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2008

Interim Report

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廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

(Stock code: 874)

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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 2008 (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 the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, the Chinese version shall prevail.

1. COMPANY PROFILE

- (1) Legal Chinese name: 廣州藥業股份有限公司
Chinese name abbreviation: 廣州藥業
English name: Guangzhou Pharmaceutical Company Limited
English name abbreviation: GPC
- (2) Name of stock exchanges and stock codes of the listed shares: A Shares: The Shanghai Stock Exchange
Stock code: 600332 Stock abbreviation: GZ Phar.
H Shares: The Stock Exchange of Hong Kong Limited
Stock code: 0874 Stock abbreviation: GZ Phar.
- (3) Registered address and office: 45 Sha Mian North Street, Guangzhou City
Guangdong Province, the PRC
Postal code: 510130
Telephone: (8620) 8121 8103
Fax: (8620) 8121 6408
Internet website: <http://www.gpc.com.cn>
E-mail: sec@gpc.com.cn
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center
89 Queensway, Hong Kong
- (4) Legal representative: Yang Rongming
- (5) Secretary to the Board: Pang Jianhui
Representative of securities affairs: Huang Xuezheng
Address: 45 Sha Mian North Street, Guangzhou City
Guangdong Province, the PRC
Telephone: (8620) 8121 8084 / 8121 8119
Fax: (8620) 8121 6408
E-mail: pangjh@gpc.com.cn / huangxz@gpc.com.cn
- (6) Designated newspaper for information disclosure: Mainland China – Shanghai Securities News
- Internet websites for publishing this interim report designated by:
The China Securities Regulatory Commission <http://www.sse.com.cn>
The Stock Exchange of Hong Kong Limited <http://www.hkex.com.hk>
- Place where this interim report is available for inspection: The Secretariat
Guangzhou Pharmaceutical Company Limited
2nd Floor, 45 Sha Mian North Street, Guangzhou City
Guangdong Province, the PRC

Company Profile

2. PRINCIPAL FINANCIAL DATA AND INDICATORS

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

Items	As at 30 June 2008 (Unaudited)	As at 31 December 2007 (Audited)	Changes as compared with 31 December 2007 (%)
Total assets (RMB'000)	5,417,797	6,206,944	(12.71)
Equity attributable to the shareholders of the Company (RMB'000)	3,110,204	3,060,348	1.63
Net assets per share attributable to the shareholders' of the Company (RMB)	3.84	3.77	1.63
Items	The Reporting Period (Unaudited)	The corresponding period of 2007 (Restated)	Changes as compared with the corresponding period of 2007 (%)
Operating revenue (RMB'000)	4,811,710	6,219,969	(22.64)
Operating profit (RMB'000)	211,003	255,491	(17.41)
Total profit (RMB'000)	215,537	256,943	(16.11)
Net profit attributable to the shareholders of the Company (RMB'000)	166,623	158,049	5.42
Net profit attributable to the shareholders of the Company after deducting non-operating items (RMB'000)	100,761	155,463	(35.19)
Basic earnings per share (RMB)	0.205	0.195	5.42
Diluted earnings per share (RMB)	0.205	0.195	5.42
Fully diluted return on net assets ratio (%)	5.36	5.49	A decrease of 0.13 percentage point
Weighted average return on net assets ratio (%)	5.30	5.51	A decrease of 0.21 percentage point
Net cash flows from operating activities (RMB'000)	(70,546)	168,962	(141.75)
Net cash flows per share from operating activities (RMB)	(0.09)	0.21	(141.75)

2. PRINCIPAL FINANCIAL DATA AND INDICATORS (Continued)

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

Notes:

- (a) The above financial data and indicators are computed based on the consolidated financial statements.
- (b) The joint venture project of Guangzhou Pharmaceuticals Corporation ("Pharmaceuticals Corporation"), an enterprise under the Company, was completed at the beginning of 2008 and its 50% of interest as held by the Company was accounted in the Group's accounts, which had significant effect on the consolidated financial data of the Group. In the first half of 2008, the sales of Pharmaceuticals Corporation was RMB 5,006,423,000, an increase of 17.72% compared with the same period of last year. The net profit of Pharmaceuticals Corporation for the first half of 2008 was RMB41,822,000, representing a growth of 31.51% as compared with the same period of last year.
- (c) Non-operating items include:

Items	Amount (RMB'000)
Gain/ (Loss) on disposal of non-current assets	16,439
Government subsidies recognized as current gain/(loss)	4,722
Gain/ (Loss) of entrusted loans	1,343
Gain on subscription of new shares	49,848
Non-operating expenses after deducting the above items	150
Income tax effect	(5,018)
Effect on minority interests	(1,622)
Total	65,862

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

Summary of assets and liabilities

Items	As at 30 June 2008 (Unaudited)	As at 31 December 2007 (Audited)	Changes as compared with 31 December 2007 (%)
Current assets (RMB'000)	3,822,138	4,578,995	(16.53)
Current liabilities (RMB'000)	2,158,210	2,873,115	(24.88)
Total assets (RMB'000)	5,597,624	6,367,843	(12.10)
Total liabilities (RMB'000)	2,234,715	2,950,451	(24.26)
Capital and reserves attributable to equity holders of the Company (RMB'000)	3,213,836	3,168,021	1.45
Net assets per share (RMB)	3.96	3.91	1.45

Company Profile

2. PRINCIPAL FINANCIAL DATA AND INDICATORS *(Continued)*

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

Summary of results

Items	The Reporting Period <i>(Unaudited)</i>	The corresponding period of 2007 <i>(Restated)</i>	Changes as compared with the corresponding period of 2007 <i>(%)</i>
Profit before income tax (RMB'000)	197,758	249,108	(20.61)
Profit attributable to equity holders of the Company (RMB'000)	149,463	151,191	(1.14)
Earnings per share (RMB)	0.184	0.186	(1.14)

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

		As at 30 June 2008 <i>(RMB'000)</i> <i>(Unaudited)</i>	As at 31 December 2007 <i>(RMB'000)</i> <i>(Audited)</i>
Net assets under PRC Accounting Standards		3,110,204	3,060,348
Intangible assets capitalised	1	–	16,669
Difference arising from fixed assets revaluation	2	121,245	123,728
Deferred government grants income generated prior to the adoption of the new PRC Accounting Standards	3	(2,253)	(2,833)
Provision for deferred tax liabilities arising from fixed assets revaluation	4	(39,102)	(35,536)
Revaluation of investment properties	5	37,787	19,634
Difference in minority interest	6	(14,045)	(13,989)
Capital and reserves attributable to equity holders of the Company under HKFRS		3,213,836	3,168,021

2. PRINCIPAL FINANCIAL DATA AND INDICATORS (Continued)

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

		For the six months ended 30 June	
		2008	2007
		(RMB'000)	(RMB'000)
		(Unaudited)	(Restated)
Net profits under PRC Accounting Standards		166,623	158,049
Amortisation of intangible assets	1	(16,669)	(5,142)
Additional depreciation on revalued fixed assets	2	(2,483)	(2,483)
Amortisation of government grants recognised as deferred income prior to the adoption of the new PRC Accounting Standards	3	580	222
Provision for deferred tax liabilities arising from fixed assets revaluation	4	807	819
Depreciation of investment properties	7	661	546
Difference in minority interest	6	(56)	(820)
Profits attributable to equity holders of the Company under HKFRS		149,463	151,191

Notes:

- 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 costs are recognised as an intangible asset and are subject to amortisation on a straight-line basis over 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.
- 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 as "deemed cost" in the financial statements of the Group prepared under HKFRS but not in the financial statements prepared under PRC Accounting Standards. Accordingly, the depreciation charge under HKFRS is higher than that calculated under the PRC Accounting Standards since the depreciation charge under HKFRS is based on the revalued amount of fixed assets.
- 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.
- It represents the deferred tax liabilities arising from the revaluation of fixed assets as described in note 2 above.
- Due to the change of usage, properties became investment properties in the relevant periods. Under HKFRS, the difference resulting between the carrying amount and the fair value of this property at the time of the change has been recognised in equity as a revaluation surplus. Such investment property is stated to at cost in the financial statements prepared in accordance with the PRC Accounting Standards.
- 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 interest.
- The investment properties are stated at fair value and no depreciation is provided under HKFRS.

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 with selling restrictions) (share)	Sub-total (share)	Number (share)	Percentage (%)
1. Shares with selling restrictions	428,058,509	52.79	–	–	–	(40,545,000)	(40,545,000)	387,513,509	47.79
(1) State-owned shares	–	–	–	–	–	–	–	–	–
(2) Shares held by State-owned legal entities	362,948,509	44.76	–	–	–	(20,747,000)	(20,747,000)	342,201,509	42.20
(3) Other domestic shares	65,110,000	8.03	–	–	–	(19,798,000)	(19,798,000)	45,312,000	5.59
Including: Shares held by domestic non-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 with selling restrictions	428,058,509	52.79	–	–	–	(40,545,000)	(40,545,000)	387,513,509	47.79
2. Shares without selling restrictions									
(1) Renminbi-denominated ordinary shares	162,941,491	20.09	–	–	–	40,545,000	40,545,000	203,486,491	25.09
(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 without selling restrictions	382,841,491	47.21	–	–	–	40,545,000	40,545,000	423,386,491	52.21
3. Total shares	810,900,000	100.00	–	–	–	–	–	810,900,000	100.00

Changes in Share Capital and Shareholdings of Major Shareholders

1. CHANGES IN SHARE CAPITAL *(Continued)*

On 24 April 2008, among the shares of GPC held by the controlling shareholder of the Company, namely Guangzhou Pharmaceutical Holdings Limited (“GPHL”), 23,711,737 shares with selling restrictions became tradable shares. In addition, 4,030,000 shares, 3,321,263 shares, 7,707,800 shares, 284,200 shares and 1,490,000 shares of GPC held respectively by Guangzhou Xinjiao Rural Credit Cooperative (“Xinjiao Cooperative”), Guangzhou Xinfeng Rural Credit Cooperative (“Xinfeng Cooperative”), Guangzhou Beicheng Rural Credit Cooperative (“Beicheng Cooperative”), Guangzhou Baiyun Rural Credit Cooperative (“Baiyun Cooperative”), Guangzhou Huangshi Rural Credit Cooperative (“Huangshi Cooperative”), which were shares with selling restrictions, became tradable shares on the same day.

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS

- (1) As at 30 June 2008, there were 39,098 shareholders in total, among which, 39,072 shareholders holding the Renminbi-denominated domestic ordinary shares (A shares) and 26 shareholders holding the overseas listed foreign capital shares (H shares).
- (2) As at 30 June 2008, the top ten shareholders of the Company and their shareholdings were as follows:

Name of shareholders	Nature of shares	Approximate percentage 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 with selling restrictions held (share)	Number of pledged or frozen shares (share)
GPHL	Domestic shares	48.14	390,333,391	2,964,737	342,201,509	Nil
HKSCC Nominees Limited	Foreign capital shares	27.07	219,493,299	(19,000)	Nil	Unknown
Beicheng Cooperative	Domestic shares	5.49	44,542,000	(2,128,000)	36,834,200	Nil
Bank of China – Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	Domestic shares	1.35	10,964,180	6,364,250	Nil	Unknown
Huangshi Cooperative	Domestic shares	1.05	8,524,000	(496,000)	7,120,000	Unknown
China Merchants Bank Co., Ltd. – China Everbright Pramerica Super stock-oriented Investment Fund	Domestic shares	0.91	7,397,117	(490,236)	Nil	Unknown
Agricultural Bank of China – Bank of Communication & Schroders Selective Equity Investment Fund	Domestic shares	0.57	4,609,670	4,609,670	Nil	Unknown
Xinjiao Cooperative	Domestic shares	0.40	3,276,750	(943,250)	Nil	Unknown
Agricultural Bank of China – Invesco Great Wall Resources Monopolies Equity Securities Investment Fund	Domestic shares	0.40	3,269,976	3,269,976	Nil	Unknown
Industrial Bank – Industrial Global Vision Stock-oriented Investment Fund	Domestic shares	0.40	3,259,182	3,259,182	Nil	Unknown

Changes in Share Capital and Shareholdings of Major Shareholders

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS (Continued)

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) Except for the shareholding investment rights of Beicheng Cooperative and Huangshi Cooperative in the Company belonging to Guangzhou Rural Credit Cooperative Union, the Company was not aware of any connection among other shareholders, or whether they were persons acting in concert as provided in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies".
- (3) As at 30 June 2008, the interests and short positions of other 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	Class of shares	Long position		Short position		Approximate % of issued domestic H shares (%)	Approximate % of issued H shares (%)
		Number of shares held (share)	Capacity	Number of shares held (share)	Capacity		
GPHL	Domestic shares	390,333,391	Beneficial owner	–	–	66.05	–
Beicheng Cooperative	Domestic shares	44,542,000	Beneficial owner	–	–	7.54	–
Deutsche Bank Aktiengesellschaft	H shares	100,937	Beneficial owner	100,000	Beneficial owner	–	7.99 (Long position)
		15,533,298	Investment manager	–	–	–	
		1,956,000	Person having a security interest in shares	1,506,000	Person having a security interest in shares	–	0.73 (Short position)
Greenwoods Asset Management Limited	H shares	16,780,900	Investment manager	–	–	–	7.63
Wellington Management Company, LLP	H shares	13,176,000	Investment manager	–	–	–	5.99
Martin Currie (Holdings) Limited	H shares	12,386,000	Interest in controlled company	–	–	–	5.63

As far as the Directors are aware, other than those listed above, as at 30 June 2008, 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.

Changes in Share Capital and Shareholdings of Major Shareholders

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS (Continued)

- (4) As at 30 June 2008, the top ten shareholders of the Company holding shares without selling restrictions and their shareholdings were as follows:

Name of shareholders	Number of shares held without selling restrictions (share)	Nature of shares
HKSCC Nominees Limited	219,493,299	Foreign capital shares
GPHL	48,131,882	Domestic shares
Bank of China – Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	10,964,180	Domestic shares
Beicheng Cooperative	7,707,800	Domestic shares
China Merchants Bank Co., Ltd. – China Everbright Pramerica Super Stock-oriented Investment Fund	7,397,117	Domestic shares
Agricultural Bank of China – Bank of Communications & Schroders Selective Equity Investment Fund	4,609,670	Domestic shares
Xinjiao Cooperative	3,276,750	Domestic shares
Agricultural Bank of China – Invesco Great Wall Resources Monopolies Equity Securities Investment Fund	3,269,976	Domestic shares
Industrial Bank – Industrial Global Vision Stock-oriented Investment Fund	3,259,182	Domestic shares
Boshi Value Growth Securities Investment Fund	2,999,839	Domestic shares

Notes:

- (a) According to the information provided by HKSCC Nominees Limited, the H shares under its name were held on behalf of a number of its clients.
- (b) The Company is not aware of any connection among the above-mentioned ten shareholders holding the shares without selling restrictions, or whether they are persons acting in concert as provided in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

Changes in Share Capital and Shareholdings of Major Shareholders

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS (Continued)

(5) Changes in shares with selling restrictions during the Reporting Period

Name of shareholders	Number of shares with selling restrictions held before change (share)	Change of number of shares (share)	Reason of change	Date of change	Number of shares with selling restrictions held after change (shares)
GPHL	362,948,509	2,964,737	Recovery of advanced share reform consideration	15 April 2008	365,913,246
	365,913,246	(23,711,737)	Listing and trade of shares with selling restrictions	24 April 2008	342,201,509
Xinjiao Cooperative	4,220,000	(190,000)	Repayment of advanced share reform consideration	15 April 2008	4,030,000
	4,030,000	(4,030,000)	Listing and trade of shares with selling restrictions	24 April 2008	0
Xinfeng Cooperative	3,480,000	(158,737)	Repayment of advanced share reform consideration	15 April 2008	3,321,263
	3,321,263	(3,321,263)	Listing and trade of shares with selling restrictions	24 April 2008	0
Beicheng Cooperative	46,670,000	(2,128,000)	Repayment of advanced share reform consideration	15 April 2008	44,542,000
	44,542,000	(7,707,800)	Listing and trade of shares with selling restrictions	24 April 2008	36,834,200
Baiyun Cooperative	1,720,000	(78,000)	Repayment of advanced share reform consideration	15 April 2008	1,642,000
	1,642,000	(284,200)	Listing and trade of shares with selling restrictions	24 April 2008	1,357,800
Huangshi Cooperative	9,020,000	(410,000)	Repayment of advanced share reform consideration	15 April 2008	8,610,000
	8,610,000	(1,490,000)	Listing and trade of shares with selling restrictions	24 April 2008	7,120,000

(6) The top ten shareholders holding shares with selling restrictions of the Company and terms of the selling restrictions as at the end of the Reporting Period

Number	Name of shareholders holding shares with selling restrictions	Number of shares with selling restrictions held (share)	Listing and trading of shares with selling restrictions		Undertakings
			To be listed and trading date	Number of additional tradable shares (share)	
1	GPHL	342,201,509	24 April 2009	342,201,509	Note (a)
2	Beicheng Cooperative	36,834,200	24 April 2009	36,834,200	Note (b)
3	Baiyun Cooperative	1,357,800	24 April 2009	1,357,800	Note (b)
4	Huangshi Cooperative	7,120,000	24 April 2009	7,120,000	Note (b)

Changes in Share Capital and Shareholdings of Major Shareholders

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS *(Continued)*

Notes:

- (a) The shares with selling restrictions held by GPLH 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 GPLH (which are shares with selling restrictions) shall not exceed 5% and 10% of the total issued shares of the Company in the following 12 months and 24 months respectively.
- (b) The shares of the Company held by institutions including Beicheng Cooperative, Baiyun Cooperative and Huangshi Cooperative were originally shares with selling restrictions held by GPLH. The listing and trading dates of those are in accordance with that of GPLH.

(7) 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.

Directors, Supervisors, Senior Management and Staff

1. INTEREST OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES

(1) The interest of Directors, Supervisors and Senior Management 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)	Number of shares held as at the end of the Reporting Period (share)	Reason of changes
Yang Rongming	Chairman	Nil	Nil	Nil	-
Shi Shaobin	Executive Director and General Manager	Nil	Nil	Nil	-
Feng Zansheng	Executive Director	Nil	Nil	Nil	-
Wong Hin Wing	Independent Non-executive Director	Nil	Nil	Nil	-
Liu Jinxiang	Independent Non-executive Director	Nil	Nil	Nil	-
Li Shanmin	Independent Non-executive Director	Nil	Nil	Nil	-
Zhang Yonghua	Independent Non-executive Director	Nil	Nil	Nil	-
Yang Xiuwei	Chairman of the Supervisory Committee	Nil	Nil	Nil	-
Wu Quan	Supervisor	Nil	Nil	Nil	-
Zhong Yugan	Supervisor	Nil	Nil	Nil	-
He Shuhua	Secretary to the Board (Resigned on 30 July 2008)	36,010	Nil	36,010	-
Su Guangfeng	Deputy General Manager	Nil	Nil	Nil	-
Chen Binghua	Financial Controller	6,240	Nil	6,240	-
Liu Juyan	Chief Technical Officer	Nil	Nil	Nil	-
Pang Jianhui	Secretary to the Board (Appointed on 30 July 2008)	Nil	Nil	Nil	-

Directors, Supervisors, Senior Management and Staff

1. INTEREST OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES (Continued)

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

- (a) As at 30 June 2008, 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
Shi Shaobin	Personal	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd ("Jing Xiu Tang")	25,000
		Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd ("Wang Lao Ji")	26,180
	Family	Jing Xiu Tang	11,000

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 2008, 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

- (1) At the seventh meeting of the Fourth Session of the Board of the Company, a written resolution was passed on 30 June 2008 to accept the resignation of Mr. He Shuhua as Deputy General Manager of the Company.
- (2) At the eighth meeting of the Fourth Session of the Board of the Company, a written resolution was passed on 30 July 2008 to accept the resignation of Mr. He Shuhua as Secretary to the Board of the Company, and to appoint Mr. Pang Jianhui as Secretary to the Board of the Company, with a term of office commencing from the date of appointment up to the date when the members of the Fifth Session of the Board are elected.

3. AS AT THE END OF THE REPORTING PERIOD, THE NUMBER OF THE GROUP'S EMPLOYEES WAS 7,842. 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 2008 WAS RMB202 MILLION.

Report of the Board of Directors

(Unless otherwise stated, the financial information 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

In the first half of 2008, the Group focused on controlling operating risks and improvement of operating quality, and proactively adjusted its operating strategies and marketing strategies according to changes in the market so as to lay solid foundation for the Group's long-term development.

In accordance with PRC Accounting Standards, revenue from the Group's principal operations for the Reporting Period was approximately RMB4,779,552,000, representing a decrease of 22.82% over that of the same period of last year. The total profit was approximately RMB215,537,000, representing a decrease of 16.11% over that of the same period of last year. Net profit was approximately RMB166,623,000, representing an increase of 5.42% over that of last year.

According to HKFRS, the turnover of the Group for the Reporting Period was approximately RMB4,779,552,000, representing a decrease of 22.82% over that of the same period of last year. The profit before income tax was approximately RMB197,758,000, representing a decrease of 20.61% over that of the same period of last year. The profit attributable to equity holders of the Company was approximately RMB149,463,000, representing a decrease of 1.14% 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:

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS *(Continued)*

(1) Operation review *(Continued)*

Prepared in accordance with PRC Accounting Standards

Items	The Reporting Period (RMB'000)	The corresponding period of 2007 (RMB'000)	Increase/ (Decrease) (YoY) (%)
Revenue from principal operations	4,779,552	6,192,417	(22.82)
Include: Manufacturing	1,357,347	1,522,748	(10.86)
Trading	3,422,205	4,669,669	(26.71)
Operating profit	211,003	255,491	(17.41)
Include: Manufacturing	177,468	207,155	(14.33)
Trading	33,535	48,336	(30.62)
Total profit	215,537	256,943	(16.11)
Include: Manufacturing	182,057	206,636	(11.89)
Trading	33,480	50,307	(33.45)
Net profit	166,623	158,049	5.42
Include: Manufacturing	142,211	127,697	11.37
Trading	24,412	30,352	(19.57)

Prepared in accordance with HKFRS

Turnover	4,779,552	6,192,417	(22.82)
Include: Manufacturing	1,357,347	1,522,748	(10.86)
Trading	3,422,205	4,669,669	(26.71)
Profit before income tax	197,758	249,108	(20.61)
Include: Manufacturing	165,941	185,570	(10.58)
Trading	31,817	63,538	(49.92)
Profit attributable to equity holders of the Company	149,463	151,191	(1.14)
Include: Manufacturing	127,335	107,267	18.71
Trading	22,128	43,924	(49.62)

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS (Continued)

(1) Operation review (Continued)

An analysis of the Group's principal activities for the first half year of 2008 is set out as follows:

	Revenue from principal operations		Costs of principal operations		Gross profit margin	
	Revenue from principal operations (RMB'000)	Increase/(decrease) over the same period of last year (%)	Cost of principal operations (RMB'000)	Increase/(decrease) over the same period of last year (%)	Gross profit margin (%)	Increase/(decrease) over the same period of last year (percentage point)
Principal activities:						
Under PRC Accounting Standards						
The Manufacturing operations of Chinese Patent Medicine	1,357,347	(10.86)	675,618	(8.80)	50.23	(1.13)
Trading	3,422,205	(26.71)	3,234,892	(26.51)	5.47	(0.26)
Include: Wholesale	3,209,391	(26.47)	3,054,981	(26.22)	4.81	(0.32)
Retail	124,760	(29.30)	96,806	(30.74)	22.41	1.62
Import and export	88,054	(31.52)	83,105	(31.70)	5.62	0.24
Under HKFRS						
The Manufacturing operations of Chinese Patent Medicine	1,357,347	(10.86)	675,618	(8.80)	50.23	(1.13)
Trading	3,422,205	(26.71)	3,234,892	(26.51)	5.47	(0.26)
Include: Wholesale	3,209,391	(26.47)	3,054,891	(26.22)	4.81	(0.32)
Retail	124,760	(29.30)	96,806	(30.74)	22.41	1.62
Import and export	88,054	(31.52)	83,105	(31.70)	5.62	0.24

For the first half of 2008, 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		
	Revenue from principal operations (RMB'000)	Increase/(decrease) over same period of last year (%)	Percentage of revenue from the manufacturing operations (%)	Revenue from principal operations (RMB'000)	Increase/(decrease) over same period of last year (%)	Percentage of revenue from the trading operations (%)	Revenue from principal operations (RMB'000)	Increase/(decrease) over the same period of last year (RMB'000)	Percentage of the total revenue from principal operations (%)
Southern China	825,397	(16.43)	60.81	2,970,356	(26.40)	86.80	3,795,753	(24.44)	79.42
Eastern China	225,155	(7.29)	16.59	158,979	(29.43)	4.65	384,134	(17.95)	8.04
Northern China	123,133	35.59	9.07	44,065	(47.27)	1.29	167,198	(4.12)	3.50
North-Eastern China	58,670	(18.07)	4.32	39,405	(29.87)	1.15	98,075	(23.26)	2.05
South-Western China	78,396	(5.36)	5.78	118,207	(28.45)	3.45	196,603	(20.74)	4.11
North-Western China	37,226	(2.96)	2.74	38,032	(24.28)	1.11	75,258	(15.05)	1.57
Exports	9,370	8.62	0.69	53,161	(0.67)	1.55	62,531	0.62	1.31
Total	1,357,347	(10.86)	100.00	3,422,205	(26.71)	100.00	4,779,552	(22.82)	100.00

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS *(Continued)*

(1) The Manufacturing Operations of Chinese Patent Medicine

During the Reporting Period, the revenue from principal operations of the Group's manufacturing operations was RMB 1,357,247,000, a decrease of 10.86% compared with the same period of last year, mainly due to sales of some key products not as good as expected: growth in sales of Xiao Ke Wan was relatively flat while sales of Xia Sang Ju Ke Li and Hua Tuo Zai Zao Wan recorded decreases. In order to further expand the market and improve sales of products, the Group's manufacturing operations expedited marketing innovation and adopted various measures. Firstly, we continuously enhanced market development in other provinces for the manufacturing operations, cooperated in implementation of the strategy of "Entering the West, Capturing the North, Developing the East", and consolidated its market share, so as to vertically exploit the market in depth. Secondly, we actively sought for distributors and agents with market expansion capacity, establishing strategic and cooperative relationship with them in an effort to expand distribution channels, continuously increasing sales to end-users. Thirdly, we strengthened academic promotion and marketing efforts, to expand influence in hospital markets. Fourthly, we put more effort in corporate and brand building, so as to continuously increase the influence and image of our brands.

During the Reporting Period, we adhered to science and technology innovation, accelerating the work in technological R&D. Guangzhou Baidi Biological Pharmaceutical Co., Ltd. ("Guangzhou Baidi"), a subsidiary of the Company, was granted production approval for Rabies Bacterin, and its product workshop has passed the national GMP site inspection; Guangzhou Xing Qun Pharmaceutical Co., Ltd. ("Xing Qun") was granted production approval for Diphenhydramine Hydrochloride Soft Capsule and successfully passed the inspection by Guangzhou Economic and Trading Committee on 30 January 2008; Guangzhou Zhong Yi Pharmaceutical Co., Ltd ("Zhong Yi ") was also granted clinical test approval for its category 5 new medicine named Mu Xiang Wei Tai Di Wan under research.

For the first half of 2008, there were 43 products which generated sales income exceeding RMB5 million. Sales of certain major products, including Wang Lao Ji Liang Cha, Guangdong Liang Cha Ke Li, Xiao Er Qi Xing Cha Chong Ji, Zhi Ke Chuan Bei Pi Pa Lu, Bao Ji Kou Fu Ye and Tian Huang Hou Zao San etc., significantly increased by 39.74%, 18.75%, 30.08%, 17.32%, 18.55%, and 44.58% respectively when compared with the corresponding period of last year.

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS (Continued)

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

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

Products	Revenue from principal operations		Costs of principal operations		Gross profit margin	
	Revenue from principal operations (RMB'000)	Increase/ (decrease) over the same period of last year (%)	Costs of principal operations (RMB'000)	Increase/ (decrease) over the same period of last year (%)	Gross profit margin (%)	Increase/ (decrease) over the same period of last year (percentage point)
Heat clearing and anti-toxic medicines	463,431	6.77	240,721	5.65	48.06	An increase of 0.55 percentage point
Including: herbal tea series (note)	332,224	8.99	180,616	4.87	45.63	An increase of 2.14 percentage points
Diabetic medicine	282,263	1.95	94,418	(1.04)	66.55	An increase of 1.01 percentage points
Cough and phlegm medicine	179,639	(1.30)	68,387	0.22	61.93	A decrease of 0.58 percentage point
Arthritic medicine	116,908	(27.79)	53,543	(21.97)	54.20	A decrease of 3.42 percentage points
Gastric medicine	42,177	(24.03)	22,041	(24.32)	47.74	A decrease of 0.20 percentage point
Other products	272,929	(33.82)	196,508	(21.88)	28.00	A decrease of 11.00 percentage points

Note: Herbal tea series includes Wang Lao Ji Qing Liang Cha, Pan Gao Shou Liang Cha, Xing Qun Xia Sang Ju Yin Liao and Chen Li Ji Drinks, among which, sales revenue of Wang Lao Ji's products was calculated according to the Company's 48.0465% shareholding held.

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

During the Reporting Period, as to the trading operations, firstly we steadily promoted our joint venture operation and restructuring, enabling the enterprise to advance to a new stage. The joint venture project of Pharmaceuticals Corporation and Alliance BMP Limited ("Alliance BMP") was completed at the beginning of the year and officially listed in February. Guangzhou Chinese Medicine Corporation was restructured to be a company with limited liabilities, and was renamed "Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd." ("Cai Zhi Lin"). Secondly, we actively sought for suppliers with good market expansion capacity to enlarge our distribution channels to boost the sales of our key distributing products. In the first half of the year, Pharmaceuticals Corporation strived to exploit new markets outside the Guangdong province, adhering to the strategy of product and sales diversifications, expediting the diversified operating model at the retail end, resulting in a 25% increase in sales of the top 100 products and maintaining a steady growth trend. Thirdly, We captured development opportunities to deepen the work of hospital bidding. Pharmaceuticals Corporation strengthened the communication with government authorities and kept close contact with hospitals, to enable strong growth of sales at hospitals. Meanwhile, we fought for cooperation with suppliers, receiving distribution authorizations for more products. Fourthly, we strengthened the collection of accounts receivable and increased the effectiveness of capital employment so as to minimize operation risks of enterprises.

As at 30 June 2008, the Group had 110 retail chain pharmacies, including 79 "Cai Zhi Lin" which specialized in traditional Chinese medicines, 28 "Jian Min" which specialized in chemical medicines, 1 pharmacy named Ying Bang and 2 other retail chain pharmacies.

Report of the Board of Directors

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

Name of enterprises	Equity directly held by the Company (%)	Revenue from principal operation (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries				
Xing Qun	88.99	133,184	(11,319)	(8,700)
Zhong Yi	100.00	361,359	58,146	43,095
Guangzhou Chen Li Ji Pharmaceutical Factory	100.00	120,825	16,125	12,562
Guangzhou Qi Xing Pharmaceutical Co., Ltd	75.00	147,800	18,995	11,402
Jing Xiu Tang	88.40	111,105	18,091	13,555
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd ("Pan Gao Shou")	87.77	167,758	30,461	22,353
Guangzhou Huan Ye Pharmaceutical Co., Ltd ("Guangzhou Huan Ye")	100.00	27,924	838	838
Guangxi Ying Kang Pharmaceutical Co., Ltd	51.00	14,716	(81)	(81)
Guangzhou Bai Di	97.26	500	(5,732)	(5,732)
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd ("Guangzhou Han Fang")	96.93	9,886	(7,380)	(7,380)
Cai Zhi Lin Pharmaceutical Guangzhou Pharmaceutical Import & Export Corporation ("Pharmaceutical Import & Export Corporation")	100.00	685,487	1,045	1,060
	100.00	152,220	1,557	1,150
(2) Branch company				
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	–	297,819	2,103	1,578
(3) Joint ventures				
Wang Lao Ji (<i>note</i>)	48.05	691,207	133,171	114,624
Pharmaceuticals Corporation (<i>note</i>)	50.00	5,006,423	58,783	41,822

Note: The results of Wang Lao Ji and Pharmaceuticals Corporation were stated in full amount in the above table.

Report of the Board of Directors

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

Proceeds from the issuance of A shares of the Company have been used up by 31 December 2007.

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

(1) Changes in major accounting items

Items	30 June 2008 (RMB'000)	1 January 2008 (RMB'000)	Changes (%)	Reasons for the change
Financial assets available for sale	4,973	9,217	(46.05)	On 30 June 2008, the stock market value of Huadong Medicine and Bank of Communications held by the Group decreased.
Project under construction	187,056	101,891	83.58	In the first of 2008, the Group continued to increase investment in GMP transformation project for development of greater and stronger Zhong Yi.
Dividend payable	58,503	2,032	2,779.73	As at 30 June 2008, certain shareholders of the Company did not claim dividends for 2007.
Drawing expense in advance	63,287	13,487	369.24	On 30 June 2008, the advertisement cost of the Group, which has been implemented but not settled, increased significantly.

Report of the Board of Directors

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

(1) Changes in major accounting items (Continued)

Items	The Reporting Period (RMB'000)	The corresponding period of last year (RMB'000)	Changes (%)	Reasons for the change
Asset impairment loss	17,816	12,625	41.12	Provision for bad and doubtful accounts increased due to accounts receivable as at the end of the Reporting Period rose.
Investment income	68,529	2,515	2,625.28	From January to June 2008, due to premium income from additional investment in Pharmaceuticals Corporation by Alliance BMP, and gains in transferring shareholding in Pharmaceuticals Corporation by Jing Xiu Tang and Pan Gao Shou, subsidiaries of the Company.
Non-operation revenue	7,308	4,419	65.37	From January to June 2008, the government grants received by the Group increased compared with the same period of last year.
Net cash flow generated from operation activities	(70,546)	168,962	(141.75)	With the effect of national enhanced micro regulation, accounts receivable increased, and capital return was slower than last year.

Report of the Board of Directors

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

(2) Liquidity, financial resources and capital structure

As at 30 June 2008, the current ratio of the Group was 1.85 (as at 30 June 2007: 1.50) and the quick ratio was 1.31 (as at 30 June 2007: 1.10). During the Reporting Period, annual turnover rate for accounts receivable was 9.83 times, representing an increase of 6.97% when compared with the corresponding period of last year, and annual inventory turnover rate was 7.25 times, representing a decrease of 10.57% when compared with the corresponding period of last year.

As at 30 June 2008, the cash and cash equivalents of the Group amounted to RMB611,454,000 (as at 30 June 2007: RMB634,492,000), of which approximately 99.78% is denominated in RMB and 0.22% is denominated in foreign currencies such as Hong Kong dollars.

As at 30 June 2008, the current liabilities of the Group amounted to RMB2,057,258,000, and its short-term borrowings were RMB652,054,000 (as at 30 June 2007: RMB957,217,000).

(3) Capital expenditure

The Group expected that capital expenditure for the year 2008 will be approximately RMB335 million and actual expenditure in the first half of 2008 amounted to RMB106 million (2007: RMB115 million), which was mainly due to investment in GMP transformation project for development of greater and stronger Zhong Yi.

(4) Foreign exchange risk

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

(5) Contingent liabilities

As at 30 June 2008, the Group had no significant contingent liabilities.

(6) Charge on the Group's assets

As at 30 June 2008, the net book value of fixed assets and intangible assets pledged as security for bank loans granted to the Group amounted to RMB51,326,000.

(7) Bank loans, overdraft and other borrowings

As at 30 June 2008, the short-term borrowings of the Group were RMB652,054,000 (31 December 2007: RMB956,488,000), a decrease of RMB304,434,000 as compared with the beginning of the Reporting Period.

(8) Gearing ratio

As at 30 June 2008, the Group's gearing ratio (total liabilities/total assets x 100%) was 40.13% (31 December 2007: 46.93%).

Report of the Board of Directors

7. ISSUES AND DIFFICULTIES ENCOUNTERED IN OPERATIONS AND PLANS FOR THE SECOND HALF OF 2008

In 2008, factors such as more challenging environment of the national macro-economy, the rising prices of energy and raw materials and higher operating cost, natural disasters such as the snow disaster and earthquake and the increasingly fierce competition in the domestic pharmaceutical industry have all caused certain impact on the Group's operating results. However, the general positive development of the pharmaceutical industry, close attention paid by government authorities at different stages of development of Chinese medicine industry, the new reform on medical system to promote market development of Chinese medicine, etc., will bring ample development opportunities to the Group's business.

The business plans for the second half of 2008 mainly include:

- (1) To continuously carry out the activities of the "Year of Market Innovation" to improve quality of operation. After throughout market research and analyses, we will enlarge and secure the market shares of key products such as Wang Lao Ji Liang Cha series, Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xiao Er Qi Xing Cha Chong Ji, She Dan Chuan Bei Pi Pa Gao in various manners such as patent protection and technology innovation;
- (2) To continuously work out the advantages of industrial and commercial cooperation and integration of internal resources, taking into account of resources and advantages of individual enterprises and features of various products, endeavors to enhance efficiency by means of standardized operation;
- (3) To continuously accelerate involvement in scientific R&D and speed up the technological research and development, and expedite the marketing of Kun Xian Capsule and the application and commercial production of our new products such as Rabies Bacterin, and endeavor to nurture new points of economic growth; and
- (4) To further improve the internal control systems through regulating corporate operating procedures so as to lay solid foundation for long-term development of the Group.

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.

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.

During the Reporting Period and after the period, the Company carried out work related to corporate governance, including:

- (a) We have fully implemented Internal Control Guidelines formulated by the Company. All enterprises have been making further amendment and improvement of such internal management system according to Internal Control Guidelines and gradually implemented;
- (b) The Company reviewed conditions of all items listed in the corporate governance report ended 30 June 2008 according to Notice on Specified Activities of Corporate Governance (notice of CSRC [2008] File No. 27) issued by CSRC, and worked out Description on Condition of Corporate Governance, which was disclosed on 31 July 2008 after audit by Guangdong Securities Regulatory Bureau.
- (c) The Company fully reviewed the allocation conditions of the capital ended 30 June 2008 according to Notice on Well Prevention from Occurrence of Capital Allocation of Listed Companies (Guangdong SR [2008] File No. 92) issued by Guangdong Securities Regulatory Bureau, and worked out Report on Capital Allocated by Controlling Shareholders and their Related Parties, which was disclosed on 11 August 2008.
- (d) The Company set up Management on Prevention from Capital Allocated by Controlling Shareholders and their Related Parties so as to further improve effective regulation on capital flow and prevent funds utilized by substantial shareholders. The Management was implemented upon approval in 9th meeting of the Fourth Section of the Board held on 8 August 2008.

Major Events

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

- (1) Pursuant to the resolutions on profit and dividend distribution passed at the 2007 annual general meeting held on 29 May 2008, 2007 cash bonus of RMB1.24 (including withholding tax for A shares) for every 10 shares held was approved and paid to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2007;
- (2) The final dividend of RMB0.124 per share for 2007 was paid to the Company's H shareholders whose names appeared on the register of the Company as at 28 April 2008 on 13 June 2008;
- (3) According to the announcement for 2007 final dividend published in Shanghai Securities News in the PRC on 10 June 2008, the registration date for A shares was 13 June 2008, the ex-dividend date was 16 June 2008 and the dividend payment date was 23 June 2008;
- (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 2008 nor propose any increase in share capital from the capitalization of capital reserve.

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

5. ASSET ACQUIRED AND SOLD BY THE COMPANY (INCLUDING ITS SUBSIDIARIES AND JOINT VENTURES), MERGER AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD

- (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 Juyan 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 with Guangzhou Huan Ye (please refer to the announcement of the Company on Shanghai Securities News in the PRC, Hong Kong Economic Times and The Standard in Hong Kong, the PRC published on 11 January 2007).

At present, the approval procedures for our acquisition of the interest in Guangzhou Han Fang from GPHL, Anhui Hua Dong Chinese Medical Engineering Corporation Limited and five individuals have been completed, while the approval procedures for the merger of Guangzhou Han Fang and Guangzhou Huan Ye are underway.

5. ASSET ACQUIRED AND SOLD BY THE COMPANY (INCLUDING ITS SUBSIDIARIES AND JOINT VENTURES), MERGER AND OTHER TRANSACTIONS DURING THE REPORTING PERIOD *(Continued)*

- (2) 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 natural persons and Alliance BMP. On the same day, the Company and Alliance BMP executed the Capital Increase Contract in Guangzhou Pharmaceuticals Corporation, Joint Venture Contract and the revised and restated Articles of Association of Guangzhou Pharmaceuticals Corporation. The above equity transfer and capital increase (the "Transactions") were approved 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.

Following the approval by the relevant government departments, the Pharmaceuticals Corporation submitted the application to the Industrial and Commercial Administration Department regarding the conversion to a sino-foreign equity joint venture. The above transactions were completed on 28 January 2008. The joint venture was officially listed on 26 February 2008.

- (3) On 28 March 2008, the Company and GPLH entered into the Agreement in relation to the Sales and Purchase Connected Transactions for connected transactions in sales and purchase conducted in the ordinary course of business. The Agreement in relation to the Sales and Purchase Connected Transactions and transactions under the Agreement were approved at the Board meeting on 28 March 2008 and the 2007 annual general meeting on 29 May 2008.

Please refer to the announcement of the Company on Shanghai Securities News in the PRC published on 31 March 2008 for details.

- (4) On 28 March 2008, it was approved at the 5th Meeting of the Fourth Session of the Board to capitalise the borrowings by the Company from Guangzhou Hang Fang and Guangzhou Bai Di of RMB 35 million and RMB 48 million respectively (Please refer to the announcement of resolutions at the 5th Meeting of the Fourth Session of the Board dated 28 March 2008 for details). At present, the formalities in relation to the capitalization of borrowings from Guangzhou Hang Fang and Guangzhou Bai Di was completed.

- (5) Connected transactions

For details of normal connected transactions please see notes to financial statements.

Major Events

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 would generate 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 OPERATING RESULTS AND THE STATE OF AFFAIRS OF THE COMPANY NOR ANY FURTHER COMMITMENT FOR SHARES WITH SELLING RESTRICTIONS.

8. INFORMATION ON SECURITIES INVESTMENT

No.	Stock code	Stock name	Number of shares held as at the end of the Reporting Period (share)	Initial investment amount (RMB'000)	Book value as at the beginning of the Reporting Period (RMB'000)	Book value at the end of the Reporting Period (RMB'000)	Accounting item
1	600038	Hafei Aviation Industry Co., Ltd.	57,810	1,806	1,806	881	Trading financial assets (note (a))
2	600664	Harbin Pharmaceutical Group Co., Ltd.	222,546	3,705	3,705	2,488	Trading financial assets (note (a))
3	601328	Bank of Communications	313,790	332	5,666	2,347	Financial assets available for sale (note (b))
4	000963	Huadong Medicine Co., Ltd.	215,248	127	3,552	2,626	Financial assets available for sale (note (b))

Note:

- (a) In August 2002, the Company acquired the treasury bond of RMB10 million with its working capital and deposited in the Company's securities account at Nanfang Security Co., Ltd. ("Nanfang Security"). At the end of 2004, the above treasury bond was confiscated due to the bankruptcy of Nanfang Security.

On 6 December 2007, the property distribution proposal for the first bankruptcy of Nanfang Security was passed at the 2nd meeting of creditors of Nanfang Security. The proposal has obtained approval from Guangdong Province Shenzhen Intermediate People's Court. On 24 December 2007, the Company received the above shares transferred through non-trading transfer method and RMB374,912.55 in cash from the liquidator team of Nanfang Security.

- (b) The shares of Bank of Communications and Huadong Medicine Co., Ltd. were being held by the subsidiaries of the Company. Those shares have been listed on the Shanghai Stock Exchange and were calculated as transfer of long term equity investment into available-for-sale financial assets according to New Accounting Standards.

9. INFORMATION ON THE COMPANY'S INTERESTS IN OTHER NON-LISTED FINANCIAL INSTITUTIONS

Name	Initial investment amount (RMB'000)	Number of shares held (share)	% of shareholding (%)	Book value as at the beginning of the Reporting Period (RMB'000)	Book value as at the end of the Reporting Period (RMB'000)
China Everbright Bank Company Limited	10,725	6,050,000	0.07	10,725	10,725
Golden Eagle Fund Management Co., Ltd.	20,000	-	20.00	15,658	16,603
Total	30,725	-	-	26,383	27,328

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.

Major Events

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 2008.

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 THE DIRECTORS.

15. DURING THE REPORTING PERIOD, THERE WAS NO OTHER SIGNIFICANT EVENTS 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 completion of major transaction	Page D16 of Shanghai Securities News	29 January 2008	http://www.sse.com.cn http://www.hkex.com.hk
Announcement of Guangzhou Pharmaceutical	Page A6 of Shanghai Securities News	3 March 2008	http://gpc.wsfg.hk
Announcement of Guangzhou Pharmaceutical on the date for holding the Board meeting	/	13 March 2008	http://www.hkex.com.hk http://gpc.wsfg.hk
Announcement of Guangzhou Pharmaceutical on the fifth meeting of the Fourth Session of the Board, announcement on the resolutions of the fourth meeting of the Fourth Session of Supervisory Committee and announcement on continuing connected transaction	Page A13 and A14 of Shanghai Securities News	31 March 2008	
Announcement of Guangzhou Pharmaceutical on convening 2007 Annual General Meeting	Page 16 of Shanghai Securities News	14 April 2008	http://www.sse.com.cn http://www.hkex.com.hk http://gpc.wsfg.hk
Announcement of Guangzhou Pharmaceutical on listing of circulating shares subject to selling restrictions	Page D88 of Shanghai Securities News	18 April 2008	
2008 First Quarterly Report of Guangzhou Pharmaceutical	Page D73 of Shanghai Securities News	30 April 2008	
Announcement of Guangzhou Pharmaceutical on resolutions of 2007 Annual General Meeting	Page D16 of Shanghai Securities News	30 May 2008	
Announcement of Annual General Meeting on payment of 2007 dividend	Page A14 of Shanghai Securities News	10 June 2008	http://www.sse.com.cn
Announcement of the seventh meeting of the Fourth Session of the Board of Guangzhou Pharmaceuticals	Page D22 of Shanghai Securities News	1 July 2008	
Announcement of the eighth meeting of the Fourth Session of the Board of Guangzhou Pharmaceuticals	Page C9 of Shanghai Securities News	31 July 2008	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of the ninth meeting of the Fourth Session of the Board of Guangzhou Pharmaceuticals	Page A8 of Shanghai Securities News	11 August 2008	

Major Events

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 other connected parties was as below:

Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the Company	Capital balance appropriated at the beginning of 2008 (RMB 000)	Accumulated amount appropriated during January to June 2008 (RMB 000)	Accumulated amount repaid during January to June 2008 (RMB 000)	Capital amount appropriated as at 30 June 2008 (RMB 000)	Reasons of appropriation	Nature of appropriation
GPHL	Parent Company	Other receivables	3,404	18	338	3,084	Prepaid rental payments and payments in ordinary course of business	Operational appropriation
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	513	425	821	117	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	3,571	15,699	17,380	1,890	Payments for goods	Operational appropriation
		Prepayments	5,504	2,369	7,873	-	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	1,320	3,838	3,607	1,551	Payments for goods	Operational appropriation
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	1,710	3,226	3,025	1,911	Payments for goods	Operational appropriation
		Prepayments	6,000	39,529	31,874	13,655	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	3,747	25,778	20,379	9,146	Payments for goods	Operational appropriation
		Prepayments	648	12,014	11,858	804	Payments for goods	Operational appropriation
Guangzhou Hua Nan Medical Apparatus Co., Ltd.	Fellow subsidiary	Other receivables	100	-	-	100	Payments for goods	Operational appropriation
Po Lian Development Co., Ltd.	Fellow subsidiary	Accounts receivable	363	1,510	1,445	428	Payments for goods	Operational appropriation
		Prepayments	-	14,484	13,770	714	Payments for goods	Operational appropriation
Guangzhou Pharmaceutical Industry Research Institute	Fellow subsidiary	Accounts receivable	1	4	3	2	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Fellow subsidiary	Accounts receivable	2,454	17,987	16,954	3,487	Payments for goods	Operational appropriation
		Prepayments	-	315	-	315	Payments for goods	Operational appropriation

17. OTHER MATTERS (Continued)

- (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 other connected parties was as below:
(Continued)

Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the Company	Capital balance appropriated at the beginning of 2008 (RMB 000)	Accumulated amount appropriated during January to June 2008 (RMB 000)	Accumulated amount repaid during January to June 2008 (RMB 000)	Capital amount appropriated as at 30 June 2008 (RMB 000)	Reasons of appropriation	Nature of appropriation
Guangzhou Baiyunshan Pharmaceutical Co., Ltd Guangzhou Baiyunshan Pharmaceutical General Factory	Fellow subsidiary	Accounts receivable	7,180	21,449	14,944	13,685	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Pharmaceutical Co., Ltd Guangzhou Baiyunshan Chemical Medicine Factory	Fellow subsidiary	Accounts receivable	1,184	9,617	6,447	4,354	Payments for goods	Operational appropriation
		Prepayments	-	30	-	30	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Pharmaceutical Technology Development Company Limited	Fellow subsidiary	Accounts receivable	-	73,517	53,801	19,716	Payments for goods	Operational appropriation
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	1	10	4	7	Payments for goods	Operational appropriation
Wang Lao Ji	Joint venture	Accounts receivable	490	28,297	26,561	2,226	Payments for goods	Operational appropriation
		Other receivables	465	2,174	465	2,174	Cost of right to use a trademark	Operational appropriation
		Prepayments	486	139	571	54	Payments for goods	Operational appropriation
Pharmaceuticals Corporation	Joint venture	Entrusted loans	-	75,000	-	75,000	Payments for goods	Operational appropriation
		Accounts receivable	-	125,454	111,133	14,321	Payments for goods	Operational appropriation
		Other receivables	-	31,330	-	31,330	Borrowings as working capital	Operational appropriation
Guangzhou Pharmaceutical Soccer Club Co., Ltd.	Joint venture	Accounts receivable	-	11	1	10	Payments for goods	Operational appropriation
		Other receivables	-	1,156	866	300	Ordinary trading	Operational appropriation
Total		Entrusted loans	-	75,000	-	75,000		
		Accounts receivable	22,534	326,822	276,505	72,851		
		Other receivables	3,969	34,678	1,659	36,988		
		Prepayments	12,638	68,880	65,946	15,572		

Major Events

17. OTHER MATTERS (Continued)

(2) **Explanation and independent opinions from Independent Directors in respect of accumulated and current external guarantees granted by the Group, 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:

As at 30 June 2008, the Company had provided the following guarantees to its subsidiaries and joint venture:

Guaranteed parties	Guarantee period (RMB'000)	Subject matter	Guarantee amount	% of the Group's net assets as at the end of the Reporting Period (%)
Pharmaceuticals Corporation	17,677	Borrowings as working capital	1 year	0.64
Zhong Yi	10,000	Borrowings as working capital	1 year	0.36
Cai Zhi Lin Pharmaceutical	38,000	Borrowings as working capital	1 year	1.38
Pharmaceutical Import & Export corporation	10,000	Borrowings as working capital	1 year	0.36
Guangzhou Han Fang	51,920	Borrowings as working capital	1 year	1.89
Guangzhou Bai Di	10,000	Borrowings as working capital	1 year	0.36
Cai Zhi Lin Pharmaceutical	12,310	Bills	1 year	0.45
Pharmaceutical Import & Export corporation	17,130	Bills and letters of credit	1 year	0.62
Total	167,037			6.06

As at the end of this Reporting Period, save as disclosed above, the Group has not provided any guarantee to its controlling shareholder or any other connected parties.

Condensed Consolidated Interim Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at	
		30 June 2008 Unaudited	31 December 2007 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,430,593	1,451,847
Investment properties	5	101,832	76,389
Land use rights	5	109,980	122,187
Intangible assets	5	16,903	35,870
Investments in associates		28,505	28,118
Available-for-sale financial assets		16,508	20,775
Deferred income tax assets		71,165	53,662
Total non-current assets		1,775,486	1,788,848
Current assets			
Inventories		1,109,015	1,418,815
Trade and other receivables	6	2,014,257	2,401,495
Financial assets at fair value through profit or loss		3,369	5,511
Tax prepayments		19,932	–
Bank and cash balances		611,455	719,434
Restricted cash		64,110	33,740
Total current assets		3,822,138	4,578,995
Total assets		5,597,624	6,367,843
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	7	1,592,034	1,592,034
Reserves		1,023,839	1,061,328
Retained earnings		597,963	514,659
		3,213,836	3,168,021
Minority interest		149,073	249,371
Total equity		3,362,909	3,417,392

Condensed Consolidated Interim Balance Sheet (continued)

(All amounts in RMB thousands unless otherwise stated)

	Note	As at	
		30 June 2008 Unaudited	31 December 2007 Audited
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		39,300	36,228
Employee benefits		37,205	41,108
		<u>76,505</u>	<u>77,336</u>
Current liabilities			
Trade and other payables	8	1,424,898	1,912,128
Dividend payables		58,503	2,031
Current income tax liabilities		22,755	2,468
Borrowings	9	652,054	956,488
		<u>2,158,210</u>	<u>2,873,115</u>
Total liabilities		<u>2,234,715</u>	<u>2,950,451</u>
Total equity and liabilities		<u>5,597,624</u>	<u>6,367,843</u>
Net current assets		<u>1,663,928</u>	<u>1,705,880</u>
Total assets less current liabilities		<u>3,439,414</u>	<u>3,494,728</u>

The notes on pages 42 to 57 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Income Statement

(All amounts in RMB thousands unless otherwise stated)

	Note	Unaudited Six months ended 30 June	
		2008	2007 Restated
Revenue	4	4,779,552	6,192,417
Cost of goods sold		(3,910,501)	(5,142,735)
Gross profit		869,051	1,049,682
Other gains	10	101,011	28,763
Selling and marketing costs		(476,560)	(528,618)
Administrative expenses		(277,812)	(275,578)
Operating profit	11	215,690	274,249
Finance income		7,327	8,211
Finance costs		(25,646)	(33,345)
Share of post-tax profits/(losses) of associates		387	(7)
Profit before tax		197,758	249,108
Income tax expense	12	(41,613)	(88,025)
Profit for the period		156,145	161,083
Attributable to:			
– equity holders of the Company		149,463	151,191
– minority interest		6,682	9,892
		156,145	161,083
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
– basic and diluted	13	0.184	0.186
Dividends	14	–	–

The notes on pages 42 to 57 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity

(All amounts in RMB thousands unless otherwise stated)

	Unaudited					
	Attributable to equity holders of the Company					
	Share capital	Reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2007	1,592,034	1,085,486	219,869	2,897,389	182,991	3,080,380
Transfers from reserves according to new Chinese Accounting Standards ("CAS")	-	(99,289)	99,289	-	-	-
Profit for the period	-	-	151,191	151,191	9,892	161,083
Dividends relating to 2006	-	-	(68,117)	(68,117)	(5,446)	(73,563)
Revaluation of investment properties upon initial recognition	-	4,551	-	4,551	-	4,551
Deferred tax liabilities arising from initial recognition of revaluation on investment properties	-	(1,138)	-	(1,138)	-	(1,138)
Deferred tax liabilities decreased resulting from reduction in income tax rate	-	11,703	-	11,703	-	11,703
Transfers	-	(30,108)	30,108	-	-	-
Balance at 30 June 2007	1,592,034	971,205	432,340	2,995,579	187,437	3,183,016
Balance at 1 January 2008	1,592,034	1,061,328	514,659	3,168,021	249,371	3,417,392
Profit for the period	-	-	149,463	149,463	6,682	156,145
Dividends relating to 2007	-	-	(100,552)	(100,552)	(6,439)	(106,991)
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution)	-	(32,723)	32,723	-	(90,673)	(90,673)
Acquisition of interests in subsidiaries from minority shareholders	-	(13,431)	-	(13,431)	(9,868)	(23,299)
Revaluation of investment properties upon initial recognition	-	17,493	-	17,493	-	17,493
Deferred tax liabilities arising from initial recognition of revaluation on investment properties	-	(4,373)	-	(4,373)	-	(4,373)
Decrease due to the change of fair value of the available-for-sale financial assets	-	(2,785)	-	(2,785)	-	(2,785)
Transfers	-	(1,670)	1,670	-	-	-
Balance at 30 June 2008	1,592,034	1,023,839	597,963	3,213,836	149,073	3,362,909

The notes on pages 42 to 57 form an integral part of this condensed interim financial information.

Condensed Consolidated Interim Cash Flow Statement

(All amounts in RMB thousands unless otherwise stated)

	Unaudited	
	Six months ended 30 June	
	2008	2007 Restated
Cash flows from operating activities – net	(57,843)	147,752
Cash flows from investing activities:		
– payments for acquiring additional equity interest in subsidiaries	(17,944)	–
– purchases of property, plant and equipment	(99,905)	(43,977)
– purchases of intangible assets	(272)	–
– purchases of financial instruments	(11,840)	–
– proceeds on disposal of property, plant and equipment	406	89
– proceeds from disposal of financial instruments	2,033	–
– proceeds from disposals of available-for-sale financial assets	–	11,276
– Dividends received from a jointly controlled entity, net of impact arising from proportionate consolidation	34,276	–
– other investing cash flows – net	1,476	10,580
Cash flows from investing activities – net	(91,770)	(22,032)
Cash flows from financing activities:		
– cash injected from the joint venture partner, net of the cash in the jointly controlled entity	94,713	–
– dividends paid to the Company's equity holders	(45,374)	(29,614)
– dividends paid to minority shareholders	(5,145)	(956)
– repayments of borrowings	(357,102)	(363,511)
– receipts from borrowings	417,582	444,906
– other financing cash flows – net	(60,741)	(31,181)
Cash flows from financing activities – net	43,933	19,644
Net (decrease)/increase in bank and cash balances	(105,680)	145,364
Bank and cash balances at 1 January	719,434	489,128
Exchange losses on bank and cash balances	(2,299)	–
Bank and cash balances at 30 June	611,455	634,492

The notes on pages 42 to 57 form an integral part of this condensed interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

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.

Guangzhou Pharmaceutical Corporation Limited (“GPC Limited”) was previously a principal subsidiary of the Group. On 27 January 2007, pursuant to agreements entered into between the Company, the other minority shareholders of GPC Limited and Alliance BMP Limited, Alliance BMP Limited acquired an aggregate equity interest of 50% in GPC Limited. Following a series of capital contributions from and acquisitions by Alliance BMP Limited, the Group’s equity interest in GPC Limited was diluted to 50%. The entire transaction was completed on 28 January 2008 and since then, GPC Limited ceased to be a subsidiary of the Group and became a jointly control entity.

The condensed consolidated interim financial information was approved for issue on 28 August 2008.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the half-year ended 30 June 2008 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

3. ACCOUNTING POLICIES

There have been no changes in significant accounting policies which resulted in material financial impact on the financial statements as compared with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) The following interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC)-Int 12	Service concession arrangements
HK(IFRIC)-Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

3. ACCOUNTING POLICIES (Continued)

- (b) The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

HKFRS 8	Operating segments ¹
HKAS 23 (amendment)	Borrowing costs ¹
HKFRS 2 (amendment)	Share-based payment ¹
HKFRS 3 (amendment)	Business combinations and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures' ²
HKAS 1 (amendment)	Presentation of financial statements ¹
HKAS 32 (amendment)	Financial instruments and consequential amendments to HKAS 1, 'Presentation of financial statements' ¹
HK(IFRIC) – Int 13	Customer loyalty programmes ³

¹ Effective for accounting periods commencing on or after 1 January 2009

² Effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009

³ Effective for accounting periods commencing on or after 1 July 2008

4. SEGMENT INFORMATION

Primary reporting format – business segments

At 30 June 2008, 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.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

4. SEGMENT INFORMATION (Continued)

The segment results are as follows:

	Six months ended 30 June 2008					Group
	Manufacturing	Wholesale	Retail	Import and export	Elimination	
Total gross segment revenue	1,466,429	3,480,136	124,890	114,284	(406,187)	4,779,552
Inter-segment revenue	(109,082)	(270,745)	(130)	(26,230)	406,187	-
Revenue – net	1,357,347	3,209,391	124,760	88,054	-	4,779,552
Segment results	227,752	43,401	3,090	2,482	(119,137)	157,588
Other gains						101,011
Corporate unallocated costs						(42,909)
Operating profit						215,690
Finance income						7,327
Finance costs						(25,646)
Share of post-tax profits of associates	387					387
Profit before tax						197,758
Income tax expense						(41,613)
Profit for the period						156,145

	Six months ended 30 June 2007					Group
	Manufacturing	Wholesale	Retail	Import and export	Elimination	
	Restated	Restated	Restated	Restated	Restated	Restated
Total gross segment revenue	1,576,447	4,921,045	176,478	139,067	(620,620)	6,192,417
Inter – segment revenue	(53,699)	(556,418)	(25)	(10,478)	620,620	-
Revenue – net	1,522,748	4,364,627	176,453	128,589	-	6,192,417
Segment results	242,854	86,203	4,118	4,234	(59,987)	277,422
Corporate unallocated costs						(3,173)
Operating profit						274,249
Finance income						8,211
Finance costs						(33,345)
Share of losses of associates	(7)					(7)
Profit before tax						249,108
Income tax expense						(88,025)
Profit for the period						161,083

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

4. SEGMENT INFORMATION *(Continued)*

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

	Six months ended 30 June 2008					Group
	Manufacturing	Wholesale	Retail	Import and export	Unallocated	
Depreciation	46,141	4,021	1,678	84	1,325	53,249
Amortisation	12,611	3,295	62	52	486	16,506
Impairment losses	15,315	3,475	-	30	-	18,820
Reversal of impairment losses	(203)	(27)	(170)	-	-	(400)
	46,141	4,021	1,678	84	1,325	53,249

	Six months ended 30 June 2007					Group
	Manufacturing	Wholesale	Retail	Import and export	Unallocated	
Depreciation	48,392	8,414	1,097	91	1,676	59,670
Amortisation	5,229	2,787	46	15	104	8,181
Impairment losses	5,926	7,438	2	299	-	13,665
Reversal of impairment losses	(813)	(3)	(163)	-	-	(979)
	48,392	8,414	1,097	91	1,676	59,670

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.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

4. SEGMENT INFORMATION (Continued)

The segment assets and liabilities as at 30 June 2008 and capital expenditure for the six months then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
Assets	3,007,214	2,273,311	87,284	155,779	850,902	(805,371)	5,569,119
Associates	8,625	-	-	-	19,880	-	28,505
Total assets	3,015,839	2,273,311	87,284	155,779	870,782	(805,371)	5,597,624
Total liabilities	927,565	1,819,676	56,535	133,906	102,404	(805,371)	2,234,715
Capital expenditure	100,657	2,783	675	8	219	-	104,342

The segment assets and liabilities as at 31 December 2007 and capital expenditure for the six months ended 30 June 2007 (restated) are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
Assets	2,743,264	3,349,140	161,609	120,207	751,346	(785,841)	6,339,725
Associates	9,224	-	-	-	18,894	-	28,118
Total assets	2,752,488	3,349,140	161,609	120,207	770,240	(785,841)	6,367,843
Total liabilities	625,192	2,891,969	88,265	97,278	33,588	(785,841)	2,950,451
Capital expenditure	37,374	1,373	1,660	8	211	-	40,626

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

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
Six months ended 30 June 2008				
Opening net book amount as at 1 January 2008	1,451,847	76,389	122,187	35,870
Additions	104,070	-	-	272
Transfer to investment properties	(8,069)	8,642	(573)	-
Fair value gains on investment properties initially transferred from own-occupied properties	-	17,493	-	-
Disposals	(744)	-	-	-
Decrease arising from dilution of interest in a subsidiary	(63,262)	(692)	(10,151)	(4,216)
Depreciation/amortisation	(53,249)	-	(1,483)	(15,023)
Closing net book amount as at 30 June 2008	1,430,593	101,832	109,980	16,903
Six months ended 30 June 2007				
Opening net book amount as at 1 January 2007	1,478,262	35,413	127,800	40,629
Additions	36,868	-	694	3,064
Transfer to investment properties	(36,425)	36,425	-	-
Fair value gains on investment properties initially transferred from own-occupied properties	-	4,551	-	-
Disposals	(459)	-	-	-
Depreciation/amortisation	(59,670)	-	(1,668)	(6,513)
Impairment	(2)	-	-	-
Closing net book amount as at 30 June 2007	1,418,574	76,389	126,826	37,180

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

6. TRADE AND OTHER RECEIVABLES

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

	As at	
	30 June 2008	31 December 2007
Within 3 months	1,091,627	1,422,386
3 months to 6 months	137,337	170,631
6 months to 1 year	55,994	45,964
Over 1 year	56,861	48,690
	1,341,819	1,687,671
Less: provision for trade receivables	(51,844)	(50,957)
Trade receivables-net	1,289,975	1,636,714

7. SHARE CAPITAL

	As at			
	30 June 2008		31 December 2007	
	No. of shares	Amount	No. of shares	Amount
Share capital registered, issued and fully paid of RMB1 each				
Circulating state shares subject to exchange restrictions	387,514,000	387,514	428,059,000	428,059
H shares	219,900,000	219,900	219,900,000	219,900
A shares	203,486,000	203,486	162,941,000	162,941
	810,900,000	810,900	810,900,000	810,900
Share premium on issue of shares net of issuing expenses		781,134		781,134
Total		1,592,034		1,592,034

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

8. TRADE AND OTHER PAYABLES

At 30 June 2008, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) was as follows:

	As at	
	30 June 2008	31 December 2007
Within 3 months	820,462	1,285,297
3 months to 6 months	36,318	204,796
6 months to 1 year	27,362	32,943
1 year to 2 years	10,378	20,543
Over 2 years	11,700	12,825
	906,220	1,556,404
	906,220	1,556,404

9. BORROWINGS

	As at	
	30 June 2008	31 December 2007
Current	652,054	956,488
	652,054	956,488
	652,054	956,488

Movements in borrowings is analysed as follows:

Six months ended 30 June 2008

Opening amount 1 January 2008	956,488
Additions	481,653
Repayments of borrowings	(385,878)
Decrease arising from the dilution of interest in a subsidiary	(398,872)
Decrease resulting from the exchange rate differences	(1,337)
	652,054
Closing amount as at 30 June 2008	652,054

Six months ended 30 June 2007

Opening amount as at 1 January 2007	888,199
Additions	504,634
Repayments of borrowings	(435,616)
	957,217
Closing amount as at 30 June 2007	957,217

Interest expense on borrowings for the six months ended 30 June 2008 amounted to RMB16,182,000 (30 June 2007: RMB29,296,000).

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

9. BORROWINGS (Continued)

The Group has the following undrawn borrowing facilities:

	As at	
	30 June 2008	31 December 2007
Floating rate:		
– expiring within one year	13,221	20,673
	13,221	20,673

10. OTHER GAINS

		Six months ended 30 June	
	Note	2008	2007 Restated
Gain arising from dilution and disposal of interest in a subsidiary	(a)	64,023	–
Rental income		23,994	20,005
License fees		3,237	987
Others		9,757	7,771
		101,011	28,763

- (a) Item represented gain arising from dilution and disposal of equity interest in GPC Limited (Note 1). The Group recognised dilution gain amounting to RMB28,833,000 in 2007 when Alliance BMP Limited (“the Joint Venture Partner”) contributed cash of GBP6,770,000 (equivalent to approximately RMB100,860,000) into GPC Limited for acquiring 13.82% equity interest in GPC Limited. In January 2008, the Group recognised dilution and disposal gain amounting to RMB64,023,000 when the Joint Venture Partner contributed cash of GBP26,810,000 (equivalent to approximately RMB384,229,000) into GPC Limited and paid RMB47,385,000 to the Group for acquiring another 36.18% equity interest in GPC Limited.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

11. OPERATING PROFIT

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

	Six months ended 30 June	
	2008	2007 Restated
Credited to:		
Dividends income from available-for-sale financial assets	–	1,366
Reversal of impairment charge relating to trade and other receivables	400	979
	400	979
Charged to:		
Impairment charge relating to trade and other receivables	18,816	13,655
Impairment charge relating to property, plant and equipment and intangible assets	–	2
Write-down of inventories to net realisable value	4	8
Depreciation and amortisation	69,755	67,851
Loss on disposal of property, plant and equipment	338	370
	338	370

12. INCOME TAX EXPENSE

The PRC enterprise income tax has been provided at the principal rate of 25% (2007: 33%).

In 2007, the PRC enterprise income tax rates for a subsidiary qualified as foreign investment production enterprise and for a subsidiary qualified as “Advance Technology Enterprise” were 24% and 15% respectively. According to the Corporate Income Tax Law of the PRC effective 1 January 2008, the tax rates of all companies comprising the Group were increased to a uniform rate of 25%.

	Six months ended 30 June	
	2008	2007 Restated
Current income tax		
– PRC enterprise income tax	63,467	89,583
Deferred income tax	(21,854)	(1,558)
	41,613	88,025

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

13. EARNINGS PER SHARE

Earnings per share attributable to equity holders of the Company are as follows:

	Six months ended 30 June	
	2008	2007 Restated
Earnings per share for profit attributable to the equity holders of the Company – basic and diluted (RMB per share)	0.184	0.186

There were no dilutive potential shares during the periods presented above.

14. DIVIDENDS

At a meeting held on 28 March 2008, the directors declared a final dividend of RMB 0.124 per share for the year ended 31 December 2007, which has been reflected as an appropriation of retained earnings for the six months ended 30 June 2008. Dividends amounting to RMB45,374,000 were paid in this period.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2008 (30 June 2007: Nil).

15. CAPITAL COMMITMENTS

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

	As at	
	30 June 2008	31 December 2007
Property, plant and equipment		
Contracted but not provided for	39,631	39,400
Authorised but not contracted for	1,428	5,386
	41,059	44,786

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

16. 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	
		2008	2007 Restated
Ultimate holding company			
Licence fee expenses	a	5,360	8,815
Service fee expenses	b	54	515
Welfare facilities fee expenses	c	224	134
Rental expenses	d	1,971	1,505
		<u>7,609</u>	<u>10,969</u>
Jointly controlled entities			
Sales of raw materials	e	131,411	59,287
Purchases of finished goods	e	57,181	51,216
		<u>188,592</u>	<u>110,503</u>
An associated company			
Advertising fee expenses	f	13,290	12,840
Fellow subsidiaries			
Sales of finished goods and raw materials	e	148,895	96,096
Purchases of finished goods and raw materials	e	258,962	245,771
		<u>407,857</u>	<u>341,867</u>

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

16. RELATED-PARTY TRANSACTIONS (Continued)

	Note	Six months ended 30 June	
		2008	2007
Other state-controlled entities			
Sales of finished goods and raw materials	g e	1,529,453	1,448,292
Purchases of finished goods and raw materials	e	649,316	628,123
Purchases of machinery and equipment	e	26	22
Service fee expenses	h	40,440	50,023
		2,219,235	2,126,460
Key management compensation			
Salaries and other benefits		757	632

(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 expired on 31 December 2007.

A new Accommodation Services Agreement was signed on 1 November 2007 whereby the accommodation services are provided at the same terms stipulated in the previous agreement. The new agreement will expire on 31 December 2010.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

16. RELATED-PARTY TRANSACTIONS *(Continued)*

- (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 agreement expired on 31 December 2007.

Pursuant to a new Tenancy Agreement entered into by the Company and GZPHL on 1 November 2007, GZPHL provides the rental services for welfare facilities to the Group, the charges of which increase by 10% based on the charges of previous year. The new agreement will expire on 31 December 2010.

- (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 basic. The agreement expired on 31 August 2007.

Pursuant to a new Tenancy Agreement entered into by the Company and GZPHL on 1 November 2007, the abovementioned agreement was extended to 31 December 2007. From 1 January 2008, GZPHL charges the Group for the usage of these premises based on the new rentals set forth in the new agreement, which are not subject to adjustment during the agreement period. The new agreement will expire on 31 December 2010.

- (e) The sales and purchase transactions with jointly controlled entities, fellow subsidiaries and other state-controlled entities were conducted at terms similar to those transactions with other third parties.
- (f) An associated company named Guangzhou Pharmaceutical Soccer Club Limited provided advertising services related to soccer games to some companies within the Group. Such services were rendered under terms agreed by both parties.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

16. RELATED-PARTY TRANSACTIONS *(Continued)*

- (g) 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.

- (h) 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.

Notes to the Condensed Consolidated Interim Financial Information

(All amounts in RMB thousands unless otherwise stated)

17. COMPARATIVE FIGURES

The Group adopted equity method to account for its interests in jointly controlled entities when preparing the condensed consolidated interim financial information for the six months ended 30 June 2007 while proportionate consolidation method was adopted when the Group prepared the annual financial statements for the year ended 31 December 2007. In order to adopt consistent accounting policies to provide more reliable information, certain comparative figures of the income statement have been restated based on the assumption that the financial information for the six months ended 30 June 2007 had been prepared using proportionate consolidation method for its jointly controlled entities.

The changes resulted in:

	Six months ended 30 June 2007
Income statement	
Increase in:	
Revenue	204,936
Cost of goods sold	79,452
Expenses	96,417
Income tax expense	3,598
Decrease in:	
Share of gains of jointly controlled entities	25,469

List of 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 of the Company.