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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)

(H Share Stock Code: 0874)

SUMMARY OF 2005 INTERIM REPORT

1. IMPORTANT NOTICE

- 1.1 The Board of Directors (the “Board”) and all the Directors of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in the interim report and confirm that there are no false information, misleading statements or material omissions in the interim report.
- 1.2 This summary is extracted from the full text of the interim report. The full text of the interim report will be published on the website of the Shanghai Stock Exchange (“SSE”) (website: [http:// www.sse.com.cn](http://www.sse.com.cn)) and the website of The Stock Exchange of Hong Kong Limited (“HKEX”) (website: [http:// www.hkex.com.hk](http://www.hkex.com.hk)). Investors are advised to read the full text of the interim report for detailed information.
- 1.3 All the Directors of the Board were present at the 14th Meeting of the Third Board of the Company.
- 1.4 The financial reports contained in the interim report for the period ended 30 June 2005 (the “Reporting Period”) are unaudited.

- 1.5 Mr. Yang Rongming, Chairman of the Board, Mr. Xie Bin, General Manager, Mr. Gao Fang, Financial Controller and Mr. Chen Binghua, Senior Manager of the Finance Department, warrant and confirm the authenticity and completeness of the financial reports contained in this interim report.
- 1.6 The interim report is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the condensed consolidated financial information prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, the Chinese version shall prevail.
- 1.7 The full text of the interim report containing all the information required by paragraph 46 of Appendix 16 to the Rules Governing the Listing of Securities on HKEX (the “Listing Rules”) will be published on the website of HKEX in due course.

2. COMPANY PROFILE

2.1 General information

Stock abbreviation	: GZ Phar.
Stock code	: 600332 (A share)
Stock exchange	: The Shanghai Stock Exchange
Stock abbreviation	: GZ Phar.
Stock code	: 0874 (H share)
Stock exchange	: The Stock Exchange of Hong Kong Limited

	Company secretary	Representative of securities affairs
Name	Mr. He Shuhua	Ms. Huang Xuezheng
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2.2 Financial information

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

Items	As at 30 June 2005 <i>(Unaudited)</i> <i>RMB'000</i>	As at 31 December 2004 <i>(Audited)</i> <i>RMB'000</i>	Change as compared with 1 January 2005 <i>(%)</i>
Current assets	3,720,172	3,494,266	6.47
Current liabilities	2,545,398	2,398,058	6.14
Total assets	5,352,579	5,182,878	3.27
Shareholders' funds (excluding minority interests)	2,545,001	2,440,230	4.29
Net assets per share (RMB)	3.14	3.01	4.29
Adjusted net assets per share (RMB)	3.09	2.96	4.29

Items	The Reporting Period <i>(Unaudited)</i> <i>RMB'000</i>	The corresponding period of 2004 <i>(Unaudited)</i> <i>RMB'000</i>	Change as compared with the corresponding period of 2004 <i>(%)</i>
Net profit	103,590	31,809	225.67
Net profit after deducting non-operating items	110,053	34,599	218.08
Earnings per share (fully diluted) (RMB)	0.13	0.04	225.67
Earnings per share (weighted average) (RMB)	0.13	0.04	225.67
Return on net assets (fully diluted) (%)	4.07	1.32	an increase of 2.75 percentage points
Return on net assets (weighted average) (%)	4.17	1.30	an increase of 2.87 percentage points
Net cashflow from operating activities	113,648	124,590	(8.78)

2.2.2 Non-operating items

Applicable Not applicable

Non-operating items	Amount <i>RMB'000</i>
Losses on disposal of fixed assets	(342)
Government grants and subsidies	190
Losses from short-term investments	(6,111)
Non-operating expenses after deducting provision for value impairment of assets	(1,309)
Reversal of provisions for impairments made in the previous years	659
Income tax effect	(178)
Minority interests	(273)
Total	(6,463)

2.2.3 Financial data and indicators prepared in accordance with Hong Kong Financial Reporting Standards

Summary of assets and liabilities

Items	As at 30 June 2005 <i>(Unaudited)</i> <i>RMB'000</i>	As at 31 December 2004 <i>(Audited)</i> <i>RMB'000</i>	Change as compared with 1 January 2005 <i>(%)</i>
Current assets	3,722,117	3,497,539	6.42%
Current liabilities	2,582,125	2,450,033	5.39%
Total assets	5,575,397	5,413,438	2.99%
Total liabilities	2,729,940	2,655,559	2.80%
Net assets	2,648,275	2,545,592	4.03%
Net assets per share (RMB)	3.266	3.139	4.03%

Summary of results

Items	The Reporting Period (<i>unaudited</i>) RMB'000	The corresponding period of 2004 (<i>unaudited</i>) RMB'000	Change as compared with the corresponding period of 2004 (%)
Profit before income tax	185,607	88,570	109.56%
Profit attributable to equity holders of the Company	122,956	34,076	260.83%
Earnings per share (RMB)	0.152	0.042	260.83%

2.2.4 Differences between the results prepared in accordance with PRC Accounting Standards and Systems and Hong Kong Financial Reporting Standards

Applicable Not applicable

	<i>Note</i>	Amount RMB'000
Net profit under PRC Accounting Standards and Systems		103,590
Amortisation of intangible assets	1	(5,180)
Additional depreciation on revalued fixed assets	2	(988)
Government subsidies recognised as income	3	297
Provision for employee benefits in medical insurance	4	2,985
Deferred taxation, net impact	5	5,262
Negative goodwill arising from the additional investment of an external investor into a subsidiary	8	19,819
Impairment on goodwill	7	(1,897)
Difference in minority interests	6	(932)
Profit attributable to equity holders of the Company under Hong Kong Financial Reporting Standards		<u>122,956</u>

Notes:

- 1) This is an amortisation of staff quarter reform costs incurred by the Company and its subsidiaries (collectively the “Group”) in 2000 in relation to purchases of staff quarters by its employees. Under Hong Kong Financial Reporting Standards, such costs are recognised as an intangible asset and are subject to amortisation on a straight-line basis over a period of 10 years to reflect the estimated remaining average service life of its employees in which the related economic benefits are recognised. Under PRC Accounting Standards and Systems, the staff quarter reform costs were written off against retained earnings of the year in which they were incurred.
- 2) The Group’s fixed assets were revalued by the international valuers in 1997 for the purpose of listing the Company’s H shares. The revaluation has been reflected in the accounts of the Group prepared under Hong Kong Financial Reporting Standards but not in the accounts prepared under PRC Accounting Standards and Systems. Accordingly, the depreciation charge under Hong Kong Financial Reporting Standards is higher than that calculated under PRC Accounting Standards and Systems as the depreciation charge under Hong Kong Financial Reporting Standards is based on the revalued amount of fixed assets.
- 3) Government subsidies allocated for fixed assets are recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under Hong Kong Financial Reporting Standards, government subsidies are recognised as deferred income and credited to the estimated income statement on a straight line basis in accordance with the estimated useful lives of the assets.

- 4) On 1 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 Hong Kong Financial Reporting Standards. 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 Hong Kong Financial Reporting Standards.
- 5) The Group has not made provision for deferred tax in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under Hong Kong Financial Reporting Standards, 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 utilized.
- 6) Owing to the above adjustments, there is a difference in net profit/profit attributable to equity holders of the Company prepared under PRC Accounting Standards and Systems and Hong Kong Financial Reporting Standards. This results in a difference in the minority interests.
- 7) Goodwill is amortised using the straight-line method under PRC Accounting Standards and Systems. Under Hong Kong Financial Reporting Standards, any impairment on goodwill is accounted for in the income statement on a yearly basis.
- 8) Equity in a subsidiary of the Company was diluted due to the issue of new shares to a third party by such subsidiary. Surplus arising from such transaction is recognised as capital reserve in the accounts prepared in accordance with PRC Accounting Standards and Systems. Under Hong Kong Financial Reporting Standards, it is accounted for in the income statement.

3. CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Movement in share capital

Applicable Not applicable

3.2 The top ten shareholders and the top ten shareholders holding listed shares of the Company

(share)

Number of shareholders as at the end of the Reporting Period 41,690

The top ten shareholders

Shareholders	Changes in	Shares held as at 30 June 2005	Percentage (%)	Type of shares (listed or unlisted)	No. of shares pledged or frozen	Type of shareholders
	no. of shares during the Reporting Period					
Guangzhou Pharmaceutical Holdings Limited (“GPHL”)	—	491,000,000	Approximately 60.55	Unlisted	102,960,000 shares pledged, including 56,010,000 shares frozen	State-owned shareholder
HKSCC Nominees Limited	+36,000	218,214,999	Approximately 26.91	Listed	Unknown	Shareholder of foreign H shares
China Greatwall Asset Management Corporation	—	22,000,000	Approximately 2.71	Unlisted	Unknown	State-owned shareholder
Yu Long Securities Investment Fund	+1,996,542	1,996,542	Approximately 0.25	Listed	Unknown	Public shareholder
Bank of China-China AMC Return Fund	+1,713,043	1,713,043	Approximately 0.21	Listed	Unknown	Public shareholder
Shenyin Wangguo-Citibank-UBS Limited	+1,432,329	1,432,329	Approximately 0.18	Listed	Unknown	Public shareholder
China Merchant Securities-Chartered-ING Bank N.V.	+1,044,212	1,044,212	Approximately 0.13	Listed	Unknown	Public shareholder
Guotai Junan-CCB-HSBC	+940,290	940,290	Approximately 0.12	Listed	Unknown	Public shareholder
HSBC Nominees (Hong Kong) Limited	+3,000	866,000	Approximately 0.11	Listed	Unknown	Shareholder of foreign H shares
Chen Shao Bin	+799,999	799,999	Approximately 0.10	Listed	Unknown	Public shareholder

The top ten shareholders holding the listed shares of the Company

Shareholders (<u>Full name</u>)	No. of listed shares held as at 30 June 2005	Nature of shares (A/B/H shares or others)
HKSCC Nominees Limited	218,214,999	H shares
Yu Long Securities Investment Fund	1,996,542	A shares
Bank of China-China AMC Return Fund	1,713,043	A shares
Shenyin Wangguo-Citibank-UBS Limited	1,432,329	A shares
China Merchant Securities-Chartered-ING Bank N.V.	1,044,212	A shares
Guotai Junan-CCB-HSBC	940,290	A shares
HSBC Nominees (Hong Kong) Limited	866,000	H shares
Chen Shao Bin	799,999	A shares
Shenyin Wangguo-HSBC-Merrill Lynch International	790,438	A shares
Jingye Securities Investment Fund	776,700	A shares

- Explanation on any connection among the above ten shareholders or their acting in concert
1. According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
 2. The Company is not aware of any connection among the top ten shareholders listed above, 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 aware of any connection among the above 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”.

Explanation on contracted terms of the lock-out period of shares allotted and issued to strategic investors or ordinary legal entities

Name of shareholder Lock-out period

None None

3.3 Change in the controlling shareholder and beneficial owner of the Company

Applicable Not applicable

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Change of directors', supervisors' and senior management's interests in shares

Applicable Not applicable

5. MANAGEMENT DISCUSSION AND ANALYSIS

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

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.

Review of the Group's operation for the Reporting Period

During the Reporting Period, the Group has, firstly, adjusted and enhanced its management team and strengthened the assessment on business target management of the subordinated enterprises. Secondly, strengthened supervision on and management of the business operations of the subordinated enterprises. Designated directors were appointed to the subordinated enterprises and participated in the decision-making process regarding significant business policies of the subordinated enterprises, to standardize and strengthen their internal management. Analysis of the operation conditions were carried out regularly and the application of the finance monitoring system has been promoted. The Company's supervision and control over these subordinated enterprises were reinforced thus enhancing the quality of operations and economies of scale of these subordinate enterprises. At the same time, we strengthened the management over accounts receivable to reduce operation risks. Thirdly, the Group worked aggressively to speed up the progress of internal resources integration and amalgamation. The Group strived for the best on the uniform procurement of traditional Chinese medicine, raw materials in bulk, packing materials and imported materials, enhanced the cooperation between the Group's manufacturing enterprises and trading enterprises and made full use of the wholesale and retail networks of trading business with a view of expanding the Group's market share. Meanwhile, the Group's internal fund management was enhanced endeavoring to lower finance costs of its subordinated enterprises. The Group continued its efforts on brand-name establishment and integration of our sales network and resources for sales fleet, increased its efforts on advertisement and publicity and promotion on technology, and has actively developed the end market of key hospitals, retail drugstores and communities so as to increase the market share of its products. Besides, the Group paced up the reform of its subsidiary, Guangzhou Chinese Medicine Corporation ("Chinese Medicine Corporation") and put all its efforts in developing the core traditional Chinese medicine business of Chinese Medicine Corporation. The implementation of the series of measures above has achieved a good result. During the Reporting Period, the operating results of the Group have been significantly improved compared with the corresponding period of the previous year.

According to PRC Accounting Standards and Systems, turnover of the Group for the Reporting Period was approximately RMB4,596,172,000, representing an increase of 15.17% over that of the same period of last year. Gross profit was approximately RMB170,705,000, representing an increase of 87.48% over that of the same period of last year. Net profit was approximately RMB103,590,000, representing an increase of 225.67% over that of the same period of last year.

According to Hong Kong Financial Reporting Standards, turnover of the Group for the Reporting Period was approximately RMB4,596,172,000, representing an increase of 15.17% over that of the same period of last year. Profit before income tax was approximately RMB185,607,000, representing an increase of 109.56% over that of the same period of last year. Profit attributable to equity holders of the Company was approximately RMB122,956,000, representing an increase of 260.83% over that of the same period of last year.

5.1 Analysis of principal activities of the Company by segment and by product

By segment	Turnover of principal activities RMB'000	Cost of sales of principal activities RMB'000	Gross profit margin (%)	Change in turnover of principal activities as compared with the corresponding period of 2004 (%)	Change in cost of sales of principal activities as compared with the corresponding period of 2004 (%)	Change in gross profit margin as compared with the corresponding period of 2004
CPM manufacturing	1,140,259	532,579	53.29	16.07	16.51	a decrease of 0.18 percentage point
Trading	3,455,913	3,248,533	6.00	14.88	15.39	a decrease of 0.42 percentage point
Include: Wholesale	3,208,996	3,039,557	5.28	15.10	15.69	a decrease of 0.48 percentage point
Retail	148,735	118,009	20.66	20.77	22.18	a decrease of 0.92 percentage point
Imports & Exports	98,182	90,967	7.35	1.13	(0.28)	an increase of 1.31 percentage point
Total	4,596,172	3,781,112	17.73	15.17	15.55	a decrease of 0.27 percentage point
Including: connected transactions	105,015	98,020	6.66	170.77	167.95	an increase of 0.98 percentage point
				Change in turnover of principal activities	Change in cost of sales of principal activities	Change in gross profit margin

By product	Turnover of principal activities RMB'000	Cost of sales of principal activities RMB'000	Gross profit margin (%)	as compared with the corresponding period of 2004(%)	as compared with the corresponding period of 2004 (%)	as compared with the corresponding period of 2004
Heat clearing and anti-toxic medicine	286,677	146,523	48.89	19.13	17.55	an increase of 0.68 percentage point
Diabetes medicine	213,625	72,224	66.19	17.69	26.63	a decrease of 2.39 percentage points
Cough and phlegm clearing medicine	146,810	61,805	57.90	52.81	11.86	an increase of 15.41 percentage points
Anthritis medicine	113,074	40,953	63.78	4.94	4.64	an increase of 0.10 percentage point
Gastric medicine	56,338	30,891	45.17	10.73	10.29	an increase of 0.22 percentage point
Other products	323,735	180,183	44.34	5.96	17.74	a decrease of 5.57 percentage points
Including: connected transactions	2,091	1,440	31.13	24.35	25.69	a decrease of 0.73 percentage point

Pricing policy for connected transactions The prices of the sale and purchase transactions with connected parties were the same as those with third parties. The prices are decided on arm's length on the basis of the relevant government pricing and market development.

During the Reporting Period, sales of the Group to its controlling shareholder, GPLH, and its associates amounted to a total of RMB105,015,000.

5.2 Geographical analysis of sales of principal activities is set out as follows:

Applicable Not applicable

Change in turnover of principal activities as compared with the corresponding
Turnover of principal activities

Region	RMB'000	period of 2004(%)
Southern China	3,712,190	20.39
Eastern China	321,731	12.28
Northern China	160,862	(2.42)
North-eastern China	100,050	(26.13)
South-western China	175,185	4.21
North-western China	71,469	(22.79)
Export	54,685	(8.32)
Total	4,596,172	15.17

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

According to PRC Accounting Standards and Systems, turnover of the Group’s Manufacturing Operations for the Reporting Period was approximately RMB1,140,259,000, representing an increase of 16.07% over that of the same period of 2004. Gross profit was approximately RMB136,247,000, representing an increase of 33.33 % over that of the same period of 2004.

According to Hong Kong Financial Reporting Standards, turnover of the Group’s Manufacturing Operations for the Reporting Period was approximately RMB1,140,259,000, representing an increase of 16.07% over that of the same period of 2004. Profit before income tax was approximately RMB152,286,000, representing an increase of 53.27% over that of the same period of 2004.

During the Reporting Period, the Group has taken the following measures in its Manufacturing Operations: (i) it has endeavored to further strengthen the promotion and marketing in its major products such as Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xia Sang Ju and the series of Wang Lao Ji Liang Cha to ensure that market sales of the major products continue to increase. Meanwhile, it has also

facilitated aggressively the market planning of our key nurturing products such as Wu Ji Bai Feng Wan, An Shen Bu Nao Ye and cough and phlegm clearing medicines and promoted the introduction of products to major hospitals and the construction of sales network and teams, strengthening the marketing and promotion of products so as to expand the market share of its products; (ii) it has endeavored to further enhance the marketing and promotion in the end market of retails and futher expand rural markets and markets outside the Guangdong Province to improve the market share. Since this year, the Company and its subordinated enterprises have held large-scale business sodalities and products introduction meetings in major cities of the PRC on a monthly basis, strengthening the connections and communications between its enterprises and distributors and improving the corporate identity and the brand popularity; and (iii) it has strengthened the business cooperation between the manufacturing enterprises and trading enterprises of the Group and endeavored to expand the market share of the Group's products by taking full advantage of the wholesale and retail networks of its Trading Operations.

After the implementation of the aforesaid measures, there were 38 products whose sales income exceeded RMB 5 million for the first half of 2005, and the total sales revenue of which accounted for 87.87% of the turnover of the Manufacturing Operations for the Reporting Period. During the Reporting Period, sales income of certain main products, including Xiao Ke Wan, Xiang Sang Ju Ke Li,

Wang Lao Ji Liang Cha, She Dan Chuan Bei Pi Pa Gao, Chuan Bei Pi Pa Lu, She Dan Chuan Bei Pi Pa Ye, Mi Lian Chuan Bei Pi Pa Gao and Wu Ji Bai Feng Wan, have significantly increased by 17.69%, 40.13%, 153.13%, 71.17%, 37.85%, 48.47%, 84.27% and 15.16% respectively as compared with the corresponding period of 2004.

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

Products	Sales Income <i>RMB'000</i>	Gross profit <i>RMB'000</i>
Heat clearing and anti-toxic medicine	286,677	140,154
Diabetic medicine	213,625	141,401
Cough and phlegm clearing medicine	146,810	85,005
Arthritic medicine	113,074	72,121
Gastric medicine	56,338	25,447
Other products	323,735	143,552

During the Reporting Period, the rate of expenses of the Group's Manufacturing Operations fell by 1.61 percentage points over that of the same period of 2004. The increase in profit of the Company in the first half was improved mainly due to an increase in the sales income and a decrease in the rate of expenses of the Manufacturing Operations.

(2) Pharmaceutical trading operations (including wholesale, retail, import and export) (the "Trading Operations")

Turnover of the Group's Trading Operations of the Group for the Reporting Period prepared under PRC Accounting Standards and Systems was approximately

RMB3,455,913,000, representing an increase of 14.88% over that of the same period of 2004. Gross profit was approximately RMB34,458,000, representing an increase of RMB45,589,000 and a growth of 409.59% as compared with the same period of 2004.

Turnover of the Group's Trading Operations of the Group for the Reporting Period prepared under Hong Kong Financial Reporting Standards was approximately RMB3,455,913,000, representing an increase of 14.88% over that of the same period of 2004. Profit before income tax was approximately RMB33,321,000, an increase of RMB44,110,000, representing an increase of 408.84% over that of the same period of 2004.

During the Reporting Period, the Group's Trading Operations mainly focused on the following aspects: (i) they continued active development as agent and distributor for prestigious pharmaceutical products, actively seeking and developing characteristic products with promising

market prospect, and endeavoured to expand sales in the wholesale market. Meanwhile, they tried to exploit new lines of products for sales as agent, and enhance new economic growths. (ii) additional efforts were made to expand the sales market of hospitals by enhancing the capability of the hospital marketing teams. In addition, they also made an earnest effort in improving the bidding and supplying for hospitals with a wider range of medicines to increase the sales volume through hospital channels. (iii) they expedited the process of resources integration within the Group, and facilitated the purchases, supplies and services of traditional Chinese medicine, raw materials in bulk and imported materials. Meanwhile, they strengthened the cooperation with the Group's manufacturing enterprises and took full advantage of the huge distribution network established to expand the proportion of sales of the Group's products.

In the first half of 2005, as affected by the market entry of large number of pharmacies offering lower selling price, the gross margin ratio of the Group's Trading Operations continued to drop. The gross profit margin of the Trading Operations was 6%, a decrease of 0.42 percentage point as compared with the gross margin of 6.42% in the first half of 2004. This adversely affected the profit growth of the Group's Trading Operations.

As at 30 June 2005, the Group has 160 chain pharmacies, including 86 "Cai Zhi Lin" chain pharmacies which specialize in traditional Chinese medicine, 73 "Jian Min" chain pharmacies which specialize in western medicine and 1 Ying Bang Pharmacy.

During the Reporting Period, the growth in the profit of the Group's Trading Operations was primarily contributed by the significant improvement of the operating results of the Company's subsidiary, Chinese Medicine Corporation.

5.3 Other activities which have a significant impact on the Group's net profit

Applicable Not applicable

5.4 Operation of the Group's invested companies (applicable to the Group's invested companies derived to the Group of any investment income which equals to 10% or more of the Group's net profit)

Applicable Not applicable

5.5 Explanation on significant changes in principal activities and their composition

Applicable Not applicable

5.6 Explanation on significant changes in profit from principal activities (gross profit margin) as compared with 2004

Applicable Not applicable

5.7 Explanation on significant changes in profit composition

Applicable Not applicable

Items	The	The	Amount	Change
	Reporting	corresponding		
	Period	period		
	RMB'000	of 2004	RMB'000	(%)
Finace costs	24,823	17,685	7,138	40.36
Investment income	(3,976)	(777)	(3,199)	411.43
Income from				
non-operating activities	648	4,288	(3,640)	(84.88)
Expenses from				
non-operating activities	3,058	8,787	(5,729)	(65.20)

- (1) Financial costs increased by 40.36% as compared with the same period of last year. This was mainly due to: (i) increase of interest expenses with increase in the amounts of borrowings for the Reporting Period; and (ii) increase of handling expenses charged by financial institutions during the Reporting Period as the Group was mainly financed by way of discounting of notes receivable and transfer of accounts receivable;

- (2) Investment income decreased by 411.43% as compared with the same period of 2004. This was mainly due to the provision made for 50% decrease in value of the amount of the government bonds entrusted in the Southern Securities Company Limited.
- (3) Income from non-operating activities decreased by 84.88% as compared with the same period of 2004. This was mainly due to the fact that the Company's subsidiary, Chinese Medicine Corporation, received a compensation of RMB3,429,000 for building demolition during the same period of 2004.
- (4) Expenses from non-operating activities for the Reporting Period decreased by 65.20% as compared with same period of 2004. The main reason was because the city dyk maintaince fees which was originally included in expenses from non-operating activities was adjusted to be included in management fees for the Reporting Period.

5.8 Details of use of proceeds from the issue of A shares

5.8.1 Use of proceeds from issue of A shares

Applicable Not applicable

Total proceeds raised (RMB'000)	737,990	Total amount of proceeds utilized during the Reporting Period (RMB'000)	14,940
		Accumulated amount of proceeds utilized (RMB'000)	675,320

Projects	Budgeted injection from proceeds RMB'000	Funds injected RMB'000	Change in projects	Progress in completion (%)	Investment return for the Reporting Period		
					Increase in sales revenue RMB'000	Increase in gross profit RMB'000	Agreed with the planned stage of completion
Xiao Ke Wan upgrade	29,800	29,800	No	100	101,120	66,740	yes
Bao Ji Wan upgrade	11,000	11,000	No	100	8,550	2,230	yes
Industrilisation of Wei Re Qing	29,000	24,550	No	85	No new return generated		no
Automation of pill production	11,000	11,000	No	100	9,240	5,730	yes
Technology upgrade of Hua Tuo Zai Zao Wan	17,000	17,000	No	100	43,280	27,700	yes
Technology upgrade of throat, spleen and intestine pills	29,100	19,300	No	80	59,580	23,830	yes

Technology upgrade for syrup production	29,500	29,500	No	100	6,480	3,690	yes
Industrialisation of Ke Gan Li Yan Syrup	19,600	19,600	No	100	9,650	5,600	yes
Technology upgrade of Xu Han Ting Granules	12,000	12,000	No	100	16,230	12,170	yes
Automation of granules upgrade	29,900	29,900	No	100	49,840	22,880	yes
Technology upgrade of flu granules for children	23,000	23,000	No	100	3,100	2,100	yes
Industrialisation of Fu Yan Xiao Soluble Tablets	29,500	23,540	No	80	No new return generated		no
Technology upgrade of spleen, intestine and pimples tablets	17,800	17,800	No	100	12,800	9,710	yes
Technology upgrade of syrup workshops	29,500	29,500	No	100	41,070	25,050	yes
Technology upgrade of suppository workshops	12,000	12,000	No	100	4,560	3,830	yes
Modernisation of extraction and purification technology	29,900	29,900	No	99	360	150	yes
Critical purification of CO ₂ technology foundation	29,900	29,900	No	99	660	490	yes
Expansion of Jian Min chain pharmacies	89,300	88,760	No	100	No new return generated		no
Expansion of Cai Zhi Lin chain pharmacies	59,500	29,110	No	65	No new return generated		no
Logistics centre upgrade	20,000	20,000	No	100	1,326,310	57,690	yes
ERP upgrade for the Trading Operations	20,000	16,220	No	81	No new return generated		no
Bio-tech research centre	80,000	72,250	No	78	No new return generated		no
Additional working capital	79,690	79,690	No	—	—		
Total	737,990	675,320			1,629,830	269,590	

Explanation on returns on projects and the state of completion Due to plant relocation, the completion of the technology upgrade for Fu Yan Xiao Soluble Tablets and Wei Re Qing Casules was delayed till 2005, while the expansion of chain pharmacies slowed as a result of fierce competition in the domestic pharmaceutical market.

Reasons and procedures of change No change

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

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

Applicable Not applicable

5.9 Revision on the Board's operation plans for the second half of 2005

Applicable Not applicable

5.10 Early warning and explanation for negative impact on profit for the next reporting period, or significant profit fluctuation in comparison to the same period of 2004

Applicable Not applicable

According to relevant regulations of the Shanghai Stock Exchange, the Group discloses the followings:

Results forecast It is expected that the accumulated net profit for the third quarter will increase by 100% or above as compared with the same period of 2004.

Explanation on results forecast During the Reporting Period, the Group accelerated its development in business. Its total profit increased by 87.48% as compared with the same period of 2004, and its net profit recorded a significant increase of 225.67% as compared with the same period of 2004. It is expected that the net profit for the third quarter of 2005 will increase by 100% or above as compared with the same period of 2004.

5.11 The explanation of the Company's management on the qualified opinion issued by the auditors

Applicable Not applicable

5.12 The explanation of the Company's management on changes and settlement of the issues in relation with the qualified opinion issued by the auditors for 2004

Applicable Not applicable

6. MAJOR EVENTS

6.1 Purchase, disposal of assets and assets restructuring

6.1.1 Acquisition or injection of assets

Applicable Not applicable

6.1.2 Sale or disposal of assets

Applicable Not applicable

6.1.3 Progress of and effect on the operating results and financial position for the Reporting Period after the announcement of acquisition or disposal of assets and issue of assets restructuring result

Applicable Not applicable

6.2 Guarantees

Applicable Not applicable

(RMB'000)

Guarantees provided to parties other than the Company's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount involved	Type of guarantees	Term of guarantees	Executed or not	Guarantees for
						connected parties
None		Nil	—	—	—	—
Accumulated amount of guarantees provided during the Reporting Period						Nil
Balance of guarantees as at 30 June 2005						Nil

Guarantees provided to the Company's subsidiaries

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period	516,000
Amount of guarantees provided to the Company's subsidiaries as at 31 December 2004	516,000

The Company's guarantess (including those provided to its subsidiaries)

Total amount of guarantees provided	516,000
% of the net assets of the Company	20.20%

Deregulatory guarantees of the Company

Amount of guarantees provided to the Company's controlling shareholder and other connected parties in which the Company held less than 50% equity interest	Nil
Direct or indirect guarantees provided to parties with a gearing ratio of over 70%	Nil
Whether the total amount of the gurarantees provided amounts to 50% of the net assets of the Company	Nil
Amount of deregulatory guarantees provided	Nil

6.3 Funds to/from connected parties

Applicable Not applicable

Connected parties	Connected relation	Funds to connected parties		Funds from connected parties	
		Initial amount RMB'000	Balance RMB'000	Initial amount RMB'000	Balance RMB'000
Accounts receivable and payable					
Guangzhou Qiao Guang Pharmaceutical Co., Ltd	Under the same parent company	27,804	17,498	19,192	1,504
Guangzhou Ming Xing Pharmaceutical Co., Ltd	Under the same parent company	6,018	2,102	22,776	2,969

Guangzhou Tian Xin Pharmaceutical Co., Ltd	Under the same parent company	12,593	3,436	21,863	654
Guangzhou He Ji Gong Pharmaceutical Co., Ltd	Under the same parent company	856	262	4,906	779
Guangzhou Guang Hua Pharmaceutical Co., Ltd	Under the same parent company	24,703	2,026	40,799	1,075
Guangzhou Hua Nan Medical Apparatus Co., Ltd	Under the same parent company	—	—	13	13
Guangzhou Material Supply Corporation	Under the same parent company	—	—	69	20
Po Lian Development Co., Ltd	Under the same parent company	—	—	71,359	39,961
Guangzhou Pharmaceutical Industrial Institute	Under the same parent company	6	2	—	—
Guangzhou Baiyunshan Chinese Medicine Factory	Under the same parent company	11,222	4,325	24,022	2,077
Guangzhou Baiyunshan Pharmaceutical Factory	Under the same parent company	12,003	2,559	30,344	87
Guangzhou Baiyunshan Chemical Factory	Under the same parent company	15,936	4,040	502	502
Guangzhou Baiyunshan External Medicine Factory	Under the same parent company	2,220	845	1,567	179
Guangzhou Wanglaoji Pharmaceutical Co., Ltd	Jointly controlled entity	7,219	—	14,641	1,204
Total		120,582	37,095	252,053	51,024
Other receivables and payables					
GPHL	Parent company	93	5,918	4,716	25,257
Guangzhou He Ji Gong Pharmaceutical Co., Ltd	Under the same parent company	—	6	—	—
Guangzhou Hua Nan Medical Apparatus Co., Ltd	Under the same parent company	—	100	—	—
Guangzhou Material Supply Corporation	Under the same parent company	—	—	—	1,724
Po Lian Development Co., Ltd	Under the same parent company	—	5,828	—	—
Guangzhou Zhong Fu Medical Co., Ltd	Under the same parent company	—	—	—	207
Guangzhou Baiyunshan Pharmaceutical Factory	Under the same parent company	—	—	—	101
Guangzhou Wanglaoji Pharmaceutical Co., Ltd	Jointly controlled entity	—	—	83	83
Total		93	11,852	4,799	27,373

The initial amount of funds provided to the Company's controlling shareholder, GPL, and its associates during the Reporting Period amounted to RMB120,675,000, and the balance was RMB48,947,000.

6.4 Material litigation and arbitration

Applicable Not applicable

6.5 Explanation on impact and settlement of other significant matters

Applicable Not applicable

6.6 As at 30 June 2005, the number of the Group's employees was approximately 8,330. The remuneration policy of the employees had no material changes as compared with the previous reporting period. Staff cost for the first half of 2005 was RMB315,569,000.

6.7 Liquidity, financial resources and capital structure

As at 30 June 2005, the current ratio of the Group was 1.46 and quick ratio was 1.01. Accounts receivable turnover rate for the Reporting Period was 9.66, and inventory turnover rate was 7.12, representing an increase of 5.04% and 3.98% respectively as compared with the same period of 2004.

As at 30 June 2005, long-term borrowings of the Group amounted to RMB129,500,000 (as at 31 December 2004: RMB157,180,000). These borrowings are fixed interest loans denominated in RMB, out of which RMB99,500,000 are repayable in 2006 and RMB30,000,000 are repayable in 2007. As at 30 June 2005, cash and cash equivalents of the Group amounted to RMB791,377,000 (as at 31 December 2004: RMB880,825,000), of which approximately 97.07% is denominated in RMB and approximately 2.93% is denominated in Hong Kong dollars.

6.8 Capital expenditure

The Group expected that capital expenditure for the year 2005 will be approximately RMB258 million (2004: RMB329 million) and actual expenditure in the first half of 2005 amounted to RMB68,700,000 (the corresponding period in 2004: RMB127 million). The Group has sufficient financial resources to meet the demand for capital expenditure and daily working capital requirements.

6.9 Exposure to fluctuations in exchange rate

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

6.10 Contingent liabilities

Up to 30 June 2005, the Group has no significant contingent liabilities.

6.11 Charge on the Group's assets

As at 30 June 2005, the net book value of fixed assets pledged as security for bank loans granted to the Group amounted to RMB124,913,000.

6.12 The Board does not recommend the payment of a dividend for the six months ended 30 June 2005 or propose any increase in share capital from the capital reserve.

6.13 During the Reporting Period, there was no significant acquisition or disposal of assets made by the Company, its subsidiaries or associated companies nor were there any merger or acquisition activities.

6.14 Purchase, sale or redemption of shares

Neither the Company nor any of its subsidiaries had redeemed, sold, purchased or cancelled any of the Company's listed shares during the Reporting Period.

6.15 Bank loans, overdraft and other loans

Up to 30 June 2005, long-term bank loans of the Group decreased by RMB27,680,000 and current portion of long-term loans increased by RMB51,820,000 as compared with that of 1 January 2005. Short-term loans decreased by RMB31,402,000 as compared with that of 1 January 2005.

6.16 Gearing ratio

Up to 30 June 2005, the Group's gearing ratio (total liabilities/total assets x 100%) was 49.04% (31 December 2004: 49.13%). There have been no material adverse changes in the gearing ratio of the Group compared with that of 2004.

6.17 Compliance with the Code on Corporate Governance Practices

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

6.18 Model Code for Securities Transactions by Directors and Supervisors

The Company had adopted the model code for Securities Transaction by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules as a standard for securities transactions entered into by Directors and Supervisors. After specific enquiries to all Directors and Supervisors, the Company confirmed that all the Company’s Directors and Supervisors complied with the requirements relating to Directors’ and Supervisors’ dealing in securities as set out in the standard for transactions made by Directors’ as provided in the above Code during the Reporting Period.

6.19 The Audit Committee of the Board is constituted by three independent non-executive directors, one of whom is a qualified accountant. The Audit Committee of the Company has reviewed the accounting policies, accounting regulations and standards adopted by the Group, and discussed with the management the audit, internal controls and financial reporting matters. The Audit Committee has also reviewed the unaudited interim financial reports for the six months ended 30 June 2005.

7. FINANCIAL REPORTS

7.1 Audit Opinion

Financial report Unaudited

7.2 Profit and loss accounts of the Group and the Company for the six months ended 30 June 2005

7.2.1 Profit and loss account for the six months ended 30 June 2005 prepared in accordance with the PRC Accounting Standard and Systems (unaudited)

Items	The Group		The Company	
	The Reporting Period RMB	The corresponding period of 2004 RMB	The Reporting Period RMB	The corresponding period of 2004 RMB
Sales	4,596,172,011.27	3,990,694,132.12	—	—
Less: Costs of sales	3,781,112,233.96	3,272,266,127.69	—	—
Less: taxes and levies	13,601,179.60	13,694,299.51	—	—
Profit from principal operations				
(Loss was inserted with “—” sign)	801,458,597.71	704,733,704.92	—	—
Add: Profit from other operations	21,041,587.55	18,388,152.28	4,374,268.41	1,794,856.02
Less: Operating expenses	301,438,593.12	278,658,990.85	—	—
Less: general and administrative expenses	319,337,604.14	330,447,617.90	13,164,929.36	8,334,795.43
Less: finance costs	24,822,607.19	17,684,980.77	(865,493.62)	(784,288.06)
Operating profit				
(Loss was inserted with “—” sign)	176,901,380.81	96,330,267.68	(7,925,167.33)	(5,755,651.35)
Add: Investment income	(3,976,044.37)	(777,440.50)	122,720,286.49	40,364,992.02
Add: subsidy income	189,521.00	—	—	—
Add: non-operating income	648,156.53	4,288,071.32	3,150.02	6,900.00
Less: Non-operating expenses	3,058,098.59	8,787,439.95	253.00	96,468.57
Total profit				
(Loss was inserted with “—” sign)	170,704,915.38	91,053,458.55	114,798,016.18	34,519,772.10
Less: Income tax	60,004,570.92	52,938,643.69	—	—
Less: Minority interests	7,109,905.23	6,306,170.15	—	—
Net profit				
(Loss was inserted with “—” sign)	103,590,439.23	31,808,644.71	114,798,016.18	34,519,772.10
Add: retained earnings brought forward	22,505,890.50	82,558,496.93	348,842,914.78	356,049,259.87
Add: transfer from others	9,916,543.08	—	—	—
Profit distributable	136,012,872.81	114,367,141.64	463,640,930.96	390,569,031.97
Less: transfer to to statutory surplus reserves	—	—	—	—
Less: transfer to statutory public welfare	—	—	—	—
Less: transfer to staff bonuses and welfare fund	—	—	—	—
Less: transfer to reserved fund	—	—	—	—

Less: transfer to expansion fund	—	—	—	—
Less: profit returned to investment	—	—	—	—
Profit distributable to shareholders	136,012,872.81	114,367,141.64	463,640,930.96	390,569,031.97
Less: dividend for preferred shares	—	—	—	—
Less: transfer to discretionary surplus reserves	—	—	—	—
Less: dividend for ordinary shares	20,272,500.00	48,654,000.00	20,272,500.00	48,654,000.00
Less: dividend for ordinary shares transferred to share capital	—	—	—	—
Retained earnings at the end of the period	115,740,372.81	65,713,141.64	443,368,430.96	341,915,031.97

7.2.2 Condensed consolidated financial information (unaudited) prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants

Condensed Consolidated Income Statement

		Unaudited	
		Six months ended 30 June	
		2005	2004
	Note	RMB'000	RMB'000
Turnover	1	4,596,172	3,990,729
Cost of goods sold		(3,781,112)	(3,272,460)
Gross profit		815,060	718,269
Other revenues		45,665	30,358
Distribution costs		(315,040)	(292,353)
Administrative and other operating expenses		(329,446)	(344,983)
Operating profit	2	216,239	111,291
Finance costs		(30,216)	(22,482)
Operating profit after finance costs		186,023	88,809
Share of losses of associates		(416)	(239)
Profit before income tax		185,607	88,570
Income tax expense	3	(54,743)	(45,488)
Profit for the period		130,864	43,082

Attributable to:			
Equity holders of the Company		122,956	34,076
Minority interests		7,908	9,006
		<u>130,864</u>	<u>43,082</u>
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)			
— basic and diluted	5	<u>0.152</u>	<u>0.042</u>
Dividend	4	<u>20,273</u>	<u>48,654</u>

1. Segment information

At 30 June 2005, 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; and
- Import and export of western pharmaceutical products, CPM and medical apparatus.

Turnover consists of sales of goods from the above business segments.

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

The segment results are as follows:

	Six months ended 30 June 2005					
	Manufacturing <i>RMB'000</i>	Wholesale <i>RMB'000</i>	Retail <i>RMB'000</i>	Import and export <i>RMB'000</i>	Elimination <i>RMB'000</i>	Group <i>RMB'000</i>
Total gross segment turnover	1,171,231	3,559,375	148,758	107,203	(390,395)	4,596,172
Inter-segment turnover	30,972	350,379	23	9,021	(390,395)	—
Turnover	<u>1,140,259</u>	<u>3,208,996</u>	<u>148,735</u>	<u>98,182</u>	<u>—</u>	<u>4,596,172</u>
Segment results	162,567	62,757	2,368	279	(20,626)	207,345
Unallocated profit						8,894
Operating profit						216,239
Finance costs						(30,216)
Share of losses of associates						(416)
Profit before income tax						185,607
Income tax expense						(54,743)
Profit for the period						<u>130,864</u>

	Six months ended 30 June 2004					
	Manufacturing <i>RMB'000</i>	Wholesale <i>RMB'000</i>	Retail <i>RMB'000</i>	Import and export <i>RMB'000</i>	Elimination <i>RMB'000</i>	Group <i>RMB'000</i>
Total gross segment turnover	1,010,037	2,889,233	126,300	97,086	(131,927)	3,990,729
Inter-segment turnover	27,613	101,172	3,142	—	(131,927)	—
Turnover	<u>982,424</u>	<u>2,788,061</u>	<u>123,158</u>	<u>97,086</u>	<u>—</u>	<u>3,990,729</u>
Segment results	122,244	12,321	(4,440)	2,529	(14,179)	118,475
Unallocated cost						(7,184)
Operating profit						111,291
Finance costs						(22,482)
Share of losses of associates						(239)
Profit before income tax						88,570
Income tax expense						(45,488)
Profit for the period						<u>43,082</u>

2. Expense by nature

Expenses included in cost of goods sold, distribution costs, administrative and other operating expenses are analysed as follows:

	For the six months ended	
	30 June 2005	30 June 2004
Depreciation, amortisation and impairment expenses	70,701	63,117
Staff costs	312,584	299,976
Changes in inventories of finished goods and work in progress	(5,954)	(4,105)
Raw materials and consumables used	6,273	7,850
Write-down of inventories to net realisable value	193	24,494
Transportation	28,146	26,487
Advertising costs	117,308	126,144
Occupancy costs of retail outlets	16,477	17,573
Research and development costs	12,276	12,621
Impairment charge of available-for-sale financial assets / investment securities	5,452	752

3. Income tax expense

The PRC enterprise income tax has been provided at the principal rate of 33% (2004: 33%) on the estimated assessable profit for the period, except for a subsidiary and a jointly controlled entity which are foreign investment production enterprises. Given the subsidiary was established in a coastal economic development zone, the applicable enterprise income tax rate being 27%. The jointly controlled entity is entitled to exemption from PRC enterprise income tax for two years commencing from the first profit-making year and a 50% reduction in the enterprise income tax rates in the following three years. 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 income statement represents:

	For the six months ended	
	30 June 2005	30 June 2004
Current taxation		
— PRC enterprise income tax	60,005	52,938
Deferred income tax	(5,262)	(7,450)
	<u>54,743</u>	<u>45,488</u>

During the six months ended 30 June 2005 and 30 June 2004, share of taxation of associates and jointly controlled entities was nil. This was principally either due to the operating loss positions or the eligibility of full income tax exemption thereof.

4. Dividend

	For the six months ended	
	30 June 2005	30 June 2004
2004 final dividend of RMB0.025 (2003: final dividend paid of RMB0.06) per share	<u>20,273</u>	<u>48,654</u>

At a meeting held on 27 April 2005, the directors proposed a final dividend of RMB0.025 per share for the year ended 31 December 2004, which was paid in June and July 2005 for H and A shares respectively and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2005.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2005.

5. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of shares in issue.

	For the six months ended	
	30 June 2005	30 June 2004
Profit attributable to equity holders of the Company	122,956	34,076
Number of shares in issue (thousand)	810,900	810,900
Basic earnings per share (RMB per share)	<u>0.152</u>	<u>0.042</u>

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the period ended 30 June 2005 and 2004.

7.3 Notes to the accounts

7.3.1 Explanation on the change in the accounting policy, accounting estimates and accounting errors of the Company, reasons and impact

Applicable Not applicable

In 2005, in the preparation of condensed consolidated financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”, the Group adopted the new/ revised Hong Kong Financial Reporting Standards, which are relevant to its operations. The 2004 comparatives have been restated as required in accordance with the relevant requirements.

7.3.2 Explanation on any significant change in respect of consolidation scope of the Group, reasons and impact

Applicable Not applicable

During the Reporting Period, Hong Kong Golden Force Pharmacy Co., Ltd. has, pursuant to the Subscription Agreement, completed its capital injection of RMB168,880,000 into Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd (“Wang Lao Ji”) and acquired a 48.0465% equity interest of Wang Lao Ji. Such capital injection has diluted the Company’s interest in Wang Lao Ji from 92.48% to 48.0465%. Therefore, Wang Lao Ji has changed from a subsidiary to a joint venture company. When preparing the consolidated financial statements, consolidation by proportion instead of full consolidation is adopted for Wang Lao Ji.

7.3.3 Notes to the non-standard unqualified auditor’s report

Applicable Not applicable

By order of the Board
Yang Rongming
Chairman

Guangzhou, the PRC, 12 August 2005

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Zhou Yuejin, Mr. Xie Bin and Mr. Feng Zansheng as executive directors, and Mr. Wu Zhang, Mr. Wong Hin Wing and Mr. Zhang Heyong as independent non-executive directors.

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