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# 廣州藥業股份有限公司

**Guangzhou Pharmaceutical Company Limited**

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

**(H Share Stock Code: 0874)**

## Summary of 2007 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 2007 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 2007 interim report carefully.
- 1.3 All Directors of the Board were present at the third meeting of the Fourth Session of the Board of the Company, among whom Mr Wong Hin Wing, an Independent Non-executive Director, attended the meeting by means of telephone communication.
- 1.4 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 2007 (the “Reporting Period”) are unaudited.
- 1.5 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.
- 1.6 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the condensed financial data 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 paragraphs 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           |   |
|                     | <b>Company secretary</b>                          | <b>Representative of securities affairs</b> |
| Name                | He Shuhua   | Huang Xuezheng                              |
| Address             | 45 Sha Mian North Street, Guangdong Province, PRC |   |
| Telephone           | (8620) 8121 8117                                  | (8620) 8121 8119                            |
| Fax                 | (8620) 8121 6408                                  |   |
| E-mail              | hesh@gpc.com.cn                                   | huangxz@gpc.com.cn                          |

### 2.2 Principal financial data and indicators

*(Note: In this interim report, the comparative figures of the corresponding period and the year-end figures of last year prepared in accordance with the PRC Accounting Standards have been adjusted and restated in accordance with the “Standard No.7 Regarding the Rules on Information Disclosure for Companies that Publicly Offer Securities – Compilation and Disclosure of Comparative Financial and Accounting Information During the Transition Period between the New and Old Accounting Standards”. The Group changed its accounting policy for jointly controlled entities from proportionate consolidation to equity method. The comparative figures of the corresponding period and the year-end figures of last year prepared in accordance with HKFRS in this interim report have been retrospectively adjusted for this change in accounting policy.)*

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

| Items                      | As at<br>30 June 2007<br>(Unaudited)<br>(RMB'000) | As at<br>31 December 2006<br>(Restated)<br>(RMB'000) | Changes<br>as compared with<br>31 December 2006<br>(%) |
|----------------------------|---|--|--|
| Total assets               | 6,134,317   | 5,453,284  | 12.49  |
| Shareholders' equity       | 2,880,047   | 2,790,365  | 3.21   |
| Net assets per share (RMB) | 3.55  | 3.44   | 3.21   |

| Items  | The Reporting Period<br>(Unaudited)<br>(RMB'000) | The corresponding period of 2006<br>(Restated)<br>(RMB'000) | Changes as compared with the corresponding period of 2006 (%) |
|--|--|---|---|
| Operating profit   | 251,622  | 199,478   | 26.14   |
| Total profit   | 253,093  | 199,214   | 27.05   |
| Net profit   | 157,798  | 137,644   | 14.64   |
| Net profit after deducting non-operating profit            | 154,807  | 135,506   | 14.24   |
| Earnings per share (basic) (RMB)                           | 0.195  | 0.170   | 14.64   |
| Earnings per share (diluted) (RMB)                         | 0.195  | 0.170   | 14.64   |
| Return on net assets (fully diluted) (%)                   | 5.48   | 5.11  | An increase of 0.37 percentage point                          |
| Return on net assets (weighted average) (%)                | 5.50   | 5.13  | An increase of 0.37 percentage point                          |
| Net cash inflows from operating activities                 | 117,516  | 34,447  | 241.15  |
| Net cash inflows from operating activities per share (RMB) | 0.14   | 0.04  | 241.15  |

### 2.2.2 Non-operating items

√ Applicable   □ Not applicable

| Items  | Amount (RMB'000) |
|--|------------------|
| Gain/ (Loss) on disposal of non-current assets         | 2,689            |
| Government subsidies recognized as gain/(loss)         | 1,920            |
| Income/(Loss) of entrusted loans                       | (561)            |
| Non-operating expenses after deducting the above items | 457              |
| Income tax effect                                      | (1,333)          |
| Effect on minority interests                           | (181)            |
| Total  | 2,991            |

### 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 2007<br>(Unaudited)<br>(RMB'000) | As at 31 December 2006<br>(Restated)<br>(RMB'000) | Changes as compared with 31 December 2006 (%) |
| Current assets   | 4,385,713                                      | 3,690,763   | 18.83   |
| Current liabilities  | 3,043,206                                      | 2,459,387   | 23.74   |
| Total assets   | 6,299,473                                      | 5,630,139   | 11.89   |
| Total liabilities  | 3,116,457                                      | 2,549,759   | 22.23   |
| Capital and reserves attributable to equity holders of the Company | 2,995,579                                      | 2,897,389   | 3.39  |
| Net assets per share (RMB)   | 3.69   | 3.57  | 3.39  |

| <b>Summary of results</b>                            |   |  |  |
|--|---|--|--|
| <b>Items</b>   | <b>The Reporting Period (Unaudited) (RMB'000)</b> | <b>The corresponding period of 2006 (Restated) (RMB'000)</b> | <b>Changes as compared with the corresponding period of 2006 (%)</b> |
| Profit before income tax                             | <b>245,510</b>                                    | 189,835  | 29.33  |
| Profit attributable to equity holders of the Company | <b>151,191</b>                                    | 128,848  | 17.34  |
| Earnings per share (RMB)                             | <b>0.186</b>                                      | 0.159  | 17.34  |

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

√ Applicable   □ Not applicable

|  | <b>As at 30 June 2007 (RMB'000) (Unaudited)</b> | <b>As at 31 December 2006 (RMB'000) (Restated)</b> |
|--|---|--|
| <b>Net assets under PRC Accounting Standards</b>   | <b>2,880,047</b>                                | 2,790,365  |
| Intangible assets capitalised  | <b>21,864</b>                                   | 27,006   |
| Difference arising from fixed assets revaluation   | <b>124,064</b>                                  | 126,547  |
| Deferred government grants generated prior to the adoption of the new PRC Accounting Standards in 2007 | <b>(3,057)</b>                                  | (3,279)  |
| The unrealized gains on transactions between the Group and jointly controlled entities                 | —   | (1,231)  |
| Provision for deferred tax liabilities arising from fixed assets revaluation                           | <b>(29,348)</b>                                 | (41,870)   |
| Impairment on goodwill   | —   | 1,729  |
| Revaluation of investment properties   | <b>16,516</b>                                   | 13,104   |
| Depreciation of investment properties  | <b>546</b>                                      | —  |
| Difference in minority interests   | <b>(15,053)</b>                                 | (14,982)   |
| <b>Capital and reserve attributable to equity holders of the Company under HKFRS</b>                   | <b>2,995,579</b>                                | 2,897,389  |

|   | <b>Unaudited Six months ended 30 June</b> |                                  |
|---|---|----------------------------------|
|   | <b>2007 (RMB'000)</b>                     | <b>2006 (RMB'000) (Restated)</b> |
| <b>Net profit under PRC Accounting Standards</b>  | <b>157,798</b>                            | 137,644                          |
| Amortisation of intangible assets   | <b>(5,142)</b>                            | (5,142)                          |
| Additional depreciation on revalued fixed assets  | <b>(2,483)</b>                            | (2,402)                          |
| Amortisation of government grants recognised as deferred income prior to the adoption of the new PRC Accounting Standards in 2007 | <b>222</b>                                | 220                              |
| The unrealized gains on transactions between the Group and jointly controlled entities  | <b>1,231</b>                              | (2,075)                          |
| Provision for deferred tax liabilities arising from fixed assets revaluation  | <b>819</b>                                | 326                              |
| Impairment on goodwill  | <b>(1,729)</b>                            | —                                |
| Depreciation of investment properties   | <b>546</b>                                | —                                |
| Unsettled long outstanding payables written off recognised as income  | —   | 250                              |
| Difference in minority interests  | <b>(71)</b>                               | 27                               |
| <b>Profit attributable to equity holders of the Company under HKFRS</b>   | <b>151,191</b>                            | 128,848                          |

### 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 subject to selling restrictions) (share) | Sub-total (share) | Number (share) | Percentage (%) |
| <b>I. Shares subject to selling restrictions</b>               | 489,600,000    | 60.38          | —                  | —                    | —                            | (61,541,491)  | (61,541,491)      | 428,058,509    | 52.79          |
| 1. State-owned shares  | —              | —              | —                  | —                    | —                            | —   | —                 | —              | —              |
| 2. Shares held by State-owned legal entities                   | —              | —              | —                  | —                    | —                            | —   | —                 | —              | —              |
| 3. Other domestic shares                                       |                |                |                    |                      |                              |   |                   |                |                |
| Include:   |                |                |                    |                      |                              |   |                   |                |                |
| Shares held by domestic legal entities                         | —              | —              | —                  | —                    | —                            | —   | —                 | —              | —              |
| Shares held by domestic natural persons                        | —              | —              | —                  | —                    | —                            | —   | —                 | —              | —              |
| 4. Shares held by foreign capital                              |                |                |                    |                      |                              |   |                   |                |                |
| Include:   |                |                |                    |                      |                              |   |                   |                |                |
| Shares held by overseas legal entities                         | —              | —              | —                  | —                    | —                            | —   | —                 | —              | —              |
| Shares held by overseas natural persons                        | —              | —              | —                  | —                    | —                            | —   | —                 | —              | —              |
| Total shares subject to selling restrictions                   | 489,600,000    | 60.38          | —                  | —                    | —                            | (61,541,491)  | (61,541,491)      | 428,058,509    | 52.79          |
| <b>II. Tradable Shares not subject to selling restrictions</b> |                |                |                    |                      |                              |   |                   |                |                |
| 1. Renminbi-denominated ordinary shares                        | 101,400,000    | 12.50          | —                  | —                    | —                            | 61,541,491  | 61,541,491        | 162,941,491    | 20.09          |
| 2. Domestically listed foreign shares                          | —              | —              | —                  | —                    | —                            | —   | —                 | —              | —              |
| 3. Overseas listed foreign shares                              | 219,900,000    | 27.12          | —                  | —                    | —                            | —   | —                 | 219,900,000    | 27.12          |
| 4. Others  | —              | —              | —                  | —                    | —                            | —   | —                 | —              | —              |
| Total tradable shares not subject to selling restrictions      | 321,300,000    | 39.62          | —                  | —                    | —                            | 61,541,491  | 61,541,491        | 382,841,491    | 47.21          |
| <b>III. Total shares</b>                                       | 810,900,000    | 100            | —                  | —                    | —                            | —   | —                 | 810,900,000    | 100            |

#### Approval of the above changes of shares:

- (1) On 12 April 2006, the relevant shareholders' meeting of A share market of the Company approved the share reform plan, pursuant to which the holders of tradable A shares would be offered 3 shares for every 10 A shares held.
- (2) Pursuant to the undertakings in the share reform, as at 24 April 2007, among the shares of the Company held by the the Company's controlling shareholder, namely Guangzhou Pharmaceutical Holdings Limited ("GPHL"), 40,545,000 shares originally subject to selling restrictions (accounting for 5% of total shares of GPC) were listed. 20,996,491 shares of the Company held by another shareholder, China Great Wall Asset Management Corporation ("Great Wall Corporation"), originally subject to selling restrictions, were listed on the same day.

#### 3.2 The top ten shareholders and the top ten shareholders holding shares not subject to selling restrictions

| <b>Number of shareholders as at the end of the Reporting Period</b>                | 29,616   |  |   |  |   |
|--|--|--|---|--|---|
| <b>The top ten shareholders</b>  |  |  |   |  |   |
| <b>Shareholders</b>  | <b>Nature of shares</b>  | <b>% of total issued share capital (%)</b> | <b>No. of shares held as at the end of the Reporting Period (share)</b> | <b>Number of shares held not subject to selling restrictions (share)</b> | <b>Number of pledged or frozen shares (share)</b> |
| GPHL   | Domestic shares  | 49.76                                      | 403,493,509   | 362,948,509  | 37,850,000  |
| HKSCC Nominees Limited   | Foreign capital shares   | 26.97                                      | 218,702,299   | Nil  | Unknown   |
| Guangzhou Beicheng Rural Credit Cooperative  | Domestic shares  | 5.70                                       | 46,670,000  | 46,670,000   | Unknown   |
| Great Wall Corporation   | Domestic shares  | 2.59                                       | 20,996,491  | Nil  | Unknown   |
| Guangzhou Huangshi Rural Credit Cooperative  | Domestic shares  | 1.11                                       | 9,020,000   | 9,020,000  | Unknown   |
| Industrial Bank – Lombarda China New Trends Equity Fund (LOF)                      | Domestic shares  | 0.74                                       | 6,002,454   | Nil  | Unknown   |
| ICBC - Nanfang Listed Open-ended Fund  | Domestic shares  | 0.62                                       | 5,000,000   | Nil  | Unknown   |
| Guangzhou Xinjiao Rural Credit Cooperative   | Domestic shares  | 0.52                                       | 4,220,000   | 4,220,000  | Unknown   |
| Guangzhou Xinfeng Rural Credit Cooperative   | Domestic shares  | 0.43                                       | 3,480,000   | 3,480,000  | Unknown   |
| ICBC- E Fund Value Growth Balanced Securities Investment Fund                      | Domestic shares  | 0.35                                       | 2,866,997   | Nil  | Unknown   |
| <b>The top ten shareholders holding shares not subject to selling restrictions</b> |  |  |   |  |   |
| <b>Shareholders</b>  | <b>No. of shares held not subject to selling restrictions (share)</b>  |  | <b>Nature of shares</b>   |  |   |
| HKSCC Nominees Limited   | 218,702,299  |  | Foreign capital shares  |  |   |
| GPHL   | 40,545,000   |  | Domestic shares   |  |   |
| Great Wall Corporation   | 20,996,491   |  | Domestic shares   |  |   |
| Industrial Bank – Lombarda China New Trends Equity Fund (LOF)                      | 6,002,454  |  | Domestic shares   |  |   |
| ICBC -Nanfang Listed Open-ended Fund   | 5,000,000  |  | Domestic shares   |  |   |
| ICBC -E Fund Value Growth Balanced Securities Investment Fund                      | 2,866,997  |  | Domestic shares   |  |   |
| Bank of China –E Fund Steady Growth Securities Investment Fund                     | 2,300,000  |  | Domestic shares   |  |   |
| Meng Xiang Tong  | 1,115,900  |  | Domestic shares   |  |   |
| National Social Security Fund 109 Group  | 1,034,508  |  | Domestic shares   |  |   |
| Industrial Bank – Equity Fund (LOF)  | 999,940  |  | Domestic shares   |  |   |
| <b>Explanation on the connection among the above shareholders</b>                  | <p>① According to the information provided by HKSCC Nominees Limited, the foreign capital shares (H shares) held by it were held on behalf of several clients.</p> <p>② 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”</p> |  |   |  |   |

### 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 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 first extraordinary general meeting of 2007 held on 2 April 2007, Mr. Shi Shaobin was elected as a director of the Third Session of the Board of the Company, with a term from the date of his appointment to the date when members of the Fourth session of the Board were elected.
- (2) At the 2006 annual general meeting held on 15 June 2007, Mr. Yang Rongming, Mr. Shi Shaobin and Mr. Feng Zansheng were elected as executive directors of the Fourth Session of the Board of the Company; Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua were elected as independent non-executive directors of the Fourth Session of the Board of the Company; Ms. Yang Xiuwei and Mr. Zhong Yugan were elected as supervisors representing the shareholders of the Fourth Session of the Supervisory Committee of the Company; and Mr. Wu Quan was elected as the supervisor representing the staff of the Fourth Session of the Supervisory Committee of the Company. The aforesaid directors and supervisors have been appointed for a term commencing from the date of appointment to the date when members of the new session of the Board and the Supervisory Committee are elected.

Mr. Chen Zhinong, Mr. Wu Zhang and Mr. Zhang Heyong, members of the Third Session of the Board, ceased to be directors of the Company on 15 June 2007, and Mr. Chen Canying and Mr. Ouyang Qiang, members of the Third Session of the Supervisory Committee of the Company, ceased to be supervisors of the Company on the same day.

- (3) At the first meeting of the Fourth Session of the Board of the Company held on 15 June 2007, Mr. Yang Rongming was elected as the Chairman of the Company, with a term of office commencing from the date of his appointment up to the date when members of the new session of the Board are elected.
- (4) At the first meeting of the Fourth Session of the Board of the Company held on 15 June 2007, Mr. Shi Shaobin was appointed as the General Manager of the Company; Mr. He Shuhua was appointed as the Deputy General Manager and Secretary to the Board of the Company; Mr. Su Guangfeng was appointed as the Deputy General Manager of the Company; and Mr. Chen Binhua was appointed as the Financial Controller of the Company, each with a term of office commencing from the date of appointment up to the date when the members of the new session of the Board are elected.
- (5) At the first meeting of the Fourth Session of the Supervisory Committee of the

Company held on 15 June 2007, Ms. Yang Xiuwei was elected as the Chairman of the Fourth Session of the Supervisory Committee of the Company, with a term of office commencing from the date of her appointment up to the date when the members of the new session of the Supervisory Committee are elected.

## 5. REPORT OF THE BOARD OF DIRECTORS

*(Unless otherwise stated, the financial data contained in this report 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.

During the Reporting Period, the Group focused on production operations, while enhancing foundation management, and strived to expand its business and speed up the works in technology R&D and resources integration, which in turn maintained a rapid and steady growth of the operating results of the Group.

In accordance with PRC Accounting Standards, revenue from principal operations of the Group for the Reporting Period was approximately RMB5,987,481,000, representing an increase of 17.36% over that of the same period of last year. The profit before tax was approximately RMB253,093,000, representing an increase of 27.05% over that of the same period of last year. The net profit was approximately RMB157,798,000, representing an increase of 14.64% over that of the same period of last year. According to HKFRS, the turnover of the Group for the Reporting Period was approximately RMB5,987,481,000, representing an increase of 17.36% over that of the same period of last year. The profit before income tax was approximately RMB245,510,000, representing an increase of 29.33% over that of the same period of last year. The profit attributable to equity holders of the Company was approximately RMB151,191,000, representing an increase of 17.34% 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:

| <i>Prepared in accordance with PRC Accounting Standards</i> |                                   |  |                                       |
|---|-----------------------------------|--|---------------------------------------|
| Items   | The Reporting Period<br>(RMB'000) | The corresponding period of last year<br>(RMB'000) | Growth/<br>(Decrease)<br>(YoY)<br>(%) |
| <b>Revenue from principal operations</b>                    | 5,987,481                         | 5,101,873  | 17.36                                 |
| Include: Manufacturing                                      | 1,275,785                         | 1,105,826  | 15.37                                 |
| Trading   | 4,711,696                         | 3,996,047  | 17.91                                 |
| <b>Profit before tax</b>                                    | 253,093                           | 199,214  | 27.05                                 |
| Include: Manufacturing                                      | 202,889                           | 161,136  | 25.91                                 |
| Trading   | 50,204                            | 38,078   | 31.84                                 |



|   |           |           |       |
|---|-----------|-----------|-------|
| <b>Net profit</b>   | 157,798   | 137,644   | 14.64 |
| Include: Manufacturing                                      | 127,514   | 112,650   | 13.19 |
| Trading   | 30,284    | 24,994    | 21.17 |
| <b>Prepared in accordance with HKFRS</b>                    |           |           |       |
| <b>Turnover</b>   | 5,987,481 | 5,101,873 | 17.36 |
| Include: Manufacturing                                      | 1,275,785 | 1,105,826 | 15.37 |
| Trading   | 4,711,696 | 3,996,047 | 17.91 |
| <b>Profit before income tax</b>                             | 245,510   | 189,835   | 29.33 |
| Include: Manufacturing                                      | 182,075   | 141,795   | 28.41 |
| Trading   | 63,435    | 48,040    | 32.05 |
| <b>Profit attributable to equity holders of the Company</b> | 151,191   | 128,848   | 17.34 |
| Include: Manufacturing                                      | 107,336   | 93,414    | 14.90 |
| Trading   | 43,855    | 35,434    | 23.77 |

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

| <b>Principal activities</b>                     | <b>Revenue from principal operations (RMB'000)</b>  | <b>Costs of principal operations (RMB'000)</b> | <b>Profit margin of principal operations (%)</b> | <b>Change in revenue from principal operations as compared with the corresponding period of last year (%)</b> | <b>Change in costs from principal operations as compared with the corresponding period of last year (%)</b> | <b>Change in profit from principal operations as compared with the corresponding period of last year (percentage point)</b> |
|---|---|--|--|---|---|---|
| Manufacturing and sales                         | 1,275,785   | 620,441  | 50.18  | 15.37   | 16.79   | (1.13)  |
| Trading   | 4,711,696   | 4,444,073                                      | 5.58   | 17.91   | 18.70   | (10.10)   |
| Include: Wholesale                              | 4,406,399   | 4,182,377                                      | 5.00   | 19.50   | 20.07   | (8.26)  |
| Retail  | 176,453   | 139,767  | 20.32  | (3.60)  | (2.46)  | (4.25)  |
| Import and export                               | 128,844   | 121,929  | 5.21   | 2.44  | 3.86  | (20.36)   |
| <b>Total</b>                                    | <b>5,987,481</b>  | <b>5,064,514</b>                               | <b>15.09</b>                                     | <b>17.36</b>  | <b>18.46</b>  | <b>(4.92)</b>   |
| Include: connected transactions                 | 155,383   | 146,806  | 5.19   | 5.89  | 6.95  | (15.23)   |
|   |   |  |  |   |   |   |
| <b>Products</b>                                 | <b>Revenue from principal operations (RMB'000)</b>  | <b>Costs of principal operations (RMB'000)</b> | <b>Profit margin of principal operations (%)</b> | <b>Change In revenue from principal operations as compared with the corresponding period of last year (%)</b> | <b>Change In costs from principal operations as compared with the corresponding period of last year (%)</b> | <b>Change In profit from principal operations as compared with the corresponding period of last year (percentage point)</b> |
| Heat clearing and antitoxic medicine            | 213,001   | 115,309  | 44.68  | 2.03  | 4.50  | (2.74)  |
| Diabetic medicine                               | 276,855   | 95,414   | 64.35  | 21.26   | 31.82   | (4.09)  |
| Cough and phlegm clearing medicine              | 178,855   | 80,509   | 53.80  | 11.36   | 17.18   | (3.96)  |
| Arthritic medicine                              | 161,895   | 68,616   | 56.43  | 10.21   | 14.53   | (2.73)  |
| Gastric medicine                                | 38,546  | 19,360   | 48.59  | —   | 19.33   | (14.32)   |
| Other products                                  | 406,633   | 241,233  | 39.49  | 26.00   | 18.43   | 10.67   |
| Include: connected transactions                 | 1,966   | 1,618  | 16.51  | (14.34)   | 0.34  | (42.14)   |
| The pricing principle of connected transactions | The sale and purchase transactions with the Group and its connected parties were conducted at the terms similar to those transactions with other third parties. The prices were decided on arm's length after considering the relevant government pricing and market development. |  |  |   |   |   |

|   |  |
|---|--|
| Explanation on the necessity and continuity of connected transactions | The Company's subsidiary, Guangzhou Pharmaceutical Import & Export Corporation ("Pharmaceutical Import & Export Corporation"), is mainly engaged in the import and export of pharmaceutical products, raw materials and medical apparatus and purchased raw materials and pharmaceutical products on behalf of entities including connected parties. Other trading subsidiaries of the Company, mainly engaged in the trading of pharmaceutical products, purchased /sold pharmaceutical products from/to connected parties. The above constituted the necessity and continuity of connected transactions. |
|---|--|

*Note: In accordance with the new PRC Accounting Standards, equity method has been used for interests in jointly controlled entities of the Company since the year 2007. Therefore, the revenue from principal operations of the Group and its Manufacturing Operations for the Reporting Period did not include that of Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd ("Wang Lao Ji"), and the comparative figures of the corresponding period have been retrospectively adjusted accordingly.*

The total amount of sales of products from the Group to GPLH together with its subsidiaries and their respective associates was RMB155,383,000 during the Reporting Period.

## 5.2 Geographical analysis of principal business

Applicable   Not applicable

| <b>Region</b>       | <b>Revenue from principal operations (RMB'000)</b> | <b>Change in revenue from principal operations as compared with the corresponding period of last year (%)</b> |
|---------------------|--|---|
| Southern China      | 4,915,370  | 19.26   |
| Eastern China       | 400,825  | 15.86   |
| Northern China      | 164,936  | (6.53)  |
| North-Eastern China | 126,157  | 11.84   |
| South-Western China | 232,923  | 11.53   |
| North-Western China | 85,125   | 13.47   |
| Exports             | 62,145   | 1.20  |
| <b>Total</b>        | <b>5,987,481</b>                                   | <b>17.36</b>  |

## 5.3 Chinese Patent Medicine Manufacturing (the "Manufacturing Operations")

During the Reporting Period, the Group continued its marketing work for its core products such as Wang Lao Ji herb tea, Xing Qun An Shen Bu Nao Ye, Zhong Yi Xiao Ke Wan and Qi Xing Hua Tuo Zai Zao Wan, and timely adjusted its marketing strategies according to the market changes. Distribution channels and retail networks of hospitals were also actively expanded. Secondly, the Group also enhanced its strategic cooperation with the major customers throughout China to timely obtain the data of its clients' purchases, sales, inventory and selling prices. The Group actively maintained and stabilized the retail prices of its core products so as to promote its distributors' confidence and initiatives. Thirdly, the Group put more efforts and resources in the research and development and commercial production of new products. During the Reporting Period, the Group actively followed up the application for production approval for Rabies Bacterin and clinical study of HBV-DNA vaccines. Fourthly, the Group reinforced the internal foundation management to enhance the quality of its corporate management. In 2007, a fundamental management working team was established and professional consultants were engaged to commence research projects and process analysis and improvement. According to the Enterprise Internal Control Standards

issued by the Ministry of Finance, the Group commenced the preparation of its internal control manual. In addition, various effective measures such as improvement of operation processes, standardization of enterprise business operations, implementation of accountability system and enhancement of review of efficiency were implemented to enhance the business efficiency and minimize the business risks.

For the first half of 2007, there were 36 products which generated sales income exceeding RMB5 million. Sales of certain major products, including Xiao Ke Wan, Xia Sang Ju Ke Li, An Shen Bu Nao Ye, Hua Zhi Shuan, Qing Re Xiao Yan Ning Jiao Nang, Qian Lie Tong Pian, and Ke Chuan Shun Wan, etc., significantly increased by 21.26%, 8.85%, 64.98%, 12.95%, 26.76%, 47.20% and 211.44% respectively when compared with the corresponding period of last year.

During the Reporting Period, the rate of expenses of the Manufacturing Operations was 37.19%, a decrease by 2.87 percentage points over that of the corresponding period of last year, mainly due to the fact that during the Reporting Period the Group made greater marketing efforts for the sales to increase sales income and strengthened foundation management to control costs and expenditure strictly.

#### **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 following the deepening of health care reform, medicine circulation system reform by the State and changes in the pharmaceutical market. Firstly, the Group’s trading companies actively cooperated with its manufacturing accompanies and suppliers regarding the Guangdong Provincial Medicine Internet Bidding Purchases. Guangzhou Pharmaceuticals Corporation (“Pharmaceuticals Corporation”), a subsidiary, consolidated the information channels for interactive information exchanges between drug manufacturers and hospitals’ professionals, which ensured successful bidding by the Group’s subordinate enterprises, which also helped lay a solid foundation for our exploration of the hospital markets. Secondly, resource integration was accelerated. In the first half of 2007, Guangzhou Chinese Medicine Corporation (“Chinese Medicine Corporation”) enhanced the collection and analysis of market information of Chinese raw medicines. It initiated pilot projects of on-site purchases and manufacturing at major medicine production places. With this, purchases, immediate processing and storage were conducted right at the production places so that the whole process could be streamlined and thus costs could be effectively controlled. Thirdly, fixed assets were revitalized. Besides, the Group centralized the leasing activities of the the Company and its subordinate enterprises so as to increase the revenues from the intensive resources.

As at 30 June 2007, the Group had 118 retail chain pharmacies, including 88 “Cai Zhi Lin” which specialized in traditional Chinese medicines, 27 “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 (%) | Sales (RMB'000) | Profit (RMB'000) | Net profit (RMB'000) |
|---|---|-----------------|------------------|----------------------|
| <b>(1) Subsidiaries</b>   |   |                 |                  |                      |
| Guangzhou Xing Qun Pharmaceutical Co., Ltd  | 88.99                                   | 209,494         | 25,458           | 16,401               |
| Guangzhou Zhong Yi Pharmaceutical Co., Ltd (“Zhong Yi”)   | 100.00                                  | 379,971         | 82,661           | 52,351               |
| Guangzhou Chen Li Ji Pharmaceutical Factory   | 100.00                                  | 127,139         | 20,027           | 13,681               |
| Guangzhou Qi Xing Pharmaceutical Co., Ltd   | 75.00                                   | 207,538         | 36,754           | 27,664               |
| Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd (“Jing Xiu Tang”)                               | 88.40                                   | 123,680         | 25,498           | 17,304               |
| Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd (“Pan Gao Shou”)                                 | 87.77                                   | 167,245         | 15,350           | 6,786                |
| Guangzhou Huan Ye Pharmaceutical Co., Ltd (“Guangzhou Huan Ye”)                                 | 100.00                                  | 17,491          | (1,609)          | (1,454)              |
| Guangxi Ying Kang Pharmaceutical Co., Ltd   | 51.00                                   | 13,183          | (657)            | (657)                |
| Guangzhou Bai Di Bio-technology Co., Ltd  | 95.69                                   | 302             | (4,596)          | (4,596)              |
| Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd (“Guangzhou Han Fang”) | 70.04                                   | 5,522           | (7,014)          | (7,014)              |
| Pharmaceuticals Corporation   | 90.09                                   | 4,252,987       | 50,175           | 32,592               |
| Chinese Medicine Corporation  | 100.00                                  | 659,585         | 3,304            | 3,262                |
| Pharmaceutical Import & Export Corporation  | 100.00                                  | 169,128         | 1,919            | 1,088                |
| <b>(2) Branch company</b>   |   |                 |                  |                      |
| Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited                            | —                                       | 202,467         | 2,392            | 2,392                |
| <b>(3) Joint venture</b>  |   |                 |                  |                      |
| Wang Lao Ji (note)  | Approximately 48.05                     | 528,174         | 60,195           | 52,937               |

Note: During the Reporting Period, Wang Lao Ji, a joint venture of the Company, achieved significant operating growth when compared with the same period of last year, and delivered positive operating results. During the period from January 2007 to June 2007,

Wang Lao Ji achieved sales revenue of RMB528,174,000, increased by 59.49% when compared with the same period of last year. The gross profit was RMB 60,195,000, increased by 50.48% when compared with that of the same period of last year. The net profit was RMB52,937,000, increased by 32.34% when compared with the same period of last year. During the Reporting Period, products such as Wang Lao Ji herb tea, Bao Ji Kou Fu Ye, Xiao Er Qi Xing Cha Chong Ji and Guang Dong Liang Cha Ke Li increased significantly and their sales revenue increased by 105.21%, 28.52%, 28.44% and 18.84% respectively when compared with the same period of last year.

**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 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

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 supplementary corporate working capital. As at 30 June 2007, the actual capital utilized was RMB703,350,000, leaving a capital of RMB34,640,000 unutilized. Save as the projects set out in the following table, other projects were completed for investment as scheduled.

| Category | Name of Projects | Budgeted injection under the offering plan (RMB'000) | Accumulated amount injected as at the end of the Reporting Period (RMB'000) | Stages of completion (%) |
|----------|------------------|--|---|--------------------------|
|          |                  |  |   |                          |

|  |  |        |        |     |
|--|--|--------|--------|-----|
| <b>Pills</b>                           | Industrialization of Wei Re Qing                         | 29,000 | 26,010 | 100 |
|  | Technology upgrade of throat, spleen and intestine pills | 29,100 | 28,600 | 100 |
| <b>Tablets</b>                         | Industrialization of Fu Yan Xiao Soluble Tablets         | 29,500 | 24,090 | 100 |
| <b>Sales network expansion project</b> | Expansion of “Cai Zhi Lin” chained pharmacies            | 59,500 | 34,220 | 80  |

#### 5.11.2 Change in projects

Applicable  Not applicable

#### 5.12 Revision on the Board’s operation plans for the second half of 2007

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 handing of the issued by the auditors for 2006

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 | Executed or not | Guarantees for connected parties (yes or no) |
| Nil   | —                             | —                         | —                  | —                  | —               | —  |
| Accumulated amount of guarantees provided during the Reporting Period (RMB’000)                               |                               |                           |                    | 108,930            |                 |  |
| Balance of guarantees as at the end of the Reporting Period (RMB’000)   |                               |                           |                    | 473,010            |                 |  |
| The Company’s guarantes provided to its subsidiaries  |                               |                           |                    |                    |                 |  |
| Accumulated amount of guarantees provided to the Company’s subsidiaries during the Reporting Period (RMB’000) |                               |                           |                    | 108,930            |                 |  |
| Balance of guarantees provided to the Company’s subsidiaries as at the end of the Reporting Period (RMB’000)  |                               |                           |                    | 473,010            |                 |  |

| <b>The Company's guarantess (including those provided to its subsidiaries)</b>  |         |
|---|---------|
| Total amount of guarantees provided (RMB'000)   | 473,010 |
| Total amount of guarantees provided to the net assets of the Company (%)  | 16.42   |
| <b>The Company's irregular guarantess</b>   |         |
| Amount of guarantees provided to the Company's controlling shareholder and other connected parties the Company has a shareholding under 50% (RMB'000) | —       |
| Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)   | —       |
| Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)  | —       |
| Total (RMB'000)   | —       |

## 6.2 Non-operational funds to/from connected parties

Applicable Not applicable

## 6.3 Major litigation and arbitration

Applicable Not applicable

**6.4 As at 30 June 2007, the number of the Group's employees amounted to 7,999. 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 2007 was RMB218,000,000.**

## 6.5 Liquidity, financial resource and capital structure

As at 30 June 2007, the current ratio of the Group was 1.47 (as at 30 June 2006: 1.48) and the quick ratio was 1.08 (as at 30 June 2006: 1.01). During the Reporting Period, annual turnover rate for accounts receivable was 8.89 times, representing a decrease of 9.55% when compared with the corresponding period of last year, and annual inventory turnover rate was 8.21 times, representing an increase of 5.10% when compared with the corresponding period of last year.

As at 30 June 2007, the cash and cash equivalents of the Group amounted to RMB525,037,000 (as at 30 June 2006: RMB526,839,000), of which approximately 97.06% is denominated in RMB and 2.94% is denominated in foreign currencies such as Hong Kong dollars.

As at 30 June 2007, the current liabilities of the Group amounted to RMB2,969,843,000, including short-term borrowings of RMB971,631,000 (as at 30 June 2006: RMB841,449,000).

## 6.6 Capital expenditure

The Group expected that capital expenditure for the year 2007 will be approximately RMB227 million (2006: RMB102 million) and actual expenditure in the first half of 2007 amounted to RMB39,159,000 (the first half of 2006: RMB47,680,000), which was mainly utilized for constructing plants infrastructures and purchasing machinery and equipment. The

Group has sufficient financial resources to meet the demand for capital expenditure and daily working capital requirements.

#### **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**

Up to 30 June 2007, the Group has no significant contingent liabilities.

#### **6.9 Charge on Group assets**

As at 30 June 2007, the net book value of fixed assets pledged as security for bank loans granted to the Group amounted to RMB53,634,000.

#### **6.10 The Board does not recommend the payment of a dividend for the six months ended 30 June 2007 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**

- (1) Pursuant to the Equity Transfer Agreement entered into among the Company, GPLH, Anhui Huadong Chinese Medical Engineering Corporation Limited and five natural persons including Ms. Liu Ju Yan on 10 January 2007, a 26.04% equity interest in aggregate held by GPLH, Anhui Huadong Chinese Medical Engineering Corporation Limited and the above five natural persons in Guangzhou Hanfang was transferred to the Company.

On the same day, Guangzhou Hanfang entered into a merger Agreement (the "Agreement") with Guangzhou Huanye, a wholly-owned subsidiary of the Company. Pursuant to the Agreement, the parties agreed to the merger of Guangzhou Hanfang and Guangzhou Huanye through the injection of all the businesses, assets and liabilities of Guangzhou Huanye into Guangzhou Hanfang. Upon completion of the merger, Guangzhou Hanfang would be maintained with the dissolution of Guangzhou Huanye. Pursuant to the relevant requirements of Listing Rules on HKEx, the transfer of equity of Guangzhou Hanfang held by GPLH and five natural persons including Ms. Liu Ju Yan and the merger between Guangzhou Hanfang and Guangzhou Huanye constituted connected transactions of the Company. The Company considered the above connected transactions at the 29th Meeting of the Third Session of the Board on 10 January 2007. Currently, the procedures of approval in relation to the above transactions are under way.

Please refer to the published version of the announcement of the Company on Shanghai Securities News in the PRC, The Hong Kong Economic Times and Standard in Hong Kong, the PRC on 11 January 2007.



- (2) The Company agreed to transfer 10% of the equity interest in China National Medicines Corporation Ltd. held by the Company at the First Investment Management Committee Meeting on 12 January 2007. The procedures of the above transfer of equity interest was completed in May 2007.
- (3) On 17 January 2007, the Company purchased Sui Kang Mansion from Pharmaceuticals Corporation, a subsidiary of the Company, in consideration of RMB41,116,178. The relevant procedures in relation to the above transfer were completed on 29 March 2007.
- (4) On 27 January 2007, Contract for the Transfer of Capital Contribution of Guangzhou Pharmaceuticals Corporation was entered into between Jing Xiu Tang and Pan Gao Shou, both of which are subsidiaries of the Company, and 33 individuals and Alliance BMP Limited (“Alliance BMP”). On the same day, the Company and Alliance BMP entered into Capital Increase Contract for Guangzhou Pharmaceuticals Corporation, JV Contract and the Articles of Association of Guangzhou Pharmaceuticals Corporation (revised and restated). The Board of the Company considered the equity transfer and capital increase (the “Transactions”) at the 30th meeting of the Third Session of the Board on 26 January 2007. The Transactions were submitted at the First EGM for 2007 and the First Class Meetings of the holders of overseas listed foreign capital shares and the holders of domestic shares for 2007 and was passed. Currently, the relevant procedures of the Transactions are under way.

Please refer to the published version of the announcement of the Company in Shanghai Securities News in the PRC on 29 January 2007, and The Hong Kong Economic Times and Standard in Hong Kong, the PRC on 31 January 2007.

- (5) The Company resolved at the Second Investment Management Committee Meeting for 2007 on 27 June 2007, to agree the capital injection of RMB 135 million to Zhong Yi by installments as the construction funds for GMP II.

#### **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 2007, short-term borrowings of the Group were RMB971,631,000 (31 December 2006: RMB902,613,000), a decrease by RMB69,018,000 as compared with those at the beginning of the Reporting Period.

#### **6.14 Gearing ratio**

Up to 30 June 2007, the Group’s gearing ratio (total liabilities/total assets x 100%) was 50.24% (31 December 2006: 45.78%).

### **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 the 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 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 2007.**

### **6.18 Explanation on other major events, their impact and solutions**

Applicable Not applicable

#### **6.19.1 Information in the Company’s interests in shares of other listed companies and securities investment**

Applicable Not applicable

#### **6.19.2 Information in the Company’s interests in non-listed financial institutions or companies intending to go public**

Applicable Not applicable

- (1) In November 2001, the Company subscribed shares in China Everbright Bank by means of cash and currently holds 6,050,000 shares thereof.
- (2) On 16 September 2002, the Company injected RMB20 million into Golden Eagle Fund Management Co., Ltd., and currently holds 20% equity interest therein.

#### **6.19.3 Explanation on other major issues**

Applicable Not applicable

## 7. FINANCIAL REPORTS

### 7.1 Audit Opinion

Financial reports

|                   |           |
|-------------------|-----------|
| Financial reports | Unaudited |
|-------------------|-----------|

### 7.2 Financial reports prepared in accordance with PRC Accounting Standards

#### The balance sheet (as at 30 June 2007)

| Items   | The Group               |                          | The Company             |                          |
|---|-------------------------|--------------------------|-------------------------|--------------------------|
|   | Ending balance<br>(RMB) | Opening balance<br>(RMB) | Ending balance<br>(RMB) | Opening balance<br>(RMB) |
| <b>Current assets:</b>                              |                         |                          |                         |                          |
| Cash  | 525,037,338.09          | 409,140,480.58           | 139,321,131.22          | 64,731,299.07            |
| Tradable financial assets                           | —                       | —                        | —                       | —                        |
| Notes receivable                                    | 622,355,238.75          | 360,596,332.50           | 8,673,344.84            | 241,335.00               |
| Accounts receivable                                 | 1,797,114,849.98        | 1,355,139,306.87         | 45,933,925.38           | 25,967,163.20            |
| Advance   | 203,669,517.97          | 178,945,779.56           | 5,670,558.80            | 5,168,611.88             |
| Interests receivable                                | —                       | —                        | —                       | —                        |
| Dividends receivable                                | —                       | —                        | 137,794,917.41          | 10,000,000.00            |
| Other Receivables                                   | 55,807,117.04           | 79,899,815.63            | 250,840,698.28          | 207,336,888.90           |
| Inventory   | 1,173,336,004.08        | 1,293,427,853.20         | 13,683,392.11           | 9,973,596.57             |
| Prepaid expenses                                    | 1,680,753.45            | 1,097,316.82             | —                       | —                        |
| Long-term debt investments maturing within one year | —                       | —                        | —                       | —                        |
| Other currents assets                               | —                       | —                        | —                       | —                        |
| <b>Total current assets</b>                         | <b>4,379,000,819.36</b> | <b>3,678,246,885.16</b>  | <b>601,917,968.04</b>   | <b>323,418,894.62</b>    |
| <b>Non-current assets:</b>                          |                         |                          |                         |                          |
| Financial assets available for sale                 | —                       | —                        | —                       | —                        |
| Entrusted loans                                     | —                       | —                        | 387,000,000.00          | 424,000,000.00           |
| Long-term receivables                               | —                       | —                        | —                       | —                        |
| Long-term equity investment                         | 246,921,011.62          | 250,749,548.32           | 1,941,603,714.03        | 2,115,745,679.39         |
| Investment properties                               | 55,120,035.40           | 18,024,508.33            | 42,160,826.91           | —                        |
| Fixed assets  | 1,101,734,597.06        | 1,179,534,615.39         | 20,389,250.30           | 21,832,069.61            |
| Construction in progress                            | 146,752,224.88          | 122,965,858.16           | —                       | —                        |
| Construction supplies                               | —                       | —                        | —                       | —                        |
| Fixed assets pending for disposal                   | —                       | —                        | —                       | —                        |
| Intangible assets                                   | 130,809,401.49          | 129,853,965.20           | 5,866.66                | —                        |
| R & D expenditure                                   | 942,154.29              | —                        | —                       | —                        |
| Goodwill  | —                       | —                        | —                       | —                        |
| Long-term prepaid expenses                          | 7,659,751.84            | 9,444,392.52             | —                       | —                        |
| Deferred income tax assets                          | 65,377,009.97           | 64,464,217.05            | 4,015,738.38            | 4,686,573.92             |
| Other non-current assets                            | —                       | —                        | —                       | —                        |
| <b>Total non-current assets</b>                     | <b>1,755,316,186.55</b> | <b>1,775,037,104.97</b>  | <b>2,395,175,396.28</b> | <b>2,566,264,322.92</b>  |
| <b>Total assets</b>                                 | <b>6,134,317,005.91</b> | <b>5,453,283,990.13</b>  | <b>2,997,093,364.32</b> | <b>2,889,683,217.54</b>  |
| <b>Current liabilities:</b>                         |                         |                          |                         |                          |
| Short-term borrowings                               | 971,630,606.41          | 902,613,019.88           | 60,000,000.00           | 30,000,000.00            |
| Tradable financial liabilities                      | —                       | —                        | —                       | —                        |
| Notes payable                                       | 207,871,245.22          | 206,700,018.28           | —                       | —                        |
| Accounts payable                                    | 1,240,110,564.32        | 857,051,584.29           | 50,182,258.03           | 22,722,272.99            |

|   |                         |                         |                         |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| Advances from customers                                 | 44,616,374.00           | 45,144,596.25           | 4,777,679.10            | 2,862,266.76            |
| Accrued payroll   | 148,453,267.39          | 100,733,742.37          | 4,477,525.49            | 5,206,578.77            |
| Taxes payable   | 73,922,466.19           | 38,455,564.18           | (143,016.08)            | 6,159,032.14            |
| Interests payable                                       | —                       | —                       | —                       | —                       |
| Dividends payable                                       | 54,027,776.22           | 1,510,243.64            | 51,157,577.73           | 1,484,371.93            |
| Other payables  | 176,294,595.12          | 213,174,707.09          | 50,166,986.17           | 7,270,561.95            |
| Accrued expenses  | 52,915,622.70           | 12,795,907.43           | 3,483,295.31            | 2,438,473.04            |
| Portion of long-term liabilities due within one year    | —                       | —                       | —                       | —                       |
| Other current liabilities                               | —                       | —                       | —                       | —                       |
| <b>Total current liabilities</b>                        | <b>2,969,842,517.57</b> | <b>2,378,179,383.41</b> | <b>224,102,305.75</b>   | <b>78,143,557.58</b>    |
| <b>Non-current liabilities:</b>                         |                         |                         |                         |                         |
| Long-term loans   | —                       | —                       | —                       | —                       |
| Debentures payable                                      | —                       | —                       | —                       | —                       |
| Payables after one year                                 | 4,414,518.20            | 4,414,518.20            | —                       | —                       |
| Government grants payable                               | 2,978,594.09            | 2,790,585.00            | —                       | —                       |
| Deferred income   | 50,812,531.90           | 52,616,085.77           | —                       | —                       |
| Projected liabilities                                   | 53,632,481.51           | 58,474,772.61           | 198,178.78              | 212,476.55              |
| Deferred income tax liabilities                         | —                       | —                       | —                       | —                       |
| Other non-current liabilities                           | —                       | —                       | —                       | —                       |
| <b>Total non-current liabilities</b>                    | <b>111,838,125.70</b>   | <b>118,295,961.58</b>   | <b>198,178.78</b>       | <b>212,476.55</b>       |
| <b>Total liabilities</b>                                | <b>3,081,680,643.27</b> | <b>2,496,475,344.99</b> | <b>224,300,484.53</b>   | <b>78,356,034.13</b>    |
| <b>Shareholders' equity :</b>                           |                         |                         |                         |                         |
| Share capital   | 810,900,000.00          | 810,900,000.00          | 810,900,000.00          | 810,900,000.00          |
| Capital surplus   | 1,153,220,469.96        | 1,153,220,469.96        | 1,152,269,928.36        | 1,152,269,928.36        |
| Less : treasury stock                                   | —                       | —                       | —                       | —                       |
| Surplus reserve   | 598,894,474.49          | 627,556,994.39          | 203,680,909.61          | 203,680,909.61          |
| Retained profit   | 317,031,660.56          | 198,687,121.75          | 605,942,041.82          | 644,476,345.44          |
| Difference in foreign currency (consolidated )          | —                       | —                       | —                       | —                       |
| <b>Shareholders' equity attributable to the Company</b> | <b>2,880,046,605.01</b> | <b>2,790,364,586.10</b> | <b>2,772,792,879.79</b> | <b>2,811,327,183.41</b> |
| Minority interests                                      | 172,589,757.63          | 166,444,059.04          | —                       | —                       |
| <b>Total shareholders' equity</b>                       | <b>3,052,636,362.64</b> | <b>2,956,808,645.14</b> | <b>2,772,792,879.79</b> | <b>2,811,327,183.41</b> |
| <b>Total liabilities and shareholders' equity</b>       | <b>6,134,317,005.91</b> | <b>5,453,283,990.13</b> | <b>2,997,093,364.32</b> | <b>2,889,683,217.54</b> |

## Income statement

| Items                                     | The Group                     |   | The Company                   |   |
|---|-------------------------------|---|-------------------------------|---|
|   | The Reporting Period<br>(RMB) | The corresponding period of 2006<br>(RMB) | The Reporting Period<br>(RMB) | The corresponding period of 2006<br>(RMB) |
| 1. Operating income                       | 6,015,702,969.15              | 5,133,001,146.84                          | 206,487,133.79                | 160,863,923.76                            |
| Include: Income from principal operations | 5,987,481,285.80              | 5,101,872,609.67                          | 202,466,731.62                | 151,854,707.47                            |
| 2. Operating costs                        | 5,067,671,922.22              | 4,276,551,662.41                          | 193,037,075.50                | 145,459,532.49                            |
| Include: Costs of sales                   | 5,064,513,641.19              | 4,275,125,338.61                          | 192,813,379.41                | 145,459,532.49                            |
| Taxes and levies                          | 19,749,740.61                 | 17,325,480.67                             | 398,895.74                    | 473,060.13                                |
| Operating expenses                        | 425,845,873.89                | 376,958,789.46                            | 4,876,517.99                  | 2,986,585.34                              |
| General and                               | 240,174,060.51                | 253,782,135.14                            | 15,280,778.38                 | 13,395,758.93                             |

|  |                       |                       |                      |                       |
|--|-----------------------|-----------------------|----------------------|-----------------------|
| administrative expenses  |                       |                       |                      |                       |
| Finance costs  | 25,915,072.80         | 22,687,539.22         | 35,399.52            | (91,927.28)           |
| Loss from assets Impairment                                    | 12,686,319.18         | 13,325,202.39         | 215,239.87           | 378,400.55            |
| Add : Gains from changes in fair value                         | —                     | —                     | —                    | —                     |
| Investment income  | 27,961,731.01         | 27,108,016.79         | 38,066,026.35        | 158,711,042.72        |
| Include: Investment income from associates and a joint venture | 25,428,092.14         | 17,325,248.48         | 25,832,976.80        | 18,322,821.60         |
| 3. Operating profit  | 251,621,710.95        | 199,478,354.34        | 30,709,253.14        | 156,973,556.32        |
| Add: Non-operating income                                      | 4,402,794.78          | 3,288,719.56          | 49,722.09            | 9,870.43              |
| Less: Non-operating expenses                                   | 2,931,749.98          | 3,552,745.65          | 2,644.31             | 17,463.85             |
| Include: Loss from disposal of non-current assets              | 412,156.20            | 281,274.91            | —                    | —                     |
| <b>4. Total profit</b>   | <b>253,092,755.75</b> | <b>199,214,328.25</b> | <b>30,756,330.92</b> | <b>156,965,962.90</b> |
| Less: Income tax   | 85,072,169.77         | 53,479,706.14         | 1,175,034.54         | (616,613.46)          |
| 5. Net profit  | 168,020,585.98        | 145,734,622.11        | 29,581,296.38        | 157,582,576.36        |
| Net profit attributable to the Company                         | 157,797,618.94        | 137,643,526.78        | —                    | —                     |
| Minority interest  | 10,222,967.04         | 8,091,095.33          | —                    | —                     |
| 6. Earnings per share:   |                       |                       |                      |                       |
| (1) Earnings per share (basic)                                 | 0.195                 | 0.170                 | 0.036                | 0.194                 |
| (2) Earnings per share (diluted)                               | 0.195                 | 0.170                 | 0.036                | 0.194                 |

## Cash Flow Statement

| Items  | The Group                   |                             | The Company                 |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | As at 30 June 2007<br>(RMB) | As at 30 June 2006<br>(RMB) | As at 30 June 2007<br>(RMB) | As at 30 June 2006<br>(RMB) |
| 1. Cash flows from operating activities:                 |                             |                             |                             |                             |
| Cash received from sales of goods or rendering services  | 6,268,887,123.34            | 5,404,056,001.95            | 139,992,724.99              | 139,494,849.39              |
| Refund of tax and levies                                 | 7,468,765.78                | 3,925,251.89                | 240,048.38                  | —                           |
| Other cash received relating to operating activities     | 36,222,145.11               | 49,870,497.49               | 7,216,083.56                | 9,825,372.21                |
| Sub-total of cash inflows                                | 6,312,578,034.23            | 5,457,851,751.33            | 147,448,856.93              | 149,320,221.60              |
| Cash paid for goods or services                          | 5,248,851,460.55            | 4,441,777,923.78            | 132,262,660.67              | 137,953,339.10              |
| Cash paid to and on behalf of employees                  | 278,888,121.30              | 278,651,874.50              | 5,605,432.29                | 4,691,399.48                |
| Payments of all types of taxes                           | 289,865,873.69              | 262,260,581.59              | 9,737,659.91                | 3,422,882.65                |
| Other cash paid relating to operating activities         | 377,456,356.38              | 440,713,984.85              | 13,620,784.31               | 18,094,682.18               |
| Sub-total of cash outflows                               | 6,195,061,811.92            | 5,423,404,364.72            | 161,226,537.18              | 164,162,303.41              |
| Net cash flows from operating activities                 | 117,516,222.31              | 34,447,386.61               | (13,777,680.25)             | (14,842,081.81)             |
| 2. Cash flows from investing activities:                 |                             |                             |                             |                             |
| Cash received from disposal of investments               | 8,180,269.21                | 46,076,935.66               | 8,000,000.00                | 44,676,935.66               |
| Cash received from investment income                     | 24,174,688.65               | 31,829,807.34               | 67,276,224.75               | 134,316,334.60              |
| Cash received from disposal of interests in subsidiaries | —                           | —                           | —                           | —                           |

|   |                 |                 |                |                 |
|---|-----------------|-----------------|----------------|-----------------|
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | 89,159.89       | 3,916,477.57    | —              | —               |
| Cash received from other investing activities   | —               | 6,599,854.48    | 147,697,212.28 | 58,860,634.39   |
| Sub-total of cash inflows   | 32,444,117.75   | 88,423,075.05   | 222,973,437.03 | 237,853,904.65  |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets               | 42,333,143.36   | 35,548,450.10   | 1,497,785.00   | 1,017,720.57    |
| Cash paid to acquire investments  | —               | 14,500,000.00   | —              | —               |
| Net cash flows from the subsidiary payments   |                 |                 |                |                 |
| Other cash paid relating to investing activities  | 559,402.66      | 551,804.15      | 144,143,007.52 | 128,026,699.87  |
| Sub-total of cash outflows  | 42,892,546.02   | 50,600,254.25   | 145,640,792.52 | 129,044,420.44  |
| Net cash flows from investing activities  | (10,448,428.27) | 37,822,820.80   | 77,332,644.51  | 108,809,484.21  |
| 3. Cash flows from financing activities:  |                 |                 |                |                 |
| Cash received from capital contributions  | —               | —               | —              | —               |
| Include: cash received from capital contributions from minority shareholders by subsidiaries  | —               | —               | —              | —               |
| Cash received from borrowings   | 444,906,320.23  | 158,000,000.00  | 30,000,000.00  | 30,000,000.00   |
| Cash received from other financing activities   | 82,844,593.55   | 160,365,295.28  | —              | —               |
| Sub-total of cash inflows from financing activities   | 527,750,913.78  | 318,365,295.28  | 30,000,000.00  | 30,000,000.00   |
| Cash repayments of amounts borrowed   | 363,510,521.62  | 211,000,000.00  | —              | 40,000,000.00   |
| Cash payments for distribution of dividends, profit or interest expenses                      | 41,385,175.34   | 26,956,464.46   | 18,965,132.11  | 1,853,147.20    |
| Include: cash payments for distribution of dividends to minority shareholders by subsidiaries | 956,296.22      | 4,162,477.84    | —              | —               |
| Other cash payments relating to financing activities  | 114,026,153.35  | 150,651,540.67  | —              | —               |
| Sub-total of cash outflows from financing activities  | 518,921,850.31  | 388,608,005.13  | 18,965,132.11  | 41,853,147.20   |
| Net cash flows from financing activities  | 8,829,063.47    | (70,242,709.85) | 11,034,867.89  | (11,853,147.20) |
| 4. Effect of foreign exchange rate changes on cash  | —               | 126,729.73      | —              | 126,729.73      |
| 5. Net increase in cash and cash equivalents  | 115,896,857.51  | 2,154,227.29    | 74,589,832.15  | 82,240,984.93   |
| Add: cash and cash equivalents as at the beginning of the Reporting Period                    | 409,140,480.58  | 524,685,192.72  | 64,731,299.07  | 90,102,690.07   |
| 6. Cash and cash equivalents as at the end of the Reporting Period                            | 525,037,338.09  | 526,839,420.01  | 139,321,131.22 | 172,343,675.00  |
| Supplemental information  |                 |                 |                |                 |
| (1) Reconciliation of profit to cash flows from/(to) operating activities:                    |                 |                 |                |                 |
| Net profit  | 168,020,585.98  | 145,734,622.11  | 29,581,296.38  | 157,582,576.36  |
| Add: Provision for asset impairment   | 12,686,319.18   | 13,325,202.39   | 215,239.87     | 378,400.55      |
| Depreciation of fixed assets  | 52,896,579.52   | 54,527,921.34   | 1,921,139.59   | 1,798,179.52    |
| Amortization of intangible assets   | 2,797,471.11    | 2,318,073.59    | 533.34         | —               |
| Amortization of long-term expenses  | 2,515,694.61    | 3,945,986.40    | —              | 347,437.84      |
| Decrease in prepaid expenses (less: increase)   | (583,436.63)    | 793,167.76      | —              | (4,105,739.66)  |
| Increase in accrued expenses (less: decrease)   | 40,119,715.27   | 19,818,020.25   | 1,044,822.27   | 423,976.00      |
| Losses on disposal of fixed assets, intangible assets and other long-term assets              | 405,856.93      | 738,788.37      | —              | (161.22)        |

|   |                  |                  |                 |                 |
|---|------------------|------------------|-----------------|-----------------|
| Losses on scrapping of fixed assets   | 194,881.89       | 17,974.08        | —               | 15,889.73       |
| Losses from changes in fair value   | —                | —                | —               | —               |
| Finance costs   | 24,263,845.18    | 21,621,452.71    | 768,960.00      | 622,851.77      |
| Losses on investment  | (27,961,731.01)  | (27,108,016.79)  | (38,066,026.35) | 158,711,042.72  |
| Decrease in deferred income tax assets  | (912,792.92)     | 9,955,143.37     | 670,835.54      | (616,613.46)    |
| Increase in deferred income tax liabilities   | —                | —                | —               | —               |
| Decrease in inventories   | 121,370,149.41   | 65,769,025.67    | (3,709,795.54)  | (6,058,107.81)  |
| Decrease in operating receivables   | (704,334,848.41) | (579,431,772.90) | (28,548,981.23) | (42,822,724.40) |
| Increase in operating payables  | 426,037,932.20   | 302,421,798.26   | 22,344,295.88   | 36,302,995.69   |
| Others  | —                | —                | —               | —               |
| Net cash flows from operating activities  | 117,516,222.31   | 34,447,386.61    | (13,777,680.25) | (14,842,081.81) |
| (2) Investing and financing activities that don't involve in cash receipts or payments: |                  |                  |                 |                 |
| Conversion of debt into capital   | —                | —                | —               | —               |
| Convertible bonds due within one year   | —                | —                | —               | —               |
| Fixed assets acquired under finance leases  | —                | —                | —               | —               |
| (3) Net increase/(decrease) in cash and cash equivalents                                | —                | —                | —               | —               |
| Cash at the end of the Reporting Period   | 525,037,338.09   | 526,839,420.01   | 139,321,131.22  | 172,343,675.00  |
| Less: Cash at the beginning of the Reporting Period                                     | 409,140,480.58   | 524,685,192.72   | 64,731,299.07   | 90,102,690.07   |
| Add: Cash equivalents at the end of the Reporting Period                                | —                | —                | —               | —               |
| Less: Cash equivalents at the beginning of the Reporting Period                         | —                | —                | —               | —               |
| Net increase/(decrease) in cash and cash equivalents                                    | 115,896,857.51   | 2,154,227.29     | 74,589,832.15   | 82,240,984.93   |

## Changes in the Group's shareholders' equity

| Items  | The Reporting Period                             |                  |                       |                 |                      |                |                    |                            |
|--|--|------------------|-----------------------|-----------------|----------------------|----------------|--------------------|----------------------------|
|  | Shareholders' equity attributable to the Company |                  |                       |                 |                      |                | Minority interests | Total shareholders' equity |
|  | Share capital                                    | Capital surplus  | Less: treasury stocks | Surplus reserve | Geneal risks reserve | Retaind profit |                    |                            |
| (RMB)  | (RMB)  | (RMB)            | (RMB)                 | (RMB)           | (RMB)                | (RMB)          | (RMB)              |                            |
| 1. Balance as at the end of last year  | 810,900,000.00                                   | 1,153,220,469.96 | —                     | 627,556,994.39  | —                    | 198,687,121.75 | 166,444,059.04     | 2,956,808,645.14           |
| Add: change in accounting policy   | —  | —                | —                     | —               | —                    | —              | —                  | —                          |
| Error correction of the previous reporting period  | —  | —                | —                     | —               | —                    | —              | —                  | —                          |
| 2. Opening balance of the Reporting Period   | 810,900,000.00                                   | 1,153,220,469.96 | —                     | 627,556,994.39  | —                    | 198,687,121.75 | 166,444,059.04     | 2,956,808,645.14           |
| 3. Changes during the Reporting Period (Loss was inserted with “-” sign)                     | —  | —                | —                     | (28,662,519.90) | —                    | 118,344,538.81 | 6,145,698.59       | 95,827,717.50              |
| (1) net profit   | —  | —                | —                     | —               | —                    | 157,797,618.94 | 10,222,967.04      | 168,020,585.98             |
| (2) gain/loss recognised as shareholders' equity directly                                    | —  | —                | —                     | —               | —                    | —              | 1,040,722.15       | 1,040,722.15               |
| A. change in fair value of tradable financial assets (net)                                   | —  | —                | —                     | —               | —                    | —              | —                  | —                          |
| B. effect of changes in other shareholders' equity of invested companies under equity method | —  | —                | —                     | —               | —                    | —              | —                  | —                          |
| C. effect of income tax relating to items recognized in shareholders' equity                 | —  | —                | —                     | —               | —                    | —              | —                  | —                          |
| D. Others  | —  | —                | —                     | —               | —                    | —              | 1,040,722.15       | 1,040,722.15               |
| Sub-total of items 1 and 2 mentioned above   | —  | —                | —                     | —               | —                    | 157,797,618.94 | 11,263,689.19      | 169,061,308.13             |
| (3) Contributions by shareholders and decrease in capital                                    | —  | —                | —                     | —               | —                    | —              | —                  | —                          |
| A. Contributions by shareholders   | —  | —                | —                     | —               | —                    | —              | —                  | —                          |
| B. Payment for shares recognised as shareholders' equity                                     | —  | —                | —                     | —               | —                    | —              | —                  | —                          |
| C. others  | —  | —                | —                     | —               | —                    | —              | —                  | —                          |



|  |                |                  |   |                 |   |                |                |                  |
|--|----------------|------------------|---|-----------------|---|----------------|----------------|------------------|
| (4) Profit distribution  | —              | —                | — | —               | — | 68,115,600.00  | 5,117,990.60   | 73,233,590.60    |
| A. surplus reserve   | —              | —                | — | —               | — | —              | —              | —                |
| B. general risks reserve   | —              | —                | — | —               | — | —              | —              | —                |
| C. distribution to shareholders                                    | —              | —                | — | —               | — | 68,115,600.00  | 5,117,990.60   | 73,233,590.60    |
| D. others  | —              | —                | — | —               | — | —              | —              | —                |
| (5) breakdown of shareholders' equity                              | —              | —                | — | (28,662,519.90) | — | 28,662,519.90  | —              | —                |
| A. increase in capital (or share capital) from the capital reserve | —              | —                | — | —               | — | —              | —              | —                |
| B. increase in capital (or share capital) from the surplus reserve | —              | —                | — | —               | — | —              | —              | —                |
| C. loss offset by surplus reserves                                 | —              | —                | — | —               | — | —              | —              | —                |
| D. others  | —              | —                | — | (28,662,519.90) | — | 28,662,519.90  | —              | —                |
| 4. Balance as at the end of the Reporting Period                   | 810,900,000.00 | 1,153,220,469.96 | — | 598,894,474.49  | — | 317,031,660.56 | 172,589,757.63 | 3,052,636,362.64 |

### Changes in the Group's shareholders' equity (continued)

| Items   | The corresponding period of last year            |                  |                       |                 |                       |                 |                    |                            |
|---|--|------------------|-----------------------|-----------------|-----------------------|-----------------|--------------------|----------------------------|
|   | Shareholders' equity attributable to the Company |                  |                       |                 |                       |                 | Minority interests | Total shareholders' equity |
|   | Share capital                                    | Capital surplus  | Less: treasury stocks | Surplus reserve | General risks reserve | Retained profit |                    |                            |
| (RMB)   | (RMB)  | (RMB)            | (RMB)                 | (RMB)           | (RMB)                 | (RMB)           | (RMB)              |                            |
| 1. Balance as at the end of last year             | 810,900,000.00                                   | 1,149,453,755.66 | —                     | 548,376,385.09  | —                     | 104,228,096.41  | 186,238,798.16     | 2,799,197,035.32           |
| Add: change in accounting policies                | —  | —                | —                     | —               | —                     | —               | —                  | —                          |
| Error correction of the previous reporting period | —  | —                | —                     | —               | —                     | —               | —                  | —                          |
| 2. Opening balance of the Reporting Period        | 810,900,000.00                                   | 1,149,453,755.66 | —                     | 548,376,385.09  | —                     | 104,228,096.41  | 186,238,798.16     | 2,799,197,035.32           |

|  |                |                  |   |                |   |                |                |                  |
|--|----------------|------------------|---|----------------|---|----------------|----------------|------------------|
| 3. Changes during the year (Loss was inserted with “-”sign)                                  | —              | 322,477.88       | — | (1,886,788.57) | — | 82,767,315.35  | (3,416,880.00) | 77,786,124.66    |
| (1) net profit   | —              | —                | — | —              | — | 137,643,526.78 | 8,091,095.33   | 145,734,622.11   |
| (2) gain/loss recognised as shareholders’ equity directly                                    | —              | 322,477.88       | — | —              | — | —              | 123,497.33     | 445,975.21       |
| A. change in fair value of tradable financial assets (net)                                   | —              | —                | — | —              | — | —              | —              | —                |
| B. effect of changes in other shareholders’ equity of invested companies under equity method | —              | 197,477.88       | — | —              | — | —              | 123,497.33     | 320,975.21       |
| C. effect of income tax relating to items recognized in shareholders’ equity                 | —              | —                | — | —              | — | —              | —              | —                |
| D. Others  | —              | 125,000.00       | — | —              | — | —              | —              | 125,000.00       |
| Sub-total of items 1 and 2 mentioned above   | —              | 322,477.88       | — | —              | — | 137,643,526.78 | 8,214,592.66   | 146,180,597.32   |
| (3) Contributions by shareholders and decrease in capital                                    | —              | —                | — | —              | — | —              | —              | —                |
| A. Contributions by shareholders   | —              | —                | — | —              | — | —              | —              | —                |
| B. Payment for shares recognised as shareholders’ equity                                     | —              | —                | — | —              | — | —              | —              | —                |
| C. others  | —              | —                | — | —              | — | —              | —              | —                |
| (4) Profit distribution  | —              | —                | — | —              | — | 56,763,000.00  | 11,631,472.66  | 68,394,472.66    |
| A. surplus reserve   | —              | —                | — | —              | — | —              | —              | —                |
| B. general risks reserve   | —              | —                | — | —              | — | —              | —              | —                |
| C. distribution to shareholders  | —              | —                | — | —              | — | 56,763,000.00  | 11,631,472.66  | 68,394,472.66    |
| D. others  | —              | —                | — | —              | — | —              | —              | —                |
| (5) breakdown of shareholders’ equity  | —              | —                | — | (1,886,788.57) | — | 1,886,788.57   | —              | —                |
| A. increase in capital (or share capital) from the capital reserve                           | —              | —                | — | —              | — | —              | —              | —                |
| B. increase in capital (or share capital) from the surplus reserve                           | —              | —                | — | —              | — | —              | —              | —                |
| C. loss offset by surplus reserves   | —              | —                | — | —              | — | —              | —              | —                |
| D. others  | —              | —                | — | (1,886,788.57) | — | 1,886,788.57   | —              | —                |
| 4. Balance as at the end of the Reporting Period   | 810,900,000.00 | 1,149,776,233.54 | — | 546,489,596.52 | — | 186,995,411.76 | 182,821,918.16 | 2,876,983,159.98 |

## Changes in the Company's shareholders' equity

| Items  | Shareholders' equity attributable to the Company |                          |                                   |                          |                          |  |
|--|--|--------------------------|-----------------------------------|--------------------------|--------------------------|--|
|  | Share capital<br>(RMB)                           | Capital surplus<br>(RMB) | Less: treasury<br>stocks<br>(RMB) | Surplus reserve<br>(RMB) | Retained profit<br>(RMB) | Total shareholders'<br>equity<br>(RMB) |
| 1. Balance as at the end of last year  | 810,900,000.00                                   | 1,152,269,928.36         | —                                 | 203,680,909.61           | 644,476,345.44           | 2,811,327,183.41                       |
| Add: Change in accounting policies   | —  | —                        | —                                 | —                        | —                        | —                                      |
| Error correction of the previous reporting period  | —  | —                        | —                                 | —                        | —                        | —                                      |
| 2. Opening balance of the Reporting Period   | 810,900,000.00                                   | 1,152,269,928.36         | —                                 | 203,680,909.61           | 644,476,345.44           | 2,811,327,183.41                       |
| 3. Changes during the year (Loss was inserted with “-“ sign)                                 | —  | —                        | —                                 | —                        | (38,534,303.62)          | (38,534,303.62)                        |
| (1) net profit   | —  | —                        | —                                 | —                        | 29,581,296.38            | 29,581,296.38                          |
| (2) gain/loss recognized in shareholders' equity directly                                    | —  | —                        | —                                 | —                        | —                        | —                                      |
| A. change in fair value of tradable financial assets (net)                                   | —  | —                        | —                                 | —                        | —                        | —                                      |
| B. effect of changes in other shareholders' equity of invested companies under equity method | —  | —                        | —                                 | —                        | —                        | —                                      |
| C. effect of income tax relating to items recognised as shareholders' equity                 | —  | —                        | —                                 | —                        | —                        | —                                      |
| D. Others  | —  | —                        | —                                 | —                        | —                        | —                                      |
| Sub-total of items 1 and 2 mentioned above   | —  | —                        | —                                 | —                        | 29,581,296.38            | 29,581,296.38                          |
| (3) Contributions by shareholders and decrease in capital                                    | —  | —                        | —                                 | —                        | —                        | —                                      |
| A. Contributions by shareholders   | —  | —                        | —                                 | —                        | —                        | —                                      |
| B. Payment for shares recognised as shareholders' equity                                     | —  | —                        | —                                 | —                        | —                        | —                                      |
| C. others  | —  | —                        | —                                 | —                        | —                        | —                                      |
| (4) Profit distribution  | —  | —                        | —                                 | —                        | 68,115,600.00            | 68,115,600.00                          |
| A. surplus reserve   | —  | —                        | —                                 | —                        | —                        | —                                      |
| B. distribution to shareholders  | —  | —                        | —                                 | —                        | 68,115,600.00            | 68,115,600.00                          |
| C. others  | —  | —                        | —                                 | —                        | —                        | —                                      |
| (5) breakdown of shareholders' equity  | —  | —                        | —                                 | —                        | —                        | —                                      |

|  |                |                  |   |                |                |                  |
|--|----------------|------------------|---|----------------|----------------|------------------|
| A. increase in capital (or share capital) from the capital reserve | —              | —                | — | —              | —              | —                |
| B. increase in capital (or share capital) from the surplus reserve | —              | —                | — | —              | —              | —                |
| C. loss offset by surplus reserves                                 | —              | —                | — | —              | —              | —                |
| D. others  | —              | —                | — | —              | —              | —                |
| 4. Balance as at the end of the Reporting Period                   | 810,900,000.00 | 1,152,269,928.36 | — | 203,680,909.61 | 605,942,041.82 | 2,772,792,879.79 |

### Changes in the Company's shareholders' equity (continued)

| Items  | The corresponding period of last year |                          |                                   |                          |                          |  |
|--|---------------------------------------|--------------------------|-----------------------------------|--------------------------|--------------------------|--|
|  | Share capital<br>(RMB)                | Capital surplus<br>(RMB) | Less: treasury<br>stocks<br>(RMB) | Surplus reserve<br>(RMB) | Retained profit<br>(RMB) | Total shareholders'<br>equity<br>(RMB) |
| 1. Balance as at the end of last year  | 810,900,000.00                        | 1,148,510,273.74         | —                                 | 178,987,161.70           | 478,995,614.44           | 2,617,393,049.89                       |
| Add: change in accounting policies   | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| Error correction of the previous reporting period  | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| 2. Opening balance of the year   | 810,900,000.00                        | 1,148,510,273.74         | —                                 | 178,987,161.70           | 478,995,614.44           | 2,617,393,049.89                       |
| 3. Changes during the year (Loss was inserted with “-” sign)                                 | —                                     | 322,360.28               | —                                 | —                        | 100,819,576.36           | 101,141,936.64                         |
| (1) net profit   | —                                     | —                        | —                                 | —                        | 157,582,576.36           | 157,582,576.36                         |
| (2) gain/loss recognized in shareholders' equity directly                                    | —                                     | 322,360.28               | —                                 | —                        | —                        | 322,360.28                             |
| A. change in fair value of tradable financial assets (net)                                   | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| B. effect of changes in other shareholders' equity of invested companies under equity method | —                                     | 197,360.28               | —                                 | —                        | —                        | 197,360.28                             |
| C. effect of income tax relating to items recognised as shareholders' equity                 | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| D. Others  | —                                     | 125,000.00               | —                                 | —                        | —                        | 125,000.00                             |
| Sub-total of items 1 and 2 mentioned above   | —                                     | 322,360.28               | —                                 | —                        | 157,582,576.36           | 157,904,936.64                         |
| (3) Contributions by shareholders and decrease in capital                                    | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| A. Contributions by shareholders   | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| B. Payment for shares recognised as shareholders' equity                                     | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| C. others  | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| (4) Profit distribution  | —                                     | —                        | —                                 | —                        | 56,763,000.00            | 56,763,000.00                          |
| A. surplus reserve   | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| B. distribution to shareholders  | —                                     | —                        | —                                 | —                        | 56,763,000.00            | 56,763,000.00                          |
| C. others  | —                                     | —                        | —                                 | —                        | —                        | —                                      |
| (5) breakdown of shareholders' equity  | —                                     | —                        | —                                 | —                        | —                        | —                                      |

|  |                |                  |   |                |                |                  |
|--|----------------|------------------|---|----------------|----------------|------------------|
| A. increase in capital (or share capital) from the capital reserve | —              | —                | — | —              | —              | —                |
| B. increase in capital (or share capital) from the surplus reserve | —              | —                | — | —              | —              | —                |
| C. loss offset by surplus reserves                                 | —              | —                | — | —              | —              | —                |
| D. others  | —              | —                | — | —              | —              | —                |
| 4. Balance as at the end of the Reporting Period                   | 810,900,000.00 | 1,148,832,634.02 | — | 178,987,161.70 | 579,815,190.80 | 2,718,534,986.53 |

**7.3 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**

*(All amounts in RMB thousands unless otherwise stated)*

|   | Note | Unaudited                |                  |
|---|------|--------------------------|------------------|
|   |      | Six months ended 30 June |                  |
|   |      | 2007                     | 2006<br>Restated |
| Sales   | 3    | 5,987,481                | 5,101,873        |
| Cost of goods sold  |      | (5,063,283)              | (4,275,109)      |
| <b>Gross profit</b>   |      | <b>924,198</b>           | 826,764          |
| Other income - net  |      | 39,215                   | 44,122           |
| Distribution costs  |      | (445,596)                | (391,636)        |
| Administrative expenses   |      | (260,471)                | (275,376)        |
| Other operating losses - net  |      | (3,172)                  | (3,554)          |
| <b>Operating profit</b>   | 7    | <b>254,174</b>           | 200,320          |
| Finance costs - net   |      | (34,126)                 | (26,505)         |
| Share of loss of associates   |      | (7)                      | (1,534)          |
| Share of profits of jointly controlled entities   |      | 25,469                   | 17,554           |
| <b>Profit before income tax</b>   |      | <b>245,510</b>           | 189,835          |
| Income tax expense  | 8    | (84,427)                 | (52,502)         |
| <b>Profit for the half-year</b>   |      | <b>161,083</b>           | 137,333          |
| <b>Attributable to:</b>   |      |                          |                  |
| –equity holders of the Company  |      | 151,191                  | 128,848          |
| –minority interest  |      | 9,892                    | 8,485            |
|   |      | <b>161,083</b>           | 137,333          |
| <b>Earnings per share for profit attributable to equity holders of the Company</b> (expressed in RMB per share) |      |                          |                  |
| - basic and diluted   |      | <b>0.186</b>             | 0.159            |
| <b>Dividends</b>  | 9    | -                        | -                |

|   |      | As at                     |                               |
|---|------|---------------------------|-------------------------------|
|   | Note | 30 June 2007<br>Unaudited | 31 Demeceber 2006<br>Restated |
| <b>ASSETS</b>   |      |                           |                               |
| <b>Non-current assets</b>   |      |                           |                               |
| Property, plant and equipment   |      | 1,358,363                 | 1,416,353                     |
| Investment properties   |      | 76,389                    | 35,413                        |
| Land use rights   |      | 125,464                   | 126,421                       |
| Intangible assets   |      | 34,816                    | 38,045                        |
| Investments in associates   |      | 19,557                    | 43,277                        |
| Interests in jointly controlled entities                                  |      | 221,894                   | 185,131                       |
| Available-for-sale financial assets                                       |      | 11,900                    | 30,098                        |
| Deferred income tax assets  |      | 65,377                    | 64,638                        |
| <b>Total Non-current assets</b>   |      | <b>1,913,760</b>          | <b>1,939,376</b>              |
| <b>Current assets</b>   |      |                           |                               |
| Inventories   |      | 1,173,335                 | 1,301,366                     |
| Trade and other receivables   | 4    | 2,687,341                 | 1,980,256                     |
| Cash and cash equivalents   |      | 525,037                   | 409,141                       |
| <b>Total Current assets</b>   |      | <b>4,385,713</b>          | <b>3,690,763</b>              |
| <b>Total assets</b>   |      | <b>6,299,473</b>          | <b>5,630,139</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  |      | 1,049,988                 | 1,064,980                     |
| Retained earnings   |      | 353,557                   | 240,375                       |
|   |      | <b>2,995,579</b>          | <b>2,897,389</b>              |
| <b>Minority interest</b>  |      | <b>187,437</b>            | <b>182,991</b>                |
| <b>Total equity</b>   |      | <b>3,183,016</b>          | <b>3,080,380</b>              |
| <b>LIABILITIES</b>  |      |                           |                               |
| <b>Non-current liabilities</b>  |      |                           |                               |
| Deferred income tax liabilities   |      | 30,485                    | 41,870                        |
| Employee benefits   |      | 42,766                    | 48,502                        |
|   |      | <b>73,251</b>             | <b>90,372</b>                 |
| <b>Current liabilities</b>  |      |                           |                               |
| Trade and other payables  | 5    | 2,019,702                 | 1,514,297                     |
| Current income tax liabilities  |      | 51,873                    | 42,477                        |
| Borrowings  | 6    | 971,631                   | 902,613                       |
|   |      | <b>3,043,206</b>          | <b>2,459,387</b>              |
| <b>Total liabilities</b>  |      | <b>3,116,457</b>          | <b>2,549,759</b>              |
| <b>Total equity and liabilities</b>                                       |      | <b>6,299,473</b>          | <b>5,630,139</b>              |
| <b>Net current assets</b>   |      | <b>1,342,507</b>          | <b>1,231,376</b>              |
| <b>Total assets less current liabilities</b>                              |      | <b>3,256,267</b>          | <b>3,170,752</b>              |



## 1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2007 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 2006.

## 2 Accounting policies

### 2.1 Principal accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006 except for the change in accounting policies as described in note 2.2.

The following new standards, amendments to standards and interpretations have been effective in the current interim period:

|                    |   |
|--------------------|---|
| HKAS 1 (Amendment) | 'Presentation of Financial Statements: Amendments to Capital Disclosures', effective for annual periods beginning on or after 1 January 2007.   |
| HKFRS 7            | 'Financial Instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007.  |
| HK(IFRIC)-Int 7    | 'Applying the Restatement Approach under HKAS29, Financial Reporting in Hyperinflationary Economies', effective for annual periods beginning on or after 1 March 2006. It's not relevant to the Group's operations. |
| HK(IFRIC)-Int 8    | 'Scope of HKAS 2, Share-based Payment', effective for annual periods beginning on or after 1 May 2006. It's not relevant to the Group's operations.   |
| HK(IFRIC)-Int 9    | 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. It's not relevant to the Group's operations.  |
| HK(IFRIC)-Int 10   | 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. It does not have significant impact on the Group's operations.                                    |

## 2. Accounting policies (continued)

### 2.1 Principal accounting policies (continued)

The following new standards and interpretations are not yet effective and have not been early adopted by the Group:

|                  |   |
|------------------|---|
| HKFRS 8          | ‘Operating Segments’, effective for annual periods beginning on or after 1 January 2009.                          |
| HK(IFRIC)-Int 11 | HKFRS2 -‘Group and Treasury Share Transactions’, effective for annual periods beginning on or after 1 March 2007. |
| HK(IFRIC)-Int 12 | ‘Service Concession Arrangements’, effective for annual periods beginning on or after 1 January 2008.             |

### 2.2

#### Changes in accounting policies

In previous years, the Group’s interests in jointly controlled entities were accounted for using proportionate consolidation. The Group combined its share of the jointly controlled entities’ individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group’s financial statements. The Group recognised the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that it was attributable to the other venturers. The Group did not recognise its share of profits or losses from the jointly controlled entities that result from the Group’s purchase of assets from the jointly controlled entities until it resold the assets to an independent party. However, a loss on the transaction was recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

According to the new PRC Accounting Standards which have been effective from 1 January 2007, the Group changed its accounting policy for jointly controlled entities from proportionate consolidation to equity method since 1 January 2007 in its consolidated financial statements prepared in accordance with the new PRC Accounting Standards. In order to provide consistent financial information under PRC Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRS”) and enable the readers to better understand the Group’s financial position and results of operation, the Group changed its accounting policy for jointly controlled entities from proportionate consolidation to equity method in its HKFRS financial statements as below:

Investments in jointly controlled entities are accounted for using the equity method and are initially recognised at cost. The Group’s investment in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group’s share of its jointly controlled entities’ post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entities, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entities.

## 2. Accounting policies (continued)

### 2.2 Changes in accounting policies (continued)

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Diluted gains and losses in the jointly controlled entities are recognised in the consolidated income statement.

The changes in this accounting policy resulted in:

**As at 31 December 2006**

#### **Consolidated balance sheet**

|   |               |
|---|---------------|
| Increase in:                            |               |
| Interest in jointly controlled entities | 185,131       |
| Decrease in:                            |               |
| Other non-current assets                | 67,134        |
| Current assets                          | 148,220       |
| Non-current liabilities                 | 1,636         |
| Current liabilities                     | <u>28,587</u> |

**Six months ended  
30 June 2006**

#### **Consolidated income statement**

|   |           |
|---|-----------|
| Increase in:                                    |           |
| Share of profits of jointly controlled entities | 17,554    |
| Decrease in:                                    |           |
| Revenue   | 160,252   |
| Expenses  | 142,686   |
| Income tax expense                              | <u>12</u> |

**As at December 31 2006**

#### **Consolidated statement of changes in equity**

|                   |               |
|-------------------|---------------|
| Increase in:      |               |
| Retained earnings | 20,506        |
| Decrease in:      |               |
| Reserves          | <u>20,506</u> |



### 3. Segment information (continued)

#### Primary reporting format – business segments (continued)

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

|                               | Six months ended 30 June 2007 |           |        |                   |             | Group  |
|-------------------------------|-------------------------------|-----------|--------|-------------------|-------------|--------|
|                               | Manufacturing                 | Wholesale | Retail | Import and export | Unallocated |        |
| Depreciation                  | 45,268                        | 8,414     | 1,097  | 91                | 1,676       | 56,546 |
| Amortisation                  | 4,992                         | 2,787     | 46     | 15                | 104         | 7,944  |
| Impairment losses             | 5,926                         | 7,438     | 2      | 299               | -           | 13,665 |
| Reversal of impairment losses | (813)                         | (3)       | (163)  | -                 | -           | (979)  |

|                               | Six months ended 30 June 2006 |           |          |                   |             | Group    |
|-------------------------------|-------------------------------|-----------|----------|-------------------|-------------|----------|
|                               | Manufacturing                 | Wholesale | Retail   | Import and export | Unallocated |          |
|                               | Restated                      | Restated  | Restated | Restated          | Restated    | Restated |
| Depreciation                  | 43,861                        | 9,104     | 1,918    | 83                | 2,727       | 57,693   |
| Amortisation                  | 5,141                         | 2,709     | 62       | 15                | 122         | 8,049    |
| Impairment losses             | 7,814                         | 7,170     | -        | 844               | -           | 15,828   |
| Reversal of impairment losses | (2,559)                       | -         | -        | -                 | -           | (2,559)  |

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 2007 and capital expenditure for the six months then ended are as follows:

|                             | Manufacturing    | Wholesale        | Retail         | Import and export | Unallocated    | Elimination      | Group            |
|-----------------------------|------------------|------------------|----------------|-------------------|----------------|------------------|------------------|
|                             |                  |                  |                |                   |                |                  |                  |
| Assets                      | 2,578,949        | 3,276,087        | 167,757        | 111,505           | 785,951        | (862,227)        | 6,058,022        |
| Associates                  | 19,557           | -                | -              | -                 | -              | -                | 19,557           |
| Jointly controlled entities | 221,894          | -                | -              | -                 | -              | -                | 221,894          |
| <b>Total assets</b>         | <b>2,820,400</b> | <b>3,276,087</b> | <b>167,757</b> | <b>111,505</b>    | <b>785,951</b> | <b>(862,227)</b> | <b>6,299,473</b> |
| <b>Liabilities</b>          | <b>831,590</b>   | <b>2,837,248</b> | <b>98,469</b>  | <b>87,617</b>     | <b>123,760</b> | <b>(862,227)</b> | <b>3,116,457</b> |
| <b>Capital expenditure</b>  | <b>35,907</b>    | <b>1,373</b>     | <b>1,660</b>   | <b>8</b>          | <b>211</b>     | <b>-</b>         | <b>39,159</b>    |

### 3. Segment information (continued)

#### Primary reporting format – business segments (continued)

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the six months ended 30 June 2006 are as follows:

|                                | Manufacturing<br>Restated | Wholesale<br>Restated | Retail<br>Restated | Import and<br>export<br>Restated | Unallocated<br>Restated | Elimination<br>Restated | Group<br>Restated |
|--------------------------------|---------------------------|-----------------------|--------------------|----------------------------------|-------------------------|-------------------------|-------------------|
| Assets                         | 2,417,432                 | 2,781,627             | 182,883            | 111,858                          | 605,250                 | (697,319)               | 5,401,731         |
| Associates                     | 43,277                    | -                     | -                  | -                                | -                       | -                       | 43,277            |
| Jointly controlled<br>entities | 185,131                   | -                     | -                  | -                                | -                       | -                       | 185,131           |
| <b>Total assets</b>            | <b>2,645,840</b>          | <b>2,781,627</b>      | <b>182,883</b>     | <b>111,858</b>                   | <b>605,250</b>          | <b>(697,319)</b>        | <b>5,630,139</b>  |
| <b>Liabilities</b>             | <b>631,548</b>            | <b>2,346,688</b>      | <b>87,416</b>      | <b>86,370</b>                    | <b>95,056</b>           | <b>(697,319)</b>        | <b>2,549,759</b>  |
| <b>Capital<br/>expenditure</b> | <b>40,292</b>             | <b>6,037</b>          | <b>6</b>           | <b>12</b>                        | <b>1,333</b>            | <b>-</b>                | <b>47,680</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 2007     | 31 December 2006<br>Restated |
| Trade receivables                     |                  |                              |
| Within 6 months                       | 1,759,073        | 1,305,309                    |
| 6 months to 1 year                    | 34,227           | 51,376                       |
| Over 1 year                           | 58,907           | 43,768                       |
|                                       | <b>1,852,207</b> | <b>1,400,453</b>             |
| Less: provision for trade receivables | (55,092)         | (45,314)                     |
| Trade receivables - net               | <b>1,797,115</b> | <b>1,355,139</b>             |

## 5. Trade and other payables

At 30 June 2007, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) was as follows:

|                   | As at            |                              |
|-------------------|------------------|------------------------------|
|                   | 30 June 2007     | 31 December 2006<br>Restated |
| Within 1 year     | 1,172,590        | 1,015,816                    |
| 1 year to 2 years | 35,021           | 25,234                       |
| Over 2 years      | 32,500           | 22,621                       |
|                   | <u>1,240,111</u> | <u>1,063,671</u>             |

## 6. Borrowings

|         | As at          |                              |
|---------|----------------|------------------------------|
|         | 30 June 2007   | 31 December 2006<br>Restated |
| Current | <u>971,631</u> | <u>902,613</u>               |

Interest expense on borrowings for the six months ended 30 June 2007 amounted to approximately RMB 29,296,000 (30 June 2006: RMB 27,016,000).

## 7. Operating profit

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

|   | Six months ended 30 June |                  |
|---|--------------------------|------------------|
|   | 2007                     | 2006<br>Restated |
| <b><u>Credited to:</u></b>  |                          |                  |
| Dividends income from available-for-sale financial assets                         | 1,366                    | 4,486            |
| 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             | <u>819</u>               | <u>2,559</u>     |
| <b><u>Charged to:</u></b>   |                          |                  |
| Impairment charge relating to trade and other receivables                         | 13,655                   | 9,950            |
| Impairment charge relating to property, plant and equipment and intangible assets | 2                        | 70               |
| Write-down of inventories to net realisable value                                 | 8                        | 5,808            |
| Depreciation and amortisation   | 64,490                   | 65,742           |
| Loss on disposal of property, plant and equipment                                 | <u>329</u>               | <u>951</u>       |

## 8. Income tax expense

The PRC enterprise income tax has been provided at the principal rate of 33% (2006: 33%) on the estimated assessable profit for the period, except for a subsidiary which is regarded as a foreign investment production enterprise and a subsidiary which is regarded as an “advance technology enterprise”. The subsidiary, which is a foreign investment production enterprise, was established in a coastal economic development zone and the applicable enterprise income tax rate is 24%. The applicable enterprise income tax rate for the subsidiary qualified as “an advanced technology enterprise” is 15%.

On 16 March 2007, the National People’s Congress approved the Corporate Income Tax Law of the PRC (the “new CIT Law”), which will be effective from 1 January 2008. Under the new CIT Law, group companies which currently adopt income tax at the rate of 33% will be subject to the rate of 25% from 1 January 2008. For the subsidiaries which are “foreign investment production enterprise” or “advanced technology enterprise”, the applicable tax rates will gradually increase from the current beneficial tax rates to 25% over a period of 5 years from 1 January 2008.

|                             | <b>Six months ended 30 June</b> |                 |
|-----------------------------|---------------------------------|-----------------|
|                             | <b>2007</b>                     | <b>2006</b>     |
|                             |                                 | <b>Restated</b> |
| Current income tax          |                                 |                 |
| - PRC enterprise income tax | <b>85,985</b>                   | 63,435          |
| Deferred income tax         | <b>(1,558)</b>                  | (10,933)        |
|                             | <b>84,427</b>                   | <b>52,502</b>   |

## 9. Dividends

At a meeting held on 27 April 2007, the directors proposed a final dividend of RMB 0.084 per share for the year ended 31 December 2006, which has been reflected as an appropriation of retained earnings for the six months ended 30 June 2007.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2007 (30 June 2006: Nil).



## 7.4 Notes to the financial statements

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

√Applicable    □ Not applicable

- (1) Change of the Group's accounting policy as a result of the execution of the new accounting standards

With effect from 1 January 2007, the Group has applied the new Accounting Standards for Business Enterprises (the "New Accounting Standards") and has revised its accounting policy accordingly. In the meantime, in preparation of the comparative financial statements, adjustments have been made to aspects such as consolidation scope, income tax and provision for employee benefits in medical insurance and relevant figures have been restated in accordance with the "Standard No.7 Regarding the Rules on Information Disclosure for Companies that Publicly Offer Securities – Compilation and Disclosure of Comparative Financial and Accounting Information During the Transition Period between the New and Old Accounting Standards". The effect on shareholders' equity under the New Accounting Standards and the old Accounting Standards for Business Enterprises (the "Old Accounting Standards") is set out as follows:

#### *Adjustments to shareholders' equity as at 1 January 2007*

| Items  | The Old Accounting Standards (RMB) | The New Accounting Standards (RMB) | Change (%) |
|--|------------------------------------|------------------------------------|------------|
| Share capital  | 810,900,000.00                     | 810,900,000.00                     | -          |
| Capital reserve  | 1,153,220,469.96                   | 1,153,220,469.96                   | -          |
| Surplus reserve  | 648,062,853.70                     | 627,556,994.39                     | (3.16)     |
| Retained profit  | 175,904,623.97                     | 198,687,121.75                     | 12.95      |
| Total shareholders' equity attributable to the Company | 2,788,087,947.63                   | 2,790,364,586.10                   | 0.08       |
| Minority interest                                      | 166,089,379.65                     | 166,444,059.04                     | 0.21       |
| Total shareholders' equity                             | 2,954,177,327.28                   | 2,956,808,645.14                   | 0.09       |

#### *Adjustments to shareholders' equity as at 30 June 2007*

| Items  | The Old Accounting Standards (RMB) | The New Accounting Standards (RMB) | Change (%) |
|--|------------------------------------|------------------------------------|------------|
| Share capital  | 810,900,000.00                     | 810,900,000.00                     | -          |
| Capital reserve  | 1,149,776,233.54                   | 1,149,776,233.54                   | -          |
| Surplus reserve  | 565,356,551.60                     | 546,489,596.52                     | (3.34)     |
| Retained profit  | 159,012,070.52                     | 186,995,411.76                     | 17.60      |
| Total shareholders' equity attributable to the Company | 2,685,044,855.66                   | 2,694,161,241.82                   | 0.34       |
| Minority interest                                      | 182,224,758.13                     | 182,821,918.16                     | 0.33       |
| Total shareholders' equity                             | 2,867,269,613.79                   | 2,876,983,159.98                   | 0.34       |

- (2) During the Reporting Period, the Group had not any change in accounting estimates or any accounting error correction.

#### 7.4.2 Significant changes in respect of consolidation scope of the Group during the Reporting Period

Applicable  Not applicable

- (1) During the Reporting Period, one entity was excluded from the scope of consolidated financial statements of the Group, which was mainly because the interests in joint ventures were no longer proportionally consolidated in accordance with “Accounting Standards for Business Enterprises No. 33—Consolidated Financial Statements”. Therefore, equity method has been used for long-term investment in Wang Lao Ji, a joint venture, and such investment was no longer consolidated since the year 2007. To be consistent with the financial statements prepared in accordance with PRC Accounting Standards, equity method has been used for investment in Wang Lao Ji in the financial statements prepared in accordance with HKFRS.
- (2) In comparison with last year, two entities have been included in the scope of consolidated financial statements of the Group, because the Company indirectly holds 51% equity interest in Guangzhou Jing Xiu Tang 1790 Marketing Co., Ltd and exercises control in its finance and operation through Jing Xiu Tang, a subsidiary, and the former was proportionally consolidated in accordance with the Old Accounting Standards based on the principle of importance. In accordance with “Accounting Standards for Business Enterprises No. 33—Consolidated Financial Statements”, Guangzhou Jing Xiu Tang 1790 Marketing Co., Ltd has been included in the scope of consolidated financial statements of the Group since the year 2007.

#### 7.4.3 Notes to the non-standard unqualified auditors’ report

Applicable  Not applicable

**The Board of  
Guangzhou Pharmaceutical Company Limited**

Guangzhou, the PRC, 17 August 2007

*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.*