

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.



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)

2010 FIRST QUARTERLY 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 quarterly report and confirm that there are no false information, misleading statements or material omissions in this quarterly report.
- 1.2 The directors of the Board attended the 19th meeting of the fourth session of the Board held on 29 April 2010. Among whom, Mr. Yang Rongming, the Chairman of the Board, was unable to attend the meeting personally and appointed Mr. Shi Shaobin, an executive director to attend the meeting and vote on his behalf.
- 1.3 The financial reports of the Company and its subsidiaries (collectively the “Group”), and the Company for the first quarter ended 31 March 2010 (the “Reporting Period”) were prepared in accordance with the PRC Accounting Standards and were unaudited.
- 1.4 Mr. Yang Rongming (the Chairman), Mr. Shi Shaobin (Director and General Manager), and Mr. Chen Binghua (the Financial Controller and Senior Manager of the Finance Department), warrant and confirm the authenticity and completeness of the financial reports contained in this quarterly report.
- 1.5 This 2010 first quarterly report is published in Hong Kong pursuant to Rule 13.09 (2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
- 1.6 This quarterly report is prepared in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.

2. CORPORATE INFORMATION

2.1 Principal financial data and indicators

Items	As at 31 March 2010 <i>(Unaudited)</i>	As at 31 December 2009 <i>(Audited)</i>	Increase/(Decrease) as compared with 31 December 2009 <i>(%)</i>
Total assets (RMB'000)	4,391,623	4,222,496	4.01
Shareholder's equity attributable to the shareholders of the Company (RMB'000)	3,371,046	3,304,186	2.02
Net assets per share attributable to the shareholders of the Company (RMB)	4.16	4.07	2.02

Items	The Reporting Period (1 January – 31 March 2010) <i>(Unaudited)</i>	Increase/(Decrease) as compared with the corresponding period of 2009 <i>(%)</i>
Net cash flow from operating activities (RMB'000)	(3,873)	(104.57)
Net cash flow from operating activities per share (RMB)	(0.005)	(104.57)

Items	The Reporting Period <i>(Unaudited)</i>	1 January – 31 March 2010 <i>(Unaudited)</i>	Increase/(Decrease) of the Reporting Period as compared with the corresponding period of 2009 <i>(%)</i>
Net profit attributable to the shareholders of the Company (RMB'000)	68,295	68,295	80.70
Basic earnings per share (RMB)	0.084	0.084	80.70
Basic earnings per share after deducting non-operating items (RMB)	0.078	0.078	90.47
Diluted earnings per share (RMB)	0.084	0.084	80.70
Fully diluted return on net assets (%)	2.05	2.05	An increase of 0.85 percentage point
Fully diluted return on net assets after deducting non-operating items (%)	1.87	1.87	An increase of 0.83 percentage point

Notes: (1) The above financial data and indicators are computed based on the consolidated financial statements.

(2) Non-operating items include:

Non-operating items (1 January – 31 March 2010)	Amount <i>(RMB'000)</i>	Explanation
Gain/(Loss) on disposal of non-current assets	(25)	
Government subsidies recognized as gain/(loss)	3,839	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.
Gain/(Loss) from changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets	77	
Write back of provision for impairment of accounts receivable undergoing independent impairment test	1,128	This is the amount of the accounts receivable which the Company's subsidiaries had made separate provisions for the impairment and were recovered during the Reporting Period.
Gain/(Loss) received from entrusted loans	(114)	
Other non-operating income and expenses excluding the above items	879	
Income tax effect	(186)	
Effect on minority interests	(187)	
Total	5,411	

2.2 Number of shareholders and the top ten shareholders of the Company and their shareholdings at the end of the Reporting Period (with the Share Reform Plan completed):

As at 31 March 2010, there were 49,167 shareholders in total, among which, 49,133 shareholders holding the Renminbi-denominated ordinary shares (A shares) and 34 shareholders holding overseas listed foreign shares (H shares).

Name of shareholders	No. of shares held as at the end of the Reporting Period (share)	Nature of shares
Guangzhou Pharmaceutical Holdings Limited	390,833,391	Domestic shares
HKSCC Nominees Limited <i>(note)</i>	219,197,299	H shares
Guangzhou Beicheng Rural Credit Cooperative	23,402,000	Domestic shares
China Construction Bank – Industrial Social Responsibility Stock Securities Investment Fund	7,791,469	Domestic shares
China Construction Bank – South Sheng Yuan Securities Investment Stock Dividends Fund	5,291,028	Domestic shares
Industrial and Commercial Bank of China – Tian Yuan Securities Investment Fund	4,875,954	Domestic shares
Industrial and Commercial Bank of China – Galaxy Yintai Financial Securities Investment Dividend Fund	3,003,910	Domestic shares
Industrial and Commercial Bank of China – UBS SDIC Ruifu Equity Securities Investment Classification Fund	2,949,652	Domestic shares
Industrial and Commercial Bank of China – GF Exchange & Securities Investment Fund	1,799,916	Domestic shares
China Construction Bank – ICBC Credit Suisse Selected Balanced Mixed Securities Investment Fund	1,792,700	Domestic shares

Note: According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.

3 MAJOR EVENTS

3.1 Significant changes in major accounting items and financial indicators of the Company's financial statements and reasons for change

√ Applicable □ Not applicable

Balance sheet items	As at 31 March 2010 (RMB'000)	As at 31 December 2009 (RMB'000)	Increase/ decrease (%)	Reason for change
Trading financial assets	15,409	31,332	(50.82)	As at 31 March 2010, the Group reduced the amount of its invested financial products by RMB16,000,000.
Accounts receivable	486,517	352,563	37.99	During the Reporting Period, the Group strengthened its marketing efforts actively, expanded its sales channels, and increased the sales of its products. Accordingly, the amount of its accounts receivable increased.
Accounts payable	393,705	302,758	30.04	During the Reporting Period, the Group's trading enterprises actively developed quality downstream clients and obtained longer commercial credit terms.
Salaries payable	80,883	56,821	42.35	As at 31 March 2010, the accrued but unpaid emoluments of the Group increased.
Accrued expenses	38,393	12,936	196.80	As at 31 March 2010, the accrued but unpaid advertising costs of the Group increased.

Income statement items	The Reporting Period <i>(RMB'000)</i>	The corresponding period of 2009 <i>(RMB'000)</i>	Increase/decrease <i>(%)</i>	Reason for change
Finance expenses	(265)	2,556	(110.38)	The interests paid for the Reporting Period of the Group decreased as a result of the payment of most of its bank borrowings in 2009.
Investment income	12,613	25,008	(49.56)	During the Reporting Period, the net profits of the Company's joint ventures decreased as compared with the corresponding period of last year, which resulted in the decrease in the Group's investment income recognized under the equity method.
Net profit attributable to the shareholders of the Company	68,295	37,795	80.70	During the Reporting Period, the Group actively strengthened its marketing efforts, expanded its sales channels, increased sales of its products and improved sales margins.
Net cash flows from operating activities	(3,873)	84,737	(104.57)	During the Reporting Period, the Group expanded its production and increased inventory of its products, so as to meet the sales demand.

3.2 Explanation and analysis on major events and their impact and solutions

Applicable Not applicable

3.3 Performance of the undertakings by the Company, its shareholders and beneficial owner

Applicable Not applicable

3.4 Early warning and explanation for negative impact on profit for the next reporting period, or significant profit fluctuation in comparison to the corresponding period of 2009

Applicable Not applicable

3.5 The status of implementation of cash dividend policy during the Reporting Period

Pursuant to the resolution in relation to the proposed profit distribution and dividend payment for the year 2009 passed at the meeting of the Board on 26 March 2010, the Board proposed to distribute the final dividend of RMB0.05 per share (withholding tax) for 2009, with the total amount of RMB40,545,000.

The above proposal is subject to the approval by shareholders at the 2009 Annual General Meeting of the Company.

4 APPENDIX

The financial statements prepared in accordance with the PRC accounting standards (unaudited)

Balance Sheet

As at 31 March 2010

Items	Consolidated		The Company	
	At the end of the Reporting Period (RMB)	At the beginning of the Reporting Period (RMB)	At the end of the Reporting Period (RMB)	At the beginning of the Reporting Period (RMB)
ASSETS				
Current assets:				
Cash	688,529,495.84	696,933,940.31	218,181,321.22	223,165,989.78
Trading financial assets	15,408,803.26	31,331,949.92	5,408,803.26	11,331,949.92
Notes receivable	155,833,241.28	160,026,900.02	4,941,970.32	3,117,663.47
Accounts receivable	486,516,699.33	352,562,903.02	96,199,213.28	45,773,761.76
Prepayment	83,281,456.92	96,830,937.15	33,343,421.85	48,105,313.81
Interests receivable	—	—	—	—
Dividends receivable	—	—	39,977,913.38	39,977,913.38
Other receivables	50,619,320.57	38,731,666.23	342,305,934.35	326,573,964.81
Inventories	624,909,886.27	560,522,106.34	17,463,431.82	11,108,745.47
Prepaid expenses	3,505,274.95	618,736.32	—	—
Entrusted loans	—	—	173,000,000.00	183,000,000.00
non-current assets due within 1 year	—	—	—	—
Other current assets	—	—	—	—
Total current assets	2,108,604,178.42	1,937,559,139.31	930,822,009.48	892,155,302.40

Items	Consolidated		The Company	
	At the end of the Reporting Period (RMB)	At the beginning of the Reporting Period (RMB)	At the end of the Reporting Period (RMB)	At the beginning of the Reporting Period (RMB)
Non-currents assets:				
Available-for-sale financial assets	2,192,958.00	2,476,347.50	—	—
The held-to-maturity investments	—	—	—	—
Long-term receivables	—	—	—	—
Long-term equity investment	914,304,833.76	904,628,381.95	2,107,193,930.12	2,094,636,366.28
Investment properties	89,617,895.78	90,966,194.94	38,469,841.37	38,805,385.51
Fixed assets	1,088,600,772.64	1,106,763,286.41	15,314,550.24	15,521,434.79
Construction in progress	30,311,137.20	26,769,726.28	—	—
Construction supplies	—	—	—	—
Disposal of fixed assets	—	—	—	—
Intangible assets	98,759,306.37	99,709,971.03	—	—
Development expenses	730,251.69	668,341.69	—	—
Goodwill	—	—	—	—
Long-term deferred expenses	6,189,440.22	5,877,549.95	—	—
Deferred income tax assets	52,312,136.70	47,077,136.77	2,703,305.20	1,740,974.36
Other non-current assets	—	—	—	—
Total non-current assets	2,283,018,732.36	2,284,936,936.52	2,163,681,626.93	2,150,704,160.94
Total assets	4,391,622,910.78	4,222,496,075.83	3,094,503,636.41	3,042,859,463.34
Liabilities and shareholders' equity				
Current liabilities:				
Short-term borrowings	58,369,822.21	63,369,822.21	—	—
Trading financial liabilities	—	—	—	—
Notes payable	37,341,292.48	29,790,259.56	—	—
Accounts payable	393,704,874.58	302,757,946.00	80,708,699.68	21,617,796.58
Advances payment	83,801,246.26	121,348,338.16	13,832,514.31	38,702,648.48
Salaries payable	80,883,034.92	56,820,688.90	4,045,328.79	4,899,160.36
Taxes payable	26,242,867.31	23,755,739.08	2,573,383.24	6,917,471.97
Interests payable	—	—	—	—
Dividend payable	64,870.92	64,870.92	(452.14)	(452.14)
Other payables	96,169,400.45	101,178,045.85	5,122,756.87	3,862,187.20

Items	Consolidated		The Company	
	At the end of the Reporting Period (RMB)	At the beginning of the Reporting Period (RMB)	At the end of the Reporting Period (RMB)	At the beginning of the Reporting Period (RMB)
Accrued expenses	38,392,775.13	12,935,514.37	4,306,873.58	3,819,364.58
Non-current liabilities due within 1 year	—	—	—	—
Other current liabilities	—	—	—	—
Total current liabilities	814,970,184.26	712,021,225.05	110,589,104.33	79,818,177.03
Non-current liabilities:				
Long-term borrowings	—	—	—	—
Bonds payable	—	—	—	—
Long-term payables	4,427,799.26	4,440,864.66	—	—
Special payables	—	—	—	—
Deferred income	78,962,188.17	75,896,458.47	—	—
Estimated liabilities	19,843,757.94	26,255,431.89	110,735.14	121,086.07
Deferral income tax liabilities	2,282,621.17	2,306,637.62	1,407,830.19	1,391,325.05
Other non-current liabilities	—	—	—	—
Total non-current liabilities	105,516,366.54	108,899,392.64	1,518,565.33	1,512,411.12
Total liabilities	920,486,550.80	820,920,617.69	112,107,669.66	81,330,588.15
Shareholders' equity:				
Share capital	810,900,000.00	810,900,000.00	810,900,000.00	810,900,000.00
Capital reserves	1,142,647,595.92	1,144,082,619.28	1,089,736,728.90	1,089,861,878.45
Less: Treasury shares	—	—	—	—
Surplus reserves	556,609,177.06	556,609,177.06	223,453,263.13	223,453,263.13
Retained profits	860,889,598.51	792,594,656.13	858,305,974.72	837,313,733.61
Exchange difference on foreign currency capital	—	—	—	—
Shareholders' equity attributable to the shareholders of the Company	3,371,046,371.49	3,304,186,452.47	2,982,395,966.75	2,961,528,875.19
Minority interests	100,089,988.49	97,389,005.67		
Total shareholders' equity	3,471,136,359.98	3,401,575,458.14	2,982,395,966.75	2,961,528,875.19
Total liabilities and shareholders' equity	4,391,622,910.78	4,222,496,075.83	3,094,503,636.41	3,042,859,463.34

Income Statement

1 January – 31 March 2010

Items	Consolidated		The Company	
	The Reporting Period (RMB)	The corresponding period of the previous year (RMB)	The Reporting Period (RMB)	The corresponding period of the previous year (RMB)
1. Income from operations	1,240,678,837.90	1,035,690,965.23	302,435,463.87	176,988,649.54
Include: income from principal operations	1,223,438,212.77	1,016,243,020.90	292,330,714.52	170,156,349.93
2. Cost of operations	927,353,353.31	804,429,775.24	285,937,211.59	163,594,516.20
Include: cost of principal operations	924,898,277.64	801,212,026.34	285,601,667.45	163,258,972.06
Less: sales taxes and surcharges	7,577,137.43	6,527,975.16	857,856.00	656,582.95
Sales expenses	135,721,549.75	107,674,002.34	2,976,813.71	3,789,154.35
General and administrative expenses	111,072,279.96	99,850,309.52	6,688,119.50	6,707,584.39
Finance expenses	(265,358.33)	2,555,504.54	(480,703.75)	161,709.16
Asset impairment loss	(169,027.53)	541,697.29	(20,042.12)	—
Add: Gain from movement in fair value	76,853.34	624,034.20	76,853.34	624,034.20
Investment income	12,613,196.81	25,007,866.64	13,112,340.27	28,933,515.27
Include: Share of profits from associates and joint venture	12,634,941.17	23,355,070.30	11,082,713.39	25,799,038.80
3. Operating profit	72,078,953.46	39,743,601.98	19,665,402.55	31,636,651.96
Add: Non-operating income	5,006,016.61	4,693,101.60	507,274.54	2,776.75
Less: Non-operating expenses	313,613.25	1,862,166.16	4,384.43	12,128.63
Include: Loss from disposal of non-current assets	26,911.19	109,398.29	—	12,028.63
4. Total profit	76,771,356.82	42,574,537.42	20,168,292.66	31,627,300.08
Less: Income tax expenses	5,248,274.73	5,974,324.00	(823,948.45)	531,373.07
5. Net profit	71,523,082.09	36,600,213.42	20,992,241.11	31,095,927.01
Net profit attributable to the shareholders of the Company	68,294,942.38	37,795,348.63	20,992,241.11	31,095,927.01
Minority interests	3,228,139.71	(1,195,135.21)		

Items	Consolidated		The Company	
	The Reporting	The corresponding	The Reporting	The corresponding
	Period	period of the	Period	period of the
	(RMB)	previous year	(RMB)	previous year
		(RMB)		(RMB)
6. Earnings per share				
(1) Basic earnings per share	0.084	0.047	0.026	0.038
(2) Diluted earnings per share	0.084	0.047	0.026	0.038
7. Other comprehensive income	(362,180.25)	582,300.83	(125,149.55)	207,925.28
8. Total comprehensive income	71,160,901.84	37,182,514.25	20,867,091.56	31,303,852.29
(1) Comprehensive income attributable to the shareholders of the Company	67,938,641.53	38,368,543.33	20,867,091.56	31,303,852.29
(2) Comprehensive income attributable to the minority shareholders	3,222,260.31	(1,186,029.08)		

Cash Flow Statement

1 January – 31 March 2010

Items	Consolidated		The Company	
	The Reporting Period (RMB)	The corresponding period of the previous year (RMB)	The Reporting Period (RMB)	The corresponding period of the previous year (RMB)
1. Cash flows from operating activities				
Cash received from sale of goods and rendering of services	1,257,509,443.44	1,179,606,826.77	269,082,341.51	187,524,438.43
Refund of taxes and levies	3,960,507.34	3,337,878.98	–	10,069.16
Cash received from other operating activities	24,916,254.44	18,674,165.89	3,535,985.77	4,606,452.44
Sub-total of cash inflows from operating activities	1,286,386,205.22	1,201,618,871.64	272,618,327.28	192,140,960.03
Cash paid for goods and services	966,997,284.84	795,384,734.91	272,086,970.23	189,364,857.12
Cash paid to and on behalf of employees	157,626,571.24	171,967,729.85	5,006,832.93	6,232,264.97
Taxes paid	84,127,440.00	35,355,469.74	6,470,678.00	8,231,945.05
Cash paid relating to other operating activities	81,507,751.05	114,173,815.24	3,987,906.22	8,348,097.78
Sub-total of cash outflows from operating activities	1,290,259,047.13	1,116,881,749.74	287,552,387.38	212,177,164.92
Net cash flows from operating activities	(3,872,841.91)	84,737,121.90	(14,934,060.10)	(20,036,204.89)
2. Cash flows from investing activities				
Cash received from investments	119,650,000.00	91,610,000.00	6,000,000.00	–
Cash received from disposal of subsidiaries	–	–	–	–
Cash received from investment income	91,857.69	1,526,112.44	1,528.93	–
Cash received from disposal of fixed assets, intangible assets and other long-term assets	7,606,451.00	178,148.25	–	5,672,170.00

Items	Consolidated		The Company	
	The Reporting Period (RMB)	The corresponding period of the previous year (RMB)	The Reporting Period (RMB)	The corresponding period of the previous year (RMB)
Other cash received from investing activities	531,364.66	1,792,125.00	47,673,064.66	38,321,405.00
Sub-total of cash inflows from investing activities	127,879,673.35	95,106,385.69	53,674,593.59	43,993,575.00
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	20,928,220.51	20,115,423.43	11,600.00	48,909.00
Cash paid for investments	105,250,000.00	94,090,000.00	1,600,000.00	—
Cash paid for purchase of subsidiaries	—	—	—	—
Other cash paid in relation to investing activities	113,602.05	62,897,528.58	42,113,602.05	102,846,995.12
Sub-total of cash outflows from investing activities	126,291,822.56	177,102,952.01	43,725,202.05	102,895,904.12
Net cash flows from investing activities	1,587,850.79	(81,996,566.32)	9,949,391.54	(58,902,329.12)
3. Cash flows from financing activities				
Proceeds from absorbing investments	—	—	—	—
Include: Cash received from minority shareholders from subsidiaries	—	—	—	—
Cash received from borrowings	—	57,052,160.00	—	—
Other proceeds relating to financing activities	—	20,443,381.42	—	—

Items	Consolidated		The Company	
	The Reporting Period (RMB)	The corresponding period of the previous year (RMB)	The Reporting Period (RMB)	The corresponding period of the previous year (RMB)
Sub-total of cash inflows from financing activities	–	77,495,541.42	–	–
Repayment of borrowings	5,000,000.00	91,982,908.61	–	–
Cash paid for distribution of dividends, profits or interests	489,157.26	3,039,469.82	–	377,999.92
Include: Dividend and profit payable to minority shareholders from subsidiaries	–	485,520.00	–	–
Other cash paid relating to financing activities	–	–	–	–
Sub-total of cash outflows from financing activities	5,489,157.26	95,022,378.43	–	377,999.92
Net cash flows from financing activities	(5,489,157.26)	(17,526,837.01)	–	(377,999.92)
4. Effects of foreign exchange rate changes on cash and cash equivalents	–	–	–	–
5. Net increase in cash and cash equivalents	(7,774,148.38)	(14,786,281.43)	(4,984,668.56)	(79,316,533.93)
Add: Cash and cash equivalents at the beginning of the Reporting Period	667,385,437.68	347,394,166.57	223,165,989.78	158,746,789.65
6. Cash and cash equivalents at the end of the Reporting Period	659,611,289.30	332,607,885.14	218,181,321.22	79,430,255.72

The Board of
Guangzhou Pharmaceutical Company Limited

Guangzhou, the PRC, 29 April 2010

As at the date of this report, 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.