

1. Condensed Consolidated Profit and Loss Account

Item	Notes	For the six months	For the six months
		ended 30 June 2004 (Unaudited) RMB'000	ended 30 June 2003 (Unaudited) RMB'000
Turnover	2	806,803	677,351
Cost of goods sold		(658,943)	(513,957)
Gross profit		147,860	163,394
Other revenues		3,836	3,813
Selling expenses		(66,364)	(56,693)
Administrative expenses		(44,924)	(50,735)
Other operating expenses		(4,490)	(1,630)
Operating profit	3	35,918	58,149
Finance costs		(7,873)	(6,722)
Profit before taxation		28,045	51,427
Taxation	4	(4,187)	(7,433)
Profit after taxation		23,858	43,994
Minority interests		88	(20)
Profit attributable to shareholders		23,946	43,974
Interim dividend	14	—	—
Earnings per share	5	RMB0.0524	RMB0.0962

FINANCIAL REPORT

(PREPARED UNDER HONG KONG GENERALLY ACCEPTED ACCOUNTING PRINCIPLES)

2. Condensed Consolidated Balance Sheet

		At 30 June 2004 (Unaudited) RMB'000	At 31 December 2003 (Audited) RMB'000
	<i>Note</i>		
Non-current assets			
Technical know-how	6	5,269	4,220
Fixed assets	6	735,063	769,253
Construction-in-progress	6	215,125	130,803
Interest in an associated company		24,831	24,831
Investments		55,277	55,277
		<u>1,035,565</u>	<u>984,384</u>
Current assets			
Inventories		255,434	250,538
Trade and bills receivables	7	450,369	300,217
Other receivables, deposits and prepayments		52,637	53,250
Export value-added-tax recoverable		2,826	30,946
Amount due from immediate holding company		34,292	34,341
Short-term investments		76	76
Trading securities		67,105	34,751
Income tax recoverable		—	3,576
Cash and bank balances		497,288	413,986
		<u>1,360,027</u>	<u>1,121,681</u>
Current liabilities			
Trade and bills payables	8	276,555	237,547
Other payables and accrued charges		63,314	47,235
Short-term bank loans- unsecured	9	352,803	174,156
Tax payable		1,321	—
		<u>693,993</u>	<u>458,938</u>
Net current assets		<u>666,034</u>	<u>662,743</u>
Total assets less current liabilities		<u>1,701,599</u>	<u>1,647,127</u>
Financed by:			
Share capital	11	457,313	457,313
Reserves		986,943	963,170
Proposed final dividend		—	18,293
Shareholders' funds		1,444,256	1,438,776
Minority interests		3,882	3,968
Non-current liabilities			
Deferred taxation	10	3,461	4,383
Long term bank loans — unsecured	9	250,000	200,000
		<u>1,701,599</u>	<u>1,647,127</u>

3. Condensed Consolidated Cash Flow Statement

Item	For the six months ended 30 June 2004 (Unaudited) RMB'000	For the six months ended 30 June 2003 (Unaudited) RMB'000
Net cash (outflow)/inflow from operating activities	(21,895)	98,632
Net cash outflow from investing activities	(123,450)	(160,972)
Net cash inflow/(outflow) before financing	<u>228,647</u>	<u>(11,149)</u>
Increase/(decrease) in cash and cash equivalents	83,302	(73,489)
Cash and cash equivalents at 1st January	<u>413,986</u>	<u>503,467</u>
Cash and cash equivalents at 30th June	<u>497,288</u>	<u>429,978</u>
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	<u>497,288</u>	<u>429,978</u>

4. Condensed Consolidated Statement of Changes in Equity

Item	For the six months ended 30 June 2004 (Unaudited) RMB'000	For the six months ended 30 June 2003 (Unaudited) RMB'000
At 1st January, as previously reported	1,438,776	1,414,433
Effect on adoption of SSAP 12 (revised)	<u>—</u>	<u>621</u>
At 1st January, as restated	1,438,776	1,415,054
Profit for the year	23,946	43,974
Dividends	(18,293)	(27,439)
Exchange difference	<u>(173)</u>	<u>—</u>
At 30th June	<u>1,444,256</u>	<u>1,431,589</u>

NOTES TO THE ACCOUNTS

1. Accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of the Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants and the Appendix 16 to Listing Rules of the Stock Exchange of Hong Kong Limited.

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 31st December 2003.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2. Turnover and revenue

The Group is principally engaged in the development, production and sales of pharmaceutical products including bulk pharmaceuticals, preparations (e.g. tablets and injections), chemicals and other products. Its major place of operation is in the PRC.

(i) By business segments

	For the six months ended			For the six months ended		
	30 June 2004			30 June 2003		
	(Unaudited)			(Unaudited)		
	Pharmaceutical business	Other operations	Group	Pharmaceutical business	Other operations	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenues	<u>810,639</u>	<u>—</u>	<u>810,639</u>	<u>680,814</u>	<u>350</u>	<u>681,164</u>
Segment results	<u>34,466</u>	<u>1,452</u>	<u>35,918</u>	<u>57,799</u>	<u>350</u>	<u>58,149</u>

(ii) By geographical location of customers

	Segment revenues		Segment results	
	Six months ended 30 June 2004 (Unaudited) RMB'000	Six months ended 30 June 2003 (Unaudited) RMB'000	Six months ended 30 June 2004 (Unaudited) RMB'000	Six months ended 30 June 2003 (Unaudited) RMB'000
PRC (including Hong Kong)	<u>524,836</u>	<u>434,956</u>	<u>107,651</u>	<u>114,375</u>
Europe	<u>103,370</u>	<u>84,008</u>	<u>13,637</u>	<u>19,239</u>
America	<u>126,249</u>	<u>97,541</u>	<u>15,427</u>	<u>19,515</u>
Others	<u>52,348</u>	<u>60,846</u>	<u>14,981</u>	<u>13,321</u>
	<u>806,803</u>	<u>677,351</u>	<u>151,696</u>	<u>166,450</u>
Unallocated costs			<u>(115,778)</u>	<u>(108,301)</u>
Operating profit			<u>35,918</u>	<u>58,149</u>

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June 2004 (Unaudited) RMB'000	Six months ended 30 June 2003 (Unaudited) RMB'000
Crediting:		
Gain on disposal of fixed assets	<u>890</u>	<u>977</u>
Charging:		
Depreciation of owned fixed assets	<u>43,227</u>	<u>39,699</u>
Amortisation of technical know-how	<u>401</u>	<u>—</u>
Unrealised loss of trading investments	<u>6,469</u>	<u>—</u>
Staff costs (excluding directors' emoluments)	<u>41,483</u>	<u>45,514</u>
Contributions to retirement scheme	<u>10,044</u>	<u>10,517</u>

4. Taxation

	Six months ended 30 June 2004 (Unaudited) RMB'000	Six months ended 30 June 2003 (Unaudited) RMB'000
The amount of taxation charged to the consolidated profit and loss account represents:		
PRC enterprise income tax	5,109	7,323
Deferred taxation (Note 10)	(922)	110
	<u>4,187</u>	<u>7,433</u>

- (a) The Company is registered in the High-tech Industrial Development Zone of Zibo City. Pursuant to the tax policies for enterprises registered in high-tech industrial development zones approved by the State Council, the Company is subject to PRC enterprise income tax rate of 15% as at 30 June 2004.
- (b) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax for the six months ended 30 June 2004 and 2003.

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate applicable to the Group as follows:

	Six months ended 30 June 2004 (Unaudited) RMB'000	Six months ended 30 June 2003 (Unaudited) RMB'000
Profit before taxation	28,045	51,427
Tax calculated at 33% (2003:33%)	9,255	16,971
Recognition of temporary difference	(5,048)	(9,257)
Income not subject to taxation	(20)	(731)
Expenses not deductible for tax purpose	—	450
	<u>4,187</u>	<u>7,433</u>

5. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of RMB23,946,000 (2003: RMB43,974,000) and based on the weighted average of 457,312,830 shares (2003: 457,312,830 shares) in issue during the year.

There was no dilution effect on the basic earnings per share for the six months ended 30 June 2004 and 2003 as there were no dilutive shares outstanding during the six months ended 30 June 2004 and 2003.

6. Capital expenditure

	Six month ended 30 June 2004 (Unaudited)			
	Technical know-how RMB'000	Property, plant and equipment RMB'000	Construction- in-progress RMB'000	Total RMB'000
Net book value at 1 January 2004	4,220	769,253	130,803	904,276
Additions	1,450	9,346	84,322	95,118
Disposals	—	(309)	—	(309)
Depreciation/amortize	(401)	(43,227)	—	(43,628)
Net book value at 30 June 2004	<u>5,269</u>	<u>735,063</u>	<u>215,125</u>	<u>955,457</u>

7. Trade and bills receivables

At 30th June 2004, the ageing analysis of the trade and bills receivables were as follows:

	At 30 June 2004 (Unaudited) <i>RMB'000</i>	At 31 December 2003 (Audited) <i>RMB'000</i>
Within one year	432,721	282,790
One to two years	10,714	12,300
Two to three years	6,934	5,127
Total	<u>450,369</u>	<u>300,217</u>

The Group's and the Company's turnover from export sales is on letter of credit or documents against payment. The remaining balances of turnover are on open account terms which are partially covered by customers' stand-by letter of credit or bank guarantees.

8. Trade and bills payables

At 30th June 2004, the ageing analysis of the trade and bills payables were as follows:

	At 30 June 2004 (Unaudited) <i>RMB'000</i>	At 31 December 2003 (Audited) <i>RMB'000</i>
Within one year	271,909	233,507
One to two years	1,125	580
Two to three years	620	523
Over three years	2,901	2,937
	<u>276,555</u>	<u>237,547</u>

9. Bank loans

As at 30 June 2004, the Group's bank loans were repayable as follows:

	At 30 June 2004 (Unaudited) <i>RMB'000</i>	At 31 December 2003 (Audited) <i>RMB'000</i>
Within one year	352,803	174,156
In the second to fifth year	250,000	200,000
	<u>602,803</u>	<u>374,156</u>

10. Deferred Taxation

The movement in deferred tax liabilities of the Group is as follows:

	Six months ended 30 June 2004 <i>RMB'000</i>	Six months ended 30 June 2003 <i>RMB'000</i>
As 1 January	4,383	2,565
(Credited)/charged to profit and loss account (Note 4)	(922)	110
At 30 June	<u>3,461</u>	<u>2,675</u>
Net deferred tax liabilities represents:		
Accounting provision	3,220	3,186
Others	241	1,197
Net deferred tax liabilities	<u>3,461</u>	<u>4,383</u>

11. Share capital

	At 30 June 2004 (Unaudited) <i>RMB'000</i>	At 31 December 2003 (Audited) <i>RMB'000</i>
Registered		
307,312,830 (2003: 307,312,830)		
A Shares of RMB1.00 each	307,313	307,313
150,000,000 (2003: 150,000,000)		
H Shares of RMB1.00 each	150,000	150,000
	<u>457,313</u>	<u>457,313</u>
Issued and fully paid		
307,312,830 (2003: 307,312,830)		
A Shares of RMB1.00 each divided into:		
State shares	214,440	214,440
Legal person shares	16,720	16,720
Individual shares	76,153	76,153
	<u>307,313</u>	<u>307,313</u>
150,000,000 (2003: 150,000,000)		
H Shares of RMB1.00 each	150,000	150,000
	<u>457,313</u>	<u>457,313</u>

12. Capital Commitments

At 30th June 2004, the Group had the following capital commitments principally related to construction-in-progress and purchase of fixed assets in respect of buildings and production facilities which were not provided for in the accounts:

	At 30 June 2004 (Unaudited) <i>RMB'000</i>	At 31 December 2003 (Audited) <i>RMB'000</i>
Contracted but not provided for	12,920	12,920
Authorised by the directors but not contracted	56,032	149,700
	<u>68,952</u>	<u>162,620</u>

13. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Six months ended 30 June 2004 (Unaudited) <i>RMB'000</i>	Six months ended 30 June 2003 (Unaudited) <i>RMB'000</i>
SXPGC, holding Company, and its subsidiaries		
— Sale of finished goods and raw materials	15,050	14,030
— Purchase of raw materials	34,870	34,830
— Rental income	750	—
— Payment of labour and other services	—	5,980
— Purchase lands and buildings	6,212	—
	<u>6,212</u>	<u>—</u>

The Directors are of the opinion that the above transactions were conducted in the ordinary and usual course of business of the Group at price and terms determined according to relevant industry practice and in accordance with the terms of the agreements governing such transactions.

During the period, the Company did not pay certain expenses on behalf of its immediate holding company (2003: RMB2,810,000), which were charged back to the immediate holding company on cost reimbursement basis. As at 30th June 2004, the amount due from the immediate holding company in connection with such transactions amounted to RMB3,340,000 (2003: RMB-2,940,000), which is unsecured interest free and has no fixed terms of repayment.

14. Interim dividend

The Board of the Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

15. Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2004.

16. Events after balance sheet date

The Board of the Company has passed a resolution in respect of the participation in a trust program promoted by Qingdao Hisyn Trust Investment Company Limited. On 20 July 2004, the Company has signed the relative documents. The amount invested in the above-mentioned trust program is RMB130,000,000 and fully paid by the Company on 28 July 2004.