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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 2010 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 summary.
- 1.2 This summary is extracted from the full text of the 2010 interim report of the Company, which will be published on the website (<http://www.sse.com.cn>) of The Shanghai Stock Exchange (“SSE”), and on 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 read the full text of the 2010 interim report carefully.
- 1.3 Directors of the Board were present at the 2nd meeting of the fifth session of the Board of the Company, among whom, Mr. Yang Rongming, the chairman of the Board was unable to attend the meeting personally, and appointed Mr. Li Chuyuan, the vice chairman of the Board, to attend the meeting and vote on his behalf.
- 1.4 Mr. Yang Rongming, the chairman of the Board, Mr. Wu Changhai, director and general manager, Mr. Chen Binghua, financial controller and senior manager of the Finance Department, warrant and confirm the authenticity and completeness of the financial reports contained in this interim report.
- 1.5 The financial reports of the Company and its subsidiaries (collectively the “Group”) and the Company contained in this interim report for the six months ended 30 June 2010 (the “Reporting Period”) are unaudited.
- 1.6 There has no non-operational appropriation of funds of the Company by its connected parties.

- 1.7 The Company has not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
- 1.8 The financial data quoted in this summary were all prepared in accordance with the Accounting Standards of the PRC (the “PRC Accounting Standards”) unless otherwise specified.
- 1.9 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the condensed consolidated financial data prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, the Chinese version shall prevail.
- 1.10 All the information required to be contained in the summary of 2010 interim report of the Company pursuant to paragraph 46 of Appendix 16 to the Rules Governing the Listing of Securities on HKEx (the “Listing Rules”) will be published on the website of HKEx in due course.

2. COMPANY PROFILE

2.1 General information

Stock abbreviation:	GZ Phar.	
Stock code:	600332 (A share)	
Stock exchange:	The Shanghai Stock Exchange	
Stock abbreviation:	GZ Phar.	
Stock code:	0874 (H share)	
Stock exchange:	The Stock Exchange of Hong Kong Limited	
	Secretary to the Board	Representative of securities affairs
Name	Pang Jianhui	Huang Xuezheng
Address	45 Sha Mian North Street, Liwan District, Guangzhou, Guangdong, PRC	
Telephone	(8620)8121 8084	(8620)8121 8119
Fax	(8620)8121 6408	
E-mail	pangjh@gpc.com.cn	huangxz@gpc.com.cn

2.2 Principal financial data and indicators

2.2.1 Financial data and indicators prepared in accordance with the PRC Accounting Standards

Items	As at 30 June 2010 (Unaudited)	As at 31 December 2009 (Audited)	Changes as compared with 31 December 2009 (%)
Total assets (RMB'000)	4,521,724	4,222,496	7.09
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	3,430,448	3,304,186	3.82
Net assets per share attributable to the shareholders of the Company (RMB)	4.23	4.07	3.82

Items	The Reporting Period (Unaudited)	The corresponding period of 2009 (Unaudited)	Changes as compared with the corresponding period of 2009 (%)
Operating profit (RMB'000)	187,981	116,070	61.96
Total profit (RMB'000)	197,571	124,200	59.08
Net profit attributable to the shareholders of the Company (RMB'000)	168,777	116,563	44.79
Net profit attributable to the shareholders of the Company after deducting non-operating items (RMB'000)	156,467	103,858	50.65
Basic earnings per share (RMB)	0.208	0.144	44.79
Basic earnings per share after deducting non-operating items (RMB)	0.193	0.128	50.65
Diluted earnings per share (RMB)	0.208	0.144	44.79
Fully diluted return on net assets ratio (%)	4.92	3.63	An increase of 1.29 percentage points
Weighted average return on net assets ratio (%)	4.98	3.66	An increase of 1.32 percentage points
Net cash flows from operating activities (RMB'000)	84,989	242,138	(64.90)
Net cash flow from operating activities per share (RMB)	0.105	0.299	(64.90)

Note: The above financial data and indicators are computed based on the consolidated financial statements.

2.2.2 Non-operating items

Applicable Not applicable

Items	Amount <i>(RMB'000)</i>	Explanation
Gain/(Loss) on disposal of non-current assets	42	
Government subsidies recognized as gain/(loss)	9,352	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.
Gain/(Loss) on 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, trading financial liabilities and financial assets available for sale	(43)	
Write back of provision for impairment of accounts receivable undergoing independent impairment test	3,989	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	(249)	
Other non-operating income and expenses excluding the above items	162	
Income tax effect	(106)	
Effect on minority interest (after tax)	(837)	
Total	12,310	

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

Summary of assets and liabilities

Items	As at 30 June 2010 (Unaudited)	As at 31 December 2009 (Audited)	Changes as compared with 31 December 2009 (%)
Current assets (RMB’000)	2,271,496	1,950,182	16.48
Current liabilities (RMB’000)	972,255	796,376	22.08
Total assets (RMB’000)	4,750,071	4,449,007	6.77
Total liabilities (RMB’000)	1,054,492	885,341	19.11
Net assets attributable to the shareholders of the Company (RMB’000)	3,578,978	3,450,002	3.74
Net assets per share (RMB)	4.41	4.25	3.74

Summary of results

Items	The Reporting Period (Unaudited)	The corresponding period of 2009 (Unaudited)	Changes as compared with the corresponding period of 2009 (%)
Profit before income tax (RMB’000)	198,217	123,579	60.40
Net profit attributable to the shareholders of the Company (RMB’000)	169,356	118,788	42.57
Earnings per share (RMB)	0.209	0.146	42.57

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

√ Applicable □ Not applicable

	As at 30 June 2010 (RMB'000)	As at 31 December 2009 (RMB'000)
Net assets attributable to shareholders of the Company under the PRC Accounting Standards	3,430,448	3,304,186
Difference arising from fixed assets revaluation	100,512	102,995
Revaluation of investment properties	110,728	97,257
Revaluation of investment on China Everbright Bank Company Limited	8,030	15,523
Net effect of deferred tax	(54,355)	(53,512)
Difference in non-controlling interests	(16,385)	(16,447)
	<hr/>	<hr/>
Net assets attributable to shareholders of the Company under HKFRS	<u>3,578,978</u>	<u>3,450,002</u>
	For the six months ended 30 June	
	<hr/>	<hr/>
	2010	2009
	(RMB'000)	(RMB'000)
Net profit attributable to shareholders of the Company under the PRC Accounting Standards	168,777	116,563
Additional depreciation on revalued fixed assets	(2,483)	(2,483)
Government subsidies recognized as deferred income through profit and loss	–	123
Difference arising from investment properties in cost model and fair value model	3,130	1,456
Net effect of deferred tax	(130)	621
Difference in non-controlling interests	62	2,508
	<hr/>	<hr/>
Net profit attributable to shareholders of the Company under HKFRS	<u>169,356</u>	<u>118,788</u>

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF MAJOR SHAREHOLDERS

3.1 Changes in share capital

3.1.1 Movement in share capital and its components

Applicable Not applicable

3.1.2 Changes of shares with selling restrictions

Applicable Not applicable

3.2 The top ten shareholders

Number of shareholders as at the end of the Reporting Period 48,174

Top ten shareholders

Name of shareholders	Changes in the number of shares held during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	% of the total share capital (%)	Number of shares held with to selling restrictions (share)	Number of pledged or frozen shares (share)	Nature of shares
Guangzhou Pharmaceutical Holdings Limited (“GPHL”)	0	390,833,391	48.20	Nil	Nil	Domestic shares
HKSCC Nominees Limited	0	219,197,299	27.03	Nil	Unknown	Foreign capital shares
Guangzhou Beicheng Rural Credit Cooperative	(22,290,000)	13,952,000	1.72	Nil	Nil	Domestic shares
Industrial and Commercial Bank of China-South Outstanding Growth Stock Securities Investment Fund	10,527,158	10,527,158	1.30	Nil	Unknown	Domestic shares
China Construction Bank-ICBC Credit Suisse Selected Balanced Mixed Securities Investment Fund	3,935,045	3,935,045	0.49	Nil	Unknown	Domestic shares
China Industrial and Commercial Bank of China-Tianyuan Securities Investment Fund	3,382,655	3,382,655	0.42	Nil	Unknown	Domestic shares
Bank of China-Huatai Bai Rui Shengshi open China Equity Securities Investment Fund	3,315,893	3,315,893	0.41	Nil	Unknown	Domestic shares
Industrial and Commercial Bank of China-Galaxy Yintai Financial Securities Investment Dividend Fund	3,003,910	3,003,910	0.37	Nil	Unknown	Domestic shares
China Life Insurance Company Limited-Dividend-Individual bonus-005L-ShanghaiFH002	2,999,931	2,999,931	0.37	Nil	Unknown	Domestic shares
Agricultural Bank of China – Zhongyou Core Prime Equity Securities Investment Fund	2,773,718	2,773,718	0.34	Nil	Unknown	Domestic shares

Explanation on the connection among the above shareholders

- (1) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- (2) The Company was not aware of any connection among the above top ten shareholders, or whether they were persons acting in concert as provided in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

3.3 Change of 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) The resignation of Mr. Feng Zansheng as a director of the Company was approved by the resolution passed at the twentieth meeting of the fourth session of the Board of the Company held on 11 May 2010.
- (2) The resignation of Mr. Shi Shaobin as the general manager of the Company was approved by the resolution passed at the twenty-first meeting of the fourth session of the Board of the Company held on 21 May 2010. Mr. Wu Changhai was appointed as the general manager of the Company, with a term of office commencing from the date of his appointment until the date of election of the fifth session of the Board of the Company.
- (3) At the 2009 annual general meeting of the Company held on 28 June 2010, Mr. Yang Rongming, Mr. Li Chuyuan, Mr. Shi Shaobin and Mr. Wu Changhai were elected as executive directors of the fifth session of the Board of the Company, and Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong were elected as independent non-executive directors of the fifth session of the Board of the Company; Ms. Yang Xiuwei and Mr. Zhong Yugan were elected as shareholder’s representative supervisors of the fifth session of the Supervisory Committee of the Company, and Mr. Wu Quan was elected as a candidate of staff representative supervisor of the fifth session of the Supervisory Committee of the Company.

Each of the elected directors and supervisors shall have a term of office commencing from the date of his/her appointment to the date when members of the new session of the Board and the Supervisory Committee are elected.

Mr. Wong Hin Wing, an independent non-executive director of the fourth session of the Board, ceased to be director of the Company with effect from 28 June 2010.

- (4) At the first meeting of the fifth session of the Board of the Company held on 28 June 2010, Mr. Yang Rongming was elected as the chairman of the Company, and Mr. Li Chuyuan was elected as the vice chairman of the Company.

At the same meeting, Mr. Wu Changhai was appointed as the general manager of the Company, Mr. Su Guangfeng was appointed as the deputy general manager of the Company, Mr. Chen Binghua was appointed as the financial controller of the Company, and Mr. Pang Jianhui was appointed as the secretary of the Board of the Company.

Each of above persons shall have a term of office commencing from the date of his appointment until the date of election of the new session of the Board of the Company.

- (5) At the first meeting of the fifth session of the Supervisory Committee of the Company held on 28 June 2010, Ms. Yang Xiuwei was elected as the chairlady of the fifth session of the Supervisory Committee, with a term of office commencing from the date of her appointment until the date of election of the new session of the Supervisory Committee of the Company.

5. REPORT OF THE BOARD OF DIRECTORS

5.1 Management Discussion and Analysis

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

5.1.1 Business Scope

The Group is principally engaged in (a) the manufacture and sales of Chinese Patent Medicine, research and development of natural medicine and biological medicine; and (b) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

5.1.2 Operations review

During the Reporting Period, the Group persisted to concentrate on marketing, sustained marketing innovation, advanced marketing resources integration, put more efforts in market development, and strengthened production cost management, resulting in an improved operation with growth momentum.

According to the PRC Accounting Standards, the Group recorded an income from principal operations of RMB2,282,766,000 for the Reporting Period, with a growth of 19.96% as compared with the corresponding period of last year. Total profit amounted to RMB197,571,000, representing an increase of 59.08% over the corresponding period of last year and net profit attributable to shareholders of the Company amounted to RMB168,777,000, representing an increase of 44.79% over the corresponding period of last year.

According to HKFRS, the Group recorded a turnover of RMB2,282,766,000 for the Reporting Period, with a growth of 19.96% as compared with the corresponding period of last year. Profit before income tax amounted to RMB198,217,000, representing an increase of 60.40% over the corresponding period of last year and net profit attributable to shareholders of the Company amounted to RMB169,356,000, representing an increase of 42.57% over the corresponding period of last year.

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

Items	The Reporting Period <i>(RMB'000)</i>	The corresponding period of 2009 <i>(RMB'000)</i>	Increase/ (Decrease) <i>(%)</i>
Prepared in accordance with the PRC Accounting Standards			
Income from principal operations	2,282,766	1,903,008	19.96
Operating profit	187,981	116,070	61.96
Total profit	197,571	124,200	59.08
Net profit attributable to shareholders of the Company	168,777	116,563	44.79
Prepared in accordance with HKFRS			
Turnover	2,282,766	1,903,008	19.96
Profit before income tax	198,217	123,579	60.40
Net profit attributable to shareholders of the Company	169,356	118,788	42.57

5.2 Analysis of the Group's principal activities and major products is set out as follows:

5.2.1 Principal activities

Principal Operations	Income from principal operations		Costs of principal operations		Gross profit margin	
	Income from principal operations	Increase/Decrease over the same period of last year	Cost of principal operations	Increase/Decrease over the same period of last year	Gross profit margin	Increase/Decrease over the same period of last year
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	(percentage point)
Prepared in accordance with the PRC Accounting Standards						
Overall Operations	2,282,766	19.96	1,667,490	16.03	26.52	An increase of 2.59 percentage points
Included: Manufacturing	1,085,463	16.43	555,556	3.77	48.01	An increase of 6.41 percentage points
Pharmaceutical trading	862,258	5.31	779,470	3.78	9.48	An increase of 1.37 percentage points
Other trading	335,045	120.59	332,464	120.70	0.76	A decrease of 0.05 percentage point
Prepared in accordance with HKFRS						
Overall Operations	2,282,766	19.96	1,667,490	16.03	26.52	An increase of 2.59 percentage points
Included: Manufacturing	1,085,463	16.43	555,556	3.77	48.01	An increase of 6.41 percentage points
Pharmaceutical trading	862,258	5.31	779,470	3.78	9.48	An increase of 1.37 percentage points
Other trading	335,045	120.59	332,464	120.70	0.76	A decrease of 0.05 percentage point

5.2.2 Major products

Types of Products	Income from principal operations		Costs of principal operations		Profit margin of principal operations	
	Income from Principal operations (RMB'000)	Increase/Decrease over the corresponding period of last year (%)	Cost of principal operations (RMB'000)	Increase/Decrease over the corresponding period of last year (%)	Profit margin of principal operations (%)	Increase/Decrease over the corresponding period of last year (percentage point)
Heat clearing and anti-toxic medicine	152,942	51.17	84,373	37.55	44.03	An increase of 5.63 percentage points
Diabetic medicine	233,486	15.93	84,869	(6.97)	62.85	An increase of 9.11 percentage points
Cough and phlegm clearing medicine	151,907	22.67	71,780	11.07	51.94	An increase of 5.10 percentage points
Arthritic medicine	112,984	(5.24)	52,220	(11.22)	52.98	An increase of 3.28 percentage points
Gastric medicine	36,740	13.52	17,009	(5.87)	52.90	An increase of 9.70 percentage points
Other products	397,404	12.16	245,305	1.65	37.47	An increase of 6.55 percentage points

The total amount of sales of products from the Group to GPLH together with its connected parties for the Reporting Period amounted to RMB253,939,000.

5.3 Geographical analysis of principal business

√ Applicable □ Not applicable

Region	Income from principal operations <i>(RMB '000)</i>	Increase/Decrease over the corresponding period of last year <i>(%)</i>
Southern China	1,614,825	26.85
Eastern China	248,785	(5.07)
Northern China	128,677	(10.57)
North-Eastern China	35,987	(0.19)
South-Western China	141,750	52.98
North-Western China	46,459	24.74
Exports	66,283	14.14
Total	<u>2,282,766</u>	<u>19.96</u>

5.4 Manufacturing operations

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, we sought to increase the market share of our products in the end markets through optimizing and integrating the marketing channels, reinforcing the control on sales channels and stabilizing their prices. Secondly, we focused on sales innovation, continuously strengthened end market operation, strategically focused on the four end markets, namely hospital, OTC, communities and areas under the New Rural Cooperative Medical System in order to effectively boost the sales driven by end markets. Thirdly, we seized the opportunities arising from the change of the national medical reform polices and from the markets, reinforced works on government affairs, steadily progressed the work focusing on the basic list of medicines, list of medicines and insurance, community medical system, the New Rural Cooperative Medical System and product bidding. During the Reporting Period, leveraged on the medical reform, our manufacturing operations focused with more efforts on product bidding of those on the basic list of medicines and the list of medicines and insurance, and actively followed up with the expansion of the list of medicines and insurance for making more of our products eligible to be included in the list. Fourthly, we continued to implement strategic plans for brand building and enhanced product mix and brand promotion to aggressively increase the value of our brand assets. Fifthly, we strengthened our product mix by actively revitalizing potential products so as to develop new points of sales growth and to achieve sustainable development of the enterprises under the Company.

The profit margin of the manufacturing operations was 48.82%, representing an increase of 6.25 percentage points as compared with the corresponding period of last year. The increase in the profit margin of the manufacturing operations was mainly due to expansion in production of the Group's products boosted by their sales demand and the strengthened production cost management, which resulted in the decline of production cost of the Group's products.

During the Reporting Period, sales of Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xia Sang Ju Ke Li and other key products continued to show a positive growth momentum. Other products such as Wu Ji Bai Feng Wan, Mi Lian Chuan Bei Pi Pa Gao, She Dan Chuan Bei Pi Pa Ye, Xu Han Ting Ke Li, Hou Zao Niu Huang San, Qing Re Xiao Yan Ning Jiao Nang, Zi Shen Yu Tai Wan and Wei Nai An Jiao Nang recorded great increase as compared with the same period of last year.

During the Reporting Period, the Group continued to promote technological innovation by expediting innovative products development and technological upgrade. The Company's application of Scaling-up Technological Platform of TCM Exaction and Separation Key Technologies passed the assessment by experts, and obtained government subsidy for key technological projects. Hua Tuo Zai Zao Wan and Fu Fang Nan Ban Lan Gen Chong Ji of Guangzhou Qi Xing Pharmaceutical Co. Ltd. ("Qi Xing") were recognized as self-innovated products of Guangdong Province of 2009 by six relevant authorities including Guangdong Science and Technology Department. The application for the establishment of "Pharmaceuticals Engineering and Technology Research Center for Rheumatology Treatment of Guangzhou Jing Xiu Tang" Jing Xiu Tang Pharmaceutical Co., Ltd ("Jing Xiu Tang") by Jing Xiu Tang has been proceeded to the stage of review by an expert panel of the Productivity Promotion Center of Guangzhou. Guangzhou Zhong Yi Pharmaceutical Co., Ltd. ("Zhong Yi") applied for one invention patent of Xiao Ke Wan's prescription and manufacturing processes, one invention patent of quality standard, five patents of utility model and one design patent in respect of its Xiao Ke Wan.

5.5 Pharmaceutical trading

During the Reporting Period, as to the pharmaceutical trading operations, firstly we consolidated the cooperation with manufacturers, agents and other third parties and broadened our distribution channels. Secondly, we continued to deepen consolidation of resources, promote business resources integration with great efforts and optimize resources allocation. During the Reporting Period, the former Guangzhou Pharmaceutical Import and Export Corporation successfully restructured as a limited company and completed the business integration with Ying Bang Branch of Guangzhou Pharmaceutical Company Limited ("Ying Bang Branch Company"). Thus, its business development was fully promoted through active development of new products, businesses and distribution channels. Thirdly, we captured the opportunities arising from the medical reform to expand innovative services. In the meantime, we actively introduced other marketable products of insurance. Fourthly, we continued to perform well in the dispatch work of medicine to end markets, explored the unique end market distribution network for penetrating into the Pearl River Delta Region, enhanced the intensive cooperation with the manufacturers and continued to expand our net sales business.

As at 30 June 2010, the Group had 55 retail chain pharmacy outlets, including 54 "Cai Zhi Lin" which specializes in traditional Chinese medicines, one pharmacy named Ying Bang.

5.6 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 (%)	Income from principal operations (RMB'000)	Total Profit (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries				
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	88.99	115,587	5,380	4,573
Zhong Yi	100.00	332,648	74,635	63,273
Guangzhou Chen Li Ji Pharmaceutical Factory (“Chen Li Ji”) (note 1)	100.00	116,120	14,181	12,054
Qi Xing	75.00	154,415	15,004	12,219
Jing Xiu Tang	88.40	105,712	10,009	8,508
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	87.77	150,080	9,420	7,832
Guangxi Ying Kang Pharmaceutical Co., Ltd	51.00	19,242	343	343
Guangzhou Bai Di Bio-technology Co., Ltd (“Guangzhou Bai Di”)	98.48	584	(7,879)	(7,879)
Guangzhou Han Fang Contemporary Medicine Research & Development Co., Ltd.	97.04	44,508	(2,507)	(2,507)
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd	100.00	801,087	6,002	4,901
Guangzhou Pharmaceutical Import and Export Co., Ltd Corporation (note 2)	100.00	174,427	1,838	1,678
(2) Branch company				
Ying Bang Branch Company	–	571,116	3,134	3,134
(3) Joint ventures				
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (“Wang Lao Ji”) (note 3)	48.05	835,898	75,658	64,572
Guangzhou Pharmaceuticals Corporation (“GP Corp”) (note 4)	50.00	6,704,768	86,592	60,436
Guangzhou Nuo Cheng Bio-technology Co., Ltd (“Nuo Cheng”) (note 5)	50.00	1,107	(5,826)	(5,826)

Notes:

1. As at July 2010, Chen Li Ji was restructured as a limited company, and was renamed as “Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd.”.
2. Upon the restructuring of the former Guangzhou Pharmaceutical Import & Export Corporation, it was renamed as “Guangzhou Pharmaceutical Import & Export Co., Ltd” on 25 March 2010.
3. The results of Wang Lao Ji were stated in full amount in the above table.

Wang Lao Ji is principally engaged in the manufacture and sales of Chinese Patent Medicine and foodstuffs. In the first half of 2010, Wang Lao Ji achieved an income from principal operations of RMB835,898,000, representing a decrease of 2.47% as compared with the same period of the last year. Its total profit amounted to RMB75,658,000, representing a decrease of 39.55% as compared with the same period of last year and its net profit was RMB64,572,000, representing a decrease of 41.07% as compared with the same period of last year. During the Reporting Period, sales of Bao Ji Series and Run Hong Tang enjoyed great increases as compared with the same period of last year, while Wang Lao Ji Herb Tea recorded a decrease as compared with the same period of last year.

4. The results of GP Corp. were stated in full amount in the above table.

GP Corp. is principally engaged in wholesale and retail of western medicine and medical apparatus. In the first half of 2010, income from principal operations of GP Corp. amounted to RMB6,704,768,000, representing an increase of 20.66% as compared with the same period of last year; its total profit was RMB86,592,000, representing an increase of 18.89% as compared with the same period of last year and its net profit was RMB60,436,000, representing an increase of 15.96% as compared with the same period of last year.

5. The results of Nuo Cheng were stated in full amount in the above table.

Except the abovementioned joint ventures, namely Wang Lao Ji and GP Corp., the Company did not derive any investment income from any investee company equal to 10% or more of the net profit of the Company during the Reporting Period.

5.7 Other activities which have a significant impact on the Group’s net profit

Applicable Not applicable

5.8 Explanation on significant changes in principal activities as compared with the same period of last year and their composition

Applicable Not applicable

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

Applicable Not applicable

5.10 Explanation on significant changes in profit composition

Applicable Not applicable

5.11 Use of proceeds from issue of A shares

5.11.1 Use of proceeds from issue of A shares

Applicable Not applicable

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

5.11.2 Change in projects

Applicable Not applicable

5.12 Revision on the Board's operation plans for the second half of 2010

Applicable Not applicable

5.13 Early warning and explanation for negative impact on profit for the next reporting period or significant profit fluctuation in comparison to the same period of last year

Applicable Not applicable

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

Applicable Not applicable

5.15 The explanation of the Company's management on changes and handling of the issue by the auditors for 2009

Applicable Not applicable

5.16 Liquidity, financial resource and capital structure

As at 30 June 2010, the current ratio of the Group was 2.55 (30 June 2009: 2.54), and its quick ratio was 1.77 (30 June 2009: 1.79). During the Reporting Period, annual turnover rate for accounts receivable was 12.72 times, representing an increase of 25.07% as compared with that of 2009. Inventory turnover rate was 5.36 times, representing an increase of 11.97% as compared with 2009 as at the Reporting Period.

As at 30 June 2010, the cash and cash equivalents of the Group amounted to RMB741,415,000 (30 June 2009: RMB495,698,000), out of which approximately 98.97% and 1.03% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 30 June 2010, the current liabilities of the Group amounted to RMB886,046,000 and its short-term borrowings were RMB27,405,000 (30 June 2009: RMB141,280,000).

5.17 Capital expenditure

The Group expects the capital expenditure for 2010 to amount to approximately RMB124 million, among which, the expenditure in the first half of 2010 amounted to RMB35 million (2009: RMB26 million), which will be mainly applied in the construction of factories and infrastructure and purchases of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

5.18 Exposure to fluctuations in exchange rate

As majority of the revenue, expenses, assets and liabilities of the Group are denominated or settled in Renminbi, the Group does not have significant risks in exposure to fluctuations in exchange rates.

5.19 Contingent liabilities

As at 30 June 2010, the Group had no significant contingent liabilities.

5.20 Charge on Group's assets

As at 30 June 2010, the Group had no charge on its assets.

5.21 Bank loans, overdraft and other loans

As at 30 June 2010, the bank loans of the Group amounted to RMB27,405,000 (31 December 2009: RMB63,370,000), with a decrease of RMB35,965,000 as compared with the beginning of the 2010. All of the above bank loans were short-term bank loans.

5.22 Gearing ratio

As at 30 June 2010, the Group's gearing ratio (total liabilities/total assets x 100%) was 21.91% (31 December 2009: 19.44%).

5.23 As at the end of the Reporting Period, the number of the Group's employees amounted to 5,352. The remuneration policy on 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 2010 was RMB195,000,000.

6. MAJOR EVENTS

6.1 During the Reporting Period, the Group's purchase and disposal of assets or business combination and other transactions

6.1.1 Acquisition of assets

Applicable Not applicable

Trade partner or ultimate controller	Acquired asset	Date of acquisition	Price of asset acquisition (RMB'000)	Net profit contributed to the Group during the date of acquisition to the end of the Reporting Period (RMB'000)	Net profit contributed to the Group from the beginning of the Reporting Period to the end of the Reporting Period (applicable to mergers under the same entity) (RMB'000)	Connected transaction (if yes, explain the pricing principle)	The pricing principle of acquired asset	Whether all the assets and property rights involved have been transferred	Whether all the liabilities and debts involved have been transferred	Percentage of net profit to the Group contributed by the acquired assets to the total profit (%)	Relationship with the Company
Three individual shareholders of Guangzhou Bai Di	1.22% equity interest of Guangzhou Bai Di	10 March 2010	1,600	(44)	-	No	Based on the evaluation of the assets and negotiation	Yes	Yes	(0.03)	-

6.1.2 Disposal of assets

Applicable Not applicable

Trade partner	Disposed assets	Date of disposal	Price of asset disposed (RMB'000)	Net profit contributed to the Group from the date of disposal to the end of the Reporting Period (RMB'000)	Gain/(Loss) arising from the disposal of assets (RMB'000)	Connected transaction (if yes, explain the pricing principle)	The pricing principle of disposed asset	Whether all the assets and property rights involved have been transferred	Whether all the liabilities and debts involved have been transferred	Percentage of net profit to the Group contributed by the disposed assets to the total profit (%)	Relationship with the Company
Guangzhou Soccer Development Center	42.50% equity interest of Guangzhou Pharmaceutical Soccer Club Co., Ltd held by the Company's six subsidiaries	30 January 2010	8,500	-	3,637	No	Based on the evaluation of the assets and negotiation	Yes	Yes	2.15	-

Note: On 30 January 2010, the Company's six subsidiaries and its joint venture, namely Wang Lao Ji, signed the Agreement in relation to Equity Transfer of Guangzhou Pharmaceutical Soccer Club Co., Ltd, pursuant to which the 50% equity interest held therein were transferred to Guangzhou Soccer Development Center.

6.1.3 Other transactions during the Reporting Period

1. Connected transactions in the ordinary course of business

Pursuant to the regulations of CSRC and the SSE, details of such transactions were set out as follows:

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar transactions (%)	Settlement method of connected transactions
Guangzhou Baiyunshan Pharmaceutical Co., Ltd	Fellow ultimate holding company	Purchase of products	Medicine or pharmaceutical products	Market price	32,149	2.03	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	367	0.02	Cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	117	0.01	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	31,295	1.98	Cash
Polian Development Co., Ltd	Fellow Parent company	Purchase of products	Medicine or pharmaceutical products	Market price	40,323	2.55	Cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	138	0.01	Cash
GP Corp.	Joint venture	Purchase of roducts	Medicine or pharmaceutical products	Market price	35,282	2.23	Cash

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar transactions (%)	Settlement method of connected transactions
Wang Lao Ji	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	1,503	0.09	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	384	0.02	Cash
Guangzhou Baiyunshan Pharmaceutical Co., Ltd	Fellow ultimate holding company	Sales of products	Medicine or pharmaceutical products	Market price	25,859	1.13	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	24,359	1.07	Cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	1,974	0.09	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	52,803	2.31	Cash
Polian Development Co., Ltd	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	804	0.03	Cash
Guangzhou Pharmaceutical Industrial Institute	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	542	0.02	Cash

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar transactions (%)	Settlement method of connected transactions
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	20,038	0.88	Cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	100,840	4.42	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	26,711	1.17	Cash
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	9	0.00	Cash
GPHL	Parent company	Acceptance of patents, trademarks and other	Trademark rights	Agreement price	1,731	100.00	Cash
Wang Lao Ji	Joint venture	Acceptance of patents, trademarks and other	Trademark rights	Agreement price	7,463	100.00	Cash
Total					404,691	—	

The above connected transactions were transactions carried out within the Group's ordinary operations, determined with reference to market prices, and were considered to have had no negative impact on the Group's continuous operations.

Pursuant to the rules of HKEx, details of such transactions were set out as follows:

1 January – 30 June 2010
(RMB'000)

Ultimate holding company

License fee expenses	1,731
Welfare facilities fee expense	180
Rental expense	1,585

Fellow subsidiaries

Sales of finished goods and raw materials	126,387
Purchase of finished goods and raw materials	104,775

6.2 Guarantees

✓ Applicable Not applicable

Guarantees provided by the Group 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)
Nuo Cheng	2 July 2009	9,848	Joint and several liability guarantee	1 year	No	Yes
	6 November 2009	9,848	Joint and several liability guarantee	1 year	No	Yes
	6 January 2010	9,848	Joint and several liability guarantee	1 year	No	Yes

Accumulated amount of guarantees provided during the Reporting Period (RMB'000)	9,848
Balance of guarantees as at the end of the Reporting Period (RMB'000)	29,544

The Company's guarantees provided to its subsidiaries

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)	65,000
Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)	125,000

The Group's guarantees (including those provided to the Company's subsidiaries)

Total amount of guarantees provided (RMB'000)	154,544
Total amount of guarantees provided amount the net assets of the Group (%)	4.51

Including:

Amount of guarantees provided to the Company's shareholders, controlling shareholder and other connected parties (RMB'000)	–
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)	120,000
Amount of guarantees provided which exceeds 50% of the total net assets of the Group (RMB'000)	–
Total amount of the above three types of guarantees (RMB'000)	120,000

6.3 Non-operating funds to/from connected parties

Applicable Not applicable

6.4 Major litigation and arbitration

Applicable Not applicable

6.5 Purchase, sale or redemption of shares

Neither of the Company nor any of its subsidiaries had redeemed, sold, purchased or cancelled any of the Company's shares during the Reporting Period.

6.6 The Board did not recommend the payment of a dividend for the six months ended 30 June 2010 or a proposal for any increase in the share capital from the capital reserve.

6.7 Undertakings

1. Undertakings of conditional shares by shareholder holding 5% of more interests in the Company in 2010

Applicable Not applicable

2. As at the date of the interim report, the Company did not have any undertaking in relation with its results which had not been fully performed.

3. As at the date of the interim report, the Company did not have any undertakings in relation with assets injection or mergers which had not been fully performed.

6.8 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.

6.9 Model Code for Securities Transactions by Directors and Supervisors

The Company had adopted the Model Code for Securities Transaction by directors of Listed Issuers as set out in Appendix 10 of the Listing Rules and Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management as stipulated by the Company as the standards and criteria for securities transactions entered into by the directors and supervisors. After specific enquiries made to all directors and supervisors, the Company has confirmed that all the Company's directors and supervisors complied with the standards relating to directors' and supervisors' dealing in securities as set out in the above code and criteria during the Reporting Period.

6.10 The Audit Committee of the fifth session of the Board is comprised of five 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 2010.

6.11 Explanation on other major events, their impact and solutions

6.11.1 Stock Investments

Applicable Not applicable

No.	Type of Stock	Stock Code	Stock name	Initial investment amount (RMB'000)	Number of shares held at the end of the Reporting Period (share)	Book value as at the end of the Reporting Period (RMB'000)	% of stock investment for the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of the Shanghai Stock Exchange	600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	1,174	22.20	(47)
2	A Share of the Shanghai Stock Exchange	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	4,115	77.80	4
Other stock investments held as at the end of the Reporting Period				—	—	—	—	—
Gain/(Loss) of stock investments sold as at the end of the Reporting Period				—	—	—	—	—
Total				5,511	280,356	5,289	100	(43)

6.11.2 Information on the Company's interests in shares of other listed companies

Applicable Not applicable

Stock Code	Stock name	Initial investment amount (RMB'000)	% of shareholding (%)	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of share
601328	Bank of Communications	439	—	1,818	29	(676)	available-for-sale financial assets	Acquisition (note)

Note: During the Reporting Period, Bank of Communications placed shares at 1.5 shares per 10 shares in proportion to all its A share holders, with the placing price of 4.5 yuan per share. The Company's subsidiaries took part in the placing of shares and subscribed for a total of 37,567 shares.

7.2 Financial reports prepared in accordance with HKFRS

Condensed Consolidated Income Statement

		Unaudited	
		Six months ended 30 June	
	Note	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Revenue	7.2.3	2,282,766	1,903,008
Cost of sales		(1,667,490)	(1,437,096)
Gross profit		615,276	465,912
Other income		48,575	53,574
Other gains-net		5,286	3,512
Other operating expenses		(2,125)	(4,611)
Selling and marketing costs		(299,264)	(266,070)
Administrative expenses		(227,230)	(203,989)
Operating profit	7.2.7	140,518	48,328
Finance income		2,709	3,008
Finance costs		(2,106)	(7,548)
Share of losses of associates		(1,297)	(1,687)
Share of profits of jointly controlled entities		58,393	81,478
Profit before income tax		198,217	123,579
Income tax expense	7.2.8	(23,561)	(9,271)
Profit for the period		174,656	114,308
Profit attributable to:			
– Shareholders of the Company		169,356	118,788
– Non-controlling interests		5,300	(4,480)
		174,656	114,308
Earnings per share for profit attributable to shareholders of the Company (expressed in RMB per share)			
– basic and diluted	7.2.9	0.209	0.146
		Unaudited	
		Six months ended 30 June	
	Note	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Dividends	7.2.10	–	–

Condensed Consolidated Statement of Comprehensive Income

	Unaudited	
	Six months ended 30 June	
	2010	2009
	<i>RMB '000</i>	<i>RMB '000</i>
Profit for the period	174,656	114,308
Other comprehensive income		
Fair value (losses)/gains on available-for-sale financial assets, net of tax	(6,313)	915
Share of other comprehensive income of jointly controlled entities, net of tax	(216)	541
Revaluation of investment properties upon transfer from property, plant and equipment, net of tax	7,756	6,808
Other comprehensive income for the period, net of tax	1,227	8,264
Total comprehensive income for the period	175,883	122,572
Total comprehensive income attributable to:		
– Shareholders of the Company	170,600	126,146
– Non-controlling interests	5,283	(3,574)
	175,883	122,572

Condensed Consolidated Balance Sheet

	<i>Note</i>	Unaudited 30 June 2010 <i>RMB'000</i>	Audited 31 December 2009 <i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment		1,177,084	1,226,498
Investment properties		225,987	190,981
Leasehold land and land use rights		92,149	93,251
Intangible assets		11,270	11,855
Investments in associates		12,062	18,222
Investments in jointly controlled entities		886,688	876,435
Available-for-sale financial assets		26,354	34,506
Deferred income tax assets		46,981	47,077
		2,478,575	2,498,825
Current assets			
Inventories		683,629	560,522
Trade and other receivables	7.2.4	787,169	650,678
Dividend receivable from jointly controlled entities		22,031	–
Financial assets at fair value through profit or loss		5,289	31,332
Tax recoverable		9,097	10,716
Restricted cash		18,332	29,549
Cash and cash equivalents		741,415	667,385
Non-current assets classified as held for sale		4,534	–
		2,271,496	1,950,182
Total assets		4,750,071	4,449,007
EQUITY			
Equity attributable to shareholders of the Company			
Share capital		810,900	810,900
Share premium		781,134	781,134
Other reserves		1,022,364	1,024,061
Retained earnings			
– Proposed final dividend		–	40,545
– Others		964,580	793,362
		3,578,978	3,450,002

Condensed Consolidated Balance Sheet (continued)

	<i>Note</i>	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Non-controlling interests		116,601	113,664
Total equity		3,695,579	3,563,666
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		56,611	55,833
Government grants		20,434	19,503
Employee benefits payables		5,192	13,629
		82,237	88,965
Current liabilities			
Trade and other payables	7.2.5	889,542	722,456
Dividend payables		40,659	65
Current income tax liabilities		14,649	10,485
Borrowings	7.2.6	27,405	63,370
		972,255	796,376
Total liabilities		1,054,492	885,341
Total equity and liabilities		4,750,071	4,449,007
Net current assets		1,299,241	1,153,806
Total assets less current liabilities		3,777,816	3,652,631

7.2.1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

7.2.2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

The following revisions to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), “Business combinations”, and consequential amendments to HKAS 27, “Consolidated and separate financial statements”, HKAS 28, “Investments in associates”, and HKAS 31, “Interests in joint ventures”, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs are expensed.

As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), “consolidated and separate financial statements”, at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

7.2.2 Accounting policies (continued)

- (b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group
- HKFRS 1 (Revised), “First-time adoption of HKFRSs”. This is not relevant to the Group.
 - HK(IFRIC)-Int 17, “Distributions of non-cash assets to owners” is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
 - HKFRS 1(Amendment), “Additional exemptions for first-time adopters” is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.
 - HKAS 39 (Amendment), “Eligible hedged items” is effective for annual periods beginning on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging items.
 - HKFRS 2 (Amendment), “Group cash-settled share-based payment transaction” is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.
 - First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The improvement related to HKFRS 5 “Non-current assets held for sale and discontinued operations” (and consequential amendment to HKFRS 1 “First-time adoption”) is effective for annual periods beginning on or after 1 July 2009.
 - Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

7.2.3 Segment information

The chief operating decision-maker has been identified as the Board of Directors (“BOD”). The BOD reviews the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The BOD considered the nature of the Group’s business and determined that the Group has three reportable operating segments as follows:

- Manufacturing: manufacture and sale of the Group’s own CPM on a wholesale basis;
- Pharmaceutical trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine;

7.2.3 Segment information (continued)

- Other trading: wholesale of goods other than pharmaceutical products.

The BOD assesses the performance of the operating segments based on a measure of revenue and the profit after tax for the period. Other information provided, except as noted below, to the BOD is measured in a manner consistent with that in the financial statements.

Assets of reportable segments exclude corporate property, plant and equipment, investment properties, investments in subsidiaries, interests in associates, interests in jointly controlled entities, available-for-sale financial assets, deferred income tax assets, loans to subsidiaries, loans to jointly controlled entities, dividends due from subsidiaries, financial assets at fair value through profit or loss, cash and cash equivalents and other unallocated corporate assets, all of which are managed on a central basis. These are part of the reconciliation to total balance sheet assets.

Liabilities of reportable segments exclude corporate deferred income tax liabilities, government grants, employee benefit payables, dividend payables, current income tax liabilities, borrowings and other unallocated corporate liabilities, all of which are managed on a central basis. These are part of the reconciliation to total balance sheet liabilities.

Turnover consists of sales from manufacturing, pharmaceutical trading and other trading segments, which are RMB1,085,463,000, RMB862,258,000 and RMB335,045,000 for the six months ended 30 June 2010 and RMB932,323,000, RMB818,799,000 and RMB151,886,000 for the six months ended 30 June 2009 respectively.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to the BOD is measured in a manner consistent with that in the condensed consolidated income statement.

The segment results for the period ended 30 June 2010 are as follows:

	Manufacturing	Pharmaceutical	Other	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2010				
Total revenue	1,102,660	1,191,316	335,045	2,629,021
Inter-segment revenue	(17,197)	(329,058)	–	(346,255)
Revenue(from external customers)	<u>1,085,463</u>	<u>862,258</u>	<u>335,045</u>	<u>2,282,766</u>
Profit after tax	<u>100,985</u>	<u>7,857</u>	<u>940</u>	<u>109,782</u>

7.2.3 Segment information (continued)

The segment results for the period ended 30 June 2009 are as follows:

	Manufacturing <i>RMB'000</i>	Pharmaceutical trading <i>RMB'000</i>	Other trading <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2009				
Total revenue	962,490	909,657	151,886	2,024,033
Inter-segment revenue	(30,167)	(90,858)	–	(121,025)
Revenue (from external customers)	<u>932,323</u>	<u>818,799</u>	<u>151,886</u>	<u>1,903,008</u>
Profit after tax	<u>13,898</u>	<u>6,612</u>	<u>667</u>	<u>21,177</u>

The segment assets and liabilities as at 30 June 2010 and 31 December 2009 are as follows:

	Manufacturing <i>RMB'000</i>	Pharmaceutical trading <i>RMB'000</i>	Other trading <i>RMB'000</i>	Total <i>RMB'000</i>
As at 30 June 2010				
Total assets	<u><u>2,679,369</u></u>	<u><u>879,472</u></u>	<u><u>74,889</u></u>	<u><u>3,633,730</u></u>
Total liabilities	<u><u>955,805</u></u>	<u><u>778,708</u></u>	<u><u>72,192</u></u>	<u><u>1,806,705</u></u>
As at 31 December 2009				
Total assets	<u><u>2,583,049</u></u>	<u><u>745,403</u></u>	<u><u>41,302</u></u>	<u><u>3,369,754</u></u>
Total liabilities	<u><u>885,021</u></u>	<u><u>602,432</u></u>	<u><u>39,545</u></u>	<u><u>1,526,998</u></u>

7.2.3 Segment information (continued)

A reconciliation of profit after tax is provided as follows:

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for reportable segments	109,782	21,177
Corporate income and expenses		
– Other income	20,950	19,548
– Other gains-net	3,594	1,002
– Corporate expenses	(8,553)	(9,385)
– Dividend income from subsidiaries	90,763	32,622
– Depreciation and amortisation	(514)	(974)
– Write back of provision for impairment of trade and other receivables	531	–
– Finance income	905	406
– Finance cost	(161)	(778)
– Share of post-tax losses from associates	(1,304)	(309)
– Share of post-tax profits from jointly controlled entities	58,393	81,478
– Income tax expense	(3,864)	(4,252)
Elimination	(95,866)	(26,227)
Profit for the period	174,656	114,308

The Group is domiciled in the PRC. The result of its revenue from external customers in the PRC for the six months ended 30 June 2010 is RMB2,216,990,000 (Six months ended 30 June 2009: RMB1,845,825,000), and the total of its revenue from external customers from other countries is RMB65,776,000 (Six months ended 30 June 2009: RMB57,183,000).

7.2.4 Trade and other receivables

Trade receivables generated from credit sales generally have credit terms within 3 to 6 months. The ageing analysis of trade receivables (including amounts due from related parties of trading in nature) were as follows:

	As at	
	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	471,067	340,644
6 months to 1 year	20,289	12,247
Over 1 year	34,678	35,683
	<hr/>	<hr/>
Less: provision for impairment of trade receivables	(38,843)	(36,011)
	<hr/>	<hr/>
Trade receivables-net	487,191	352,563
	<hr/> <hr/>	<hr/> <hr/>

7.2.5 Trade and other payables

At 30 June 2010, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) were as follows:

	As at	
	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	387,819	310,896
3 months to 1 year	16,035	17,469
1 year to 2 years	3,604	4,783
Over 2 years	6,518	4,124
	<hr/>	<hr/>
	413,976	337,272
	<hr/> <hr/>	<hr/> <hr/>

7.2.6 Borrowings

	As at	
	30 June 2010	31 December 2009
	<i>RMB '000</i>	<i>RMB '000</i>
Current	27,405	63,370
Movements in borrowings are analysed as follows:		
		<i>RMB '000</i>
Six months ended 30 June 2009		
Opening amount as at 1 January 2009		273,275
Additions		124,280
Repayments of borrowings		(246,275)
		<hr/>
Closing amount as at 30 June 2009		151,280
		<hr/>
Six months ended 30 June 2010		
Opening amount as at 1 January 2010		63,370
Additions		10,000
Repayments of borrowings		(45,965)
		<hr/>
Closing amount as at 30 June 2010		27,405
		<hr/>

Interest expense on borrowings for the six months ended 30 June 2010 amounted to RMB1,010,000 (six months ended 30 June 2009: RMB6,028,000).

The Group has the following undrawn borrowing facilities:

	As at	
	30 June 2010	31 December 2009
	<i>RMB '000</i>	<i>RMB '000</i>
Floating rate:		
– expiring within 1 year	62,724	70,218
	<hr/>	<hr/>

7.2.7 Operating profit

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

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	(9,352)	(9,056)
Write back of provision for impairment of inventories	(911)	(327)
Write back of provision for impairment of receivables	(4,122)	(7,339)
Fair value losses/(gains) from financial assets at fair value through profit or loss	43	(1,002)
Impairment charge relating to inventories	2,486	4,405
Impairment charge relating to receivables	6,264	3,310
Losses on disposal of property, plant and equipment and intangible assets	961	334
Gains from disposal of an associate	(3,637)	–
Depreciation and amortization	55,434	56,190

7.2.8 Income tax expense

The PRC corporate income tax has been provided at the rate of 25% (2009:25%) on the estimated assessable profit for the period, except for a jointly controlled entity which is a foreign investment production enterprise and six subsidiaries which are qualified as Guangdong New/High Technology Enterprise (“NHTE”). The jointly controlled entity is also entitled to an exemption from the PRC corporate income tax for two years commencing from the first profit-making year and a 50% reduction in the income tax rate in the following three years. In 2010, the tax rate for this jointly controlled entity is 12.5%. The applicable corporate income tax rate for the six subsidiaries qualified as NHTE is 15%, from 2008 to 2010 if these subsidiaries could continue to meet the NHTE criteria.

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC corporate income tax	23,264	9,055
Deferred income tax	297	216
	<u>23,561</u>	<u>9,271</u>

7.2.9 Earnings per share

The calculation of basic earnings per share is based on the net profit for the six months ended 30 June 2010 attributable to shareholders of RMB169,356,000 (2009: RMB118,788,000), divided by the weighted average number of ordinary shares outstanding during the period of 810,900,000 shares (2009: 810,900,000 shares). There were no dilutive potential ordinary shares as of period end and therefore the diluted earnings per share amount is the same as the basic.

7.2.10 Dividends

At a meeting held on 26 March 2010, the directors declared a final dividend of RMB0.05 per share for the year ended 31 December 2009, totaling RMB40,545,000 (2009: RMB32,436,000).

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2010 (2009: nil).

7.3 Notes to the financial statements

7.3.1 *Explanation on the change in the accounting policy, accounting estimates and accounting errors of the Company, reasons and impact*

Applicable Not applicable

7.3.2 *Significant changes in respect of consolidation scope of the Group during the Reporting Period*

Applicable Not applicable

7.3.3 *Notes to the non-standard unqualified auditors' report*

Applicable Not applicable

The Board of
Guangzhou Pharmaceutical Company Limited

Guangzhou, the PRC, 27 August 2010

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Li Chuyuan, Mr. Shi Shaobin and Mr. Wu Changhai as executive directors and Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong as independent non-executive directors.