



廣州藥業股份有限公司
Guangzhou Pharmaceutical Company Limited

(Stock code: 874)

Interim Report

2010



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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 report and confirm that there are no false information, misleading statements or material omissions in this report.
2. Mr. Yang Rongming (chairman of the Board), Mr. Wu Changhai (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 2010 (the “Reporting Period”) are unaudited.
4. There has no non-operational appropriation of funds of the Company by its connected parties.
5. The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.
6. This interim report is prepared in both English and Chinese. In the event of different interpretations, with the exception of the condensed consolidated financial data 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.

Company Profile

1. COMPANY PROFILE

- I. 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
- II. Legal representative: Yang Rongming
- III. Secretary of the Board: Pang Jianhui
Representative of securities affairs: Huang Xuezen
Address: 45 Sha Mian North Street, Liwan District
Guangzhou City, Guangdong Province, the PRC
Telephone: (8620) 8121 8084/8121 8119
Fax: (8620) 8121 6408
E-mail: pangjh@gpc.com.cn/huangxz@gpc.com.cn
- IV. 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
- V. Designated newspapers for information disclosure: Mainland China: Shanghai Securities News
Internet website designated by the China Securities Regulatory Commission for publishing this interim report: <http://www.sse.com.cn>
Internet website designated by The Stock Exchange of Hong Kong Limited for publishing this interim report: <http://www.hkex.com.hk>
Place where this interim report is available for inspection: The Secretariat of Guangzhou Pharmaceutical Company Limited
- VI. Place of listing, name and codes of the Company's 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. |

Company Profile

2. PRINCIPAL FINANCIAL DATA AND INDICATORS

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

Items	As at 30 June 2010 (Unaudited)	As at 31 December 2009 (Audited)	Changes as compared with 31 December 2009 (%)
Total assets (RMB'000)	4,521,724	4,222,496	7.09
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	3,430,448	3,304,186	3.82
Net assets per share attributable to the shareholders of the Company (RMB)	4.23	4.07	3.82
Items	The Reporting Period (Unaudited)	The corresponding period of 2009 (Unaudited)	Changes as compared with the corresponding period of 2009 (%)
Operating profit (RMB'000)	187,981	116,070	61.96
Total profit (RMB'000)	197,571	124,200	59.08
Net profit attributable to the shareholders of the Company (RMB'000)	168,777	116,563	44.79
Net profit attributable to the shareholders of the Company after deducting non-operating items (RMB'000)	156,467	103,858	50.65
Basic earnings per share (RMB)	0.208	0.144	44.79
Basic earnings per share after deducting non-operating items (RMB)	0.193	0.128	50.65
Diluted earnings per share (RMB)	0.208	0.144	44.79
Fully diluted return on net assets ratio (%)	4.92	3.63	An increase of 1.29 percentage points
Weighted average return on net assets ratio (%)	4.98	3.66	An increase of 1.32 percentage points
Net cash flows from operating activities (RMB'000)	84,989	242,138	(64.90)
Net cash flow from operating activities per share (RMB)	0.105	0.299	(64.90)

Company Profile

2. PRINCIPAL FINANCIAL DATA AND INDICATORS (Continued)

(1) Financial data and 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-operating items include:

Items	Amount (RMB'000)	Explanation
Gain/(Loss) on disposal of non-current assets	42	
Government subsidies recognized as gain/(loss)	9,352	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.
Gain/(Loss) on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	(43)	
Write back of provision for impairment of accounts receivables undergoing independent impairment test	3,989	This is the amount of the accounts receivable which the Company's subsidiaries had made separate provisions for the impairment and were recovered during the Reporting Period.
Gain/(Loss) received from entrusted loans	(249)	
Other non-operating income and expenses excluding the above items	162	
Income tax effect	(106)	
Effect on minority interest (after tax)	(837)	
Total	12,310	

Company Profile

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

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

Summary of assets and liabilities

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

Summary of results

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

Company Profile

2. PRINCIPAL FINANCIAL DATA AND INDICATORS (Continued)

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

	Note	As at 30 June 2010 (RMB'000)	As at 31 December 2009 (RMB'000)
Net assets attributable to shareholders of the Company under the PRC Accounting Standards		3,430,448	3,304,186
Difference arising from fixed assets revaluation	1	100,512	102,995
Revaluation of investment properties	2	110,728	97,257
Revaluation of investment on China Everbright Bank Company Limited	3	8,030	15,523
Net effect of deferred tax	4	(54,355)	(53,512)
Difference in non-controlling interests	6	(16,385)	(16,447)
		<u>3,578,978</u>	<u>3,450,002</u>
		For the six months ended 30 June	
	Note	2010 (RMB'000)	2009 (RMB'000)
Net profit attributable to shareholders of the Company under the PRC Accounting Standards		168,777	116,563
Additional depreciation on revalued fixed assets	1	(2,483)	(2,483)
Government subsidies recognized as deferred income through profit and loss	5	-	123
Difference arising from investment properties in cost model and fair value model	2	3,130	1,456
Net effect of deferred tax	4	(130)	621
Difference in non-controlling interests	6	62	2,508
		<u>169,356</u>	<u>118,788</u>

Company Profile

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

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

Notes:

1. The Group's fixed assets were revalued by the international valuers in 1997 for the purpose of listing the Group's H shares. The revaluation has been reflected in the financial statements of the Group prepared under HKFRS but not in the financial statements prepared under the PRC Accounting Standards. The depreciation charge under HKFRS is higher than that calculated under the PRC Accounting Standards as the depreciation charge under HKFRS is based on the revalued amount of fixed assets.
2. The Group's investment properties are measured with historical cost under the PRC Accounting Standards, while they are measured with fair value in the financial statements prepared under HKFRS.
3. The Group's investment in China Everbright Bank Company Limited is measured with historical cost under the PRC Accounting Standards, while it is measured with fair value in the financial statements prepared under HKFRS.
4. This represents the deferred tax liabilities arising from the differences as described in note 1, note 2 and note 3.
5. Prior to the adoption of the new PRC Accounting Standards, government subsidies granted in relation to purchases of fixed assets was recognised as capital reserve. Under both HKFRS and new PRC Accounting Standards, government subsidies in relation to purchase of fixed assets is 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.
6. Due to the reconciliation items above, there is a difference in net asset/net profit of the Company prepared under the 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

During the Reporting Period, the Company's share capital has not changed.

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS

- (1) As at 30 June 2010, there were 48,174 shareholders in total, among which, 48,140 shareholders holding the Renminbi-denominated domestic ordinary shares (A shares) and 34 shareholders holding the overseas listed foreign shares (H shares).
- (2) As at 30 June 2010, the top ten shareholders of the Company and their shareholdings were as follows:

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

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

Changes in Share Capital and Shareholdings of Major Shareholders

2. SHAREHOLDINGS OF MAJOR SHAREHOLDERS (Continued)

(3) Shareholders' interests and short positions in the shares and underlying shares of the Company

As at 30 June 2010, the interests and short positions held by the persons (not being the directors, supervisors and senior management of the Company) in the shares and underlying shares of the Company which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKEx") pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") and as recorded in the register required to be 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	—
FIL Limited	H shares	26,616,000	investment manager	—	12.10
INVESCO Asset Management Limited (in number of customers manager/consultant as applicable)	H shares	20,386,000	investment manager	—	9.27

As far as the directors are aware, as at 30 June 2010, other than those listed above, 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.

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

5. NEITHER THE COMPANY NOR ANY OF ITS SUBSIDIARIES PURCHASED, SOLD OR REDEEMED ANY OF THE COMPANY'S SHARES 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	/
Li Chuyuan	vice chairman	Nil	Nil	Nil	/
Shi Shaobin	executive director	Nil	Nil	Nil	/
Wu Changhai	director and general manager	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	/
Wong Lung Tak Patrick	independent non-executive director	Nil	Nil	Nil	/
Qiu Hongzhong	independent non-executive director	Nil	Nil	Nil	/
Feng Zansheng	executive director (resigned on 11 May 2010)	Nil	Nil	Nil	/
Wong Hin Wing	independent non-executive director (ceased to be director on 28 June 2010)	Nil	Nil	Nil	/
Yang Xiuwei	chairlady 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 2010, 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 HKEx 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 HKEx (the "Listing Rules") to be notified to the Company and the HKEx were as follows:

Directors

Name	Type of interest	Company	Number of shares (share)
Shi Shaobin	Family	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. ("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

Note: The shares above, except the A shares of the Company, are staff shares.

- (b) Save as disclosed above, as at 30 June 2010, 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 HKEx 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 HKEx.

Directors, Supervisors, Senior Management and Staff

2. APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

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

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

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

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

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

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

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

3. AS AT THE END OF THE REPORTING PERIOD, THE NUMBER OF THE GROUP'S EMPLOYEES AMOUNTED TO 5,352. 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 2010 WAS RMB195 MILLION.

Report of the Board of Directors

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

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

1. ANALYSIS OF OPERATING RESULTS

(1) Operations review

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

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

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

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS *(Continued)*

(1) Operations review *(Continued)*

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

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS (Continued)

(1) Operations review (Continued)

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

A geographical analysis of sales arising from the operations of the Group for the first half of 2010 is set out as follows:

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

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS *(Continued)*

(2) Manufacturing operations

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

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

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

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS (Continued)

(2) 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	152,942	51.17	84,373	37.55	44.03	An increase of 5.63 percentage points
Diabetes medicine	233,486	15.93	84,869	(6.97)	62.85	An increase of 9.11 percentage points
Cough and phlegm clearing medicine	151,907	22.67	71,780	11.07	51.94	An increase of 5.10 percentage points
Arthritis medicine	112,984	(5.24)	52,220	(11.22)	52.98	An increase of 3.28 percentage points
Gastric medicine	36,740	13.52	17,009	(5.87)	52.90	An increase of 9.70 percentage points
Other products	397,404	12.16	245,305	1.65	37.47	An increase of 6.55 percentage points

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

Report of the Board of Directors

1. ANALYSIS OF OPERATING RESULTS *(Continued)*

(3) Pharmaceutical trading

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

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

Report of the Board of Directors

2. DETAILS OF OPERATION AND RESULTS OF THE COMPANY'S SUBORDINATED ENTERPRISES

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

Report of the Board of Directors

2. DETAILS OF OPERATION AND RESULTS OF THE COMPANY'S SUBORDINATED ENTERPRISES *(Continued)*

Notes:

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

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

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

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

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

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

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. 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.

Report of the Board of Directors

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

(1) Changes in major accounting items

Items	As at 30 June 2010 (RMB'000)	As at 1 January 2010 (RMB'000)	Increase/ decrease (YoY) (%)	Reasons of change
Financial assets for trading	5,289	31,332	(83.12)	As at 30 June 2010, the Group reduced the amount of its invested financial products by RMB 26,000,000.
Accounts receivable	487,191	352,563	38.19	During the Reporting Period, the Group strengthened its marketing efforts actively, expanded its sales channels, and increased the sales of its products. Accordingly, the amount of its accounts receivable increased.
Other receivables	55,492	38,732	43.27	During the Reporting Period, the Group disposed of its equity interest in Guangzhou Pharmaceutical Football Club Co., Ltd., the consideration receivable arising therefrom amounted to RMB 8,500,000.
Construction in progress	46,774	26,770	74.73	During the Reporting Period, the Group's significant projects come on stream.
Short-term borrowings	27,405	63,370	(56.75)	During the Reporting Period, the Group repaid bank borrowings due.
Notes payable	63,238	29,790	112.28	During the Reporting Period, the Group increased procurement, and the payment time were deferred by use of bank notes, so as to improve fund use efficiency.
Accounts payable	413,976	302,758	36.73	During the Reporting Period, the Group's trading enterprises actively developed quality downstream clients and obtained longer commercial credit terms,
Receipts in advance	43,706	121,348	(63.98)	During the Reporting Period, the Group adjusted its marketing strategies and eased credit terms to its clients.
Employee compensation payable	103,396	56,821	81.97	As at 30 June 2010, the accrued but unpaid emoluments of the Group increased.
Dividends payable	40,659	65	62,577.48	As at 30 June 2010, the Company had not paid the annual dividend for 2009.
Accrued expenses	57,194	12,936	342.15	As at 30 June 2010, the accrued but unpaid advertising costs and terminal fees of the Group increased.

Report of the Board of Directors

5. 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 2009 (RMB'000)	Increase/ Decrease (YoY) (%)	Reasons of change
Taxes expenses	23,432	9,608	143.87	During the Reporting Period, the corporate income tax payable of the Group increased as a result of the growth in gross profit.
Net profit attributable to the shareholders of the Company	168,777	116,563	44.79	During the Reporting Period, the Group actively strengthened its marketing efforts, expanded its sales channels, increased the sales of its products and improved sales margins.
Net cash inflows from operating activities	84,989	242,138	(64.90)	During the Reporting Period, the Group expanded its production and increased inventory of its products, so as to meet the sales demand.
Net cash inflows from investment activities	27,527	7,881	249.27	During the Reporting Period, the Group's withdrew the capital which was invested in bank financial products at the beginning of the year.

(2) Liquidity, Financial resources and Capital structure

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

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

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

Report of the Board of Directors

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

(3) Capital expenditure

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

(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 2010, the Group has no significant contingent liabilities.

(6) Charge on the Group's assets

As at 30 June 2010, the Group's has no charge on its assets.

(7) Bank loans, overdraft and other borrowings

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

(8) Gearing ratio

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

Report of the Board of Directors

6. ISSUES AND DIFFICULTIES ENCOUNTERED IN OPERATIONS AND PLANS FOR THE SECOND HALF OF 2010

In the first half of 2010, the price increase of raw materials and the price control of pharmaceutical products by the government and the implementation of the new GMP standard had certain impact on the Group's production and operations. However, the enormous growth potential of the pharmaceutical market and the intensive progress of reform on medical system will bring opportunities to the Group for its business growth.

In the second half of 2010, the Group will focus on the following:

1. To accommodate the market changes, continuously strengthen the marketing team-building and innovation of marketing modes, enhance our product mix, actively respond to the needs arising from the national new medical reform, create and seize more market opportunities brought by it.
2. To continuously expedite technology innovation of industrialization of products, optimize the structure of products, increase investment on the R & D of new medicines and the further development of famous proprietary Chinese medicines, and strive to obtain more technological and financial support from the government.
3. To continuously strengthen brand building, infuse new culture into products, and enhance product and brand promotion by taking advantage of the cultural festival of Chinese Traditional Medicine, so as to promote the sales volume of the Group's products.
4. To continue to introduce various measures such as resources integration and optimized allocation progressively, promote scale of economy and synergy effect; to further strengthen the fundamental management, regulate the business operation and lower operational risks.

Major Events

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 (the "CSRC") and the Listing Rules of The Shanghai Stock Exchange (the "SSE") and the HKEx 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 2009 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 December 31 2009 and prepared the Self-assessment Report on Internal Control for 2009 from the Board of the Company and the Report on Fulfillment of Social Responsibilities for 2009, both of which were considered and passed at the Board meeting of the Company on 26 March 2010.
- (2) According to the "Basic Norms of Internal Control" and "Supporting Internal Control Guidelines" which issued by Ministry of Finance jointly five ministries, the Company has self-examined its internal control of the Company's internal control self-examination, comprehensive internal control systems and business processes sorted. The company will be based on self-examination results to improve internal controls to meet regulatory requirements.
- (3) In order to regulate its information disclosure, the Company made amendments to the relevant terms of the "Information Disclosure Management Policy", which have well defined the accountability system for material mistakes in the information disclosure of annual reports, pursuant to the requirements of the "Notice on How to Successfully Prepare the 2009 Annual Report and Perform the Related Tasks by Listed Company" issued by CSRC. Such amendments were considered and duly passed at the Board meeting of the Company held on 26 March 2010.
- (4) The Company formulated the "Accountability System for Material Mistakes in the Information Disclosure of Annual Reports" and "Insiders Registration System" pursuant to the requirements of the Notice on How to Successfully Prepare the 2009 Annual Report and Perform the Related Tasks by Listed Company issued by CSRC. Both of the above were considered and duly passed at the Board meeting of the Company on 26 March 2010.

Major Events

1. CORPORATE GOVERNANCE *(Continued)*

- (5) Use of External Information Management System of the Company pursuant to the requirements of the Notice on How to Successfully Prepare the 2009 Annual Report and Perform the Related Tasks by Listed Company issued by CSRC. The above was considered and duly passed at the Board meeting of the Company on 29 April 2010.
- (6) To further standardize the management of information disclosure and improve the quality of information disclosure, the Company made amendments to the relevant provisions of the “Articles of Association”, “Board of Supervisors Rules of Procedure” and “Directors, Supervisors and Senior Management Measures for the Administration of shares traded companies”. The amendments to the above regulations were considered and duly passed at the Board meeting of the Company on 27 August 2010.

2. IMPLEMENTATION OF PROFIT DISTRIBUTION SCHEME AND INCREASE IN SHARE CAPITAL FROM CAPITAL RESERVE OR ISSUE OF NEW SHARES OF THE COMPANY FOR 2010

- (1) Pursuant to the resolutions on profit and dividend distribution passed at the 2009 annual general meeting held on 28 June 2010, 2009 final dividend of RMB0.50 (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 2009;
- (2) The final dividend of RMB0.05 (including tax) per share for 2009 was paid to the Company’s H shareholders whose names appeared on the register of the Company as at 28 May 2010 on 10 August 2010;
- (3) According to the announcement for 2009 final dividend published in Shanghai Securities News in the PRC on 12 July 2010, the registration date for A shares was 15 July 2010, the ex-dividend date was 16 July 2010 and the dividend payment date was 10 August 2010;
- (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 2010 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.

Major Events

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

- (1) On 30 January 2010, the Company's six subsidiaries and its joint venture namely Wang Lao Ji signed the Agreement in relation to Equity Transfer of Guangzhou Pharmaceutical Soccer Club Co., Ltd, pursuant to which the 50% equity interest they held therein were transferred to Guangzhou Soccer Development Center, which amounted to RMB20,032,800 with reference to the evaluation of Guangzhou Pharmaceutical Soccer Club Co., Ltd as at 31 December 2009.
- (2) As approved by the Strategic Development and Investment Committee, the Company acquired 1.22% equity interest in Guangzhou Bai Di held by individual shareholders at a consideration of RMB1.6 million. Upon the completion of the above acquisition, the contribution to Guangzhou Bai Di by the Company will amount to RMB129,600,000, representing 98.48% equity interest therein.
- (3) Connected Transactions

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

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

Major Events

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

(3) Connected Transactions *(Continued)*

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
Wang Lao Ji	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	1,503	0.09	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	384	0.02	Cash
Baiyunshan Co., Ltd	Fellow Ultimate holding company	Sales of products	Medicine or pharmaceutical products	Market price	25,859	1.13	Cash
Baiyunshan Ming Xing	Others	Sales of products	Medicine or pharmaceutical products	Market price	24,359	1.07	Cash
Baiyunshan Tian Xin	Others	Sales of products	Medicine or pharmaceutical products	Market price	1,974	0.09	Cash
Baiyunshan Guang Hua	Others	Sales of products	Medicine or pharmaceutical products	Market price	52,803	2.31	Cash
Pollan Company	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	804	0.03	Cash
Guangzhou Pharmaceutical Industrial Research Institute	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	542	0.02	Cash
Baiyunshan Hutchison Whampoa	Others	Sales of products	Medicine or pharmaceutical products	Market price	20,038	0.88	Cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	100,840	4.42	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	26,711	1.17	Cash
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	9	0.00	Cash
GPHL	Parent Company	Acceptance of patents, trademarks and other	Trademark rights	Agreement price	1,731	100.00	Cash
Wang Lao Ji	Joint venture	Acceptance of patents, trademarks and other	Trademark rights	Agreement price	7,463	100.00	Cash
Total					404,691	-	

Major Events

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

(3) Connected Transactions *(Continued)*

The above connected transactions were transactions carried out within the Group's ordinary operations, determined with reference to market prices, and were considered to have had not negative impact on the Group's continuous operations.

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

1 January – 30 June 2010

(RMB'000)

Ultimate holding company

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

Fellow subsidiaries

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

(4) During the Reporting Period, the Group did not have any non-operational provision of capital to/from its connected parties.

6. PROPERTIES UNDER DEVELOPMENT OR FOR SALE

During the Reporting Period, the Group did not have any contributions from its investment properties which accounted for more than 5% of the Group's operating profit before tax.

7. MAJOR CONTRACTS AND THEIR PERFORMANCE

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.

Save as the aforementioned, the Company was no other significant contracts during the Reporting Period.

8. GUARANTEES

Guarantees provided to parties other than the Company's subsidiaries

Guaranteed parties	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties (yes or no)
Nuo Cheng	2 July 2009	9,848	Joint and several liability guarantee	1 Year	No	Yes
	6 November 2009	9,848	Joint and several liability guarantee	1 Year	No	Yes
	6 January 2010	9,848	Joint and several liability guarantee	1 Year	No	Yes
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						9,848
Balance of guarantees as at the end of the Reporting Period (RMB'000)						29,544
The Company's guarantees provided to its subsidiaries						
Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)						65,000
Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)						125,000
The Group's guarantees (including those provided to the Company's subsidiaries)						
Total amount of guarantees provided (RMB'000)						154,544
Total amount of guarantees provided amount the net assets of the Group (%)						4.51
Including:						
Amount of guarantees provided to the Company's shareholders, controlling shareholder and other connected parties (RMB'000)						—
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)						120,000
Amount of guarantees provided which exceeds 50% of the total net assets of the Group (RMB'000)						—
Total amount of the above three types of guarantees (RMB'000)						120,000

Major Events

9. DURING THE REPORTING PERIOD, THE COMPANY WAS NOT ENGAGED IN ANY ENTRUSTED FUND MANAGEMENT ACTIVITIES.
10. 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.
11. 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	Period
					(share)	(RMB'000)	(%)	(RMB'000)
1	A Share of the Shanghai Stock Exchange	600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	1,174	22.20	(47)
2	A Share of the Shanghai Stock Exchange	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	4,115	77.80	4
	Other stock investments held as at the end of the Reporting Period			—	—	—	—	—
	Gain/(Loss) of stock investments sold as at the end of the Reporting Period			—	—	—	—	—
Total				5,511	280,356	5,289	100	(43)

Major Events

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

(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	439	—	1,818	29	(676)	Available-for-sale financial assets	Acquisition (note)

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

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	Gain/(Loss)	Changes in equity	Accounting item	Sources of shares
				value as at the end of the Reporting Period (RMB'000)	during the Reporting Period (RMB'000)	during the Reporting Period (RMB'000)		
China Everbright Bank Company Limited	10,725	6,050,000	approximate 0.02	10,725	—	—	Long-term equity investment	Acquisition
Golden Eagle Fund Management Co., Ltd.	20,000	—	20.00	11,531	(1,286)	—	Long-term equity investment	Acquisition

Major Events

12. 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.

13. 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.

14. THE AUDIT COMMITTEE OF THE FIFTH SESSION OF THE BOARD IS COMPRISED OF FIVE INDEPENDENT NON-EXECUTIVE DIRECTORS, ONE OF WHOM HAS APPROPRIATE PROFESSIONAL QUALIFICATION. THE AUDIT COMMITTEE OF THE COMPANY HAS REVIEWED THE ACCOUNTING POLICIES, ACCOUNTING STANDARDS AND TREATMENTS ADOPTED BY THE GROUP, AND DISCUSSED WITH THE MANAGEMENT ABOUT THE AUDIT, INTERNAL CONTROLS AND FINANCIAL REPORTING MATTERS. THE AUDIT COMMITTEE HAS ALSO REVIEWED THE UNAUDITED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2010.

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

16. 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.

17. DURING THE REPORTING PERIOD, THERE WAS NO OTHER SIGNIFICANT EVENTS OCCURRED WHICH MIGHT SIGNIFICANTLY AFFECT THE COMPANY.

Major Events

18. INDEX TO THE IMPORTANT INFORMATION DISCLOSED DURING THE REPORTING PERIOD:

Disclosed information	Newspaper	Date	Website and the link
Date of Board Meeting	/	10 March 2010	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Summary of 2009 annual report. Announcement of resolution passed at the eighteenth meeting of the fourth session of the Board and Announcement of resolution passed at the twelfth meeting of the fourth session of the Supervisory Committee	Page 147 to 148 of Shanghai Securities News	29 March 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	14 April 2010	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
2010 first quarterly report. Announcement of resolution passed at the nineteenth meeting of the fourth session of the Board and Change of joint company secretary	Page B24 of Shanghai Securities News	30 April 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the twentieth meeting of the fourth session of the Board. Announcement of resolution passed at the fourteenth meeting of the fourth session of the Supervisory Committee. Announcement of resignation of director and Notice of the 2009 annual general meeting	Page B28 of Shanghai Securities News	12 May 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 21st meeting of the fourth session of the Board and Announcement of further information on candidates for election as directors	Page 20 of Shanghai Securities News	24 May 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 22nd meeting of the fourth session of the Board and Supplemental notice of the 2009 annual general meeting	Page B19 of Shanghai Securities News	10 June 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 2009 annual general meeting. Announcement of resolution passed at the first meeting of the fifth session of the Board and Announcement of resolution passed at the first meeting of the fifth session of the Supervisory Committee	Page B36 of Shanghai Securities News	29 June 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of Annual General Meeting on payment of 2009 dividend	Page 21 of Shanghai Securities News	12 July 2010	http://www.sse.com.cn

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,177,084	1,226,498
Investment properties	5	225,987	190,981
Leasehold land and land use rights	5	92,149	93,251
Intangible assets	5	11,270	11,855
Investments in associates		12,062	18,222
Investments in jointly controlled entities		886,688	876,435
Available-for-sale financial assets		26,354	34,506
Deferred income tax assets		46,981	47,077
		2,478,575	2,498,825
Current assets			
Inventories		683,629	560,522
Trade and other receivables	6	787,169	650,678
Dividend receivable from jointly controlled entities		22,031	–
Financial assets at fair value through profit or loss		5,289	31,332
Tax recoverable		9,097	10,716
Restricted cash		18,332	29,549
Cash and cash equivalents		741,415	667,385
Non-current assets classified as held for sale		4,534	–
		2,271,496	1,950,182
Total assets		4,750,071	4,449,007
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	7	810,900	810,900
Share premium	7	781,134	781,134
Other reserves		1,022,364	1,024,061
Retained earnings			
– Proposed final dividend		–	40,545
– Others		964,580	793,362
		3,578,978	3,450,002
Non-controlling interests		116,601	113,664
Total equity		3,695,579	3,563,666

Condensed Consolidated Balance Sheet

	<i>Note</i>	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		56,611	55,833
Government grants		20,434	19,503
Employee benefits payables		5,192	13,629
		<u>82,237</u>	<u>88,965</u>
Current liabilities			
Trade and other payables	8	889,542	722,456
Dividend payables		40,659	65
Current income tax liabilities		14,649	10,485
Borrowings	9	27,405	63,370
		<u>972,255</u>	<u>796,376</u>
Total liabilities		<u>1,054,492</u>	<u>885,341</u>
Total equity and liabilities		<u>4,750,071</u>	<u>4,449,007</u>
Net current assets		<u>1,299,241</u>	<u>1,153,806</u>
Total assets less current liabilities		<u>3,777,816</u>	<u>3,652,631</u>

The notes on pages 42 to 57 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Income Statement

		Unaudited Six months ended 30 June	
	Note	2010 RMB'000	2009 RMB'000
Revenue	4	2,282,766	1,903,008
Cost of sales		<u>(1,667,490)</u>	<u>(1,437,096)</u>
Gross profit		615,276	465,912
Other income		48,575	53,574
Other gains – net		5,286	3,512
Other operating expenses		(2,125)	(4,611)
Selling and marketing costs		(299,264)	(266,070)
Administrative expenses		<u>(227,230)</u>	<u>(203,989)</u>
Operating profit	10	140,518	48,328
Finance income		2,709	3,008
Finance costs		(2,106)	(7,548)
Share of losses of associates		(1,297)	(1,687)
Share of profits of jointly controlled entities		<u>58,393</u>	<u>81,478</u>
Profit before income tax		198,217	123,579
Income tax expense	11	<u>(23,561)</u>	<u>(9,271)</u>
Profit for the period		<u>174,656</u>	<u>114,308</u>
Profit attributable to:			
– Shareholders of the Company		169,356	118,788
– Non-controlling interests		<u>5,300</u>	<u>(4,480)</u>
		<u>174,656</u>	<u>114,308</u>
Earnings per share for profit attributable to shareholders of the Company (expressed in RMB per share)			
– basic and diluted	12	<u>0.209</u>	<u>0.146</u>

The notes on pages 42 to 57 form an integral part of this condensed consolidated interim financial information.

		Unaudited Six months ended 30 June	
	Note	2010 RMB'000	2009 RMB'000
Dividends	13	<u>–</u>	<u>–</u>

Condensed Consolidated Statement of Comprehensive Income

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

The notes on pages 42 to 57 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Changes in Equity

Unaudited						
Attributable to shareholders of the Company						
	Share capital and premium	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2009	1,592,034	984,490	668,781	3,245,305	115,460	3,360,765
Total comprehensive income for the period ended 30 June 2009	-	5,496	120,650	126,146	(3,574)	122,572
Transactions with owners in their capacity as owners:						
Dividends relating to 2008	13	-	(32,436)	(32,436)	(1,143)	(33,579)
Others		(2)	(123)	(125)	125	-
Total transactions with owners		(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
Balance at 1 January 2010	1,592,034	1,024,061	833,907	3,450,002	113,664	3,563,666
Total comprehensive income for the period ended 30 June 2010	-	(618)	171,218	170,600	5,283	175,883
Transactions with owners in their capacity as owners:						
Dividends relating to 2009	13	-	(40,545)	(40,545)	(1,825)	(42,370)
Acquisition of additional interest in a subsidiary		(1,079)	-	(1,079)	(521)	(1,600)
Total transactions with owners		(1,079)	(40,545)	(41,624)	(2,346)	(43,970)
Balance at 30 June 2010	1,592,034	1,022,364	964,580	3,578,978	116,601	3,695,579

The notes on pages 42 to 57 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Cash Flow Statement

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Cash flows from operating activities		
Cash generated from operations	107,252	226,616
Income tax (paid)/received	(17,481)	18,483
	<u>89,771</u>	<u>245,099</u>
Cash flows from operating activities – net		
Cash flows from investing activities		
Acquisition of additional interests in a subsidiary	(1,600)	–
Purchase of property, plant and equipment	(38,288)	(31,831)
Advances received for non-current assets held for sales	9,387	–
Proceeds from sale of property, plant and equipment	116	242
Purchase of intangible assets and leasehold land	(251)	(392)
Purchase of available-for-sale financial assets	(170)	–
Dividends received from available-for-sale financial assets	29	–
Proceeds from disposal of associates	–	5,670
Interests received	3,075	7,920
Dividends received from jointly controlled entities	23,702	28,327
Loans granted to a jointly controlled entity	–	(62,660)
Loans repayment received from a jointly controlled entity	–	61,000
Purchase of investment in money market fund	(394,750)	(158,510)
Proceeds from investment in money market fund	420,750	158,510
	<u>22,000</u>	<u>8,276</u>
Cash flows from investing activities – net		
Cash flows from financing activities		
Proceeds from bank borrowings	10,000	124,280
Repayments of bank borrowings	(45,965)	(246,275)
Dividends paid to non-controlling interests	(1,776)	(1,539)
	<u>(37,741)</u>	<u>(123,534)</u>
Cash flows from financing activities – net		
Net increase in cash and cash equivalents	74,030	129,841
Cash and cash equivalents at beginning of the period	667,385	365,859
Exchange losses	–	(2)
	<u>741,415</u>	<u>495,698</u>
Cash and cash equivalents at end of the period		

The notes on pages 42 to 57 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, the wholesale, retail of Chinese raw medicine and the wholesale of other goods.

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 27 August 2010.

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

Notes to the Condensed Consolidated Interim Financial Information

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 2009, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Information

3 ACCOUNTING POLICIES *(Continued)*

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

Notes to the Condensed Consolidated Interim Financial Information

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 three reportable operating segments as follows:

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

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

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Information

4 SEGMENT INFORMATION (Continued)

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

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

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

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

Notes to the Condensed Consolidated Interim Financial Information

4 SEGMENT INFORMATION (Continued)

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

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

Notes to the Condensed Consolidated Interim Financial Information

4 SEGMENT INFORMATION (Continued)

A reconciliation of profit after tax is provided as follows:

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

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

Notes to the Condensed Consolidated Interim Financial Information

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

	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Leasehold land and land use rights <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
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

Six months ended 30 June 2010

Opening net book amount as at 1 January 2010	1,226,498	190,981	93,251	11,855
Additions	34,141	–	156	95
Transfer to investment properties	(24,448)	24,448	–	–
Fair value gains on investment properties initially transferred from property, plant and equipment – credited to equity	–	10,341	–	–
Change in fair value, recognised in “other gains – net”	–	217	–	–
Disposals	(1,042)	–	–	(35)
Transfer to “Non-current assets classified as held for sale”	(4,534)	–	–	–
Depreciation/amortisation	(53,531)	–	(1,258)	(645)
Closing net book amount as at 30 June 2010	1,177,084	225,987	92,149	11,270

Notes to the Condensed Consolidated Interim Financial Information

6 TRADE AND OTHER RECEIVABLES

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

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

7 SHARE CAPITAL AND PREMIUM

	As at 31 December 2009 and 30 June 2010	
	No. of shares (thousands)	Amount RMB'000
Share capital registered, issued and fully paid of RMB1 each		
H shares	219,900	219,900
A shares	591,000	591,000
	<hr/>	<hr/>
	810,900	810,900
	<hr/> <hr/>	<hr/> <hr/>
Share premium on issue of shares net of issuing expenses		781,134
		<hr/>
Total		1,592,034
		<hr/> <hr/>

Notes to the Condensed Consolidated Interim Financial Information

8 TRADE AND OTHER PAYABLES

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

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

9 BORROWINGS

	As at	
	30 June 2010 RMB'000	31 December 2009 RMB'000
Current	27,405	63,370

Movements in borrowings are analysed as follows:

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	<u>151,280</u>

Six months ended 30 June 2010

Opening amount as at 1 January 2010	63,370
Additions	10,000
Repayments of borrowings	(45,965)
Closing amount as at 30 June 2010	<u>27,405</u>

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

Notes to the Condensed Consolidated Interim Financial Information

9 BORROWINGS (Continued)

The Group has the following undrawn borrowing facilities:

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

10 OPERATING PROFIT

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

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

Notes to the Condensed Consolidated Interim Financial Information

11 INCOME TAX EXPENSE

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

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

12 EARNINGS PER SHARE

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

13 DIVIDENDS

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

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

14 CAPITAL COMMITMENTS

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

	As at	
	30 June 2010 <i>RMB'000</i>	31 December 2009 <i>RMB'000</i>
Property, plant and equipment		
Contracted but not provided for	17,711	14,344

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	
		2010	2009
		RMB’000	RMB’000
	<i>Note</i>		
Ultimate holding company			
License fee expenses	a	1,731	1,645
Welfare facilities fee expenses	b	180	133
Rental expenses	c	1,585	1,402
Jointly controlled entities			
Sales of goods	d	127,551	137,379
Purchases of goods	d	36,785	36,959
License fee income	e	7,463	7,716
Associates			
Advertising fee expenses	f	–	7,021
Subsidiaries of GZPHL and its related-parties			
Sales of goods	d	126,387	71,767
Purchases of goods	d	104,775	82,023
Other state-controlled entities			
Sales of goods	d	120,168	115,067
Purchases of goods	d	20,819	17,917
Purchases of machinery and equipment	d	–	41
Service fee expenses	h	14,141	10,749
		120,168	115,067
		20,819	17,917
		–	41
		14,141	10,749

Notes to the Condensed Consolidated Interim Financial Information

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 the Tenancy Agreement entered into by the Company and GZPHL on 1 November 2007, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices at a fixed annual rent plus utilities and other outgoings which are payable based on actual consumption. 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.

Notes to the Condensed Consolidated Interim Financial Information

15 RELATED-PARTY TRANSACTIONS *(Continued)*

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

- (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. Upon the Group's disposal of this associated company in January 2010, this company is no longer a related party of the Group.
- (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.

Notes to the Condensed Consolidated Interim Financial Information

15 RELATED-PARTY TRANSACTIONS *(Continued)*

(2) Provision of guarantee

The Group provided financial guarantee of RMB10,000,000 (Six months ended 30 June 2009: nil) to one of its jointly controlled entities to obtain bank loans.

(3) Key management compensation

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	881	750

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.