



# 廣州藥業股份有限公司

**Guangzhou Pharmaceutical Company Limited**

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

## SUMMARY OF INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2002

### **Important notice:**

The Board of Directors (the "Board") of Guangzhou Pharmaceutical Company Limited (the "Company") severally and jointly accept full responsibility for the authenticity, accuracy and completeness of the information contained in this announcement of interim results (the "announcement") and confirm that there are no material omissions from, or misrepresentations or misleading statements contained in this Announcement.

This Announcement is intended to provide a summary regarding the financial position of the Company in the first half of the year. The full text of the interim report is also published on the website of Shanghai Stock Exchange (website: <http://www.sse.com.cn>) and will be available on the website of the Stock Exchange of Hong Kong (website: <http://www.hkex.com.hk>) in due course. Investors are advised to read the full text of the interim report carefully before making any important investment decisions.

The interim financial statements of the Company were unaudited.

## **I. COMPANY PROFILE**

### **1. The Company**

Place of listing of shares and trading codes:

*A shares*

Shanghai Stock Exchange

Stock code: 600332

Stock name: GZ Phar.

*H shares*

The Stock Exchange of Hong Kong Limited

Stock code: 0874

Stock name: GZ Phar.

Company Secretary

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## 2. Principal financial data and indicators

1 Extracted from the accounts prepared in accordance with PRC accounting standards and systems:

	Unaudited	
	Six months ended 30th June 2002 <i>Rmb</i>	Six months ended 30th June 2001 <i>Rmb</i>
Net profit	106,973,391.95	90,763,790.34
Net profit after deducting non-operating items	115,085,904.07	92,757,633.51
Earnings per share (fully diluted)	0.1319	0.1119
Return on net assets (fully diluted)	4.68%	4.21%
Return on net assets after deducting exceptional items	5.17%	4.67%
Net cash inflow from operating activities per share	0.132	0.062
	Unaudited 30th June 2002 <i>Rmb</i>	Audited 31st December 2001 <i>Rmb</i>
Shareholders' equity (excluding minority interests)	2,285,144,274.50	2,172,909,782.86
Net assets per share	2.82	2.68
Adjusted net assets per share	2.70	2.59

Note:

(1) The above financial data and indicators are extracted from the company's consolidated accounts.

(2) Non-operating items included:	<i>Rmb</i>
Non-operating income	1,050,767.09
Non-operating expenses	13,228,312.14
Subsidies income	69,318.00
Income tax adjustment	3,995,714.93

2. Extracted from the accounts prepared in accordance with HK GAAP:

	Unaudited Six months ended 30th June 2002 <i>Rmb'000</i>	Unaudited Six months ended 30th June 2001 <i>Rmb'000</i>	Change (%)
Profit and loss account			
Turnover	3,000,883	2,644,971	13.46
Profit before taxation	174,010	107,579	61.75
Earnings per share (Rmb)	0.119	0.0645	84.50
	Unaudited 30th June 2002 <i>Rmb'000</i>	Audited 31st December 2001 <i>Rmb'000</i>	Change (%)
Balance sheet			
Total assets	4,073,490	3,877,969	5.04
Total liabilities (including minority interests)	1,616,258	1,469,539	9.98
Gearing ratio	39.68%	37.89%	4.72
Net assets	2,457,232	2,408,430	2.03
Net asset per share	3.03	2.97	2.02

3. Explanations for the differences between the accounts for the period from 1st January 2002 to 30th June 2002 prepared in accordance with PRC accounting standards and systems and HK GAAP are set out below:

	<b>Unaudited Net profit</b> <i>Rmb'000</i>	<b>Net assets</b> <i>Rmb'000</i>
Net profit/net assets under PRC accounting standards and systems:	106,973	2,285,144
Provision for bad debts	—	(38,737)
Amortisation of deferred expenditure capitalised	(5,223)	74,240
Additional depreciation / difference on revalued fixed assets	(988)	135,770
Research and development cost (undercharged)/overcharged	(4,860)	12,603
Donation income recognised	227	—
Difference in minority interests	598	(11,788)
	<hr/>	<hr/>
Net profit/net assets under HK GAAP	<b>96,727</b>	<b>2,457,232</b>

## II. CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

### 1. Change in share capital

During the reporting period, there is no change in the share capital of the Company.

### 2. Major shareholders

- (1) As at 30th June 2002, there were 56,211 shareholders in total. Only one shareholder held the State-owned shares for the State. There were 56,167 shareholders holding the A shares and 43 shareholders holding the H shares.
- (2) As at 30th June 2002, the top ten shareholders of the Company were as follows:

Shareholders	Type of shares	No. of shares	%
Guangzhou Pharmaceutical Holdings Limited ("GZPHL")	State-owned shares	513,000,000	63.26
HKSCC Nominees Limited	H shares	218,597,000	29.96
HSBC Nominees (Hong Kong) Limited	H shares	800,000	0.10
Tongde Trust Fund	A shares	630,795	0.08
Penghua Trust Fund	A shares	581,143	0.07
Shangtou Trust Fund	A shares	330,800	0.04
Xinghe Trust Fund	A shares	320,334	0.04
Wong Chunk King	H shares	308,000	0.04
Puhui Trust Fund	A shares	302,006	0.04
Tianyuan Trust Fund	A shares	238,700	0.03
Guosen Securities	A shares	224,339	0.03

Note:

- (a) GZPHL is not connected with the other nine shareholders listed above. The Company has also not been informed of any connection among other remaining shareholders.

GZPHL holds the State-owned shares on behalf of the State. During the reporting period, GZPHL has pledged 105,790,000 shares for the debt restructuring of Guangzhou Baiyunshan Pharmaceutical Co., Ltd ("GZ Baiyunshan"). Information of this transaction was disclosed in China Securities, Shanghai Securities Daily, Hong Kong Economic Daily and HK iMail on 30th May 2002.

- (b) As notified by HKSCC Nominees Limited, the following company was holding more than 10% of H shares issued by the Company as at 28th June 2002. The interest has been registered in accordance with section 16 of the Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong (the "SDI Ordinance"). Other than those disclosed in this interim report, there was no other person holding more than 10% of the Company's issued share capital as at 30th June 2002:

Name of shareholder	Number of shares held	% of total issued H shares
The Hong Kong and Shanghai Banking Corporate Limited	38,991,950	17.73%

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

- During the reporting period, the Company's Directors, Supervisors and Senior Management did not hold the Company's shares.
- Reasons for resignation of Directors, Supervisors and Senior Management during the reporting period.  
During the reporting period, with the approval of the sixteenth meeting of the Board of the second term, Jiang Shijie, Financial Controller, resigned due to retirement, and Gao Fang was appointed as Financial Controller of the Company.
- During the reporting period, there were no significant changes in staff number and staff policies.

### IV. MANAGEMENT DISCUSSION AND ANALYSIS

(Unless otherwise stated, financial data contained herein is extracted from the accounts prepared by the Group in accordance with PRC accounting standards and systems)

#### Scope of business

The Company and its subsidiaries ("the Group") are principally engaged in (1) the manufacture and sale of Chinese patent medicine ("CPM"); (2) the wholesales, retail, import and export of Western and Chinese pharmaceutical products and various medical apparatus and (3) research and development of natural medicine and biological medicine.

#### 1. The Company's operation during the reporting period

According to the accounts prepared in accordance with PRC accounting standards and systems, the Group's consolidated turnover from principal activities for the six months ended 30 June 2002 was Rmb3,000,883,000, representing an increase of 13.46% over that of the same period of 2001. Profit before taxation amounted to Rmb184,745,000 representing an increase of 21.66% over that of the same period of 2001. Net profit amounted to Rmb106,973,000, representing an increase of 17.86% over that of the same period of 2001.

According to the accounts prepared in accordance with HK GAAP, the Group's consolidated turnover from principal activities for the six months ended 30 June 2002 was Rmb3,000,883,000 representing an increase of 13.46% over that of the same period of 2001. Profit before taxation amounted to Rmb174,010,000, representing an increase of 61.75% over that of the same period of 2001. Net profit amounted to Rmb96,727,000, representing an increase of 85.79% over that of the same period of 2001.

During the first half of 2002, the Group's CPM manufacturing business (the "manufacturing operations") contributed 30.97% and 78.31% of the Group's turnover and profit before taxation respectively while its trading operations contributed to 69.03% and 21.69% of the Group's turnover and profit before taxation respectively.

An analysis of the Group's turnover and profit from principal activities for the reporting period is set out below: (under PRC accounting standards and systems and HK GAAP)

Area	Turnover		Cost of sales		Profit from principal activities	
	Current	Last	Current	Last	Current	Last
	accumulated	accumulated	accumulated	accumulated	accumulated	accumulated
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Manufacturing	929,307	841,457	420,362	394,393	508,945	447,064
Trading:	2,071,576	1,803,514	1,896,560	1,639,612	175,016	163,902
Wholesale	1,852,312	1,588,581	1,720,821	1,468,931	131,491	119,650
Retail	161,940	173,503	122,438	132,203	39,502	41,300
Import and export	57,324	41,430	53,301	38,478	4,023	2,952
	<u>3,000,883</u>	<u>2,644,971</u>	<u>2,316,922</u>	<u>2,034,005</u>	<u>683,961</u>	<u>610,966</u>

**(1) CPM manufacturing business (the “manufacturing operations”)**

According to the accounts prepared in accordance with PRC accounting standards and systems, turnover of the Group’s manufacturing operations in the first half of 2002 was Rmb929,307,000, representing an increase of 10.44% over that of the same period of 2001. Profit before taxation was Rmb144,675,000, representing an increase of 27.68% over that of the same period of 2001.

According to the accounts prepared in accordance with HK GAAP, turnover of the Group’s manufacturing operations in the first half of 2002 was Rmb929,307,000, representing an increase of 10.44% over that of the same period of 2001. Profit before taxation was Rmb140,980,000, representing an increase of 71.58% over that of the same period of 2001.

In order to be able to react rapidly to the national medical system reform and growing competitive pharmaceutical market, the manufacturing operations have implemented the following procedures. Firstly, the manufacturing operations conducted a number of product promotion campaigns in certain major cities with special focus on the hospital market. Secondly, the manufacturing operations continued expanding its sales network outside Guangdong Province as well as in certain rural areas to secure its market share. Thirdly, the manufacturing operations placed emphasis on the market coverage in its advertising campaigns. Furthermore, the manufacturing operations have carried out a series of marketing information collection and analysis in order to maintain its quality services provided to its customers.

In the first half of 2002, there was a prominent increase in the sales of major products such as Xiao Ke Wan, Hua Lao Ji, She Dan Chuan Bei Ye and Xu Han Ting. The increase in sales of the above products is 14.76%, 25.52%, 44.82% and 89.13%, respectively.

As a result of strengthened cost controls, the unit cost of certain major products has decreased by 3.23%. Operating expenses were also decreased by 1.30% in comparison with last year. This led to the improvement on the manufacturing operation’s operating profit

During the reporting period, accounts receivable turnover days and inventory turnover days were increased by 18.74% and 12.76% respectively in comparison to last year.

To sustain the Group’s future development, the Group has been upgrading its technology and developing new products. During the reporting period, the manufacturing operations have commenced commercial production of Wei Ren Qing and Fu Yan Xiao Tablet, and have obtained approval for production of 3 newly developed products. There are 14 new products under development.

The Company has accelerated the establishment of Guangzhou Hanfang Modern Chinese Medicine Research and Development Company Limited (“GZ Hanfang”) and Guangzhou Baidi Biological Pharmaceutical Company Limited (“GZ Baidi”) for the purpose of increasing the Group’s technological level on the CPM manufacture and development of biological medicine.

GZ Hanfang’s paid in capital was increased to Rmb50 millions on 25th April 2002. The Company holds 90% of its equity. Guangzhou Chen Liji Chinese Medicine Factory holds 4%, the Guangzhou Pharmaceutical Industrial Research Department holds 2.3%, Guangzhou First Chinese Medicine Company Limited holds 2% and Guangzhou Jing Xiu Tang Pharmaceutical Company Limited holds 1.7%. GZ Hanfang has established a modernised laboratory, which is used as a testing and industrialisation base for the research and development of Chinese medicine and study of extraction and purification technology and has taken up the responsibility for some projects such as “Demonstration of the State’s Contemporary Chinese Medicine Technology”. GZ Hanfang is currently conducting research on Type 1 new medicine such as Mao Dong Qing Fu Zhi Na, and 5 Type 2 new medicines including Si Ni Huan Xi Pian and medicine for compound hypertension.

GZ Baidi’s paid in capital was increased to Rmb50 millions on 10th July 2002. The Company holds 92.8% of its equity, Guangzhou Pharmaceutical Industrial Research Department holds 4% and therest of 3.2% is held by its inner staff. GZ Baidi is currently working on certain biological medicine projects such as DNA hepatitis vaccine and reborn impiedent anaemia PHA project.

In order to complete all the GMP certification for the manufacturing operations before 2003, the Company has expedited the technological reform process during the reporting period. The technological reform included construction of new factory plants for GZ First Chinese Medicine and GZ Xing Qun and also some GMP technology upgrade projects undertaken by other manufacturing operations.

At present, the ERP management system is operating in six manufacturing subsidiaries and there is one under the implementation stage.

**(2) Pharmaceutical trading business, including wholesaling, retailing, import and export (the “trading operations”)**

According to the accounts prepared in accordance with PRC accounting standards and systems, turnover of the Group’s trading operations in the first half of 2002 was Rmb2,071,576,000, representing an increase of 14.86% over that of the same period of 2001. Profit before taxation of the trading operations was Rmb40,070,000, representing an increase of 3.97% over that of the same period of 2001.

According to the accounts prepared in accordance with HK GAAP, turnover of the Group’s trading operations in the first half of 2002 was Rmb2,071,576,000, representing an increase of 14.86% over that of the same period of 2001. Profit before taxation of the trading operations was Rmb33,030,000, representing an increase of 29.98% over that of the same period of 2001.

In the recent years, the State has implemented certain reforms which created severe competition in the pharmaceutical market. They included reform on the employee medicare, pharmaceutical retail market and the tendering system of hospitals. Accordingly, gross profit margin of the trading operations have been decreased by 0.64% as compared with the same period of 2001. The trading operations’ inventory turnover days decreased by 21.60%, while accounts receivable turnover days increased by 15.03% in comparison with the same period of 2001.

During the reporting period, the trading operations focused on sourcing and selling new medicines to secure the sales increase of brand-named and core products. In additions, the trading operations have reassessed their penetration into different markets so that sales personnel can provide better after sales services for those chain store customers. Furthermore, they continued to emphasize on expanding their wholesales and distribution operations. The trading operations have obtained distribution rights for 822 new products, of which 2 new products have exclusive distribution rights, and have secured more than 129 new customers. Such measures contributed to the increase in turnover of the trading operations.

The change in pharmaceutical market has driven the trading operations to adjust their marketing strategies on a timely basis. As at 30 June 2002, the Group’s retail chain stores increased from 273 as at 31 December 2001 to 294 stores, which included 190 Caizhilin chain stores, which mainly deal with CPM retailing, and 104 Jian Min chain stores, which mainly deal with Western pharmaceutical products retailing.

During the reporting period, the trading operations have fully implemented ERP management system.

**2. The Company’s investment**

**Use of net proceeds from issue of A shares**

Proceeds from issuing A shares have been utilised according to their proposed use as disclosed in the prospectus for issue of A share. During the reporting period, details of the use of proceeds from A shares issue are as follows:

Category	Projects	Proposed injection <i>Rmb'000</i>	Funds injected <i>Rmb'000</i>	Status of completion
<b>Project for the technology upgrade and industrialisation of new products</b>				
Pills	Xiaokewan upgrade	29,800	29,800	100%
	Baojiwan upgrade	11,000	11,000	100%
	Commercialisation of Weierqian	29,000	3,700	40%
	Automation of pill production	11,000	5,760	60%
	Technology upgrade of Wahtao pills	17,000	10,440	70%
	Throat, spleen and intestine pills technology upgrade	29,100	13,280	50%

Syrup	Import of the technology for syrup production	29,500	710	25%
	Commercialisation of Keli syrup	19,600	3,240	50%
Granules	Anti-presipriation granules upgrade	12,000	5,610	50%
	Automation of granules upgrade	29,900	29,900	100%
	Flu granules for children upgrade	23,000	23,000	100%
Tablets	Commercialisation of Xiaoyian tablets	29,500	4,980	40%
	Spleen, intestine and pimples tablets upgrade	17,800	2,790	40%
	Gaolu upgrade	29,500	11,750	45%
	Tablets workshop upgrade	12,000	10,720	70%
<b>New Technology Base</b>				
Modernisation of extraction and purification technology (includes Critical purification of CO2 technology foundation)				
		59,800	6,000	30%
<b>Trading</b>				
Expanding of retail chain stores				
	Jian Min	89,300	62,910	65%
	Cai Zhi Lin	59,500	16,210	55%
	Logistic centre upgrade	20,000	2,200	30%
	ERP for trading section upgrade	20,000	8,200	35%
	Bio-medicine research centre	80,000	28,920	30%
	Additional working capital	50,000	79,690	100%
Total		708,300	370,810	—

*Note:* The net amount received from issuing A shares totalled Rmb737,990,000. The amount exceeded the budgeted injections amounted to Rmb29,690,000 was used as additional working capital.

Projects completed during the reporting period have contributed economic benefit of Rmb18 million to the Company.

The balance of the proceeds is temporarily placed in banks as working capital. The Company will gradually utilise the fund according to their proposed use.

### 3. Financial status (prepared in accordance with PRC accounting standards and systems)

#### (1) Change of major accounting items:

Items	30th June	31st December	Change	%
	2002	2001		
	Rmb	Rmb	Rmb	
Total assets	3,899,072,530.83	3,697,238,505.79	201,834,025.04	5.46%
Cash and cash equivalents	865,150,772.53	867,407,649.48	-2,256,876.95	-0.26%
Accounts receivable	806,581,214.37	547,182,576.57	259,398,637.80	47.41%
Other account receivable	119,535,894.55	134,310,382.41	-14,774,487.86	-11.00%
Inventories	665,446,196.37	833,327,684.61	-167,881,488.24	-20.15%
Long-term investment	173,234,830.98	107,467,122.39	65,767,708.59	61.20%
Net fixed assets	729,965,135.53	707,982,777.15	21,982,358.38	3.10%
Accrued expenses	12,954,759.15	4,553,878.05	8,400,881.10	184.48%
Other account payable	147,637,004.14	151,264,229.61	-3,627,225.47	-2.40%
Tax payable	52,788,031.36	28,911,407.61	23,876,623.75	82.59%
Long-term borrowings	42,000,000.00	10,000,000.00	32,000,000.00	320.00%
Share capital	810,900,000.00	810,900,000.00	0.00	0.00%
Shareholders' equity	2,285,144,274.50	2,172,909,782.86	112,234,491.64	5.17%

	Six months ended 30th June 2002 Rmb	Six months ended 30th June 200 Rmb	Change Rmb	%
Sales	3,000,882,903.37	2,644,970,813.82	355,912,089.55	13.46%
Profit from principal operations	670,377,619.25	599,040,209.80	71,337,409.45	11.91%
Financial expenses	7,534,799.14	4,525,182.18	3,009,616.96	66.51%
Income tax	69,144,132.64	54,116,860.58	15,027,272.06	27.77%
Net profit	106,973,391.95	90,763,780.34	16,209,611.60	17.86%

(2) Explanatory notes to the accounts regarding the items involving changes of 30% or above as compared with the corresponding items at the beginning of the year (or the same period of previous year)

- (a) Total assets: During the reporting period, the total assets of the Company increased by 5.46% in comparison to last year. The major reason was due to the current year profit and new borrowings.
- (b) Cash and cash equivalents: Cash and cash equivalents decreased by 0.26% in comparison to last year. The major reason was that the cash outflows for the investments exceeded the cash inflows from operating activities and borrowings.
- (c) Shareholders' equity: Shareholders' equity increased by 5.17% in comparison with last year. The major reason was due to the current year profit.
- (d) Accounts receivable: During the reporting period, accounts receivable of the Company increased by 47.41% in comparison to last year. The major reason was that credit terms extended to those medical institutions were increased from one month to two and three months.
- (e) Accrued expenses: During the reporting period, accrued expenses of the Company increased by 184.48% in comparison with last year. The major reason was mainly due to an increase in repairs and maintenance expenses and advertising expenses accrued for the period.
- (f) Long-term investments: As at 30th June 2002, long-term investment increased by 61.20% in comparison with last year. The reason was due to additional capital injection in GZ Hanfang and GZ Baidi. These two companies were not included in the company's consolidation.
- (g) Tax payable: During the reporting period, tax payable increased by 82.59% in comparison with last year. The major reason was that the Company had not paid off the income tax and VAT for the period.
- (h) Long-term bank loans: Long-term bank loans increased by 320% in comparison with last year. The reason was that an addition of Rmb32,000,000 loan was borrowed for financing new technology base.
- (i) Finance expenses: During the reporting period, financial expenses increased by 66.51% in comparison with last year due to the significant decrease in interest income on bank deposits.
- (j) Turnover: During the reporting period, turnover increased by 13.46% in comparison with last year. The major reason of the increase was that the Company strengthened promotion effect to improve their product marketability.
- (k) Profit from principal activities: During the reporting period, profit from principal activities increased by 11.91% in comparison with last year. The increase was due to significant growth in turnover.
- (l) Net profit: During the reporting period, net profit increased by 17.86% in comparison with last year. The reasons were due to growth in sales and drop in operating expenses.

(3) Liquidity, financial resources and capital structure

As at 30th June 2002, the long-term borrowings of the Group amounted to Rmb42 million. These borrowings are fixed interest loans denominated in Rmb, of which Rmb10 million loans are repayable in 2003 and the Rmb32 million loans are repayable in 2005. As at 30th June 2002, the cash and cash equivalents of the Group amounted to Rmb865.15 million, 87% of which is denominated in Rmb and 13% is denominated in Hong Kong dollars.



(4) Capital asset/expenditure

The Group expected that the capital expenditure during 2002 would be approximately Rmb340 million. The Group has sufficient financial resources to meet the demand for capital expenditure and daily working capital.

(5) Exposure to fluctuations in exchange rate

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

(6) Contingent liabilities

Up to 30th June 2002, the Group has no significant contingent liabilities.

(7) Charge on the Group assets

As at 30th June 2002, the net book value of fixed assets pledged as security for the Group's bank borrowings amounted to Rmb207.21 million.

#### 4. Prospects for the 2nd half of 2002

In the second half of 2002, the Group plans 1) to increase marketing activities with a view to maintaining the sales growth of major products, 2) to give priority to those technology upgrade projects by utilizing the proceeds from issuing the A shares for sustaining growth on its market share, 3) to accelerate its research and development capabilities especially on the CPM manufacturing and biology medicine products, and 4) to try its utmost to achieve a full scale ERP management system implementation by the end of 2002.

### V. DISCLOSURE OF SIGNIFICANT EVENTS

1. Pursuant to the 2001 Shareholders' meeting held on 7th June 2002, the approved profit appropriation was dividend per share of Rmb0.06 (including withholding tax for A shares). The above scheme of profit distribution completed during the reporting period. There was no capitalisation of capital reserve in 2001.

The Board does not recommend the payment of a dividend for the six months ended 30th June 2002 nor propose any increase in share capital from the capitalisation of capital reserve.

2. During the reporting period, the Group has not engaged in any litigation or arbitration.
3. During the reporting period, the Group has not undergone any merger and acquisition and assets restructuring processes.
4. Connected transactions

During the reporting period, the Group has no significant connected party transactions.

Subsequent to 30th June 2002, GZ Baidi has purchased assets from one of its shareholders, Guangzhou Pharmaceutical Industrial Research Institute. The assets involved are land use rights, buildings and machinery located at Zhongchun, Panyu District of Guangzhou City. Detail of this transaction was disclosed in China Securities, Shanghai Securities, Hong Kong Economic Daily and HK iMail on 16th July 2002.

Guangzhou Pharmaceutical Industrial Research Institute is applying for permission to conduct this connected party transaction.

Details of other connected party transactions during the reporting period are disclosed in the financial reports.

5. During the reporting period, the Group did not hold on trust, rent assets of other companies or vice versa, which have generated profit that accounted for 10% or more of the total profits for the period.
6. During the reporting period, the Company did not enter into any material contracts.
7. During the reporting period, there was no commitment made by the Company or shareholders holding shares of 5% or above or made in the previous period but still had impact to the current period, affecting the Company's operating result and financial status significantly.
8. Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries has redeemed, purchased, sold or cancelled any of the Company's listed shares during the report period.

9. Rights of shareholders, supervisors and chief executives to purchase or sell shares
 

The interests of the directors, supervisors and chief executives, their respective spouses and children under 18 years of age in the equity and debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interest Ordinance) (“SDI Ordinance”) during the reporting period remain unchanged from those disclosed in the Company’s 2001 annual report. Apart from the above, as at 30th June 2002, according to the register maintained under section 29 of the SDI Ordinance, no director, supervisor, chief executive or their respective spouses and children under 18 years of age had any interests in the equity or debt securities of the Company and its associated corporations, nor has been granted, or exercised any rights to subscribe for equity or debt securities of the Company.
10. Bank loans, overdraft and other loans
 

As at 30th June 2002, details of bank loans and overdrafts and other loans are set out on the notes to the financial statements. Up to 30th June 2002, long-term bank loans increased by Rmb32 million and short-term bank loans increased by Rmb55.26 million in comparison to last year.
11. Gearing ratio
 

As at 30th June 2002, there have been no material adverse changes in the gearing ratio of the Group in comparison to last year.
12. Compliance with the Code of Best Practice
 

None of the directors is aware of information that would seasonably indicate that the Company is not, or was not for any part of the reporting period, in compliance with the Code of Best Practice set out in Appendix 14 to the listing Rules.
13. The Audit Committee has reviewed with management of the Company the accounting principles and policies adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2002 with the directors.
14. Assets held on trust
 

There were no new assets held on trust during the reporting period.

GZ Chen Li Ji entrusted Northeast Securities Co., Ltd. to manage the itsCompany’s investments. The entrusted amount is Rmb20 million. GZ Yang Cheng and GZ Pan Gao Shou entrusted Dapeng Securities Co., Ltd. to invest in government bonds. The entrusted amount is Rmb20 million and Rmb25 million respectively. The entrusted period ended on 26 July 2002 and the three companies , the Company had received principal and investment income totalling Rmb7,0.15 million,000 (including investment income amount to Rmb5.15 million,000) . At the publication of the interim report, there are no other assets held on trust.
15. During the reporting period, a regulation “Measures Concerning Employee Medical Insurance In Guangzhou” effective on 1st December 2001 which was issued by the Guangzhou municipal government. The legislation became effective on 1st December 2001. Management is assessing the financial impact of such employee medical insurance to the Company.
16. During the reporting period, the Group didn’t offer any guarantee in favour of any third parties.
17. Other matters
 

The Company’s ADR in the USA came into effective on 21 June 2002. The ADR can be publicly traded on the USA counter market. The stock code is 40066D108, and the ADR code is “GZPGY”. Each ADR representing 20 H shares, the nominal value of each H share is Rmb1, and the registered shares are 10,000,000. The Company’s American Depository Receipts (“ADR”) became effective on 21st June 2002. The ADR can be publicly traded through the counter market in the United States. The stock code is 40066D108, and the ADR code is “GZPGY”. Each ADR represents 20 H shares. Nominal value of each H share is Rmb1. Number of registered shares is 10,000,000.

## VI. FINANCIAL REPORT

1. Consolidated reports prepared in accordance with PRC accounting standards and systems (see attachment)
2. Notes to the accounts (prepared in accordance with PRC accounting standards and systems) (see attachment)

Guangzhou Qi Xing Pharmaceutical Company Limited, a subsidiary of the Group, is an enterprise with foreign investment which applies "Accounting Regulations of PRC for Enterprises with Foreign Investment. Commenced from 1st January 2002, the accounting policies adopted by the Company and its subsidiaries (including Guangzhou Qi Xing Pharmaceutical Company Limited) and its associated companies are in accordance with "Accounting Standards of Business Enterprises" and "Accounting System Regulations for Business Enterprises".

During the reporting period, there were no changes in principal accounting policies, accounting estimates and consolidation range.

3. Condensed consolidated reports prepared in accordance with HK GAAP (see attachment)

### Guangzhou Pharmaceutical Company Limited

Cai Zhixiang

Chairman

16th August, 2002

### CONSOLIDATED BALANCE SHEET

(Prepared in accordance with PRC Accounting Standards and Systems)

As at 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

	<i>Monetary Unit: Renminbi Yuan</i>	
	<b>Closing blance</b>	<b>Beginning balance</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	865,150,772.53	867,407,649.48
Short term investment	77,988,074.44	67,988,074.44
Notes receivable	—	46,710.00
Dividends receivable	4,066,240.49	6,080,075.49
Interest receivable	—	—
Accounts receivable	806,581,214.37	547,182,576.57
Other receivable	119,535,894.55	134,310,382.41
Prepayments	45,705,377.05	41,166,801.83
Subsidy receivable	7,825,360.90	5,673,006.90
Inventories	665,446,196.37	833,327,684.61
Prepaid expenses	79,553,666.12	72,488,002.62
Long-term debentures investment due within one year	—	—
Other current assets	—	—
<b>Total current assets</b>	<b>2,671,852,796.82</b>	<b>2,575,670,964.35</b>
<b>Long-term investment</b>		
Long-term equity investment	173,234,830.98	107,467,122.39
Long-term debentures investment	—	—
<b>Total long-term investment</b>	<b>173,234,830.98</b>	<b>107,467,122.39</b>

<b>Fixed assets</b>		
Fixed assets—cost	1,174,304,612.43	1,120,412,464.14
Less: accumulated depreciation	411,698,697.45	387,675,891.33
Fixed assets—net value	762,605,914.98	732,736,572.81
Less: provisions for fixed assets	32,640,779.45	24,753,795.66
Net fixed assets	729,965,135.53	707,982,777.15
Construction supplies	—	—
Construction work in progress	189,328,056.61	174,211,477.32
Disposal of fixed assets	—	—
	<hr/>	<hr/>
<b>Total fixed assets</b>	<b>919,293,192.14</b>	<b>882,194,254.47</b>
	<hr/>	<hr/>
<b>Intangible assets and other assets</b>		
Intangible assets	102,044,793.80	102,137,518.11
Long-term prepaid expenses	32,646,917.09	29,768,646.47
Other long-term assets	—	—
	<hr/>	<hr/>
<b>Total intangible assets and other assets</b>	<b>134,691,710.89</b>	<b>131,906,164.58</b>
	<hr/>	<hr/>
<b>Deferred tax</b>		
Deferred tax debits	—	—
	<hr/>	<hr/>
<b>Total assets</b>	<b>3,899,072,530.83</b>	<b>3,697,238,505.79</b>
	<hr/>	<hr/>
	<b>Closing</b>	<b>Beginning</b>
<b>Liabilities &amp; shareholders' equity</b>	<b>balance</b>	<b>balance</b>
<b>Current Liabilities</b>		
Short-term loans	442,940,000.00	387,680,000.00
Notes payable	576,863.00	682,237.50
Accounts payable	597,534,628.97	558,201,710.52
Advance from customers	20,825,108.44	40,126,980.26
Accrued payroll	90,232,937.99	78,160,241.50
Welfare payable	47,229,900.52	42,466,305.75
Dividends payable	660,300.43	49,198,495.25
Tax payable	52,788,031.36	28,911,407.61
Other liabilities	4,114,880.77	3,443,835.26
Other payables	147,637,004.14	151,264,229.61
Accrued expenses	12,954,759.15	4,553,878.05
Estimated liabilities	—	—
Long-term liabilities due within one year	30,000,000.00	45,000,000.00
Other current liabilities	344,678.50	—
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>1,447,494,414.77</b>	<b>1,389,689,321.31</b>
	<hr/>	<hr/>
<b>Long-term liabilities</b>		
Long term loans	42,000,000.00	10,000,000.00
Bonds payable	—	—
Long term payable	4,527,322.35	8,854,221.43
Special payables	—	—
Other long term liabilities	5,000,000.00	5,000,000.00
	<hr/>	<hr/>
<b>Total long term liabilities</b>	<b>51,527,322.35</b>	<b>23,854,221.43</b>
	<hr/>	<hr/>
<b>Deferred tax:</b>		
Deferred tax credits	—	—
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>1,499,021,737.12</b>	<b>1,413,543,542.74</b>
	<hr/>	<hr/>

Minority shareholders' equity	114,906,519.21	110,785,180.19
<b>Shareholders' equity</b>		
Share capital	810,900,000.00	810,900,000.00
Less: investment returned	—	—
Net share capital	810,900,000.00	810,900,000.00
Capital surplus	1,115,696,776.54	1,110,457,074.10
Reserved fund	251,042,152.19	251,020,754.95
Including: public welfare fund	92,757,528.43	92,757,528.43
Retained earnings	107,505,345.76	531,953.81
	<u>2,285,144,274.49</u>	<u>2,172,909,782.86</u>
<b>Total shareholders' equity</b>	<b>2,285,144,274.49</b>	<b>2,172,909,782.86</b>
	<u>3,899,072,530.83</u>	<u>3,697,238,505.79</u>
<b>Total liabilities and shareholders' equity</b>	<b>3,899,072,530.83</b>	<b>3,697,238,505.79</b>

### CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the period ended 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	<i>Monetary Unit: Renminbi Yuan</i>	
	Current accumulated	Last accumulated
<b>1 Sales</b>	3,000,882,903.37	2,644,970,813.82
Less: Cost of sales	2,316,922,017.95	2,034,004,853.14
Less: Sales tax and levies	13,583,266.17	11,925,750.88
<b>2 Profit from principal operations</b>	670,377,619.25	599,040,209.80
Add: Profit from other operations	17,414,773.88	15,768,155.71
Less: Operating expenses	224,639,697.95	198,870,670.83
Less: General and administrative expenses	258,225,811.36	255,801,958.85
Less: Financial expenses	7,534,799.14	4,525,182.18
<b>3 Operating profit</b>	197,392,084.68	155,610,553.65
Add: Investment income	(538,721.44)	(1,764,079.66)
Add: Subsidy income	69,318.00	331,906.00
Add: Non-operating income	1,050,767.09	3,164,701.46
Less: Non-operating expenses	13,228,312.14	5,490,460.63
<b>4 Total profit</b>	184,745,136.19	151,852,620.82
Less: Income tax	69,144,132.64	54,116,860.58
Less: Loss and gain of minority shareholders	8,627,611.60	6,971,979.90
<b>5 Net profit</b>	106,973,391.95	90,763,780.34

**CONSOLIDATED PROFIT APPROPRIATION STATEMENT (UNAUDITED)**

For the period ended 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Monetary Unit Renminbi Yuan	
	Current accumulated	Last accumulated
<b>1. Net profit</b>	106,973,391.95	90,763,780.34
Add: Retained earnings brought forward	531,953.81	(32,336,599.51)
Add: Transfer from others	—	—
<b>2. Profit distributable</b>	107,505,345.76	58,427,180.83
Less: Transfer to statutory surplus reserves	—	—
Less: Transfer to public welfare fund	—	—
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Enterprise expansion fund	—	—
Less: Profit returned to investment	—	—
<b>3. Profit distributable to shareholders</b>	107,505,345.76	58,427,180.83
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	—	—
Less: Dividend for ordinary shares transfer to share capital	—	—
<b>4. Retained earnings</b>	107,505,345.76	58,427,180.83

**CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)**

For the period ended 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Monetary Unit: Renminbi Yuan	
	Amount	
<b>I. Cash flow from operating activities</b>		
Cash received from sales of goods or rendering services		3,249,793,971.20
Refund of tax and levy		2,571,762.82
Other cash received relating to operating activities		104,314,987.32
<b>Subtotal of cash inflow</b>		3,356,680,721.34
Cash paid for goods or services		2,508,228,304.03
Cash paid to or on behalf of employees		208,518,373.69
Taxes paid		239,851,300.49
Other cash paid in relation to operating activities		292,912,182.19
<b>Subtotal of cash outflow</b>		3,249,510,160.40
<b>Net cash flow from operating activities</b>		107,170,560.94
<b>II. Cash flow from investing activities</b>		
Cash received from sale of investments		1,003,240.64
Cash received from investment income		2,126,573.69
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,484,705.40
Other cash received from investing activities		11,080,634.03
<b>Subtotal of cash inflow</b>		16,695,153.76
Cash paid to acquire fixed assets, intangible assets and other long-term assets		75,352,038.62
Cash paid to acquire investments		79,103,140.00
Other cash paid in relation to investing activities		2,710,816.64
<b>Subtotal of cash outflow</b>		157,165,995.26
<b>Net cash flow from investing activities</b>		-140,470,841.50

<b>III. Cash flow from financing activities</b>	
Proceeds from acquiring investments	—
Proceeds from acquiring investments from minority shareholders	—
Proceeds from borrowings	269,940,000.00
Other proceeds relating to financing activities	1,177,095.95
<b>Subtotal of cash inflow</b>	<b>271,117,095.95</b>
Cash repayments of amounts borrowed	172,619,927.31
Cash payments for distribution of dividends, profits or interest expenses	62,039,182.33
Cash payment for distribution of dividends to minority shareholders	3,511,489.89
Other cash payments relating to financing activities	1,903,112.81
<b>Subtotal of cash outflow</b>	<b>240,073,692.34</b>
<b>Net cash flow from financing activities</b>	<b>31,043,403.61</b>
<b>IV. Effect of changes in foreign exchange rate on cash</b>	<b>—</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>-2,256,876.95</b>
<b>Supplementary</b>	<b>Amount</b>
<b>1. Reconciliation of net profit to cash flow from operating activities</b>	
Net profit	106,973,391.95
Loss & gain of minority shareholders	8,627,611.60
Add: Provision of value impairment of assets	13,206,602.38
Depreciation of fixed assets	39,524,883.05
Amortization of intangible assets	2,179,600.31
Amortization of long-term prepaid expenses	7,077,137.65
Decrease in prepaid expenses (less: increase)	-7,065,663.50
Increase in accrued expenses (less: decrease)	8,400,881.10
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	206,585.44
Losses on scrapping of fixed assets	1,244,327.84
Financial expenses	13,951,785.08
Losses on investment (less: gain)	538,721.44
Deferred tax credit (less: debit)	—
Decrease in inventories (less: increase)	167,881,488.24
Decrease in operating receivables (less: increase)	-278,653,799.62
Increase in operating payables (less: decrease)	23,077,007.98
Others	
<b>Net cash flow from operating activities</b>	<b>107,170,560.94</b>
<b>2. Investing and financing activities that don't involve in cash receipts or payments</b>	
Repayment of debts by the transfer of investments	—
Convertible bonds due within one year	—
Fixed assets obtained by financing lease	—
<b>3. Net increase in cash and cash equivalents</b>	
Cash at the end of period	865,150,772.53
Less: Cash at the beginning of period	867,407,649.48
Add: Cash equivalents at the end of period	—
Less: Cash equivalents at the beginning of period	—
<b>Net increase in cash and cash equivalents</b>	<b>-2,256,876.95</b>

**BALANCE SHEET**

As at 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

*Monetary Unit: Renminbi Yuan*

	<b>Unaudited Closing blance</b>	<b>Audited Beginning balance</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	265,145,554.65	333,582,586.83
Short term investment	13,051,935.55	3,051,935.55
Notes receivable	—	—
Dividends receivable	3,419,382.00	20,710,385.91
Interest receivable	—	—
Accounts receivable	—	—
Other receivable	328,945,716.88	340,009,236.97
Prepayments	—	—
Subsidy receivable	—	—
Inventories	—	—
Prepaid expenses	—	—
Long-term debentures investment due within one year	—	—
Other current assets	—	—
<b>Total current assets</b>	<b>610,562,589.08</b>	<b>697,354,145.26</b>
<b>Long-term investment</b>		
Long-term equity investment	1,657,853,470.54	1,511,549,290.82
Long-term debentures investment	—	—
<b>Total long-term investment</b>	<b>1,657,853,470.54</b>	<b>1,511,549,290.82</b>
<b>Fixed assets</b>		
Fixed assets-cost	30,800,060.76	30,074,896.76
Less: accumulated depreciation	6,038,840.58	4,833,509.98
Fixed assets-net value	24,761,220.18	25,241,386.78
Less: provisions for fixed assets	—	—
Net fixed assets	24,761,220.18	25,241,386.78
Construction supplies	—	—
Construction work in progress	—	—
Disposal of fixed assets	—	—
<b>Total fixed assets</b>	<b>24,761,220.18</b>	<b>25,241,386.78</b>
<b>Intangible assets and other assets</b>		
Intangible assets	—	—
Long-term prepaid expenses	1,796,576.09	2,209,641.77
Other long-term assets	—	—
<b>Total intangible assets and other assets</b>	<b>1,796,576.09</b>	<b>2,209,641.77</b>
<b>Deferred tax</b>		
Deferred tax debits	—	—
<b>Total assets</b>	<b>2,294,973,855.89</b>	<b>2,236,354,464.63</b>



	Closing blance	Beginning balance
<b>Liabilities &amp; shareholders' equity</b>		
<b>Current Liabilities</b>		
Short-term loans	—	—
Notes payable	—	—
Accounts payable	—	—
Advance from customers	—	—
Accrued payroll	2,629,148.66	2,629,148.66
Welfare payable	2,273,554.22	2,098,445.50
Dividends payable	22,906.34	48,676,906.39
Tax payable	1,067,540.87	316,535.72
Other liabilities	—	11,116.36
Other payables	8,648,766.30	6,230,507.00
Accrued expenses	—	2,300,000.00
Estimated liabilities	—	—
Long-term liabilities due within one year	—	—
Other current liabilities	—	—
<b>Total current liabilities</b>	<u>14,641,916.39</u>	<u>62,262,659.63</u>
<b>Long-term liabilities</b>		
Long term loans	—	—
Bonds payable	—	—
Long-term payable	—	—
Special payables	—	—
Other long-term liabilities	—	—
<b>Total long-term liabilities</b>	<u>—</u>	<u>—</u>
<b>Deferred tax:</b>		
Deferred tax credits	—	—
<b>Total liabilities</b>	<u>14,641,916.39</u>	<u>62,262,659.63</u>
Minority shareholders' equity		
<b>Shareholders' equity</b>		
Share capital	810,900,000.00	810,900,000.00
Less: investment returned	—	—
Net share capital	810,900,000.00	810,900,000.00
Capital surplus	1,115,681,141.51	1,110,457,074.10
Reserved fund	101,507,382.18	101,507,382.18
Including: public welfare fund	44,411,290.37	44,411,290.37
Retained earnings	252,243,415.81	151,227,348.71
<b>Total shareholders' equity</b>	<u>2,280,331,939.50</u>	<u>2,174,091,805.00</u>
<b>Total liabilities and shareholders' equity</b>	<u>2,294,973,855.89</u>	<u>2,236,354,464.63</u>

**PROFIT AND LOSS ACCOUNT**

For the period ended 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Monetary Unit: Renminbi Yuan	
	Current accumulated	Last accumulated
<b>1 Sales</b>	—	—
Less: Cost of sales	—	—
Less: Sales tax and levies	—	—
<b>2 Profit from principal operations</b>	—	—
Add: Profit from other operations	—	144,759.20
Less: Operating expenses	—	—
Less: General and administrative expenses	10,403,830.43	9,359,129.35
Less: Financial expenses	(3,217,632.01)	(11,467,816.56)
<b>3 Operating profit</b>	(7,186,198.42)	2,253,446.41
Add: Investment income	109,066,856.54	93,247,754.10
Add: Subsidy income	—	—
Add: Non-operating income	—	83.13
Less: Non-operating expenses	—	864.03
<b>4 Total profit</b>	101,880,658.12	95,500,419.61
Less: Income tax	864,591.02	—
Less: Loss and gain of minority shareholders	—	—
<b>5 Net profit</b>	101,016,067.10	95,500,419.61

**CASH FLOW STATEMENT (UNAUDITED)**

For the period ended 30th June 2002

Prepared by: Guangzhou Pharmaceutical Company Limited

Item	Monetary Unit: Renminbi Yuan	
	Amount	
<b>I. Cash flow from operating activities</b>		
Cash received from sales of goods or rendering services	—	
Refund of tax and levy	—	
Other cash received relating to operating activities	2,623,217.88	
<b>Subtotal of cash inflow</b>	2,623,217.88	
Cash paid for goods or services	—	
Cash paid to or on behalf of employees	5,582,045.70	
Taxes paid	1,084,991.62	
Other cash paid in relation to operating activities	6,030,682.23	
<b>Subtotal of cash outflow</b>	12,697,719.55	
<b>Net cash flow from operating activities</b>	-10,074,501.67	
<b>II. Cash flow from investing activities</b>		
Cash received from sale of investments	—	
Cash received from investment income	75,372,458.92	
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	—	
Other cash received from investing activities	10,198,176.50	
<b>Subtotal of cash inflow</b>	85,570,635.42	
Cash paid to acquire fixed assets, intangible assets and other long-term assets	725,164.00	
Cash paid to acquire investments	83,850,000.00	
Other cash paid in relation to investing activities	10,704,001.88	
<b>Subtotal of cash outflow</b>	95,279,165.88	
<b>Net cash flow from investing activities</b>	-9,708,530.46	

<b>III. Cash flows from financing activities</b>	
Proceeds from acquiring investments	—
Proceeds from borrowings	—
Other proceeds relating to financing activities	—
<b>Subtotal of cash inflow</b>	—
Cash repayments of amounts borrowed	—
Cash payments for distribution of dividends, profits or interest expenses	—
Other cash payments relating to financing activities	48,654,000.05
<b>Subtotal of cash outflow</b>	48,654,000.05
<b>Net cash flow from financing activities</b>	-48,654,000.05
<b>IV. Effect of changes in foreign exchange rate on cash</b>	
<b>V. Net increase in cash and cash equivalents</b>	-68,437,032.18

<b>Supplementary Information</b>	<b>Amount</b>
<b>1. Reconciliation of net profit to cash flow from operating activities</b>	—
Net profit	101,016,067.10
Add: Provision of value impairment of assets	—
Depreciation of fixed assets	1,205,330.60
Amortization of intangible assets	—
Amortization of long-term prepaid expenses	413,065.68
Decrease in prepaid expenses (less: increase)	—
Increase in accrued expenses (less: decrease)	-2,300,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gain)	—
Losses on scrapping of fixed assets	—
Financial expenses	5,669.20
Losses on investment (less: gain)	-109,066,856.54
Deferred tax credit (less: debit)	—
Decrease in inventories (less: increase)	—
Decrease in operating receivables (less: increase)	—
Increase in operating payables (less: decrease)	-1,347,777.71
Others	—
<b>Net cash flows from operating activities</b>	-10,074,501.67
<b>2. Investing and financing activities that don't involve in cash receipts or payments</b>	
Repayment of debts by the transfer of investments	—
Convertible bonds due within one year	—
Fixed assets obtained by financing lease	—
<b>3. Net increase in cash and cash equivalents</b>	
Cash at the end of period	265,145,554.65
Less: Cash at the beginning of period	333,582,586.83
Add: Cash equivalents at the end of period	—
Less: Cash equivalents at the beginning of period	—
<b>Net increase in cash and cash equivalents</b>	-68,437,032.18

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

(Prepared in accordance with HK GAAP)

FOR THE SIX MONTHS ENDED 30TH JUNE 2002

		<b>Unaudited</b>	
		<b>Six months ended 30th June</b>	
	<i>Note</i>	<b>2002</b>	<b>2001</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1	3,000,883	2,644,971
Cost of sales		(2,316,922 )	(2,034,005 )
		<hr/>	<hr/>
Gross profit		683,961	610,966
Other revenues		28,737	32,657
Distribution costs, administrative and other operating expenses		(524,912 )	(516,821 )
		<hr/>	<hr/>
Operating profit	2	187,786	126,802
Finance costs		(13,640 )	(18,843 )
Share of profits less losses of Jointly controlled entities		(339 )	(666 )
Associated companies		203	286
		<hr/>	<hr/>
Profit before taxation		174,010	107,579
Taxation	3	(69,254 )	(54,194 )
		<hr/>	<hr/>
Profit after taxation		104,756	53,385
Minority interests		(8,029 )	(1,322 )
		<hr/>	<hr/>
Profit attributable to shareholders		96,727	52,063
Transfer to capital reserve		(220 )	(300 )
		<hr/>	<hr/>
		<b>96,507</b>	<b>51,763</b>
		<hr/>	<hr/>
Dividends	4	48,654	24,327
		<hr/>	<hr/>
Earnings per share	5	<b>RMB0.119</b>	<b>RMB0.0645</b>
		<hr/>	<hr/>

## 1 Segment information

The Group is principally engaged in (1) manufacturing of CPM; (2) trading including wholesale, retail, import and export of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus.

An analysis of the Group's revenue and results for the period by business segment is as follows:

6 months ended 30th June 2002						
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover						
External	929,307	1,852,312	161,940	57,324	—	3,000,883
Internal	28,188	131,899	—	—	(160,087)	—
Total	<u>957,495</u>	<u>1,984,211</u>	<u>161,940</u>	<u>57,324</u>	<u>(160,087)</u>	<u>3,000,883</u>
Segment results	<u>159,673</u>	<u>40,669</u>	<u>5,020</u>	<u>844</u>	<u>(9,717)</u>	196,489
Unallocated costs						(8,703)
Operating profit						187,786
Finance costs						(13,640)
Share of profits less losses of						
Jointly controlled entities	(339)					(339)
Associated companies	203					203
Profit before taxation						174,010
Taxation						(69,254)
Minority interests						(8,029)
Profit attributable to shareholders						<u>96,727</u>
6 months ended 30th June 2001						
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover						
External	841,457	1,588,581	173,503	41,430	—	2,644,971
Internal	15,504	299,509	—	—	(315,013)	—
Total	<u>856,961</u>	<u>1,888,090</u>	<u>173,503</u>	<u>41,430</u>	<u>(315,013)</u>	<u>2,644,971</u>
Segment results	<u>93,271</u>	<u>30,703</u>	<u>8,596</u>	<u>1,119</u>	<u>(3,743)</u>	129,946
Unallocated costs						(3,144)
Operating profit						126,802
Finance costs						(18,843)
Share of profits less losses of						
Jointly controlled entities	(666)					(666)
Associated companies	286					286
Profit before taxation						107,579
Taxation						(54,194)
Minority interests						(1,322)
Profit attributable to shareholders						<u>52,063</u>

Unallocated costs represent corporate expenses.

No geographical analysis of turnover and operating profit is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to the markets outside the PRC.

## 2 Operating profit

	6 months ended 30th June	
	2002	2001
	RMB'000	RMB'000
Operating profit is stated after crediting and charging the following:		
<u>Crediting:</u>		
Reversal of write-down of inventories	710	—
<u>Charging:</u>		
Depreciation and amortisation of fixed assets	42,980	34,296
Impairment of fixed assets and construction in progress	9,382	50,277
Loss on disposal of fixed assets	1,214	74

## 3 Taxation

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	6 months ended 30th June	
	2002	2001
	RMB'000	RMB'000
PRC enterprise income tax	69,199	54,117
Share of taxation attributable to associated companies	55	77

The PRC enterprise income tax has been provided at the rate of 33% (2001: 33%) on the estimated assessable profit for the period.

Pursuant to a document [2000] 1063 issued by the Guangzhou Finance Bureau, enterprise income tax of listed companies in Guangzhou city in 2001 was initially based on the unified tax rate of 33% and the portion over 15% of the tax attributed to local government (i.e., 60% of the 18% of tax) was refunded. Accordingly, the effective income tax refund rate was 10.8%. The Company and its major subsidiaries were effectively taxed at 22.2% in the year 2001.

There is no such refund for the income tax in the year 2002.

Companies comprising the Group that are incorporated outside the PRC are liable to pay income tax on their taxable income in accordance with the tax laws of the countries in which they operated.

## 4 Dividends

	6 months ended 30th June	
	2002	2001
	RMB'000	RMB'000
2001 Final dividend, paid, of Rmb 0.06 (2000 final dividend paid, of Rmb 0.03) per share (Note)	48,654	24,327

Note:

At a meeting held on 4th April 2002 the directors proposed a final dividend of Rmb0.06 per share for the year ended 31st December 2001, which was paid in June 2002 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2002.

## 5 Earnings per share

The calculation of earnings per share for the six months ended 30th June 2002 is based on the net profit of Rmb96,727,000 (2001: Rmb52,063,000) and the weighted average number of 810,900,000 shares (2001: 807,021,547 shares) in issue.

**6 Employment medical benefits**

The Guangzhou Municipal Government has issued a regulation “Measures Concerning Employee Medical Insurance In Guangzhou” on 1st November 2001. According to the pronouncement, the Group is required to acquire medical insurance for its existing and retired employees as from 1st December 2001.

Management is assessing the financial impact of such employee medical insurance to the Group.

**7 Disclosure of information on the website of The Stock Exchange of Hong Kong Limited (“Stock Exchange”)**

A detailed result announcement containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules will be released on the Stock Exchange’s website within 21 days following the date on which the interim results are approved by or on behalf of the Board of the Company.

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