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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)

## **2006 INTERIM RESULTS SUMMARY**

### **1. IMPORTANT NOTICE**

- 1.1 The board of Directors (the “Board”) 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 or material omissions in this interim report.
- 1.2 This summary is extracted from the full text of the 2006 interim report of the Company, which is both published at the website of the Shanghai Stock Exchange (“SSE”) and the website of the Stock Exchange of Hong Kong Limited (“HKEX”). Investors are advised to read the full text of the 2006 interim report for details.

- 1.3 Mr. Chen Zhinong, the director, was unable to attend the 25th Meeting of the Third Session of the Board due to business, and has appointed Mr. Yang Rongming to attend and vote on his behalf at the meeting. The other five directors of the Board were present at the meeting.
- 1.4 The financial reports of the Company contained in the interim report for the six months ended 30 June 2006 (the “Reporting Period”) are unaudited.
- 1.5 Mr. Yang Rongming, the Chairman, Mr. Shi Shaobin, General Manager, Mr. Chen Binghua, Financial Controller and Senior Manager of the Finance Department, warrant and confirm the authenticity and completeness of the financial reports contained in the interim report.
- 1.6 This interim report is prepared in both Chinese and English. In the event of different interpretations, 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 All the information required by paragraph 46 of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) will be published on the website of HKEX in due course.

## **2. COMPANY PROFILE**

### **2.1 General information**

Stock abbreviation	: G Guanyao
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

	<b>Company secretary</b>	<b>Representative of securities affairs</b>
Name	He Shuhua	Huang Xuezhen
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## **2.2 Principal financial data and indicators**

### **2.2.1 Principal financial data and indicators prepared in accordance with PRC Accounting Standards and Systems**

	<b>As at 30 June 2006 (Unaudited) RMB'000</b>	<b>As at 31 December 2005 (Audited) RMB'000</b>	<b>Changes as compared with 31 December 2005 (%)</b>
Current assets	<b>3,862,021</b>	3,456,703	11.73
Current liabilities	<b>2,546,172</b>	2,236,332	13.85
Total assets	<b>5,466,565</b>	5,098,095	7.23
Shareholders' funds (excluding minority interests)	<b>2,685,045</b>	2,621,437	2.43
Net assets per share (RMB)	<b>3.31</b>	3.23	2.43
Adjusted net assets per share (RMB)	<b>3.26</b>	3.17	2.84

	<b>The Reporting Period (Unaudited) RMB'000</b>	The corresponding period of 2005 (Unaudited) RMB'000	Changes as compared with the corresponding period of 2005 (%)
Net profit	<b>120,049</b>	103,590	15.89
Net profit after deducting non-recurring items	<b>115,892</b>	110,053	5.31
Earnings per share (diluted) (RMB)	<b>0.148</b>	0.128	15.89
Earnings per share (weighted average) (RMB)	<b>0.148</b>	0.128	15.89
Return on net assets (diluted) (%)	<b>4.47</b>	4.07	An increase of 0.40 percentage point
Return on net assets (weighted average) (%)	4.48	4.17	An increase of 0.31 percentage point
Net cash flows from operating activities	59,003	113,648	(48.08)

## 2.2.2. Non-recurring items

Applicable       Not applicable

<b>Items</b>	<b>Amount</b> <i>RMB'000</i>
Losses / gains on disposal of long term investment in equity, fixed assets, construction under progress, intangible assets and other long term assets	649
All types of government grants and subsidies	397
Losses / gains from short-term investments	4,990
Losses / gains of entrusted investment	(551)
Other non-operating income and expenses after deducting provision for impairment of assets	(550)
Reversal of provisions for impairment of assets made in the previous years	1,555
Minority interests effect	(115)
Income tax effect	(2,218)
	<hr/>
Total	<b>4,157</b> <hr/> <hr/>

2.2.3 Financial data and indicators prepared in accordance with accounting principles generally accepted in Hong Kong (“HK GAAP”)

**Summary of assets and liabilities**

Items	As at 30 June 2006 <i>(Unaudited)</i> <i>RMB'000</i>	As at 31 December 2005 <i>(Audited)</i> <i>RMB'000</i>	Changes as compared with 1 January 2006 (%)
Current assets	3,866,371	3,461,250	11.70
Current liabilities	2,610,960	2,302,865	13.38
Total assets	5,689,713	5,316,420	7.02
Total liabilities	2,696,227	2,391,590	12.74
Capital and reserves attributable to equity holders of the Company	2,795,208	2,723,123	2.64
Net assets per share (RMB)	3.45	3.36	2.64

**Summary of results**

Items	For the six months ended 30 June 2006 <i>(Unaudited)</i> <i>RMB'000</i>	For the six months ended 30 June 2005 <i>(Unaudited)</i> <i>RMB'000</i>	Changes as compared with the corresponding period of 2005 (%)
Profit before income tax	189,847	185,607	2.28
Profit attributable to equity holders of the Company	128,848	122,956	4.79
Earnings per share (RMB)	0.159	0.152	4.79

## 2.2.4 Reconciliation between PRC Accounting Standards and Systems and HK GAAP

Applicable       Not applicable

	<b>30 June 2006</b> <i>(Unaudited)</i> <i>RMB'000</i>	31 December 2005 <i>(Audited)</i> <i>RMB'000</i>
Net assets under PRC accounting Standards and Systems	<b>2,685,045</b>	2,621,437
Intangible assets capitalised	<b>32,187</b>	37,367
Difference arising from fixed assets revaluation	<b>127,869</b>	128,522
Deferred government grants income	<b>(4,111)</b>	(4,259)
Provision for employee benefits in medical insurance	<b>(50,601)</b>	(53,586)
Provision for deferred taxation	<b>21,743</b>	10,822
Impairment on goodwill	<b>(1,683)</b>	(1,791)
Difference in minority interests	<b>(15,241)</b>	(15,389)
	<hr/>	<hr/>
<b>Capital and reserves attributable to equity holders of the Company under HK GAAP</b>	<b><u>2,795,208</u></b>	<b><u>2,723,123</u></b>

	<b>1 January ~ 30 June 2006 (Unaudited) RMB'000</b>	1 January ~ 30 June 2005 (Unaudited) RMB'000
Net profit under PRC Accounting Standards and Systems	<b>120,049</b>	103,590
Amortisation of intangible assets	<b>(5,180)</b>	(5,180)
Additional depreciation on revalued fixed assets	<b>(653)</b>	(988)
Government grants recognised as income	<b>220</b>	297
Provision for employees benefits in medical insurance	<b>2,985</b>	2,985
Deferred taxation, net impact	<b>10,921</b>	5,262
Reversal of impairment / (Impairment on goodwill)	<b>108</b>	(1,897)
Unsettled long outstanding payables written off recognised as income	<b>250</b>	—
Negative goodwill arising from the additional investment of an external investor in a subsidiary	<b>—</b>	19,819
Difference in minority interests	<b>148</b>	(932)
	<hr/>	<hr/>
<b>Profit attributable to equity holders of the Company under HK GAAP</b>	<b><u>128,848</u></b>	<b><u>122,956</u></b>



### 3. CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

#### 3.1 Movement in share capital

Applicable       Not applicable

*(Unit: Shares)*

	Before change		Change					After change	
	Number	Percentage	New issues	Bonus issues	Reserves capitalized	Others	Sub-total	Number	Percentage
I. Shares subject to selling restrictions									
1. State-owned shares	513,000,000	63.26%	—	(23,400,000)	—	—	(23,400,000)	489,600,000	60.38%
2. Shares held by State-owned legal entities	—	—	—	—	—	—	—	—	—
3. Other domestic shares									
Including: shares held by domestic legal entities	—	—	—	—	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—	—	—	—	—
4. Shares held by foreign capital									
Including: shares held by overseas legal entities	—	—	—	—	—	—	—	—	—
Shares held by overseas natural persons	—	—	—	—	—	—	—	—	—
Total shares subject to selling restrictions	513,000,000	63.26%	—	(23,400,000)	—	—	(23,400,000)	489,600,000	60.38%
II. Shares not subject to selling restrictions									
1. Renminbi-denominated ordinary shares	78,000,000	9.62%	—	23,400,000	—	—	23,400,000	101,400,000	12.50%
2. Domestically listed foreign capital shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign capital shares	219,900,000	27.12%	—	—	—	—	—	219,900,000	27.12%
4. Others	—	—	—	—	—	—	—	—	—
Total shares not subject to selling restrictions	297,900,000	36.74%	—	23,400,000	—	—	23,400,000	321,300,000	39.62%
III. Total shares	810,900,000	100%	—	—	—	—	—	810,900,000	100%

On 12 April 2006, the relevant A share market shareholders' meeting of the Company approved the share reform plan, pursuant to which the holders of circulating A shares would be offered 3 shares for every 10 A shares held.

**3.2 The ten largest shareholders and the ten largest shareholders holding the shares not subject to selling restrictions of the Company together with their respective shareholding are as follows:**

Number of shareholders as  
at the end of the Reporting Period 35,044

**The ten largest shareholders**

Name of shareholders	Nature of shares	% of the total share capital (%)	Number of shares held as at the end of the Reporting Period	Number of shares held subject to selling restrictions	Number of pledged or frozen shares
Guangzhou Pharmaceutical Holdings Limited ("GPHL")	State-owned shares	Approximately 57.79	468,603,509	468,603,509	102,960,000
HKSCC Nominees Limited	H shares	Approximately 26.97	218,662,799	—	Unknown
China Greatwall Asset Management Corporation	State-owned shares	Approximately 2.59	20,996,491	20,996,491	None
Western Securities Co., Ltd.	A shares	Approximately 0.55	4,465,861	—	Unknown
Shenyin Wanguo – Citibank – UBS Limited	A shares	Approximately 0.29	2,374,020	—	Unknown
China Merchants Securities – Stanchart – ING Bank N.V.	A shares	Approximately 0.27	2,161,032	—	Unknown

Industrial and Commercial Bank of China – BOC Sustainable Growth Equity Fund	A shares	Approximately 0.23	1,899,995	—	Unknown
Guotai Junan – CCB – The Hongkong and Shanghai Banking Corporation Limited	A shares	Approximately 0.22	1,813,548	—	Unknown
Shenyin Wanguo – HSBC – Merrill Lynch International	A shares	Approximately 0.22	1,780,141	—	Unknown
Xinghua Securities Investment Fund	A shares	Approximately 0.19	1,565,524	—	Unknown

### **The ten largest shareholders of listed shares not subject to selling restrictions**

<b>Name of shareholders</b>	<b>Number of shares held not subject to selling restrictions (share)</b>	<b>Nature of shares</b>
HKSCC Nominees Limited	218,662,799	H shares
Western Securities Co., Ltd.	4,465,861	A shares
Shenyin Wanguo – Citibank – UBS Limited	2,374,020	A shares
China Merchants Securities – Stanchart – ING Bank N.V.	2,161,032	A shares
Industrial and Commercial Bank of China – BOC Sustainable Growth Equity Fund	1,899,995	A shares
Guotai Junan – CCB – The Hongkong and Shanghai Banking Corporation Limited	1,813,548	A shares
Shenyin Wanguo – HSBC – Merrill Lynch International	1,780,141	A shares
Xinghua Securities Investment Fund	1,565,524	A shares
National Social Security Fund 109 Group	1,034,508	A shares
Agricultural Bank of China – Citic – prudential Sijihong Mixed Securities Investment Fund	789,413	A shares

### **Explanation on the connection among the above ten shareholders**

- (a) During the Reporting Period, the controlling shareholder of the Company, GPL, applied part of its shares in the Company for debt restructure of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (“BYSCL”) with 115,440,000 shares involved, among which 12,480,000 shares are intended to be transferred to BYSCL and the relative procedures are being processed. There are still 102,960,000 shares being pledged (including 65,110,000 shares continued to be frozen with effect from 15 May 2006.)
- (b) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- (c) The Company is not aware of any connection among the above ten 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”.

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

Applicable       Not applicable

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

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

Applicable       Not applicable

Name	Position	Shares held as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Reason for change
Zhou Yuejin	Vice Chairman (resigned on 27 April 2006)	28,900	37,570	Bonus shares as a result of the share reform
Xie Bin	Executive Director, General Manager (resigned on 15 June 2006)	1,000	1,300	Bonus shares as a result of the share reform
Chen Canying	Chairman of the Supervisory Committee	9,800	12,740	Bonus shares as a result of the share reform
Ouyang Qiang	Supervisor	10,100	13,130	Bonus shares as a result of share reform
He Shuhua	Deputy General Manager and Company Secretary	27,700	36,010	Bonus shares as a result of the share reform
Chen Binghua	Financial Controller	4,800	6,240	Bonus shares as a result of the share reform

## 5. MANAGEMENT DISCUSSION AND ANALYSIS

(Unless otherwise stated, the financial data contained in this report is extracted from the Group's financial statements prepared in accordance with PRC Accounting Standards and Systems)

The Company and its subsidiaries (collectively the "Group") are principally engaged in (1) manufacture and sales of Chinese Patent Medicine; (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.

During the Reporting Period, the operating results of the Group maintained a rapid and steady growth as the Group continued to strengthen the supervision and controls on its business operation, promote integration of internal resources, and actively expand the market for its principal operation.

According to PRC Accounting Standards and Systems, turnover of the Group for the Reporting Period was approximately RMB5,193,992,000, representing an increase of 13.01% over that of the same period of last year. Gross profit was approximately RMB191,808,000, representing an increase of 12.36% over that of the same period of last year. Net profit was approximately RMB120,049,000, representing an increase of 15.89% over that of the same period of last year.

According to the financial statements prepared in accordance with HK GAAP, turnover of the Group for the Reporting Period was approximately RMB5,193,992,000, representing an increase of 13.01% over that of the same period of last year. Profit before income tax was approximately RMB189,847,000, representing an increase of 2.28% over that of the same period of last year. Profit attributable to equity holders of the Company was approximately RMB128,848,000, representing an increase of 4.79% over that of the same period of last year. Excluding the gain of RMB19,819,000 arising from the purchase price premium from the additional investment of an external investor in Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd (“Wang Lao Ji”) in the first half of 2005, the Group’s operating profit for the Reporting Period recorded an increase of 24.93% as compared with the corresponding period of 2005.

## 5.1 Analysis of principal activities of the Company by business and by product

	Revenue from principal operations	Costs from principal operations	Profit margin of principal operations	Changes in revenue from principal operations as compared with the corresponding period of last year	Changes in costs from principal operations as compared with the corresponding period of last year	Changes in Profit from principal operations as compared with the corresponding period of last year
By segments	RMB'000	RMB'000	(%)	(%)	(%)	(percentage point)
The Manufacturing Operations	1,260,519	593,844	52.02	10.55	11.50	(0.35)
The Trading Operations	3,933,473	3,681,379	6.31	13.82	13.22	0.40
Including: Wholesale	3,625,043	3,421,088	5.55	12.97	12.55	0.35
Retail	183,049	143,287	21.37	23.07	21.42	1.05
Import and Export	125,381	117,004	6.56	27.70	28.62	(0.77)
Total	5,193,992	4,275,223	17.41	13.01	13.07	(0.03)

Include:						
connected transactions	102,016	94,850	6.74	(2.86)	(3.23)	0.38
	Revenue from principal operations	Costs from principal operations	Profit margin of principal operations	Changes in revenue from principal operations as compared with the corresponding period of last year	Changes in costs from principal operations as compared with the corresponding period of last year	Changes in Profit from principal operations as compared with the corresponding period of last year
By products	RMB'000	RMB'000	(%)	(%)	(%)	(percentage point)
Heat clearing and anti-toxic medicine	338,406	171,997	48.30	18.04	17.39	0.34
Including: herb tea series ( <i>note</i> )	86,111	47,912	43.49	111.18	102.63	2.40
Diabetic medicine	228,315	72,380	67.43	6.88	0.22	2.16
Cough and phlegm clearing medicine	149,950	64,271	56.27	2.14	3.99	(0.71)
Arthritic medicine	147,096	59,993	58.34	23.85	38.26	(4.19)
Gastric medicine	48,740	25,924	45.94	(13.49)	(16.08)	1.70
Other products	348,012	199,279	41.87	9.42	12.12	(1.32)
Including: connected transactions	2,295	1,612	28.88	9.76	11.97	(1.33)

**Pricing policy for connected transactions:** The connected transactions were conducted on a fair principle and had not constituted any infringement of the Company's interests or infringement of shareholders' interests.

*Note:* Herb tea series includes Wang Lao Ji herb tea and Xing Qun Xia Sang Ju drinks, and the sales of the products of Wang Lao Ji is calculated by the percentage of shareholding in that company by the Company (i.e. 48.0465%).



The total amount of products sold to GPLH and its associates by the Group was RMB102,016,000.

## 5.2 Geographical analysis of principal business

Applicable       Not applicable

Regions	Revenue from principal operations <i>RMB'000</i>	Changes as compared with the corresponding period of 2005 <i>(%)</i>
Southern China	4,177,577	12.54
Eastern China	368,803	14.63
Northern China	180,056	11.93
North-eastern China	113,466	13.41
South-western China	215,822	23.20
North-western China	76,859	7.54
Export	61,409	12.30
	<hr/>	<hr/>
Total	<u>5,193,992</u>	<u>13.01</u>

## 5.3 Chinese Patent Medicine Manufacturing (the “Manufacturing Operations”)

During the Reporting Period, the Group took a series of measures in such aspects as sales expansion for its majors products such as medicine for diabetes, cardio-cerebral, cough and phlegm clearing, heat clearing and anti-toxic medicine and rheumatism curing medicine, resources integration, research and development of new products and enhancement of operational efficiency, which have produced favourable results.

According to PRC Accounting Standards and Systems, turnover of the Manufacturing Operations for the Reporting Period was approximately RMB1,260,519,000, representing an increase of 10.55% over that of the same period of last year. Gross profit was approximately RMB155,965,000, representing an increase of 14.47% over that of the same period of last year.

According to the financial statements prepared in accordance with HK GAAP, turnover of the Manufacturing Operations for the Reporting Period was approximately RMB1,260,519,000, representing an increase of 10.55% over that of the same period of last year. Profit before income tax was approximately RMB153,551,000, representing an increase of 0.83% over that of the same period of last year.

During the Reporting Period, there were 39 products with the sales income exceeding RMB5 million, out of which sales income of certain major products, including Xia Sang Ju Ke Li, Wang Lao Ji Qing Liang Cha, Xiao Er Qi Xing Cha Granule, She Dan Chuan Bei Pi Pa Ye and Mi Lian Chuan Bei Pi Pa Gao have significantly increased by 18.92%, 138.19%, 61.24%, 17.43% and 34.12% respectively as compared with the corresponding period of last year.

During the Reporting Period, the rate of expenses of the Manufacturing Operations increased by 0.83 percentage point over that of the corresponding period of last year, mainly due to a greater marketing effort for the sales for the Reporting Period and the substantial increase in advertising expenses and POS expenses.

#### **5.4 Pharmaceutical trading operations (including wholesale, retail, import and export) (the “Trading Operations”)**

During the Reporting Period, active adjustments to operating strategies was made for the Trading Operations in response to the changes in the policies promulgated by the State and the pharmaceutical industry.

Turnover of the Trading Operations for the Reporting Period prepared under PRC Accounting Standards and Systems was approximately RMB3,933,473,000, representing an increase of 13.82% over that of the same period of last year. Gross profit was approximately RMB35,843,000, representing a growth of 4.02% as compared with the same period of last year.

According to the financial statements prepared in accordance with HK GAAP, turnover of the Trading Operations for the Reporting Period was approximately RMB3,933,473,000, representing an increase of 13.82% over that of the same period of last year. Profit before income tax was approximately RMB36,296,000, representing an increase of 8.93% over that of the same period of last year.

As at 30 June 2006, the Group has 148 chained pharmacies, including 82 “Cai Zhi Lin” chained pharmacies which specialize in Chinese medicine and 65 “Jian Min” chained pharmacies which specialize in western medicine and 1 named Ying Bang Pharmacy.

## 5.5 The operating results of the Company’s fellow enterprises during the Reporting Period

Applicable       Not applicable

Name of enterprises	Equity directly held by the Company (%)	Sales income RMB'000	Profit RMB'000	Net profit RMB'000
Guangzhou Xing Qun Pharmaceutical Co., Ltd	88.99	188,494	23,886	16,004
Guangzhou Zhong Yi Pharmaceutical Co., Ltd	90.36	333,167	69,147	47,009
Guangzhou Chen Li Ji Pharmaceutical Factory	100	120,945	22,615	15,040
Guangzhou Qi Xing Pharmaceutical Co., Ltd	75	196,999	29,472	22,040
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd	88.40	112,394	10,578	10,578
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd	87.77	151,130	13,175	9,028

Wang Lao Ji	48.05	331,167	40,001	40,001
Guangzhou Huan Ye Pharmaceutical Co., Ltd	59.70	17,474	207	120
Guangxi Ying Kang Pharmaceutical Co., Ltd	51.00	11,984	(185)	(185)
Guangzhou Bai Di Bio-technology Co., Ltd	95.69	—	(4,747)	(4,747)
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd	70.04	2,122	(10,188)	(10,188)
Guangzhou Pharmaceutical Corporation	90.09	3,715,908	39,573	25,813
Guangzhou Chinese Medicine Corporation	100	511,168	1,560	1,553
Guangzhou Pharmaceutical Import & Export Corporation	100	164,346	1,332	720
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	—	151,855	656	656

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

Applicable  Not applicable

**5.7 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

**5.8 Explanation on significant changes in principal activities and their composition**

Applicable  Not applicable

**5.9 Explanation on significant changes in profit from principal activities (gross profit margin) as compared with the corresponding period of 2005**

Applicable  Not applicable

## 5.10 Explanation on significant changes in profit composition

Applicable       Not applicable

Items	1 January ~30 June 2006	1 January ~30 June 2005	Change	Change
	RMB'000	RMB'000	RMB'000	(%)
Operating expenses	<b>404,627</b>	301,439	103,188	34.23

*Notes:* Operating expenses for the Reporting Period recorded an increase of 34.23% as compared with the corresponding period of last year, mainly because the Group strengthened marketing of its products, which has led to significant growth in advertising fees and end-users marketing fees.

## 5.11 Use of proceeds from issue of A shares

### 5.11.1 Use of proceeds from issue of A Shares

Applicable       Not applicable

As at the end of the Reporting Period, the actual applications of the proceeds from the issuance of A shares in the Company were in line with the undertakings made in the prospectus for the issuance of A shares.

The net proceeds from the issuance of A shares in the Company were approximately RMB737,990,000. The portion exceeding the budgeted proceeds (amounting to approximately RMB29,690,000) was used as supplemental working capital of the enterprise. As at 30 June 2006, the actual capital applied was RMB690,660,000, leaving the unapplied capital of RMB47,330,000. Save as the projects set out in the following table, other projects were completed for investment as scheduled.

<b>Total proceeds raised</b> <i>RMB'000</i>	737,990	<b>Total amount of proceeds utilised during the Reporting Period</b> <i>RMB'000</i>	8,520
		<b>Accumulated amount of proceed utilised</b> <i>RMB'000</i>	690,660

<b>Projects</b>	<b>Budgeted injection from proceeds</b> <i>RMB'000</i>	<b>Funds injected</b> <i>RMB'000</i>	<b>Change in projects</b>	<b>Investment return for the Reporting Period</b>	<b>Agreed with the planned stage of completion</b>	<b>Agreed with the expected investement return</b>
Industrialization of Wei Re Qing	29,000	No	25,630	No investment return generated	No	No
Technology upgrade of throat, spleen and intestine pills	29,100	No	24,660	New sales generated: 30,170 New gross profit: 15,090	No	Yes
Industrialization of Fu Yan Xiao Soluble Tablets	29,500	No	24,030	No investment return generated	No	No
Expansion of “Cai Zhi Lin” chained pharmacies	59,500	No	29,190	New sales generated: 6,000	No	No

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

### 5.11.2 Change in projects

Applicable  Not applicable

### 5.12 Revision on the Board's operation plans for the second half of 2006

Applicable  Not applicable

### 5.13 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 2005

Applicable  Not applicable

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

Applicable  Not applicable

### 5.15 The explanation of the Company's management on changes and handling of the issues in relation with the qualified opinion issued by the auditors for 2005

Applicable  Not applicable

## 6 MAJOR EVENTS

### 6.1 Acquisition, disposal and restructuring of assets

#### 6.1.1 Acquisition of assets

Applicable  Not applicable

#### 6.1.2 Disposal of assets

Applicable  Not applicable

6.1.3 Progress and effect on the operating results and financial position for the Reporting Period after the announcement of acquisition, disposal of assets and assets progress occurred

Applicable  Not applicable

6.2 Guarantees

Applicable  Not applicable

Guarantees provided to parties other than the Company's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount involved <i>RMB'000</i>	Type of guarantees	Term of guarantees	Guarantees for	
					Executed or not	connected parties
Nil	—	—	—	—	—	—
Accumulated amount of guarantees						
provided during the Reporting Period		Nil				
Balance of guarantees as at 30 June 2006		Nil				
<b>Guarantees provided to the Company's subsidiaries</b>						
Accumulated amount of guarantees						
provided to the Company's subsidiaries during the Reporting Period		466,860				
Amount of guarantees provided to the Company's subsidiaries as at 30 June 2006						
		466,860				
<b>The Company's guarantees (including those provided to its subsidiaries)</b>						
Total amount of guarantees provided		466,860				
% of the net assets of the Company		17.08%				



**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	—
Direct or indirect guarantees provided to parties with a gearing ratio of over 70%	—
Whether the total amount of the gurarantees provided amounts to 50% of the net assets of the Company	—
Amount of deregulatory guarantees provided	—

## 6.3 Major connected transactions

### 6.3.1 Continuing connected transactions

Applicable       Not applicable

Connected parties	Products sold to / services provided for		Products purchased from / services provided by	
	Amount <i>RMB'000</i>	Percentage of the same type of transactions (%)	Amount <i>RMB'000</i>	Percentage of the same type of transactions (%)
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd	32,998	0.64	10,172	0.26
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	9,544	0.18	16,473	0.43
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	7,492	0.14	19,620	0.51
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd	1,629	0.03	12,322	0.32
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	31,509	0.61	36,589	0.95

Guangzhou Pharmaceutical Industrial Research Institute	2,918	0.06	—	—
Wang Lao Ji	21,234	0.41	46,095	1.20
BYSCL Guangzhou Baiyunshan Pharmaceutical Factory	10,310	0.20	25,918	0.67
BYSCL Guangzhou Baiyunshan Chemical Pharmaceutical Factory	1,784	0.03	1,184	0.03
BYSCL Guangzhou Baiyunshan External Pharmaceutical Factory	715	0.01	3,671	0.10
Guangzhou Baiyunshan Hutchison Whampoa Pharmaceutical Co., Ltd	2,484	0.05	34,660	0.90
Guangzhou Huanan Medical Apparatus Co., Ltd	—	—	13	—
Po Lian Development Co., Ltd	—	—	60,727	1.58
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>122,617</u>	<u>2.36</u>	<u>267,444</u>	<u>6.96</u>

During the Reporting Period, products sold to/services provided to the Company's controlling shareholder or its subsidiaries by the Group amounted to RMB122,617,000.

### 6.3.2 Funds to/from connected parties

Applicable       Not applicable

Connected parties	Connected relationship	Funds to connected parties		Funds from connected parties	
		Initial amount <i>RMB'000</i>	Balance <i>RMB'000</i>	Initial amount <i>RMB'000</i>	Balance <i>RMB'000</i>
<b>Accounts receivable and payable:</b>					
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd	Under the same parent company	38,608	41,810	11,901	1,889
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	Under the same parent company	11,119	2,852	19,274	3,604
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	Under the same parent company	8,765	1,481	22,956	3,523
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd	Under the same parent company	1,906	512	14,416	2,848

Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	Under the same parent company	36,855	3,780	42,809	5,310
Wang Lao Ji	Jointly controlled entity (the unconsolidated amount)	24,844	3,186	53,931	5,490
Guangzhou Baiyunshan Hutchison Whampoa Pharmaceutical Co., Ltd	Under the same parent company	6,276	216	40,552	7,556
BYSCL Guangzhou Baiyunshan Pharmaceutical Factory	Under the same parent company	17,324	4,495	30,324	4,457
BYSCL Guangzhou Baiyunshan Chemical Pharmaceutical Factory	Under the same parent company	2,087	79	1,385	455
BYSCL Guangzhou Baiyunshan External Pharmaceutical Factory	Under the same parent company	836	478	4,295	462
Guangzhou Huanan Medical Apparatus Co., Ltd	Under the same parent company	—	—	15	29
Po Lian Development Co., Ltd	Under the same parent company	—	—	71,050	49,269
Total		148,620	58,889	312,908	84,892
<b>Other receivables and payables</b>					
GPHL	Parent company	—	4,440	5,329	25,977
Guangzhou Huanan Medical Apparatus Co., Ltd	Under the same parent company	—	100	—	—
Guangzhou Medical Material Supply Corporation	Under the same parent company	—	—	—	3,000
Po Lian Development Co., Ltd	Under the same parent company	—	6	—	—
Guangzhou Lian Jie Computer Technology Co., Ltd	Jointly controlled entity	—	420	—	—
Wang Lao Ji	Jointly controlled entity (the unconsolidated amount)	2,051	2,051	—	97
Total		2,051	7,017	5,329	29,074

## 6.4 Material litigation and arbitration

Applicable

Not applicable

**6.5 As at 30 June 2006, the number of the Group's employees amounted to 8,268. The remuneration policy of the employees had no material changes as compared with the previous reporting period. Staff cost for the first half of 2006 was RMB220,388,000.**

#### **6.6 Liquidity, financial resources and capital structure**

As at 30 June 2006, the current ratio of the Group was 1.52 and the quick ratio was 1.04. Accounts receivable turnover rate was 10.01, and annual inventory turnover rate was 7.64, representing an increase of 3.61% and 7.36% respectively as compared with the same period of last year.

As at 30 June 2006, cash and cash equivalents of the Group amounted to RMB612,940,000 (as at 31 December 2005: RMB616,913,000), of which approximately 95.16% was denominated in RMB and 4.84% was denominated in foreign currencies such as Hong Kong dollars.

#### **6.7 Capital expenditure**

The Group expected that capital expenditure for the year 2006 will be approximately RMB245,000,000 (2005: RMB137,000,000) and the actual expenditure in the first half of 2006 amounted to RMB55,840,000 (the corresponding period in 2005: RMB68,700,000). The Group has sufficient financial resources to meet the demand for capital expenditure and daily working capital requirements.

#### **6.8 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.

## **6.9 Contingent liabilities**

Up to 30 June 2006, the Group had no significant contingent liabilities.

## **6.10 Charge on Group assets**

As at 30 June 2006, the net book value of fixed assets pledged as security for bank loans granted to the Group amounted to RMB56,100,000.

**6.11 The Board does not recommend the payment of a dividend for the six months ended 30 June 2006 nor propose any increase in share capital from the capital reserve.**

**6.12 Disposal of assets, or merge and acquisition activities occurred in the Company, subsidiaries or associates.**

On 24 March 2006, the Company and Hong Kong Xin Lian Hua Industrial Co., Ltd (“Xin Lian Hua”) entered into a transfer agreement, pursuant to which the Company transferred its 21.42% equity interest in Nanfang Packaging Co., Ltd to Xin Lian Hua, at the consideration of RMB30,000,000. The transfer has been completed.

**6.13 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.

**6.14 Bank loans, overdraft and other loans**

Up to 30 June 2006, short-term loans decreased by RMB26,337,000 as compared with that of 1 January 2006.

## **6.15 Gearing ratio**

Up to 30 June 2006, the Group's gearing ratio (total liabilities/total assets x 100%) was 47.55% (31 December 2005: 44.94%). There were no material adverse changes in the gearing ratio of the Group compared with that as at 1 January 2006.

## **6.16 Compliance with the Code on Corporate Governance Practices**

The Company has complied with the requirements as set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the HKEX. During the Reporting Period and no material deviations from the Code occurred.

## **6.17 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 issued by the HKEX as the standards for securities transactions entered into by Directors and Supervisors. After specific enquiries made to all Directors and Supervisors, the Company has confirmed that all the Company's Directors and Supervisors complied with the requirements relating to Directors' and Supervisors' dealing in securities as set out in the standards for transactions made by Directors' as set out in the above code during the Reporting Period.

**6.18 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 methods adopted by the Group, and discussed with the management about the audit, internal controls and financial reporting. The Audit Committee has also reviewed the unaudited interim financial reports for the six months ended 30 June 2006.**

**6.19 Explanation on other major events, their impact and solutions**

Applicable  Not applicable

**6.20 Details of funds provided to connected parties and settlement**

Applicable  Not applicable

Amount of capital utilised by the controlling shareholder and its subsidiaries		Settlement during the		Amount involved RMB'000	Settlement time
Initial amount RMB'000	Balance RMB'000	Reporting Period	Method		
12,809	4,367	8,442	In terms of cash and rents	8,442	January 2006 ~ June 2006

Explanation on capital  
utilised by the controlling  
shareholder and other  
connected parties and  
the settlement

The balance stated above include the prepaid rents for the current office provided to GPLH by the Company. GPLH had undertaken that the amount would be applied to the construction of the office, and would be offset by the rents of the leased office. As at 30 June 2006, the balance of the prepaid rents amounted to RMB4,068,000. In February 2006, an amount of RMB7,383,000, which was previously deposited at Po Lian Development Co., Ltd, was withdrawn.

## 6.21 Settlement scheme of funds provided to connected parties for the second half of 2006

Applicable       Not applicable

Repayment time	Method	Amount involved <i>RMB'000</i>	Notes
July 2006	To be repaid by rents	135.80	—
August 2006	To be repaid by rents	75.80	—
September 2006	To be repaid by rents	75.80	—
October 2006	To be repaid by rents	75.80	—
November 2006	To be repaid by rents	75.80	—
December 2006	To be repaid by rents	75.80	—

## 6.22 Special undertakings made by holders of the previously non-trading shares of the Company and their performance

Applicable       Not applicable

## 6.23 Schedule for share reform plan

Applicable       Not applicable

## 6.24 Reasons of failing to undertake share reform by companies which has promised to

Applicable       Not applicable

# 7. FINANCIAL REPORTS

## 7.1 Audit Opinion

Financial reports      Unaudited



## 7.2 Income Statement and Distribution of the Group and the Company for the six months ended 30 June 2006

### 7.2.1 Income Statement and Distribution for the six months ended 30 June 2006 prepared in accordance with the PRC Accounting Standards and Systems

Items	The Group		The Company	
	The Reporting Period RMB	The corresponding period of 2005 RMB	The Reporting Period RMB	The corresponding period of 2005 RMB
<b>Sales</b>	<b>5,193,992,342.44</b>	<b>4,596,172,011.27</b>	<b>151,854,707.47</b>	—
Less: Costs of sales	4,275,222,738.06	3,781,112,233.96	145,459,532.49	—
Less: Taxes and levies	14,676,946.95	13,601,179.60	320,618.24	—
<b>Profit from principal operations</b>	<b>904,092,657.43</b>	<b>801,458,597.71</b>	<b>6,074,556.74</b>	—
Add: Profit from other operations	24,324,457.75	21,041,587.55	8,856,774.40	4,374,268.41
Less: Operating expenses	404,626,544.37	301,438,593.12	2,986,585.34	—
Less: General and administrative expenses	317,040,832.23	319,337,604.14	13,670,943.56	13,164,929.36
Less: Finance costs	21,794,808.86	24,822,607.19	(91,927.28)	(865,493.62)
<b>Operating profit</b>	<b>184,954,929.72</b>	<b>176,901,380.81</b>	<b>(1,634,270.48)</b>	<b>(7,925,167.33)</b>
Add: Investment income	7,186,192.71	(3,976,044.37)	156,541,037.95	122,720,286.49
Add: Subsidy income	396,941.04	189,521.00	—	—
Add: Non-operating income	2,924,975.87	648,156.53	9,870.43	3,150.02
Less: Non-operating expenses	3,654,716.17	3,058,098.59	17,463.85	253.00
<b>Total profit</b>	<b>191,808,323.17</b>	<b>170,704,915.38</b>	<b>154,899,174.05</b>	<b>114,798,016.18</b>
Less: Income tax	63,434,849.48	60,004,570.92	—	—
Less: Minority interests	8,324,848.03	7,109,905.23	—	—
<b>Net profit</b>	<b>120,048,625.66</b>	<b>103,590,439.23</b>	<b>154,899,174.05</b>	<b>114,798,016.18</b>
Add: retained earnings brought forward	93,839,656.29	22,505,890.50	492,738,353.95	348,842,914.78
Add: transfer from others	1,886,788.57	9,916,543.08	—	—
<b>Profit distributable</b>	<b>215,775,070.52</b>	<b>136,012,872.81</b>	<b>647,637,528.00</b>	<b>463,640,930.96</b>
Less: transfer 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	—	—	—	—
Profit returned to investment	—	—	—	—
<b>Profit distributable to shareholders</b>	<b>215,775,070.52</b>	<b>136,012,872.81</b>	<b>647,637,528.00</b>	<b>463,640,930.96</b>
Less: dividend for preferred shares	—	—	—	—
Transfer to discretionary surplus reserves	—	—	—	—
Dividend for ordinary shares	56,763,000.00	20,272,500.00	56,763,000.00	20,272,500.00
<b>Dividend for ordinary shares transferred to share capital</b>	<b>159,012,070.52</b>	<b>115,740,372.81</b>	<b>590,874,528.00</b>	<b>443,368,430.96</b>

**7.2.2 Condensed consolidated interim financial information (unaudited) prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” (All amounts in RMB thousands unless otherwise stated)**

**Condensed consolidated interim balance sheet**

<b>ASSETS</b>	<i>Note</i>	As at <b>30 June 2006</b> <i>Unaudited</i>	As at 31 December 2005 <i>Audited</i>
<b>Non-current assets</b>			
Property, plant and equipment		1,524,251	1,542,068
Investment properties		8,712	8,712
Land use rights		134,322	134,691
Intangible assets		43,953	49,506
Investments in associates		16,989	4,854
Available-for-sale financial assets		31,175	61,994
Deferred income tax assets		63,940	53,345
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>1,823,342</b>	<b>1,855,170</b>
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories		1,088,650	1,148,569
Trade and other receivables	4	2,161,230	1,683,197
Financial assets at fair value through profit or loss		1,951	10,903
Cash and cash equivalents		614,540	618,581
		<hr/>	<hr/>
<b>Total current assets</b>		<b>3,866,371</b>	<b>3,461,250</b>
		<hr/>	<hr/>
<b>Total assets</b>		<b><u>5,689,713</u></b>	<b><u>5,316,420</u></b>

<b>EQUITY</b>		
<b>Capital and reserves attributable to equity holders of the Company</b>		
Share capital	1,592,034	1,592,034
Reserves	987,271	989,014
Retained earnings	215,903	142,075
	<u>2,795,208</u>	<u>2,723,123</u>
<b>Minority interest</b>	198,278	201,707
	<u>2,993,486</u>	<u>2,924,830</u>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Deferred income tax liabilities	42,196	42,522
Employee benefits	43,071	46,203
	<u>85,267</u>	<u>88,725</u>
<b>Current liabilities</b>		
Trade and other payables	5 1,646,949	1,359,694
Dividends payable	62,724	26
Current income tax liabilities	29,838	25,360
Borrowings	871,449	917,785
	<u>2,610,960</u>	<u>2,302,865</u>
<b>Total liabilities</b>	<u>2,696,227</u>	<u>2,391,590</u>
<b>Total equity and liabilities</b>	<u><b>5,689,713</b></u>	<u><b>5,316,420</b></u>
<b>Net current assets</b>	<u><b>1,255,411</b></u>	<u><b>1,158,385</b></u>
<b>Total assets less current liabilities</b>	<u><b>3,078,753</b></u>	<u><b>3,013,555</b></u>

## Condensed consolidated interim income statement

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2006</b>	<b>2005</b>
Sales	3	<b>5,193,992</b>	4,596,172
Cost of goods sold		<b>(4,275,223)</b>	(3,781,112)
		<hr/>	<hr/>
Gross profit		<b>918,769</b>	815,060
Other gains (net)		<b>42,114</b>	48,723
Distribution costs		<b>(419,304)</b>	(315,040)
Administrative expenses		<b>(319,898)</b>	(329,446)
Other operating expenses		<b>(3,655)</b>	(3,058)
		<hr/>	<hr/>
Operating profit	6	<b>218,026</b>	216,239
Finance costs	7	<b>(26,527)</b>	(30,216)
Share of losses of associates		<b>(1,652)</b>	(416)
		<hr/>	<hr/>
Profit before tax		<b>189,847</b>	185,607
Income tax expense	8	<b>(52,514)</b>	(54,743)
		<hr/>	<hr/>
Profit for the half-year		<b>137,333</b>	130,864
		<hr/> <hr/>	<hr/> <hr/>
Attributable to:			
— equity holders of the Company		<b>128,848</b>	122,956
— minority interest		<b>8,485</b>	7,908
		<hr/>	<hr/>
		<b>137,333</b>	130,864
		<hr/> <hr/>	<hr/> <hr/>

**Earnings per share for  
profit attributable to  
equity holders of the  
Company** (expressed in  
RMB per share)

— basic and diluted 9 0.159 0.152

**Dividends** 10 — —

**Condensed consolidated interim statement of changes  
in equity**

	Unaudited					
	Attributable to equity holders of the Company					
	Capital	Reserves	Retained earnings	Total	Minority interest	Total equity
<b>Balance at 1 January 2005</b>	1,592,034	880,427	73,131	2,545,592	212,287	2,757,879
Profit for the half-year	—	—	122,956	122,956	7,908	130,864
Dividends relating to 2004	—	—	(20,273 )	(20,273 )	(9,198 )	(29,471 )
Transfers						
— Impact arising from dilution of equity interest in a subsidiary	—	9,902	(9,902 )	—	(13,815 )	(13,815 )
— Others	—	(366 )	366	—	—	—
<b>Balance at 30 June 2005</b>	<u><u>1,592,034</u></u>	<u><u>889,963</u></u>	<u><u>166,278</u></u>	<u><u>2,648,275</u></u>	<u><u>197,182</u></u>	<u><u>2,845,457</u></u>
<b>Balance at 1 January 2006</b>	1,592,034	989,014	142,075	2,723,123	201,707	2,924,830
Profit for the half-year	—	—	128,848	128,848	8,485	137,333
Transfers	—	(1,743 )	1,743	—	—	—
Dividends relating to 2005	—	—	(56,763 )	(56,763 )	(11,914 )	(68,677 )
<b>Balance at 30 June 2006</b>	<u><u>1,592,034</u></u>	<u><u>987,271</u></u>	<u><u>215,903</u></u>	<u><u>2,795,208</u></u>	<u><u>198,278</u></u>	<u><u>2,993,486</u></u>

## **1. Basis of preparation**

This condensed consolidated interim financial information for the half-year ended 30 June 2006 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

## **2. Accounting policies**

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

Amendment to HKAS 19, “Actuarial gains and losses, group plans and disclosures”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

Amendment to HKAS 39, Amendment “The fair value option”, effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group’s financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;

Amendment to HKAS 21, Amendment “Net investment in a foreign operation”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

Amendment to HKAS 39, Amendment “Cash flow hedge accounting of forecast intragroup transactions”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

Amendment to HKAS 39 and HKFRS 4, Amendment “Financial guarantee contracts”, effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the Group as the Group has not provided any guarantees to other parties except for its subsidiaries;

HKFRS 6, “Exploration for and evaluation of mineral resources”, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant to the Group;

HK(IFRIC)-Int 4, “Determining whether an arrangement contains a lease”, effective for annual periods beginning on or after 1 January 2006. This interpretation does not have any impact on the Group as all arrangements that contain leases prior to 1 January 2006 have been accounted for in accordance with HKAS 17;

HK(IFRIC)-Int 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant to the Group; and

HK(IFRIC)-Int 6, “Liabilities arising from participating in a specific market - waste electrical and electronic equipment”, effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant to the Group.

### **3. Segment information**

#### **Primary reporting format - business segments**

At 30 June 2006, the Group is organised into the following business segments:

- Manufacturing of CPM;
- Wholesale of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus;
- Retail of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus; and
- Import and export of western pharmaceutical products, CPM and medical apparatus.

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



The segment results are as follows:

	Six months ended 30 June 2006					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
Total gross						
segment sales	1,324,709	4,210,783	183,257	147,802	(672,559)	5,193,992
Inter-segment sales	(64,190)	(585,740)	(208)	(22,421)	672,559	—
<b>Sales - net</b>	<b>1,260,519</b>	<b>3,625,043</b>	<b>183,049</b>	<b>125,381</b>	<b>—</b>	<b>5,193,992</b>
Segment results	187,541	57,325	5,581	2,917	(33,655)	219,709
Corporate unallocated costs						(1,683)
<b>Operating profit</b>						<b>218,026</b>
Finance costs						(26,527)
Share of losses of associates	(1,652)	—	—	—	—	(1,652)
<b>Profit before tax</b>						<b>189,847</b>
Income tax expense						(52,514)
<b>Profit for the half-year</b>						<b>137,333</b>

Six months ended 30 June 2005

	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
Total gross						
segment sales	1,171,231	3,559,375	148,758	107,203	(390,395)	4,596,172
Inter-segment sales	(30,972)	(350,379)	(23)	(9,021)	390,395	—
<b>Sales - net</b>	<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
Corporate unallocated profit						<u>8,894</u>
<b>Operating profit</b>						<u>216,239</u>
Finance costs						(30,216)
Share of losses of associates	(416)	—	—	—	—	<u>(416)</u>
<b>Profit before tax</b>						<u>185,607</u>
Income tax expense						<u>(54,743)</u>
<b>Profit for the half-year</b>						<u><u>130,864</u></u>

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

<b>Six months ended 30 June 2006</b>						
	<b>Manufacturing</b>	<b>Wholesale</b>	<b>Retail</b>	<b>Import and export</b>	<b>Unallocated</b>	<b>Group</b>
Depreciation	46,580	9,104	1,918	83	2,727	60,412
Amortisation	5,158	2,709	62	15	122	8,066
Impairment losses	7,854	7,170	—	844	—	15,868
Reversal of impairment losses	(2,559)	—	—	—	—	(2,559)

<b>Six months ended 30 June 2005</b>						
	<b>Manufacturing</b>	<b>Wholesale</b>	<b>Retail</b>	<b>Import and export</b>	<b>Unallocated</b>	<b>Group</b>
Depreciation	48,677	10,048	1,504	85	2,188	62,502
Amortisation	5,150	2,003	—	15	—	7,168
Impairment losses	4,208	5,016	—	1,211	—	10,435
Reversal of impairment losses	(412)	(561)	—	—	—	(973)

Unallocated costs represent corporate expenses. Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

The segment assets and liabilities as at 30 June 2006 and capital expenditure for the six months ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
Assets	2,628,333	2,815,447	188,501	109,489	703,171	(772,217)	5,672,724
Associates	16,989	—	—	—	—	—	16,989
<b>Total assets</b>	<b>2,645,322</b>	<b>2,815,447</b>	<b>188,501</b>	<b>109,489</b>	<b>703,171</b>	<b>(772,217)</b>	<b>5,689,713</b>
<b>Liabilities</b>	<b>665,304</b>	<b>1,644,033</b>	<b>89,211</b>	<b>75,318</b>	<b>994,578</b>	<b>(772,217)</b>	<b>2,696,227</b>
<b>Capital expenditure</b>	<b>43,290</b>	<b>5,098</b>	<b>6</b>	<b>12</b>	<b>1,333</b>	<b>—</b>	<b>49,739</b>

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the six months ended 30 June 2005 are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
Assets	2,499,796	2,436,726	194,843	122,651	684,748	(627,198)	5,311,566
Associates	4,854	—	—	—	—	—	4,854
<b>Total assets</b>	<b>2,504,650</b>	<b>2,436,726</b>	<b>194,843</b>	<b>122,651</b>	<b>684,748</b>	<b>(627,198)</b>	<b>5,316,420</b>
<b>Liabilities</b>	<b>554,665</b>	<b>1,283,686</b>	<b>90,904</b>	<b>90,043</b>	<b>999,490</b>	<b>(627,198)</b>	<b>2,391,590</b>
<b>Capital expenditure</b>	<b>50,360</b>	<b>9,909</b>	<b>—</b>	<b>8</b>	<b>180</b>	<b>—</b>	<b>60,457</b>

Segment assets consist primarily of tangible and intangible assets, inventories, receivables and operating cash. They exclude deferred taxation, investment properties and other investments.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to land use rights, property, plant and equipment and intangible assets.

### **Geographical segments**

No geographical segments are presented as sales and results attributable to the markets outside the PRC are not more than 10% of the Group's consolidated sales and consolidated results.

#### 4. Trade and other receivables

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

	As at 30 June 2006	As at 31 December 2005
Trade receivables		
1 to 3 months	1,309,422	825,158
4 to 6 months	117,486	97,122
7 months to 1 year	38,386	24,949
Over 1 year	54,868	57,429
	<u>1,520,162</u>	<u>1,004,658</u>
Less: provision for impairment of trade receivables	<u>(51,154)</u>	<u>(44,881)</u>
Trade receivables - net	<u><u>1,469,008</u></u>	<u><u>959,777</u></u>

#### 5. Trade and other payables

At 30 June 2006, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) was as follows:

	As at 30 June 2006	As at 31 December 2005
Within 1 year	981,821	908,119
1 year to 2 years	30,579	25,264
Over 2 years	18,966	22,321
	<u>1,031,366</u>	<u>955,704</u>

## 6. Operating profit

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

	Six months ended 30 June	
	2006	2005
<b>Credited to:</b>		
Dividends income from available-for-sale financial assets	4,486	521
Income from disposal of financial assets at fair value through profit or loss	6,025	—
Reversal of impairment charge relating to trade and other receivables	2,559	—
Reversal of impairment charge relating to property, plant and equipment	—	973
<b>Charged to:</b>		
Impairment charge relating to trade and other receivables	9,990	8,238
Impairment charge relating to property, plant and equipment and intangible assets	70	2,004
Write-down of inventories to net realisable value	5,808	193
Other financial assets at fair value through profit or loss - fair value losses	—	5,452
Depreciation and amortisation	68,478	69,670
Loss on disposal of property, plant and equipment	957	501
	<u>957</u>	<u>501</u>

## 7. Finance costs

Interest expense on borrowings for the six months ended 30 June 2006 amounted to RMB27,016,000 (30 June 2005: RMB28,321,000).

## 8. Income tax expense

The PRC enterprise income tax has been provided at the principal rate of 33% (2005: 33%) on the estimated assessable profit for the period, except for a subsidiary and a jointly controlled entity which are foreign investment production enterprises. Since the subsidiary was established in a coastal economic development zone, the applicable enterprise income tax rate is 27%. The jointly controlled entity is entitled to an exemption from the 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. The jointly controlled entity is now in the second year of the tax holiday.

	Six months ended 30 June	
	2006	2005
Current income tax		
— PRC enterprise income tax	63,435	60,005
Deferred income tax	(10,921)	(5,262)
	<u>52,514</u>	<u>54,743</u>



## 9. Earnings per share

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

	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
Profit attributable to equity holders of the Company	<b>128,848</b>	122,956
Number of shares in issue (thousand)	<b>810,900</b>	810,900
Basic earnings per share (RMB per share)	<b><u>0.159</u></b>	<b><u>0.152</u></b>

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the periods ended 30 June 2006 and 2005.

## 10. Dividends

At a meeting held on 31 March 2006, the directors proposed a final dividend of RMB 0.07 per ordinary share for the year ended 31 December 2005, which has been reflected as an appropriation of retained earnings for the six months ended 30 June 2006.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

### 7.3 Notes to the financial statements

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

7.3.2 During the Reporting Period, the Company did not have any significant change in respect of consolidation scope of the Group.

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, 25 August 2006

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Chen Zhinong 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.