



# 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)*

(Stock Code: 0874)

## SUMMARY OF INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2004

### 1. IMPORTANT NOTICE

- 1.1 The Board of Directors and all the Directors of Guangzhou Pharmaceutical Company Limited (the “Company”) collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this interim report and confirm that there are no false information, misleading statements nor material omissions 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 the Shanghai Stock Exchange (“SSE”) (website: <http://www.sse.com.cn>) and the website of the Stock Exchange of Hong Kong Limited (“HKEX”) (website: <http://www.hkex.com.hk>). Investors are advised to read the full text of the interim report for detailed information.

- 1.2 Mr. Cai Zhixiang (Chairman of the Board of Directors), Mr. Zhou Yuejin (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 for the period ended 30th June 2004 (the “reporting period”) are unaudited.

- 1.4 This interim report is prepared in both Chinese and English. In the event of different interpretation, with the exception of the condensed accounts prepared in accordance with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HK SSAP 25”), the Chinese shall prevail.
- 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 in due course.

## 2. COMPANY PROFILE

### 2.1 The Company

Stock abbreviation	GZ Phar.
Stock Code	600332
Place of listing shares	The Shanghai Stock Exchange
Stock abbreviation	GZ Phar.
Stock Code	0874
Place of listing shares	The Stock Exchange of Hong Kong Limited

#### Company secretary

#### Representative of securities affairs

Name	Mr. He Shuhua	Ms. Huang Xuezhen
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## 2.2 Principal Financial Data and Indicators

### 2.2.1 Financial data and indicators prepared in accordance with Accounting Standards and Systems of the People's Republic of China (the "PRC Accounting Standards and Systems") :

Items	As at	As at	Changes
	30th June 2004 <i>(Unaudited)</i> RMB	31st December 2003 <i>(Audited)</i> RMB	
Current assets	3,334,006,397.76	3,223,046,083.99	3.44
Current liabilities	2,101,334,086.83	1,948,138,687.47	7.86
Total assets	4,887,994,454.22	4,707,039,445.98	3.84
Shareholders' equity (excluding minority interests)	2,413,697,962.22	2,429,476,382.41	(0.65)
Net assets per share	2.98	3.00	(0.65)
Adjusted net assets per share	2.89	2.92	(1.03)
Items	For the six months ended 30th June 2004 <i>(Unaudited)</i> RMB	For the six months ended 30th June 2003 <i>(Unaudited)</i> RMB	Changes (%)
Net profit	31,808,644.71	93,613,387.19	(66.02)
Net profit after deducting extraordinary items	34,599,221.46	99,241,692.35	(65.14)
Earnings per share	0.0392	0.1154	(66.02)
Return on net assets	1.32%	3.93%	(66.41)
Net cash flows from operating activities	124,590,212.58	17,840,032.66	598.37

## 2.2.2 Extraordinary items included:

Applicable       Not applicable

Items	Amount RMB
Loss on disposal of investments and fixed assets	2,417,886.51
Loss on disposal of short-term investments	24,584.45
Non-operating income	4,266,871.32
Non-operating expenses excluding provision of assets	4,211,670.38
Reversal of provisions	9,046.84
Income tax effect	(412,353.57)
Total	2,790,576.75

## 2.2.3 Financial data and indicators prepared in accordance with General Accepted Accounting Principles in Hong Kong (“HK GAAP”)

Assets and liabilities Items	As at 30th June 2004 <i>(Unaudited)</i> RMB'000	As at 31st December 2003 <i>(Audited)</i> RMB'000	Changes (%)
Current assets	3,336,593	3,224,064	3.49
Current liabilities	2,166,988	2,010,183	7.80
Total assets	5,135,500	4,954,091	3.66
Total liabilities (Including minority interests)	2,598,661	2,402,674	8.16
Net assets	2,536,839	2,551,417	(0.57)
Net assets per share (RMB)	3.13	3.15	(0.57)
<b>Results Items</b>	<b>For the six months ended 30th June 2004</b> <i>(Unaudited)</i> RMB'000	<b>For the six months ended 30th June 2003</b> <i>(Unaudited)</i> RMB'000	<b>Changes (%)</b>
Profit before taxation	88,570	161,734	(45.24)
Profit attributable to shareholders	34,076	91,102	(62.60)
Earnings per share (RMB)	0.042	0.112	(62.60)

2.2.4 Reconciliation of the 2004 interim results between financial statements prepared in accordance with PRC Accounting Standards and Systems and HK GAAP (Unit: RMB'000)

Applicable       Not applicable

	Under PRC Accounting Standards and Systems	Under HK GAAP
Net profit/Profit attributable to shareholders	31,809	34,076
Reconciliation		
	<b>Net profit under PRC Accounting Standards and Systems</b>	<b>31,809</b>
	Amortisation of deferred capitalised intangible assets (note 1)	(5,223)
	Additional depreciation on difference in revalued fixed assets (note 2)	(988)
	Government subsidies recognised as income (note 3)	1,100
	Provision for employee benefits (note 4)	2,738
	Deferred taxation (note 5)	7,449
	Difference in minority interests (note 6)	(2,809)
	<b>Profit attributable to shareholders under HK GAAP</b>	<b>34,076</b>

Explanations for difference on net profit:

- 1) This is an amortisation of staff quarter reform costs incurred by the Company and its subsidiaries (collectively the "Group") prior to 2000 in relation to purchases of staff quarters by its employees. Under HK GAAP, such cost are recognised as an asset and are subject to amortisation on a straight line basis over a period of not more than 10 years to reflect the estimated remaining average service life of its employees in which the related economic benefits are recognised. Under PRC Accounting Standards and Systems, the staff quarter reform costs are written off against retained earnings when it incurred.

- 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) Government subsidies are recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, government subsidies are recognised as other income in the profit and loss account and are transferred from profit after taxation to capital reserve.
- 4) On 1st December 2001, the Group has participated in a medical insurance scheme set up and managed by the Guangzhou People's Municipal Government as required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government. Medical insurance relating to contributions accrued for the past service rendered by the retired and retiring employees are recognised as expenses in prior years under HK GAAP. However, in the accounts prepared under PRC Accounting Standards and Systems, medical insurance for the past service is recognised as expenses on cash basis. Cash basis is not acceptable under HK GAAP.
- 5) The Group has not made provision for deferred tax in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under HK GAAP, deferred tax is accounted for using the balance sheet liability method on all taxable temporary differences for deferred tax liability, and to recognise deferred tax assets to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.
- 6) This is resulted from the above difference in the accounts prepared under PRC Accounting Standards and Systems and HK GAAP.

### 3. CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

#### 3.1 Change in share capital

Applicable  Not applicable

#### 3.2 As at 30th June 2004, the top ten major shareholders and the top ten shareholders holding the listed shares of the Company

Total number of shareholders at the end of the reporting period 49,746

Details of the top 10 major shareholders:

Name of Shareholders (in full)	Changes in No. of shares held during the reporting period (Share)	No. of shares held (Share)	% of the issued share capital	Type of shares	No. of shares pledged or collateral (Share)	Nature of shares (State—owned or foreign invested)
Guangzhou Pharmaceutical Holdings Limited (“GPHL”)	—	513,000,000	Approximately 63.26	Unlisted	102,960,000	State—owned shares
HKSCC Nominees Limited	+32,000	218,202,999	Approximately 26.91	Listed	N/A	H shares
HSBC Nominees (Hong Kong) Limited	—	862,000	Approximately 0.11	Listed	N/A	H shares
Wong Chung King	—	308,000	Approximately 0.04	Listed	N/A	H shares
Deng Dakai	—	305,746	Approximately 0.04	Listed	N/A	A shares
Xu Weiping	Unknown	220,000	Approximately 0.03	Listed	N/A	A shares
Xing He Securities Investment Fund	-86,061	216,354	Approximately 0.03	Listed	N/A	A shares
Chen Yuliang	+4,800	171,357	Approximately 0.02	Listed	N/A	A shares
Xing Guisong	Unknown	142,720	Approximately 0.02	Listed	N/A	A shares
Zhang La	—	123,000	Approximately 0.02	Listed	N/A	A shares

As at 30th June 2004, the top ten shareholders holding the listed shares of the Company are set out as follows:

Name of shareholders (in full)	Number of listed shares held at the end of the reporting period	Nature of shares (A shares, B shares, H shares or others)
HKSCC Nominees Limited	218,202,999	H shares
HSBC Nominees (Hong Kong) Limited	862,000	H shares
Wong Chung King	308,000	H shares
Deng Dakai	305,746	A shares
Xu Weiping	220,000	A shares
Xing He Securities Investment Fund	216,354	A shares
Chen Yuliang	171,357	A shares
Xing Guisong	142,720	A shares
Zhang La	123,000	A shares
Liu Zhizhong	120,000	A shares

- Details of the connection among the top ten major shareholders or they act in concert
- (1) As notified by HKSCC Nominees Limited, the H shares under its name were held on behalf of its several clients.
  - (2) GPLH is not connected with the other nine shareholders listed above. The Company is not aware of any connection among the nine shareholders, or whether they are persons acting in concert as stipulated in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies".
  - (3) The Company is not ware of any connection among the ten shareholders holding listed shares of the Company, or whether they are persons acting in concert as stipulated in the "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	Contracted Terms
No	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	Shares held	Reason for change
		as at 1st January 2004 (Share)	as at 30th June 2004 (Share)	
Mr. Cai Zhixiang	Director	14,700	14,700	—
Mr. Zhou Yuejin	Director	28,900	28,900	—
Mr. Feng Zansheng	Director	—	—	—
Mr. Wong Hin Wing	Independent Director	—	—	—
Mr. Wu Zhang	Independent Director	—	—	—
Mr. Zhang Heyong	Independent Director	—	—	—
Mr. Chen Canying	Chairman of the Supervisory Committee	9,800	9,800	—
Mr. Ouyang Qiang	Supervisor	10,100	10,100	—
Mr. Zhong Yugan	Supervisor	—	—	—
Mr. He Shuhua	Deputy General Manager and Company Secretary	27,700	27,700	—
Mr. Gao Fang	Financial Controller	—	—	—

Note: According to the long-term incentive scheme approved at the Company's first Extraordinary General Meeting of 2002, the Senior Management of the Company is entitled to an incentive bonus, provided that the target of operating profit of the relevant year is achieved. Part of the bonus has been used to subscribe for the Company's RMB domestic shares ("A shares") and has been reported to SSE in accordance with relevant rules and regulations.

## 5. MANAGEMENT DISCUSSION AND ANALYSIS

*(Unless otherwise stated, the financial data contained in this summary is extracted from the financial statements prepared in accordance with PRC Accounting Standards and Systems.)*

### **Scope of business**

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

### **Analysis of operating results**

According to the interim financial report prepared in accordance with PRC Accounting Standards and Systems, the Group’s turnover for the six months ended 30th June 2004 was approximately RMB3,990,694,000, representing an increase of 11.55% over that of the same period of 2003. Profit before taxation was approximately RMB91,053,000, representing a decrease of 44.07% over that of the same period of 2003. Net profit was approximately RMB31,809,000, representing a decrease of 66.02% over that of the same period of 2003.

According to the interim financial report prepared in accordance with HK GAAP, the Group’s turnover for the six months ended 30th June 2004 was approximately RMB3,990,729,000, representing an increase of 11.55% over the same period of 2003. Profit before taxation was RMB88,570,000 representing an decrease of 45.24% over that of the same period of 2003. Profit attributable to shareholders was approximately RMB34,076,000, representing a decrease of 62.60% over that of the same period of 2003.

## 5.1 An analysis of the Group's turnover and profit from principal activities for the first six month of 2004 is set out as follows:

*(Unit: RMB'000)*

Segment	Turnover	Cost of sales	Gross profit (%)	Change in turnover over that of 2003 (%)	Change in	
					cost of sales over that of 2003 (%)	Change in gross profit over that of 2003 (%)
Manufacturing	982,389	457,111	53.47	1.22	1.27	(0.04)
Trading:	3,008,305	2,815,155	6.42	15.40	16.84	(15.30)
Wholesale	2,788,061	2,627,346	5.76	20.43	21.10	(8.21)
Retail	123,158	96,586	21.58	(35.45)	(33.26)	(10.66)
Import and export	97,086	91,223	6.04	(3.94)	(4.08)	2.18
<b>Total</b>	<b>3,990,694</b>	<b>3,272,266</b>	<b>18.00</b>	<b>11.55</b>	<b>14.38</b>	<b>(10.12)</b>
Including:						
Connected transaction	38,784	36,581	5.68	(22.24)	(13.79)	(61.93)

*(Unit: RMB'000)*

By product	Turnover	Cost of sales	Gross profit (%)	Change in turnover over that of 2003 (%)	Change in	
					cost of sales over that of 2003 (%)	Change in gross profit over that of 2003 (%)
Heat clearing and Anti Toxic medicine	240,651	124,643	48.21	(12.70)	(9.36)	(3.80)
Diabetic medicine	181,508	57,034	68.58	20.44	4.86	7.30
Cough and phlegm clearing medicine	96,073	55,250	42.49	(27.85)	(22.15)	(9.01)
Arthritic medicine	107,756	39,137	63.68	6.39	(1.94)	5.10
Gastric medicine	50,880	28,010	44.95	(7.95)	(4.28)	(4.49)
Including: Connected transaction	1,681	1,146	31.83	(83.54)	(77.33)	(36.97)

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.

Including: During the reporting period, the total amount of sales connected transaction sold by the Company to the controlling shareholder and its subsidiaries was RMB38,783,858.21.

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

Applicable       Not applicable

*(Unit: RMB'000)*

Area	Turnover	Change in turnover over that of 2003 (%)
Southern China	3,083,130	10.26
Eastern China	286,683	14.73
Northern China	164,929	5.21
North-eastern China	135,509	23.00
South-western China	168,174	17.36
North-western China	92,607	35.52
Exporting	59,662	12.98
<b>Total</b>	<b>3,990,694</b>	<b>11.55</b>

(1) CPM manufacturing business (the “Manufacturing Operations”)

During the first half of 2004, the slowing down of growth in sales of the Manufacturing Operations and the decrease in operating results were caused by keen competition of domestic pharmaceutical market, increase in production cost pursuant to Good Manufacturing Practice (GMP) renovation in relation to quality of production management and the restrictions imposed through national advertising policies. To overcome the above difficulties and to sustain growth in sales, the Group has strengthened the promotion of key products, and improved the marketing efforts at end-users such as hospitals, community and pharmacies.

According to the interim financial report prepared in accordance with PRC Accounting Standards and System, turnover of the Group attributable to the Manufacturing Operations for the first half of 2004 was approximately RMB982,389,000, representing an increase of 1.22% over that of the same period of 2003. Profit before taxation was approximately RMB102,184,000, representing a decrease of 16.28% over that of the same period of 2003. According to the interim financial report prepared in accordance with HK GAAP, the turnover of the Group attributable to the Manufacturing Operations for the first half of 2004 was approximately RMB982,424,000, representing an increase of 1.23% over that of the same period of 2003. Profit before taxation was RMB99,359,000, representing a decrease of 18.49% over that of the same period of 2003.

In the first half of 2004, the sales of certain products, including Wang Lao Ji Liang Cha, Ru He San Jie Pian, Xin Yi Bi Yan Wan, Hua Zhi Quan, An Shen Bu Nao Ye and Zhuang Yao Jian Shen Xiao Wan, have significantly increased by 47.66%, 43.11%, 41.04%, 55.77%, 86.36% and 31.89% respectively as compared with the corresponding period of 2003. Sales of other products, including She Dan Chuan Bei Ye and Mi Lian Chuan Bei Pi Pa Gao, has significantly decreased by 42.22% and 33.26% respectively over that of the same period of 2003.

Sales analysis of major products for the six months ended 30th June 2004 is as follow:

<b>Products</b>	<b>Turnover</b> <i>RMB'000</i>	<b>Gross profit</b> <i>RMB'000</i>
Heat clearing and anti-toxic medicine	240,651	116,008
Diabetic medicine	181,508	124,474
Cough and phlegm clearing medicine	96,073	40,823
Arthritic medicine	107,756	68,618
Gastric medicine	50,880	22,870

During the reporting period, inventory turnover days of the Manufacturing Operations were 101.78 days, representing an increase of 1.78 days. Accounts receivable turnover days were 35.12 days, representing an increase of 5.14 days as compared with the corresponding period of 2003.

During the reporting period, the Group continued accelerating the process of research and development of new products and further development of certain existing key products. During the reporting period, research for 3 products has been completed and they are currently in the process of applications for new drug certifications, while 2 products are under research. Besides, “Feng Shi Ping Jiao Nang” has successfully passed the third clinic testing phase and is now in the process of application for production certification.

During the reporting period, 7 out of 9 manufacturing subsidiaries have been granted with GMP certification. Manufacturing subsidiaries namely Guangzhou Zhong Yi Pharmaceutical Co., Ltd. and Guangxi Ying Kang Pharmaceutical Co., Ltd. have speeded up the process of GMP renovation and are trying their best to pass GMP certification before the required deadline.

During the reporting period, the enterprise resources planning system (“ERP” system) has been fully implemented and operating in 7 manufacturing subsidiaries.

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

The implementation of Good Supply Practice (“GSP”) in relation to quality of trading managements, the changes in the national pricing policy on pharmaceutical products, and fierce competition in the domestic pharmaceutical market resulting from the market entry of large number of pharmacies offering lower selling price, have brought about direct impact on the domestic pharmaceutical industry. The above factors have also caused certain impact to the Group’s Trading Operations.

During the reporting period, the Trading Operations made efforts as follow: Firstly, the continued active development of agency, distribution and wholesale arrangement for popular, new and specially good effect medicines. Meanwhile, the development of markets outside Guangdong Province through the advantage of agency distribution network of various branded products. Secondly, the active improvement in the tender for hospital projects, with a view to increasing sales of the Group's products to hospitals; Thirdly, the adoption to changes in the pharmaceutical retail network in response to market changes, and taking advantage of branded "Jian Min" and "Cai Zhi Lin" to develop flatship shops and community center shops to compete with the cheap chain pharmacies offering lower selling price.

The implementation of the above measures have attained favorable results. Turnover of the Trading Operations has maintained steady growth. The turnover of the Trading Operations prepared under PRC Accounting Standards and Systems for the first half of 2004 was approximately RMB3,008,305,000, represented 15.40% increase over that of the same period of 2003. Turnover of the Trading Operations prepared under HK GAAP for the first half of 2004 was approximately RMB3,008,305,000, represented 15.40% increase over that of the same period in 2003.

Loss before taxation of the Trading Operations prepared in accordance with PRC Accounting Standards and System amounted to approximately RMB11,130,000, representing a significant decrease in operating result by 127.32% over that of the same period of 2003. Loss before taxation of the Trading Operations, prepared under HK GAAP was RMB10,789,000, representing a significant decrease in operating result by 127.08% over that of the same period of 2003. Main reasons for the significant decrease in operating result are:



- 1) Affected by the market entry of large number of pharmacies offering lower selling price and national pricing policy on pharmaceutical products, the Group's gross margin ratio continued to drop to 6.42%, representing a decrease of 1.61% over that of the same period of 2003.
- 2) During the reporting period, Guangzhou Chinese Medicine Corporation, a subsidiary of the Company has made a provision for inventories amounting to approximately RMB24,494,000 and redundancy payments to laid-off workers as compensation amounted to approximately RMB7,921,000.

The above factors have significant impact on the overall operating result of the Group during the reporting period.

As at 30th June 2004, the Group has 215 chain pharmacies, including 121 "Cai Zhi Lin" Traditional Chinese Medicine ("TCM") chain pharmacies, and 94 "Jian Min" western chemical medicine chain pharmacies.

During the reporting period, "Huang Jin Wei", a modernised pharmaceutical logistics centre has been put into use. It's the capablest and largest pharmaceutical logistics centre in Southern China in terms of area with the highest handling capacity, indicating that the distribution capability of the Group has been further improved.

GSP certification of the trading subsidiaries had been completed as planned. At present, the Company is in the process of the implementation and training of the ERP system in the Trading Operations.

**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 2003**

Applicable  Not applicable

**5.7 Analysis on significant changes in operating results and their composition in comparison with 2003**

Applicable  Not applicable

*(Unit: RMB)*

Item	6 months ended 30th June 2004	6 months ended 30th June 2003	Changes	%
General and administration expenses ("G&A")	330,447,617.90	292,237,293.34	38,210,324.56	13.08
Financial expenses	17,684,980.77	9,745,954.57	7,939,026.20	81.46

**I. Reasons for change:**

- (1) During the reporting period, G&A increased by RMB38,210,000, representing an increase of 13.08% compared with the same period of 2003 due to the significant increase of stock provision of RMB24,494,000 for prudence purpose and redundancy payment for laid-off staff amounted to RMB7,921,000 accrued by Guangzhou Chinese Medicine Corporation, a subsidiary of the Company.
- (2) Financial expenses increased by 81.46% compared with the same period of 2003 due to around 20% increase in long-term borrowings, which led to increased interest expenses, and increased discount interest, which was because one subsidiary of the Company discounted approximately RMB200,000,000 accounts receivables to the bank.

## 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

				<i>RMB'000</i>	
Total proceeds received		737,990	Total amount of proceeds utilized in 2004		36,190
			Accumulated amount of proceeds utilized		619,960
Projects	Budgeted injection from proceeds of issue	Change in projects	Funds injected	Turnover and gross profit increased by	Agreed with the expected returns and the planned stage of completion
Xiao Ke Wan upgrade	29,800	No	29,800	Turnover 69,000, gross profit 47,320	Yes
Bao Ji Wan upgrade	11,000	No	11,000	Turnover 4,490, gross profit 1,240	Yes
Industralisation of Wei Re Qing	29,000	No	20,970	—	No
Automation of pill production	11,000	No	11,000	Turnover 8,290, gross profit 5,220	Yes
Technology upgrade of Hua Tuo Zai Zao Wan	17,000	No	17,000	Turnover 41,920, gross profit 27,510	Yes
Technology upgrade of throat, spleen and intestine pills	29,100	No	17,580	Turnover 19,900, gross profit 9,150	Yes
Technology upgrade for syrup production	29,500	No	29,500	—	Yes
Industrialisation of Ke Gan Li Yan Syrup	19,600	No	19,600	Turnover 6,830, gross profit 4,000	Yes
Technology upgrade of Xu Han Ting Granules	12,000	No	12,000	Turnover 16,240, gross profit 11,860	Yes
Automation of granules upgrade	29,900	No	29,900	Turnover 22,120, gross profit 9,190	Yes
Technology upgrade of flu granules for children	23,000	No	23,000	Turnover 4,190, gross profit 2,410	Yes
Industralisation of Fu Yan Soluble Tablets	29,500	No	19,840	—	No
Technology upgrade of spleen, intestine and pimples tablets	17,800	No	17,800	Turnover 7,310, gross profit 4,970	Yes
Technology upgrade of syrup workshops	29,500	No	29,500	Turnover 3,720, gross profit 1,320	Yes
Technology upgrade of suppository workshops	12,000	No	12,000	Turnover 22,160, gross profit 17,730	Yes

Modernisation of extraction and purification technology	29,900	No	21,570	—	Yes
Critical purification of CO2 technology foundation	29,900	No	19,950	—	Yes
Expansion of Jian Min chain stores	89,300	No	85,400	—	Yes
Expansion of Cai Zhi Lin chain stores	59,500	No	21,750	—	No
Logistic centre upgrade	20,000	No	20,000	Turnover 361,650, gross profit 20,650	Yes
ERP for trading section upgrade	20,000	No	15,620	—	Yes
Bio-medicine research centre	80,000	No	55,490	—	Yes
Additional working capital	50,000	No	79,690	—	Yes
			(note)		
Total	708,300	—	619,960	Turnover 587,820, gross profit 162,570	—

Explanatory note on returns on projects and the stage of completion

Due to plant relocation, industrialization of Fu Yan Soluble Tablets and industrialization of Wei Re Qing are expected to be completed by the end of 2004. Expansion of chain pharmacies also slowed down because of the severe competition in the retailing sector.

Reasons and procedures of change

N/A

Note: The net proceeds from the issue of A shares were approximately RMB 737,990,000. The portion exceeded the budgeted proceeds amounted to approximately RMB29,690,000 was used as additional working capital.

### 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 the explanation for negative impact on profit for the next reporting period, or significant profit fluctuation in comparison to the same period of 2003

Applicable  Not applicable

Due to severe competition in the domestic pharmaceutical market, the operating result of Guangzhou Chinese Medicine Corporation, a subsidiary of the Company, decreased significantly. In addition, provision was made for part of its inventory. The above factors resulted in net profit of the Group decreased by 66.02% comparing with amount in the same period of 2003 and are forecasted to have significant impact on the operating result of the Group in the next reporting period.

**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 2003 issued by auditors**

Applicable  Not applicable

**6. MAJOR EVENTS**

**6.1 Acquisition, disposal of assets and assets restructuring**

**6.1.1 Acquisition of or injection into assets**

Applicable  Not applicable

*(Unit: RMB'000)*

Investee and assets acquired or injected	Acquisition/ injection date	Transaction price	Contribution to the net profit from the date of acquisition/ injection to the end of current period	Connected transaction or not (if yes, explain)	Pricing policy
51% of the equity interest of Guangxi Ying Kang Pharmaceutical Co., Ltd	2004.4.1	Approximately 21,717.00	(31.20)	No	—
51% of the equity interest of Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd. (formerly known as Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd.)	2004.2.27	Approximately 3,888.70	313.80	Yes	On fair value basis

### 6.1.2 Sales or disposal of assets

Applicable  Not applicable

### 6.1.3 Progress and effect on operating result and financial position after the announcement of acquisition, disposal of assets and assets restructuring progress occurred.

Applicable  Not applicable

## 6.2 Significant guarantees

Applicable  Not applicable

Guaranteed	Date (date of the signing of the agreement)	Amount involved	Type of guarantee	Term of guarantee	Executed or not	(RMB'000)
						Guarantee connected for parties or not
Guangzhou Pharmaceutical Corporation	6th May 2003 ~ 10th June 2004	405,000	Credit	1 year	No	No
Guangzhou Chinese Medicine Corporation	29th May 2003 ~ 19th April 2004	90,430	Credit	1 year	No	No
Guangzhou Pharmaceutical Import & Export Co., Ltd	24th April 2003 ~ 8th June 2004	33,520	Credit	1 year	No	No
Guangzhou Huanye Pharmaceutical Co., Ltd.	31st March 2004	490	Credit	1 year	No	No
Total of the amount involved						0
Balance of guarantees						0
Include: balance of guarantees provided to connected parties						0
Amount of guarantees provided to the Company's subsidiaries by the Company						529,350
Amount of deregulatory guarantees						0
% of the net assets of the Company						21.88%

### 6.3 Connected transactions

Applicable  Not applicable

Connected parties	Relationship	Amount due from connected parties		Amount due to the Company	
		Net movement	Ending balance	Net movement	Ending balance
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivable and other payable:					
Guangzhou Pharmaceutical Holdings Limited					
Holdings Limited	Controlling shareholder	744	7,527	4,319	14,308
Guangzhou Huanan Medical Appliance Co., Ltd.					
Medical Appliance Co., Ltd.	Fellow subsidiary	—	100	—	—
Guangzhou Pharmaceutical Goods and Supply Company					
and Supply Company	Fellow subsidiary	—	—	3	3
Po Lian Development Company Limited					
Company Limited	Fellow subsidiary	—	6,795	2,077	2,077
Guangzhou Zhongfu Medical Company Limited					
Company Limited	Associated company	21	2	—	207
Total		765	14,424	6,399	16,595

During the reporting period, the funds provided between the Company and its subsidiaries, which include accounts receivable and other receivables, was RMB765,262.97 and total balances were RMB14,423,121.36.

### 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, the number of the Company's employees was approximately 8,973. The remuneration policy of the employees had no material changes comparing with that of the previous reporting period. Staff cost for the first half of 2004 was RMB 299,976,000.

### 6.7 Liquidity, financial resources and capital structure

As at 30th June 2004, the current ratio of the Group was 1.59, and quick ratio was 1.18. Accounts receivable turnover rate was 8.66, and inventory turnover rate was 6.75, representing a decrease of 6.12% and 3.62% respectively compared with the same period of 2003.

As at 30th June 2004, long-term borrowings of the Group amounted to RMB127,180,000 (as at 31st December 2003: RMB107,180,000). These borrowings are fixed interest loans denominated in RMB, of which RMB47,680,000 are repayable in 2005 and RMB79,500,000 repayable in 2006. As at 30th June 2004, cash and cash equivalents of the Group amounted to RMB861,010,000, of which 97.49% is denominated in RMB and 2.51% is denominated in Hong Kong dollars.

#### **6.8 Capital expenditure**

The Group expected that capital expenditure for the year 2004 will be approximately RMB367 million (2003: RMB363 million) and actual expenditure in the first half of 2004 amounted to RMB120 million (the same period in 2003: 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 2004, the Group has no significant contingent liabilities.

#### **6.11 Charge on the group assets**

As at 30th June 2004, the net book value of fixed assets pledged as security for bank loans granted to the Group amounted to RMB105,440,000.

#### **6.12 The Board does not recommend the payment of a dividend for the six months ended 30th June 2004 nor propose any increase in share capital from the capitalisation 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 Purchase, sale or redemption of shares**

Neither of the Company or any of its subsidiaries had redeemed, sold, purchased or cancelled any of the Company's shares during the reporting period.

#### **6.15 Bank loans, overdraft and other loans**

Up to 30th June 2004, long-term bank loans increased by RMB20,000,000 and current portion of long-term liabilities decreased by RMB10,000,000. Short-term loans increased by RMB24,890,000 compared with 2003.

#### **6.16 Gearing ratio**

Up to 30th June 2004, the Group's gearing ratio (total liabilities/total assets x 100% ) was 46.68% (31th December 2003: 44.84%). There have been no material adverse changes in the gearing ratio of the Group compared with 2003.

#### **6.17 Compliance with the code of best practice**

Throughout the reporting period, the Directors of the Company were not aware of any information that would reasonably indicate that the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of HKEX.

#### **6.18 Standard code of the Company's directors' and supervisors' securities transactions (the "Standard Code")**

During the reporting period, the Company had adopted a set of code of conducts which is not below the standard of the Standard Code. After specific inquiry to all Directors, all the Company's Directors complied with Directors' securities transaction standard which was prescribed in the Standard Code, and no exceptional case was noted.

#### **6.19 The Audit Committee is constituted by three independent non-executive Directors, one of which is a qualified accountant. The Audit Committee has reviewed the accounting policies, accounting regulations and methods adopted by the Company, and discussed with management about the audit, internal controls and financial reporting. The Committee also reviewed the unaudited interim financial reports for the six months ended 30th June 2004.**



## 7. FINANCIAL REPORTS

### 7.1 Audit opinion

Financial report      Unaudited

### 7.2 Profit and loss account for the Group and the Company with comparative figures

(1) Profit and loss account and Profit Appropriation Statement of the Group and the Company for the reporting period prepared in accordance with PRC Accounting Standards and Systems

#### Profit and loss account and Profit Appropriation Statement

	The Group		The Company	
	The reporting period	The same period of 2003	The reporting period	The same period of 2003
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
<b>Revenues from main operations</b>	3,990,694,132.12	3,577,432,478.96	—	—
Less: Cost of main operations	3,272,266,127.69	2,860,794,147.40	—	—
Less: taxes and levies on main operations	13,694,299.51	12,620,768.40	—	—
<b>Profit from main operations</b>	704,733,704.92	704,017,563.16	—	—
Add: Profit from other operations	18,388,152.28	19,447,910.34	1,794,856.02	(101,095.92)
Less: Selling expenses	278,658,990.85	249,893,026.21	—	—
Less: General and administrative expenses	330,447,617.90	292,237,293.34	8,334,795.43	9,496,481.49
Less: Financial expenses (income)	17,684,980.77	9,745,954.57	(784,288.06)	(2,037,278.47)
<b>Operating profit</b>	96,330,267.68	171,589,199.38	(5,755,651.35)	(7,560,298.94)
Add: Investment income (losses)	(777,440.50)	(123,373.71)	40,364,992.02	105,670,008.14
Add: Subsidy income	—	180,927.28	—	—
Add: Non-operating income	4,288,071.32	664,644.53	6,900.00	—
Less: Non-operating expenses	8,787,439.95	9,512,472.20	96,468.57	11,132.62
<b>Total profit</b>	91,053,458.55	162,798,925.28	34,519,772.10	98,098,576.58
Less: Income tax	52,938,643.69	60,757,080.64	—	—
Less: Minority interest	6,306,170.15	8,428,457.45	—	—
<b>Net profit</b>	31,808,644.71	93,613,387.19	34,519,772.10	98,098,576.58
Add: Retained earnings brought forward	82,558,496.93	73,918,608.87	356,049,259.87	282,714,439.79
Add: Transfer from others	—	—	—	—
<b>Profit distributable</b>	114,367,141.64	167,531,996.06	390,569,031.97	380,813,016.37
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>Profit distributable to shareholders</b>	114,367,141.64	167,531,996.06	390,569,031.97	380,813,016.37
Less: Dividend for preferred preferred shares	—	—	—	—
Less: Transfer to discretionary surplus reserves	—	—	—	—
Less: Dividend for ordinary shares	48,654,000.00	48,654,000.00	48,654,000.00	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital	—	—	—	—
<b>Retained earnings</b>	65,713,141.64	118,877,996.06	341,915,031.97	332,159,016.37

(2) Extract from the interim financial report prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 (“Interim Financial Reporting”)

### **CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the six months ended 30th June 2004

		<b>Unaudited</b>	
		<b>Six months ended 30th June</b>	
		<b>2004</b>	<b>2003</b>
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1	<b>3,990,729</b>	3,577,432
Cost of sales		<b>(3,272,460)</b>	(2,860,794)
Gross profit		<b>718,269</b>	716,638
Other revenues		<b>30,358</b>	27,193
Distribution, administrative and other operating expenses		<b>(637,336)</b>	(566,426)
Operating profit	2	<b>111,291</b>	177,405
Finance costs		<b>(22,482)</b>	(15,607)
Share of profits less losses of Jointly controlled entities		—	(225)
Associated companies		<b>(239)</b>	161
Profit before taxation		<b>88,570</b>	161,734
Taxation	3	<b>(45,488)</b>	(62,227)
Profit after taxation		<b>43,082</b>	99,507
Minority interests		<b>(9,006)</b>	(8,405)
Profit attributable to shareholders		<b>34,076</b>	91,102
Dividend	4	<b>48,654</b>	48,654
Earnings per share	5	<b>RMB0.042</b>	RMB0.112

## 1 Segment information

The Group is organised 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.

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

	Six months ended 30th June 2004					
	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	982,424	2,788,061	123,158	97,086	—	3,990,729
Internal	27,613	101,172	3,142	—	(131,927)	—
Total	<u>1,010,037</u>	<u>2,889,233</u>	<u>126,300</u>	<u>97,086</u>	<u>(131,927)</u>	<u>3,990,729</u>
Segment results	<u>122,244</u>	<u>12,321</u>	<u>(4,440)</u>	<u>2,529</u>	<u>(14,179)</u>	118,475
Unallocated costs						<u>(7,184)</u>
Operating profit						111,291
Finance costs						(22,482)
Share of profits less losses of Associated companies	(239)					<u>(239)</u>
Profit before taxation						88,570
Taxation						(45,488)
Minority interests						<u>(9,006)</u>
Profit attributable to shareholders						<u>34,076</u>

Six months ended 30th June 2003						
	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	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>

## 2 Operating profit

Operating profit is stated after charging the following:

	Six months ended 30th June	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Depreciation and amortisation of fixed assets	57,772	48,172
Amortisation of intangible assets	5,446	5,223
Loss on disposal of fixed assets	2,057	1,676
Impairment charge of investment securities	752	—
Write-down of inventories to net realisable value	24,494	—
Staff costs	<u>299,976</u>	<u>284,583</u>

### 3 Taxation

Enterprise income tax of the People's Republic of China (the "PRC") has been provided at the rate of 33% (2003: 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 operate.

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

	Six months ended 30th June	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Current taxation		
— PRC enterprise income tax	52,938	60,757
Deferred taxation relating to the origination and reversal of temporary differences	(7,450)	1,426
	<u>45,488</u>	<u>62,183</u>
Share of taxation attributable to associated companies	—	44
Taxation charge	<u><u>45,488</u></u>	<u><u>62,227</u></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:

	Six months ended 30th June	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before taxation	<u>88,570</u>	<u>161,734</u>
Calculated at a taxation rate of 33% (2003: 33%)	29,228	53,372
Effect of different taxation rates in a subsidiary	(1,201)	(1,223)
Expenses not deductible for taxation purposes	17,461	11,919
Tax refund	—	(1,841)
Taxation charge	<u><u>45,488</u></u>	<u><u>62,227</u></u>

## 4 Dividend

	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
2003 final dividend, paid, of RMB 0.06 (2002 final dividend, paid, of RMB 0.06) per share	<u>48,654</u>	<u>48,654</u>

At a meeting held on 29th March 2004, the directors proposed a final dividend of RMB0.06 per share for the year ended 31st December 2003, which was paid in June and July 2004 for H and A shares respectively and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2004.

The Directors do not recommend the payment of interim dividend for the six months ended 30th June 2004.

## 5 Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB34,076,000 (2003: RMB91,102,000) and the weighted average number of 810,900,000 shares (2003: 810,900,000 shares) in issue during the period.

### 7.3 Notes to the account

7.3.1 Explain the contents, reasons and impact, if there was change of accounting policies, change of accounting estimation or accounting errors.

Applicable       Not applicable

7.3.2 Explain the reasons and impact, if there was significant change of scope of consolidation.

Applicable       Not applicable

During the reporting period, two more subsidiaries were included in the Group's consolidation scope. In accordance with the rules of Ministry of Finance[1998]No.66 "Questions and Answers concerning implementing Accounting Standards and Accounting Systems of joint stock company", the injection date of Ying Kang Pharmaceutical Co., Ltd or acquisition date of Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd the date that the control on the investees' net assets and operations was substantially transferred to the investor.

Name of investee	Date of acquisition or injection	% of equity interest at the end of reporting period
Guangxi Ying Kang Pharmaceutical Co., Ltd	2004.4.1	51%
Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd. (original namely Guangzhou Pharmaceutical Holding Limited Ying Bang Marketing Co., Ltd.)	2004.2.27	51%

*(RMB)*

Name of investee	As at 30 June 2004			Including: current liabilities	From date of acquisition or injection to the end of the reporting period	
	Total assets	Including: current asset	Total liabilities		Total profit	Net profit
Guangxi Ying Kang Pharmaceutical Co., Ltd	46,666,375.10	19,832,513.13	5,619,101.15	3,354,674.68	(61,158.08)	(61,158.08)
Guangzhou Pharmaceutical Ying Bang Marketing Co., Ltd. (original namely Guangzhou Pharmaceutical Holding Limited Ying Bang Marketing Co., Ltd.)	29,388,066.81	28,543,593.43	25,881,197.63	25,881,197.63	862,461.58	615,296.53

7.3.3 Notes to the non-standard unqualified auditors' report

Applicable       Not applicable

**Guangzhou Pharmaceutical Company Limited**  
**Cai Zhixiang**

27th August 2004

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







