



廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

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

SUMMARY OF INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2003

1. IMPORTANT NOTICE

1.1 The Board of Directors of Guangzhou Pharmaceutical Company Limited (the “Company”, and together with its subsidiaries, the “Group”) and each director collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this interim report and confirm, having made reasonable enquiries, that to the best of their knowledge and belief, that there are no material omissions from or misrepresentations or misleading statements contained in this interim report.

This announcement is extracted from the full text of the interim report. The full text of the interim report will also be published on the website of Shanghai Stock Exchange (website: <http://www.sse.com.cn>) and the website of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

1.2 Mr. Cai Zhixiang, Chairman of the Board of Directors, Mr. Zhou Yuejing, Director and General Manager, Mr. Gao Fang, Financial Controller and Mr. Chen Binghua, Senior Finance Manager, individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this interim report.

1.3 The financial reports contained in this interim report are unaudited.

- 1.4 This interim report is drafted in both English and Chinese. In the event that different interpretation occurs, with the exception of the interim financial report prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“HKSSAP 25”), Interim Financial Reporting, issued by the Hong Kong Society of Accountants, the Chinese version is considered to be more accurate.
- 1.5 The full text of the interim report will contain all the information required by paragraphs 46(1) to 46(6) of appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) (website: <http://www.hkex.com.hk>) in due course. Investors are advised to read the full text of the interim report for detailed information.

2. COMPANY PROFILE

2.1 The Company

	<u>A share</u>	<u>H share</u>
Stock abbreviation	GZ Phar.	GZ Phar.
Stock code	600332	0874
Place of listing of shares	Shanghai Stock Exchange	The Stock Exchange of Hong Kong Limited
	<u>Company secretary</u>	<u>Authorised securities dealers</u>
Name	He shuhua	No
Address	45 Sha Mian North Street, Guangzhou City, Guangdong Province, PRC	No
Telephone	(8620) 8121 8117	No
Fax	(8620) 8121 6408	No
E-mail	hesh@gpc.com.cn	No

2.2 PRINCIPAL FINANCIAL DATA AND INDICATORS

2.2.1 Extracted from the interim financial report prepared in accordance with accounting standards and systems of the People's Republic of China (the "PRC")

	Unaudited 30th June 2003 Rmb	Audited 31st December 2002 Rmb	Change %
Current assets	3,144,767,001.35	2,947,222,139.79	6.70
Current liabilities	1,771,604,992.82	1,629,148,645.35	8.74
Total assets	4,460,610,581.03	4,173,194,491.19	6.89
Shareholders' funds (excluding minority interests)	2,384,160,418.04	2,286,928,678.67	4.25
Net assets per share	2.94	2.82	4.26
Adjusted net assets per share	2.86	2.70	5.93
	Unaudited		
	For the six months ended 30th June 2003 Rmb	For the six months ended 30th June 2002 Rmb	Change %
Net profit	93,613,387.19	106,973,391.95	(12.49)
Net profit after charging non-operating items	99,241,692.35	115,085,904.07	(13.77)
Earnings per share (fully diluted)	0.1154	0.1319	(12.51)
Earnings per share (weighted average)	0.1154	0.1319	(12.51)
Return on net assets (fully diluted)	3.93%	4.68%	(16.03)
Return on net assets (weighted average)	4.01%	4.80%	(16.46)
Net cash inflow from operating activities	17,840,032.66	107,170,560.94	(83.35)

2.2.2 Non- operating items

Applicable Not applicable

Items	Amount Rmb
Income on government bonds	178,518.10
Non-operating income	664,664.53
Non-operating expenses	(9,512,472.20)
Subsidies income	180,927.28
Income tax adjustment	2,860,077.13
Total	(5,628,305.16)

2.2.3 Extracted from the interim financial report prepared in accordance with HKSSAP 25

	Unaudited At 30th June 2003 Rmb'000	Restated Audited At 31st December 2002 Rmb'000	Change (%)
Current assets	3,112,454	2,912,941	6.85
Current liabilities	1,791,392	1,608,530	11.37
Total assets	4,696,392	4,418,506	6.29
Total liabilities (including minority interests)	2,192,532	1,957,094	12.03
Net assets	2,503,860	2,461,412	1.72
Net assets per share (Rmb)	3.09	3.04	1.64

	Unaudited For the six months ended 30th June 2003 Rmb'000	Restated For the six months ended 30th June 2002 Rmb'000	Change (%)
Profit before taxation	161,734	174,010	(7.05)
Net profit	91,102	100,756	(9.58)
Earnings per share (Rmb)	0.112	0.124	(9.68)

2.2.4 Reconciliation of the Group's net profit prepared in accordance with PRC accounting standards and systems and accounting principles generally accepted in Hong Kong ("HKGAAP") in the interim financial reports

Applicable Not applicable

	For the six months ended 30th June 2003 (<i>unaudited</i>) Rmb'000	Restated For the six months ended 30th June 2002 (<i>unaudited</i>) Rmb'000
Net profit under PRC accounting standards and systems:	93,613	106,973
Amortization of deferred expenditure capitalized	(5,223)	(5,223)
Additional depreciation on difference on revalued fixed assets	(988)	(988)
Research and development cost overcharged / (undercharged)	3,062	(4,860)
Donation income recognized	—	227
Provision for employee benefits	999	—
Deferred taxation	(1,426)	4,379
Bad debt recovered	1,042	—
Difference in minority interests	23	248
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Net profit under HK GAAP	91,102	100,756
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Explanations for difference on net profit:

- (1) Amortization of deferred expenditure capitalized amounted to Rmb5,223,000. In 2000, the Group disposed of its staff quarters to employees at a preferential price and the staff quarters reform costs arising therefrom amounted to Rmb104,460,000. The staff quarters reform costs are written off against retained earnings in accordance with PRC accounting standards and systems. However, according to HK GAAP, the staff quarters reform costs are capitalized as deferred expenditure and amortized over a period of 10 years to reflect the pattern in which the related economic benefits are recognized.

- (2) The Group's fixed assets were revalued by the international valuers in 1997 for the purpose of listing of the Company's H shares. Although the revaluation has been taken into the accounts of the Group prepared under HK GAAP, this is not acceptable to the accounts prepared under PRC accounting standards and systems. Accordingly, the depreciation charge under HK GAAP is higher than that calculated under PRC accounting standards and systems as the depreciation charge under HK GAAP is based on the revalued amount of fixed assets.
- (3) Overcharge of research and development cost amounted to Rmb3,062,000. Provision for research and development cost was made under PRC accounting standards and systems based on certain percentage on turnover. This is not acceptable to HK GAAP.
- (4) Provision for employee benefits amounted to Rmb999,000. Medical insurance relating to contributions accrued for the past service rendered by the retired and retiring employees are recognized as expenses in prior years under HK GAAP. However, under PRC accounting standards and systems, medical insurance for the past service is recognized as expenses on cash basis. Cash basis is not acceptable to HK GAAP.
- (5) Provision of deferred taxation charge amounted to Rmb1,426,000. The Group has not made provision for deferred tax in the account prepared in accordance with PRC accounting standards and systems. Under HK GAAP, deferred taxation is provided in full on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts.
- (6) This is bad debt recovered from the provision for bad debt made in the account prepared under HKGAAP. The provision for bad debt has not been taken up in the account prepared under PRC accounting standards and systems.
- (7) This is resulted from the above difference between the net profit prepared under PRC accounting standards and systems and prepared under HK GAAP.

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Movement in share capital

Applicable Not applicable

3.2 Top ten major shareholders

Total number of shareholders at the end of reporting period 54,583

Details of the top 10 major shareholders

Name of Shareholders (in full)	Changes in shares held	Number of shares held	Percentage (%)	Class of shares (listed or unlisted)	Number of shares pledged or as collateral	Nature of shareholders (state-owned or foreign invested)
Guangzhou Pharmaceutical Holdings Limited	—	513,000,000	63.26	unlisted	152,600,000	State-owned
HKSCC Nominees Limited	(124,000)	217,964,999	26.88	listed	N/A	H shares
Bohai Securities Co., Ltd.	924,688	924,688	0.11	listed	N/A	A shares
HSBC Nominees (Hong Kong) Limited	62,000	862,000	0.11	listed	N/A	H shares
China Merchants Bank Holdings Company Limited	372,850	372,850	0.06	listed	N/A	A shares
Wong Chung King	308,000	308,000	0.04	listed	N/A	H shares
Xinghe Securities Investment Fund	302,415	302,415	0.04	listed	N/A	A shares
Deng Dakai	305,746	305,746	0.04	listed	N/A	A shares
Bank of China-Tiantong 180 days-index Securities Investment Fund	158,501	158,501	0.02	listed	N/A	A shares
Xie Tao	143,600	143,600	0.02	listed	N/A	A shares

Details of the connection among the top ten major shareholders

Among the top 10 major shareholders, Guangzhou Pharmaceutical Holdings Limited (“GZPHL”) is not connected with the other nine shareholders listed above. Accordingly, it should not be considered to act for the same interest of other top ten major shareholders as stipulated in the “Rules Governing the Disclosure of Change in Shareholders”. The Company is not aware of any connection among these nine shareholders, nor whether these nine shareholders are for the same interest as described by Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies.

Details of contracted terms of shares allotted & issued to strategic investor or general corporation

Name of shareholders
No

Contracted Terms
No

3.3 Change in controlling shareholders and beneficial owners

Applicable Not applicable

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Changes in the number of shares held by directors, supervisors and senior management

Applicable Not applicable

Name	Position	Shares held on 1st January 2003	Shares held on 30th June 2003	Reason for changes
Cai Zhixiang	Executive director	—	14,700	Note
Li Yiming	Executive director	—	14,700	Note
Zhou Yuejin	Executive director	—	3,700	Note
Fen Zansheng	Executive director	—	—	
Chu Youlin	Independent executive director	—	—	
Zhang Bohua	Independent non-executive director	—	—	
Liu Jinxiang	Independent non-executive director	—	—	
Wu Zhang	Independent non-executive director	—	—	
Huang Buren	Independent non-executive director	—	—	
Chen Canying	Chairman of the Supervisory Committee	—	9,800	Note
Tan Sima	Supervisor	—	—	
Luo Jidong	Supervisor	—	—	
He Shuhua	Vice General Manager and Secretary of the Company	—	11,200	Note
Li Decheng	Vice General Manager	—	—	
Gao fang	Financial Controller	—	—	

Note: According to a long-term incentive bonus scheme approved at the first extraordinary general meeting of 2002, on the condition that designated operating profit is achieved, senior management of the Company are entitled to an incentive bonus, part of which can be used in the subscription of the Company's issued A shares. Interests of senior management in the Company have been reported to Shanghai Stock Exchange ("SSE") according to relevant rules and regulations.

5. MANAGEMENT DISCUSSION AND ANALYSIS

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

Scope of business

The Group are principally engaged in (1) manufacture and sales of Chinese Patent Medicine (“CPM”); (2) wholesales, retail, import and export of western and Chinese pharmaceutical products and medical apparatus and (3) research and development of natural medicine and biological medicine.

Analysis of operating results

According to the interim financial report prepared in accordance with PRC accounting standards and systems, the Group’s consolidated turnover from principal activities for the six months ended 30th June 2003 was Rmb3,577,432,000, representing an increase of 19.21% over that of the same period of 2002. Profit before taxation was Rmb162,799,000, representing a decrease of 11.88% over that of the same period of 2002. Net profit was Rmb93,613,000, representing a decrease of 12.49% over that of the same period of 2002.

According to the interim financial report prepared in accordance with HKSSAP 25, the Group’s consolidated turnover from principal activities for the six months ended 30th June 2003 was Rmb3,577,432,000 representing an increase of 19.21% over that of same period of 2002. Profit before taxation was Rmb161,734,000, representing a decrease of 7.05% over that of the same period of 2002. Net profit was Rmb91,102,000, representing a decrease of 9.58% over that of the same period of 2002.

5.1 An analysis of the Group's turnover and profit from principal activities for the reporting period is set out

Segment	Turnover <i>Rmb'000</i>	Cost of sales <i>Rmb'000</i>	Gross profit (%)	Change in	Change in	Change in
				turnover over that of 2002 (%)	cost of sales over that of 2002(%)	gross profit over that of 2002(%)
Manufacturing:	970,509	451,384	53.49	4.43	7.38	-2.33
Trading:	2,606,923	2,409,410	7.58	25.84	27.04	-10.32
Wholesale	2,315,062	2,169,597	6.28	24.98	26.08	-11.49
Retail	190,793	144,714	24.15	17.82	18.19	-0.99
Import and export	101,068	95,099	5.91	76.31	78.42	-15.83
Total	3,577,432	2,860,794	20.03	19.21	23.47	-12.11
Including:						
Connected transaction	49,876	42,434	14.92	51.95	53.25	-4.61

By product	Turnover <i>Rmb'000</i>	Cost of sales <i>Rmb'000</i>	Gross profit (%)	Change in	Change in	Change in
				turnover over that of 2002 (%)	cost of sales over that of 2002(%)	gross profit over that of 2002(%)
Heat clearing and						
Anti Toxic	275,665	137,520	50.11	26.83	25.93	0.72
Diabetic medicine	150,706	54,390	63.91	-16.16	-14.92	-0.81
Cough and						
phlegm clearing	133,157	70,970	46.70	30.98	34.69	-3.05
Arthritic medicine	101,285	39,912	60.59	-0.03	-1.16	0.75
Gastric medicine	55,273	29,261	47.06	12.50	14.69	-2.10
Including:						
Connected transaction	10,213	5,056	50.49	31.16	28.96	1.70

Pricing policy for connected transactions

The sales and purchases transactions with connected parties were at the terms similar to those transactions with other third parties. The prices are decided on arm's length after considering the relevant government pricing policy and market development trend.

5.2 Geographical analysis of sales arising from principle activities is as follows:

Area	Turnover		Change in turnover over that of 2002 %
	For Six months ended 30th June 2003 Rmb	For Six months ended 30th June 2002 Rmb	
Southern China	2,796,172,282.27	2,291,105,799.03	22.04
Eastern China	249,884,526.21	239,603,516.37	4.29
Northern China	156,764,157.94	129,771,469.51	20.80
North-east China	110,172,068.36	105,704,339.97	4.23
South-west China	143,297,495.31	111,841,489.50	28.13
North-west China	68,335,923.44	84,542,478.36	-19.17
Exporting	52,806,025.43	38,313,810.63	37.83
Total	<u>3,577,432,478.96</u>	<u>3,000,882,903.37</u>	<u>19.21</u>

During the reporting period, the outbreak of Severe Acute Respiratory Syndrome (“SARS”) in the Guangdong province and other parts of China had severe impact on the domestic pharmaceutical market: (1) demand for certain pharmaceutical products changed significantly; (2) purchases from medical institutions dropped tremendously in some areas due to the decrease in the number of inpatients; (3) gross profit ratio of manufacturing operations decreased as a result of the increased in cost of raw materials. All of these factors have impact on the operating results of the manufacturing and trading operations of the Group.

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

According to the interim financial report prepared in accordance with PRC accounting standards and systems, turnover of the Group’s manufacturing operations in the first half of 2003 was Rmb970,509,000, representing an increase of 4.43% over that of the same period of 2002. Profit before taxation was Rmb122,055,000, representing a decrease of 15.63% over that of the same period of 2002.

According to the interim financial report prepared in accordance with HKSSAP 25, turnover of the Group's manufacturing operations in the first half of 2003 was Rmb970,509,000, representing an increase of 4.43% over that of the same period of 2002. Profit before taxation was Rmb121,898,000, representing a decrease of 13.54% over that of the same period of 2002.

The manufacturing operations have taken certain actions to react rapidly to the dynamic domestic pharmaceutical market. Firstly, the manufacturing operations have done their best to emphasize on the production and promotion of SARS related products. Secondly, the manufacturing operations conducted a series of promotional campaigns related to pharmaceutical technology to the end-user markets, and emphasized maintaining good customer relationship to mitigate the side-effects brought by SARS. Furthermore, the manufacturing operation have been keen to explore and develop products with high market potential and to improve their marketing and promotional campaign so as to sharpen their competitive edge.

In the first half of 2003, the sales of certain products, such as Wang Lao Ji Liang Cha, Xu Han Ke Li, Xia Sang Ju, Chuan Bei Pipa Gao and Qing Re An Chang Pian, significantly increased by 33.62%, 58.70%, 22.55%, 113.68% and 40.71%, respectively.

During the reporting period, sales of diabetic medicine decreased by 18.43% due to SARS . Due to price fluctuation of raw material and package material, the gross profit margin in the first half of 2003 also decreased by 1.28% over that of the same period of 2002.

Sales analysis of major products is as follows:

Product	Six months ended 30th June 2003	
	Turnover Rmb'000	Gross profit Rmb'000
Heat clearing and Anti Toxic	275,670	138,150
Diabetic medicine	150,710	96,320
Cough and phlegm clearing	133,160	62,190
Arthritic medicine	101,290	61,370
Gastric medicine	55,270	26,010

During the reporting period, the Group continued to strengthen efforts to develop new products, especially those in the 2nd phase process. During the period, four new products were put into production and three new products passed the development. 12 projects are under research and development stage, such as “Feng Shi Ping Jiao Nang” and “Fan Xi Wei Luo Wei Ruan Jiao Nang”. Besides, “Feng Shi Ping Jiao Nang” is undergoing the 3rd phase of clinic testing.

The Group concentrated on accelerating the process of the technology upgrades during the reporting period. Guangzhou Huanye Medicine Manufacturing Co., Ltd. has been granted the GMP certification for its completed renovation for its raw medicine workshop. Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. (“Jing Xiu Tang”) has also completed the construction projects for adhesive plaster workshop, distilling workshop, pre-processing workshop and warehouse. Guangzhou Qi Xing Pharmaceutical Co., Ltd’s (“Qi Xing”) pill and keli syrup workshop upgrade and Guangzhou Xing Qun Pharmaceutical Co., Ltd’s (“Xing Qun”) automation of granules upgrade have already been put in use. Gaolu workshop and technology upgrade of syrup production of Pan Gao Shou, Tablets and syrup workshop of Guangzhou Yang Cheng Pharmaceutical Co., Ltd. (“Yang Cheng”) and the new factory plants of Xing Qun and Guangzhou First Chinese Medicine Company Limited (“First Medicine”) are under construction.

During the reporting period, the ERP system has been implemented in 7 manufacturing subsidiaries. At present, the Group is in the process of implementing the ERP system and decision-making supporting system for the trading operations.

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

According to the interim financial report prepared in accordance with PRC accounting standards and systems, turnover of the Group’s trading operations in the first half of 2003 was Rmb2,606,923,000, representing an increase of 25.84% over that of the same period of 2002. Profit before taxation of the trading operations was Rmb40,744,000, representing an increase of 1.68% over that of the same period of 2002.

According to the interim financial report prepared in accordance with HKSSAP 25, turnover of the Group’s trading operations in the first half of 2003 was Rmb2,606,923,000, representing an increase of 25.84% over that of the same period of 2002. Profit before taxation of the trading operations was Rmb39,836,000, representing an increase of 20.61% over that of the same period of 2002.

Due to the impact of the tendering system adopted by hospitals and changes in the pricing policy for pharmaceutical products, gross profit margin of the trading operations decreased by 0.87% over the same period of 2002 and accounts receivable balances increased by 39.52% in comparison with 2002.

During the reporting period, the trading operations made all efforts to react to the severe market competition. Firstly, the trading operations adjusted their sales policies to react to the dynamic market changes. They focused on the logistic management for SARS related medicines and tried to maintain the stability of their market share. The trading operations have also strengthened the promotional activities on SARS related medicines to ensure continual sales growth in the first half of 2003. Secondly, the trading operations continued to explore certain famous pharmaceutical products and to secure their distribution rights in order to maintain the market share. Thirdly, the trading operations have proactively explored potential markets. During the reporting period, the trading operations have set up representative offices in Shenzhen City and Shantou City. At the same time, they paid attention to the development of OTC medicines and expansion of sales network outside Guangdong province. All these have helped improve the reputation and strengthen competitiveness of the trading operations. Fourthly, the trading operations have done their best to secure the share in the end-user market, surrounding by favorable factors of its chained pharmacies of Cai Zhi Lin and Jian Min and excellent sales services. As at 30th June 2003, the Group has 267 chained pharmacies, including 162 Cai Zhi Lin shops, which mainly carry CPM, and 105 Jian Min shops, which mainly carry western pharmaceutical products. Furthermore, the trading operations have accelerated the progress of upgrading logistic center. The major part of this project has been completed and parts of the warehouse have been in use.

During the reporting period, sales of wholesale and retail operations were respectively increased by 24.98% and 17.82% over the same period of last year.

5.3 Other business with significant impact on net profit.

Applicable Not applicable

5.4 Details of operations of the Company's subsidiaries (applicable for the Group's investee companies derived to the Group any investment income equal to 10% or above of the Group's net profit)

Applicable Not applicable

5.5 Explanation on significant changes in principal activities and their compositions

Applicable Not applicable

5.6 Explanation on significant changes in profit from principal activities (gross profit ratios) in comparison with 2002

Applicable Not applicable

5.7 Analysis on significant changes in operating results and their composition in comparison with 2002

Applicable Not applicable

5.8 Details of use of proceeds from issue of A shares

5.8.1 Details of use of proceeds from issue of A shares

Applicable Not applicable

Total proceeds received	737,990,000
Total amount of proceeds utilized in 2003	80,820,000
Accumulated amount of proceeds utilized	498,620,000

Projects	Budgeted injection from proceeds of issue Rmb'000	Change in projects	Funds injected Rmb'000	Investment proceeds		Agreed with the expected returns and the planned stage of completion
				Turnover increased by Rmb'000	Gross profit increased by Rmb'000	
Xiao Ke Wan upgrade	29,800	No	29,800	38,200	24,410	Yes
Bao Ji Wan upgrade	11,000	No	11,000	1,690	360	Yes
Commercialization of Wei Re Qing	29,000	No	7,990	N/A	N/A	Yes
Automation of pill production	11,000	No	10,260	13,020	8,610	Yes
Technology upgrade of Hua Tuo pills	17,000	No	16,850	27,930	16,260	Yes
Throat, spleen and intestine pills technology upgrade	29,100	No	15,050	22,800	10,490	Yes
Technology upgrade for syrup production	29,500	No	13,710	12,550	4,390	No

Commercialization of Keli syrup	19,600	No	10,750	N/A	N/A	Yes
Anti- perspiration granules upgrade	12,000	No	11,350	17,310	12,290	Yes
Automation of granules upgrade	29,900	No	29,900	41,170	18,670	Yes
Flu granules for children upgrade	23,000	No	23,000	8,310	3,910	Yes
Commercialization of Xiao Yin tablets	29,500	No	8,640	N/A	N/A	Yes
Spleen, intestine and pimples tablets upgrade	17,800	No	13,260	5,930	4,150	Yes
Gao Lu upgrade	29,500	No	29,500	19,660	11,400	Yes
Tablets workshop upgrade	12,000	No	12,000	11,590	9,790	Yes
Modernization of extraction and purification technology	29,900	No	16,030	N/A	N/A	Yes
Critical purification of CO2 technology foundation	29,900	No	N/A	N/A	N/A	Yes
Expansion of Jian Min chain stores	89,300	No	62,910	30,110	5,720	Yes
Expansion of Cai Zhi Lin chain stores	59,500	No	20,160	160	50	No
Logistic centre upgrade	20,000	No	20,000	N/A	N/A	No
ERP for trading section upgrade	20,000	No	10,840	N/A	N/A	Yes
Bio- medicine research centre	80,000	No	45,930	N/A	N/A	Yes
Additional working capital	50,000	No	79,690	N/A	N/A	Yes
Total	708,300	—	498,620	250,430	130,500	-

Explanatory note on returns on projects and the stage of completion (on individual project)

Due to the plant relocation, technology upgrade for syrup production was delayed. Expansion of chain pharmacies was also slowed down because of the severe competition in the retailing sector. The traffic re-construction in Guangzhou City led to the delay of the development of the logistic centre but related stages of sourcing the materials for the logistic center are in progress.

Reasons and procedures of change (on individual project)

N/A

Note: Return mentioned above are generated in this reporting period.

5.8.2 Change in the proposed use of the proceeds from issuing A shares

Applicable Not applicable

5.9 Change in the Board's business plan

Applicable Not applicable

5.10 Early warning and explanation for negative impact on profit for the period ended 31 December 2003, or significant profit fluctuation in comparison to the same period of 2002

Applicable Not applicable

5.11 The Board's explanation on the qualified opinion issued by the auditors

Applicable Not applicable

5.12 The Board's explanation on the new status and settlement of issues raised in qualified audit report of 2002 issued by auditors

Applicable Not applicable

6. SIGNIFICANT EVENTS

6.1 Acquisition, disposal of assets and assets restructuring

6.1.1 Acquisition of assets

Applicable Not applicable

6.1.2 Disposal of assets

Applicable Not applicable

6.1.3 Progress and effect on operation result and financial situation after the announcement of acquisition, disposal of assets and assets restructuring processes occurred

Applicable Not applicable

6.2 Significant guarantees

Applicable Not applicable

6.3 Connected transactions

Applicable Not applicable

Connected parties Account Receivable and Account Payable	Amount due from connected parties		Amount due to the Company	
	Net movement <i>Rmb'000</i>	Ending balance <i>Rmb'000</i>	Net movement <i>Rmb'000</i>	Ending balance <i>Rmb'000</i>
Guangzhou Qiaoguang Pharmaceutical Factory	2,044	9,281	117	137
Guangzhou Mingxing Pharmaceutical Factory	—	2	13	72
Guangzhou Tianxin Pharmaceutical Co., Ltd.	(918)	—	(310)	12
Guangzhou Hejigong Factory	256	273	(95)	32
Guangzhou Guanghua Pharmaceutical Co., Ltd.	(237)	100	205	789
Guangzhou Sanitation Production Factory	(217)	925	(221)	124
Guangzhou Southern China Medical Apparatus Co., Ltd.	—	—	13	13
Guangzhou Pharmaceutical Goods and Supply Company	—	—	22	22
Guangzhou Yingbang Trading Co., Ltd.	502	4,009	860	1,377
Baolian Development Company Limited	—	—	4,951	8,262
Guangzhou Zhongfu Medical Co., Ltd.	(359)	118	—	—
Guangdong Xinhua Health Drinks Co., Ltd.	245	1,625	—	—
Guangzhou Baiyunshan Enterprise Group	(4,306)	2,108	36	36

Guangzhou Baiyunshan Pharmaceutical Factory	4,740	4,740	9	10
Guangzhou Baiyunshan Chinese Medicine Factory	19	390	160	184
Other Receivable and Other Payable				
Guangzhou Pharmaceutical Holdings Limited	(80)	8,050	1,977	12,782
Guangzhou Qiaoguang Pharmaceutical Factory	(197)	—	(36)	—
Guangzhou Pharmaceutical Machine Factory	(33)	—	—	—
Guangzhou Sanitation Production Factory	54	54	—	—
Guangzhou Southern China Medical Apparatus Co., Ltd.	—	100	—	—
Guangzhou Pharmaceutical Goods and Supply Company	—	—	—	1,024
Guangzhou Yingbang Trading Co., Ltd.	—	5,030	—	—
Baolian Development Company	2,615	8,411	—	—
Guangzhou Zhongfu Medical Co., Ltd.	17	17	—	—
Guangdong Xinhua Health Drinks Co., Ltd.	(150)	3,250	—	—
Guangzhou Pharmaceutical Research Institute	2,000	2,000	—	874

6.4 Significant litigation or arbitration

Applicable Not applicable

6.5 Explanation on impact and settlement of other significant matters

Applicable Not applicable

6.6 During the reporting period, there were no significant changes in staff number and staff remuneration policies.

6.7 Liquidity, financial resources and capital structure

As at 30th June 2003, long-term borrowings of the Group amounted to Rmb117,180,000 (of which Rmb10,000,000 are repayable within one year). These borrowings are fixed interest loans denominated in Rmb, of which Rmb20,000,000 loans are repayable in 2004, Rmb27,680,000 repayable in 2005 and Rmb59,500,000 repayable in 2006. As at 30th June 2003, cash and cash equivalents of the Group amounted to Rmb892,140,000, of which 89.40% is denominated in Rmb and 10.60% is denominated in Hong Kong dollars.

6.8 Capital expenditure

The Group expected that capital expenditure for the year 2003 will be approximately Rmb291 million and actual expenditure in the first half of 2003 amounted to Rmb136 million. The Group has sufficient financial resources to meet the demand for capital expenditure and daily working capital.

6.9 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.

6.10 Contingent liabilities

Up to 30th June 2003, the Group has no significant contingent liabilities.

6.11 Charge on the group assets

As at 30th June 2003, the net book value of fixed assets pledged as security for bank borrowings granted to the Group amounted to Rmb97,260,000.

6.12 The Board does not recommend the payment of a dividend for the six months ended 30th June 2003 nor propose any increase in share capital from the capitalization of capital reserve.

6.13 During the reporting period, there was no significant disposal of assets, or merger and acquisition activities occurred in the Company, subsidiaries or associated companies.

6.14 Gearing ratio

Up to 30th June 2003, there have been no material adverse changes in the gearing ratio of the Group in comparison with 2002.

6.15 Compliance with the code of best practice

Throughout the period, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

7. FINANCIAL REPORTS

7.1 Audit opinion

Financial Report

Unaudited Audited

7.2 Profit and Loss Account for the Group and the Company with comparing figures

(1) Profit and loss account prepared under PRC GAAP

PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the period ended 30th June 2003

Prepared by: Guangzhou Pharmaceutical Company Limited

	For Six months ended 30th June 2003		For Six months ended 30th June 2002	
	The Group	The Company	The Group	The Company
	<i>Rmb</i>	<i>Rmb</i>	<i>Rmb</i>	<i>Rmb</i>
1. Sales	3,577,432,478.96	—	3,000,882,903.37	—
Less: Cost of sales	2,860,794,147.40	—	2,316,922,017.95	—
Less: Sales tax and levies	12,620,768.40	—	13,583,266.17	—
2. Profit from principal operations	704,017,563.16	—	670,377,619.25	—
Add: Profit from other operations	19,447,910.34	-101,095.92	17,414,773.88	—
Less: Operating expenses	249,893,026.21	—	224,639,697.95	—
Less: General and administrative expenses	292,237,293.34	9,496,481.49	258,225,811.36	10,403,830.43
Less: Financial expenses	9,745,954.57	-2,037,278.47	7,534,799.14	-3,217,632.01
3. Operating profit	171,589,199.38	-7,560,298.94	197,392,084.68	-7,186,198.42
Add: investment income	-123,373.71	105,670,008.14	-538,721.44	109,066,856.54
Add: Subsidy income	180,927.28	—	69,318.00	—
Add: Non-operating income	664,644.53	—	1,050,767.09	—
Less: Non-operating expenses	9,512,472.20	11,132.62	13,228,312.14	—
4. Total profit	162,798,925.28	98,098,576.58	184,745,136.19	101,880,658.12
Less: Income tax	60,757,080.64	—	69,144,132.64	864,591.02
Less: Loss and gain of minority shareholders	8,428,457.45	—	8,627,611.60	—
5. Net profit	93,613,387.19	98,098,576.58	106,973,391.95	101,016,067.10

Legal representative:

Cai Zhixiang

Person in charge of accounting function:

Gao Fang

Person in charge of accounting department:

Chen Binghua

- (2) Extracted from the interim financial report prepared under HKSSAP 25

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2003

		Unaudited Six months ended 30th June	
		2003	As restated 2002
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note</i>		
Turnover	1	3,577,432	3,000,883
Cost of sales		<u>(2,860,794)</u>	<u>(2,316,922)</u>
Gross profit		716,638	683,961
Other revenues		27,193	28,737
Distribution, administrative and other operating expenses		<u>(566,426)</u>	<u>(524,912)</u>
Operating profit	2	177,405	187,786
Finance costs		(15,607)	(13,640)
Share of profits less losses of Jointly controlled entities		(225)	(339)
Associated companies		<u>161</u>	<u>203</u>
Profit before taxation		161,734	174,010
Taxation	3	<u>(62,227)</u>	<u>(64,875)</u>
Profit after taxation		99,507	109,135
Minority interests		<u>(8,405)</u>	<u>(8,379)</u>
Net profit		91,102	100,756
Transfer to capital reserve		—	(220)
Profit attributable to shareholders		<u><u>91,102</u></u>	<u><u>100,536</u></u>
Dividends	4	<u><u>48,654</u></u>	<u><u>48,654</u></u>
Earnings per share	5	<u><u>RMB0.112</u></u>	<u><u>RMB0.124</u></u>

1. Segment information

The Group is organized into the following business segments:

- Manufacturing of Chinese Patent Medicine (“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
- Import and export of western pharmaceutical products

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

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 markets outside the PRC.

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

6 months ended 30th June 2003						
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover						
External	970,509	2,315,062	190,793	101,068	—	3,577,432
Internal	27,122	109,939	4,140	—	(141,201)	—
Total	<u>997,631</u>	<u>2,425,001</u>	<u>194,933</u>	<u>101,068</u>	<u>(141,201)</u>	<u>3,577,432</u>
Segment results	<u>143,929</u>	<u>45,386</u>	<u>6,175</u>	<u>1,693</u>	<u>(13,113)</u>	184,070
Unallocated costs						<u>(6,665)</u>
Operating profit						177,405
Finance costs						(15,607)
Share of profits less losses of						
Jointly controlled entities	(225)					(225)
Associated companies	161					161
Profit before taxation						161,734
Taxation						(62,227)
Minority interests						<u>(8,405)</u>
Profit attributable to shareholders						<u>91,102</u>

6 months ended 30th June 2002

	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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						<u>(8,703)</u>
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						(64,875)
Minority interests						<u>(8,379)</u>
Profit attributable to shareholders						<u><u>100,756</u></u>

2. Operating profit

Operating profit is stated after crediting and charging the following:

	6 months ended 30th June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Crediting:		
Reversal of write-down of inventories	30	710
Reversal of impairment of fixed assets, intangible assets or other assets	<u>5,237</u>	<u>—</u>
Charging:		
Depreciation and amortisation of fixed assets	48,172	42,980
Impairment of fixed assets and construction in progress	—	9,382
Loss on disposal of fixed assets	6,913	1,214
Staff costs	<u>284,583</u>	<u>244,273</u>

3. Taxation

The PRC enterprise income tax has been provided at the rate of 33% (2002: 33%) on the estimated assessable profit for the period. 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.

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

	6 months ended 30th June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Current taxation		
PRC enterprise income tax	60,757	69,199
Deferred taxation relating to the origination and reversal of temporary differences	1,426	(4,379)
	62,183	64,820
Share of taxation attributable to:		
Jointly controlled entities	—	—
Associated companies	44	55
Taxation charge	<u>62,227</u>	<u>64,875</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the PRC enterprise income tax as follows:

	6 months ended 30th June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Profit before taxation	161,734	174,010
Calculated at a taxation rate of 33% (2002: 33%)	53,372	57,423
Effect of different taxation rates in a subsidiary	(1,223)	(1,048)
Expenses not deductible for taxation purposes	11,919	8,500
Tax refund	(1,841)	—
Taxation charge	<u>62,227</u>	<u>64,875</u>

4. Dividends

	6 months ended 30th June	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
2002 Final dividend, paid, of RMB 0.06 (2001 final dividend paid, of RMB 0.06) per share (Note)	<u>48,654</u>	<u>48,654</u>

Note

At a meeting held on 21st March 2003, the directors proposed a final dividend of RMB0.06 per share for the year ended 31st December 2002, which was paid in May 2003 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2003.

5. Earnings per share

The calculation of earnings per share for the six months ended 30th June 2003 is based on the net profit of RMB91,102,000 (2002: RMB100,536,000) and the number of 810,900,000 shares (2002: 810,900,000 shares) in issue.

Guangzhou Pharmaceutical Company Limited
Board of Directors

15th August 2003

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