

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, 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 announcement.*



# 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 2011 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 2011 interim report of the Company, which is both published at the website (<http://www.sse.com.cn>) of The Shanghai Stock Exchange (“SSE”), and at the website (<http://www.hkex.com.hk>) of The Stock Exchange of Hong Kong Limited (“HKEx”). Investors who wish to know more details are advised to read the full text of the 2011 interim report carefully.
- 1.3 All directors of the Board were present at the 10<sup>th</sup> meeting of the fifth session of the Board of the Company.
- 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 summary.
- 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 2011 (the “Reporting Period”) are prepared in accordance with the accounting standards of the People’s Republic of China (the “PRC”) and are unaudited.
- 1.6 There has no non-operational appropriation of funds of the Company by its connected parties.
- 1.7 The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.

- 1.8 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.
- 1.9 All the information required to be contained in the summary of 2011 interim report of the Company pursuant to paragraph 46 of Appendix 16 to the Rules Governing the Listing of Securities on HKEx (the “Listing Rules”) will be published on the website of HKEx in due course.

## 2. COMPANY PROFILE

### 2.1 General information

Stock abbreviation	GZ Phar.	
Stock code	600332 (A share)	
Stock exchange	The Shanghai Stock Exchange	
Stock abbreviation	GZ Phar.	
Stock code	0874 (H share)	
Stock exchange	The Stock Exchange of Hong Kong Limited	
	Secretary to the Board	Representative of securities affairs
Name	Pang Jianhui	Huang Xuezhen
Address	45 Sha Mian North Street, Liwan District, Guangzhou City, Guangdong Province, the PRC	
Telephone	(8620) 8121 8119	(8620) 8121 8120
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

Items	As at 30 June 2011 (Unaudited)	As at 31 December 2010 (Audited)	Changes as compared with 31 December 2010 (%)
Total assets (RMB'000)	4,873,779	4,476,592	8.87
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	3,675,623	3,539,369	3.85
Net assets per share attributable to the shareholders of the Company (RMB)	4.53	4.36	3.85
Items	The Reporting Period (Unaudited)	The corresponding period of 2010 (Unaudited)	Changes as compared with the corresponding period of 2010 (%)
Operating profit (RMB'000)	196,019	187,981	4.28
Total profit (RMB'000)	205,832	197,571	4.18
Net profit attributable to the shareholders of the Company (RMB'000)	179,621	168,777	6.42
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	170,764	156,467	9.14
Basic earnings per share (RMB)	0.222	0.208	6.42
Basic earnings per share after deducting non-recurring items (RMB)	0.211	0.193	9.14
Diluted earnings per share (RMB)	0.222	0.208	6.42
Fully diluted return on net assets ratio (%)	4.89	4.92	A decrease of 0.03 percentage point
Weighted average return on net assets ratio (%)	4.95	4.98	A decrease of 0.03 percentage point
Net cash flow from operating activities (RMB'000)	17,304	84,989	(79.64)
Net cash flow from operating activities per share (RMB)	0.021	0.105	(79.64)

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

## 2.2.2 Non-recurring items

Applicable    Not applicable

<b>Items</b>	<b>Amount</b> <i>(RMB'000)</i>	<b>Explanation</b>
Loss on disposal of non-current assets	(72)	
Government subsidies recognized as gain	9,408	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.
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	(1,321)	
Write back of provision for impairment of accounts receivable undergoing independent impairment test	1,176	
Loss from entrusted loans	(314)	
Other non-operating income and expenses excluding the above items	478	
Income tax effect	(366)	
Effect on minority interest (after tax)	(132)	
<b>Total</b>	<b>8,857</b>	

### 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 58,495

##### The 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 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	(18,090)	219,217,389	27.03	Nil	Unknown	Foreign capital shares
Guangzhou Beicheng Rural Credit Cooperative	(5,210,000)	8,742,000	1.08	Nil	Unknown	Domestic shares
China Construction Bank-Intermediation Leading Growth Stock Securities Investment Fund	3,679,908	3,679,908	0.45	Nil	Unknown	Domestic shares
China Life Insurance Company Limited – Dividend – Individual bonus-005L-Shanghai FH002	1,314,953	3,314,945	0.41	Nil	Unknown	Domestic shares
Combination of the National Social Security Fund 108	2,999,889	2,999,889	0.37	Nil	Unknown	Domestic shares
Yinfeng Securities Investment Fund	(119,820)	2,172,160	0.27	Nil	Unknown	Domestic shares
Industrial and Commercial Bank of China – Bank of Communications Schroder Trends Preferred Stock Investment Fund	2,099,913	2,099,913	0.26	Nil	Unknown	Domestic shares
Tao Haian	860,637	2,086,987	0.26	Nil	Unknown	Domestic shares
China Growth Investment Fund	1,809,533	1,809,533	0.22	Nil	Unknown	Domestic shares

##### Explanation on the connection among the above shareholders or parties acting in concert

- (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 AND SENIOR MANAGEMENT**

### **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

## **5. REPORT OF THE BOARD OF DIRECTORS**

### **5.1 Management Discussion and Analysis**

#### *5.1.1 Business Scope*

The Group is principally engaged in (1) the research and development, manufacture and sales of Chinese Patent Medicine, natural medicine and biological medicine; and (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

#### *5.1.2 Operations review*

Based on the operation targets, the Group strived for development in market, brand, product, technology, quality as well as internal control during the Reporting Period. Maintaining our focus on marketing, we accelerated marketing innovation and vigorously expanded the market; prepared well for the bidding while adapting to the changes of pharmaceutical policies; strengthened the management of production cost and overcame the challenges arising from the increasing operating cost especially of raw material packages and pricing control of medicines, so as to ensure a stable and continual growth of its principal operations.

During the Reporting Period, the Group recorded an income from principal operations of RMB2,770,532,000, with a growth of 21.37% as compared with the corresponding period of last year. The profit before tax amounted to RMB205,832,000, representing an increase of 4.18% over the corresponding period of last year and the net profit attributable to the shareholders of the Company amounted to RMB179,621,000, representing an increase of 6.42% 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:

<b>Item</b>	<b>The Reporting Period (RMB'000)</b>	<b>The corresponding period of 2010 (RMB'000)</b>	<b>Increase/ (Decrease) (%)</b>
Income from principal operations	<b>2,770,532</b>	2,282,766	21.37
Operating profit	<b>196,019</b>	187,981	4.28
Total profit	<b>205,832</b>	197,571	4.18
Net profit attributable to the shareholders of the Company	<b>179,621</b>	168,777	6.42

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

### 5.2.1 Principal activities

<b>Principal operations</b>	<b>Income from principal operations Increase/(Decrease) over the same period of last year</b>		<b>Cost of principal operations Increase/(Decrease) over the same period of last year</b>		<b>Profit margin of principal operations Increase/(Decrease) over the same period of last year</b>	
	<b>Income from principal operations (RMB'000)</b>	<b>(%)</b>	<b>Cost of principal operations (RMB'000)</b>	<b>(%)</b>	<b>Profit margin of principal operations (%)</b>	<b>(Percentage point)</b>
Overall operations	2,770,532	21.37	2,109,009	26.48	23.26	A decrease of 3.26 percentage points
Include: Manufacturing	1,302,296	19.98	736,096	32.50	42.30	A decrease of 5.71 percentage points
Trading	1,468,236	22.63	1,372,913	23.47	6.38	A decrease of 0.66 percentage point
Include: Pharmaceutical trading	1,037,991	20.38	947,391	21.54	8.57	A decrease of 0.91 percentage point
Other trading	430,245	28.41	425,522	27.99	1.09	An increase of 0.33 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	Increase/(Decrease) over the same period of last year	Cost of principal operations	Increase/(Decrease) over the same period of last year	Profit margin of principal operations	Increase/(Decrease) over the same period of last year
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	(Percentage point)
Heat clearing and anti-toxic medicine	178,841	15.23	105,984	23.47	39.56	A decrease of 4.33 percentage points
Diabetic medicine	251,514	7.72	123,371	45.37	49.77	A decrease of 13.07 percentage points
Cough and phlegm clearing medicine	184,632	17.66	91,736	21.93	49.14	A decrease of 2.11 percentage points
Arthritic medicine	149,135	26.29	79,444	44.79	45.56	A decrease of 7.17 percentage points
Gastric medicine	53,221	44.86	26,139	53.68	49.71	A decrease of 3.19 percentage points
Other products	484,953	25.95	309,422	30.15	35.02	A decrease of 2.43 percentage points

The total amount of sales of products and provision of services from the Group to the controlling shareholder, GPLH, together with its connected parties for the Reporting Period amounted to RMB315,461,000.



### 5.3 Geographical analysis of principal business

√ Applicable    □ Not applicable

Region	Income from principal operations (RMB'000)	Increase/(Decrease) over the corresponding period of last year (%)	Percentage on overall income from principal operations (%)
Southern China	1,961,008	21.44	70.78
Eastern China	285,386	14.71	10.30
Northern China	176,984	37.54	6.39
North-Eastern China	48,945	36.01	1.77
South-Western China	123,905	(12.59)	4.47
North-Western China	55,649	19.78	2.01
Exports	118,655	79.01	4.28
<b>Total</b>	<b><u>2,770,532</u></b>	<b><u>21.37</u></b>	<b><u>100.00</u></b>

### 5.4 Manufacturing operations

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, we actively developed works on government affairs and strengthened communication with relevant authorities. At the same time, we closely monitored and timely responded to the changes in pharmaceutical policies, focused on expanding the basic list of medicine and the list of medicine and insurance, pricing of medicine products, product bidding, GMP certification and the implementation of electronic monitoring code and so on. Secondly, we sustained marketing innovation by developing academic marketing. During the Reporting Period, the Group spared no effort in academic promotion by carrying out academic marketing, training, education and services for patients. Through a series of academic marketing events such as translational medicine research and promotion, “Chinese Medicine in China” (中醫中藥中國行) and “Chain Cooperation among the Top 100 Enterprises” (百強連鎖合作), we enlarged the scope and number of academic training and patient education, forged our cooperation with the mainstream chain outlets in the country, driving the growth in sales. Thirdly, we improved the management on distributors and integration and control on the marketing channels, strengthened the pricing mechanism, tightened the control on the market and reinforced the monitoring and management of the selling price and market. Based on the said measures, we fostered a steady growth in sales volume of the products by expanding the distribution coverage, end markets activities and advertisements. Fourthly, we pushed forward the operation of the key products by exploring potential major products and promoting the product development of Xiao Ke Wan, Hua Tuo Zai Zao Wan, Ling Zhi Bao Zi You, An Gong Niu Huang Wan and herbal slices to achieve a sale of billion yuan, so as to enhance the brand recognition and sales volume of the products. Fifthly, we enhanced the management of production cost and strived to reduce the operating cost. We soothed the pressure from the soaring price of raw materials through merchandise bidding and quality and

price comparison, as well as enhancing the herbal planting cooperation of strategic category; we also reduced production cost by measures such as appropriate scheduling, improving the production process and energy-saving.

During the Reporting Period, the gross profit margin of the manufacturing operations was 43.48%, representing a decrease of 5.34 percentage points as compared with the corresponding period of last year. The decrease in the gross profit margin of the manufacturing operations was mainly due to the continued increase in the price of raw material packages and labor costs, which resulted in the rise of production cost.

In the first half of 2011, products such as Xia Sang Ju Ke Li, Hua Tuo Zai Zhao Wan, Zhuang Yao Jian Shen Wan, Wei Nai An Jiao Nang, Zhi Ke Chuan Bei Pi Pa Lu and Xu Han Ting Ke Li recorded great increase both in sales revenue and percentage as compared with the same period of last year.

During the Reporting Period, the Group obtained 1 production approval, filed 5 applications for invention patent, and was authorized 4 invention patents; and was granted 5 other prizes, of which She Dan Chuan Bei Pi Pa Gao of Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. (“Pan Gao Shou”) was granted the Golden Award of the first batch of heritage in the Country’s Immaterial Cultural Heritage Expo, while Dan Bie Jiao Nang was granted the Second Prize from China Association of Chinese Medicine; Mi Lian Chuan Bei Pi Pa Gao, She Dan Chuan Bei Pi Pa Gao and Dan Bie Jiao Nang received the honor of “Technological Innovation Products in Guangzhou City”. The 2007 State Biological Medicine High Technology Industry Development Project “Chinese Compound New Medicine Kun Xian Jiao Nang Industrialization Project”, which is borne by Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd. (“Chen Li Ji”), passed the acceptance in the first quarter of 2011.

During the Reporting Period, the Group established “Chen Li Ji Health Research Institute” (陳李濟健康養生研究院) and “Lingnan Experience Centre of Chinese Medicine Culture” (嶺南中醫藥文化體驗館), with Chen Li Ji as the principal body, for enhancing the influence and radiation of the culture of Chinese medicine and brands, and improving sales of products.

Following the five subordinated enterprises of the Company, namely Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (“Wang Lao Ji”), Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. (“Jing Xiu Tang”), Pan Gao Shou, Guangzhou Xing Qun Pharmaceutical Co., Ltd. (“Xing Qun”) and Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (“Cai Zhi Lin”), having been the first group entering in the recognition list of “China Time-honored Brands”, three other enterprises, namely Guangzhou Zhong Yi Pharmaceutical Co., Ltd. (“Zhong Yi”), Chen Li Ji and Guangzhou Qi Xing Pharmaceutical Co., Ltd. (“Qi Xing”), were the second group included in the recognition list of “China Time-honored Brands”. In addition, the “Production Technology of Bao Zi Tang Bao Ying Dan” (保滋堂保嬰丹製作技藝), with Zhong Yi as the main party for inheriting the technology, was the third group listed in the Country’s Immaterial Cultural Heritage record in May 2011.

During the Reporting Period, the elementary clinical conclusion for the evidence-based medical research (sub-topic of the 863 project) of Xiao Ke Wan of Zhong Yi was completed, while its research on pharmaceutical economics was underway. Qi Xing has also been working on the evidence-based medical research of Hua Tuo Zai Zao Wan.

The Iia clinical research of the therapeutic dual-plasmid HBV DNA vaccine was completed in 2010, and the Company commenced the Iib clinical research in the first half of 2011. Currently, the grouping of testees is underway.

Zhong Yi successfully passed the on-site inspection of the new GMP certification in June 2011 and obtained the first GMP certificate of pre-processing oral treatment in Guangdong province in July. The GMP certificate was in line with the new GMP standards.

## **5.5 Trading**

During the Reporting Period, as to the pharmaceutical trading operations, we consolidated our customer resources from upstream and downstream and broadened the distribution channels, and continuously improved the cooperation with production enterprises on issues like the basic list of medicines and bidding in response to the medical policies and market demand. In the meantime, the trading operations actively explored and fostered the development of differentiation according to their respective expertises. Cai Zhi Lin, a subsidiary of the Company, exerted its unique advantage of Chinese medicine merchandise and production of herbal slices that it improved the cooperation with its downstream production enterprises and medical institutions to broaden the sales of Chinese medicine and herbal slices, while consolidating the Chinese medicine resources for centralized bulk medicine purchase and the development of a Chinese medicine base. Its Guangxi Guigang Gejie GAP Base (廣西貴港蛤蚧GAP基地) has also inaugurated during the Reporting Period. Guangzhou Pharmaceutical Import & Export Co., Ltd. (“Pharmaceutical Import & Export Co., Ltd.”) also speeded up the development of business platforms to achieve a rapid growth in the operations.

During the Reporting Period, the gross profit margin of the trading operations was 6.49%, representing a decrease of 0.64 percentage point as compared with the corresponding period of last year.

As at 30 June 2011, the Group had 52 retail chain pharmacy outlets, including 51 “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)
<b>(1) Subsidiaries</b>				
Xing Qun	88.99	140,097	8,520	7,723
Zhong Yi	100.00	377,828	47,074	40,043
Chen Li Ji	100.00	137,346	17,842	14,979
Qi Xing	75.00	198,299	16,560	13,685
Jing Xiu Tang	88.40	127,571	12,792	10,761
Pan Gao Shou	87.77	177,688	12,025	10,080
Guangxi Ying Kang Pharmaceutical Co., Ltd.	51.00	21,884	562	562
Guangzhou Bai Di Bio-technology Co., Ltd.	98.48	614	(7,691)	(7,691)
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. (“Guangzhou Han Fang”)	97.04	52,791	(2,152)	(2,152)
Cai Zhi Lin Pharmaceutical Import & Export Co., Ltd.	100.00	888,468	6,781	6,708
	100.00	960,262	3,761	2,709
<b>(2) Branches</b>				
Ying Bang Branch Company	—	8,930	1,057	1,057
<b>(3) Joint ventures</b>				
Wang Lao Ji (Note a)	48.05	1,089,170	111,888	102,601
Guangzhou Pharmaceuticals Corporation (“GP Corp.”) (Note b)	50.00	7,686,900	97,748	67,601
Guangzhou Nuo Cheng Bio-tech Co., Ltd. (“Nuo Cheng”) (Note c)	approximate 50.00	23,416	(3,801)	(6,051)

Notes:

- (a) The results of Wang Lao Ji were stated in full amount in the above table.

Wang Lao Ji is principally engaged in the research and development, manufacture and sales of Chinese Patent Medicine and foodstuffs. In the first half of 2011, Wang Lao Ji achieved an income from principal operations of RMB1,089,170,000, representing an increase of 30.30% as compared with the same period of last year. Its total profit amounted to RMB111,888,000, representing an increase of 47.89% as compared with the same period of last year and its net profit was RMB102,601,000, representing an increase of 58.89% as compared with the same period of last year. During the Reporting Period, sales of Guangdong Liang Cha Ke Li (including sugar free), Wang Lao Ji Herb Tea and Xiao Er Qi Xing Cha Ke Li enjoyed great increases as compared with the same period of last year, representing increases of 21.52%, 32.53% and 22.32% as compared with the same period of last year respectively.

- (b) The results of GP Corp. were stated in full amount in the above table.

GP Corp. is principally engaged in the wholesale and retail of western pharmaceutical products and medical apparatus. During the Reporting Period, GP Corp. has made great effort in the expansion of its principal operations to ensure a stable growth, while increasing its investment and enhancing the effort for mergers and acquisitions within and outside the province for boosting a growth on expansion. It also strived to develop an innovative operation method and actively establish e-commerce for pharmaceutical products, and to develop the Guang Yao Jian Min Network to become the second legal online pharmacy approved by the State Food and Drug Administration in Southern China.

In the first half of 2011, income from principal operations of GP Corp. amounted to RMB7,686,900,000, representing an increase of 14.65% as compared with the same period of last year, its total profit was RMB97,748,000, representing an increase of 12.88% as compared with the same period of last year and its net profit was RMB67,601,000, representing an increase of 11.86% as compared with the same period of last year.

- (c) The results of Nuo Cheng were stated in full amount in the above table.

Currently, Nuo Cheng is mainly engaged in the production of Rabies Bacterin. In the first half of 2011, income from principal operations of Nuo Cheng amounted to RMB23,416,000, representing an increase of 2,014.91% as compared with the corresponding period of last year.

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

## **5.7 ISSUES AND DIFFICULTIES ENCOUNTERED IN OPERATIONS AND PLANS FOR THE SECOND HALF OF 2011**

In 2011, further implementation of the new medical reform, foreseeing a bright prospect in the development of domestic pharmaceutical market, internationalization of pharmaceutical economy, plans to pool the effort in developing biological medicine industry from the State and various government departments, and pushing forward of traditional Chinese medicine strategy will create opportunities for the Group's future development. However, ever keener competition in the pharmaceutical market, ever changing competition, continual improvement in the production and centralized circulation of pharmaceutical products, stronger price control of pharmaceutical products by the government, transformation of channels and end market to respond to the new medical reform, implementation of the new GMP standard and continual price increase of corporate costs will pose challenges to our development in the future.

In the second half of 2011, the Group will commence the major tasks as follows:

1. To continue to reinforce our marketing management to response to projects launched by the government, adapt to the bidding policy of basic medicine and rapidly increase the sales of basic medicine driven by the medical institutions.
2. To launch the activities for the academic marketing, speed up the progress of core products to achieve a sale of billion yuan, promote brand recognition and increase product sales. Meanwhile, the Group will commence marketing activities of our brand, culture and academy, so as to enhance the popularity and influence of the corporate and our products and ensure a long-term sustainable development of the corporate.
3. To accelerate the building up of technological innovation system and promote the Iib clinical research and related work of the therapeutic dual-plasmid HBV DNA vaccine. At the same time, we will actively follow up the relevant work of the new GMP certification in accordance with the 2010 Pharmacopoeia Standards and related regulations.
4. To push forward the integration of the fellow enterprises of the Company and external resources to achieve centralized operation, reduce the operating cost; and to control cost expenses, especially to monitor the price changes of Chinese medicine and adopt effective measures.
5. To speed up the enhancement of cooperation, investment, and merger and acquisition of the subsidiaries and joint ventures of the Company.
6. To reinforce risk management and spare no effort to propel the setting up and implementation of the internal control system according to the “Implementation Work Plan for Regulation of Internal Control” (《內部控制規範實施工作方案》) formulated by the Company during the year.

#### **5.8 Other activities which have a significant impact on the Group’s net profit**

Applicable     Not applicable

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

Applicable     Not applicable

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

Applicable  Not applicable

**5.11 Explanation on significant changes in profit composition as compared with the corresponding period of last year**

Applicable  Not applicable

**5.12 Use of proceeds from issue of A shares**

*5.12.1 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.

*5.12.2 Change in projects*

Applicable  Not applicable

**5.13 Revision on the Board's operation plans for the second half of 2011**

Applicable  Not applicable

**5.14 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

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

Applicable  Not applicable

**5.16 The explanation of the Company's management on changes and handling of the qualified opinion issued by the auditors for 2010**

Applicable  Not applicable



## **5.17 Liquidity, financial resource and capital structure**

As at 30 June 2011, the current ratio of the Group was 2.36 (30 June 2010: 2.55), and its quick ratio was 1.55 (30 June 2010: 1.77). During the Reporting Period, turnover rate for accounts receivable was 16.01 times, representing an increase of 25.88% as compared with that of 2010. Inventory turnover rate was 5.43 times, representing an increase of 1.38% as compared with the same period of 2010.

As at 30 June 2011, the cash and cash equivalents of the Group amounted to RMB527,307,000 (30 June 2010: RMB741,415,000), out of which approximately 99.62% and 0.38% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 30 June 2011, the current liabilities of the Group amounted to RMB988,124,000, and its short-term borrowings were RMB84,419,000 (30 June 2010: RMB27,405,000).

## **5.18 Capital expenditure**

The Group expects the capital expenditure for 2011 to amount to approximately RMB163 million, among which, the expenditure in the first half of 2011 amounted to RMB28 million (2010: RMB35 million), which will be mainly applied in the construction of factories and infrastructure, purchases of machines, equipment and proprietary technologies, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

## **5.19 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.

## **5.20 Contingent liabilities**

As at 30 June 2011, the Group had no significant contingent liabilities.

## **5.21 Charge on Group's assets**

As at 30 June 2011, the Group had no charge on its assets.

## **5.22 Bank loans, overdraft and other loans**

As at 30 June 2011, the bank loans of the Group amounted to RMB84,419,000 (31 December 2010: RMB38,868,000), with an increase of RMB45,551,000 as compared with the beginning of 2011. All of the above bank loans were short-term loans.



## 5.23 Gearing ratio

As at 30 June 2011, the Group's gearing ratio (total liabilities/total assets x 100%) was 22.39% (31 December 2010: 18.65%).

**5.24 As at the end of the Reporting Period, the number of the Group's employees amounted to 5,314. The remuneration policy of the employees had no major changes as compared with the previous reporting period. The total remuneration of the Group's employees for the first half of 2011 was approximately RMB182 million.**

## 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

### 6.1.2 Disposal of assets

Applicable  Not applicable

### 6.1.3 Other transactions during the Reporting Period

#### 1. Connected transactions in the ordinary course of business

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	59,248	2.89	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	204	0.01	Cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	137	0.01	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 Guang Hua Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	64,632	3.16	Cash
Polian Development Co., Ltd.	Fellow parent company	Purchase of products	Medicine or pharmaceutical products	Market price	58,104	2.84	Cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	630	0.03	Cash
GP Corp.	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	39,335	1.92	Cash
Wang Lao Ji	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	1,955	0.10	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	40	0.00	Cash
Sub-total					224,285	10.96	
GPHL	Parent company	Sales of products	Medicine or pharmaceutical products	Market price	61	0.00	Cash
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Sales of products	Medicine or pharmaceutical products	Market price	23,579	0.85	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	25,436	0.92	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 Tian Xin Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	1,453	0.05	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	73,245	2.64	Cash
Polian Development Co., Ltd.	Fellow parent company	Sales of products	Medicine or pharmaceutical products	Market price	978	0.04	Cash
Guangzhou Pharmaceutical Industrial Research Institute	Fellow parent company	Sales of products	Medicine or pharmaceutical products	Market price	8	0.00	Cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	21,973	0.79	Cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	131,089	4.73	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	35,885	1.30	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	1,750	0.06	Cash
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	4	0.00	Cash
Sub-total					315,461	11.38	

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
GPHL	Parent company	Acceptance of Patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	3,219	100.00	Cash
Wang Lao Ji	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	9,786	100.00	Cash
GPHL	Parent company	Others	Rental assets	Agreement price	1,421	13.24	Cash
GPHL	Parent company	Others	Accommodation fees of employees	Agreement price	187	100.00	Cash
<b>Total</b>					<b>554,359</b>		

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.

- It was approved by the Strategic Development and Investment Committee of the Company at its first meeting for 2011 that the Company increased its capital contribution to Golden Eagle Fund Management Co., Ltd. ("Golden Eagle") according to the proportion of capital contribution for subscription of RMB30,000,000.

As at the end of the Report Period, the above transaction has been completed. The Company's current capital contribution to Golden Eagle amounted to RMB50,000,000, representing 20% equity interest therein.

- It was approved at the 6<sup>th</sup> meeting of the fifth session of the Board that the Company and Alliance BMP Limited contributed additional capital of RMB150 million respectively to GP Corp. according to their respective percentage of shareholdings. The above capital increase was completed in July 2011.

## 6.2 Guarantees

Applicable  Not applicable

### Guarantee provided to parties other than the Company's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties (yes or no)
Nuo Cheng	23 June 2010	19,696	Joint and several liability	1 year	No	Yes
	1 July 2010	29,544	Joint and several liability	1 year	No	Yes
	6 August 2010	9,848	Joint and several liability	1 year	No	Yes

Accumulated amount of guarantees provided during the Reporting Period (RMB'000)

—

Balance of guarantees as at the end of the Reporting Period (RMB'000)

59,088

### The Company's guarantees provided to its subsidiaries

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)

55,000

Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)

115,000

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

Total amount of guarantees provided (RMB'000)

174,088

Total amount of guarantees provided amount the net assets of the Group (%)

4.74

#### 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)

174,088

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)

174,088

## 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 the Company nor any of its subsidiaries had purchased, sold, redeemed or cancelled any of the Company's listed shares during the Reporting Period.

**6.6 The Board did not recommend the payment of a dividend for the six months ended 30 June 2011 nor propose any increase in 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 2011

Applicable     Not applicable

2. As at the date of the interim report, the Company did not have any undertaking in relation to 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 to 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 2011.**

## 6.11 Explanation on other major events, their impact and solutions

### 6.11.1 Stock Investments

√ Applicable     Not applicable

Number	Type of stock	Stock code	Stock name	Initial investment amount (RMB'000)	Number of shares held as at the end of the Reporting Period (share)	Book value as at the end of the Reporting Period (RMB'000)	% of total stock investment as at the end of the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of the SSE	600038	Ha Fei	1,806	57,810	1,548	30.70	(99)
2	A Share of the SSE	600664	Ha Yao	3,705	222,546	3,494	69.30	(1,529)
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				-	-	-	-	-
<b>Total</b>				<b>5,511</b>	<b>-</b>	<b>5,042</b>	<b>100</b>	<b>(1,628)</b>

### 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 shares
601328	Bank of Communication	439	-	1,675	-	15	Available-for-sale financial assets	Acquisition
601818	Everbright Bank	10,725	approximately 0.02	20,268	672	(2,768)	Available-for-sale financial assets	Acquisition





## 7.2 Financial statements prepared in accordance with the PRC Accounting Standards

(All amounts in Renminbi yuan unless otherwise stated)

### Consolidated Income Statement

ITEMS	Note	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (Unaudited)
<b>1. Revenue</b>	7.2.7	<b>2,817,341,310.57</b>	<b>2,321,989,239.98</b>
Less: Cost of sales	7.2.7	2,118,084,469.11	1,672,561,146.62
Taxes and surcharges		23,035,776.44	14,242,767.04
Selling and distribution expenses		344,383,899.28	285,019,926.13
General and administrative expenses		217,761,830.02	219,902,567.53
Financial expenses		(817,547.88)	(603,465.34)
Asset impairment losses		1,522,853.30	3,716,355.40
Add: Profit arising from changes in fair value		(1,627,746.12)	(42,953.28)
Investment income		84,276,497.58	60,874,294.59
Including: Share of profit of associates and jointly controlled entities		83,610,963.02	57,091,006.32
<b>2. Operating profit</b>		<b>196,018,781.76</b>	<b>187,981,283.91</b>
Add: Non-operating income		11,097,827.09	10,842,323.91
Less: Non-operating expenses		1,284,381.05	1,252,696.27
Including: Losses on disposal of non-current assets		255,084.29	91,826.56
<b>3. Total profit</b>		<b>205,832,227.80</b>	<b>197,570,911.55</b>
Less: Income tax expenses	7.2.8	19,246,389.72	23,431,638.47
<b>4. Net profit</b>		<b>186,585,838.08</b>	<b>174,139,273.08</b>
– Attributable to shareholders of the Company		179,621,034.63	168,777,340.55
– Minority interest		6,964,803.45	5,361,932.53
<b>Earnings per share</b>			
– Basic earnings per share	7.2.9	0.222	0.208
– Diluted earnings per share	7.2.9	0.222	0.208
<b>6. Other comprehensive income</b>		<b>(2,822,117.28)</b>	<b>(909,367.61)</b>
<b>7. Total comprehensive income</b>		<b>183,763,720.80</b>	<b>173,229,905.47</b>
– Attributable to shareholders of the Company		176,798,539.18	167,885,105.22
– Minority interest		6,965,181.62	5,344,800.25

## Consolidated Balance Sheet

ASSETS	<i>Note</i>	<b>30 June 2011</b> <i>(Unaudited)</i>	<b>31 December 2010</b> <i>(Audited)</i>
<b>Current assets</b>			
Cash at bank and on hand		562,273,955.54	707,396,997.50
Financial assets held for trading		5,041,545.90	11,669,292.02
Notes receivable		241,329,638.88	200,470,880.49
Accounts receivable	7.2.4	478,448,919.74	331,182,885.42
Advances to suppliers		173,324,875.76	126,959,980.73
Interest receivable		—	—
Dividends receivable		—	—
Other receivables		74,064,296.45	43,140,903.17
Inventories		797,119,565.39	755,055,590.28
Current portion of non-current assets		—	—
Other current assets		—	—
		<hr/>	<hr/>
<b>Total current assets</b>		<b>2,331,602,797.66</b>	<b>2,175,876,529.61</b>
<b>Non-current assets</b>			
Available-for-sale financial assets		21,942,890.18	25,615,245.16
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments		1,212,161,361.21	952,492,546.46
Investment properties		105,409,220.65	108,517,274.59
Fixed assets		1,004,947,126.70	1,040,084,682.18
Construction in progress		38,524,048.55	27,452,013.77
Construction materials		—	—
Fixed assets pending for disposal		—	—
Intangible assets		95,637,675.99	96,963,070.09
Development costs		1,126,763.15	996,251.69
Goodwill		—	—
Long-term prepaid expenses		6,688,617.03	6,967,625.69
Deferred tax assets		55,738,798.21	41,627,089.31
Other non-current assets		—	—
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>2,542,176,501.67</b>	<b>2,300,715,798.94</b>
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>4,873,779,299.33</b>	<b>4,476,592,328.55</b>

## Consolidated Balance Sheet (continued)

### LIABILITIES AND SHAREHOLDERS' EQUITY

	<i>Note</i>	<b>30 June 2011</b> <i>(Unaudited)</i>	<b>31 December 2010</b> <i>(Audited)</i>
<b>Current liabilities</b>			
Short-term borrowings		84,419,046.08	38,867,878.83
Financial liabilities held for trading		—	—
Notes payable		42,128,745.98	76,326,446.93
Accounts payable	7.2.5	376,674,638.11	264,375,227.56
Advances from customers		163,970,765.80	99,011,229.83
Employee benefits payable		89,765,483.63	61,258,810.66
Taxes payable		50,692,853.44	44,924,602.21
Interest payable		—	—
Dividends payable		40,843,905.59	113,739.69
Other payables		139,628,362.03	129,248,607.08
Current portion of non-current liabilities		—	—
Other current liabilities		—	—
<b>Total current liabilities</b>		<b>988,123,800.66</b>	<b>714,126,542.79</b>
<b>Non-current liabilities</b>			
Long-term borrowings		—	—
Debentures payable		—	—
Long-term payables		4,423,405.56	4,423,405.56
Payables for specific projects		—	—
Provisions		7,395,889.00	14,396,857.57
Deferred tax liabilities		4,580,364.83	5,822,215.05
Other non-current liabilities		86,676,634.70	96,283,137.99
<b>Total non-current liabilities</b>		<b>103,076,294.09</b>	<b>120,925,616.17</b>
<b>Total liabilities</b>		<b>1,091,200,094.75</b>	<b>835,052,158.96</b>
<b>Shareholders' equity</b>			
Share capital		810,900,000.00	810,900,000.00
Capital surplus		1,149,897,626.79	1,152,720,122.24
Less: Treasury share		—	—
Surplus reserve		578,042,160.61	578,042,160.61
Undistributed profits	7.2.6	1,136,783,136.87	997,707,102.24
Difference on translation of foreign currency financial statements		—	—
<b>Total equity attributable to shareholders of the Company</b>		<b>3,675,622,924.27</b>	<b>3,539,369,385.09</b>
<b>Minority interest</b>		<b>106,956,280.31</b>	<b>102,170,784.50</b>
<b>Total shareholders' equity</b>		<b>3,782,579,204.58</b>	<b>3,641,540,169.59</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>4,873,779,299.33</b>	<b>4,476,592,328.55</b>

### *7.2.1 Basis of preparation*

The financial statements were prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter referred to as “the Accounting Standards for Business Enterprises” or “CAS”) and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission.

### *7.2.2 Accounting policies*

There are no significant changes in the accounting policies applied in preparation of these financial statements compared to the accounting policies applied in preparation of the financial statements for the year ended 31 December 2010.

### *7.2.3 Segment information*

As the chief operating decision-maker, the Board of Directors (“BOD”) assesses performance of the operating segments and allocates resources by reviewing the Group’s internal reporting. 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 CPM produced by the Group’s manufacturing subsidiaries;
- Pharmaceutical trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine;
- Other trading: wholesale of goods other than pharmaceutical products.

Sales between segments are carried out on terms equivalent to those that prevail in arm’s length transactions.

Assets and liabilities are allocated based on the segment operations, expenses attributable indirectly to each segment are allocated among segments based on the proportion of revenue.

### 7.2.3 Segment information (continued)

(1) The segment information for the six months ended 30 June 2011 and as of 30 June 2011 are as follows:

	<b>Manufacturing</b>	<b>Pharmaceutical trading</b>	<b>Other trading</b>	<b>Unallocated</b>	<b>Elimination</b>	<b>Total</b>
Revenue	1,329,753,003.09	1,044,627,439.07	430,244,716.83	12,716,151.58	–	2,817,341,310.57
Inter-segment revenue	38,976,332.16	294,408,690.05	–	9,536,159.13	(342,921,181.34)	–
Interest income	2,231,091.61	248,101.06	–	1,257,944.92	–	3,737,137.59
Interest expenses	4,538,560.20	10,987,621.94	–	1,049,458.33	(15,770,545.63)	805,094.84
Share of profit or loss of associates and jointly controlled entities	(3,016,609.44)	–	–	86,627,572.46	–	83,610,963.02
Asset impairment losses	1,124,685.96	1,131,801.86	216,100.27	(531,364.66)	(418,370.13)	1,522,853.30
Depreciation and amortisation	52,802,871.75	2,044,628.55	–	1,165,175.68	–	56,012,675.98
Total profit	110,075,258.82	8,956,139.10	907,403.93	200,928,592.35	(115,035,166.40)	205,832,227.80
Income tax expenses	25,801,611.27	3,638,015.33	225,022.18	(7,668,302.05)	(2,749,957.01)	19,246,389.72
Net profit (Including: minority interest)	81,257,038.11	5,318,123.77	682,381.75	211,613,503.84	(112,285,209.39)	186,585,838.08
Total assets	2,654,207,875.93	958,788,423.65	58,317,462.66	3,497,455,195.56	(2,294,989,658.47)	4,873,779,299.33
Total liabilities	1,042,494,491.41	885,611,594.15	57,084,451.96	158,075,852.61	(1,052,066,295.38)	1,091,200,094.75
Long-term equity investments in associates and jointly controlled entities	26,402,251.35	–	–	1,179,977,884.43	–	1,206,380,135.78
Additions of non-current assets other than long-term equity investments	65,041,034.22	2,438,459.67	–	3,608,199.71	–	71,087,693.60

7.2.3 Segment information (continued)

(2) The segment information for the six months ended 30 June 2010 and as of 31 December 2010 are as follows:

	Manufacturing	Pharmaceutical trading	Other trading	Unallocated	Elimination	Total
Revenue	1,101,822,599.18	868,197,487.13	335,044,583.49	16,924,570.18	–	2,321,989,239.98
Inter-segment revenue	24,394,332.54	329,062,380.87	–	–	(353,456,713.41)	–
Interest income	1,522,534.80	281,155.74	–	904,944.07	–	2,708,634.61
Interest expenses	4,657,689.82	6,829,826.65	–	149,062.50	(10,626,795.32)	1,009,783.65
Share of profit or loss of associates and jointly controlled entities	(2,905,856.68)	–	–	59,996,863.00	–	57,091,006.32
Asset impairment losses	(875,365.19)	4,716,500.33	630,989.47	(531,364.66)	(224,404.55)	3,716,355.40
Depreciation and amortisation	52,981,106.08	1,925,437.31	–	1,136,230.25	–	56,042,773.64
Total profit	121,405,672.80	10,005,772.41	939,737.80	159,509,372.73	(94,289,644.19)	197,570,911.55
Income tax expenses	16,584,928.22	3,220,182.91	–	5,436,928.93	(1,810,401.59)	23,431,638.47
Net profit (Including: minority interest)	101,914,887.90	6,785,589.50	939,737.80	156,978,300.48	(92,479,242.60)	174,139,273.08
Total assets	2,468,498,409.39	834,648,508.04	11,335,054.70	3,216,626,827.36	(2,054,516,470.94)	4,476,592,328.55
Total liabilities	831,276,799.55	758,799,727.40	7,766,861.99	52,517,375.35	(815,308,605.33)	835,052,158.96
Long-term equity investments in associates and jointly controlled entities	29,418,860.79	–	–	917,292,460.24	–	946,711,321.03
Additions of non-current assets other than long-term equity investments	85,004,328.39	1,539,219.23	–	30,720.00	–	86,574,267.62

### 7.2.3 Segment information (continued)

The Group's revenue from external customers in the People's Republic of China (the "PRC") and other countries, and the total non-current assets other than financial assets and deferred tax assets located in the PRC and other countries are summarised as follows:

	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
<b>Revenue from external customers</b>		
PRC	2,698,686,244.89	2,255,705,755.85
Other countries	118,655,065.68	66,283,483.96
	<u>2,817,341,310.57</u>	<u>2,321,989,239.81</u>
<b>Total non-current assets</b>	<b>30 June 2011</b>	<b>31 December 2010</b>
PRC	2,451,904,307.54	2,220,600,532.46
Other countries	12,590,505.74	12,872,932.01
	<u>2,464,494,813.28</u>	<u>2,233,473,464.47</u>

### 7.2.4 Accounts receivable

The majority of the Group's sales are transacted with credit terms of 3-6 months granted to customers. The remaining transactions are transacted at cash, advance or bank notes.

The ageing of accounts receivable is analysed as follows:

	<b>30 June 2011</b>	<b>31 December 2010</b>
Within 1 year	479,283,331.60	332,090,988.45
1 to 2 years	5,693,822.11	4,691,754.99
2 to 3 years	3,461,988.55	3,472,826.25
3 to 4 years	2,751,972.53	1,961,890.67
4 to 5 years	854,094.34	1,608,521.92
Over 5 years	16,517,202.72	17,797,319.58
	<u>508,562,411.85</u>	<u>361,623,301.86</u>
Less: Provision for bad debts	30,113,492.11	30,440,416.44
	<u>478,448,919.74</u>	<u>331,182,885.42</u>

### 7.2.5 Accounts payable

The ageing of accounts payable is analysed as follows:

	<b>30 June 2011</b>	<b>31 December 2010</b>
Within 1 year	367,107,639.17	253,787,651.06
Over 1 year	9,566,998.94	10,587,576.50
	<u>376,674,638.11</u>	<u>264,375,227.56</u>

### 7.2.6 Undistributed profits

In accordance with the resolution at the Annual General Meeting held on 21 June 2011, the Company proposed a cash dividend of RMB0.05 per share to shareholders of the Company, amounting to RMB40,545 thousand in total based on the number of shares issued amounting to 810,900,000.

### 7.2.7 Revenue and cost of sales

	<b>Six months ended 30 June 2011</b>		
	<b>Main operation</b>	<b>Other operation</b>	<b>Subtotal</b>
Revenue	2,770,531,796.40	46,809,514.17	2,817,341,310.57
Cost of sales	2,109,009,227.73	9,075,241.38	2,118,084,469.11
Gross profit	661,522,568.67	37,734,272.79	699,256,841.46

	<b>Six months ended 30 June 2010</b>		
	<b>Main operation</b>	<b>Other operation</b>	<b>Subtotal</b>
Revenue	2,282,765,820.26	39,223,419.72	2,321,989,239.98
Cost of sales	1,667,490,197.51	5,070,949.11	1,672,561,146.62
Gross profit	615,275,622.75	34,152,470.61	649,428,093.36

### 7.2.8 Income tax expenses

	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Current income tax	33,680,313.31	23,294,125.46
Deferred income tax	(14,433,923.59)	137,513.01
	<u>19,246,389.72</u>	<u>23,431,638.47</u>



## 7.2.8 Income tax expenses (continued)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Total profit	<u>205,832,227.80</u>	<u>197,570,911.55</u>
Income tax expenses calculated at applicable tax rates	51,458,056.95	49,392,727.89
Tax effect of different rates applicable to subsidiaries	(11,481,228.35)	(12,901,660.66)
Income not subject to tax	(20,902,740.76)	(15,183,192.83)
Expenses not deductible for tax purposes	707,196.34	229,327.27
Tax effect of utilisation of previously unrecognised tax losses	(341,831.00)	(435,371.00)
Tax losses for which no deferred income tax asset was recognised	2,460,916.18	2,645,680.80
Others	<u>(2,653,979.64)</u>	<u>(315,873.00)</u>
Income tax expenses	<u><u>19,246,389.72</u></u>	<u><u>23,431,638.47</u></u>

Six subsidiaries of the Group, Guangzhou Zhong Yi Pharmaceutical Co., Ltd, Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd., Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd., Guangzhou Qi Xing Pharmaceutical Co., Ltd., Guangzhou Xing Qun Pharmaceutical Co., Ltd., Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd., received the “Certificate of New/High Technology Enterprise”, which was jointly issued by Department of Science and Technology of Guangdong Province, Department of Finance of Guangdong Province, Guangdong Provincial State Tax Bureau and Guangdong Provincial Local Taxation Bureau. A subsidiary of the Group, Guangxi Ying Kang Pharmaceutical Co. Ltd. received the “Certificate of New/High Technology Enterprise”, which was jointly issued by Department of Science and Technology of Guangxi Zhuang Autonomous Region, Department of Finance of Guangxi Zhuang Autonomous Region, Guangxi Zhuang Autonomous Region State Tax Bureau, Guangxi Zhuang Autonomous Region Local Taxation Bureau.

Pursuant to the relevant tax preference regulation of the PRC, the recognised New/High Technology Enterprises are entitled to the preferential enterprise income tax rate of 15%.

Except for the tax preference mentioned above, the Group pays the enterprise income tax in accordance with “PRC Enterprise Income Tax Law” and “Implementation Rules of PRC Enterprise Income Tax Law” and the applicable enterprise income tax rate of the Group is 25%.

### 7.2.8 Income tax expenses (continued)

Among the seven subsidiaries recognised as New/High Technology Enterprise, the qualification valid period of six subsidiaries are from 2008 to 2010. In 2011, these six subsidiaries are in the application process to prolong their qualification as New/High Technology Enterprise. The result is expected to be announced in the second half of 2011. Management of the Group is of the view that these six subsidiaries will successfully prolong their qualification as New/High Technology Enterprise and thus could enjoy the preferential enterprise income tax rate of 15%. Therefore, the applicable enterprise income tax rate for the six subsidiaries in calculating the enterprise income tax for the six months ended 30 June 2011 is 15%.

### 7.2.9 Earnings per share

#### (a) Basic earnings per share

Basic earnings per share is calculated by dividing consolidated net profit for the current period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	<b>Six months ended 30 June 2011</b>	<b>Six months ended 30 June 2010</b>
Consolidated net profit attributable to ordinary shareholders of the Company	179,621,034.63	168,777,340.55
Weighted average number of ordinary shares outstanding	<u>810,900,000.00</u>	<u>810,900,000.00</u>
Basic earnings per share	<u>0.222</u>	<u>0.208</u>

#### (b) Diluted earnings per share

Diluted earnings per share is calculated by adjusted net profit for the current period attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. As for the six months ended 30 June 2011, there were no potential ordinary shares (for the six months ended 30 June 2010: nil), diluted earnings per share is equal to basic earnings per share.

### 7.2.10 Net current assets

	30 June 2011	31 December 2010
Current assets	2,331,602,797.66	2,175,876,529.61
Less: Current liabilities	988,123,800.66	714,126,542.79
Net current assets	<u>1,343,478,997.00</u>	<u>1,461,749,986.82</u>

### 7.2.11 Total assets less current liabilities

	30 June 2011	31 December 2010
Total assets	4,873,779,299.33	4,476,592,328.55
Less: current liabilities	988,123,800.66	714,126,542.79
Total assets less current liabilities	<u>3,885,655,498.67</u>	<u>3,762,465,785.76</u>

## 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, 26 August 2011

*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.*