



2009

Interim Report



廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited
(Stock code: 874)



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Important Notice

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 interim report.
2. Mr. Yang Rongming, the Chairman, Mr. Shi Shaobin, Director and General Manager, and Mr. Chen Binghua, Financial Controller and Senior Manager of the Finance Department, individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this interim report.
3. The financial reports of the Company and its subsidiaries (collectively the “Group”), and the Company for the six months ended 30 June 2009 (the “Reporting Period”) are unaudited.
4. This interim report is prepared in both English and Chinese. In the event of different interpretations, with the exception of the condensed consolidated interim financial information prepared in accordance with the Hong Kong Accounting Standards 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, the Chinese version shall prevail.

1. COMPANY PROFILE

- (1) Legal Chinese name: 廣州藥業股份有限公司
Chinese name abbreviation: 廣州藥業
English name: Guangzhou Pharmaceutical Company Limited
English name abbreviation: GPC
- (2) Name of stock exchanges and stock codes of the listed shares: A Shares: The Shanghai Stock Exchange
Stock code: 600332 Stock abbreviation: GZ Phar.
H Shares: The Stock Exchange of Hong Kong Limited
Stock code: 0874 Stock abbreviation: GZ Phar.
- (3) Registered address and office: 45 Sha Mian North Street, Liwan District
Guangzhou City, Guangdong Province, the PRC
Postal code: 510130
Telephone: (8620) 8121 8103
Fax: (8620) 8121 6408
Internet website: <http://www.gpc.com.cn>
E-mail: sec@gpc.com.cn
Principal place of business in Hong Kong: Room 2005, 20th Floor, Tower Two Lippo Center
89 Queensway, Hong Kong
- (4) Legal representative: Yang Rongming
- (5) Secretary of the Board: Pang Jianhui
Representative of securities affairs: Huang Xuezheng
Address: 45 Sha Mian North Street, Liwan District
Guangzhou City, Guangdong Province, the PRC
Telephone: (8620) 8121 8084/8121 8119
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- (6) Designated newspaper for information disclosure: Mainland China – Shanghai Securities News
- Internet websites for publishing this interim report designated by:
The China Securities Regulatory Commission <http://www.sse.com.cn>
The Stock Exchange of Hong Kong Limited <http://www.hkex.com.hk>
- Place where this interim report is available for inspection: The Secretariat of Guangzhou Pharmaceutical Company Limited
2nd Floor, 45 Sha Mian North Street, Liwan District
Guangzhou City, Guangdong Province, the PRC

Company Profile

2. PRINCIPAL FINANCIAL DATA AND INDICATORS

(1) Financial data and financial indicators prepared in accordance with the Accounting Standards of the PRC (the “PRC Accounting Standards”)

Items	As at 30 June 2009 (Unaudited)	As at 31 December 2008 (Audited)	Changes as compared with 31 December 2008 (%)
Total assets (RMB'000)	4,198,295	4,130,904	1.63
Net assets attributable to the shareholders of the Company (RMB'000)	3,210,277	3,124,842	2.73
Net assets per share attributable to the shareholders of the Company (RMB)	3.96	3.85	2.73
Items	The Reporting Period (Unaudited)	The corresponding period of 2008 (Unaudited) (Restated)	Changes as compared with the corresponding period of 2008 (%)
Operating profit (RMB'000)	116,070	192,945	(39.84)
Total profit (RMB'000)	124,200	198,145	(37.32)
Net profit attributable to the shareholders of the Company (RMB'000)	116,563	166,623	(30.04)
Net profit attributable to the shareholders of the Company after deducting non-operating items (RMB'000)	103,858	99,878	3.99
Basic earnings per share (RMB)	0.144	0.205	(30.04)
Basic earnings per share after deducting non-operating items (RMB)	0.128	0.123	3.99
Diluted earnings per share (RMB)	0.144	0.205	(30.04)
Fully diluted return on net assets (%)	3.63	5.36	A decrease of 1.73 percentage points
Weighted average return on net assets (%)	3.66	5.30	A decrease of 1.64 percentage points
Net cash flow from operating activities (RMB'000)	242,138	11,971	1,922.69
Net assets per share attributable to the shareholders of the Company (RMB)	0.299	0.015	1,922.69

2. PRINCIPAL FINANCIAL DATA AND INDICATORS (Continued)

(1) Financial data and financial indicators prepared in accordance with the Accounting Standards of the PRC (the “PRC Accounting Standards”) (Continued)

Notes:

- (a) The above financial data and indicators are computed based on the consolidated financial statements.
- (b) Non-recurring items include:

Items	Amount (RMB'000)	Explanation
Gain/(Loss) on disposal of non-current assets	27	
Government subsidies recognized as gain/(loss) for the Reporting Period	9,066	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.
Capital use fee received from non-financial enterprises recognized as gain/(loss) for the Reporting Period	1,374	This is the net interest income received from the provision of loans provided by the Company to its joint venture, namely Guangzhou Pharmaceuticals Corporation ("GP Corp.").
Gain/(Loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	1,002	
Write back of provision of accounts receivable with individual impairment test	1,322	
Gain/(Loss) received from entrusted loans	3,229	This is the net interest income received for the provision of entrusted loans from the Company to GP Corp., a joint venture of the Company.
Other non-operating income and expenses excluding the above items	(963)	
Income tax effect	(1,725)	
Effect on minority interest	(627)	
Total	12,705	

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

Summary of assets and liabilities

Items	As at 30 June 2009 (Unaudited)	As at 31 December 2008 (Audited)	Changes as compared with 31 December 2008 (%)
Current assets (RMB'000)	1,947,045	1,928,055	0.98
Current liabilities (RMB'000)	855,931	878,291	(2.55)
Total assets (RMB'000)	4,403,996	4,354,664	1.13
Total liabilities (RMB'000)	954,238	993,899	(3.99)
Capital and reserves attributable to shareholders of the Company (RMB'000)	3,338,890	3,245,305	2.88
Net assets per share (RMB)	4.12	4.00	2.88

Company Profile

2. PRINCIPAL FINANCIAL DATA AND INDICATORS *(Continued)*

(2) Financial data and financial indicators prepared in accordance with the Hong Kong Financial Reporting Standards (the “HKFRS”) *(Continued)*

Summary of results

Items	The Reporting Period <i>(Unaudited)</i>	The corresponding period of 2008 <i>(Unaudited) (Restated)</i>	Changes as compared with the corresponding period of 2008 (%)
Profit before income tax (RMB'000)	123,579	180,420	(31.50)
Profit attributable to shareholders of the Company (RMB'000)	118,788	149,463	(20.52)
Earnings per share (RMB)	0.146	0.184	(20.52)

(3) Reconciliation between the accounts prepared in accordance with the PRC Accounting Standards and HKFRS

	Notes	As at 30 June 2009 <i>(RMB'000)</i>	As at 31 December 2008 <i>(RMB'000)</i>
Net assets under the PRC Accounting Standards		3,210,277	3,124,842
Difference arising from fixed assets revaluation	(2)	116,278	118,761
Revaluation of investment properties	(3)	74,089	64,733
Deferred government grants income generated prior to the adoption of the new PRC Accounting Standards	(4)	(2,264)	(2,387)
Provision for deferred tax liabilities arising from fixed assets revaluation	(5)	(47,779)	(46,425)
Difference in minority interest	(6)	(11,711)	(14,219)
Capital and reserves attributable to shareholders of the Company under the HKFRS		3,338,890	3,245,305

2. PRINCIPAL FINANCIAL DATA AND INDICATORS (Continued)

(3) Reconciliation between the accounts prepared in accordance with the PRC Accounting Standards and HKFRS (Continued)

	Notes	For the six months ended 30 June	
		2009 (RMB'000)	2008 (RMB'000) (Restated)
Net profits under the PRC Accounting Standards		116,563	166,623
Amortisation of intangible assets	(1)	—	(16,669)
Additional depreciation on revalued fixed assets	(2)	(2,483)	(2,483)
Depreciation of investment properties	(3)	1,456	661
Amortisation of government grants recognised as deferred income prior to the adoption of the new PRC Accounting Standards	(4)	123	580
Provision for deferred tax liabilities arising from fixed assets revaluation	(5)	621	807
Difference in minority interest	(6)	2,508	(56)
Profits attributable to shareholders of the Company under the HKFRS		118,788	149,463

Notes:

- (1) This is an amortisation of staff quarter reform costs incurred by the Group in 2000 in relation to purchases of staff quarters by its employees. Under the HKFRS, such costs are recognised as an intangible asset and are subject to amortisation on a straight-line basis over the estimated remaining average service life of its employees over which the related economic benefits are recognised. Under the PRC Accounting Standards, the staff quarter reform costs were written off as and when they were incurred. The amount had been fully amortised in the corresponding period of 2008.
- (2) The Group's fixed assets were revalued by an international valuer in 1997 for the purpose of listing the Company's H shares. The revaluation has been reflected as "deemed cost" in the financial statements of the Group prepared under HKFRS but not in the financial statements prepared under the PRC Accounting Standards. Accordingly, the depreciation charge based on the revalued amount under the HKFRS is higher than that calculated under the PRC Accounting Standards.
- (3) Due to the change of usage, properties became investment properties in the relevant periods. Under the HKFRS, the difference resulting between the carrying amount and the fair value of this property at the time of the change has been recognised in equity as a revaluation surplus. Such investment property is stated at cost in the financial statements prepared in accordance with the PRC Accounting Standards.
- (4) Prior to the adoption of the new PRC Accounting Standards, government subsidies granted in relation to purchases of fixed assets were recognised as capital reserve. Under both HKFRS and new PRC Accounting Standards, government subsidies are recognised as deferred income and credited to the income statement on a straight line basis in accordance with the estimated useful lives of the assets.
- (5) It represents the deferred tax liabilities arising from the revaluation of fixed assets as described in note 2 above.
- (6) Due to the above adjustments, there is a difference in net assets/profits of the Company prepared under the new PRC Accounting Standards and HKFRS. This results in a difference in the minority interest.

Changes in Share Capital and Shareholdings of Major Shareholders

1. CHANGES IN SHARE CAPITAL

	Before change		Change					After change	
	Number of shares (share)	Percentage (%)	New issues (share)	Bonus issues (share)	Reserves capitalized (share)	Others (listing and trading of tradable shares with selling restrictions) (share)	Sub-total (share)	Number (share)	Percentage (%)
I. Shares with selling restrictions									
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. Shares held by State-owned legal entities	342,201,509	42.20	–	–	–	(342,201,509)	(342,201,509)	0	0
3. Other domestic shares	45,312,000	5.59	–	–	–	(45,312,000)	(45,312,000)	0	0
Including: Shares held by domestic legal entities	–	–	–	–	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign capital									
Including: Shares held by overseas legal entities	–	–	–	–	–	–	–	–	–
Shares held by overseas natural persons	–	–	–	–	–	–	–	–	–
Total shares with selling restrictions	387,513,509	47.79	–	–	–	(387,513,509)	(387,513,509)	0	0
II. Shares without selling restrictions									
1. Reminbi-denominated ordinary shares	203,486,491	25.09	–	–	–	387,513,509	387,513,509	591,000,000	72.88
2. Domestically listed foreign capital shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign capital shares	219,900,000	27.12	–	–	–	–	–	219,900,000	27.12
4. Others	–	–	–	–	–	–	–	–	–
Total shares without selling restrictions	423,386,491	52.21	–	–	–	387,513,509	387,513,509	810,900,000	100.00
III. Total shares	810,900,000	100.00	–	–	–	–	–	810,900,000	100.00

Changes in Share Capital and Shareholdings of Major Shareholders

1. CHANGES IN SHARE CAPITAL *(Continued)*

On 24 April 2009, among the shares of GPC held by the controlling shareholder of the Company, namely Guangzhou Pharmaceutical Holdings Limited (“GPHL”), 342,201,509 shares with selling restrictions became tradable shares. In addition, 36,834,200 shares, 1,357,800 shares and 7,120,000 shares of GPC held respectively by Guangzhou Beicheng Rural Credit Cooperative (“Beicheng Cooperative”), Guangzhou Baiyun Rural Credit Cooperative (“Baiyun Cooperative”), Guangzhou Huangshi Rural Credit Cooperative (“Huangshi Cooperative”), which were shares with selling restrictions, became tradable shares on the same day. Since then, the shares of the Company are fully circulated.

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS

- (1) As at 30 June 2009, there were 50,321 shareholders in total, among which, 50,293 shareholders holding the Renminbi-denominated domestic ordinary shares (A shares) and 28 shareholders holding the overseas listed foreign shares (H shares).
- (2) As at 30 June 2009, the top ten shareholders of the Company and their shareholdings were as follows:

Name of shareholders	Nature of shares	Approximate % of the total share capital (%)	Number of shares held as at the end of the Reporting Period (share)	Changes in the number of shares held during the Reporting Period (share)	Number of shares held with selling restrictions (share)	Number of pledged or frozen shares (share)
GPHL	Domestic shares	48.20	390,833,391	0	Nil	Nil
HKSCC Nominees Limited	Foreign capital shares	27.04	219,267,299	(40,000)	Nil	Unknown
Beicheng Cooperative	Domestic shares	5.49	44,542,000	0	Nil	Nil
Huangshi Cooperative	Domestic shares	1.05	8,524,000	0	Nil	Nil
Baiyun Cooperative	Domestic shares	0.20	1,642,000	0	Nil	Nil
Meng Xiangtong	Domestic shares	0.14	1,134,300	0	Nil	Unknown
Wang Shaoyong	Domestic shares	0.06	503,050	503,050	Nil	Unknown
Wang Jiming	Domestic shares	0.06	500,000	500,000	Nil	Unknown
Guo Yuan Securities – Agricultural Bank of China Guo Yuan Huangshan						
No. 1 Restrictive asset management plans	Domestic shares	0.06	472,872	472,872	Nil	Unknown
Zhang Ping	Domestic shares	0.06	456,600	456,600	Nil	Unknown

Changes in Share Capital and Shareholdings of Major Shareholders

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS (Continued)

Notes:

- (a) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- (b) Except for the shareholding investment rights of Beicheng Cooperative, Huangshi Cooperative and Baiyun Cooperative in the Company belonging to Guangzhou Rural Credit Cooperative Union, the Company was not aware of any connection among other 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) As at 30 June 2009, the interests and short positions of any persons (not being the Directors, Supervisors or Senior Management of the Company) in the shares and underlying shares of the Company, which were required to notify the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws in Hong Kong) and which have to be recorded in the register maintained by the Company under section 336 of the SFO were as follows:

Shareholder	Nature of shares	Long Positions		Approximate % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
		Number of shares held (share)	Capacity		
GPHL	Domestic shares	390,833,391	Beneficial owner	66.13	—
Beicheng Cooperative	Domestic shares	44,542,000	Beneficial owner	7.54	—
Martin Currie (Holdings) Limited	H shares	15,848,000	Interest in controlled company	—	7.21
Baring Asset Management Limited	H shares	14,128,000	Investment manager	—	6.42

As far as the Directors are aware, other than those disclosed above, as at 30 June 2009, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of any class of the issued share capital of the Company.

Changes in Share Capital and Shareholdings of Major Shareholders

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS *(Continued)*

(4) Change in shareholding of shareholders with selling restrictions during the Reporting Period

Name of shareholders	Number of shares with selling restrictions held before change <i>(share)</i>	Change of number of shares with selling restrictions <i>(share)</i>	Reason of change	Date of change	Number of shares with selling restrictions held after change <i>(share)</i>
GPHL	342,201,509	(342,201,509)	Listing and trading of shares with selling restrictions	24 April 2009	0
Beicheng Cooperative	36,834,200	(36,834,200)	Listing and trading of shares with selling restrictions	24 April 2009	0
Baiyun Cooperative	1,357,800	(1,357,800)	Listing and trading of shares with selling restrictions	24 April 2009	0
Huangshi Cooperative	7,120,000	(7,120,000)	Listing and trading of shares with selling restrictions	24 April 2009	0

(5) During the Reporting Period, there was no change in the controlling shareholder of the Company.

3. PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this interim report.

4. PRE-EMPTIVE RIGHTS

According to the laws of the PRC and the Articles of Association of the Company, there is no pre-emptive right which would oblige the Company to issue new shares to the existing shareholders on a pro-rata basis.

5. NEITHER THE COMPANY NOR ANY OF ITS SUBSIDIARIES HAD PURCHASED, SOLD OR REDEEMED ANY OF THE SHARES OF THE COMPANY DURING THE REPORTING PERIOD.

Directors, Supervisors, Senior Management and Staff

1. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTEREST IN SHARES

(1) As at the end of the Reporting Period, Directors', Supervisors' and Senior Management's interest in A Shares of the Company were as follows:

Name	Position	Number of shares held as at the beginning of the Reporting Period (share)	Number of shares changed during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Reason of changes
Yang Rongming	Chairman	Nil	Nil	Nil	/
Shi Shaobin	Executive Director and General Manager	Nil	Nil	Nil	/
Feng Zansheng	Executive Director	Nil	Nil	Nil	/
Wong Hin Wing	Independent Non-executive Director	Nil	Nil	Nil	/
Liu Jinxiang	Independent Non-executive Director	Nil	Nil	Nil	/
Li Shanmin	Independent Non-executive Director	Nil	Nil	Nil	/
Zhang Yonghua	Independent Non-executive Director	Nil	Nil	Nil	/
Yang Xiuwei	Chairman of the Supervisory Committee	Nil	Nil	Nil	/
Wu Quan	Supervisor	Nil	Nil	Nil	/
Zhong Yugan	Supervisor	Nil	Nil	Nil	/
Su Guangfeng	Deputy General Manager	Nil	Nil	Nil	/
Chen Binghua	Financial Controller	6,240	Nil	6,240	/
Pang Jianhui	Secretary of the Board	Nil	Nil	Nil	/

Directors, Supervisors, Senior Management and Staff

1. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTEREST IN SHARES (Continued)

(2) Directors', Supervisors' and Senior Management's interests and short positions in the shares, underlying shares and debentures of the Company

- (a) As at 30 June 2009, the interests or short positions of the Directors, Supervisors and Senior Management in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Rules Governing the Listing of Securities on Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

Directors

Name	Type of interest	Company	Number of shares (share)
Shi Shaobin	Personal	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. ("Jing Xiu Tang")	25,000
		Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji")	26,180
	Family	Jing Xiu Tang	11,000

Senior Management

Name	Type of interest	Company	Number of shares (share)
Chen Binghua	Personal	A shares of the Company	6,240

Notes:

- (a) The shares above, except the A shares of the Company, are staff shares.
- (b) The shares held by Mr. Shi Shao Bin in Jing Xiu Tang and Wang Lao Ji were transferred to a third-party in July 2009.

Directors, Supervisors, Senior Management and Staff

1. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTEREST IN SHARES (Continued)

(2) Directors', Supervisors' and Senior Management's interests and short positions in the shares, underlying shares and debentures of the Company (Continued)

- (b) Save as disclosed above, as at 30 June 2009, none of the Directors, Supervisors, Senior Management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the Stock Exchange.

2. THERE IS NO APPOINTMENT OR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD.

3. AS AT THE END OF THE REPORTING PERIOD, THE NUMBER OF THE GROUP'S EMPLOYEES WAS 5,630. THERE WAS NO MATERIAL CHANGE IN THE REMUNERATION POLICY OF THE EMPLOYEES WHEN COMPARED WITH THE PREVIOUS REPORTING PERIOD. THE TOTAL REMUNERATION FOR THE EMPLOYEES OF THE GROUP IN THE FIRST HALF OF 2009 WAS APPROXIMATELY RMB152 MILLION.

Report of the Board of Directors



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

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

1. ANALYSIS OF OPERATING RESULTS

1. Operations review

According to the PRC Accounting Standards, the Group recorded an income from principal operations of RMB1,903,008,000 for the Reporting Period, down 8.04% as compared to the corresponding period of last year. The profit before tax amounted to RMB124,200,000, representing a decrease of 37.32% as compared to the corresponding period of last year and net profit amounted to RMB116,563,000, representing a decrease of 30.04% as compared to the corresponding period of last year.

According to the HKFRS, the Group recorded a turnover of RMB1,903,008,000 for the Reporting Period, down 8.04% as compared to the corresponding period of last year. Profit before income tax amounted to RMB123,579,000, representing a decrease of 31.50% as compared to the corresponding period of last year and profit attributable to shareholders of the Company amounted to RMB118,788,000, representing a decrease of 20.52% as compared to the corresponding period of last year.

In the first half of 2009, the operating results of the Group decreased when comparing to the corresponding period of last year. It was mainly due to: (1) in January 2008, the premium income from the additional capital contribution into Guangzhou Pharmaceuticals Corporation ("GP Corp.") by Alliance BMP Limited and the income arising from the transfer of equity interests in GP Corp. by Jing Xiu Tang and Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. ("Pan Gao Shou"), subsidiaries of the Company, amounted to RMB60,996,000. The above income was a one-off investment income and the Group did not have such investment income for the first half of 2009; (2) in the first half of 2009, the Group has continued to adjust its marketing strategies and distribution models, which has caused certain impact on some of the Group's product sales; (3) the economic environments in China and around the world and the increasing competition in the domestic pharmaceutical industry has also caused certain impact on the business operation of the Group.

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS *(Continued)*

1. Operations review *(Continued)*

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

Items	The Reporting Period (RMB'000)	The corresponding period of 2008 (RMB'000)	Increase/ (Decrease) (YoY) (%)
Prepared in accordance with the PRC Accounting Standards			
Income from principal operations	1,903,008	2,069,339	(8.04)
Operating profit	116,070	192,945	(39.84)
Total profit	124,200	198,145	(37.32)
Net profit	116,563	166,623	(30.04)
Prepared in accordance with HKFRS			
Turnover	1,903,008	2,069,339	(8.04)
Profit before income tax	123,579	180,420	(31.50)
Profit attributable to shareholders of the Company	118,788	149,463	(20.52)

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS (Continued)

1. Operations review (Continued)

Analysis of the Group's principal activities for the first half of 2009 is set out as follows:

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)
Prepared in accordance with the PRC Accounting Standards						
Overall operations	1,903,008	(8.04)	1,437,096	(2.96)	23.94	A decrease of 3.92 percentage points
Include: Manufacturing	932,323	(8.93)	535,433	5.36	41.60	A decrease of 7.61 percentage points
Trading	970,685	(7.17)	901,663	(7.30)	6.97	An increase of 0.03 percentage point
Prepared in accordance with HKFRS						
Overall operations	1,903,008	(8.04)	1,437,096	(2.96)	24.48	A decrease of 3.96 percentage points
Include: Manufacturing	932,323	(8.93)	535,433	5.36	42.57	A decrease of 7.66 percentage points
Trading	970,685	(7.17)	901,663	(7.30)	7.11	An increase of 0.03 percentage point

A geographical analysis of sales of the Group for the first half of 2009 is set out as follows:

Region	Income from principal operations (RMB'000)	Increase/Decrease over the corresponding period of last year (%)
Southern China	1,273,036	(13.91)
Eastern China	262,065	8.50
Northern China	143,879	44.33
North-Eastern China	36,055	(37.59)
South-Western China	92,659	(11.59)
North-Western China	37,244	10.63
Exports	58,070	9.22
Total	1,903,008	(8.04)

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS *(Continued)*

(1) The manufacturing operations

To ensure a sustainable and healthy development of the Group's manufacturing operations, in the first half of 2009, the Group continued to adjust its marketing strategies and distribution models, and took a series of measures. Firstly, we improved our marketing organization structure, streamlined the working procedures, strengthened the management of the marketing team, and enhanced working efficiency. Secondly, we reinforced the management of our sales channels, established and improved the allocation of secondary distributors, regional distributors and end retailers, expanded the coverage of its product sales channels, and maintained the product pricing system. Thirdly, we strived to expand end markets, improved end market distribution network building, promoted the expansion of the third end market, strived for promotion of sales driven by end markets. Fourthly, while maintaining the sales of our key products, we actively stimulated the sales of second-line products and promoted products with sales potential in a bid to nurture new points of business growth for the sustainable development of the Group. In the first half of 2009, products such as Xu Han Ting Ke Li, Ru He San Jie Pian, Shu Jin Jian Yao Wan, San Qi Hua Zhi Wan, Qian Lie Tong Pian, Wei Nai An Jiao Nang ect., experienced a quite significant increase in sales as compared to the corresponding period of last year. Fifthly, we seized the opportunities arising from the change of the national medical reform policies, closely followed up the work relating to the national basic list of medicines, community medical system and the New Rural Cooperative Medical System. We adjusted our way of thinking and work approach and conducted a thorough research of the fundamental conditions of some community medical systems, community medication and community medical insurance in Guangzhou. In the meantime, we carried out a series of work such as bidding and promotion in some pilot areas, communities and areas under the New Rural Cooperative Medical System respectively, laying a solid foundation for making more of our products eligible to be included in the basic list.

During the Reporting Period, the Group continued to promote technological innovation by increasing investments in this area and promoting development for new products and commercialization of research results. In the first half of 2009, the Group made application for four invention patents and was granted two invention patents. Guangzhou Zhong Yi Pharmaceutical Co., Ltd. ("Zhong Yi") acquired the clinical approval for its Jin Fo Zhi Tong Ke Li and Metformin Hydrochloride Tablets. Guangzhou Baidi Bio-technology Co., Ltd. ("Guangzhou Bai Di") completed special clinical research for its therapeutic dual-plasmid HBV DNA vaccine, which is currently in stage IIa of the clinical research.

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS (Continued)

(1) The manufacturing operations (Continued)

An analysis of the major products of the manufacturing operations for the Reporting Period is as follows:

Types of product	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	101,720	(33.20)	61,764	(23.85)	38.31	A decrease of 7.29 percentage points
Diabetes medicine	201,049	(28.77)	91,101	(3.51)	53.72	A decrease of 11.69 percentage points
Cough and phlegm clearing medicine	124,158	(29.80)	64,971	(22.39)	46.70	A decrease of 4.83 percentage points
Arthritis medicine	120,282	(6.36)	59,527	(1.69)	49.54	A decrease of 2.18 percentage points
Gastric medicine	32,365	13.49	18,070	16.47	43.20	A decrease of 1.26 percentage points
Other products	352,749	38.15	240,000	38.80	30.99	A decrease of 0.15 percentage point

(2) The trading operations (including wholesale, retail, import and export)

During the Reporting Period, the Group's trading operations firstly emphasized on establishing long term strategic partnership with its suppliers so as to explore the market and expand the operation for products with potential growth. During the Reporting Period, the trading enterprises convened a number of communication meetings with its key suppliers and potential suppliers regarding online bidding arrangements, successfully maintained the loyalty of its suppliers by enhancing services provided to the suppliers, strengthening the efforts and maintenance on its relationships with key suppliers, enhancing the service capability to end clients and intensifying communication with government authorities. Secondly, it actively sought to explore the market and suppliers with strengths, adopted a diversified operating model and expanded distribution channels. In the first half of this year, Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. ("Cai Zhi Lin") opened a number of boutique pharmacies jointly with some manufacturers and achieved satisfactory results. Two more "DONG-E E-JIAO" boutique pharmacies will be opened this year, achieving a true complementation relationship with manufacturers. Thirdly, it worked with other manufacturers to participate in Guangdong's "Sunshine medical supplies bidding" and other medicine bidding activities across the country. It successfully improved communication with government authorities, hospitals and enterprises to enhance the opportunity of winning bids for the products of the Group. Meanwhile, it proactively made plans with the manufacturing enterprises of the Group for hospitals' purchase of medicines in various regions, especially Guangdong province, which helped laying a solid foundation for hospital net sales growth. Fourthly, it steadily promoted the work relating to the community medical system and marketing in end markets. Fifthly, it deepened the cooperation in regional markets. For instance, it promoted the cooperation between the manufacturing enterprises of the Group and Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited ("Ying Bang Branch Company") in Shanghai and Zhejiang, and intensified the cooperation between the manufacturing enterprises and the trading enterprises of the Group in Guangdong.

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS *(Continued)*

(2) The trading operations (including wholesale, retail, import and export) *(Continued)*

As at 30 June 2009, the Group had 71 retail chain pharmacy outlets, including 70 “Cai Zhi Lin” which specializes in traditional Chinese medicines and 1 pharmacy named Ying Bang.

2. THE OPERATING RESULTS OF THE COMPANY'S MAJOR ENTERPRISES DURING THE REPORTING PERIOD

Name of enterprises	Equity directly held by the Company (%)	Income from principal operations (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries				
Guangzhou Xin Qun Pharmaceutical Co., Ltd.	88.99	69,212	(28,247)	(24,319)
Zhong Yi Guangzhou Chen Li Ji Pharmaceutical Factory	100.00	287,629	38,002	34,102
Qi Xing	75.00	117,297	13,946	12,381
Jing Xiu Tang	75.00	119,376	868	738
Pang Gao Shou	88.40	96,010	5,015	4,349
Guangxi Ying Kang Pharmaceutical Co., Ltd.	87.77	125,942	(202)	(294)
Guangzhou Bai Di	51.00	16,007	109	109
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd (“Guangzhou Han Fang”)	97.26	578	(1,299)	(1,299)
Cai Zhi Lin	97.04	36,554	(8,176)	(8,176)
Guangzhou Pharmaceutical Import & Export Corporation (“Pharmaceutical Import & Export Corporation”)	100.00	620,873	4,649	3,528
100.00	151,440	690	546	
(2) Branches				
Ying Bang Branch Company	—	357,342	2,811	2,811
(3) Joint ventures				
Wang Lao Ji <i>(Note)</i>	48.05	857,080	125,156	109,578
GP Corp. <i>(Note)</i>	50.00	5,556,890	72,835	52,116

Note: The results of Wang Lao Ji and GP Corp. for the Reporting Period were stated in full amount in the above table.

Report of the Board of Directors



3. **DURING THE REPORTING PERIOD, THE COMPANY DID NOT ENGAGE IN ANY OTHER OPERATIONS WHICH HAD SIGNIFICANT IMPACT ON THE NET PROFIT OF THE GROUP.**
4. **DURING THE REPORTING PERIOD, THE COMPANY DID NOT DERIVE AN INVESTMENT INCOME FROM AN INVESTEE COMPANY EQUAL TO 10% OR MORE OF THE NET PROFIT OF THE COMPANY**
5. **USE OF PROCEEDS FROM THE ISSUANCE OF A SHARES**

The proceeds from the issuance of A shares of the Company have been used up by 31 December 2007.

6. ANALYSIS OF FINANCIAL CONDITIONS (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS)

(1) Changes in major accounting items

Items	As at 30 June 2009 (RMB'000)	As at 1 January 2009 (RMB'000)	Increase/ Decrease (YoY) (%)	Reasons of change
Cash	519,332	381,134	36.26	During the Reporting Period, the Group has further smoothened the sales channels and accelerate the return of capital.
Other receivables	84,774	50,207	68.85	During the Reporting Period, the loan of RMB31,660,000 previously provided by the Company to GP Corp. as working capital was renewed, which will be due at the end of 2009.
Short-term borrowings	141,280	243,275	(41.93)	During the Reporting Period, the Group increased the return of capital and advanced the reimbursement of loans.
Long-term borrowings	10,000	30,000	(66.67)	As at 30 June 2009, dividends payable for the year 2008 of the Company haven't been paid yet.
Dividends payable	32,584	58	55,802.17	As at 30 June 2009, dividends payable for the year 2008 of the Company haven't been paid yet.
Taxes payable	4,618	(33,848)	113.64	Six subsidiaries of the Company had been granted the certificate of new and high technology enterprises by the end of 2008, and were applicable to the enterprise income tax rate of 15%. As a result, the prepaid enterprise income taxes for the year 2008 were larger than the taxes payable.

Report of the Board of Directors

6. ANALYSIS OF FINANCIAL CONDITIONS (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS) (Continued)

(1) Changes in major accounting items (Continued)

Items	The Reporting Period (RMB'000)	The corresponding period of 2008 (RMB'000)	Increase/ decrease (YoY) (%)	Reasons of change
Investment income	83,022	145,059	(42.77)	The joint venture project of GP Corp. was completed in the same period of 2008, and the recognized premium income from the additional capital contribution into GP Corp. was RMB49,848,000 and the income arising from the transfer of equity interest in GP Corp. amounted to RMB11,148,000. The Group did not have such investment income for the Reporting Period
Asset impairment loss	49	15,510	(99.68)	The Group strengthened the clear up of accounts receivable and increased the quality of accounts receivable so as to reduce provision for bad debts.
Operating profit	116,070	192,945	(39.84)	This is due to the decrease of the investment income recognized for the Reporting Period.
Net profit	116,563	166,622	(30.04)	This is due to the decrease of the investment income recognized for the Reporting Period.

(2) Liquidity, financial resources and capital structure

As at 30 June 2009, the current ratio of the Group was 2.54 (30 June 2008: 2.20), and its quick ratio was 1.79 (30 June 2008: 1.49). During the Reporting Period, the annual turnover rate for accounts receivable was 10.17 times, representing a decrease of 19.04% as compared with that of 2008. Inventory turnover rate was 4.79 times, representing an increase of 6.21% as compared with the corresponding period of 2008.

As at 30 June 2009, the cash and cash equivalents of the Group amounted to RMB495,698,000 (30 June 2008: RMB369,687,000), of which approximately 99.03% and 0.97% were denominated in Renminbi and foreign currencies, such as Hong Kong dollars, respectively.

As at 30 June 2009, the current liabilities of the Group amounted to RMB760,347,000, and its short-term borrowings were RMB141,280,000 (30 June 2008: RMB304,029,000).



6. ANALYSIS OF FINANCIAL CONDITIONS (PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS) *(Continued)*

(3) Capital expenditure

The Group expects the capital expenditure for 2009 to amount to approximately RMB132 million, among which, the actual expenditure in the first half of 2009 amounted to RMB26 million (2008: RMB99million), which will be mainly applied in the construction of facilities and infrastructure and purchases of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

(4) Exposure to fluctuations in exchange rates

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) Contingent liabilities

As at 30 June 2009, the Group has no significant contingent liabilities.

(6) Charge on the Group's assets

As at 30 June 2009, the Group's has no charge on its assets.

(7) Bank loans, overdraft and other borrowings

As at 30 June 2009, the loans of the Group amounted to RMB151,280,000 (31 December 2008: RMB273,275,000), with a decrease of RMB121,995,000 as compared with the beginning of the 2009. Short-term loans were RMB141,280,000 and the long-term loans were RMB10,000,000.

(8) Gearing ratio

As at 30 June 2009, the Group's gearing ratio (total liabilities/total assets x 100%) was 21.22% (31 December 2008: 21.93%).

Report of the Board of Directors

7. ISSUES AND DIFFICULTIES ENCOUNTERED IN OPERATIONS AND PLANS FOR THE SECOND HALF OF 2009

Further expansion of the domestic pharmaceutical market, resulting from the gradual implementation of the new reform on medical system, will bring development opportunities to the Group. However, factors such as the economic environments in China and around the world, increasing competition in the domestic pharmaceutical industry, the policy risks brought by the reform on medical system, will have certain impact on the Group's business development in the future.

The working plans for the second half of 2009 include:

1. To further intensify management on areas such as procedures for sales business, product inventory control, customer relations, business staff and legal risk while adjusting marketing approach in the first half of this year;
2. To strive to explore the market, strengthen the development of end markets (especially the third end markets), and continuously enhance product sales. Firstly, we will continue to explore the "historical essence" of time-honoured traditional Chinese medicine brands, rejuvenate the century-old Chinese medicine brands, strive to enhance the reputation of the Group, and endeavor to establish brands that have sufficient influence on end markets. Secondly, the Group will continue to deepen consolidation of business and commercial resources within the Group and endeavor to improve hospital or chain drug store net sales through various methods and channels. Thirdly, we will actively respond to the needs of the new national medical reform and carry out work in relation to the national basic list of medical insurance, New Rural Cooperative Medical System, medicine distribution in community and medicine bidding, etc.;
3. To continuously promote technological research and development, accelerate industrialization process of products and optimize structure of products, so as to nurture new points of business growth;
4. To further strengthen fundamental management, promote comprehensive budget management, promote internal audit and control with great efforts, and strengthen financial management and capital arrangement.



1. CORPORATE GOVERNANCE

The Company has been strictly complying with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, related laws and regulations of the China Securities Regulatory Commission ("CSRC") and the Listing Rules of the Shanghai Stock Exchange ("SSE") and the Stock Exchange to continuously improve the management structure and regulate the operations of the Company.

As at the end of the Reporting Period, the corporate governance of the Company had been in compliance with the requirements regarding normal operation of listed companies, and there were no material discrepancies from the requirements stipulated in the relevant documents issued by CSRC.

During the Reporting Period, the work relating to corporate governance conducted by the Company includes:

1. Pursuant to the requirements by Report on the Fulfillment of Social Obligations by the Listed Companies in 2008 and Notice on the Disclosure of the Self-assessment Report of Internal Control of the SSE, the Company performed a self-assessment on the internal control of the Company and fulfillment of social obligations for the year ended 31 December 2008 and prepared the Self-assessment Report on Internal Control for 2008 from the Board of the Company and the Report on Fulfillment of Social Responsibilities for 2008, both of which were considered and passed at the Board meeting of the Company on 27 March 2009.
2. Pursuant to the Decisions on Amending Some Provisions on Cash Dividends by Listed Companies (Zhong Guo Zheng Jian Hui Ling [2008] No. 57), the Company made amendments to the relevant articles of its Articles of Association and determined the dividend policy. The relevant amendments were considered and passed at the Board meeting of the Company on 27 March 2009 and the 2008 Annual General Meeting on 19 June 2009.
3. To strengthen supervision and management on its subordinated enterprises and enhance the operation quality of its subordinated enterprises, the Company actively promoted internal audit and control, and formulated and implemented the Internal Audit and Management System of the Company in the first half of this year, which defines the internal audit responsibilities. The Company reviewed the implementation of the internal control system of its subordinated enterprises according to Guidelines for Internal Control issued in the end of 2007. In addition, the Company established working groups on internal control and risk assessment to examine and review the existing internal control system and business processes so as to formulate effective measures to strengthen internal control.

Major Events

2. IMPLEMENTATION OF PROFIT DISTRIBUTION SCHEME AND INCREASE IN SHARE CAPITAL FROM CAPITAL RESERVE OR ISSUE OF NEW SHARES OF THE COMPANY FOR 2008

- (1) Pursuant to the resolutions on profit and dividend distribution passed at the 2008 Annual General Meeting held on 19 June 2009, 2008 final dividend of RMB0.40 (including tax) for every 10 shares held was approved and paid, in cash, to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2008;
- (2) The final dividend of RMB0.04 per share for 2008 was paid to the Company's H shareholders whose names appeared on the register of the Company as at 19 May 2009 on 10 August 2009;
- (3) According to the announcement for 2008 final dividend published in Shanghai Securities News in the PRC on 13 July 2009, the registration date for A shares was 16 July 2009, the ex-dividend date was 17 July 2009 and the dividend payment date was 10 August 2009;
- (4) During the Reporting Period, the Company did not propose any new issue of shares.

3. INTERIM DIVIDEND

The Board did not recommend the payment of interim dividends for the six months ended 30 June 2009 nor propose any increase in share capital from the capitalization of capital reserve.

4. DURING THE REPORTING PERIOD, THE GROUP HAS NO SIGNIFICANT LITIGATION OR ARBITRATION.

5. DURING THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS

- (1) On 10 January 2007, Guangzhou Han Fang entered into a merger agreement with Guangzhou Huan Ye Pharmaceutical Co., Ltd. ("Guangzhou Huan Ye"). (Please refer to the announcement of the Company on Shanghai Securities News in the PRC, The Hong Kong Economic Times and Standard in Hong Kong, the PRC published on 11 January 2007). At present, the formalities in relation to the merger of Guangzhou Han Fang and Guangzhou Huan Ye were completed.

5. DURING THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS *(Continued)*

- (2) On 27 March 2009, the Company and Guangzhou Pharmaceutical Soccer Club Limited entered into the agreement in relation to the Advertising Connected Transactions for connected transactions business conducted in the ordinary course of business. The Agreement in relation to the Advertising Connected Transactions and the transactions contemplated thereunder were approved at the Board meeting on 27 March 2009.

Please refer to the announcement of the Company published on Shanghai Securities News in the PRC and on the website of the Stock Exchange on 30 March 2009 for details.

- (3) On 27 March 2009, the Company and Wang Lao Ji entered into the agreement in relation to the Sales and Purchase Connected Transactions for connected transactions in sales and purchase conducted in the ordinary course of business. The Agreement in relation to the Sales and Purchase Connected Transactions and transactions contemplated thereunder were approved at the Board meeting on 27 March 2009 and the 2008 Annual General meeting on 19 June 2009.

Please refer to the announcement of the Company published on Shanghai Securities News in the PRC and on the website of the Stock Exchange on 30 March 2009 for details.

- (4) Connected transactions in the ordinary course of business

For the details of connected transactions in the ordinary course of business, please refer to the notes to accounting statement of the financial report.

6. MAJOR CONTRACTS AND THEIR PERFORMANCE

- (1) During the Reporting Period, the Company did not hold on trust, sub-contract or lease any assets of other companies or vice versa, which generated profit that accounted for 10% or more of the total profits for the period.
- (2) During the Reporting Period, the Company was not engaged in any entrusted fund management activities.

Major Events

7. DURING THE REPORTING PERIOD, NO COMMITMENT WAS MADE, OR HAD BEEN MADE IN THE PREVIOUS PERIODS AND SUBSISTED IN THE REPORTING PERIOD, BY THE COMPANY OR ANY OF ITS SHAREHOLDERS HOLDING SHARES OF 5% OR MORE, WHICH HAD SIGNIFICANT IMPACT ON THE OPERATION RESULTS AND THE STATE OF AFFAIRS OF THE COMPANY.
8. INFORMATION ON THE COMPANY'S INTERESTS IN SHARES OF OTHER LISTED COMPANIES

(1) Stock Investments

Number	Type of Stock	Stock Code	Stock name	Initial	Number of	Book value as	% of stock	Gain/(Loss)
				Investment	shares held as	at the end of	investment for	during
				amount	at the end of	at the end of	the Reporting	the Reporting
				(RMB'000)	the Reporting	the Reporting	Period	Period
					Period	Period	(%)	Period
					(share)	(RMB'000)		(RMB'000)
1	A Share of the Shanghai Stock Exchange	600038	Hafei Aviation Industry Co., Ltd	1,806	57,810	903	22.53	383
2	A Share of the Shanghai Stock Exchange	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	3,107	77.47	619
	Other stock investments held as at the end of the Reporting Period			—	—	—	—	—
	Gain/(Loss) of stock investments sold as at the end of the Reporting Period			—	—	—	—	—
Total				5,511	280,356	4,010	100.00	1,002

(2) Information on the Company's Interests in Shares of Other Listed Companies

Stock Code	Stock name	The initial investment amount (RMB'000)	% of shareholding (%)	Book value	Gain/(Loss)	Changes	Accounting item	Sources of shares
				as at the end of the Reporting Period (RMB'000)	during the Reporting Period (RMB'000)	in equity during the Reporting Period (RMB'000)		
601328	Bank of Communications	269	—	2,386	—	923	Available for sale financial assets	Transferred from long term investment

8. INFORMATION ON THE COMPANY'S INTERESTS IN SHARES OF OTHER LISTED COMPANIES *(Continued)*

(3) Information on the Company's Interests in Non-listed Financial Institutions

Name	Initial investment amount (RMB'000)	Number of shares held (share)	% of shareholding (%)	Book value 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
China Everbright Bank Company Limited	10,725	6,050,000	approximately 0.02	10,725	—	—	Long-term equity investment	subscription
Golden Eagle Fund Management Co., Ltd.	20,000	—	20.00	14,514	(1,003)	—	Long-term equity investment	subscription

9. 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.

10. 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 the 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 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.

11. THE AUDIT COMMITTEE OF THE FOURTH SESSION OF THE BOARD IS COMPRISED OF FOUR 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 2009.

12. THE FINANCIAL REPORTS FOR THE REPORTING PERIOD OF THE COMPANY WERE UNAUDITED.

Major Events

13. DURING THE REPORTING PERIOD, NO INVESTIGATION, PUNISHMENT OR PUBLIC REPRIMAND BY THE CSRC, AND NO PUNISHMENT OR PUBLIC REPRIMAND BY OTHER REGULATORY BODIES AND THE STOCK EXCHANGE WERE MADE AGAINST AND IMPOSED ON THE COMPANY, THE BOARD AND THE DIRECTORS.
14. DURING THE REPORTING PERIOD, THERE WAS NO OTHER SIGNIFICANT EVENTS OCCURRED WHICH MIGHT SIGNIFICANTLY AFFECT THE COMPANY.
15. INDEX TO THE IMPORTANT INFORMATION DISCLOSED DURING THE REPORTING PERIOD:

Disclosed information	Newspaper	Date	Website and the link
Announcement on Change of the Sponsor Representative of the Share Reform	Page C6 of Shanghai Securities News	6 February 2009	http://www.sse.com.cn
Announcement in relation to certain subsidiaries having been rewarded the certificate of advanced technology enterprise	Page C48 of Shanghai Securities News	11 March 2009	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	17 March 2009	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Summary of 2008 annual report, Announcement of resolution passed at the fourteenth meeting of the fourth session of the Board/Announcement of resolution passed at the eighth meeting of the fourth session of the Supervisory Committee and Conting Connected Transactions	Page A88 of Shanghai Securities News	30 March 2009	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	16 April 2009	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement on the listing or tradable shares with selling restrictions	Page A16 of Shanghai Securities News	20 April 2009	
2009 first quarterly report, Announcement of resolution passed at the fifteenth meeting of the fourth session of the Board and Notice of the 2008 annual general meeting	Page C144 of Shanghai Securities News	30 April 2009	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 2008 annual general meeting	Page A16 of Shanghai Securities News	22 June 2009	

16. OTHER MATTERS

- (1) During the Reporting Period, the Company strictly controlled the fund transactions with its controlling shareholder and other related parties, in accordance with Notice of CSRC [2003] No. 56. During the Reporting Period, the total amount of capital utilized by the Company's controlling shareholder and other related parties for the Reporting Period is set out below:

Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the Company	Capital balance appropriated at the beginning of 2009 (RMB'000)	Accumulated amount appropriated during January to June 2009 (excluding interest) (RMB'000)	Interest on the amount appropriated during January to June 2009 (if any) (RMB'000)	Repayment of accrued amount during January to June 2009 (RMB'000)	Capital balance appropriated as at 30 June 2009 (RMB'000)	Reasons of appropriation	Nature of appropriation
GPHL	Parent Company	Other receivables	2,844	27	—	296	2,575	Prepaid rental payments and payments in ordinary course of business	Operational appropriation
Guangzhou Baiyunshan Pharmaceutical Co., Ltd	Fellow ultimate holding Company	Accounts receivable	11,171	17,228	—	21,331	7,068	Payments for goods	Operational appropriation
		Prepayments	12,706	23,008	—	22,608	13,106	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	Fellow ultimate holding Company	Accounts receivable	725	16,915	—	16,234	1,406	Payments for goods	Operational appropriation
		Prepayments	175	—	—	175	—	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	Fellow ultimate holding Company	Accounts receivable	1,070	2,605	—	2,954	721	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	Fellow ultimate holding Company	Accounts receivable	2,257	27,572	—	25,722	4,107	Payments for goods	Operational appropriation
		Prepayments	602	18,980	—	16,630	2,952	Payments for goods	Operational appropriation
Guangzhou Hua Nan Medical Apparatus Co., Ltd	Fellow Parent Company	Other receivables	100	—	—	—	100	Payments for goods	Operational appropriation
Po Lian Development Co., Ltd	Fellow Parent Company	Accounts receivable	142	811	—	815	138	Payments for goods	Operational appropriation
		Prepayments	1,014	—	—	1,014	—	Payments for goods	Operational appropriation
Guangzhou Pharmaceutical Industry Research Institute	Fellow Parent Company	Accounts receivable	—	3	—	3	—	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	Fellow ultimate holding Company	Accounts receivable	1,476	18,715	—	17,732	2,459	Payments for goods	Operational appropriation
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd	Fellow ultimate holding Company	Accounts receivable	—	18	—	9	9	Payments for goods	Operational appropriation

Major Events

16. OTHER MATTERS (Continued)

- (1) During the Reporting Period, the Company strictly controlled the fund transactions with its controlling shareholder and other related parties, in accordance with Notice of CSRC [2003] No. 56. During the Reporting Period, the total amount of capital utilized by the Company's controlling shareholder and other related parties for the Reporting Period is set out below: (Continued)

Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the Company	Capital balance appropriated at the beginning of 2009 (RMB'000)	Accumulated amount appropriated during January to June 2009 (excluding interest) (RMB'000)	Interest on the amount appropriated during January to June 2009 (if any) (RMB'000)	Repayment of accrued amount during January to June 2009 (RMB'000)	Capital balance appropriated as at 30 June 2009 (RMB'000)	Reasons of appropriation	Nature of appropriation
GP Corp.	Joint Venture	Accounts receivable	20,066	126,222	–	119,581	26,707	Payments for goods	Operational transaction
		Bills receivable	5,749	3,950	–	5,749	3,950	Payments for goods	Operational transaction
		Other receivables	4,213	62,660	1,374	35,213	33,034	Borrowing as working capital and payments for capital	Non-operational transaction
		Entrusted loans	150,000	120,000	3,624	153,624	120,000	Entrusted loans	Non-operational transaction
Wang Lao Ji	Joint Venture	Accounts receivable	3,827	34,423	–	31,698	6,552	Payments for goods	Operational transaction
		Prepayments	–	18	–	–	18	Payments for goods	Operational transaction
		Other receivables	–	7,780	–	3,003	4,777	Cost of right to use a trademark	Operational transaction
GFSC	Joint Venture	Accounts receivable	10	–	–	–	10	Payments for goods	Operational transaction
		Other receivables	–	9,517	–	6,217	3,300	Advertisement fee	Operational transaction
Guangzhou Nuo Cheng Bio-Tech Co., Ltd	Joint Venture	Accounts receivable	–	88	–	88	–	Payments for goods	Operational transaction
		Other receivables	221	2,594	–	2,479	336	Amount transacted	Operational transaction
Total		Entrusted loans	150,000	120,000	3,624	153,624	120,000		
		Accounts receivable	40,744	244,600	–	236,167	49,177		
		Other receivables	7,378	82,578	1,374	47,208	44,122		
		Prepayments	14,497	42,006	–	40,427	16,076		
		Bills receivable	5,749	3,950	–	5,749	3,950		

16. OTHER MATTERS (Continued)

(2) Explanation and independent opinions from Independent Directors in respect of the amount of capital used by the controlling shareholder of the Company and other related parties

According to CSRC [2003] No. 56 the “Notice Concerning the Regulation on the Flow of Funds Between Listed Companies and Their Related Parties and the Provision of Guarantees by Listed Companies to External Parties”, we have conducted serious examination and implementation for the purpose of seeking truth from facts. The relevant information is as follows:

As at 30 June 2009, the Company has provided the following guarantees to its subsidiaries:

Guaranteed parties	Guarantee amount (RMB'000)	Subject matter	Guarantee period	% of the Group's net assets as at the end of the Reporting Period (%)
Guangzhou Han Fang	30,000	Borrowing as working capital	1 year	1.03
Cai Zhi Lin	45,000	Borrowing as working capital	1 year	1.55
Pharmaceutical Import & Export corporation	2,000	Borrowing as working capital	1 year	0.07
Cai Zhi Lin	30,010	Bill Acceptance	1 year	1.04
Pharmaceutical Import & Export corporation	10,520	Bill Acceptance	1 year	0.36
Pharmaceutical Import & Export corporation	9,660	Letters of credit	1 year	0.33
Total	127,190			4.38

As at the end of this Reporting Period, save as disclosed above, the Group has not provided any guarantee to its controlling shareholder or any other related parties.

Condensed Consolidated Interim Balance Sheet

	Note	30 June 2009 <i>Unaudited</i> (RMB'000)	31 December 2008 <i>Audited</i> (RMB'000)
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,264,286	1,311,088
Investment properties	5	161,698	135,426
Leasehold land and land use rights	5	95,903	97,164
Intangible assets	5	11,930	12,162
Investments in associates		18,007	19,695
Investments in jointly controlled entities		840,435	787,580
Available-for-sale financial assets		17,403	16,272
Deferred income tax assets		47,289	47,222
		2,456,951	2,426,609
Current assets			
Inventories		567,590	633,059
Trade and other receivables	6	840,555	869,066
Financial assets at fair value through profit or loss		4,010	3,008
Tax recoverable		15,558	41,788
Restricted cash		23,634	15,275
Cash and cash equivalents		495,698	365,859
		1,947,045	1,928,055
Total assets		4,403,996	4,354,664
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital and premium	7	1,592,034	1,592,034
Other reserves		989,984	984,490
Retained earnings			
– Proposed final dividend		–	32,436
– Others		756,872	636,345
		3,338,890	3,245,305
Minority interest in equity		110,868	115,460
Total equity		3,449,758	3,360,765

Condensed Consolidated Interim Balance Sheet (continued)

	Note	30 June 2009 <i>Unaudited</i> (RMB'000)	31 December 2008 <i>Audited</i> (RMB'000)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		49,697	46,959
Government grants		19,526	13,525
Employee benefits		19,084	25,124
Borrowings	9	10,000	30,000
		<u>98,307</u>	<u>115,608</u>
Current liabilities			
Trade and other payables	8	674,727	628,926
Dividend payables		32,584	58
Current income tax liabilities		7,340	6,032
Borrowings	9	141,280	243,275
		<u>855,931</u>	<u>878,291</u>
Total liabilities		<u>954,238</u>	<u>993,899</u>
Total equity and liabilities		<u>4,403,996</u>	<u>4,354,664</u>
Net current assets		<u>1,091,114</u>	<u>1,049,764</u>
Total assets less current liabilities		<u>3,548,065</u>	<u>3,476,373</u>

The notes on pages 40 to 55 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Income

		Unaudited Six months ended 30 June	
	Note	2009 (RMB'000)	2008 (RMB'000) (Restated)
Revenue		1,903,008	2,069,339
Cost of goods sold		<u>(1,437,096)</u>	<u>(1,480,915)</u>
Gross profit		465,912	588,424
Other operating income		53,574	44,057
Other gains – net		3,512	64,362
Other operating expenses		(4,611)	(4,082)
Selling and marketing costs		(266,070)	(341,853)
Administrative expenses		<u>(203,989)</u>	<u>(235,216)</u>
Operating profit	10	48,328	115,692
Finance costs – net		(4,540)	(7,929)
Share of post-tax (losses)/profits of associates		(1,687)	387
Share of post-tax profits of jointly controlled entities		<u>81,478</u>	<u>72,270</u>
Profit before income tax		123,579	180,420
Income tax expense	11	<u>(9,271)</u>	<u>(25,262)</u>
Profit for the period		<u>114,308</u>	<u>155,158</u>
Profit attributable to:			
– shareholders of the Company		118,788	149,463
– minority interest		<u>(4,480)</u>	<u>5,695</u>
		<u>114,308</u>	<u>155,158</u>
Earnings per share for profit attributable to shareholders of the Company (expressed in RMB per share)			
– basic and diluted	12	<u>0.146</u>	<u>0.184</u>
Dividends	13	<u>-</u>	<u>-</u>

The notes on pages 40 to 55 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Comprehensive Income

	Unaudited Six months ended 30 June	
	2009 (RMB'000)	2008 (RMB'000) (Restated)
Profit for the period	114,308	155,158
Other comprehensive income		
Fair value gains/(losses) on available-for-sale financial assets, net of tax	1,456	(2,786)
Revaluation of investment properties upon initial recognition, net of tax	6,808	13,121
	<hr/>	<hr/>
Total comprehensive income for the period	122,572	165,493
	<hr/>	<hr/>
Total comprehensive income attributable to:		
– shareholders of the Company	126,146	159,798
– minority interest	(3,574)	5,695
	<hr/>	<hr/>
	122,572	165,493
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 40 to 55 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Changes in Equity

		Unaudited					
		Attributable to shareholders of the Company					
Note	Share capital and premium (RMB'000)	Other reserves (RMB'000)	Retained earnings (RMB'000)	Total (RMB'000)	Minority interest (RMB'000)	Total equity (RMB'000)	
	Balance at 1 January 2008	1,592,034	1,061,328	514,659	3,168,021	249,371	3,417,392
	Profit for the period	-	-	149,463	149,463	5,695	155,158
	Other comprehensive income:						
	Fair value losses, net of tax						
	– Available-for-sale financial assets	-	(2,786)	-	(2,786)	-	(2,786)
	Revaluation of investment properties upon initial recognition, net of tax	-	13,121	-	13,121	-	13,121
	Depreciation transfer on asset revaluation during reorganisation, net of tax	-	(1,862)	1,862	-	-	-
	Total comprehensive income for the period ended 30 June 2008	-	8,473	151,325	159,798	5,695	165,493
	Dividends relating to 2007	-	-	(100,552)	(100,552)	-	(100,552)
13	Dividends paid to minority interest	-	-	-	-	(6,439)	(6,439)
	Impact of acquisition of interest in subsidiaries from minority interest	-	(13,431)	-	(13,431)	(9,868)	(23,299)
	Impact arising from dilution of equity interest in a subsidiary from minority interest (the subsidiary became a jointly controlled entity subsequent to the dilution)	-	(106,921)	106,921	-	(96,807)	(96,807)
	Others	-	192	(192)	-	-	-
		-	(120,160)	6,177	(113,983)	(113,114)	(227,097)
	Balance at 30 June 2008	1,592,034	949,641	672,161	3,213,836	141,952	3,355,788
	Balance at 1 January 2009	1,592,034	984,490	668,781	3,245,305	115,460	3,360,765
	Profit/(loss) for the period	-	-	118,788	118,788	(4,480)	114,308
	Other comprehensive income:						
	Fair value gains, net of tax						
	– Available-for-sale financial assets	-	1,433	-	1,433	23	1,456
	Revaluation of investment properties upon initial recognition, net of tax	-	5,925	-	5,925	883	6,808
	Depreciation transfer on asset revaluation during reorganisation, net of tax	-	(1,862)	1,862	-	-	-
	Total comprehensive income for the period ended 30 June 2009	-	5,496	120,650	126,146	(3,574)	122,572
	Dividends relating to 2008	-	-	(32,436)	(32,436)	-	(32,436)
13	Dividends paid to minority interest	-	-	-	-	(1,143)	(1,143)
	Others	-	(2)	(123)	(125)	125	-
		-	(2)	(32,559)	(32,561)	(1,018)	(33,579)
	Balance at 30 June 2009	1,592,034	989,984	756,872	3,338,890	110,868	3,449,758

The notes on pages 40 to 55 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Statement of Cash Flows

	Unaudited Six months ended 30 June	
	2009 (RMB'000)	2008 (RMB'000) (Restated)
Cash flows from operating activities – net	245,099	(21,549)
Cash flows from investing activities		
Purchase of minority interest in subsidiaries	–	(17,944)
Cash contribution paid to a jointly controlled entity	–	(10,000)
Disposal of subsidiaries, net of cash disposed	–	(242,187)
Purchases of property, plant and equipment	(31,831)	(93,232)
Proceeds from sale of property, plant and equipment	242	311
Purchase of intangible assets	(392)	(272)
Purchase of financial instruments	–	(11,840)
Proceeds from disposal of associates	5,670	–
Proceeds from disposal of financial instruments	–	2,033
Interests received	7,920	4,210
Dividends received from jointly controlled entities	28,327	92,233
Loans granted to a jointly controlled entity	(62,660)	–
Loans repayment received from a jointly controlled entity	61,000	–
Cash flows from investing activities – net	8,276	(276,688)
Cash flows from financing activities		
Proceeds from bank borrowings	124,280	200,012
Repayments of bank borrowings	(246,275)	(66,641)
Dividends paid to shareholders of the Company	–	(45,374)
Dividends paid to minority interest	(1,539)	(5,110)
Cash flows from financing activities – net	(123,534)	82,887
Net increase/(decrease) in cash and cash equivalents	129,841	(215,350)
Cash and cash equivalents at beginning of the period	365,859	585,046
Exchange loss	(2)	(9)
Cash and cash equivalents at end of the period	495,698	369,687

The notes on pages 40 to 55 form an integral part of this condensed consolidated interim financial information.

Notes to the Condensed Consolidated Interim Financial Information

1 GENERAL INFORMATION

Guangzhou Pharmaceutical Company Limited (the “Company”) is a joint stock company established in the People’s Republic of China (the “PRC”) with limited liability on 1 September 1997. Its H shares have been listed on The Stock Exchange of Hong Kong Limited since 30 October 1997 and its A shares have been listed on The Shanghai Stock Exchange since 6 February 2001. The Company and its subsidiaries (together the “Group”) are principally engaged in the manufacture of Chinese Patent Medicine (“CPM”), the wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale, retail of Chinese raw medicine.

The address of its registered office is 45 Sha Mian North Street, Guangzhou City, Guangdong Province, the PRC.

This condensed consolidated interim financial information is presented in Renminbi Yuan (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 28 August 2009.

This condensed consolidated interim financial information has not been audited.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2009 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2008, which have been prepared in accordance with HKFRSs.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (revised), “Presentation of financial statements”. The revised standard prohibits the presentation of items of income and expenses (that is “non-owner changes in equity”) in the statement of changes in equity, requiring “non-owner changes in equity” to be presented separately from owner changes in equity. All “non-owner changes in equity” are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the statement of income and statement of comprehensive income).

The Group has elected to present two statements: a statement of income and a statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

3 ACCOUNTING POLICIES *(Continued)*

- HKFRS 8, “Operating segments”. HKFRS 8 replaces HKAS 14, “Segment reporting”. It requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in change in reportable segments presented, as the previously reported wholesale, retail, import and export segments have been combined into a trading segment. Comparative figures for 2008 have been restated.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors that makes strategic decisions.

- Amendment to HKFRS 7, “Financial instruments: disclosures”. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. It also requires entities to provide additional disclosures about the relative reliability of fair value measurements. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. The Group will make additional relevant disclosures in its financial statements ending 31 December 2009.
- HKAS 23 (Revised), “Borrowing costs”. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. This revised standard does not have an impact on the condensed consolidated interim financial information.

The following amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Group.

- HKFRS 2 (amendment), “Share-based payment”.
- HKAS 32 (amendment), “Financial instruments: presentation”.
- HK(IFRIC) – Int 9 (amendment), “Reassessment of embedded derivatives” and HKAS 39 (amendment), “Financial instruments: Recognition and measurement”.
- HK(IFRIC) – Int 13, “Customer loyalty programmes”.
- HK(IFRIC) – Int 15, “Agreements for the construction of real estate”.
- HK(IFRIC) – Int 16, “Hedges of a net investment in a foreign operation”.
- HKAS 39 (amendment), “Financial instruments: Recognition and measurement”.

4 SEGMENT INFORMATION

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

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

- Manufacturing: comprises the development, manufacture, distribution and sale of CPM;
- Trading: relates mainly to wholesales, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale, retail of Chinese raw medicine;

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

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

Turnover consists of sales from manufacturing and trading segments, which are RMB 932,323,000 and RMB 970,685,000 for the six months ended 30 June 2009 and RMB 1,023,711,000 and RMB 1,045,628,000 for the six months ended 30 June 2008 respectively.

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

Notes to the Condensed Consolidated Interim Financial Information

4 SEGMENT INFORMATION (Continued)

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

	Manufacturing (RMB'000)	Trading (RMB'000)	Unallocated (RMB'000)	Elimination (RMB'000)	Total (RMB'000)
Six months ended 30 June 2009					
Total revenue	962,490	1,061,543	-	(121,025)	1,903,008
Inter-segment revenue	(30,167)	(90,858)	-	121,025	-
Revenue (from external customers)	932,323	970,685	-	-	1,903,008
Profit after tax	13,898	7,279	119,358	(26,227)	114,308
Depreciation and amortisation	(53,533)	(1,773)	(884)	-	(56,190)
Impairment losses relating to inventory	(3,491)	(914)	-	-	(4,405)
Impairment losses relating to receivables	(3,086)	(224)	-	-	(3,310)
Write back of provision for impairment of inventory	327	-	-	-	327
Write back of provision for impairment of receivables	7,317	22	-	-	7,339
Finance cost – net	(4,519)	(7,050)	(371)	7,400	(4,540)
Share of post-tax losses from associates	-	-	(1,687)	-	(1,687)
Share of post-tax profits from jointly controlled entities	-	-	81,478	-	81,478
Income tax expense	(3,455)	(1,564)	(4,252)	-	(9,271)

Notes to the Condensed Consolidated Interim Financial Information

4 SEGMENT INFORMATION (Continued)

The segment results for the period ended 30 June 2008 are as follows:

	Manufacturing (RMB'000)	Trading (RMB'000)	Unallocated (RMB'000)	Elimination (RMB'000)	Total (RMB'000)
Six months ended 30 June 2008					
(Restated)					
Total revenue	1,134,329	1,216,098	–	(281,088)	2,069,339
Inter-segment revenue	(110,618)	(170,470)	–	281,088	–
Revenue (from external customers)	1,023,711	1,045,628	–	–	2,069,339
Profit after tax	52,634	4,271	320,360	(222,107)	155,158
Depreciation and amortisation	(52,069)	(1,660)	(1,448)	–	(55,177)
Impairment losses relating to inventory	–	(4)	–	–	(4)
Impairment losses relating to receivables	(14,956)	(1,164)	–	–	(16,120)
Write back of provision for impairment of inventory	214	–	–	–	214
Write back of provision for impairment of receivables	400	–	–	–	400
Finance cost – net	(8,588)	(10,926)	(1,313)	12,898	(7,929)
Share of post-tax profits from associates	–	–	387	–	387
Share of post-tax profits from jointly controlled entities	–	–	72,270	–	72,270
Income tax expense	(21,264)	(1,254)	(2,744)	–	(25,262)

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

	Manufacturing (RMB'000)	Trading (RMB'000)	Unallocated (RMB'000)	Elimination (RMB'000)	Total (RMB'000)
As at 30 June 2009					
Total assets	2,511,105	760,460	3,220,379	(2,087,948)	4,403,996
Total assets include:					
Interests in jointly controlled entities	–	–	840,435	–	840,435
Interests in associates	–	–	18,007	–	18,007
Additions to non-current assets (other than financial instruments and deferred tax assets)	23,210	2,400	56	–	25,666
Total liabilities	834,982	637,527	98,380	(616,651)	954,238

Notes to the Condensed Consolidated Interim Financial Information

4 SEGMENT INFORMATION (Continued)

The segment assets and liabilities as at 31 December 2008 are as follows:

	Manufacturing (RMB'000)	Trading (RMB'000)	Unallocated (RMB'000)	Elimination (RMB'000)	Total (RMB'000)
As at 31 December 2008 (Restated)					
Total assets	2,547,841	771,475	3,120,987	(2,085,639)	4,354,664
Total assets include:					
Interests in jointly controlled entities	–	–	787,580	–	787,580
Interests in associates	–	–	19,695	–	19,695
Additions to non-current assets (other than financial instruments and deferred tax assets)	97,933	2,286	220	–	100,439
Total liabilities	854,291	674,899	71,575	(606,866)	993,899

A reconciliation of profit after tax is provided as follows:

	Six months ended 30 June	
	2009 (RMB'000)	2008 (RMB'000) (Restated)
Profit for reportable segments	21,177	56,905
Corporate income and expenses		
– Other operating income	19,548	23,536
– Other gains – net	1,002	61,881
– Corporate expenses	(9,353)	(17,071)
– Dividend income from subsidiaries	32,622	182,101
– Share of post-tax (losses)/profits from associates	(1,687)	387
– Share of post-tax profits from jointly controlled entities	81,478	72,270
– Income tax expense	(4,252)	(2,744)
Elimination	(26,227)	(222,107)
Profit for the period	114,308	155,158

Notes to the Condensed Consolidated Interim Financial Information

4 SEGMENT INFORMATION (Continued)

Reportable segments' assets are reconciled to total assets as follows:

	30 June 2009 (RMB'000)	31 December 2008 (RMB'000) (Restated)
Total segment assets	3,271,565	3,319,316
Corporate assets:		
– Property, plant and equipment	15,618	16,467
– Investment properties	60,823	60,823
– Investment in subsidiaries	1,454,836	1,454,836
– Interests in associates	18,007	19,695
– Interests in jointly controlled entities	840,435	787,580
– Available-for-sale financial assets	17,403	16,272
– Deferred income tax assets	1,058	2,022
– Loans to subsidiaries	402,637	382,946
– Loans to jointly controlled entities	151,660	154,213
– Dividends due from subsidiaries	90,404	68,597
– Financial assets at fair value through profit or loss	4,010	3,008
– Cash and cash equivalent	151,847	148,367
– Other unallocated assets	11,641	6,161
Elimination	(2,087,948)	(2,085,639)
Total assets per condensed consolidated balance sheet	4,403,996	4,354,664

Reportable segments' liabilities are reconciled to total liabilities as follows:

	30 June 2009 (RMB'000)	31 December 2008 (RMB'000) (Restated)
Total segment liabilities	1,472,509	1,529,190
Corporate liabilities:		
– Deferred income tax liabilities	6,617	6,319
– Dividend payables	32,436	–
– Borrowings	50,000	50,000
– Other unallocated liabilities	9,327	15,256
Elimination	(616,651)	(606,866)
Total liabilities per condensed consolidated balance sheet	954,238	993,899

Notes to the Condensed Consolidated Interim Financial Information

4 SEGMENT INFORMATION (Continued)

The Group is domiciled in PRC. The result of its revenue from external customers in PRC for the six months ended 30 June 2009 is RMB 1,845,825,000 (for the six months ended 30 June 2008: RMB 2,016,178,000), and the total of its revenue from external customers from other countries is RMB 57,183,000 (Six months ended 30 June 2008: RMB 53,161,000).

At 30 June 2009, the total of non-current assets other than financial instruments and deferred tax assets (there were no employment benefit assets and rights arising under insurance contracts) located in the PRC is RMB 2,392,259,000 (At 31 December 2008: RMB 2,363,115,000).

For the six months ended 30 June 2009 and 2008, the revenue from the Group's largest customers was less than 10% of the Group's total revenue.

5 PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LEASEHOLD LAND AND LAND USE RIGHTS AND INTANGIBLE ASSETS

	Property, plant and equipment (RMB'000)	Investment properties (RMB'000)	Leasehold land and land use rights (RMB'000)	Intangible assets (RMB'000)
Six months ended 30 June 2008 (Restated)				
Opening net book amount as at 1 January 2008	1,379,603	76,389	120,841	25,977
Additions	100,439	–	–	–
Transfer to investment properties	(8,069)	8,642	(573)	–
Fair value gains on investment properties initially transferred from property, plant and equipment-credited to equity	–	17,493	–	–
Disposals	(551)	–	–	–
Transfer to a jointly controlled entity arising from dilution of interest in a subsidiary	(126,524)	(1,383)	(20,302)	(8,431)
Depreciation/amortisation	(49,701)	–	(1,466)	(4,010)
Closing net book amount as at 30 June 2008	1,295,197	101,141	98,500	13,536
Six months ended 30 June 2009				
Opening net book amount as at 1 January 2009	1,311,088	135,426	97,164	12,162
Additions	25,274	–	–	392
Transfer to investment properties	(17,195)	17,195	–	–
Fair value gains on investment properties initially transferred from property, plant and equipment – credited to equity	–	9,077	–	–
Disposals	(576)	–	–	–
Depreciation/amortisation	(54,305)	–	(1,261)	(624)
Closing net book amount as at 30 June 2009	1,264,286	161,698	95,903	11,930

Notes to the Condensed Consolidated Interim Financial Information

6 TRADE AND OTHER RECEIVABLES

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

	30 June 2009 (RMB'000)	31 December 2008 (RMB'000)
Within 3 months	329,199	375,001
3 months to 6 months	70,941	40,752
6 months to 1 year	14,798	36,907
Over 1 year	58,885	59,980
	<hr/>	<hr/>
Less: provision for trade receivables	(50,848)	(54,669)
	<hr/>	<hr/>
Trade receivables – net	422,975	457,971
	<hr/> <hr/>	<hr/> <hr/>

7 SHARE CAPITAL AND PREMIUM

	31 December 2008		Conversion		30 June 2009	
	No. of shares (thousands)	Amount (RMB'000)	No. of shares (thousands)	Amount (RMB'000)	No. of shares (thousands)	Amount (RMB'000)
Share capital registered, issued and fully paid of RMB1 each						
Circulating state shares subject to exchange restrictions	387,514	387,514	(387,514)	(387,514)	-	-
H shares	219,900	219,900	-	-	219,900	219,900
A shares	203,486	203,486	387,514	387,514	591,000	591,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	810,900	810,900	-	-	810,900	810,900
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Share premium on issue of shares net of issuing expenses		781,134				781,134
		<hr/>				<hr/>
Total		1,592,034				1,592,034
		<hr/> <hr/>				<hr/> <hr/>

On 24 April 2009, 387,514,000 circulating state shares subject to exchange restrictions were converted to A shares.

Notes to the Condensed Consolidated Interim Financial Information

8 TRADE AND OTHER PAYABLES

At 30 June 2009, the ageing analysis of trade payables (including amounts due to related parties of trading in nature) were as follows:

	30 June 2009 (RMB'000)	31 December 2008 (RMB'000)
Within 3 months	367,892	276,068
3 months to 6 months	14,234	30,390
6 months to 1 year	5,843	6,532
1 year to 2 years	4,441	17,447
Over 2 years	4,584	5,231
	396,994	335,668

9 BORROWINGS

	30 June 2009 (RMB'000)	31 December 2008 (RMB'000)
Non-current	10,000	30,000
Current	141,280	243,275
	151,280	273,275

Movements in borrowings is analysed as follows:

	(RMB'000)
Six months ended 30 June 2008 (Restated)	
Opening amount 1 January 2008	968,402
Additions	200,012
Repayments of borrowings	(66,641)
Transfer to a jointly controlled entity arising from dilution of interest in a subsidiary	(797,744)
Closing amount as at 30 June 2008	304,029
Six months ended 30 June 2009	
Opening amount as at 1 January 2009	273,275
Additions	124,280
Repayments of borrowings	(246,275)
Closing amount as at 30 June 2009	151,280

Notes to the Condensed Consolidated Interim Financial Information

9 BORROWINGS (Continued)

Interest on borrowings for the six months ended 30 June 2009 amounted to RMB6,028,000 (six months ended 30 June 2008: RMB 8,381,000).

The Group has the following undrawn borrowing facilities:

	30 June 2009 (RMB'000)	31 December 2008 (RMB'000)
Floating rate:		
– expiring within 1 year	52,470	55,780

10 OPERATING PROFIT

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

	Six months ended 30 June	
	2009 (RMB'000)	2008 (RMB'000) (Restated)
Gain on dilution of interest in a subsidiary	–	(47,559)
Gain on disposal of interest in a subsidiary	–	(16,409)
Government grants	(9,056)	(4,722)
Write back of provision for impairment of inventory	(327)	(214)
Write back of provision for impairment of receivables	(7,339)	(400)
Fair value (gains)/losses from financial assets at fair value through profit or loss	(1,002)	2,142
Impairment charge relating to inventory	4,405	4
Impairment charge relating to receivables	3,310	16,120
Disposal loss of property, plant and equipment	334	240

11 INCOME TAX EXPENSE

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

Notes to the Condensed Consolidated Interim Financial Information

11 INCOME TAX EXPENSE (Continued)

	Six months ended 30 June	
	2009 (RMB'000)	2008 (RMB'000) (Restated)
Current income tax		
– PRC corporate income tax	9,055	45,043
Deferred income tax	216	(19,781)
	<u>9,271</u>	<u>25,262</u>

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the six months ended 30 June 2009 attributable to shareholders of RMB 118,788,000 (2008: RMB 149,463,000), divided by the weighted average number of ordinary shares outstanding during the period of 810,900,000 shares (2008: 810,900,000 shares). There were no dilutive potential ordinary shares as of period end and therefore the diluted earning per share amount is the same as the basic.

13 DIVIDENDS

At a meeting held on 27 March 2009, the directors declared a final dividend of RMB 0.04 per share for the year ended 31 December 2008, totaling RMB 32,436,000 (2007: RMB 100,552,000).

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2009 (2008: same).

14 CAPITAL COMMITMENTS

Capital commitments at the balance sheet date but not yet incurred were as follows:

	30 June 2009 (RMB'000)	31 December 2008 (RMB'000)
Property, plant and equipment		
Contracted but not provided for	6,330	34,319
Authorised but not contracted for	99,572	–
	<u>105,902</u>	<u>34,319</u>

Notes to the Condensed Consolidated Interim Financial Information

15 RELATED-PARTY TRANSACTIONS

The directors regard Guangzhou Pharmaceutical Holdings Limited ("GZPHL"), a PRC state-owned enterprise under the control and supervision of the Guangzhou Municipal Government, being the ultimate holding company.

Save as disclosed elsewhere in the condensed consolidated interim financial information, significant related-party transactions, which were carried out in the normal course of the Group's business are as follows:

(1) Sales/Purchase of goods and services

		Six months ended 30 June	
	Note	2009 <i>(RMB'000)</i>	2008 <i>(RMB'000)</i> <i>(Restated)</i>
Ultimate holding company			
Licence fee expenses	a	1,645	1,851
Welfare facilities fee expenses	b	133	217
Rental expenses	c	1,402	1,176
Jointly controlled entities			
Sales of goods	d	137,379	101,331
Purchases of goods	d	36,959	30,631
Licence fee income	e	7,716	6,237
Associates			
Advertising fee expenses	f	7,021	12,311
Subsidiaries of GZPHL and its related-parties			
Sales of goods	d	71,767	86,039
Purchases of goods	d	82,023	134,096
Other state-controlled entities			
Sales of goods	d	115,067	146,317
Purchases of goods	d	17,917	68,208
Purchases of machinery and equipment	d	41	26
Service fee expenses	h	10,749	21,816
		115,067	146,317
		17,917	68,208
		41	26
		10,749	21,816

15 RELATED-PARTY TRANSACTIONS *(Continued)*

(1) Sales/Purchase of goods and services *(Continued)*

- (a) Pursuant to the Trademark License Agreement entered into by the Company and GZPHL, its ultimate holding company, on 1 September 1997 and its supplementary agreement dated 28 July 2005, GZPHL has granted the Company and its subsidiaries, an exclusive right to use trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay a license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries.
- (b) Pursuant to a Tenancy Agreement entered into by the Company and GZPHL on 1 November 2007, GZPHL provides the rental services for welfare facilities to the Group, the charges of which increase by 10% based on the charges of previous year. The agreement will expire on 31 December 2010.
- (c) Pursuant to a Tenancy Agreement entered into by the Company and GZPHL on 1 November 2007, effective from 1 January 2008, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices on fixed rental charges. The agreement will expire on 31 December 2010.
- (d) The sales and purchase transactions with the jointly controlled entities, subsidiaries of GZPHL and its related entities and other state-controlled entities were at terms similar to those transactions with other third parties.
- (e) Pursuant to the Trademark License Agreement entered into by a jointly controlled entity of the Company and GZPHL, and two supplementary agreements amongst the jointly controlled entity, the Company and GZPHL dated 8 November 2004 and 28 July 2005 respectively, GZPHL has granted the jointly controlled entity an exclusive right to use 13 trademarks owned by GZPHL. The jointly controlled entity agreed to pay a license fee for the use of the trademarks at 2.1% of the aggregate net sales of the jointly controlled entity. The Company is entitled to 47% of the license fee pursuant to the tri-parties agreements.
- (f) An associated company Guangzhou Pharmaceutical Soccer Club Limited provided advertising services relating to soccer events to some companies within the Group. Such services were rendered under terms agreed by both parties.

Notes to the Condensed Consolidated Interim Financial Information

15 RELATED-PARTY TRANSACTIONS *(Continued)*

(1) Sales/Purchase of goods and services *(Continued)*

- (g) GZPHL, the ultimate holding company, is a state-controlled entity directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to GZPHL group companies, directly or indirectly controlled by the PRC government are also related-parties of the Group. Neither GZPHL nor the PRC government publishes financial statements available for public use.

The Group sells its products on wholesale and retail basis. The retail sales are conducted through the Group's retail outlets at market prices on cash basis. Due to the pervasiveness of the Group's retail transactions with the state-controlled enterprises' employees, the key management personnel and their close family members of state-controlled enterprises, and other related parties, there is no feasible way or a reliable system to track such transactions and ensure the completeness of the disclosure. Therefore, the sales of goods disclosed above do not include retail sales to related parties. Management believes that meaningful information relative to related-party transaction has been adequately disclosed.

In addition, normal transactions entered into with financial institutions, public utilities providers and governmental departments and agencies have been excluded.

- (h) Service fees charged by other state-controlled enterprises are mainly in relation to advertising and promotion activities, commercial insurance and transportation. These transactions were entered into at open market terms.

(2) Key management compensation

	Six months ended 30 June	
	2009 (RMB'000)	2008 (RMB'000) (Restated)
Salaries and other benefits	750	757

16 COMPARATIVE FIGURES

The Group adopted proportionate consolidation method to account for its interests in jointly controlled entities when preparing the condensed consolidated interim financial information for the six months ended 30 June 2008 while equity method was adopted when the Group prepared the annual financial statements for the year ended 31 December 2008. In order to adopt consistent accounting policies to provide more reliable information, certain comparative figures of the statement of income have been restated based on the assumption that the financial information for the six months ended 30 June 2008 had been prepared using equity method for its interest jointly controlled entities.

The changes resulted in:

	Six months ended 30 June 2008 (RMB'000)
Statement of income	
Decrease in:	
Revenue	2,710,213
Cost of goods sold	2,429,586
Expenses	192,006
Income tax expense	16,351
Increase in:	
Share of post-tax profits of jointly controlled entities	<u>72,270</u>

List of Documents Available for Inspection

- (1) The original copy of the interim report signed by the legal representative of the Company;
- (2) The original copy of the financial reports signed and stamped by the legal representative, the person in charge of the accounting function of the Company and the person in charge of the accounting firm;
- (3) The original company documents disclosed and announcements published in Shanghai Securities News during the Reporting Period;
- (4) Other relevant documents.

The documents listed above are available at the Secretariat of the Company.