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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 2012 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 summary of 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 2012 interim report of the Company, which is both published on the website (<http://www.sse.com.cn>) of The Shanghai Stock Exchange (the “SSE”), and on the website (<http://www.hkex.com.hk>) of The Stock Exchange of Hong Kong Limited (the “HKEx”). Investors who wish to know more details are advised to read the full text of the 2012 interim report carefully.
- 1.3 The directors of the Board were present at the 18th meeting of the fifth session of the Board of the Company held on 24 August 2012. Among whom, Mr. Li Shanmin and Mr. Wong Lung Tak Patrick, independent non-executive directors, attended the meeting by means of telephone communication; Mr. Zhang Yonghua, an independent non-executive director, was unable to attend the meeting and appointed Mr. Liu Jinxiang, an independent non-executive director, 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 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 2012 (the “Reporting Period”) are prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company and issued unqualified auditors’ reports thereon.
- 1.6 There was 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 2012 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 People’s Republic of China	
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 Principal financial data and indicators

Items	As at 30 June 2012 (Audited)	As at 31 December 2011 (Audited)	Changes as compared with 31 December 2011 (%)
Total assets (RMB'000)	5,769,017	4,851,266	18.92
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	3,917,228	3,781,652	3.59
Net assets per share attributable to the shareholders of the Company (RMB)	4.83	4.66	3.59

Items	The Reporting Period (Audited)	The corresponding period of 2011 (Unaudited)	Changes as compared with the corresponding period of 2011 (%)
Operating profit (RMB'000)	240,475	196,019	22.68
Total profit (RMB'000)	248,618	205,832	20.79
Net profit attributable to the shareholders of the Company (RMB'000)	217,085	179,621	20.86
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	210,104	170,764	23.04
Basic earnings per share (RMB)	0.268	0.222	20.86
Basic earnings per share after deducting non-recurring items (RMB)	0.259	0.211	23.04
Diluted earnings per share (RMB)	0.268	0.222	20.86
Weighted average return on net assets ratio (%)	5.60	4.95	An increase of 0.65 percentage point
Net cash flow from operating activities (RMB'000)	522,090	17,304	2,917.14
Net cash flow from operating activities per share (RMB)	0.644	0.021	2,917.14

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

2.2.2 Non- recurring items

Applicable Not applicable

Items	The Reporting Period Amount (RMB'000)	Explanation
Gain on disposal of non-current assets	31	
Government subsidies recognized as gain	6,663	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	(256)	
Write back of provision for impairment of accounts receivables undergoing independent impairment test	125	
Loss from entrusted loans	(373)	
Other non-operating income and expenses excluding the above items	1,449	
Income tax effect	(389)	
Effect on minority interest (after tax)	(269)	
Total	6,981	

3. CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS

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

Total number of shareholders as at the end of the Reporting Period 50,695

The top ten shareholders

Name of shareholders	Increase/(Decrease) during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate % 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	156,000	219,267,389	27.04	Nil	Unknown	Foreign capital shares
Rong Tong New Blue-chip Securities Investment Fund	1,999,915	1,999,915	0.25	Nil	Unknown	Domestic shares
Agricultural Bank of China Co., Ltd. – Invesco Great Wall of Energy Infrastructure Securities Investment Fund	485,781	1,900,000	0.23	Nil	Unknown	Domestic shares
Li Yanlong	1,853,000	1,853,000	0.23	Nil	Unknown	Domestic shares
Zhong Rong International Trust Co., Ltd. – Credit Bond Investment	1,476,315	1,476,315	0.18	Nil	Unknown	Domestic shares
Agricultural Bank of China Co., Ltd. – MANULIFE TEDA Lead Small Dish Stock Type Securities Investment Fund	1,473,087	1,473,087	0.18	Nil	Unknown	Domestic shares
China Industrial International Trust Limited – The new stock purchase < first phase of construction bank wealth (17 period) >	342,690	1,149,000	0.14	Nil	Unknown	Domestic shares
Meng Xiangtong	0	1,110,000	0.14	Nil	Unknown	Domestic shares
Guang Fa Securities Co., Ltd. Customer credit collateral securities trading account	1,077,261	1,077,261	0.13	Nil	Unknown	Domestic shares

Explanation on the connected relationship or parties acting in concern of 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 shareholders, or whether they were parties 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

The Board resolved to approve Mr. Shi Shaobin's resignation as director of the Company by way of the written resolution passed by the fifth session of the Board of the Company on 18 June 2012, and Mr. Shi Shaobin's resignation became effective on the same date.

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

During the Reporting Period, the Group has firmly pushed forward works including marketing, production, quality, technology and the major assets reorganization, and has accelerated marketing, adjustment and optimization in products and industrial transformation, deepened the progress of resources integration and strengthened the cost management based on the annual operation targets 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 RMB3,447,724,000, with a growth of 24.44% as compared with the corresponding period of last year. The profit before tax amounted to RMB248,618,000, representing an increase of 20.79% over the corresponding period of last year and the net profit attributable to shareholders of the Company amounted to RMB217,085,000, representing an increase of 20.86% over the corresponding period of last year.

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

Item	The Reporting Period (RMB'000)	The corresponding period of 2011 (RMB'000)	Increase/ (Decrease) (YoY) (%)
Income from principal operations	3,447,724	2,770,532	24.44
Operating profit	240,475	196,019	22.68
Total profit	248,618	205,832	20.79
Net profit attributable to the shareholders of the Company	217,085	179,621	20.86

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		Cost 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)
Overall operations	3,447,724	24.44	2,659,807	26.12	22.85	A decrease of 1.03 percentage points
Include: Manufacturing	1,489,762	14.40	797,966	8.41	46.44	An increase of 2.96 percentage points
Trading	1,957,962	33.35	1,861,841	35.61	4.91	A decrease of 1.58 percentage points
Include: Pharmaceutical trading	1,386,647	33.59	1,296,616	36.86	6.49	A decrease of 2.24 percentage points
Other trading	571,315	32.79	565,225	32.83	1.07	A decrease of 0.03 percentage point

Profit margin of principal operations = (Income from principal operations – Cost from principal operations)/ Income from principal operations

5.2.2 Major products

Types of Products	Income from principal operations		Cost 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	213,144	18.34	113,970	6.44	46.53	An increase of 5.98 percentage points
Diabetic medicine	298,893	18.84	113,405	(8.08)	62.06	An increase of 11.11 percentage points
Cough and phlegm clearing medicine	199,856	8.25	100,256	9.29	49.84	A decrease of 0.48 percentage point
Arthritic medicine	198,694	29.99	99,714	24.06	49.82	An increase of 2.40 percentage points
Gastric medicine	51,181	(3.83)	27,274	4.34	46.71	A decrease of 4.17 percentage points
Other products	527,994	10.01	343,347	11.70	34.97	A decrease of 0.98 percentage point

Profit margin of principal operations = (Income from principal operations - Cost from principal operations)/ Income from principal operations

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	2,425,893	23.71	70.36
Eastern China	306,345	7.34	8.89
Northern China	233,773	32.09	6.78
North-Eastern China	53,891	10.11	1.56
South-Western China	226,599	82.88	6.57
North-Western China	57,411	3.17	1.67
Exports	143,812	21.20	4.17
Total	3,447,724	24.44	100.00

5.4 The manufacturing operations

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, the manufacturing operations actively developed works on government affairs and followed up with the expansion of the list of basic medicine and the bidding of basic medicine and non-basic medicine, which fostered the growth in sales volume of the Group's products in hospitals. Secondly, the Group vigorously organized marketing campaigns for brand building and activities in the cultural and academic field and enhanced the ability in market development. During the Reporting Period, the six subordinated manufacturing enterprises of the Company and their products were authorized and licensed for the use of the tradename and trademark of "Baiyunshan" in order to enhance the sales volume of the products in markets outside the Guangdong Province. Based on the event of "Company's celebration"* (「賀司慶」), the Group proactively commenced the brand and product promotion and enhance the brand recognition. Meanwhile, the Group has put more efforts in academic promotion for key products such as Xiao Ke Wan* (消渴丸) and Hua Tuo Zai Zao Wan* (華佗再造丸). Through various kinds of academic conferences and trainings as well as series of thematic activities including "Chinese Medicine in China"* (中醫中藥中國行), "Enter the rural areas, Enter the communities and Enter the family"* (進鄉村、進社區、進家庭), "Chain Cooperation among the Top 100 Enterprises"* (百強連鎖合作) and "Poverty Relief with Medicine in rural areas" (扶貧送藥下鄉), the Group went deep into the medical institutions of grassroots level, and strengthened academic training and patient education and service, enhanced the force in pulling the sales at terminal. In order to develop the business of the great health industry, the Company invested to establish Guangzhou Wang Lao Ji Great Health Industry Company Limited* (廣州王老吉大健康產業有限公司) ("WLJ Great Health") during the first half of the year. Currently, WLJ Great Health has been granted a permit to use "Wang Lao Ji" trademark to speedily develop the distribution and market of the relevant great health products such as red-canned Wang Lao Ji throughout the nation. Thirdly, the Group vigorously advanced the key

products development, accelerated the adjustment of product structure and product transformation, focused on the increase in the market share of products with high gross profit and high value-added in order to enhance the integrated gross profit margin. Fourthly, the Group innovated the marketing mode, utilized the service agent mode of “Commercial Platform + Industrial Operation”, fostered the sale of second and third line products such as An Shen Bu Nao Ye* (安神補腦液). The Group pushed onward the promotional sales of key products and main category products and rapidly increased the market shares of e-commerce retailer of medicine through the trial operation of e-commerce platform. Fifthly, the Group accelerated the development of GMP authentication of its subsidiaries. Currently, the Chinese medicine preprocessing workshop of Guangzhou Baiyunshan Zhongyi Pharmaceutical Company limited (“Zhong Yi”), the Chinese medicine preprocessing and extraction (oral treatment) workshop and drug substance of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. (“Guangzhou Han Fang”) have passed the 2010 GMP authentication. Sixthly, the Group reinforced the production cost management and strived to reduce the operation cost.

During the Reporting Period, the gross profit margin of the manufacturing operations was 46.44%, representing an increase of 2.96 percentage points as compared with the corresponding period of last year. It was mainly due to the general decrease in prices of raw materials and the subsidiaries of the Company reinforced the management of energy consumption in the course of production and enhanced the production efficiency etc.

During the Reporting Period, the Group obtained nine invention patents in total. The prescription of Zhong Yi Wei Nai An Jiao Nang* (中一牌胃乃安膠囊) of Zhong Yi was granted with the excellence award of the first session of patent award of Guangzhou Municipality* (第一屆廣州市專利獎優秀獎). Meanwhile, “The study and industrialization of key technologies of quality control in the course of production of Chinese medicine pills (Xiao Ke Wan)”* (消渴丸製藥過程品質控制高技術產業化示範工程) was listed as the “the Second Batch Industrial Technology Research and Development Funding on the Investment Plans in High-tech Industry Development Projects of 2012”* (2012年第二批產業技術研究與開發資金高技術產業發展項目投資計劃) of China and had obtained from the Central Industrial Technology Research and Development Grant* (中央產業技術研發資金補助) of RMB5 million. Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (“Pan Gao Shou”) and Guangzhou Han Fang were recognized as the “Second Batch of Innovative Trial Enterprise in Guangzhou”* (廣州市第二批創新型試點企業). Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd. (“Chen Li Ji”) was awarded the “2011 Technology Contribution Award by Chinese Association of Integrative Medicine”* (2011年中國中西醫結合學會科技貢獻獎). In the first half of 2012, Dr. Murad and Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (“Qi Xing”) entered into a cooperation framework agreement for the purpose of using his Nobel Prize winning theory of nitric oxide technology in the research of “Hua Tuo Zai Zao Wan”* (華佗再造丸) so as to foster the establishment of modern academic theory mechanism and the linkage to advanced international research in pharmaceutical sciences with Hua Tuo Zai Zao Wan. The application for the international patents for Kun Xian Jiao Nang* (昆仙膠囊) of Chen Li Ji (PCT) was granted with the patent in Australia, Korea, Russia and the United States. The project of “Critical technical research on the quality control of Wei C Yin Qiao Pian and granule”* (維C銀翹片、顆粒控制質量的關鍵技術研究) undertaken by Guangxi Ying Kang Pharmaceutical Co. Ltd. (“Guangxi Ying Kang”) passed the technical verification and reached the leading level of similar products in China.

At present, the eight holding subsidiaries of the Company, including Zhong Yi, Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (“Jing Xiu Tang”), Qi Xing, Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (“Xing Qun”), Chen Li Ji, Pan Gao Shou, Guangzhou Han Fang and Guangxi Ying Kang and the joint venture of the Company, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (“Wang Lao Ji”) have obtained the “Certificate of High/New Technology Enterprise” and all of them can enjoy the relevant preferential tax policies pursuant to the relevant requirements during the Reporting Period.

During the Reporting Period, the progress of the I Ib clinical research of the therapeutic dual-plasmid HBV DNA vaccine* (治療性雙質粒HBV DNA疫苗) of the Company and all the relevant parties has been carried out smoothly. Among the 231 participants in the group, 223 participants were under the period of re-interview and observation.

During the Reporting Period, there was a steady growth in the sale of key products like Xiao Ke Wan* (消渴丸), Hua Tuo Zai Zao Wan* (華佗再造丸) and Xia Sang Ju Ke Li* (夏桑菊顆粒), the increase in the sales of such products over the corresponding period of the last year amounted to 18.84%、29.19% and 19.76% respectively. Other products such as An Gong Niu Huang Wan* (安宮牛黃丸), Zi Shen Yu Tai Wan* (滋腎育胎丸), Ling Zhi Bao Zi You Jiao Nang* (靈芝孢子油膠囊), An Shen Bu Nao Ye* (安神補腦液), Shu Jin Jian Yao Wan* (舒筋健腰丸)、Ru He San Jie Pian* (乳核散結片) and Mi Lian Chuan Bei Pi Pa Gao* (蜜煉川貝枇杷膏) etc. also recorded a higher growth in the sales as compared with the corresponding period of last year.

5.5 The trading operations

The trading operations were enhanced with a series of measures taken during the Reporting Period. Firstly, the trading operations further strengthened the coordination and communication with distributors and manufacturers, expanded the introduction of products and consolidation in sales as well as optimized the efforts. The Group fostered the growth in sales volume of the operating varieties through measures such as the optimization of channels and network, advertising, terminal promotional sale and promotional sale in various channels in response to the medical policies and market demand. Secondly, the Group constantly improved the cooperation with the production enterprises on such issues as the list of basic medicine and bidding, strengthen the introduction and distribution and the hospital medicine use of the products. Thirdly, the Group further gave full play to the advantage of the integration platform of various resources in trading operations. Guangzhou Cai Zhi Lin Company Limited (廣州采芝林藥業有限公司) (“Cai Zhi Lin”), a subsidiary of the Company, exerted its unique advantage of centralized procurement of Chinese medicine, implemented centralized management in screening of procurement species, prepared well for the analysis and forecast of the market trend and price of Chinese medicine, got the market information timely and accurately and adjusted the procurement strategy quickly in order to implement quality and quantity assurance and procurement in lower cost. Guangzhou Pharmaceutical Import & Export Co., Ltd. (廣州醫藥進出口有限公司) (“Pharmaceutical Import & Export”) accelerated the development of the operation platform of the raw materials and featured pharmaceutical products distribution and achieved a rapid growth in operations. Fourthly, the Group accelerated the establishment of Chinese medicine base, reinforced the cooperation with various raw material

planting bases for Chinese medicine across the country to control key products and bulk medicine from the source. As at 30 June 2012, the Group has established the procurement platform of Chinese medicine and GAP planting base companies in regions such as Tibet, Shandong, Inner Mongolia and Guizhou.

During the Reporting Period, the gross profit margin of the trading operations of the Group was 4.91%, representing a decrease of 1.58 percentage points as compared with the corresponding period of last year.

As at 30 June 2012, the Group had 47 retail chain pharmacy outlets, including 46 “Cai Zhi Lin” which specializes in traditional Chinese medicines and one pharmacy named Ying Bang.

5.6 Details of operation and results of the Company’s subordinated enterprise 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				
Xing Qun <i>(Note a)</i>	88.99	167,876	12,204	10,226
Zhong Yi <i>(Note a)</i>	100.00	454,448	60,862	50,694
Chen Li Ji <i>(Note a)</i>	100.00	160,167	19,431	16,316
Qi Xing <i>(Note a)</i>	75.00	228,045	21,647	18,484
Jing Xiu Tang <i>(Note a)</i>	88.40	137,718	13,485	11,439
Pan Gao Shou <i>(Note a)</i>	87.77	194,799	15,982	13,410
Guangxi Ying Kang	51.00	22,573	786	786
Guangzhou Bai Di Bio-technology Co., Ltd.	98.48	1,428	17,629	17,629
Guangzhou Han Fang	97.97	68,875	2,393	2,393
Cai Zhi Lin	100.00	1,177,102	6,281	4,881
Pharmaceutical Import & Export	100.00	1,193,644	5,712	4,198
WLJ Great Health	100.00	–	(1,863)	(1,863)
(2) Branch Company				
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	–	1,293	60	60
(3) Joint Ventures				
Wang Lao Ji <i>(Note b)</i>	48.05	1,341,026	121,484	103,401
Guangzhou Pharmaceuticals Corporation (“GP Corp.”) <i>(Note c)</i>	50.00	9,452,865	112,297	81,072
Guangzhou Nuo Cheng Bio-tech Co., Ltd. (“Nuo Cheng”) <i>(Note d)</i>	approximately 50.00	141,809	57,658	49,262

Notes:

(a) During the Reporting Period, the subsidiaries of the Company formerly known as Guangzhou Xing Qun Pharmaceutical Co., Ltd., Guangzhou Zhong Yi Pharmaceutical Co., Ltd., Guangzhou Chen Li Ji Factory Co., Ltd., Guangzhou Qi Xing Pharmaceutical Co., Ltd., Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. and Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. were granted to use the tradename of “Baiyunshan”. Their company names were changed to “Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.”, “Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.”, “Guangzhou Baiyunshan Chen Li Ji Factory Pharmaceutical Co., Ltd.”, “Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.”, “Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.” and “Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.” during May 2012 and June 2012.

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

Wang Lao Ji is principally engaged in the research, manufacture and sales of Chinese Patent Medicine and foodstuffs. During the Reporting Period, Wang Lao Ji put more efforts in product distribution and vigorously commenced different thematic marketing activities, proactively advanced the medical reforms such as the national basic list of medicines, community healthcare and new cooperative medical system for rural areas. Wang Lao Ji strictly controlled the cost and strengthened the foundation management.

In the first half of 2012, Wang Lao Ji achieved an income from principal operations of RMB1,341,026,000, representing an increase of 23.12% as compared with the corresponding period of last year. Its total profit amounted to RMB121,484,000, representing an increase of 8.58% as compared with the corresponding period of last year and its net profit was RMB103,401,000, representing an increase of 0.78% as compared with the corresponding period of last year. Sales of Wang Lao Ji herbal tea, Wang Lao Ji Run Hou Tang* (潤喉糖), Xiao Er Qi Xing Cha Ke Li* (小兒七星茶顆粒) and Bao Ji Kou Fu Ye* (保濟口服液) enjoyed increases as compared with the corresponding period of last year, representing increases of 26.34%, 57.30%, 8.85% and 33.39%.

(c) 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 first half of 2012, GP Corp. proactively expanded the sale channels and network, explored the new cooperation mode between commerce and hygiene, accelerated the construction of warehouses for logistics across the country at the same time, strengthened the terminal distribution and fostered the steady growth of principal operation. On the other hand, GP Corp. continued to advance the foreign investment and acquisition inside and outside the province as well as expand the scale of enterprises. As at 30 June, 2012, the GP Corp. has completed the mergers and acquisitions projects in Foshan, Meizhou, Hainan, Hunan and Shanxi etc..

In the first half of 2012, income from principal operations of GP Corp. amounted to RMB9,452,865,000, representing an increase of 22.97% as compared with the corresponding period of last year, its total profit was RMB112,297,000, representing an increase of 14.88% as compared with the corresponding period of last year and its net profit was RMB81,072,000, representing an increase of 19.93% as compared with the corresponding period of last year.

(d) 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. Rabies Bacterin has become a variety of over 100 million. In the first half of 2012, Nuo Cheng actively promoted the existing rabies vaccine workshop of new GMP reconstruction work, which is currently in progress smoothly.

In the first half of 2012, income from principal operations of Nuo Cheng amounted to RMB141,809,000, representing an increase of 505.61% as compared with the corresponding period of last year; its total profit was RMB57,658,000, representing an increase of 1,616.99% as compared with the corresponding period of last year and its net profit was RMB49,262,000, representing an increase of 914.14% as compared with the corresponding period of last year.

Except the above mentioned joint ventures, namely Wang Lao Ji, GP Corp. and Nuo Cheng, 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 2012

In 2012, the bright prospect in the development of domestic pharmaceutical market, internationalization of pharmaceutical economy, domestic emphasis on the importance of the development of biological medicine and traditional Chinese medicine, the aging population in China etc. 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, change in pharmaceutical bidding policy of provinces, 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, tight supply of some raw materials and continual increase in corporate operational costs will pose challenges to the development of the Group in the future.

In the second half of 2012, the Group will commence the major tasks as follows:

1. To continue reinforce its works on government affairs, proactively respond to the bidding of basic medicine and non-basic medicine, the price control policy of medicine and vigorously promote the sale growth of the Company's product in medical institutions.
2. To innovate marketing, the Group will put greater efforts in advancing the establishment of the hundred million-yuan product developments and key products developments, accelerate the adjustment in industrial structure, continue to raise the percentage of high gross profit and high value added products in overall operations, cultivate the "dairy cattle" products with new profit. Meanwhile, the Group will vigorously promote the health industry, speed up and expand the goods distribution and relevant promotion, and develop the market across the country as soon as possible.
3. According to the 2010 Pharmacopoeia Standards and relevant regulations, the Group comprehensively promotes the new GMP transformation in subordinated companies and stimulates the transformation of medical GMP personnel, software and hardware. At the same time, the Group will take the implementation of the new GMP as a new opportunity to improve and optimize the production process, refine the quality control and enhance the product quality.
4. The Group will accelerate the building up of technological innovation system and promote the IIB clinical research of the therapeutic dual-plasmid HBV DNA vaccine and other pharmaceutical research projects. Meanwhile, the Group will actively participate in the formulation of Chinese medicine standards and accelerated the progress and implementation of strategy in medicine standards.
5. To accelerate the major asset reorganization, strengthen the integration of resources and further leverage upon the synergy effect. Meanwhile, the Group will also reinforce the broadening in the dimension and depth of acquisitions and mergers as well as cooperation of subordinated companies and consolidate the control over internal capital so as to achieve the efficiency maximization and cost minimization.
6. To build up the scientific management, strengthen the risk control, consolidate the result in implanting internal control system and lower the operational risk of the Company.

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 and their composition as compared with the corresponding period of last year

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 2012

Applicable Not applicable

5.14 Early warning and explanation for negative impact on net profit for the next reporting period or significant profit fluctuation in comparison to the corresponding 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 2011

Applicable Not applicable

5.17 Liquidity, financial resource and capital structure

As at 30 June 2012, the current ratio of the Group was 1.90 (30 June 2011: 2.36), and its quick ratio was 1.36 (30 June 2011: 1.55). During the Reporting Period, turnover rate for accounts receivable was 14.07 times, representing a decrease of 5.58% as compared with the corresponding period of 2011. Inventory turnover rate was 6.07 times, representing an increase of 12.81% as compared with the corresponding period of 2011.

As at 30 June 2012, the cash and cash equivalents of the Group amounted to RMB782,787,000 (30 June 2011: RMB527,307,000), out of which approximately 99.36% and 0.64% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 30 June 2012, the current liabilities of the Group amounted to RMB1,651,385,000 (30 June 2011: RMB988,124,000) and its short-term borrowings were RMB137,667,000 (30 June 2011: RMB84,419,000).

5.18 Capital expenditure

The Group expects the capital expenditure for 2012 will be amounted to approximately RMB184 million, among which, the expenditure in the first half of 2012 amounted to RMB21 million (2011: RMB28 million), which will be mainly applied in the construction of factories and infrastructure and purchases of machines and equipment and patented technology, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

5.19 Exposure to fluctuations in exchange rates

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

5.20 Contingent liabilities

As at 30 June 2012, the Group had no significant contingent liabilities.

5.21 Charge on Group's assets

As at 30 June 2012, the Group had no charge on its assets.

5.22 Bank loans, overdraft and other loans

As at 30 June 2012, the bank loans of the Group amounted to RMB137,667,000 (31 December 2011: RMB144,929,000), with a decrease of RMB7,262,000 as compared with the beginning of the 2012. All of the above bank loans were short-term loans.

5.23 Gearing ratio

As at 30 June 2012, the Group's gearing ratio (total liabilities/total assets x 100%) was 30.09% (31 December 2011: 19.71%).

5.24 Material investment

As at 30 June 2012, the Group did not have any other material additional investment.

5.25 As at the end of the Reporting Period, the number of the Group's employees amounted to 5,488. 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 2012 was RMB220 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 As at 30 June 2012, the Group has no material purchase and disposal of assets.

6.2 Connected transactions during the Reporting Period

6.2.1 On 14 May 2012, the six subordinated manufacturing enterprises of the Company entered into the Baiyunshan Trade Name License Agreement with Guangzhou Baiyunshan Pharmaceutical Co., Ltd. (“BYS”) on the connected transactions in the ordinary and usual course of business. The transactions contemplated under the Baiyunshan Trade Name License Agreements were considered and passed by the Board.

For details, please refer to the announcements which were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) on 15 May 2012 and on the website of the HKEx (www.hkex.com.hk) on 14 May 2012.

6.2.2 On 25 May 2012, WLJ Great Health, the Company’s wholly-owned subsidiary, entered into the Trademark License Agreement with GPLH on the connected transactions in the ordinary and usual course of business. The transactions contemplated under the Trademark License Agreement were considered and passed by the Board.

For details, please refer to the announcements which were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) and the website of the HKEx (www.hkex.com.hk) on 28 May 2012.

6.2.3 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	50,055	2.10	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	210	0.01	Cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	86	0.00	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	25,672	1.08	Cash
Po Lian Development Co., Ltd.	Wholly-owned subsidiary of parent company	Purchase of products	Medicine or pharmaceutical products	Market price	36,900	1.55	Cash
Guangzhou Baiyunshan Hutchison Qhampoa Chinese Medicine Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	775	0.03	Cash
GP Corp.	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	54,021	2.27	Cash
Wang Lao Ji	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	13,464	0.56	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	60,173	2.52	Cash
Nanyang Baiyunshan Hutchison Qhampoa Guanbao Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	925	0.04	Cash
Fuyang Baiyunshan Hutchison Qhampoa Chinese Medicine Technology Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	4,003	0.17	Cash
Sub-total					246,284	10.33	

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	Sales of products	Medicine or pharmaceutical products	Market price	187	0.01	Cash
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Sales of products	Medicine or pharmaceutical products	Market price	18,355	0.53	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	26,703	0.77	Cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	474	0.01	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	46,114	1.34	Cash
Po Lian Development Co., Ltd.	Wholly-owned subsidiary of parent company	Sales of products	Medicine or pharmaceutical products	Market price	1,207	0.04	Cash
Guangzhou Baiyunshan Hutchison Qhampo Chinese Medicine Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	19,678	0.57	Cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	204,976	5.95	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	54,634	1.58	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
Nuo Cheng	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	19	0.00	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	6,351	0.18	Cash
Guangzhou Baxter Qiaoguang the medical Goods Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	6	0.00	Cash
Nanyang Baiyunshan Hutchison Qhampoa Guanbao Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	17,763	0.52	Cash
Fuyang Baiyunshan Hutchison Qhampoa Chinese Medicine Technology Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	74	0.00	Cash
Sub-total					396,541	11.50	

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	3,779	100.00	Cash
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Others	Rights to use trademarks	Agreement price	2,051	100.00	Cash
Wang Lao Ji	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	12,117	100.00	Cash
GPHL	Parent company	Others	Rental assets	Agreement price	1,172	10.04	Cash
GPHL	Parent company	Others	Accommodation fees of employees	Agreement price	187	100.00	Cash
Total					662,131		

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.

6.3 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	24 June 2011	29,544	Joint and several liability	1 year	No	Yes
	26 July 2011	19,696	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)

49,240

The Company's guarantees provided to its subsidiaries

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

70,000

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

165,000

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

Total amount of guarantees provided (RMB'000)

214,240

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

5.47

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)

160,000

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)

160,000

6.4 Non-operating funds to/from connected parties

Applicable Not applicable

6.5 Major litigation and arbitration

Applicable Not applicable

6.6 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.

6.7 The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2012 nor propose any increase in share capital from the capital reserve.

6.8 Undertakings

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

Applicable Not applicable

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

6.9 Corporate Governance

On 1 April 2012, the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (“Former CG Code”) was amended and renamed as Corporate Governance Code and Corporate Governance Report (“New CG Code”). The Company has adopted the code provisions as set out in the New CG Code as the code of the Company in substitution for and to the exclusion of the Former CG Code with effect from 1 April 2012.

During the six months ended 30 June 2012, the Company has complied with the code provisions set out in the Former CG Code and New CG Code.

6.10 Model Code for Securities Transactions by directors and supervisors

The Company had adopted the Model Code for Securities Transactions 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.

6.11 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 audited interim accounts for the six months ended 30 June 2012.

6.12 Explanation on other major events, their impact and solutions

6.12.1 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	965	33.60	(42)
2	A Share of the SSE	600664	Ha Yao	3,705	222,546	1,906	66.40	(214)
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	-	2,871	100	(256)

6.12.2 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 Communications	439	-	1,510	41	23	Available-for-sale financial assets	Acquisition
601818	Everbright Bank	10,725	approximately 0.02	17,182	-	(182)	Available-for-sale financial assets	Acquisition

6.12.3 Information on the Company's Interests in Non-Listed Financial Institutions

Applicable Not applicable

Name	Initial investment amount (RMB'000)	Number of shares held (share)	% 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
Golden Eagle Fund Management Co., Ltd.	50,000	-	20.00	36,082	(1,328)	-	Long-term equity investment	Acquisition

6.13 Explanation on other issues

Applicable Not applicable

6.13.1 The Company had applied for a suspension of trading in the A shares on the SSE and the H shares on the HKEx with effect from 7 November 2011, as GPLH, the controlling shareholder of the Company, planned for a proposed major assets reorganization (the "Major Assets Reorganization") involving the Company. During the period of suspension in the trading of its shares, the Company continued to fulfill its disclosure obligations in respect of the progress of the Major Assets Reorganization on a timely basis and made further announcements regarding the progress of the Major Assets Reorganization every five trading days.

The 13th meeting of the fifth session of the Board of the Company was held on 29 February 2012 and approved the transactions, including the absorption and merger of BYS by the Company through share swap of additional A shares, and the asset acquisition by the Company through issuance of A shares offering to GPLH. The announcements in relation to the Major Assets Reorganization were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) on 28 March 2012 and on the website of the HKEx (www.hkex.com.hk) on 27 March 2012. Trading in the A shares and H shares of the Company had resumed on 28 March 2012.

The 17th meeting of the fifth session of the Board of the Company was held on 15 June 2012 and approved the transactions, including the absorption and merger of BYS by the Company through share swap of additional A shares, and the asset acquisition by the Company through issuance of A shares offering to GPLH. The announcements in relation to the Major Assets Reorganization were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) on 19 June 2012 and on the website of the HKEx (www.hkex.com.hk) on 18 June 2012.

The announcements in relation to the notice of the first extraordinary general meeting of in 2012 the notice of the first class meeting of holders of domestic shares in 2012 and the notice of the first class meeting of holders of overseas listed foreign capital shares in 2012 (hereinafter as the “general meetings”) were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) on 3 August 2012 and on the website of the HKEx (www.hkex.com.hk) on 2 August 2012. The general meetings will be held on 19 September 2012.

6.13.2 After the Reporting Period, the Company was informed that WLJ Great Health, the wholly-owned subsidiary of the Company, had received a notice calling for responses to civil legal proceedings [(2012) – Zhongminchuzi No. 8778]* ([(2012) – 中民初字第 8778 號]) (the “Responses Notice”) from the Beijing No.1 Intermediate People’s Court* (北京市第一中級人民法院). According to the Responses Notice, the Beijing No.1 Intermediate People’s Court has accepted the submission made by the plaintiff, Guangdong Jia Duo Bao Beverage and Food Company Limited* (廣東加多寶飲料食品有限公司) to proceed with the case in relation to the allegation of unauthorized use of the specific name, packaging and decoration of the well-known products by WLJ Great Health.

Please refer to the details of the announcement published in the Shanghai Securities News, the Securities Times and the website of the SSE on 15 August 2012, and the contents of which have also been reproduced and published as overseas regulatory announcement on the website of HKEx on 14 August 2012.

7. FINANCIAL REPORTS

7.1 Financial statements prepared in accordance with the PRC Accounting Standards

(All amounts in Renminbi yuan unless otherwise stated)

Consolidated Balance Sheet

ASSETS	<i>Note</i>	30 June 2012	31 December 2011
Current assets			
Cash at bank and on hand		789,117,665.72	384,135,738.08
Financial assets held for trading		2,871,401.80	3,127,692.50
Notes receivable		487,144,577.83	430,388,075.25
Accounts receivable	7.1.4	664,804,763.75	446,596,366.96
Advances to suppliers		230,584,440.95	132,518,184.98
Interest receivable		—	—
Dividends receivable		—	—
Other receivables		74,181,296.65	54,056,817.63
Inventories		877,718,454.77	859,005,842.50
Current portion of non-current assets		—	—
Other current assets		5,531,335.15	2,342,210.36
Total current assets		3,131,953,936.62	2,312,170,928.26
Non-current assets			
Available-for-sale financial assets		18,692,267.32	18,907,856.64
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments		1,365,142,362.61	1,255,088,628.89
Investment properties		99,303,560.45	102,290,186.93
Fixed assets		962,923,393.35	1,000,021,241.01
Construction in progress		28,067,480.19	20,369,955.46
Construction materials		—	—
Fixed assets pending for disposal		—	—
Intangible assets		93,726,127.59	95,138,045.81
Development costs		792,251.69	792,251.69
Goodwill		—	—
Long-term prepaid expenses		5,851,364.75	7,944,670.09
Deferred tax assets		62,563,781.69	38,542,083.57
Other non-current assets		—	—
Total non-current assets		2,637,062,589.64	2,539,094,920.09
TOTAL ASSETS		5,769,016,526.26	4,851,265,848.35

Consolidated Balance Sheet (Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY

	<i>Note</i>	30 June 2012	31 December 2011
Current liabilities			
Short-term borrowings		137,667,087.26	144,928,849.42
Financial liabilities held for trading		–	–
Notes payable		41,381,160.53	5,432,012.71
Accounts payable	7.1.5	572,504,724.94	350,249,598.28
Advances from customers		550,647,272.40	146,931,794.49
Employee benefits payable		116,433,623.03	64,167,157.18
Taxes payable		67,628,191.66	37,951,281.66
Interest payable		–	–
Dividends payable		5,093,930.51	136,440.45
Other payables		160,028,581.52	121,543,593.12
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
Total current liabilities		1,651,384,571.85	871,340,727.31
Non-current liabilities			
Long-term borrowings		–	–
Debentures payable		–	–
Long-term payables		4,423,405.56	4,423,405.56
Payables for specific projects		–	–
Provisions		–	–
Deferred tax liabilities		3,636,548.33	3,802,712.90
Other non-current liabilities		76,203,373.99	76,526,985.01
Total non-current liabilities		84,263,327.88	84,753,103.47
Total liabilities		1,735,647,899.73	956,093,830.78
SHAREHOLDERS' EQUITY			
Share capital		810,900,000.00	810,900,000.00
Capital surplus		1,147,597,963.81	1,148,016,718.97
Less: Treasury share		–	–
Surplus reserve		602,895,675.46	602,895,675.46
Undistributed profits		1,355,834,517.97	1,219,839,567.46
Difference on translation of foreign currency financial statements		–	–
Total equity attributable to shareholders of the Company		3,917,228,157.24	3,781,651,961.89
Minority interest		116,140,469.29	113,520,055.68
Total shareholders' equity		4,033,368,626.53	3,895,172,017.57
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		5,769,016,526.26	4,851,265,848.35

Consolidated Income Statement

ITEMS	<i>Note</i>	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
1. Revenue	7.1.6	3,498,046,152.32	2,817,341,310.57
Less: Cost of sales	7.1.6	2,667,781,009.22	2,118,084,469.11
Taxes and surcharges		27,304,803.48	23,035,776.44
Selling and distribution expenses		409,786,401.69	344,383,899.28
General and administrative expenses		258,189,906.03	217,761,830.02
Financial expenses		2,854,101.82	(817,547.88)
Asset impairment losses		5,183,038.21	1,522,853.30
Add: Profit arising from changes in fair value		(256,290.70)	(1,627,746.12)
Investment income		113,784,339.99	84,276,497.58
Including: Share of profit of associates and jointly controlled entities		114,115,739.80	83,610,963.02
2. Operating profit		240,474,941.16	196,018,781.76
Add: Non-operating income	7.1.7	9,506,190.31	11,097,827.09
Less: Non-operating expenses		1,362,837.43	1,284,381.05
Including: Losses on disposal of non-current assets		120,551.04	255,084.29
3. Total profit		248,618,294.04	205,832,227.80
Less: Income tax expenses	7.1.8	22,306,265.65	19,246,389.72
4. Net profit		226,312,028.39	186,585,838.08
– Attributable to shareholders of the Company		217,084,950.51	179,621,034.63
– Minority interest		9,227,077.88	6,964,803.45
5. Earnings per share			
– Basic earnings per share	7.1.9	0.268	0.222
– Diluted earnings per share	7.1.9	0.268	0.222
6. Other comprehensive income		(146,493.06)	(2,822,117.28)
7. Total comprehensive income		226,165,535.33	183,763,720.80
– Attributable to shareholders of the Company		216,937,987.56	176,798,539.18
– Minority interest		9,227,547.77	6,965,181.62

7.1.1 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.

7.1.2 Accounting policies

There are no significant changes in the accounting policies applied in preparing of these financial statements compared to the accounting policies applied in preparation of the financial statements for the year ended 31 December 2011.

7.1.3 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.

- (1) The segment information for the six months ended 30 June 2012 and as of 30 June 2012 are as follows:

	Manufacturing	Pharmaceutical trading	Other trading	Unallocated	Elimination	Total
Revenue	1,517,884,889.95	1,393,019,063.43	571,314,913.24	15,827,285.70	–	3,498,046,152.32
Inter-segment revenue	45,560,878.21	298,016,314.92	–	10,854,837.20	(354,432,030.33)	–
Interest income	1,647,934.99	246,476.22	–	668,229.06	–	2,562,640.27
Interest expenses	5,909,641.99	16,229,051.38	–	2,504,444.40	(19,898,339.27)	4,744,798.50
Share of profit or loss of associates and jointly controlled entities	24,432,787.32	–	–	85,150,074.30	4,532,878.18	114,115,739.80
Asset impairment losses	4,491,669.55	233,276.65	619,690.83	–	(161,598.82)	5,183,038.21
Depreciation and amortization	52,565,605.48	2,324,288.27	–	1,176,283.00	–	56,066,176.75
Total profit	164,477,334.11	8,597,630.67	2,032,068.05	189,333,507.79	(115,822,246.58)	248,618,294.04
Income tax expenses	23,275,553.56	2,417,704.95	496,338.68	2,578,084.48	(6,461,416.02)	22,306,265.65
Net profit (Including: minority interest)	141,201,780.55	6,179,925.72	1,535,729.37	186,755,423.31	(109,360,830.56)	226,312,028.39
Total assets	3,195,768,073.73	1,138,419,366.52	99,219,502.17	3,731,940,350.96	(2,396,330,767.12)	5,769,016,526.26
Total liabilities	1,396,933,223.33	1,055,373,392.29	97,525,795.28	113,958,056.46	(928,142,567.63)	1,735,647,899.73
Long-term equity investments in associates and jointly controlled entities	70,666,389.10	–	–	1,287,176,222.62	971,331.75	1,358,813,943.47
Additions of non-current assets other than long-term equity investments	19,444,691.17	1,282,119.67	–	400,389.00	–	21,127,199.84

(2) The segment information for the six months ended 30 June 2011 (unaudited) and as of 31 December 2011 are as follows:

	Manufacturing	Pharmaceutical trading	Other trading	Unallocated	Elimination	Total
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	21,135,674.32	283,268,262.36	–	9,536,159.13	(313,940,095.81)	–
Interest income	2,235,601.99	264,603.28	–	1,236,932.32	–	3,737,137.59
Interest expenses	5,623,305.80	10,741,795.45	–	1,049,458.33	(15,770,545.63)	1,644,013.95
Share of profit or loss of associates and jointly controlled entities	(3,016,609.44)	–	–	82,669,221.76	3,958,350.70	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 amortization	52,788,871.75	2,058,628.55	–	1,165,175.68	–	56,012,675.98
Total profit	103,704,717.80	8,025,525.83	907,403.93	199,986,851.09	(106,792,270.85)	205,832,227.80
Income tax expenses	16,789,298.48	1,518,883.16	225,022.18	3,463,142.91	(2,749,957.01)	19,246,389.72
Net profit (Including: minority interest)	86,915,419.32	6,506,642.67	682,381.75	196,523,708.18	(104,042,313.84)	186,585,838.08
Total assets	2,632,322,421.44	912,705,739.19	62,167,939.38	3,614,609,987.23	(2,370,540,238.89)	4,851,265,848.35
Total liabilities	947,797,791.25	831,406,368.58	61,983,688.49	118,900,915.43	(1,003,994,932.97)	956,093,830.78
Long-term equity investments in associates and jointly controlled entities	46,233,601.78	–	–	1,202,014,262.96	512,345.01	1,248,760,209.75
Additions of non-current assets other than long-term equity investments	26,108,761.38	2,438,459.67	–	421,929.00	–	28,969,150.05

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 summarized as follows:

Revenue from external customers	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
PRC	3,354,234,249.73	2,698,686,244.89
Other countries	143,811,902.59	118,655,065.68
	<u>3,498,046,152.32</u>	<u>2,817,341,310.57</u>
 Total non-current assets	 30 June 2012	 31 December 2011
PRC	2,543,780,887.42	2,469,336,900.40
Other countries	12,025,653.21	12,308,079.48
	<u>2,555,806,540.63</u>	<u>2,481,644,979.88</u>

7.1.4 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 aging of accounts receivable is analysed follows:

	30 June 2012	31 December 2011
Within 1 year	664,053,139.55	443,748,943.00
1 to 2 years	6,402,532.08	6,071,602.35
2 to 3 years	4,030,641.80	4,909,957.53
3 to 4 years	2,307,055.44	2,669,468.83
4 to 5 years	2,382,813.96	1,609,619.47
Over 5 years	4,467,405.16	4,263,326.51
	<u>683,643,587.99</u>	<u>463,272,917.69</u>
Less: Provision for bad debt	18,838,824.24	16,676,550.73
	<u>664,804,763.75</u>	<u>446,596,366.96</u>

7.1.5 Accounts payable

The aging of accounts payable is analysed as follows:

	30 June 2012	31 December 2011
Within 1 year	564,469,993.42	343,592,964.13
Over 1 year	8,034,731.52	6,656,634.15
	<u>572,504,724.94</u>	<u>350,249,598.28</u>

7.1.6 Revenue and cost of sales

	Six months ended 30 June 2012		
	Main operation	Other operation	Subtotal
Revenue	3,447,723,837.21	50,322,315.11	3,498,046,152.32
Cost of sales	2,659,806,631.75	7,974,377.47	2,667,781,009.22
Gross profit	787,917,205.46	42,347,937.64	830,265,143.10

	Six months ended 30 June 2011 (Unaudited)		
	Main operation	Other operation	Subtotal
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

7.1.7 Non-operating income

Gain on disposal of non-current assets amounted to RMB151,108.33(for the six months ended 30 June 2011: RMB182,502.08 (Unaudited)).

7.1.8 Income tax expenses

	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
Current income tax	46,436,917.44	33,680,313.31
Deferred income tax	(24,130,651.79)	(14,433,923.59)
	<u>22,306,265.65</u>	<u>19,246,389.72</u>

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:

	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
Total profit	248,618,294.04	205,832,227.80
Income tax expenses calculated at applicable tax rates	62,154,573.51	51,458,056.95
Tax effect of different rates applicable to subsidiaries	(15,897,908.03)	(11,480,509.00)
Income not subject to tax	(28,528,934.95)	(20,902,740.76)
Expenses not deductible for tax purposes	2,924,752.12	1,384,424.50
Tax effect of utilization of previously unrecognised tax losses	(965,140.10)	(341,831.00)
Tax losses for which no deferred income tax asset was recognised	2,142,617.20	2,460,916.00
Tax effect of temporary differences on which deferred tax assets are not recognised	1,050,984.18	(876,983.51)
Others	(574,678.28)	(2,454,943.46)
Income tax expenses	<u>22,306,265.65</u>	<u>19,246,389.72</u>

Seven subsidiaries of the Group, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co.,Ltd, Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd, Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd., Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd., received the “Certificate of High/New Technology Enterprise”, which was jointly issued by Guangdong Provincial Department of Science and Technology, 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 High and New 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%.

Among the eight subsidiaries of the Group recognized as New/High enterprises above, Guangxi Ying Kang Pharmaceutical Co. Ltd.'s qualification valid period was from 2009 to 2011. In 2012, Guangxi Ying Kang Pharmaceutical Co. Ltd applied to prolong the qualification as New/High Technology Enterprise. The result of the application is expected to be released in the second half of 2012. Management considers that Guangxi Ying Kang Pharmaceutical Co. Ltd can prolong its qualification as New/High Technology Enterprise successfully, and enjoy the preferential enterprise income tax rate of 15%. Therefore, the tax rate of 15% is applicable to Guangxi Ying Kang Pharmaceutical Co. Ltd in calculating enterprise income tax for the six months ended 30 June 2012.

7.1.9 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:

	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
Consolidated net profit attributable to ordinary shareholders of the Company	217,084,950.51	179,621,034.63
Weighted average number of ordinary shares outstanding	810,900,000.00	810,900,000.00
Basic earnings per share	<u>0.268</u>	<u>0.222</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 2012, there were no potential ordinary shares (for the six months ended 30 June 2011: nil), diluted earnings per share is equal to basic earnings per share.

7.1.10 Dividends

In accordance with the resolution at the 2011 Annual General Meeting held on 12 April 2012, the Company proposed a cash dividend of RMB0.10 per share to shareholders of the Company, amounting to RMB 81,090,000.00 in total based on the number of shares issued amounting to 810,900,000.

In accordance with the resolution at the 2010 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 RMB40,545,000.00 in total based on the number of shares issued amounting to 810,900,000.

7.1.11 Net current assets

	30 June 2012	31 December 2011
Current assets	3,131,953,936.62	2,312,170,928.26
Less: Current liabilities	1,651,384,571.85	871,340,727.31
Net current assets	<u>1,480,569,364.77</u>	<u>1,440,830,200.95</u>

7.1.12 Total assets less current liabilities

	30 June 2012	31 December 2011
Total assets	5,769,016,526.26	4,851,265,848.35
Less: current liabilities	1,651,384,571.85	871,340,727.31
Total assets less current liabilities	<u>4,117,631,954.41</u>	<u>3,979,925,121.04</u>

7.2 Note to the financial statements

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

Applicable Not applicable

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

Applicable Not applicable

During the Reporting Period, the newly established subsidiaries included in the consolidation scope of the Group's financial statement are WLJ Great Health, Shandong Guangyao Chinese Herbal Medicine Developing Company*(山東廣藥中藥材開發有限公司) and Wulanchabu Guangyao Chinese Herbal Medicine Developing Company*(烏蘭察布廣藥中藥材開發有限公司).

7.3.3 Notes to the non-standard unqualified auditors' report

Applicable Not applicable

The Board of
Guangzhou Pharmaceutical Company Limited

Guangzhou, the PRC, 24 August 2012

As at the date of this announcement, the Board comprises Mr. Yang Rongming, Mr. Li Chuyuan 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.

* *for identification purpose only.*