



廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

Summary of 2008 Interim Report

1. IMPORTANT NOTICE

- 1.1 The Board of Directors (the “Board”), the Supervisory Committee (the “Supervisory Committee”) of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) and its Directors, Supervisors and Senior Management 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 2008 interim report of the Company, which is both published at the website (<http://www.sse.com.cn>) of the Shanghai Stock Exchange (“SSE”), and at the website (<http://www.hkex.com.hk>) of the Stock Exchange of Hong Kong Limited (“HKEx”). Investors who wish to know more details are advised to refer to the full text of the 2008 interim report carefully.
- 1.3 All Directors of the Board were present at the tenth meeting of the Fourth Session of the Board of the Company, among whom, Mr. Feng Zansheng, a Director, was unable to attend the meeting and appointed Mr. Shi Shaobin, a Director, to attend the meeting and vote on his behalf. Mr. Wong Hin Wing, an Independent Non-executive Director, attended the meeting by means of telephone communication.
- 1.4 Mr. Yang Rongming, the Chairman, Mr. Shi Shaobin, Director and 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 this interim report.
- 1.5 The financial reports of the Company and its subsidiaries (collectively the “Group”) and the Company contained in this interim report for the six months ended 30 June 2008 (the “Reporting Period”) are unaudited.
- 1.6 The financial data quoted in this summary were all prepared in accordance with PRC Accounting Standards unless otherwise specified.
- 1.7 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the condensed consolidated financial data prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, the Chinese version shall prevail.

1.8 All the information required to be contained in the summary of 2008 interim report of the Company pursuant to 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	
	Secretary to the Board	Representative of securities affairs
Name	Pang Jianhui	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

Items	As at 30 June 2008 (Unaudited)	As at 31 December 2007 (Audited)	Changes as compared with 31 December 2007 (%)
Total assets (RMB'000)	5,417,797	6,206,944	(12.71)
Equity interests attributable to the shareholders of the Company (RMB'000)	3,110,204	3,060,348	1.63
Net assets per share attributable to the shareholders of the Company (RMB)	3.84	3.77	1.63

Items	The Reporting Period <i>(Unaudited)</i>	The corresponding period of 2007 <i>(Restated)</i>	Changes as compared with the corresponding period of 2007 <i>(%)</i>
Revenue from operations (RMB'000)	4,811,710	6,219,969	(22.64)
Operating profit (RMB'000)	211,003	255,491	(17.41)
Total profit (RMB'000)	215,537	256,943	(16.11)
Net profit attributable to the shareholders of the Company (RMB'000)	166,623	158,049	5.42
Net profit attributable to the shareholders of the Company after deducting non-operating items (RMB'000)	100,761	155,463	(35.19)
Basic earnings per share (RMB)	0.205	0.195	5.42
Diluted earnings per share (RMB)	0.205	0.195	5.42
Fully diluted return on net assets (%)	5.36	5.49	A decrease of 0.13 percentage point
Weighted average return on net assets (%)	5.30	5.51	A decrease of 0.21 percentage point
Net cash flow from operating activities (RMB'000)	(70,546)	168,962	(141.75)
Net cash flow per share from operating activities (RMB)	(0.09)	0.21	(141.75)

Notes: (a) The above financial data and indicators are computed based on the consolidated financial statements.

(b) The joint venture project of Guangzhou Pharmaceuticals Corporation Limited ("Pharmaceuticals Corporation"), a subsidiary of the Company was completed at the beginning of 2008 and its 50% of interest as held by the Company was accounted in the Group's accounts, which had significant effect on the consolidated financial data of the Group. In the first half of 2008, the sales of Pharmaceuticals Corporation was RMB5,006,423,000, an increase of 17.72% compared with the same period of last year. The net profit of Pharmaceuticals Corporation for the first half of 2008 was RMB41,822,000, representing a growth of 31.51% as compared with the same period of last year.

2.2.2 Non-operating items

√ Applicable □ Not applicable

Items	Amount <i>(RMB'000)</i>
Gain/ (Loss) on disposal of non-current assets	16,439
Government subsidies recognized as gain/(loss) for the Reporting Period	4,722
Gain/ (Loss) of entrusted loans	1,343
Gain on subscription of new shares	49,848
Non-operating expenses after deducting the above items	150
Income tax effect	(5,018)
Effect of minority interests	(1,622)
Total	65,862

2.2.3 Financial data and indicators prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”)

Summary of assets and liabilities

Items	As at 30 June 2008 (Unaudited)	As at 31 December 2007 (Audited)	Changes as compared with 31 December 2007 (%)
Current assets (RMB’000)	3,822,138	4,578,995	(16.53)
Current liabilities (RMB’000)	2,158,210	2,873,115	(24.88)
Total assets (RMB’000)	5,597,624	6,367,843	(12.10)
Total liabilities (RMB’000)	2,234,715	2,950,451	(24.26)
Capital and reserves attributable to equity holders of the Company (RMB’000)	3,213,836	3,168,021	1.45
Net assets per share (RMB)	3.96	3.91	1.45

Summary of results

Items	The Reporting Period (Unaudited)	The corresponding period of 2007 (Restated)	Changes as compared with the corresponding period of 2007 (%)
Profit before income tax (RMB’000)	197,758	249,108	(20.61)
Profit attributable to equity holders of the Company (RMB’000)	149,463	151,191	(1.14)
Earnings per share (RMB)	0.184	0.186	(1.14)

2.2.4 Reconciliation between the accounts prepared in accordance with PRC Accounting Standards and HKFRS

√ Applicable □ Not applicable

	As at	
	30 June 2008	31 December 2007
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Net assets under PRC Accounting Standards	3,110,204	3,060,348
Intangible assets capitalised	–	16,669
Difference arising from fixed assets revaluation	121,245	123,728
Deferred government grants generated prior to the adoption of the new PRC Accounting Standards	(2,253)	(2,833)
Provision for deferred tax liabilities arising from fixed assets revaluation	(39,102)	(35,536)
Revaluation of investment properties	37,787	19,634
Difference in minority interest	(14,045)	(13,989)
	<hr/>	<hr/>
Capital and reserves attributable to equity holders of the Company under HKFRS	<u>3,213,836</u>	<u>3,168,021</u>
	Six months ended 30 June	
	2008	2007
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Unaudited)</i>	<i>(Restated)</i>
Net profits under PRC Accounting Standards	166,623	158,049
Amortisation of intangible assets	(16,669)	(5,142)
Additional depreciation on revalued fixed assets	(2,483)	(2,483)
Amortisation of government grants recognised as deferred income prior to the adoption of the new PRC Accounting Standards	580	222
Provision for deferred tax liabilities arising from fixed assets revaluation	807	819
Depreciation of investment properties	661	546
Difference in minority interest	(56)	(820)
	<hr/>	<hr/>
Profit attributable to equity holders of the Company under HKFRS	<u>149,463</u>	<u>151,191</u>

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

3.1 Changes in share capital

√ Applicable □ Not applicable

	Before change		Change (+/-)					After change	
	Number (share)	Percentage (%)	New issues (share)	Bonus issues (share)	Reserves capitalized (share)	Others (listing and trading of tradable shares with selling restrictions) (share)	Sub-total (share)	Number (share)	Percentage (%)
1. Shares with selling restrictions	428,058,509	52.79	–	–	–	(40,545,000)	(40,545,000)	387,513,509	47.79
(1) State-owned shares	–	–	–	–	–	–	–	–	–
(2) Shares held by State-owned legal entities	362,948,509	44.76	–	–	–	(20,747,000)	(20,747,000)	342,201,509	42.20
(3) Other domestic shares	65,110,000	8.03	–	–	–	(19,798,000)	(19,798,000)	45,312,000	5.59
Including: Shares held by domestic non-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 with selling restrictions	428,058,509	52.79	–	–	–	(40,545,000)	(40,545,000)	387,513,509	47.79
2. Shares without selling restrictions									
(1) Renminbi-denominated ordinary shares	162,941,491	20.09	–	–	–	40,545,000	40,545,000	203,486,491	25.09
(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 tradable shares without selling restrictions	382,841,491	47.21	–	–	–	40,545,000	40,545,000	423,386,491	52.21
3. Total shares	810,900,000	100.00	–	–	–	–	–	810,900,000	100.00

On 24 April 2008, among the shares of GPC held by the controlling shareholder of the Company, namely Guangzhou Pharmaceutical Holdings Limited (“GPHL”), 23,711,737 shares with selling restrictions became tradable shares. In addition, 4,030,000 shares, 3,321,263 shares, 7,707,800 shares, 284,200 shares and 1,490,000 shares of GPC held respectively by Guangzhou Xinjiao Rural Credit Cooperative (“Xinjiao Cooperative”), Guangzhou Xinfeng Rural Credit Cooperative (“Xinfeng Cooperative”), Guangzhou Beicheng Rural Credit Cooperative (“Beicheng Cooperative”), Guangzhou Baiyun Rural Credit Cooperative (“Baiyun Cooperative”), Guangzhou Huangshi Rural Credit Cooperative (“Huangshi Cooperative”), which were shares with selling restrictions, became tradable shares on the same day.

3.2 The top ten shareholders and the top ten shareholders holding shares without selling restrictions

Number of shareholders as at the end of the Reporting Period 39,098

The top ten shareholders

Name of shareholders	Nature of shares	Approximate percentage of the total share capital (%)	Number of shares held as at the end of the Reporting Period (share)	Changes in the number of shares held during the Reporting Period (share)	Number of shares with selling restrictions held (share)	Number of pledged or frozen shares (share)
GPHL	Domestic shares	48.14	390,333,391	2,964,737	342,201,509	Nil
HKSCC Nominees Limited	Foreign capital shares	27.07	219,493,299	(19,000)	Nil	Unknown
Beicheng Cooperative	Domestic shares	5.49	44,542,000	(2,128,000)	36,834,200	Nil
Bank of China – Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	Domestic shares	1.35	10,964,180	6,364,250	Nil	Unknown
Huangshi Cooperative	Domestic shares	1.05	8,524,000	(496,000)	7,120,000	Unknown
China Merchants Bank Co., Ltd. – China Everbright Pramerica Super stock-oriented Investment Fund	Domestic shares	0.91	7,397,117	(490,236)	Nil	Unknown
Agricultural Bank of China – Bank of Communications & Schroders Selective Equity Investment Fund	Domestic shares	0.57	4,609,670	4,609,670	Nil	Unknown
Xinjiao Cooperative	Domestic shares	0.40	3,276,750	(943,250)	Nil	Unknown
Agricultural Bank of China –Invesco Great Wall Resources Monopolies Equity Securities Investment Fund	Domestic shares	0.40	3,269,976	3,269,976	Nil	Unknown
Industrial Bank – Industrial Global Vision Stock-oriented Investment Fund	Domestic shares	0.40	3,259,182	3,259,182	Nil	Unknown

The top ten shareholders holding shares without selling restrictions

Name of shareholders	Number of shares without selling restrictions held (share)	Nature of shares
HKSCC Nominees Limited	219,493,299	Foreign capital shares
GPHL	48,131,882	Domestic shares
Bank of China – Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	10,964,180	Domestic shares
Beicheng Cooperative	7,707,800	Domestic shares
China Merchants Bank Co., Ltd. — China Everbright Pramerica Super Stock-oriented Investment Fund	7,397,117	Domestic shares
Agricultural Bank of China — Bank of Communications & Schroders Selective Equity Investment Fund	4,609,670	Domestic shares
Xinjiao Cooperative	3,276,750	Domestic shares
Agricultural Bank of China — Invesco Great Wall Resources Monopolies Equity Securities Investment Fund	3,269,976	Domestic shares
Industrial Bank — Industrial Global Vision Stock-oriented Investment Fund	3,259,182	Domestic shares
Boshi Value Growth Securities Investment Fund	2,999,839	Domestic shares

Explanation on the connection among the above shareholders

- (a) According to the information provided by HKSCC Nominees Limited, the foreign capital shares (H shares) under its name were held on behalf of a number of its clients.
- (b) Among the top ten shareholders of the Company, except for the shareholding investment rights of Beicheng Cooperative and Huangshi Cooperative in the Company belonged to Guangzhou Rural Credit Cooperative Union, the Company was not aware of any connection among other shareholders, or whether they were persons acting in concert as provided in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.
- (c) The Company is not aware of any connection among the above ten shareholders holding shares without selling restrictions, 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 Number of shares held by the top ten shareholders holding shares with selling restrictions and terms of the selling restrictions

Number	Name of shareholders holding shares with selling restrictions	Number of shares with selling restrictions held (share)	Listing and trading of shares with selling restrictions		Undertakings
			To be listed and trading date	Number of additional tradable shares (share)	
1	GPHL	342,201,509	24 April 2009	342,201,509	Note (a)
2	Beicheng Cooperative	36,834,200	24 April 2009	36,834,200	Note (b)
3	Baiyun Cooperative	1,357,800	24 April 2009	1,357,800	Note (b)
4	Huangshi Cooperative	7,120,000	24 April 2009	7,120,000	Note (b)

Notes:

- (a) The shares with selling restrictions held by GPHL shall not be listed and traded, nor transferred within 12 months from the date of implementation of the share reform plan. Upon the expiry of that 12 months period, the shares disposed of by GPHL (which are originally shares with selling restrictions) shall not exceed 5% and 10% of the total issued shares of the Company in the following 12 months and 24 months respectively.
- (b) The shares of the Company held by institutions including Beicheng Cooperative, Baiyun Cooperative and Huangshi Cooperative were originally shares with selling restrictions held by GPHL. The listing and trading dates of those are in accordance with that of GPHL.

3.4 Change of 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 A shares of the Company

Applicable Not applicable

4.2 Appointment and resignation of directors, supervisors and senior management of the Company during the Reporting Period

Applicable Not applicable

- (1) At the seventh meeting of the Fourth Session of the Board of the Company, a written resolution was passed on 30 June 2008 to accept the resignation of Mr. He Shuhua as Deputy General Manager of the Company.
- (2) At the eighth meeting of the Fourth Session of the Board of the Company, a written resolution was passed on 30 July 2008 to accept the resignation of Mr. He Shuhua as Secretary to the Board of the Company, and to appoint Mr. Pang Jianhui as Secretary to the Board of the Company, with a term of office commencing from the date of appointment up to the date when the members of the Fifth Session of the Board are elected.

5. REPORT OF THE BOARD OF DIRECTORS

(Unless otherwise stated, the financial data contained in this summary of 2008 interim report of the Company is extracted from the Group's accounts prepared in accordance with PRC Accounting Standards)

The Group is principally engaged in (1) the 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.

In the first half of 2008, the Group focused on controlling operating risks and improvement of operating quality, and proactively adjusted its operating strategies and marketing strategies according to changes in the market so as to lay a solid foundation for the Group's long-term development.

During the Reporting Period, in accordance with the PRC Accounting Standards, revenue from the Group's principal operations for the Reporting Period was approximately RMB4,779,552,000, representing a decrease of 22.82% over that of the same period of last year. The total profit was approximately RMB215,537,000, representing a decrease of 16.11% over that of the same period of last year. Net profit was approximately RMB166,623,000, representing an increase of 5.42% over that of last year.

According to HKFRS, the turnover of the Group for the Reporting Period was approximately RMB4,779,552,000, representing a decrease of 22.82% over that of the same period of last year. The profit before income tax was approximately RMB197,758,000, representing a decrease of 20.61% over that of the same period of last year. The profit attributable to equity holders of the Company was approximately RMB149,463,000, representing a decrease of 1.14% over that of the same period of last year.

A breakdown of the overall operating results and the results of each principal activity of the Group during the Reporting Period is set out as follows:

Items	The Reporting Period (RMB'000)	The corresponding period of 2007 (RMB'000)	Increase/ (Decrease) (YoY) (%)
Prepared in accordance with PRC Accounting Standards			
Revenue from principal operations	4,779,552	6,192,417	(22.82)
Include: Manufacturing	1,357,347	1,522,748	(10.86)
Trading	3,422,205	4,669,669	(26.71)
Operating profit	211,003	255,491	(17.41)
Include: Manufacturing	177,468	207,155	(14.33)
Trading	33,535	48,336	(30.62)
Total profit	215,537	256,943	(16.11)
Include: Manufacturing	182,057	206,636	(11.89)
Trading	33,480	50,307	(33.45)
Net profit	166,623	158,049	5.42
Include: Manufacturing	142,211	127,697	11.37
Trading	24,412	30,352	(19.57)
Prepared in accordance with HKFRS			
Turnover	4,779,552	6,192,417	(22.82)
Include: Manufacturing	1,357,347	1,522,748	(10.86)
Trading	3,422,205	4,669,669	(26.71)
Profit before income tax	197,758	249,108	(20.61)
Include: Manufacturing	165,941	185,570	(10.58)
Trading	31,817	63,538	(49.92)
Profit attributable to equity holders of the Company	149,463	151,191	(1.14)
Include: Manufacturing	127,335	107,267	18.71
Trading	22,128	43,924	(49.62)

5.1 An analysis of the Group's principal activities and major products is set out as follows:

5.1.1 Principal activities

	Revenue from principal operations		Costs of principal operations		Gross profit margin	
	Revenue from principal operations (RMB'000)	Increase/(decrease) over the same period of last year (%)	Cost of principal operations (RMB'000)	Increase/(decrease) over the same period of last year (%)	Gross profit margin (%)	Increase/(decrease) over the same period of last year (percentage point)
Principal activities:						
Under PRC Accounting Standards						
The Manufacturing Operations of						
Chinese Patent Medicine	1,357,347	(10.86)	675,618	(8.80)	50.23	(1.13)
Trading	3,422,205	(26.71)	3,234,892	(26.51)	5.47	(0.26)
Include: Wholesale	3,209,391	(26.47)	3,054,981	(26.22)	4.81	(0.32)
Retail	124,760	(29.30)	96,806	(30.74)	22.41	1.62
Import and export	88,054	(31.52)	83,105	(31.70)	5.62	0.24
Under HKFRS						
The Manufacturing Operations of						
Chinese Patent Medicine	1,357,347	(10.86)	675,618	(8.80)	50.23	(1.13)
Trading	3,422,205	(26.71)	3,234,892	(26.51)	5.47	(0.26)
Include: Wholesale	3,209,391	(26.47)	3,054,981	(26.22)	4.81	(0.32)
Retail	124,760	(29.30)	96,806	(30.74)	22.41	1.62
Import and export	88,054	(31.52)	83,105	(31.70)	5.62	0.24

5.1.2 Major products

Products	Revenue of principal operations		Costs of principal operations		Gross profit margin	
	Revenue from principal operations (RMB'000)	Increase/ (decrease) over the same period of last year (%)	Costs of principal operations (RMB'000)	Increase/ (decrease) over the same period of last year (%)	Gross profit margin (%)	Increase/ (decrease) over the same period of last year (percentage point)
Heat clearing and anti-toxic medicines	463,431	6.77	240,721	5.65	48.06	An increase of 0.55 percentage point
Including: herbal tea series (note)	332,224	8.99	180,616	4.87	45.63	An increase of 2.14 percentage points
Diabetic medicine	282,263	1.95	94,418	(1.04)	66.55	An increase of 1.01 percentage points
Cough and phlegm medicine	179,639	(1.30)	68,387	0.22	61.93	A decrease of 0.58 percentage point
Arthritic medicine	116,908	(27.79)	53,543	(21.97)	54.20	A decrease of 3.42 percentage points
Gastric medicine	42,177	(24.03)	22,041	(24.32)	47.74	An increase of 0.20 percentage point
Other products	272,929	(33.82)	196,508	(21.88)	28.00	A decrease of 11 percentage points

Note: Herbal tea series includes Wang Lao Ji Qing Liang Cha, Pan Gao Shou Liang Cha, Xing Qun Xia Sang Ju Yin Liao and Chen Li Ji Drinks, among which, sales revenue of Guangzhou Wanglaoji Pharmaceutical Company Limited ("Wang Lao Ji") Wang Lao Ji's products was calculated according to the Company's 48.0465% shareholding held.

The total amount of sales of products from the Group to GPLH together with its associates was RMB280,307,000 during the Reporting Period.

5.2 Geographical analysis of principal business

√ Applicable □ Not applicable

Region	Revenue from principal operations (RMB '000)	Change in revenue from principal operations as compared with the corresponding period of last year (%)
Southern China	3,795,753	(24.44)
Eastern China	384,134	(17.95)
Northern China	167,198	(4.12)
North-Eastern China	98,075	(23.26)
South-Western China	196,603	(20.74)
North-Western China	75,258	(15.05)
Exports	62,531	0.62
Total	<u>4,779,552</u>	<u>(22.82)</u>

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

During the Reporting Period, the revenue from principal operations of the Group’s manufacturing operations was RMB 1,357,347,000, a decrease of 10.86% compared with the same period of last year, mainly due to sales of some key products not as good as expected: growth in sales of Xiao Ke Wan was relatively flat while sales of Xia Sang Ju Ke Li and Hua Tuo Zai Zao Wan recorded decrease. In order to further expand the market and improve sales of products, the Group’s manufacturing operations expedited marketing innovation and adopted various measures: Firstly, we continuously enhanced market development in other provinces for the manufacturing operations, cooperated in implementation of the strategy of “Entering the West, Capturing the North, Developing the East”, and consolidated its market share, so as to vertically exploit the market in depth. Secondly, we actively sought for distributors and agents with market expansion capacity, establishing strategic and cooperative relationship with them in an effort to expand distribution channels, continuously increasing sales to end-users. Thirdly, we strengthened academic promotion and marketing efforts, to expand influence in hospital markets. Fourthly, we put more effort in corporate and brand building, so as to continuously increase the influence and image of our brands.

During the Reporting Period, we adhered to science and technology innovation, accelerating the work in technological R&D. Guangzhou Baidi Biological Pharmaceutical Co., Ltd. (“Guangzhou Baidi”), a subsidiary of the Company, was granted production approval for Rabies Bacterin, and its product workshop has passed the national GMP site inspection; Guangzhou Xing Qun Pharmaceutical Co., Ltd. (“Xing Qun”) was granted production approval for Diphenhydramine Hydrochloride Soft Capsule and successfully passed the inspection by Guangzhou Economic and Trading Committee on 30 January 2008; Guangzhou Zhong Yi Pharmaceutical Co., Ltd (“Zhong Yi”) was also granted clinical test approval for its category 5 new medicine named Mu Xiang Wei Tai Di Wan under research.

For the first half of 2008, there were 43 products which generated sales income exceeding RMB5 million. Sales of certain major products, including Wang Lao Ji Liang Cha, Guangdong Liang Cha Ke Li, Xiao Er Qi Xing Cha Chong Ji, Zhi Ke Chuan Bei Pi Pa Lu, Bao Ji Kou Fu Ye and Tian Huang Hou Zao San etc., significantly increased by 39.74%, 18.75%, 30.08%, 17.32%, 18.55%, and 44.58% respectively when compared with the corresponding period of last year.

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

During the Reporting Period, as to the trading operations, firstly we steadily promoted our joint venture operation and restructuring, enabling the enterprise to advance to a new stage. The joint venture project of Pharmaceuticals Corporation and Alliance BMP Limited (“Alliance BMP”) was completed at the beginning of the year and officially listed in February. Guangzhou Chinese Medicine Corporation was restructured to be a company with limited liabilities and renamed “Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.” (“Cai Zhi Lin”). Secondly, we actively sought for suppliers with good market expansion capacity to enlarge our distribution channels to boost the sales of our key distributing products. In the first half of the year, Pharmaceuticals Corporation strived to exploit new markets outside the Guangdong province, adhering to the strategy of product and sales diversifications, expediting the diversified operating model at the retail end, resulting in a 25% increase in sales of the top 100 products and maintaining a steady growth trend. Thirdly, We captured development opportunities to deepen the work of hospital bidding. Pharmaceuticals Corporation strengthened the communication with government authorities and kept close contact with hospitals, to enable strong growth of sales at hospitals. Meanwhile, we fought for cooperation with suppliers, receiving distribution authorizations for more products. Fourthly, we strengthened the collection of accounts receivable and increased the effectiveness of capital employment so as to minimize operation risks of enterprises.

As at 30 June 2008, the Group had 110 retail chain pharmacies, including 79 “Cai Zhi Lin” which specialized in traditional Chinese medicines, 28 “Jian Min” which specialized in chemical medicines, 1 pharmacy named Ying Bang and 2 other retail chain pharmacies.

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 (%)	Revenue from principal operations (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries				
Xing Qun	88.99	133,184	(11,319)	(8,700)
Zhong Yi	100.00	361,359	58,146	43,095
Guangzhou Chen Li Ji Pharmaceutical Factory	100.00	120,825	16,125	12,562
Guangzhou Qi Xing Pharmaceutical Co., Ltd	75.00	147,800	18,995	11,402
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd ("Jing Xiu Tang")	88.40	111,105	18,091	13,555
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd ("Pan Gao Shou")	87.77	167,758	30,461	22,353
Guangzhou Huan Ye Pharmaceutical Co., Ltd	100.00	27,924	838	838
Guangxi Ying Kang Pharmaceutical Co., Ltd	51.00	14,716	(81)	(81)
Guangzhou Bai Di	97.26	500	(5,732)	(5,732)
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd ("Guangzhou Han Fang")	96.93	9,886	(7,380)	(7,380)
Cai Zhi Lin Pharmaceutical	100.00	685,487	1,045	1,060
Guangzhou Pharmaceutical Import & Export Corporation	100.00	152,220	1,557	1,150
(2) Branch company				
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	—	297,819	2,103	1,578
(3) Joint ventures				
Wang Lao Ji (<i>note</i>)	48.05	691,207	133,171	114,624
Pharmaceuticals Corporation (<i>note</i>)	50.00	5,006,423	58,783	41,822

Note: The results of Wang Lao Ji and Pharmaceuticals Corporation were stated in full amount in the above table.

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 as compared with the same period of last year 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 last year

Applicable Not applicable

5.10 Explanation on significant changes in profit composition

Applicable Not applicable

5.11 Use of proceeds from issue of A shares

5.11.1 Use of proceeds from issue of A shares

Applicable Not applicable

Proceeds from the issuance of A shares of the Company have all been used up by 31 December 2007.

5.11.2 Change in projects

Applicable Not applicable

5.12 Revision on the Board's operation plans for the second half of 2008

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 last year

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 issue by the auditors for 2007

Applicable Not applicable

6. MAJOR EVENTS

6.1 Guarantees

Applicable Not applicable

Guarantees provided to parties other than the Company's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Performed or not	Guarantees for connected parties (Yes or No)
Pharmaceuticals Corporation	27 October 2007	17,677	Assured Guarantee	1 Year	–	Yes
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						–
Balance of guarantees as at the end of the Reporting Period (RMB'000)						17,677

The Company's guarantees provided to its subsidiaries

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)						38,120
Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)						149,360

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

Total amount of guarantees provided (RMB'000)						167,037
Total amount of guarantees provided to the net assets of the Company (%)						6.06
Include:						
Amount of guarantees provided to the Company's shareholders, controlling shareholder and other connected parties (RMB'000)						–
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)						95,117
Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)						–
Total amount of the above three types of guarantees (RMB'000)						95,117
Explanation on the joint and several liabilities of outstanding guarantees						Nil
Notes for guarantees						Nil

6.2 Non-operating funds to/from connected parties

Applicable Not applicable

6.3 Major litigation and arbitration

Applicable Not applicable

6.4 As at the end of the Reporting Period, the number of the Group's employees amounted to 7,842. The remuneration policy of the employees had no major changes as compared with the previous reporting period. The total remuneration of the Group's employees for the first half of 2008 was RMB202,000,000.

6.5 Liquidity, financial resources and capital structure

As at 30 June 2008, the current ratio of the Group was 1.85 (as at 30 June 2007: 1.50) and the quick ratio was 1.31 (as at 30 June 2007: 1.10). During the Reporting Period, annual turnover rate for accounts receivable was 9.83 times, representing an increase of 6.97% when compared with the corresponding period of last year, and annual inventory turnover rate was 7.25 times, representing a decrease of 10.57% when compared with the corresponding period of last year.

As at 30 June 2008, the cash and cash equivalents of the Group amounted to RMB611,454,000 (as at 30 June 2007: RMB634,492,000), of which approximately 99.78% is denominated in RMB and 0.22% is denominated in foreign currencies such as Hong Kong dollars.

As at 30 June 2008, the current liabilities of the Group amounted to RMB2,057,258,000, including short-term borrowings of RMB652,054,000 (as at 30 June 2007: RMB957,217,000).

6.6 Capital expenditure

The Group expected that capital expenditure for the year 2008 will be approximately RMB335 million and actual expenditure in the first half of 2008 amounted to RMB106,000,000 (2007: RMB115,000,000), which was mainly due to increased investment in GMP transformation project for strengthening the development of Zhong Yi.

6.7 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.

6.8 Contingent liabilities

As at 30 June 2008, the Group had no significant contingent liabilities.

6.9 Charge on the Group's assets

As at 30 June 2008, the net book value of fixed assets and intangible assets pledged as security for bank loans granted to the Group amounted to RMB51,326,000.

6.10 The Board does not recommend the payment of a dividend for the six months ended 30 June 2008 nor propose any increase in share capital from the capital reserve.

6.11 During the Reporting Period, the Company's purchase and disposal of assets (including subsidiaries or joint ventures) or business combination and other transactions.

6.11.1 Acquisition of assets

√ Applicable □ Not applicable

Transaction counterparts or ultimate controller	Assets acquired	Date of acquisition	Acquisition price (RMB '000)	Net profit	Net profit	Whether it was a connected transaction (If yes, explanation should be provided for the basis of pricing)	Whether the rights of the assets concerned were completely transferred	Whether all rights and obligations concerned were completely transferred
				accounting to the Company from the beginning of the Reporting Period to the end of the Reporting Period (applicable to acquisition and disposal of equity interest) (RMB '000)	accounting to the Company from the beginning of the Reporting Period to the end of the Reporting Period (applicable to combination of enterprises under the same controller) (RMB '000)			
GPHL, Anhui East China Traditional Chinese Medicine Engineering Group Co., Ltd and 5 natural persons	An aggregate shareholding of 26.04% in Guangzhou Han Fang	17 March 2008	23,299	–	–	Yes, with reference to assets valuation price and after negotiation	Yes	Yes

6.11.2 Disposal of assets

√ Applicable □ Not applicable

Transaction counterpart	Assets disposed	Date of disposal	Disposal price (RMB '000)	Net profit	Gain/Loss from disposal (RMB '000)	Whether it was a connected transaction (If yes, explanation should be provided for the basis of pricing)	Whether the rights of the assets concerned were completely transferred	Whether all rights and obligations concerned were completely transferred
				accounting to the Company from the beginning of the year of the disposal date (RMB '000)				
Alliance BMP	An aggregate 7.84% of equity interest in Phamaceuticals Corporation held by Jin Xiu Tang and Pan Gao Shou, subsidiaries of the Company	17 January 2008	47,420	–	9,140	No	Yes	Yes

6.11.3 Other transactions during the Reporting Period

Saved as disclosed above, other transactions during the Reporting Period included:

- (1) On 28 March 2008, the Company and GPLH entered into the Agreement in relation to the Sales and Purchase Connected Transactions for connected transactions in sales and purchase conducted in the ordinary course of business. The Agreement in relation to the Sales and Purchase Connected Transactions and transactions under the Agreement were approved at the Board meeting on 28 March 2008 and the 2007 annual general meeting on 29 May 2008.

Please refer to the announcement of the Company on Shanghai Securities News in the PRC published on 31 March 2008 for details.

- (2) On 28 March 2008, it was approved at the 5th Meeting of the Fourth Session of the Board to capitalise the borrowings by Guangzhou Hang Fang and Guangzhou Bai Di of RMB 35 million and RMB 48 million respectively from the Company (Please refer to the announcement of resolutions passed at the 5th Meeting of the Fourth Session of the Board dated 28 March 2008 for details). At present, the formalities in relation to the capitalization of borrowings by Guangzhou Hang Fang and Guangzhou Bai Di have been completed.

6.12 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.

6.13 Bank loans, overdraft and other loans

Up to 30 June 2008, short-term borrowings of the Group were RMB652,054,000 (31 December 2007: RMB956,488,000), a decrease by RMB304,434,000 as compared with those at the beginning of the Reporting Period.

6.14 Gearing ratio

Up to 30 June 2008, the Group's gearing ratio (total liabilities/total assets x 100%) was 40.13% (31 December 2007: 46.93%).

6.15 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 had complied with the requirements as set out in the Code during the Reporting Period and no material deviations from the Code occurred.

6.16 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 Appendix 10 of the Listing Rules and Measures for the Administration of Trading Shares of the Company by Directors, Supervisors and Senior Management as stipulated by the Company as the standards and criteria for securities transactions entered into by the 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 standards relating to directors’ and supervisors’ dealing in securities as set out in the above code and criteria during the Reporting Period.

6.17 The Audit Committee of the Fourth Session of the Board is comprised of four Independent Non-executive Directors, one of whom has appropriate professional qualification. The Audit Committee of the Company has reviewed the accounting policies, accounting standards and treatments adopted by the Group, and discussed with the management about the audit, internal controls and financial reporting matters. The Audit Committee has also reviewed the unaudited interim accounts for the six months ended 30 June 2008.

6.18 Explanation on other major events, their impact and solutions

6.18.1 Information on securities investment

Applicable Not applicable

No.	Stock Code	Stock name	Number of shares held as at the end of the Reporting Period (share)	Initial investment amount (RMB '000)	Book value as at the beginning of the Reporting Period (RMB '000)	Book value as at the end of the Reporting Period (RMB '000)	Accounting item
1	600038	Hafei Aviation Industry Co., Ltd.	57,810	1,806	1,806	881	Trading financial assets (Note (a))
2	600664	Harbin Pharmaceutical Group Co., Ltd.	222,546	3,705	3,705	2,488	Trading financial assets (Note (a))
3	601328	Bank of Communications	313,790	332	5,666	2,347	Financial assets available for sale (Note (b))
4	000963	Huadong Medicine Co., Ltd.	215,248	127	3,552	2,626	Financial assets available for sale (Note (b))

Note:

- (a) In August 2002, the Company acquired the treasury bond of RMB10 million with its working capital and deposited in the Company's securities account at Nanfang Security Co., Ltd. ("Nanfang Security"). At the end of 2004, the above treasury bond was confiscated due to the bankruptcy of Nanfang Security.

On 6 December 2007, the property distribution proposal for the first bankruptcy of Nanfang Security was passed at the 2nd meeting of creditors of Nanfang Security. The proposal has obtained approval from Guangdong Province Shenzhen Intermediate People's Court. On 24 December 2007, the Company received the above shares transferred through non-trading transfer method and RMB374,912.55 in cash from the liquidator team of Nanfang Security.

- (b) The shares of Bank of Communications and Huadong Medicine Co., Ltd. were being held by the subsidiaries of the Company. Those shares have been listed on the Shanghai Stock Exchange and were calculated as transfer of long term equity investment into available-for-sale financial assets according to New Accounting Standards.

6.18.2 Information on the Company's interests in other non-listed financial institutions

Applicable Not applicable

Name	Initial investment amount (RMB '000)	Number of shares held (share)	Percentage of shareholding (%)	Book value as at the end of the Reporting Period (RMB '000)
China Everbright Bank Company Limited	10,725	6,050,000	0.07	10,725
Golden Eagle Fund Management Co., Ltd.	20,000	—	20.00	16,603
Total	<u>30,725</u>	<u>—</u>	<u>—</u>	<u>27,328</u>

6.19 Explanation on other major issues

Applicable Not applicable

6.20 Undertakings of conditional shares by shareholders holding 5% or more interests in the Company in 2008

Applicable Not applicable

7. FINANCIAL REPORTS

7.1 Audit Opinion

Financial reports	unaudited
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7.2 The condensed consolidated data prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (Unaudited)

(All amounts in RMB thousands unless otherwise stated)

Condensed consolidated interim income statement

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2008	2007
			Restated
Revenue		4,779,552	6,192,417
Cost of goods sold		(3,910,501)	(5,142,735)
Gross profit		869,051	1,049,682
Other gains		101,011	28,763
Selling and marketing costs		(476,560)	(528,618)
Administrative expenses		(277,812)	(275,578)
Operating profit	7	215,690	274,249
Finance income		7,327	8,211
Finance costs		(25,646)	(33,345)
Share of post-tax profits/(losses) of associates		387	(7)
Profit before tax		197,758	249,108
Income tax expense	8	(41,613)	(88,025)
Profit for the period		156,145	161,083
Attributable to:			
– equity holders of the Company		149,463	151,191
– minority interest		6,682	9,892
		156,145	161,083
Earnings per share for profit attributable to equity holders of the Company (expressed in RMB per share)			
– basic and diluted		0.184	0.186
Dividends	9	–	–

Condensed consolidated interim balance sheet

As at

ASSETS	Note	30 June 2008 Unaudited	31 December 2007 Audited
Non-current assets			
Property, plant and equipment		1,430,593	1,451,847
Investment properties		101,832	76,389
Land use rights		109,980	122,187
Intangible assets		16,903	35,870
Investments in associates		28,505	28,118
Available-for-sale financial assets		16,508	20,775
Deferred income tax assets		71,165	53,662
Total non-current assets		<u>1,775,486</u>	<u>1,788,848</u>
Current assets			
Inventories		1,109,015	1,418,815
Trade and other receivables	4	2,014,257	2,401,495
Financial assets at fair value through profit or loss		3,369	5,511
Tax prepayments		19,932	–
Bank and cash balances		611,455	719,434
Restricted cash		64,110	33,740
Total current assets		<u>3,822,138</u>	<u>4,578,995</u>
Total assets		<u><u>5,597,624</u></u>	<u><u>6,367,843</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		1,592,034	1,592,034
Reserves		1,023,839	1,061,328
Retained earnings		597,963	514,659
		<u>3,213,836</u>	<u>3,168,021</u>
Minority interest		149,073	249,371
Total equity		<u>3,362,909</u>	<u>3,417,392</u>
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		39,300	36,228
Employee benefits		37,205	41,108
		<u>76,505</u>	<u>77,336</u>
Current liabilities			
Trade and other payables	5	1,424,898	1,912,128
Dividend payables		58,503	2,031
Current income tax liabilities		22,755	2,468
Borrowings	6	652,054	956,488
		<u>2,158,210</u>	<u>2,873,115</u>
Total liabilities		<u>2,234,715</u>	<u>2,950,451</u>
Total equity and liabilities		<u><u>5,597,624</u></u>	<u><u>6,367,843</u></u>
Net current assets		<u>1,663,928</u>	<u>1,705,880</u>
Total assets less current liabilities		<u><u>3,439,414</u></u>	<u><u>3,494,728</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. Basis of preparation

This condensed consolidated interim financial information for the half-year ended 30 June 2008 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

2. Accounting policies

There have been no changes in significant accounting policies which resulted in material financial impact on the financial statements as compared with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

- (a) The following interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions
HK(IFRIC)-Int 12	Service concession arrangements
HK(IFRIC)-Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

- (b) The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

HKFRS 8	Operating segments ¹
HKAS 23 (amendment)	Borrowing costs ¹
HKFRS 2 (amendment)	Share-based payment ¹
HKFRS 3 (amendment)	Business combinations and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures' ²
HKAS 1 (amendment)	Presentation of financial statements ¹
HKAS 32 (amendment)	Financial instruments and consequential amendments to HKAS 1, 'Presentation of financial statements' ¹
HK(IFRIC) – Int 13	Customer loyalty programmes ³

¹ Effective for accounting periods commencing on or after 1 January 2009

² Effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009

³ Effective for accounting periods commencing on or after 1 July 2008

3. Segment information

Primary reporting format – business segments

At 30 June 2008, 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 2008					Group
	Manufacturing	Wholesale	Retail	Import and export	Elimination	
Total gross segment revenue	1,466,429	3,480,136	124,890	114,284	(406,187)	4,779,552
Inter-segment revenue	(109,082)	(270,745)	(130)	(26,230)	406,187	–
Revenue-net	<u>1,357,347</u>	<u>3,209,391</u>	<u>124,760</u>	<u>88,054</u>	<u>–</u>	<u>4,779,552</u>
Segment results	227,752	43,401	3,090	2,482	(119,137)	157,588
Other gains						101,011
Corporate unallocated costs						<u>(42,909)</u>
Operating profit						215,690
Finance income						7,327
Finance costs						(25,646)
Share of post-tax profits of associates	387					<u>387</u>
Profit before tax						197,758
Income tax expense						<u>(41,613)</u>
Profit for the period						<u>156,145</u>

Six months ended 30 June 2007

	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	Restated	Restated	Restated	Restated	Restated	Restated
Total gross segment revenue	1,576,447	4,921,045	176,478	139,067	(620,620)	6,192,417
Inter-segment revenue	(53,699)	(556,418)	(25)	(10,478)	620,620	–
Revenue-net	<u>1,522,748</u>	<u>4,364,627</u>	<u>176,453</u>	<u>128,589</u>	<u>–</u>	<u>6,192,417</u>
Segment results	242,854	86,203	4,118	4,234	(59,987)	277,422
Corporate unallocated costs						<u>(3,173)</u>
Operating profit						274,249
Finance income						8,211
Finance costs						(33,345)
Share of losses of associates	(7)					(7)
Profit before tax						249,108
Income tax expense						<u>(88,025)</u>
Profit for the period						<u><u>161,083</u></u>

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

Six months ended 30 June 2008

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
Depreciation	46,141	4,021	1,678	84	1,325	53,249
Amortisation	12,611	3,295	62	52	486	16,506
Impairment losses	15,315	3,475	–	30	–	18,820
Reversal of impairment losses	<u>(203)</u>	<u>(27)</u>	<u>(170)</u>	<u>–</u>	<u>–</u>	<u>(400)</u>

Six months ended 30 June 2007

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
	Restated	Restated	Restated	Restated	Restated	Restated
Depreciation	48,392	8,414	1,097	91	1,676	59,670
Amortisation	5,229	2,787	46	15	104	8,181
Impairment losses	5,926	7,438	2	299	–	13,665
Reversal of impairment losses	<u>(813)</u>	<u>(3)</u>	<u>(163)</u>	<u>–</u>	<u>–</u>	<u>(979)</u>

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 2008 and capital expenditure for the six months then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
Assets	3,007,214	2,273,311	87,284	155,779	850,902	(805,371)	5,569,119
Associates	8,625	–	–	–	19,880	–	28,505
Total assets	<u>3,015,839</u>	<u>2,273,311</u>	<u>87,284</u>	<u>155,779</u>	<u>870,782</u>	<u>(805,371)</u>	<u>5,597,624</u>
Total liabilities	<u>927,565</u>	<u>1,819,676</u>	<u>56,535</u>	<u>133,906</u>	<u>102,404</u>	<u>(805,371)</u>	<u>2,234,715</u>
Capital expenditure	<u>100,657</u>	<u>2,783</u>	<u>675</u>	<u>8</u>	<u>219</u>	<u>–</u>	<u>104,342</u>

The segment assets and liabilities as at 31 December 2007 and capital expenditure for the six months ended 30 June 2007(restated) are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
Assets	2,743,264	3,349,140	161,609	120,207	751,346	(785,841)	6,339,725
Associates	9,224	–	–	–	18,894	–	28,118
Total assets	<u>2,752,488</u>	<u>3,349,140</u>	<u>161,609</u>	<u>120,207</u>	<u>770,240</u>	<u>(785,841)</u>	<u>6,367,843</u>
Total liabilities	<u>625,192</u>	<u>2,891,969</u>	<u>88,265</u>	<u>97,278</u>	<u>33,588</u>	<u>(785,841)</u>	<u>2,950,451</u>
Capital expenditure	<u>37,374</u>	<u>1,373</u>	<u>1,660</u>	<u>8</u>	<u>211</u>	<u>–</u>	<u>40,626</u>

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 six months. The ageing analysis of trade receivables (including amounts due from related parties of trading in nature) was as follows:

	As at	
	30 June 2008	31 December 2007
Within 3 months	1,091,627	1,422,386
3 months to 6 months	137,337	170,631
6 months to 1 year	55,994	45,964
Over 1 year	56,861	48,690
	1,341,819	1,687,671
Less: provision for trade receivables	(51,844)	(50,957)
Trade receivables-net	<u>1,289,975</u>	<u>1,636,714</u>

5. Trade and other payables

At 30 June 2008, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) was as follows:

	As at	
	30 June 2008	31 December 2007
Within 3 months	820,462	1,285,297
3 months to 6 months	36,318	204,796
6 months to 1 year	27,362	32,943
1 year to 2 years	10,378	20,543
Over 2 years	11,700	12,825
	<u>906,220</u>	<u>1,556,404</u>

6. Borrowings

	<u>As at</u>	
	<u>30 June 2008</u>	<u>31 December 2007</u>
Current	<u>652,054</u>	<u>956,488</u>

Movements in borrowings is analysed as follows:

Six months ended 30 June 2008

Opening amount 1 January 2008	956,488
Additions	481,653
Repayments of borrowings	(385,878)
Decrease arising from the dilution of interest in a subsidiary	(398,872)
Decrease resulting from the exchange rate differences	(1,337)

Closing amount as at 30 June 2008

652,054

Six months ended 30 June 2007

Opening amount as at 1 January 2007	888,199
Additions	504,634
Repayments of borrowings	(435,616)

Closing amount as at 30 June 2007

957,217

Interest expense on borrowings for the six months ended 30 June 2008 amounted to RMB16,182,000 (30 June 2007: RMB29,296,000).

The Group has the following undrawn borrowing facilities:

	<u>As at</u>	
	<u>30 June 2008</u>	<u>31 December 2007</u>
Floating rate:		
– expiring within one year	<u>13,221</u>	<u>20,673</u>

7. Operating profit

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

	Six months ended 30 June	
	2008	2007 Restated
<u>Credited to:</u>		
Dividends income from available-for-sale financial assets	–	1,366
Reversal of impairment charge relating to trade and other receivables	400	979
	<u>400</u>	<u>979</u>
<u>Charged to:</u>		
Impairment charge relating to trade and other receivables	18,816	13,655
Impairment charge relating to property, plant and equipment and intangible assets	–	2
Write-down of inventories to net realisable value	4	8
Depreciation and amortisation	69,755	67,851
Loss on disposal of property, plant and equipment	338	370
	<u>89,909</u>	<u>82,736</u>

8. Income tax expense

The PRC enterprise income tax has been provided at the principal rate of 25% (2007: 33%).

In 2007, the PRC enterprise income tax rates for a subsidiary qualified as foreign investment production enterprise and for a subsidiary qualified as “Advance Technology Enterprise” were 24% and 15% respectively. According to the Corporate Income Tax Law of the PRC effective 1 January 2008, the tax rates of all companies comprising the Group were increased to a uniform rate of 25%.

	Six months ended 30 June	
	2008	2007 Restated
Current income tax		
– PRC enterprise income tax	63,467	89,583
Deferred income tax	(21,854)	(1,558)
	<u>41,613</u>	<u>88,025</u>

9. Dividends

At a meeting held on 28 March 2008, the directors declared a final dividend of RMB 0.124 per share for the year ended 31 December 2007, which has been reflected as an appropriation of retained earnings for the six months ended 30 June 2008. Dividends amounting to RMB45,374,000 were paid in this period.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2008 (30 June 2007: 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 Significant changes in respect of consolidation scope of the Group during the Reporting Period

Applicable Not applicable

7.3.3 Notes to the non-standard unqualified auditors' report

Applicable Not applicable

**The Board of
Guangzhou Pharmaceutical Company Limited**

Guangzhou, the PRC, 28 August 2008

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Shi Shaobin and Mr. Feng Zansheng as Executive Directors, and Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua as Independent Non-executive Directors.