172)	(3,554)
<b>Operating profit</b>	10	<b>254,174</b>	200,320
Finance costs		(34,126)	(26,505)
Share of losses of associates		(7)	(1,534)
Share of profits of jointly controlled entities		25,469	17,554
<b>Profit before tax</b>		<b>245,510</b>	189,835
Income tax expense	11	(84,427)	(52,502)
<b>Profit for the half-year</b>		<b>161,083</b>	137,333
<b>Attributable to:</b>			
— equity holders of the Company		151,191	128,848
— minority interest		9,892	8,485
		<b>161,083</b>	137,333
<b>Earnings per share for profit attributable to equity holders of the Company</b> (expressed in RMB per share)			
— basic and diluted		<b>0.186</b>	0.159
<b>Dividends</b>	12	—	—



The notes on pages 34 to 45 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to equity holders of the Company				Minority interest	Total equity
	Share capital	Reserves	Retained earnings	Total		
<b>Balance at 1 January 2006, as previously reported</b>	1,592,034	989,014	142,075	2,723,123	201,707	2,924,830
Effect of changes in accounting policies	—	(13,265)	13,265	—	—	—
<b>Balance at 1 January 2006, as restated</b>	1,592,034	975,749	155,340	2,723,123	201,707	2,924,830
Profit for the half-year, as restated	—	—	128,848	128,848	8,485	137,333
Dividends relating to 2005	—	—	(56,763)	(56,763)	(11,914)	(68,677)
Transfers	—	(1,743)	1,743	—	—	—
<b>Balance at 30 June 2006, as restated</b>	<u>1,592,034</u>	<u>974,006</u>	<u>229,168</u>	<u>2,795,208</u>	<u>198,278</u>	<u>2,993,486</u>
<b>Balance at 1 January 2007, as previously reported</b>	1,592,034	1,085,486	219,869	2,897,389	182,991	3,080,380
Effect of changes in accounting policies (note 3.2)	—	(20,506)	20,506	—	—	—
<b>Balance at 1 January 2007, as restated</b>	1,592,034	1,064,980	240,375	2,897,389	182,991	3,080,380
Profit for the half-year	—	—	151,191	151,191	9,892	161,083
Dividends relating to 2006	—	—	(68,117)	(68,117)	(5,446)	(73,563)
Revaluation of investment properties, net of tax	—	3,413	—	3,413	—	3,413
Transfers	—	(30,108)	30,108	—	—	—
Decrease in deferred tax liabilities due to the change in income tax rate	—	11,703	—	11,703	—	11,703
<b>Balance at 30 June 2007, as restated</b>	<u>1,592,034</u>	<u>1,049,988</u>	<u>353,557</u>	<u>2,995,579</u>	<u>187,437</u>	<u>3,183,016</u>



The notes on pages 34 to 45 form an integral part of this condensed interim financial information.

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2007	2006 Restated
<b>Cash flows from operating activities — net</b>	<b>95,615</b>	<b>37,878</b>
<b>Cash flows from investing activities:</b>		
— purchases from property, plant and equipment	(42,374)	(35,549)
— proceeds on disposal of property, plant and equipment	89	3,916
— proceeds from disposals of financial assets at fair value through profit and loss	—	15,909
— proceeds from disposals of available-for-sale financial assets	11,276	30,000
— other investing cash flows — net	20,706	8,613
<b>Cash flows from investing activities — net</b>	<b>(10,303)</b>	<b>22,889</b>
<b>Cash flows from financing activities:</b>		
— dividends paid to the Company's shareholders	(18,674)	(1,000)
— dividends paid to minority interest	(956)	(14,185)
— repayments of borrowings	(363,511)	(211,000)
— receipts from borrowings	444,906	158,000
— other financing cash flows — net	(31,181)	9,713
<b>Cash flows from financing activities — net</b>	<b>30,584</b>	<b>(58,472)</b>
<b>Net increase in cash and cash equivalents</b>	<b>115,896</b>	<b>2,295</b>
Cash and cash equivalents at 1 January	409,141	525,709
<b>Cash and cash equivalents at 30 June</b>	<b>525,037</b>	<b>528,004</b>



The notes on pages 34 to 45 form an integral part of this condensed interim financial information.

## SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. GENERAL INFORMATION

Guangzhou Pharmaceutical Company Limited (the “Company”) was established as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) on 1 September 1997. Its H shares have been listed on The Stock Exchange of Hong Kong Limited since 30 October 1997 and its A shares have been listed on The Shanghai Stock Exchange since 6 February 2001. The Company and its subsidiaries (together the “Group”) are principally engaged in the manufacture of Chinese Patent Medicine (“CPM”), the wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale, retail of Chinese raw medicine.

The address of its registered office is 45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC.

The condensed consolidated interim financial information was approved for issue on 17 August 2007.

### 2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2007 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

### 3. ACCOUNTING POLICIES

#### 3.1 Principal accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006 except for the change in accounting policies as described in note 3.2.

The following new standards, amendments to standards and interpretations have been effective in the current interim period:

HKAS 1 (Amendment)	'Presentation of Financial Statements: Amendments to Capital Disclosures', effective for annual periods beginning on or after 1 January 2007.
HKFRS 7	'Financial Instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007.
HK(IFRIC)-Int 7	'Applying the Restatement Approach under HKAS29, Financial Reporting in Hyperinflationary Economies', effective for annual periods beginning on or after 1 March 2006. It's not relevant to the Group's operations.
HK(IFRIC)-Int 8	'Scope of HKAS 2, Share-based Payment', effective for annual periods beginning on or after 1 May 2006. It's not relevant to the Group's operations.
HK(IFRIC)-Int 9	'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. It's not relevant to the Group's operations.
HK(IFRIC)-Int 10	'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. It does not have significant impact on the Group's operations.



### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.1 Principal accounting policies (Continued)

The following new standards and interpretations are not yet effective and have not been early adopted by the Group:

HKFRS 8	“Operating Segments”, effective for annual periods beginning on or after 1 January 2009.
HK(IFRIC)-Int 11	HKFRS2 -“Group and Treasury Share Transactions”, effective for annual periods beginning on or after 1 March 2007.
HK(IFRIC)-Int 12	“Service Concession Arrangements”, effective for annual periods beginning on or after 1 January 2008.

#### 3.2 Changes in accounting policies

In previous years, the Group's interests in jointly controlled entities were accounted for using proportionate consolidation. The Group combined its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognised the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that it was attributable to the other venturers. The Group did not recognise its share of profits or losses from the jointly controlled entities that result from the Group's purchase of assets from the jointly controlled entities until it resold the assets to an independent party. However, a loss on the transaction was recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

According to the new PRC Accounting Standards which have been effective from 1 January 2007, the Group changed its accounting policy for jointly controlled entities from proportionate consolidation to equity method since 1 January 2007 in its consolidated financial statements prepared in accordance with the new PRC Accounting Standards. In order to provide consistent financial information under PRC Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRS”) and enable the readers to better understand the Group's financial position and results of operation, the Group changed its accounting policy for jointly controlled entities from proportionate consolidation to equity method in its HKFRS financial statements as below:

Investments in jointly controlled entities are accounted for using the equity method and are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entities, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Diluted gains and losses in the jointly controlled entities are recognised in the consolidated income statement.



### 3. ACCOUNTING POLICIES (CONTINUED)

#### 3.2 Changes in accounting policies (Continued)

The changes in this accounting policy resulted in:

As at 31 December 2006

##### Consolidated balance sheet

Increase in:	
Interest in jointly controlled entities	185,131
Decrease in:	
Other non-current assets	67,134
Current assets	148,220
Non-current liabilities	1,636
Current liabilities	28,587
	<u>28,587</u>

Six months ended  
30 June 2006

##### Consolidated income statement

Increase in:	
Share of profits of jointly controlled entities	17,554
Decrease in:	
Revenue	160,252
Expenses	142,686
Income tax expense	12
	<u>12</u>

As at December 31 2006

##### Consolidated statement of changes in equity

Increase in:	
Retained earnings	20,506
Decrease in:	
Reserves	20,506
	<u>20,506</u>

### 4. SEGMENT INFORMATION

#### Primary reporting format — business segments

At 30 June 2007, 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; and
- Import and export of western pharmaceutical products, CPM and medical apparatus.

Other operations of the Group mainly comprise holding of investment properties and other investments, neither of these are of a sufficient size to be separately reported.



#### 4. SEGMENT INFORMATION (CONTINUED)

The segment results are as follows:

	Six months ended 30 June 2007					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
Total gross segment sales	1,322,678	4,921,045	176,478	139,066	(571,786)	5,987,481
Inter-segment sales	(46,893)	(514,646)	(25)	(10,222)	571,786	—
<b>Sales - net</b>	<b>1,275,785</b>	<b>4,406,399</b>	<b>176,453</b>	<b>128,844</b>	<b>—</b>	<b>5,987,481</b>
Segment results	221,884	86,203	4,118	4,234	(59,092)	257,347
Corporate unallocated costs						(3,173)
<b>Operating profit</b>						<b>254,174</b>
Finance costs						(34,126)
Share of losses of associates	(7)					(7)
Share of profits in jointly controlled entities	25,469					25,469
<b>Profit before tax</b>						<b>245,510</b>
Income tax expense						(84,427)
<b>Profit for the half-year</b>						<b>161,083</b>

  

	Six months ended 30 June 2006					
	Manufacturing Restated	Wholesale Restated	Retail Restated	Import and export Restated	Elimination Restated	Group Restated
Total gross segment sales	1,166,388	4,210,782	183,257	147,802	(606,356)	5,101,873
Inter-segment sales	(60,562)	(523,166)	(208)	(22,420)	606,356	—
<b>Sales - net</b>	<b>1,105,826</b>	<b>3,687,616</b>	<b>183,049</b>	<b>125,382</b>	<b>—</b>	<b>5,101,873</b>
Segment results	187,583	66,627	5,581	3,344	(61,132)	202,003
Corporate unallocated costs						(1,683)
<b>Operating profit</b>						<b>200,320</b>
Finance costs						(26,505)
Share of losses of associates	(1,534)					(1,534)
Share of profits in jointly controlled entities	17,554					17,554
<b>Profit before tax</b>						<b>189,835</b>
Income tax expense						(52,502)
<b>Profit for the half-year</b>						<b>137,333</b>



#### 4. SEGMENT INFORMATION (CONTINUED)

Other segment items included in the consolidated income statement are as follows:

	Six months ended 30 June 2007					
	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
Depreciation	45,268	8,414	1,097	91	1,676	56,546
Amortisation	4,992	2,787	46	15	104	7,944
Impairment losses	5,926	7,438	2	299	—	13,665
Reversal of impairment losses	(813)	(3)	(163)	—	—	(979)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	Six months ended 30 June 2006					
	Manufacturing Restated	Wholesale Restated	Retail Restated	Import and export Restated	Unallocated Restated	Group Restated
Depreciation	43,861	9,104	1,918	83	2,727	57,693
Amortisation	5,141	2,709	62	15	122	8,049
Impairment losses	7,814	7,170	—	844	—	15,828
Reversal of impairment losses	(2,559)	—	—	—	—	(2,559)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Unallocated costs represent corporate expenses. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

The segment assets and liabilities as at 30 June 2007 and capital expenditure for the six months then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
Assets	2,578,949	3,276,087	167,757	111,505	785,951	(862,227)	6,058,022
Associates	19,557	—	—	—	—	—	19,557
Jointly controlled entities	221,894	—	—	—	—	—	221,894
	<u>          </u>						
<b>Total assets</b>	<b>2,820,400</b>	<b>3,276,087</b>	<b>167,757</b>	<b>111,505</b>	<b>785,951</b>	<b>(862,227)</b>	<b>6,299,473</b>
	<u>          </u>						
<b>Liabilities</b>	<b>831,590</b>	<b>2,837,248</b>	<b>98,469</b>	<b>87,617</b>	<b>123,760</b>	<b>(862,227)</b>	<b>3,116,457</b>
	<u>          </u>						
<b>Capital expenditure</b>	<b>35,907</b>	<b>1,373</b>	<b>1,660</b>	<b>8</b>	<b>211</b>	<b>—</b>	<b>39,159</b>
	<u>          </u>						

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the six months ended 30 June 2006 are as follows:

	Manufacturing Restated	Wholesale Restated	Retail Restated	Import and export Restated	Unallocated Restated	Elimination Restated	Group Restated
Assets	2,417,432	2,781,627	182,883	111,858	605,250	(697,319)	5,401,731
Associates	43,277	—	—	—	—	—	43,277
Jointly controlled entities	185,131	—	—	—	—	—	185,131
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b>2,645,840</b>	<b>2,781,627</b>	<b>182,883</b>	<b>111,858</b>	<b>605,250</b>	<b>(697,319)</b>	<b>5,630,139</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Liabilities</b>	<b>631,548</b>	<b>2,346,688</b>	<b>87,416</b>	<b>86,370</b>	<b>95,056</b>	<b>(697,319)</b>	<b>2,549,759</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Capital expenditure</b>	<b>40,292</b>	<b>6,037</b>	<b>6</b>	<b>12</b>	<b>1,333</b>	<b>—</b>	<b>47,680</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

#### 4. SEGMENT INFORMATION (CONTINUED)

Segment assets consist primarily of tangible and intangible assets, inventories, receivables and operating cash. They exclude deferred taxation, investment properties and other investments.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to land use rights, property, plant and equipment and intangible assets.

##### Geographical segments

No geographical segments are presented as sales and results attributable to the markets outside the PRC are not more than 10% of the Group's consolidated sales and consolidated results.

#### 5. CAPITAL EXPENDITURE

	Property, plant and equipment	Investment properties	Land use rights	Intangible assets
<b>Six months ended 30 June 2007</b>				
<b>Opening net book amount as at 1 January 2007(as restated)</b>	<b>1,416,353</b>	<b>35,413</b>	<b>126,421</b>	<b>38,045</b>
Additions	35,401	—	694	3,064
Transfer to investment property	(36,425)	36,425	—	—
Fair value gains stated in equity	—	4,551	—	—
Disposals	(418)	—	—	—
Depreciation/amortisation	(56,546)	—	(1,651)	(6,293)
Impairment	(2)	—	—	—
	<u>1,358,363</u>	<u>76,389</u>	<u>125,464</u>	<u>34,816</u>
<b>Closing net book amount as at 30 June 2007</b>	<b>1,358,363</b>	<b>76,389</b>	<b>125,464</b>	<b>34,816</b>
<b>Six months ended 30 June 2006</b>				
<b>Opening net book amount as at 1 January 2006 (as restated)</b>	<b>1,489,235</b>	<b>8,712</b>	<b>133,278</b>	<b>49,506</b>
Additions	45,533	—	1,357	790
Disposals	(4,867)	—	—	—
Depreciation/amortisation	(57,693)	—	(1,706)	(6,343)
Impairment	(70)	—	—	—
	<u>1,472,138</u>	<u>8,712</u>	<u>132,929</u>	<u>43,953</u>
<b>Closing net book amount as at 30 June 2006</b>	<b>1,472,138</b>	<b>8,712</b>	<b>132,929</b>	<b>43,953</b>



## 6. TRADE AND OTHER RECEIVABLES

Trade receivables generated from credit sales generally have credit terms of one to three months. The ageing analysis of trade receivables (including amounts due from related parties of trading in nature) was as follows:

	As at	
	30 June 2007	31 December 2006 Restated
Trade receivables		
Within 6 months	1,759,073	1,305,309
6 months to 1 year	34,227	51,376
Over 1 year	58,907	43,768
	<u>1,852,207</u>	<u>1,400,453</u>
Less: provision for trade receivables	(55,092)	(45,314)
Trade receivables - net	<u><u>1,797,115</u></u>	<u><u>1,355,139</u></u>

## 7. SHARE CAPITAL



	As at	
	30 June 2007	31 December 2006
Share capital registered, issued and fully paid		
489,600,000 State shares of RMB1 each	489,600	489,600
219,900,000 H shares of RMB1 each	219,900	219,900
101,400,000 A shares of RMB1 each	101,400	101,400
	<u>810,900</u>	<u>810,900</u>
Share premium on issue of shares net of issuing expenses	781,134	781,134
	<u><u>1,592,034</u></u>	<u><u>1,592,034</u></u>

## 8. TRADE AND OTHER PAYABLES

At 30 June 2007, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) was as follows:

	As at	
	30 June 2007	31 December 2006 Restated
Within 1 year	1,172,590	1,015,816
1 year to 2 years	35,021	25,234
Over 2 years	32,500	22,621
	<u>1,240,111</u>	<u>1,063,671</u>

## 9. BORROWINGS

	As at	
	30 June 2007	31 December 2006 Restated
Current	<u>971,631</u>	<u>902,613</u>

Interest expense on borrowings for the six months ended 30 June 2007 amounted to approximately RMB 29,296,000 (30 June 2006: RMB 27,016,000 ).

## 10. OPERATING PROFIT

The following items have been credited/charged to the operating profit during the interim period:

	Six months ended 30 June	
	2007	2006 Restated
<b>Credited to:</b>		
Dividends income from available-for-sale financial assets	1,366	4,486
Income from disposal of financial assets at fair value through profit or loss	—	6,025
Reversal of impairment charge relating to trade and other receivables	<u>819</u>	<u>2,559</u>
<b>Charged to:</b>		
Impairment charge relating to trade and other receivables	13,655	9,950
Impairment charge relating to property, plant and equipment and intangible assets	2	70
Write-down of inventories to net realisable value	8	5,808
Depreciation and amortisation	64,490	65,742
Loss on disposal of property, plant and equipment	<u>329</u>	<u>951</u>



## 11. INCOME TAX EXPENSE

The PRC enterprise income tax has been provided at the principal rate of 33% (2006: 33%) on the estimated assessable profit for the period, except for a subsidiary which is regarded as a “foreign investment production enterprise” and a subsidiary which is regarded as an “advance technology enterprise”. The subsidiary, which is a “foreign investment production enterprise”, was established in a coastal economic development zone and the applicable enterprise income tax rate is 24%. The applicable enterprise income tax rate for the subsidiary qualified as an “advanced technology enterprise” is 15%.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the “new CIT Law”), which will be effective from 1 January 2008. Under the new CIT Law, group companies which currently adopt income tax at the rate of 33% will be subject to the rate of 25% from 1 January 2008. For the subsidiaries which are “foreign investment production enterprise” or “advanced technology enterprise”, the applicable tax rates will gradually increase from the current beneficial tax rates to 25% over a period of 5 years from 1 January 2008.

	<u>Six months ended 30 June</u>	
	<u>2007</u>	2006 Restated
Current income tax		
- PRC enterprise income tax	<b>85,985</b>	63,435
Deferred income tax	<b>(1,558)</b>	(10,933)
	<b><u>84,427</u></b>	<u>52,502</u>



## 12. DIVIDENDS

At a meeting held on 27 April 2007, the directors proposed a final dividend of RMB 0.084 per share for the year ended 31 December 2006, which has been reflected as an appropriation of retained earnings for the six months ended 30 June 2007.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).

## 13. CAPITAL COMMITMENTS

Capital commitments at the balance sheet date but not yet incurred were as follows:

	<u>As at</u>	
	<u>30 June 2007</u>	31 December 2006 Restated
Property, plant and equipment		
Contracted but not provided for	<b>39,657</b>	11,553
Authorised but not contracted for	<b>7,650</b>	13,580
	<b><u>47,307</u></b>	<u>25,133</u>

## 14 RELATED-PARTY TRANSACTIONS

The directors regard Guangzhou Pharmaceutical Holdings Limited, a PRC state-owned enterprise under the control and supervision of the Guangzhou Municipal Government, as the ultimate parent company.

Significant related party transactions, which were carried out in the normal courses of the Group's business were as follows:

	Note	Six months ended 30 June	
		2007	2006 Restated
<b>Ultimate holding company</b>			
Licence fee expenses	a	6,211	5,265
Service fee expenses	b	461	409
Welfare facilities fee expenses	c	128	123
Rental expenses	d	1,505	1,409
		<u>8,305</u>	<u>7,206</u>
<b>A jointly controlled entity</b>			
Sales of raw materials	e	59,287	40,872
Purchases of finished goods	e	51,216	88,723
		<u>110,503</u>	<u>129,595</u>
<b>Associated companies</b>			
Advertising fee expenses	e	9,770	12,600
<b>Fellow subsidiaries</b>			
Sales of finished goods and raw materials	e	96,096	101,383
Purchases of finished goods and raw materials	e	245,771	221,349
		<u>341,867</u>	<u>322,732</u>
<b>Other state-controlled entities</b>			
Sales of finished goods and raw materials	e	1,448,292	755,864
Purchases of finished goods and raw materials	e	628,123	325,435
Purchases of machinery and equipment	e	22	2,212
Service fee expenses	g	44,396	45,380
		<u>2,120,833</u>	<u>1,128,891</u>
<b>Key management compensation</b>			
Salaries and other benefits		632	493
Retirement scheme contributions		—	47
		<u>632</u>	<u>540</u>



## 14 RELATED-PARTY TRANSACTIONS (CONTINUED)

- (a) Pursuant to the Trademark License Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited (“GZPHL”), its ultimate holding company, on 1 September 1997 which was supplemented by an agreement dated 28 July 2005, GZPHL has granted the Company, its subsidiaries and a jointly controlled entity, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay a license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries and at 2.1% of the aggregate net sales of a jointly controlled entity.
- (b) Pursuant to the Accommodation Services Agreement entered into by the Company and GZPHL on 1 September 1997 which was supplemented by a notice dated 31 December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31 December 2007.
- (c) Pursuant to the Composite Services Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to GZPHL's total depreciation charges of the welfare facilities for the year ended 31 December 1997 plus a 10% annual increment based on the welfare facilities fee for the previous year. The Composite Services Agreement will expire on 31 December 2007.
- (d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 6 February 2004, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three and a half years at a fixed annual rent which is subject to an adjustment of standard rent as prescribed from time to time by Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable on actual consumption basis. The agreement will expire on 31 August 2007.
- (e) The sales and purchase transactions with a jointly controlled entity, fellow subsidiaries and other state-controlled entities were conducted at terms similar to those transactions with other third parties.
- (f) GZPHL, the parent of the Company, is a state-controlled entity directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to GZPHL group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither GZPHL nor the PRC government publishes financial statements available for public use.

The Group sells its products on wholesale and retail basis. The retail sales are conducted through the Group's retail outlets at market prices on cash basis. Due to the pervasiveness of the Group's retail transactions with the state-controlled enterprises' employees, the key management personnel and their close family members of state-controlled enterprises, and other related parties, there is no feasible way or a reliable system to track such transactions and to ensure the completeness of the disclosure. Therefore, the sales of goods disclosed above do not include retail sales to such related parties. Management believes that meaningful information relating to related party transactions have been adequately disclosed.

In addition, normal transactions entered into with financial institutions, public utilities providers and governmental departments and agencies have been excluded.

- (g) Service fees charged by the other state-controlled entities are primarily for activities relating to advertising and promotion, commercial insurance and transportation. Such transactions are entered into under normal market terms.



## 15 OTHER SIGNIFICANT EVENTS

Guangzhou Pharmaceutical Corporation Limited (“GPC Limited”) is a principal subsidiary of the Company. On 27 January 2007, all other investors of GPC Limited, except for the Company entered into “a share transfer agreement” with Alliance BMP, whereby the other investors agreed to transfer all their respective equity interests in GPC Limited to Alliance BMP.

In addition, on 27 January 2007, the Company entered into an agreement with Alliance BMP, whereby both parties agreed to increase the registered capital of GPC Limited from RMB222,000,000 to RMB400,000,000. Upon completion of the above transactions, the Company and Alliance BMP will each own 50% equity interest in GPC Limited. Since then, GPC Limited will cease to be a subsidiary of the Company and will become a jointly controlled entity of the Company.

Up to the date of this interim financial information, the above transaction has not yet been completed.

## 16 COMPARATIVE FIGURES

Besides the restatement as mentioned in preceding note 3.2, certain comparative figures in the cost of good sold, distribution costs and administrative expenses for the six months ended 30 June 2006 have been reclassified to conform to the current period presentation.



## RECONCILIATION BETWEEN THE ACCOUNTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

		As at	
		30 June 2007 (RMB'000) Unaudited	31 December 2006 (RMB'000) (Restated)
Net assets under PRC Accounting Standards		2,880,047	2,790,365
Intangible assets capitalised	1	21,864	27,006
Difference arising from fixed assets revaluation	2	124,064	126,547
Deferred government grants generated prior to the adoption of the new PRC Accounting Standards	3	(3,057)	(3,279)
The unrealised gains on transactions between the Group and jointly controlled entities	4	—	(1,231)
Provision for deferred tax liabilities arising from fixed assets revaluation	5	(29,348)	(41,870)
Impairment of goodwill	6	—	1,729
Revaluation of investment properties	7	16,516	13,104
Depreciation of investment properties	8	546	—
Difference in minority interest	10	(15,053)	(14,982)
Capital and reserves attributable to equity holders of the Company under HKFRS		<u>2,995,579</u>	<u>2,897,389</u>
		Unaudited Six months ended 30 June	
		2007 (RMB'000)	2006 (RMB'000) (Restated)
Net profit under PRC Accounting Standards		157,798	137,644
Amortisation of intangible assets	1	(5,142)	(5,142)
Additional depreciation on revalued fixed assets	2	(2,483)	(2,402)
Amortisation of government grants recognised as deferred income prior to the adoption of the new PRC Accounting Standards	3	222	220
The unrealised gains on transactions between the Group and jointly controlled entities	4	1,231	(2,075)
Provision for deferred tax liabilities arising from fixed assets revaluation	5	819	326
Impairment of goodwill	6	(1,729)	—
Depreciation of investment properties	8	546	—
Unsettled long outstanding payables written off recognised as income	9	—	250
Difference in minority interests	10	(71)	27
Profits attributable to equity holders of the Company under HKFRS		<u>151,191</u>	<u>128,848</u>



## RECONCILIATION BETWEEN THE ACCOUNTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)(*CONTINUED*)

1. This is an amortisation of staff quarter reform costs incurred by the Group in 2000 in relation to purchases of staff quarters by its employees. Under HKFRS, such cost are recognised as an intangible asset and are subject to amortisation on a straight-line basis over a period of 10 years to reflect the estimated remaining average service life of its employees over which the related economic benefits are recognised. Under PRC Accounting Standards, the staff quarter reform costs were written off as and when they were incurred.
2. The Group’s fixed assets were revalued by an international valuer in 1997 for the purpose of listing the Company’s H shares. The revaluation has been reflected in the financial statements of the Group prepared under HKFRS but not in the financial statements prepared under the new PRC Accounting Standards. Accordingly, the depreciation charge under HKFRS is higher than that calculated under the new PRC Accounting Standards since the depreciation charge under HKFRS is based on the revalued amount of fixed assets.
3. Prior to the adoption of the new PRC Accounting Standards, government subsidies granted in relation to purchases of fixed assets were recognised as capital reserve. Under both HKFRS and new PRC Accounting Standards, government subsidies are recognised as deferred income and credited to the income statement on a straight line basis in accordance with the estimated useful lives of the assets.
4. This relates to the unrealized gains for transactions between the Group and its jointly controlled entities. Under HKFRS, the unrealized gains are eliminated to the extent of the Group’s interest in the jointly controlled entities. Such elimination is not required under PRC Accounting Standards.
5. It represents the deferred tax liabilities arising from the revaluation of fixed assets as described in note 2 above.
6. The Group applied the retrospective approach to provide the impairment of goodwill in the financial statements prepared in accordance with the new PRC Accounting Standards. Under HKFRS, full provision for goodwill has been made in the current period.
7. Due to the change of usage, properties became investment properties in 2006 and during the current period. Under HKFRS, the difference resulting between the carrying amount and the fair value of the properties at the date of the transfer has been recognised in equity as a revaluation surplus. Such investment properties stated to at cost in the financial statements prepared in accordance with the PRC Accounting Standards.
8. The investment properties are stated at fair value and no depreciation is provided under HKFRS.
9. Before the application of the new PRC Accounting Standards, write-off of payables was recognised as capital reserve in the Group’s PRC financial statements. Under HKFRS, it was recognised in the income statement and was then transferred from profit after tax to capital reserve.
10. Due to the above adjustments, there is a difference in net profit / profit attributable to equity holders of the Company prepared under the new PRC Accounting Standards and HKFRS. This results in a difference in the minority interests.



## **VIII. DOCUMENTS AVAILABLE FOR INSPECTION**

1. The original copy of the interim report signed by the Chairman and the legal representative of the Company;
2. The original copy of the financial reports signed and stamped by the legal representative, the person in charge of the accounting function of the Company and the person in charge of an accounting firm;
3. The original copies of the documents and announcements published in the Shanghai Securities News in the PRC during the Reporting Period;
4. Other relevant documents.

The documents listed above are available at the Secretariat to the Board of the Company.

