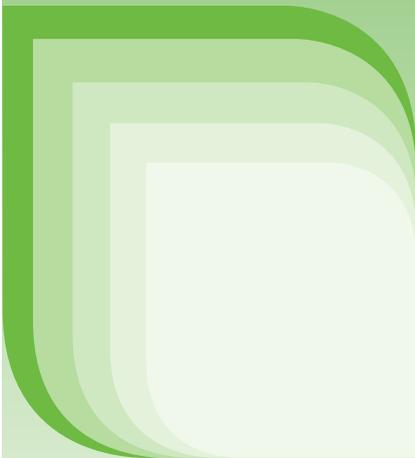




**廣州藥業股份有限公司**

Guangzhou Pharmaceutical Company Limited

(Stock code: 874)



INTERIM REPORT  
**2011**



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## Important Notice

1. The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”) of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) and its directors, supervisors and senior management collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this interim report and confirm that there are no false information, misleading statements or material omissions in this interim report.
2. Mr. Yang Rongming (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 2011 (the “Reporting Period”) are prepared in accordance with the accounting standards of the People’s Republic of China (the “PRC”) and 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 occur, the Chinese version shall prevail.

## 1. COMPANY PROFILE

1. Legal Chinese name: 廣州藥業股份有限公司  
Chinese name abbreviation: 廣州藥業  
English name: Guangzhou Pharmaceutical Company Limited  
English name abbreviation: GPC
2. Legal representative: Yang Rongming
3. Secretary of the Board: Pang Jianhui  
Representative of securities affairs: Huang Xuezhen  
Address: 45 Sha Mian North Street, Liwan District,  
Guangzhou City, Guangdong Province, the PRC  
Telephone: (8620) 8121 8119/8121 8120  
Fax: (8620) 8121 6408  
E-mail: pangjh@gpc.com.cn/huangxz@gpc.com.cn
4. 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](mailto:sec@gpc.com.cn)  
Principal place of business in Hong Kong: Room 2005, 20<sup>th</sup> Floor, Tower Two Lippo Center,  
89 Queensway, Hong Kong
5. Designated newspapers for information disclosure: Mainland China: Shanghai Securities News,  
Securities Times  
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



# Company Profile

## 1. COMPANY PROFILE *(Continued)*

6. 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.

## 2. PRINCIPAL FINANCIAL DATA AND INDICATORS

Items	As at 30 June 2011 <i>(Unaudited)</i>	As at 31 December 2010 <i>(Audited)</i>	Changes as compared with 31 December 2010 (%)
Total assets (RMB'000)	<b>4,873,779</b>	4,476,592	8.87
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	<b>3,675,623</b>	3,539,369	3.85
Net assets per share attributable to the shareholders of the Company (RMB)	<b>4.53</b>	4.36	3.85

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

Items	The Reporting Period <i>(Unaudited)</i>	The corresponding period of 2010 <i>(Unaudited)</i>	Changes as compared with the corresponding period of 2010 (%)
Operating profit (RMB'000)	<b>196,019</b>	187,981	4.28
Total profit (RMB'000)	<b>205,832</b>	197,571	4.18
Net profit attributable to the shareholders of the Company (RMB'000)	<b>179,621</b>	168,777	6.42
Net profit attributable to the shareholders of the Company after deducting non-recurring items (RMB'000)	<b>170,764</b>	156,467	9.14
Basic earnings per share (RMB)	<b>0.222</b>	0.208	6.42
Basic earnings per share after deducting non-recurring items (RMB)	<b>0.211</b>	0.193	9.14
Diluted earnings per share (RMB)	<b>0.222</b>	0.208	6.42
Fully diluted return on net assets ratio (%)	<b>4.89</b>	4.92	A decrease of 0.03 percentage point
Weighted average return on net assets ratio (%)	<b>4.95</b>	4.98	A decrease of 0.03 percentage point
Net cash flow from operating activities (RMB'000)	<b>17,304</b>	84,989	(79.64)
Net cash flow from operating activities per share (RMB)	<b>0.021</b>	0.105	(79.64)

*Notes:*

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



## Company Profile

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

Notes: *(Continued)*

(b) *(Continued)*

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

# 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 2011, there were 58,495 shareholders in total, among which, 58,460 shareholders holding the Renminbi-denominated domestic ordinary shares (A shares) and 35 shareholders holding the overseas listed foreign shares (H shares).
- (2) As at 30 June 2011, the top ten shareholders of the Company and their shareholdings were as follows:

Name of shareholders	Nature of shares	% of the total share capital (%)	Number of shares held as at the end of the Reporting Period (share)	Changes in the number of shares held during the Reporting Period (share)	Number of shares held with selling restrictions (share)	Number of pledged or frozen shares (share)
Guangzhou Pharmaceutical Holdings Limited ("GPHL")	Domestic shares	48.20	390,833,391	0	Nil	Nil
HKSCC Nominees Limited	Foreign capital shares	27.03	219,217,389	(18,090)	Nil	Unknown
Guangzhou Beicheng Rural Credit Cooperative	Domestic shares	1.08	8,742,000	(5,210,000)	Nil	Unknown
China Construction Bank-Intermediation Leading Growth Stock Securities Investment Fund	Domestic shares	0.45	3,679,908	3,679,908	Nil	Unknown
China Life Insurance Company Limited-Dividend-Individual bonus-005L-Shanghai FH002	Domestic shares	0.41	3,314,945	1,314,953	Nil	Unknown
Combination of the National Social Security Fund 108	Domestic shares	0.37	2,999,889	2,999,889	Nil	Unknown
Yinfeng Securities Investment Fund	Domestic shares	0.27	2,172,160	(119,820)	Nil	Unknown
Industrial and Commercial Bank of China-Bank of Communications Schroder Trends Preferred Stock Investment Fund	Domestic shares	0.26	2,099,913	2,099,913	Nil	Unknown
Tao Haian	Domestic shares	0.26	2,086,987	860,637	Nil	Unknown
China Growth Investment Fund	Domestic shares	0.22	1,809,533	1,809,533	Nil	Unknown

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) As at 30 June 2011, the interests and short positions (include equity derivatives) 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 %	Approximate %	Short Positions		Approximate %
		Number of shares held (share)	Capacity	of the total issued domestic shares (%)	of the total issued H shares (%)	Number of shares held (share)	Capacity	of the total issued H shares (%)
GPHL	Domestic shares	390,833,391	Beneficial owner	66.13	–	–	–	–
FIL Limited	H shares	30,486,000	Investment manager	–	13.86	–	–	–
Deutsche Bank Aktiengesellschaft	H shares	8,853,937	Beneficial owner	–	4.03	8,731,000 (Note)	Beneficial owner	3.97
		174,000	Investment manager	–	0.08	–	–	–
		9,176,000	Person having a security interest in shares	–	4.17	–	–	–

Note: Among which, 32,000 H shares are short positions of equity derivatives in the underlying shares of the Company, amounting to approximate 0.01% of the total issued H shares.

As far as the directors are aware, as at 30 June 2011, 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.



## Changes in Share Capital and Shareholdings of Major Shareholders

### 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 change
Yang Rongming	Chairman	Nil	Nil	Nil	/
Li Chuyuan	Vice chairman	Nil	Nil	Nil	/
Shi Shaobin	Executive director	Nil	Nil	Nil	/
Wu Changhai	Executive 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	/
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

- (a) As at 30 June 2011, 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 Issuer ("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:

#### Director

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 2011, 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. THERE IS NO APPOINTMENT OR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD.
  
3. AS AT THE END OF THE REPORTING PERIOD, THE NUMBER OF THE GROUP'S EMPLOYEES AMOUNTED TO 5,314. 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 2011 WAS APPROXIMATELY RMB 182 MILLION.

# Report of the Board of Directors

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

## 1. ANALYSIS OF OPERATING RESULTS

### (1) Operations review

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

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

A breakdown of the operational results of the overall and principal operations of the Group for the Reporting Period is set out as follows:

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

# 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		Profit margin of principal operations	
	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 (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of last year (Percentage point)
Overall operations	2,770,532	21.37	2,109,009	26.48	23.26	A decrease of 3.26 percentage points
Include: Manufacturing	1,302,296	19.98	736,096	32.50	42.30	A decrease of 5.71 percentage points
Trading	1,468,236	22.63	1,372,913	23.47	6.38	A decrease of 0.66 percentage point
Include: Pharmaceutical trading	1,037,991	20.38	947,391	21.54	8.57	A decrease of 0.91 percentage point
Other trading	430,245	28.41	425,522	27.99	1.09	An increase of 0.33 percentage point

Geographical analysis of sales arising from the operations of the Group for the first half of 2011 is set out as follows:

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



# Report of the Board of Directors

## 1. ANALYSIS OF OPERATING RESULTS *(Continued)*

### (2) The manufacturing operations

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

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

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

# Report of the Board of Directors

## 1. ANALYSIS OF OPERATING RESULTS (Continued)

### (2) The manufacturing operations (Continued)

An analysis of sales of 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 same period of last year (%)	Cost of principal operations (RMB'000)	Increase/(Decrease) over the same period of last year (%)	Profit margin of principal operations (%)	Increase/(Decrease) over the same period of last year (Percentage point)
Heat clearing and anti-toxic medicine	178,841	15.23	105,984	23.47	39.56	A decrease of 4.33 percentage points
Diabetes medicine	251,514	7.72	123,371	45.37	49.77	A decrease of 13.07 percentage points
Cough and phlegm clearing medicine	184,632	17.66	91,736	21.93	49.14	A decrease of 2.11 percentage points
Arthritis medicine	149,135	26.29	79,444	44.79	45.56	A decrease of 7.17 percentage points
Gastric medicine	53,221	44.86	26,139	53.68	49.71	A decrease of 3.19 percentage points
Other products	484,953	25.95	309,422	30.15	35.02	A decrease of 2.43 percentage points

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

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



# Report of the Board of Directors

## 1. ANALYSIS OF OPERATING RESULTS *(Continued)*

### (2) The manufacturing operations *(Continued)*

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

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

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

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

### (3) The trading operations

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

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

As at 30 June 2011, the Group had 52 retail chain pharmacy outlets, including 51 “Cai Zhi Lin” which specializes in traditional Chinese medicines, one pharmacy named Ying Bang.

# 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 operations (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
<b>(1) Subsidiaries</b>				
Xing Qun	88.99	140,097	8,520	7,723
Zhong Yi	100.00	377,828	47,074	40,043
Chen Li Ji	100.00	137,346	17,842	14,979
Qi Xing	75.00	198,299	16,560	13,685
Jing Xiu Tang	88.40	127,571	12,792	10,761
Pan Gao Shou	87.77	177,688	12,025	10,080
Guangxi Ying Kang Pharmaceutical Co., Ltd.	51.00	21,884	562	562
Guangzhou Bai Di Bio-technology Co., Ltd.	98.48	614	(7,691)	(7,691)
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. ("Guangzhou Han Fang")	97.04	52,791	(2,152)	(2,152)
Cai Zhi Lin Pharmaceutical Import & Export Co., Ltd.	100.00	888,468	6,781	6,708
	100.00	960,262	3,761	2,709
<b>(2) Branches</b>				
Ying Bang Branch Company	—	8,930	1,057	1,057
<b>(3) Joint ventures</b>				
Wang Lao Ji (Note a) Guangzhou Pharmaceuticals Corporation ("GP Corp.") (Note b)	48.05	1,089,170	111,888	102,601
	50.00	7,686,900	97,748	67,601
Guangzhou Nuo Cheng Bio-tech Co., Ltd. ("Nuo Cheng") (Note c)	approximate 50.00	23,416	(3,801)	(6,051)

# Report of the Board of Directors

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

Notes:

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

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

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

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

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

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

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

Except the above mentioned joint ventures, namely Wang Lao Ji and GP Corp., the Company did not derive an investment income from an 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

### (1) Changes in major accounting items

Items	30 June	31	Fluctuation	Reason of fluctuation
	2011	December		
	(RMB'000)	2010	(%)	
Financial assets held for trading	5,042	11,669	(56.80)	Decrease was mainly due to the Group had redeemed RMB 5,000,000 financial product in the Reporting Period.
Accounts receivable	478,449	331,183	44.47	Increase in accounts receivable was in line with the increase in sales, which was due to the effective marketing strategies and the expansion of market share in the Reporting Period.
Advances to suppliers	173,325	126,960	36.52	Increase was mainly due to the increased prepayments by trading subsidiaries for imports of raw materials and production equipment in the Reporting Period.
Other receivables	74,064	43,141	71.68	As at 30 June 2011, other receivables increased mainly due to the increased prepayments for advertising fee and the receivables of license fee.
Long-term equity investments	1,212,161	952,493	27.26	Increase was mainly due to the increased investment in joint controlled entity GP Corp. and associate Golden Eagle Fund Management Co., Ltd. ("Golden Eagle") of RMB 150,000,000 and RMB 30,000,000 respectively and the recognition of the investment income using the equity method.
Construction in progress	38,524	27,452	40.33	Increase was mainly due to the increased investment in technical renovation projects by the Group in the Reporting Period.
Deferred tax assets	55,739	41,627	33.90	Increase was mainly due to the increase in deductible temporary differences of employee benefits payable and accrued expense.
Short-term borrowings	84,419	38,868	117.19	Increase was mainly due to the increased bank loans, which were mainly for the expansion of sales and import and export trading business of the trading subsidiaries.

# Report of the Board of Directors

## 5. ANALYSIS OF FINANCIAL CONDITIONS *(Continued)*

### (1) Changes in major accounting items *(Continued)*

Items	30 June	31	Fluctuation	Reason of fluctuation
	2011	December		
	(RMB'000)	(RMB'000)	(%)	
Notes payable	42,129	76,326	(44.80)	Decrease was mainly due to the Group inclined to settle with suppliers at endorsement of notes receivables and cash and less notes payable was issued in the Reporting Period.
Accounts payable	376,675	264,375	42.48	Increase was mainly due to the longer credit term granted by suppliers in the Reporting Period.
Advances from customers	163,971	99,011	65.61	Increase was mainly due to the increased advances from customers for imports of raw materials and production equipment.
Employee benefits payable	89,765	61,259	46.53	As at 30 June 2011, increase in employee benefits payable was mainly due to the increased budget and the un-paid year-end bonus.
Dividends payable	40,844	114	35,809.98	As at 30 June 2011, increase was mainly due to the cash dividends of 2010 that had been declared but not paid.
Provisions	7,396	14,397	(48.63)	Decreased was due to the amortization of the transitional medical insurance.

# Report of the Board of Directors

## 5. ANALYSIS OF FINANCIAL CONDITIONS (Continued)

### (1) Changes in major accounting items (Continued)

Items	The Reporting Period (RMB'000)	The corresponding period of 2010 (RMB'000)	Fluctuation (%)	Notes
Revenue	2,817,341	2,321,989	21.33	Increase was mainly due to the effective marketing strategies and the expansion of market share in the Reporting Period.
Cost of sales	2,118,084	1,672,561	26.64	Increase in cost of sales was mainly due to the increase of sales and the rising prices of raw materials.
Tax and surcharges	23,036	14,243	61.74	Increase was mainly due to the increase in city maintenance and construction tax and education surcharge in the Reporting Period.
Selling and distribution expenses	344,384	285,020	20.83	The advertising fee, marketing expenses and other selling expenses increased due to the expansion of sales.
Asset impairment losses	1,523	3,716	(59.02)	Decrease was mainly due to the reversal of bad debt provision, which was due to the collection of related accounts receivable in the Reporting Period.
Profit arising from changes in fair value	(1,628)	(43)	(3,689.57)	Decrease was due to the decrease in the fair value of the listed shares Ha Yao held by the Company.
Investment income	84,276	60,874	38.44	Increase was mainly due to the increased investment income from the jointly controlled entities based on equity method, which were in line with the increased profit of the joint controlled entities.
Net cash flows from operating activities	17,304	84,989	(79.64)	Decrease was mainly due to the increased accounts receivable and the increase of taxes and charges incurred for imports and exports trading business in the Reporting Period.
Net cash flows from investing activities	(229,182)	27,527	(932.59)	Decrease was mainly due to the increased investment in joint controlled entity GP Corp. and associate Golden Eagle of RMB150,000,000 and RMB30,000,000 respectively.
Net cash flows from financing activities	42,888	(38,486)	211.44	Increase was mainly due to the increased bank loans, which were mainly for the expansion of sales and import and export trading business of the trading subsidiaries.



# Report of the Board of Directors

## 5. ANALYSIS OF FINANCIAL CONDITIONS *(Continued)*

### (2) Liquidity, Financial resources and Capital structure

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

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

As at 30 June 2011, the current liabilities of the Group amounted to RMB988,124,000, and its short-term borrowings were RMB84,419,000 (30 June 2010: RMB 27,405,000).

### (3) Capital expenditure

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

### (4) Exposure to fluctuations in exchange rates

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

### (5) Contingent liabilities

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

### (6) Charge on the Group's assets

As at 30 June 2011, the Group's has no charge on its assets.

### (7) Bank loans, overdraft and other borrowings

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

### (8) Gearing ratio

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



## Report of the Board of Directors

### 6. ISSUES AND DIFFICULTIES ENCOUNTERED IN OPERATIONS AND PLANS FOR THE SECOND HALF OF 2011

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

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

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

## 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, the Corporate Governance Guideline, 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 2010 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 2010 and prepared "The Self-assessment Report on Internal Control for 2010 from the Board of the Company" and "The Report on Fulfillment of Social Responsibilities for 2010", both of which were considered and passed at the Board meeting of the Company on 25 March 2011.
- (2) "The Implementation Work Plan for Regulation of Internal Control" (《內部控制規範實施工作方案》) is formulated according to requirements of the Basic Norms of Corporate Internal Control and its supporting guidelines issued by the five ministries under the Ministry of Finance, after taking the characteristics of the Group's business into account. "The Implementation Work Plan for Regulation of Internal Control" defined the framework of internal control process and reviewed the principal business processes. Through reviewing the processes in full, the Group timely discovered inadequacies and made improvements, and optimized the existing internal control system of the Group.

Since August 2011, the Group has commenced self-assessment on internal control in accordance with "The Implementation Work Plan for Regulation of Internal Control".

- (3) The Company made amendments to the relevant provisions of the "Articles of Association", and formulated "The Working Rules for Secretary of the Board of Guangzhou Pharmaceutical Company Limited", which confirmed the responsibilities and permissions of the secretary of the Board. Such amendments of the "Articles of Association" and "The Working Rules for Secretary of the Board of Guangzhou Pharmaceutical Company Limited" were considered and duly passed at the Board meeting of the Company held on 25 March 2011, the Board meeting of the Company on 21 June 2011 and the 2010 annual general meeting held on 21 June 2011 respectively.



## Major Events

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

- (1) Pursuant to the resolutions on profit and dividend distribution passed at the 2010 annual general meeting held on 21 June 2011, 2010 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 as at the end of 2010;
- (2) The final dividend of RMB0.05 (including tax) per share for 2010 was paid to the Company's H shareholders whose names appeared on the register of the Company as at 20 May 2011 on 12 August 2011;
- (3) According to the announcement for 2010 final dividend published in Shanghai Securities News in the PRC on 11 July 2011, the registration date for A shares was 14 July 2011, the ex-dividend date was 15 July 2011 and the dividend payment date was 12 August 2011;
- (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 2011 nor propose any increase in share capital from the capitalization of capital reserve.

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

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

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

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

## Major Events

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

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

(3) Connected transactions

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 transaction (%)	Settlement method of connected transactions
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Purchase of products	Medicine or pharmaceutical products	Market price	59,248	2.89	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	204	0.01	Cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	137	0.01	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	64,632	3.16	Cash
Polian Development Co., Ltd.	Fellow parent company	Purchase of products	Medicine or pharmaceutical products	Market price	58,104	2.84	Cash
Guangzhou Baiyunshan Hutchison Qhampoa Chinese Medicine Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	630	0.03	Cash
GP Corp.	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	39,335	1.92	Cash
Wang Lao Ji	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	1,955	0.10	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	40	0.00	Cash
Sub-total					224,285	10.96	
GPHL	Parent company	Sales of products	Medicine or pharmaceutical products	Market price	61	0.00	Cash
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Sales of products	Medicine or pharmaceutical products	Market price	23,579	0.85	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	25,436	0.92	Cash

## 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 transaction (%)	Settlement method of connected transactions
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	1,453	0.05	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	73,245	2.64	Cash
Pollan Development Co., Ltd.	Fellow parent company	Sales of products	Medicine or pharmaceutical products	Market price	978	0.04	Cash
Guangzhou Pharmaceutical Industrial Research Institute	Fellow parent company	Sales of products	Medicine or pharmaceutical products	Market price	8	0.00	Cash
Guangzhou Baiyunshan Hutchison Qhampo Chinese Medicine Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	21,973	0.79	Cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	131,089	4.73	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	35,885	1.30	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	1,750	0.06	Cash
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	4	0.00	Cash
Sub-total					315,461	11.38	
GPHL	Parent company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	3,219	100.00	Cash
Wang Lao Ji	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	9,786	100.00	Cash
GPHL	Parent company	Others	Rental assets	Agreement price	1,421	13.24	Cash
GPHL	Parent company	Others	Accommodation fees of employees	Agreement price	187	100.00	Cash
<b>Total</b>					<b>554,359</b>		

## 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.

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

### 6. PROJECTS UNDER DEVELOPMENT AND FOR SALE

During the Reporting Period, contributions from the investment properties of the Group accounted for more than 5% of the Group's operating profit before tax. Particulars of the more significant properties are listed as follows:

The lessor	Rental property	Amount involved of the rental property	Commencing date of leasing	Closing date of leasing	Gain from leasing (RMB'000)	Reference of derermination of gains from leasing	Impact of gains from leasing on the Company	Whether a connected transaction	Connected relation
Chen Li Ji	Yin Zuo Plaza	The net amount of investment property as at 30 June 2011 was RMB4,481,000	1 January 2009	31 December 2013	9,558	Contract	4.64% of profit of the Group	No	N/A

### 7. MAJOR CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Company did not hold on trust or sub-contract any assets of other companies or vice versa, which generated profit that accounted for 10% or more of the total profits for the Reporting Period.

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

# Major Events

## 8. GUARANTEES

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

Guaranteed parties	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties (yes or no)
Nuo Cheng	23 June 2010	19,696	Joint and several liability	1 year	No	Yes
	1 July 2010	29,544	Joint and several liability	1 year	No	Yes
	6 August 2010	9,848	Joint and several liability	1 year	No	Yes
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						—
Balance of guarantees as at the end of the Reporting Period (RMB'000)						59,088

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

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)	55,000
Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)	115,000

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

Total amount of guarantees provided (RMB'000)	174,088
Total amount of guarantees provided amount the net assets of the Group (%)	4.74
<b>Including:</b>	
Amount of guarantees provided to the Company's shareholders, controlling shareholder and other connected parties (RMB'000)	—
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)	174,088
Amount of guarantees provided which exceeds 50% of the total net assets of the Group (RMB'000)	—
Total amount of the above three types of guarantees (RMB'000)	174,088

## Major Events

### 9. DURING THE REPORTING PERIOD, THE GROUP WAS NOT ENGAGED IN ANY ENTRUSTED FUND MANAGEMENT ACTIVITIES

### 10. ENTRUSTED LOANS OF THE GROUP DURING THE REPORTING PERIOD

As at 30 June 2011, the aggregate amount of entrusted loans provided by the Company to its subsidiaries were RMB228,000,000.

Borrowers name	Loan amount (RMB'000)	Loan period	Loan interest rate	Whether the overdue loan	Whether a connected transaction	Connection with the Company
Guangzhou Han Fang	30,000	1 year	4.25%	No	No	Subsidiary of the Company
Cai Zhi Lin	30,000	1 year	4.25%	No	No	Wholly-owned subsidiary of the Company
Cai Zhi Lin	63,000	1 year	4.45%	No	No	Wholly-owned subsidiary of the Company
Cai Zhi Lin	15,000	1 year	4.65%	No	No	Wholly-owned subsidiary of the Company
Cai Zhi Lin	90,000	1 year	5.68%	No	No	Wholly-owned subsidiary of the Company
<b>Total</b>	<b>228,000</b>					

### 11. 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.

# Major Events

## 12. INFORMATION ON THE COMPANY'S INTERESTS IN SHARES OF OTHER LISTED COMPANIES

### (1) Stock Investments

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

### (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 as at the end of the Reporting Period	Gain/(Loss) during the Reporting Period	Changes in equity during the Reporting Period	Accounting item	Sources of shares
				Period (RMB'000)	Period (RMB'000)	Period (RMB'000)		
601328	Bank of Communication	439	—	1,675	—	15	Available-for-sale financial assets	Acquisition
601818	Everbright Bank	10,725	approximately 0.02	20,268	672	(2,768)	Available-for-sale financial assets	Acquisition

### (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 as at the end of the Reporting Period	Gain/(Loss) during the Reporting Period	Changes in equity during the Reporting Period	Accounting item	Sources of shares
				Period (RMB'000)	Period (RMB'000)	Period (RMB'000)		
Golden Eagle	50,000	—	20.00	40,796	3,616	—	Long-term equity investment	Acquisition



## Major Events

### 13. 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.

### 14. 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.

### 15. THE AUDIT COMMITTEE OF THE FIFTH SESSION OF THE BOARD IS COMPRISED OF FIVE INDEPENDENT NON-EXECUTIVE DIRECTORS, ONE OF WHOM HAS APPROPRIATE PROFESSIONAL QUALIFICATION. THE AUDIT COMMITTEE OF THE COMPANY HAS REVIEWED THE ACCOUNTING POLICIES, ACCOUNTING STANDARDS AND TREATMENTS ADOPTED BY THE GROUP, AND DISCUSSED WITH THE MANAGEMENT ABOUT THE AUDIT, INTERNAL CONTROLS AND FINANCIAL REPORTING MATTERS. THE AUDIT COMMITTEE HAS ALSO REVIEWED THE UNAUDITED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2011.

### 16. THE FINANCIAL REPORTS FOR THE REPORTING PERIOD OF THE COMPANY WERE UNAUDITED.

### 17. ACCORDING TO THE AMENDMENTS OF THE LISTING RULES ON HKEX, THE MAINLAND INCORPORATED ISSUERS LISTED IN HONG KONG ARE PERMITTED TO ADOPT THE PRC ACCOUNTING STANDARDS FOR THE PREPARATION OF THEIR FINANCIAL STATEMENTS, AND THE MAINLAND ACCOUNTING FIRMS APPROVED BY THE PRC’S MINISTRY OF FINANCE AND CHINA SECURITIES REGULATORY COMMISSION ARE PERMITTED TO ADOPT PRC AUDITING STANDARDS WHEN PROVIDING AUDITING SERVICES TO THESE ISSUERS. ACCORDINGLY, AS APPROVED BY THE 2010 ANNUAL GENERAL MEETING, THE COMPANY DID NOT RE-APPOINT SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD. AND PRICEWATERHOUSECOOPERS AS THE AUDITORS OF THE COMPANY FOR THE YEAR 2011. PRICEWATERHOUSECOOPERS ZHONG TIAN CPAS LIMITED COMPANY WAS APPOINTED AS THE AUDITOR OF THE COMPANY FOR THE YEAR 2011.

## Major Events

18. 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.
19. DURING THE REPORTING PERIOD, THERE WAS NO OTHER SIGNIFICANT EVENTS OCCURRED WHICH MIGHT SIGNIFICANTLY AFFECT THE COMPANY.
20. INDEX TO THE IMPORTANT INFORMATION DISCLOSED DURING THE REPORTING PERIOD:

Disclosed information	Newspaper	Date	Website and the link
Unusual fluctuations in trading of A shares	Page B32 of Shanghai Securities News	6 January 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>
Announcement	Page B32 of Shanghai Securities News	4 March 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>
Date of Board Meeting	/	9 March 2011	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>
Change of authorized representative	/	18 March 2011	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>
Summary of 2010 annual report, Announcement of resolution passed at the 6 <sup>th</sup> meeting of the fifth session of the Board and Announcement of resolution passed at the 4 <sup>th</sup> meeting of the fifth session of the Supervisory Committee	Page 159 – 160 of Shanghai Securities News	28 March 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>
Date of Board Meeting	/	13 April 2011	<a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>
2011 first quarterly report and Announcement of resolution passed at the 7 <sup>th</sup> meeting of the fifth session of the Board	Page B128 of Shanghai Securities News	29 April 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>
Notice of the 2010 annual general meeting	Page B36 of Shanghai Securities News	4 May 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>
Announcement of resolution passed at the 2010 annual general meeting	Page B25 of Shanghai Securities News	22 June 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>
Announcement	Page B30 of Shanghai Securities News	29 June 2011	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> <a href="http://www.equitynet.com.hk/0874/">http://www.equitynet.com.hk/0874/</a>

# Consolidated Balance Sheet

As at 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

<b>ASSETS</b>	<i>Note</i>	<b>30 June 2011 (Unaudited)</b>	31 December 2010 (Audited)
<b>Current assets</b>			
Cash at bank and on hand	5(1)	<b>562,273,955.54</b>	707,396,997.50
Financial assets held for trading	5(2)	<b>5,041,545.90</b>	11,669,292.02
Notes receivable	5(3)	<b>241,329,638.88</b>	200,470,880.49
Accounts receivable	5(4)	<b>478,448,919.74</b>	331,182,885.42
Advances to suppliers	5(6)	<b>173,324,875.76</b>	126,959,980.73
Interest receivable		-	-
Dividends receivable		-	-
Other receivables	5(5)	<b>74,064,296.45</b>	43,140,903.17
Inventories	5(7)	<b>797,119,565.39</b>	755,055,590.28
Current portion of non-current assets		-	-
Other current assets		-	-
<b>Total current assets</b>		<b>2,331,602,797.66</b>	2,175,876,529.61
<b>Non-current assets</b>			
Available-for-sale financial assets	5(8)	<b>21,942,890.18</b>	25,615,245.16
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments	5(10)	<b>1,212,161,361.21</b>	952,492,546.46
Investment properties	5(11)	<b>105,409,220.65</b>	108,517,274.59
Fixed assets	5(12)	<b>1,004,947,126.70</b>	1,040,084,682.18
Construction in progress	5(13)	<b>38,524,048.55</b>	27,452,013.77
Construction materials		-	-
Fixed assets pending for disposal		-	-
Intangible assets	5(14)	<b>95,637,675.99</b>	96,963,070.09
Development costs	5(15)	<b>1,126,763.15</b>	996,251.69
Goodwill		-	-
Long-term prepaid expenses	5(16)	<b>6,688,617.03</b>	6,967,625.69
Deferred tax assets	5(17)	<b>55,738,798.21</b>	41,627,089.31
Other non-current assets		-	-
<b>Total non-current assets</b>		<b>2,542,176,501.67</b>	2,300,715,798.94
<b>TOTAL ASSETS</b>		<b>4,873,779,299.33</b>	4,476,592,328.55

# Consolidated Balance Sheet

As at 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<i>Note</i>	<b>30 June 2011 (Unaudited)</b>	31 December 2010 (Audited)
<b>Current liabilities</b>			
Short-term borrowings	5(19)	<b>84,419,046.08</b>	38,867,878.83
Financial liabilities held for trading		-	-
Notes payable	5(20)	<b>42,128,745.98</b>	76,326,446.93
Accounts payable	5(21)	<b>376,674,638.11</b>	264,375,227.56
Advances from customers	5(22)	<b>163,970,765.80</b>	99,011,229.83
Employee benefits payable	5(23)	<b>89,765,483.63</b>	61,258,810.66
Taxes payable	5(24)	<b>50,692,853.44</b>	44,924,602.21
Interest payable		-	-
Dividends payable	5(25)	<b>40,843,905.59</b>	113,739.69
Other payables	5(26)	<b>139,628,362.03</b>	129,248,607.08
Current portion of non-current liabilities		-	-
Other current liabilities		-	-
<b>Total current liabilities</b>		<b>988,123,800.66</b>	714,126,542.79
<b>Non-current liabilities</b>			
Long-term borrowings		-	-
Debentures payable		-	-
Long-term payables	5(27)	<b>4,423,405.56</b>	4,423,405.56
Payables for specific projects		-	-
Provisions	5(28)	<b>7,395,889.00</b>	14,396,857.57
Deferred tax liabilities	5(17)	<b>4,580,364.83</b>	5,822,215.05
Other non-current liabilities	5(29)	<b>86,676,634.70</b>	96,283,137.99
<b>Total non-current liabilities</b>		<b>103,076,294.09</b>	120,925,616.17
<b>Total liabilities</b>		<b>1,091,200,094.75</b>	835,052,158.96

# Consolidated Balance Sheet

As at 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<i>Note</i>	<b>30 June 2011 (Unaudited)</b>	31 December 2010 (Audited)
<b>Shareholders' equity</b>			
Share capital	5(30)	<b>810,900,000.00</b>	810,900,000.00
Capital surplus	5(31)	<b>1,149,897,626.79</b>	1,152,720,122.24
Less: Treasury share		-	-
Surplus reserve	5(32)	<b>578,042,160.61</b>	578,042,160.61
Undistributed profits	5(33)	<b>1,136,783,136.87</b>	997,707,102.24
Difference on translation of foreign currency financial statements		-	-
<b>Total equity attributable to shareholders of the Company</b>		<b>3,675,622,924.27</b>	3,539,369,385.09
<b>Minority interest</b>	5(34)	<b>106,956,280.31</b>	102,170,784.50
<b>Total shareholders' equity</b>		<b>3,782,579,204.58</b>	3,641,540,169.59
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>4,873,779,299.33</b>	4,476,592,328.55

The accompanying notes form an integral part of these financial statements.

Legal  
representative:  
**Yang Rongming**

Person in charge of  
accounting function:  
**Chen Binghua**

Person in charge of  
accounting department:  
**Chen Binghua**

# Consolidated Income Statement

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (Unaudited)
<b>1. Revenue</b>	5(35)	<b>2,817,341,310.57</b>	2,321,989,239.98
Less: Cost of sales	5(35)	<b>2,118,084,469.11</b>	1,672,561,146.62
Taxes and surcharges	5(36)	<b>23,035,776.44</b>	14,242,767.04
Selling and distribution expenses	5(37)	<b>344,383,899.28</b>	285,019,926.13
General and administrative expenses	5(38)	<b>217,761,830.02</b>	219,902,567.53
Financial expenses	5(39)	<b>(817,547.88)</b>	(603,465.34)
Asset impairment losses	5(40)	<b>1,522,853.30</b>	3,716,355.40
Add: Profit arising from changes in fair value	5(41)	<b>(1,627,746.12)</b>	(42,953.28)
Investment income	5(42)	<b>84,276,497.58</b>	60,874,294.59
Including: Share of profit of associates and jointly controlled entities		<b>83,610,963.02</b>	57,091,006.32
<b>2. Operating profit</b>		<b>196,018,781.76</b>	187,981,283.91
Add: Non-operating income	5(43)	<b>11,097,827.09</b>	10,842,323.91
Less: Non-operating expenses	5(44)	<b>1,284,381.05</b>	1,252,696.27
Including: Losses on disposal of non-current assets		<b>255,084.29</b>	91,826.56
<b>3. Total profit</b>		<b>205,832,227.80</b>	197,570,911.55
Less: Income tax expenses	5(45)	<b>19,246,389.72</b>	23,431,638.47
<b>4. Net profit</b>		<b>186,585,838.08</b>	174,139,273.08
(1) Attributable to shareholders of the Company		<b>179,621,034.63</b>	168,777,340.55
(2) Minority interest		<b>6,964,803.45</b>	5,361,932.53
<b>5. Earnings per share</b>			
(1) Basic earnings per share	5(46)	<b>0.222</b>	0.208
(2) Diluted earnings per share	5(46)	<b>0.222</b>	0.208
<b>6. Other comprehensive income</b>	5(47)	<b>(2,822,117.28)</b>	(909,367.61)
<b>7. Total comprehensive income</b>		<b>183,763,720.80</b>	173,229,905.47
(1) Attributable to shareholders of the Company		<b>176,798,539.18</b>	167,885,105.22
(2) Minority interest		<b>6,965,181.62</b>	5,344,800.25

The accompanying notes form an integral part of these financial statements.

Legal representative:  
**Yang Rongming**

Person in charge of accounting function:  
**Chen Binghua**

Person in charge of accounting department:  
**Chen Binghua**

# Consolidated Cash Flow Statement

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (Unaudited)
<b>1. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		<b>3,093,351,935.36</b>	2,451,689,931.19
Refund of taxes and surcharges		<b>16,318,911.01</b>	5,969,958.31
Cash received relating to other operating activities	5(48)(a)	<b>54,400,365.86</b>	67,244,489.14
<b>Sub-total of cash inflows</b>		<b>3,164,071,212.23</b>	2,524,904,378.64
Cash paid for goods and services		<b>2,320,076,762.29</b>	1,784,883,889.65
Cash paid to and on behalf of employees		<b>369,184,710.85</b>	318,118,020.62
Payments of taxes and surcharges		<b>223,634,082.38</b>	160,057,553.80
Cash paid relating to other operating activities	5(48)(b)	<b>233,871,489.42</b>	176,856,009.07
<b>Sub-total of cash outflows</b>		<b>3,146,767,044.94</b>	2,439,915,473.14
<b>Net cash flows from operating activities</b>	5(49)(a)	<b>17,304,167.29</b>	84,988,905.50
<b>2. Cash flows from investing activities</b>			
Cash received from disposal of investments		<b>5,000,000.00</b>	26,000,000.00
Net cash received from disposal of subsidiaries		-	-
Cash received from returns on investments		<b>979,290.88</b>	24,097,325.16
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>57,400.00</b>	9,503,172.42
Cash received relating to other investing activities	5(48)(c)	<b>532,009.35</b>	11,496,054.03
<b>Sub-total of cash inflows</b>		<b>6,568,700.23</b>	71,096,551.61
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>30,021,352.00</b>	38,538,713.04
Cash paid to acquire investments		<b>180,000,000.00</b>	1,769,117.00
Net cash paid to acquire subsidiaries		-	-
Cash paid relating to other investing activities	5(48)(d)	<b>25,729,814.80</b>	3,262,145.71
<b>Sub-total of cash outflows</b>		<b>235,751,166.80</b>	43,569,975.75
<b>Net cash flows from investing activities</b>		<b>(229,182,466.57)</b>	27,526,575.86

# Consolidated Cash Flow Statement

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (Unaudited)
<b>3. Cash flows from financing activities</b>			
Cash received from capital contributions		-	-
Including: Cash received from capital contributions by minority shareholders of subsidiaries		-	-
Cash received from borrowings		<b>75,551,167.25</b>	30,000,000.00
Cash received relating to other financing activities		-	-
<b>Sub-total of cash inflows</b>		<b>75,551,167.25</b>	30,000,000.00
Cash repayments of borrowings		<b>30,000,000.00</b>	65,964,689.37
Cash payments for interest expenses and distribution of dividends or profits		<b>2,663,523.92</b>	2,521,164.32
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		<b>1,994,327.21</b>	1,775,059.78
Cash payments relating to other financing activities		-	-
<b>Sub-total of cash outflows</b>		<b>32,663,523.92</b>	68,485,853.69
<b>Net cash flows from financing activities</b>		<b>42,887,643.33</b>	(38,485,853.69)
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		<b>(49,953.26)</b>	-
<b>5. Net (decrease)/increase in cash and cash equivalents</b>			
	5(49)(a)	<b>(169,040,609.21)</b>	74,029,627.67
Add: Cash and cash equivalents at beginning of year	5(49)(a)	<b>696,347,134.34</b>	667,385,437.68
<b>6. Cash and cash equivalent at end of period</b>			
	5(49)(b)	<b>527,306,525.13</b>	741,415,065.35

The accompanying notes form an integral part of these financial statements.

Legal  
representative:  
**Yang Rongming**

Person in charge of  
accounting function:  
**Chen Binghua**

Person in charge of  
accounting department:  
**Chen Binghua**

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

	Attributable to shareholders of the Company							Total shareholders' equity	
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Others		
<b>1. Balance at 31 December 2010</b>									
<b>(Audited)</b>	810,900,000.00	1,152,720,122.24	-	578,042,160.61	-	997,707,102.24	-	102,170,784.50	3,641,540,169.59
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-
<b>2. Balance at 1 January 2011</b>	810,900,000.00	1,152,720,122.24	-	578,042,160.61	-	997,707,102.24	-	102,170,784.50	3,641,540,169.59
<b>3. Movements for the six months ended 30 June 2011</b>									
(1) Net profit	-	(2,822,495.45)	-	-	-	139,076,034.63	-	4,785,495.81	141,039,034.99
(2) Other comprehensive income	-	-	-	-	-	179,621,034.63	-	6,964,803.45	186,585,838.08
Subtotal of items (1) and (2)	-	(2,822,495.45)	-	-	-	179,621,034.63	-	378.17	(2,822,117.28)
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-	-	-	-
Capital contribution by the shareholders	-	-	-	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	-	(40,545,000.00)	-	(2,179,685.81)	(42,724,685.81)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	(40,545,000.00)	-	(2,179,685.81)	(42,724,685.81)
Others	-	-	-	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
<b>4. Balance at 30 June 2011</b>									
<b>(Unaudited)</b>	810,900,000.00	1,149,897,626.79	-	578,042,160.61	-	1,136,783,136.87	-	106,956,280.31	3,782,579,204.58

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

	Attributable to shareholders of the Company							Total shareholders' equity	
	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	General risk provision	Undistributed profits	Others		Minority interest
<b>1. Balance at 31 December 2009</b>									
(Audited)	810,900,000.00	1,144,082,619.28	-	556,609,177.06	-	792,594,656.13	-	97,389,005.67	3,401,575,458.14
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-
<b>2. Balance at 1 January 2010</b>	810,900,000.00	1,144,082,619.28	-	556,609,177.06	-	792,594,656.13	-	97,389,005.67	3,401,575,458.14
<b>3. Movements for the six months ended 30 June 2010</b>									
(1) Net profit	-	(1,970,957.84)	-	-	-	128,232,340.55	-	2,998,875.12	129,260,257.83
(2) Other comprehensive income	-	(892,235.33)	-	-	-	-	-	(17,132.28)	(909,367.61)
Subtotal of items (1) and (2)	-	(892,235.33)	-	-	-	168,777,340.55	-	5,344,800.25	173,229,905.47
(3) Capital contribution and withdrawal by shareholders	-	(1,078,722.51)	-	-	-	-	-	(521,277.49)	(1,600,000.00)
Capital contribution by the shareholders	-	-	-	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	(1,078,722.51)	-	-	-	-	-	(521,277.49)	(1,600,000.00)
(4) Profit distribution	-	-	-	-	-	(40,545,000.00)	-	(1,824,647.64)	(42,369,647.64)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	(40,545,000.00)	-	(1,824,647.64)	(42,369,647.64)
Others	-	-	-	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
<b>4. Balance at 30 June 2010</b>									
(Unaudited)	810,900,000.00	1,142,111,661.44	-	556,609,177.06	-	920,826,996.68	-	100,387,880.79	3,530,835,715.97

The accompanying notes form an integral part of these financial statements.

Legal representative:  
**Yang Rongming**

Person in charge of accounting function:  
**Chen Binghua**

Person in charge of accounting department:  
**Chen Binghua**

## Balance Sheet

As at 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

<b>ASSETS</b>	<i>Note</i>	<b>30 June 2011 (Unaudited)</b>	31 December 2010 (Audited)
<b>Current assets</b>			
Cash at bank and on hand		<b>91,532,756.45</b>	213,007,698.60
Financial assets held for trading		<b>5,041,545.90</b>	6,669,292.02
Notes receivable		–	5,609,282.66
Accounts receivable	15(1)	<b>3,667,655.02</b>	9,733,387.79
Advances to suppliers		<b>96,159.36</b>	–
Interest receivable		–	–
Dividends receivable		<b>163,290,104.05</b>	73,448,099.44
Other receivables	15(2)	<b>484,794,859.85</b>	436,817,367.74
Inventories		<b>460,017.37</b>	132,488.56
Entrusted loan		<b>228,000,000.00</b>	233,000,000.00
Current portion of non-current assets		–	–
Other current assets		–	–
<b>Total current assets</b>		<b>976,883,098.00</b>	978,417,616.81
<b>Non-current assets</b>			
Available-for-sale financial assets		<b>20,267,500.00</b>	23,958,000.00
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	15(3)	<b>2,408,013,322.33</b>	2,145,413,498.40
Investment properties		<b>36,792,120.67</b>	37,463,208.95
Fixed assets		<b>14,492,035.45</b>	14,569,977.14
Construction in progress		–	–
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		–	–
Development costs		–	–
Goodwill		–	–
Long-term prepaid expenses		–	–
Deferred tax assets		<b>2,048,879.12</b>	1,777,407.75
Other non-current assets		–	–
<b>Total non-current assets</b>		<b>2,481,613,857.57</b>	2,223,182,092.24
<b>TOTAL ASSETS</b>		<b>3,458,496,955.57</b>	3,201,599,709.05

# Balance Sheet

As at 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<i>Note</i>	<b>30 June 2011 (Unaudited)</b>	31 December 2010 (Audited)
<b>Current liabilities</b>			
Short-term borrowings		–	30,000,000.00
Financial liabilities held for trading		–	–
Notes payable		–	–
Accounts payable		<b>988,558.92</b>	511,104.98
Advances from customers		<b>36,585.69</b>	56,508.19
Employee benefits payable		<b>1,621,871.86</b>	3,566,497.59
Taxes payable		<b>3,742,729.11</b>	5,851,655.08
Interest payable		–	–
Dividends payable		<b>40,544,078.70</b>	(728.60)
Other payables		<b>108,113,839.70</b>	11,131,124.40
Current portion of non-current liabilities		–	–
Other current liabilities		–	–
<b>Total current liabilities</b>		<b>155,047,663.98</b>	51,116,161.64
<b>Non-current liabilities</b>			
Long-term borrowings		–	–
Debentures payable		–	–
Long-term payables		–	–
Payables for specific projects		–	–
Provisions		<b>44,304.01</b>	73,633.45
Deferred tax liabilities		<b>3,841,135.89</b>	5,044,811.04
Other non-current liabilities		–	–
<b>Total non-current liabilities</b>		<b>3,885,439.90</b>	5,118,444.49
<b>Total liabilities</b>		<b>158,933,103.88</b>	56,234,606.13

## Balance Sheet

As at 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<i>Note</i>	<b>30 June 2011 (Unaudited)</b>	31 December 2010 (Audited)
<b>Shareholders' equity</b>			
Share capital		<b>810,900,000.00</b>	810,900,000.00
Capital surplus		<b>1,096,861,496.85</b>	1,099,698,769.68
Less: Treasury share		-	-
Surplus reserve		<b>244,907,696.78</b>	244,907,696.78
Undistributed profits		<b>1,146,894,658.06</b>	989,858,636.46
Difference on translation of foreign currency financial statements		-	-
<b>Total shareholders' equity</b>		<b><u>3,299,563,851.69</u></b>	<u>3,145,365,102.92</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b><u><u>3,458,496,955.57</u></u></b>	<u><u>3,201,599,709.05</u></u>

The accompanying notes form an integral part of these financial statements.

Legal  
representative:  
**Yang Rongming**

Person in charge of  
accounting function:  
**Chen Binghua**

Person in charge of  
accounting department:  
**Chen Binghua**



# Cash Flow Statement

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (Unaudited)
<b>1. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		<b>28,320,483.53</b>	572,854,268.23
Refund of taxes and surcharges		-	590,576.94
Cash received relating to other operating activities		<b>8,783,058.81</b>	13,111,431.60
<b>Sub-total of cash inflows</b>		<b>37,103,542.34</b>	586,556,276.77
Cash paid for goods and services		<b>16,231,704.21</b>	549,710,634.13
Cash paid to and on behalf of employees		<b>6,239,817.88</b>	10,095,434.03
Payments of taxes and surcharges		<b>8,403,776.46</b>	9,437,968.61
Cash paid relating to other operating activities		<b>13,050,492.79</b>	9,145,897.29
<b>Sub-total of cash outflows</b>		<b>43,925,791.34</b>	578,389,934.06
<b>Net cash flows from operating activities</b>	15(6)	<b>(6,822,249.00)</b>	8,166,342.71
<b>2. Cash flows from investing activities</b>			
Cash received from disposal of investments		-	6,000,000.00
Net cash received from disposal of subsidiaries		-	-
Cash received from returns on investments		<b>15,441,686.60</b>	57,996,610.64
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>46,410.00</b>	300.00
Cash received relating to other investing activities		<b>170,503,737.52</b>	109,902,858.13
<b>Sub-total of cash inflows</b>		<b>185,991,834.12</b>	173,899,768.77
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>421,929.00</b>	30,720.00
Cash paid to acquire investments		<b>180,000,000.00</b>	1,618,750.00
Net cash paid to acquire subsidiaries		-	-
Cash paid relating to other investing activities		<b>189,155,950.66</b>	199,706,234.31
<b>Sub-total of cash outflows</b>		<b>369,577,879.66</b>	201,355,704.31
<b>Net cash flows from investing activities</b>		<b>(183,586,045.54)</b>	(27,455,935.54)

# Cash Flow Statement

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2010 (Unaudited)
<b>3. Cash flows from financing activities</b>			
Cash received from capital contributions		–	–
Including: Cash received from capital contributions by minority shareholders of subsidiaries		–	–
Cash received from borrowings		–	30,000,000.00
Cash received relating to other financing activities		<b>100,000,000.00</b>	–
<b>Sub-total of cash inflows</b>		<b>100,000,000.00</b>	30,000,000.00
Cash repayments of borrowings		<b>30,000,000.00</b>	–
Cash payments for interest expenses and distribution of dividends or profits		<b>403,317.70</b>	149,062.50
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		–	–
Cash payments relating to other financing activities		<b>646,333.33</b>	–
<b>Sub-total of cash outflows</b>		<b>31,049,651.03</b>	149,062.50
<b>Net cash flows from financing activities</b>		<b>68,950,348.97</b>	29,850,937.50
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		<b>(16,996.58)</b>	–
<b>5. Net (decrease)/increase in cash and cash equivalents</b>			
	15(6)	<b>(121,474,942.15)</b>	10,561,344.67
Add: Cash and cash equivalents at beginning of year		<b>213,007,698.60</b>	223,165,989.78
<b>6. Cash and cash equivalent at end of period</b>			
		<b>91,532,756.45</b>	233,727,334.45

The accompanying notes form an integral part of these financial statements.

Legal  
representative:  
**Yang Rongming**

Person in charge of  
accounting function:  
**Chen Binghua**

Person in charge of  
accounting department:  
**Chen Binghua**

# Statement of Changes in Equity

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
<b>1. Balance at 31 December 2010</b>						
<b>(Audited)</b>	<b>810,900,000.00</b>	<b>1,099,698,769.68</b>	<b>-</b>	<b>244,907,696.78</b>	<b>989,858,636.46</b>	<b>3,145,365,102.92</b>
Add: Changes in accounting policies	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-
<b>2. Balance at 1 January 2011</b>	<b>810,900,000.00</b>	<b>1,099,698,769.68</b>	<b>-</b>	<b>244,907,696.78</b>	<b>989,858,636.46</b>	<b>3,145,365,102.92</b>
<b>3. Movements for the six months ended 30 June 2011</b>						
(1) Net profit	-	(2,837,272.83)	-	-	157,036,021.60	154,198,748.77
(2) Other comprehensive income	-	-	-	-	197,581,021.60	197,581,021.60
(2) Other comprehensive income	-	(2,837,272.83)	-	-	-	(2,837,272.83)
Subtotal of items (1) and (2)	-	(2,837,272.83)	-	-	197,581,021.60	194,743,748.77
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-
Capital contribution by the shareholders	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-
Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	(40,545,000.00)	(40,545,000.00)
Appropriation to surplus reserves	-	-	-	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	(40,545,000.00)	(40,545,000.00)
Others	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-
Others	-	-	-	-	-	-
<b>4. Balance at 30 June 2011</b>						
<b>(Unaudited)</b>	<b>810,900,000.00</b>	<b>1,096,861,496.85</b>	<b>-</b>	<b>244,907,696.78</b>	<b>1,146,894,658.06</b>	<b>3,299,563,851.69</b>

# Statement of Changes in Equity

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

	Share capital	Capital surplus	Less: Treasury share	Surplus reserve	Undistributed profits	Total shareholders' equity
<b>1. Balance at 31 December 2009</b>						
<b>(Audited)</b>	810,900,000.00	1,089,861,878.45	-	223,453,263.13	837,313,733.61	2,961,528,875.19
Add: Changes in accounting policies	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-
<b>2. Balance at 1 January 2010</b>	810,900,000.00	1,089,861,878.45	-	223,453,263.13	837,313,733.61	2,961,528,875.19
<b>3. Movements for the six months ended 30 June 2010</b>						
(1) Net profit	-	(216,345.16)	-	-	119,145,156.45	118,928,811.29
(2) Other comprehensive income	-	(216,345.16)	-	-	-	(216,345.16)
Subtotal of items (1) and (2)	-	(216,345.16)	-	-	159,690,156.45	159,473,811.29
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-
Capital contribution by the shareholders	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-
Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	(40,545,000.00)	(40,545,000.00)
Appropriation to surplus reserves	-	-	-	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	(40,545,000.00)	(40,545,000.00)
Others	-	-	-	-	-	-
(5) Transfer within shareholders' equity	-	-	-	-	-	-
Transfer from capital surplus to share capital	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-
Others	-	-	-	-	-	-
<b>4. Balance at 30 June 2010</b>						
<b>(Unaudited)</b>	810,900,000.00	1,089,645,533.29	-	223,453,263.13	956,458,890.06	3,080,457,686.48

The accompanying notes form an integral part of these financial statements.

Legal representative:  
**Yang Rongming**

Person in charge of accounting function:  
**Chen Binghua**

Person in charge of accounting department:  
**Chen Binghua**



# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 1 GENERAL INFORMATION

Approved by the Circular Ti Gai Sheng [1997] No.139 issued by the State Commission for Restructuring the Economic Systems, Guangzhou Pharmaceutical Company Limited (the “Company”) was founded by Guangzhou Pharmaceutical Holdings Limited (“GPHL”). The 8 Chinese Patent Medicine (“CPM”) manufacturing companies and 3 pharmaceutical trading companies under GPHL were restructured and the stated-owned equity interest in the assets of these companies were injected in the Company. The Company obtained business license on 1 September 1997 and the registered number is 4401011101830.

Approved by the Circular Ti Gai Sheng [1997] No.145 issued by the State Commission for Restructuring the Economic Systems and Circular Zheng Wei Fa [1997] No.56 issued by the Securities Regulatory Commission of the State Council, the Company issued 210,990,000 shares listed in Hong Kong Stock Exchange (H shares) in October 1997. Approved by China Securities Regulatory Commission on 10 January 2001, 78,000,000 A shares of the Company were issued and became listed in Shanghai Stock Exchange on 6 February 2001. The stock abbreviation is GZ Phar. and stock code is 600332.

The Company executed and completed the reform of shareholder structure in April 2006. Subsequent to the completion of the reform, the Company’s total share capital was 810,900,000. The address of the Company’s registered office and head quarter is 45 Sha Mian North Street, Liwan District, Guangzhou City.

The parent company as well as the ultimate holding company of the Company is GPHL.

The Company and its consolidated subsidiaries (together, the “Group”) are principally engaged in the manufacture of CPM, the wholesale, retail, import and export of western pharmaceutical products, CPM and medical apparatus and the wholesale, retail of Chinese raw medicine.

The major CPM products of the Group include Xiao Ke Wan (“消渴丸”), Xia Sang Ju (“夏桑菊”), Wu Ji Bai Feng Wan (“烏雞白鳳丸”), Hua Tuo Zai Zao Wan (“華佗再造丸”) and Mi Lian Chuan Bei Pi Pa Gao (“蜜煉川貝枇杷膏”), etc.

The Group’s current structure mainly include 7 CPM manufacturing companies, 2 pharmaceutical research and development companies and 2 pharmaceutical trading companies.

These interim financial statements have been approved for issue by the Board of Directors on 26 August 2011.

These interim financial statements have not been audited.



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### (1) Basis of preparation

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

### (2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the six months ended 30 June 2011 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 30 June 2011 and the operating results, cash flows and other information for the six months then ended of the Group and the Company.

### (3) Accounting period

Accounting year starts on 1 January and ends on 31 December.

### (4) Recording currency

The recording currency is Renminbi (“RMB”).

### (5) Accounting treatments for business combinations involving entities under and not under common control

#### (a) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (5) Accounting treatments for business combinations involving entities under and not under common control *(Continued)*

#### (b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred.

### (6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, come under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. For subsidiaries acquired from a business combination involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements within equity and net profits respectively.



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (7) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with bank and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (8) Foreign currency translation

#### (a) Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions. The translation differences arising from the exchange of foreign currencies are recognised in the financial expenses.

At the balance sheet date, monetary items denominated in foreign currency are translated into RMB using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into RMB at the balance sheet date using the spot rate at the date of the transactions. The effect of changes in exchange rate of cash and cash equivalent is separately disclosed in the cash flow statement. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate on the date when fair value is determined and the exchange differences arising from which are recognised in profit or loss or capital surplus in the current period.

#### (b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### (9) Financial Instruments

#### (a) Financial assets

##### (i) Classification

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

##### 1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term. They are presented as financial assets held for trading on the balance sheet.

##### 2) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

##### 3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated to be available for sale upon initial recognition and financial assets not classified in any other categories. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months of the balance sheet date.

##### 4) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months (including 12 months) at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months (including 12 months) when the investments were made are included in other current assets.



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (9) Financial Instruments *(Continued)*

#### (a) Financial assets *(Continued)*

##### (ii) *Recognition and measurement*

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initial recognition amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gain or loss arising from change in the fair value of financial assets at fair value through profit or loss is recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

Gain or loss arising from a change in fair value of an available-for-sale financial asset is recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from the translation of monetary financial assets. When such financial asset is derecognised, the cumulative gain or loss previously recognised directly in equity is recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (9) Financial Instruments *(Continued)*

#### (a) Financial assets *(Continued)*

##### (iii) *Impairment of financial assets*

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that the financial asset is impaired, the Group shall determine the amount of impairment loss.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

In the case of a significant or prolonged decline in the fair value of available-for-sale financial assets, the cumulative loss arising from the decline in fair value that had been recognised directly in equity is removed from equity and recognised in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed and recognised in profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised in equity directly.

##### (iv) *The basis and measurement for the transfer of financial assets and the derecognition of financial assets*

When the Group transfers financial assets, the financial assets should be derecognised when all the risks and rewards of ownership of the financial asset have been substantially transferred. The financial assets shall not be derecognised if the Group substantially retains all the risks and rewards of ownership of the financial asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset, the financial asset shall be derecognised.



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (9) Financial Instruments *(Continued)*

#### (a) Financial assets *(Continued)*

- (iv) *The basis and measurement for the transfer of financial assets and the derecognition of financial assets (Continued)*

In addition to two circumstances of the derecognition mentioned above, a financial assets shall be derecognised when the contractual rights to receive the cash flows from the financial assets have ceased.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognised in profit or loss.

#### (b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities in the Group mainly comprise of other financial liabilities, including payables, borrowings and debentures payable.

Payables comprise accounts payable and other payables, etc, which are recorded initially at fair value and measured subsequently at amortised cost using the effective interest method.

Borrowings and debentures payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortised costs using the effective interest method.

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturities over one year (including one year) but are due within one year at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised portion of the financial liability and the consideration paid shall be recognised in profit or loss.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (9) Financial Instruments *(Continued)*

#### (c) Determination of the fair value of the financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument for which the market is not active is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of observable market inputs and relies as little as possible on specific inputs related to the Group.

### (10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recorded at fair value of the contractual payments from the buyer or service recipients.

#### (a) Receivables that are individually significant and subject to separate provision

The criteria for individually significant receivables

The amount of accounts receivable are individually more than RMB1,000,000 (including RMB1,000,000) and other receivables are individually more than RMB 100,000 (including RMB100,000).

Method of provision for bad debts of individually significant receivables

Individually significant receivables are subject to separate impairment assessment, and the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount shall be accounted for as provision for bad debts and recognised in profit or loss. Accounts receivable and other receivables which are not impaired according to the separate impairment assessment, shall be combined into certain groups with similar credit risk characteristics and subject to impairment assessment by groups.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (10) Receivables *(Continued)*

#### (b) Receivables that are combined into certain groups and subject to provision by groups

Basis for determination of groups is as follow:

Group name	Criteria
Group 1	Except for the accounts receivable and other receivables that are subject to separate provision, the Group determines the ratios of provision for bad debts based on historical loss experience for the groups of receivables with similar credit risk characteristics by ageing and taking into consideration of the current circumstances.
Group 2	Notes receivable, other receivables, and long-term receivables which are not classified into Group 1 are subject to separate impairment assessment. If there is objective evidence that the receivables are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount. If there is no impairment identified according to the impairment assessment, no provision for bad debts shall be recognised.
Group 3	Other receivables due from related parties
Group 4	deposits and staff advances

Method for provision by groups are summarised as followed:

Group name	Method for provision
Group 1	Ageing analysis method
Group 2	Specific identification
Group 3	No provisions are made
Group 4	No provisions are made

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (10) Receivables *(Continued)*

#### (b) Receivables that are combined into certain groups and subject to provision by groups *(Continued)*

Ratios of provision for bad debts used in the aging analysis method for groups are as follows:

#### Ratios for provision for bad debts

Within 1 year	1%
1 to 2 years	10%
2 to 3 years	30%
3 to 4 years	50%
4 to 5 years	80%
Over 5 years	100%

#### (c) Receivables which are individually insignificant but subject to separate provision

For individually insignificant receivables with specific credit risk characteristics, if there is objective evidence that the receivables are impaired and the provision for bad debts using ageing analysis method can not reflect the actual circumstances, such receivables shall be subject to separate impairment assessment. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

### (11) Inventories

#### (a) Classification of inventories

Inventories include goods in transit, raw materials, work in progress, semi-finished goods, low-value consumables, packaging materials, goods in processing contract, goods on consignment and commodity stocks.

#### (b) Cost of inventories

Inventories are measured at actual cost at the time of acquisition.

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour and an allocation of all production overhead expenditures incurred that are systematically determined based on normal operating capacity.



# Notes to the Financial Statements

For the six months ended 30 June 2011

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[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (11) Inventories *(Continued)*

#### (c) Basis for the determination of net realisable value and the method of provisions for impairment of inventories

Provisions for declines in the value of inventories are determined at the excess amount of the carrying value of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

#### (d) Inventory system

The Group adopts the perpetual inventory system.

#### (e) Amortisation of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

### (12) Long-term equity investments

#### (a) Initial recognition

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its jointly controlled entities and associates, as well as the long-term equity investments where the Group does not have control, joint control or significant influence over the investees and which are not quoted in an active market and whose fair value cannot be reliably measured.

Subsidiaries are all entities over which the Company is able to control. Jointly controlled entities are the investees over which the Group is able to exercise joint control together with other venturers. Associates are all entities over which the Group has significant influence, but not control, on their financial and operating policies.

Investments in subsidiaries are measured using the cost method in the Company's financial statements, and adjusted by using the equity method when preparing the consolidated financial statements. Investments in jointly controlled entities and associates are accounted for using the equity method. Other long-term equity investments, which the Group does not have control, joint control or significant influence over the investee and which are not quoted in an active market and whose fair value cannot be reliably measured, are accounted for using the cost method.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (12) Long-term equity investments *(Continued)*

#### (a) Initial recognition *(Continued)*

Long-term equity investments accounted for using the cost method are measured at the initial investment costs. For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

#### (b) Subsequent measurement

Under the cost method of accounting, investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investee.

Under the equity method of accounting, the Group recognised the investment income based on its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee when the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the conditions on recognition of provision are satisfied in accordance with the accounting standards on contingencies, the Group continues to recognise the investment losses and the provision. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group record directly in capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based which the investment gain or losses are recognised. The loss on the intra-group transaction amongst the Group and its investees, of which the nature is asset impairment, is recognised in full, and the related unrealised loss is not eliminated.



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (12) Long-term equity investments *(Continued)*

#### (c) Definition of control, joint control and significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible debts and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

#### (d) Impairment of long-term equity investments

The carrying amount of long-term equity investments in subsidiaries, jointly controlled entities and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount. For other long-term equity investments which are not quoted in an active market and whose fair value cannot be reliably measured, the excess of its carrying amount over the present value of future cash flows discounted at the prevailing market yield rate for similar financial assets shall be recognised as impairment loss and cannot be reversed once recognised.

### (13) Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation and buildings that have been already been leased out, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and its cost can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.



# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (13) Investment properties *(Continued)*

The Group adopts the cost model for subsequent measurement of the investment properties. Buildings which are held for rental and measured at cost model are depreciated on a basis consistent with the depreciation policy which the Group adopts for fixed assets. Land use right which are held for rental and measured at cost model are amortised on a basis consistent with the amortisation policy which the Group adopts for intangible assets.

When an investment property is transferred to an owner-occupied property, it is reclassified as a fixed asset or an intangible asset at the date of the transfer. When an owner-occupied property is transferred for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as an investment property at its carrying amount at the date of the transfer.

The estimated useful life, net residual value of the investment property and the depreciation (amortisation) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

Investment properties are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (14) Fixed assets

#### (a) Recognition, initial measurement and depreciation method of fixed assets

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year.

Fixed asset is recognised when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the economic benefits associated with the fixed asset will flow to the Group and its cost can be reliably measured. The carrying amount of those parts that are replaced is derecognised and all the other subsequent expenditures are recognised in profit or loss when they are incurred.

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. For the fixed assets being provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives. Depreciation charge on decoration expenditure of fixed assets which meets the criteria for capitalisation is calculated using the straight-line method based on the shorter of the period between two decorations and the remaining useful life of the fixed assets.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### (14) Fixed assets (Continued)

#### (b) Depreciation method of different categories of fixed assets

Fixed assets are classified as buildings, machinery and equipment, motor vehicles, computer and electronic equipment and office equipment. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

Categories of fixed asset	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	15-50 years	1%-10%	1.80%-6.60%
Machinery and equipment	4-18 years	1%-10%	5%-24.75%
Motor vehicles	5-10 years	1%-10%	9%-19.80%
Electronic equipment	5-10 years	1%-10%	9%-19.80%
office equipment	4-8 years	1%-10%	11.25%-24.75%
Decoration and fixtures	5 years	0%	20%

#### (c) Impairment of fixed assets

Fixed assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (14) Fixed assets *(Continued)*

#### (d) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognised finance charge.

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy which the Group adopts for self-owned fixed assets. If it can be reasonably determined that at the end of the lease term the ownership of the leased asset will be transferred, the leased asset is depreciated over the estimated useful lives; if not, the leased asset is depreciated over the shorter period of the lease term and the estimated useful lives.

#### (e) Other specification

##### *Disposal of fixed assets*

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss.

### (15) Construction in progress

Constructions in progress are accounted for by individual projects.

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use.

Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When construction in progress is ready for its intended use but has not completed the final accounts, it is transferred to fixed assets using an estimated cost on the day when it is ready for intended use and depreciation is made accordingly pursuant to the Group's depreciation policy. The estimated cost can be based on project budget, project price or actual construction cost. The estimated cost is adjusted by the actual cost after the completion of the final accounts.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (15) Construction in progress *(Continued)*

Construction in progress is tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

### (16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.



## Notes to the Financial Statements

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[English Translation for Reference Only]

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

#### (17) Intangible assets

##### (a) Recognition and measurement of intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group, including land use rights, industrial property and patent technology, and non-patent technology etc. An intangible asset is recognised only if both of the following conditions are satisfied: (i) it is probable that future economic benefits attributable to the asset will flow to the enterprise; (ii) the amount of the intangible assets can be measured reliably.

The acquisition cost of intangible assets includes acquisition price, related taxes and other costs which are directly attributable to bringing the intangible assets ready for their intended use. The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortisation of other patents and licenses and capitalised interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

##### (b) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review and adjustment on its useful life and amortisation method are performed at each year-end.

##### (c) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

The specific criteria for the classification of expenditure on the research phase and expenditure on the development phase is as follows:

Expenditures on the research phase are all the expenditures incurred before the commencement of Phase III clinical trial for the medicine (including new medicines and changes in the form of the medicines). Commencement of Phase III clinical trial is determined based on the approval by authorities.

# Notes to the Financial Statements

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[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (17) Intangible assets *(Continued)*

#### (c) Research and development *(Continued)*

Expenditures on the development phase are all the expenditures incurred after the commencement of Phase III clinical trial for the medicine (including new medicines and changes in the form of the medicines). Commencement of Phase III clinical trial is determined based on the approval by authorities.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

#### (d) Impairment of intangible assets

Intangible assets are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.



# Notes to the Financial Statements

For the six months ended 30 June 2011

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[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (17) Intangible assets *(Continued)*

#### (d) Impairment of intangible assets *(Continued)*

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

### (18) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets under operating leases, and other expenditures that have been made but shall be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

### (19) Provisions

Provisions for product warranties, onerous contracts etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

### (20) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (20) Revenue *(Continued)*

#### (a) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### (b) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer and the customer has accepted the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Group and the relevant revenue and costs can be measured reliably.

#### (c) Rendering of services

The revenue from rendering of services is recognised using the percentage of completion method.

#### (d) Transfer of asset use rights

Income from transfer of asset use rights include:

- Interest income is recognised on a time-proportion basis using the effective interest method;
- license fee income is recognised when the right to receive payment is established;
- Income from an operating lease is recognised on a straight-line basis over the period of the lease.

#### (e) Dividend income

Dividend income is recognised when the right to receive payment is established.



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (21) Government grants

Government grants are transfers of monetary or non-monetary assets obtained by the Group from the government at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant shall be recognised when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset shall be recognised as deferred revenue, and evenly amortised to profit or loss over the useful life of the related asset. Grants measured at nominal amounts are recognised immediately in profit or loss for the current period.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in the subsequent periods, the grant shall be recognised; where the grant is a compensation for related expenses or loss already incurred by the enterprise, the grant shall be recognised immediately in profit or loss for the current period.

### (22) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (22) Deferred tax assets and deferred tax liabilities *(Continued)*

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, jointly controlled entities and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,
- the tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

### (23) Operating leases and finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

#### (a) Operating leases

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

#### (b) Finance leases

The leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (24) Changes in significant accounting policies and accounting estimates

#### (a) Changes in accounting policies

There are no changes in accounting policies in the current period.

#### (b) Changes in accounting estimates

There are no changes in accounting estimates in the current period.

### (25) Correction of prior period's accounting errors

There are no corrections of significant accounting errors in the current period.

### (26) Other significant accounting policies

#### (a) Segment information

The Group identifies operating segments based on the internal organization structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments. An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group.

An operating segment's revenue, expenses, operating result, assets and liabilities include those directly attributable to the operating segment, and those allocated to the segment on a reasonable basis. Revenue, expenses, assets and liabilities of the operating segment are determined at the amounts before the elimination of inter-group transactions and balances. Transfer price between operating segments is calculated on terms similar to those in arm's length transactions.

#### (b) Employee benefits

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (26) Other significant accounting policies *(Continued)*

#### (b) Employee benefits *(Continued)*

Where the Group terminates the employment relationship with employees before the end of the employment contract or offers compensation for encouraging employees to accept voluntary redundancy, a provision for termination benefits for the compensation arising from the termination of an employment relationship with employees shall be recognised, with a corresponding charge to profit or loss when the Group has made a formal plan for termination of an employment relationship or an offer for voluntary redundancy which will be implemented immediately and cannot be withdrawn by the Group unilaterally.

Employee benefits are recognised as salaries and wages payable in the accounting period in which an employee has rendered service, as costs of assets or expenses to whichever the employee service is attributable.

#### (c) Profit distribution

Cash dividend distribution is recognised as a liability in the period in which it is approved by the shareholders' meeting.

### (27) Critical accounting estimates and judgments

#### (a) Current and deferred income tax

The Group is subject to income taxes in the People's Republic of China (the "PRC"). Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that the future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact recognition of deferred tax assets in the period in which such estimate is changed.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

(Continued)

### (27) Critical accounting estimates and judgments (Continued)

#### (a) Current and deferred income tax (Continued)

Seven subsidiaries of the Group (Refer to Note 3 for the detailed listing) recognised as New/High enterprises were entitled to the preferential enterprise income tax rate of 15%, among which six subsidiaries' qualification valid period are from 2008 to 2010. In 2011, the six subsidiaries are in the application process to prolong their qualification as New/High Technology Enterprise. The result is expected to be announced in the second half of 2011. Management of the Group is of the view that these six subsidiaries will successfully prolong their qualification as New/High Technology Enterprise and thus could enjoy the preferential enterprise income tax rate of 15%. Therefore, the applicable enterprise income tax rate for the six subsidiaries in calculating the enterprise income tax for the six months ended 30 June 2011 is 15%.

## 3 TAXATION

### (1) The types and rates of taxes applicable to the Group

#### (a) Turnover tax and property tax

Taxable item	Type	Tax rate
Sales of goods	Value-added tax ("VAT")	13%, 17%
Income from sales of materials	VAT	17%
Income from rendering of services	Business tax	5%
Rental income	Business tax	5%
Balance of owner-occupied real estates	Real-estate tax	1.2%
Rental income	Real-estate tax	12%
Interest income	Business tax	5%
Sales of wine products	Consumption Tax	10%

#### (b) City maintenance and construction tax

Calculated and paid based on 7% of the amount of VAT, business tax and consumption tax paid.

#### (c) Education surcharge

Calculated and paid based on 3% of the amount of VAT, business tax and consumption tax paid.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 3 TAXATION (Continued)

### (1) The types and rates of taxes applicable to the Group (Continued)

#### (d) Local education surcharge

Calculated and paid based on 2% of the amount of VAT, business tax and consumption tax paid.

#### (e) Enterprise income tax

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

The certificates of the six subsidiaries (namely, Guangzhou Zhong Yi Pharmaceutical Co., Ltd. and etc), numbering GR200844000618, GR200844000446, GR200844000475, GR200844000599, GR200844000937, GR200844001238 respectively, were issued in December 2008 and the effective period is 3 years. The certificate of subsidiary Guangxi Ying Kang Pharmaceutical Co., Ltd., numbering GR200945000085, was issued in November 2009 and the effective period is 3 years.

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

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

# Notes to the Financial Statements

For the six months ended 30 June 2011

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[English Translation for Reference Only]

## 4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

### (1) Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of period ('0000)	Entry type	Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Con-solidated or not	Minority interests ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Direct subsidiaries:																
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	7,717	Production of CPM	6,867	Stock corporation	Wen Xianwen	19051195-X	-	88.99%	88.99%	Yes	1,282	-	-
Guangzhou Zhong Yi Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	21,741	Production of CPM	21,741	Limited Liability Company	Wu Chengjia	19045979-4	-	100%	100%	Yes	-	-	-
Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	11,285	Production of CPM	11,285	Limited Liability Company	Ouyang Guang	19045981-5	-	100%	100%	Yes	-	-	-
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	16,876	Research and development of medicine and health products	16,376	Limited Liability Company	Huang Kang	71241660-8	-	97.04%	97.04%	Yes	38	-	-
Guangzhou O Ying Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	8,242	Production of CPM	8,242	Limited Liability Company	Li Guangliang	19045980-7	-	100%	100%	Yes	-	-	-

#### 4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### (1) Subsidiaries acquired from establishment or investment (Continued)

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of period ('0000)	Entity type	Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Con-solidated or not	Minority interests ('0000)	Amount of minority interests adjusted against losses in subsidiaries	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Direct subsidiaries:																
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	8,623	Production of CPM	7,623	Stock corporation	Yan Zhibao	19047922-6	-	88.47%	88.40%	Yes	1,731	-	-
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	6,544	Production of CPM	5,744	Stock corporation	Wu Dahan	19049780-8	-	87.77%	87.77%	Yes	2,449	-	-
Guangzhou Ca Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	3,222	Trading of CPM and Chinese raw medicine	7,033	Limited Liability Company	Zhou Lushan	19060099-6	-	100%	100%	Yes	-	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	2,400	Import and export trading of medicine	2,400	Limited Liability Company	Li Haobiao	19047097-7	-	100%	100%	Yes	-	-	-
Guangzhou Ba D Biotechnology Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	13,100	Research and development of patented biological products	12,960	Limited Liability Company	Chen Jianrong	73164716-0	-	98.48%	98.48%	Yes	49	-	-

## Notes to the Financial Statements

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# Notes to the Financial Statements

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## 4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (1) Subsidiaries acquired from establishment or investment (Continued)

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of period ('0000)	Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests ('0000)	Amount of minority interests adjusted against minority interest in the profit or loss ('0000)	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the operating balance of minority interest ('0000)
Indirect subsidiaries: Guangzhou Q. Jing Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	10,000	Production of CPM	7,500	Wu Changlai	61844344	-	75%	75%	Yes	3,564	-	-
Guangzhou Jing Xu Tang 1790 Trading Co., Ltd. (*)	Subsidiary	Guangzhou	Trading	50	Sales of cosmetic	23	Chen Zhong	7661880-X	-	45.05%	51%	Yes	8	-	-
Guangzhou Pan Gao Shou Natural Health Products Co., Ltd. (*)	Subsidiary	Guangzhou	Manufacturing	1,400	Production and processing of food and health products	1,106	Wu Dahu	19145613-8	-	78.99%	90%	Yes	55	-	-
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Orphan Pharmacies	Wholly-owned subsidiary	Guangzhou	Trading	294	Retailing of Chinese raw medicine and CPM	398	Zhou Lushan	1916687-3	-	100%	100%	Yes	-	-	-

#### 4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### (1) Subsidiaries acquired from establishment or investment (Continued)

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital ('0000)	Scope of business	Actual investment at end of period ('0000)	Entity type	Legal representative	Organization code	Other assets constitute investment in substance ('0000)	% equity interest held by the Company	% voting rights held	Minority interests	Con-solidated or not	Minority interest in the profit or loss ('0000)	Amount of minority interests adjusted against losses in subsidiaries	Ending balance after the Company's equity interest adjusted against the amount of the current period's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory	Wholly-owned subsidiary	Guangzhou	Manufacturing	80	Processing of Chinese raw medicine	311	State-owned enterprise	Zhou Lushan	19066119-1	-	100%	100%	-	Yes	-	-	-
Guangzhou Cai Zhi Lin Corporation Bei Siang Chinese raw medicine Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	500	Trading of CPM and Chinese raw medicine	500	Limited Liability Company	Zhou Lushan	78120107-4	-	100%	100%	-	Yes	-	-	-
Guangzhou Ao Ma Medical Apparatus Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	688	Trading of medical apparatus	688	Limited Liability Company	Lao Zhong	68766654-4	-	100%	100%	-	Yes	-	-	-

Note \*: The reason of difference between ratio of equity interest held and ratio of voting rights held of these two companies is that the Company indirectly holds these two companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

## Notes to the Financial Statements

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#### 4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

##### (2) Subsidiaries acquired in a business combination involving enterprises not under common control

Name of subsidiary	Type of subsidiary	Registered place	Nature of business and principal activities	Registered capital (’0000)	Entity type	Legal representative	Organization code	Actual investment at end of period (’0000)	% equity interest held	% voting rights held	Consolidated or not	Minority interests (’0000)	Amount of minority interests adjusted against minority interest in the profit or loss (’0000)	Ending balance after the Company’s equity interest adjusted against the amount of the current period’s losses in subsidiaries shared by minority interests exceeded the opening balance of minority interest. (’0000)
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary	Nanning	Manufacturing	3,188	Limited Liability Company	Feng Yeoven	19225516-6	2,172	51%	51%	Yes	1,541	-	-

## Notes to the Financial Statements

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[English Translation for Reference Only]

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

### (1) Cash at bank and on hand

	30 June 2011			31 December 2010		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
Cash on hand						
RMB			1,284,798.49			1,236,423.35
Hong Kong Dollars ("HKD")	2,009.08	0.83162	1,670.79	2,009.08	0.85250	1,712.05
			<u>1,286,469.28</u>			<u>1,238,135.40</u>
Bank deposits						
RMB			517,032,706.13			688,647,645.25
US Dollars ("USD")	153,538.16	6.47160	993,637.56	67,763.13	6.67190	452,108.05
HKD	1,179,270.48	0.83162	980,704.91	1,112,476.55	0.85250	948,419.09
			<u>519,007,048.60</u>			<u>690,048,172.39</u>
Other deposits						
RMB			41,944,183.11			16,073,400.30
HKD	43,595.09	0.83162	36,254.55	43,823.49	0.85250	37,289.41
			<u>41,980,437.66</u>			<u>16,110,689.71</u>
			<u><u>562,273,955.54</u></u>			<u><u>707,396,997.50</u></u>

Details of restricted cash are listed as below:

	30 June 2011	31 December 2010
Deposit for notes payable	–	1,633,600.00
Deposit for foreign exchange forward contract	<b>34,419,046.08</b>	8,867,878.83
Deposit for housing fund	<b>548,384.33</b>	548,384.33
	<u><b>34,967,430.41</b></u>	<u>11,049,863.16</u>

# Notes to the Financial Statements

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 [English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (2) Financial assets held for trading

	<b>30 June 2011</b>	31 December 2010
Listed shares	<b>5,041,545.90</b>	6,669,292.02
Unlisted financial instruments issued by banks	–	5,000,000.00
	<b>5,041,545.90</b>	11,669,292.02
Including: market value of listed investment	<b>5,041,545.90</b>	6,669,292.02

The fair value of listed shares is determined at the closing price of Shanghai Stock Exchange on the last trading day of the reporting period.

### (3) Notes receivable

(a) Classification of notes receivable

	<b>30 June 2011</b>	31 December 2010
Bank acceptance notes	<b>237,475,148.32</b>	173,513,942.09
Trade acceptance notes	<b>3,854,490.56</b>	26,956,938.40
	<b>241,329,638.88</b>	200,470,880.49

(b) As at 30 June 2011, there are no notes receivable being pledged.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (3) Notes receivable (Continued)

(c) As at 30 June 2011, notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance and that are not matured but have been endorsed are summarised as follows:

(i) As at 30 June 2011, there are no notes receivable that are reclassified to accounts receivable due to inability of the companies of issuance.

(ii) As at 30 June 2011, the bank acceptance notes that are not matured but have been discounted amounted to RMB33,325 thousand (as at 31 December 2010: RMB25,872 thousand), and the top five of which are summarised as follows:

Company of issuance	Date of issuance	Due date	Amount
Dongguan Shijie Hospital First Affiliated Hospital of Guangzhou University of Chinese Medicine	2011.05.27	2011.08.27	3,079,808.93
Guangdong Province Dongguan National Pharmaceutical Group Co., Ltd.	2011.05.26	2011.07.26	2,839,327.76
Guangxi Yulin Wan Kang Te Pharmaceutical Co., Ltd.	2011.02.28	2011.08.27	2,280,610.00
Guangdong Zhen Qun Pharmaceutical Co., Ltd.	2011.02.24	2011.08.23	1,500,000.00
	2011.04.20	2011.07.20	1,238,427.33

(iii) As at 30 June 2011, the notes receivable that are not matured but have been endorsed amounted to RMB480,621 thousand (as at 31 December 2010: RMB513,687 thousand), and the top five of which are summarised as follows:

Company of issuance	Date of issuance	Due date	Amount
Dongguan Ye Lian Highway Asphalt Co., Ltd.	2011.06.29	2011.10.29	12,800,000.00
Chongqing Ke Yu Medical Business Co., Ltd.	2011.03.10	2011.09.10	5,256,248.00
Hefei Yi Fan Medical Business Co., Ltd.	2011.04.25	2011.10.25	5,170,348.75
Guangdong Jiu Zhou Tong Pharmaceutical Co., Ltd.	2011.03.04	2011.09.04	3,378,472.30
Guangdong Guang Hong Pharmaceutical Co., Ltd.	2011.06.02	2011.09.02	3,002,400.00

(d) As at 30 June 2011, there are no trade acceptance notes that are not matured but have been discounted or enclosed (as at 31 December 2010: nil).

# Notes to the Financial Statements

For the six months ended 30 June 2011

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (4) Accounts receivable

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

(a) The ageing of accounts receivable is analysed as follows:

	<b>30 June 2011</b>	31 December 2010
Within 1 year	<b>479,283,331.60</b>	332,090,988.45
1 to 2 years	<b>5,693,822.11</b>	4,691,754.99
2 to 3 years	<b>3,461,988.55</b>	3,472,826.25
3 to 4 years	<b>2,751,972.53</b>	1,961,890.67
4 to 5 years	<b>854,094.34</b>	1,608,521.92
Over 5 years	<b>16,517,202.72</b>	17,797,319.58
	<b><u>508,562,411.85</u></b>	<b><u>361,623,301.86</u></b>

(b) Accounts receivable by categories are analysed as follows:

	<b>30 June 2011</b>			
	Amount	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	4,944,435.16	0.97%	4,218,997.66	85.33%
Subject to provision by groups: Group with credit risk characteristic by ageing	496,947,476.62	97.72%	19,328,756.27	3.89%
Individually insignificant but subject to separate provision	6,670,500.07	1.31%	6,565,738.18	98.43%
	<b><u>508,562,411.85</u></b>	<b>100.00%</b>	<b><u>30,113,492.11</u></b>	<b>5.92%</b>

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (4) Accounts receivable (Continued)

(b) Accounts receivable by categories are analysed as follows: (Continued)

	31 December 2010			
	Amount	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	4,944,435.16	1.37%	3,918,066.89	79.24%
Subject to provision by groups:				
Group with credit risk characteristic by ageing	350,277,010.07	96.86%	20,206,030.02	5.77%
Individually insignificant but subject to separate provision	6,401,856.63	1.77%	6,316,319.53	98.66%
	<u>361,623,301.86</u>	100.00%	<u>30,440,416.44</u>	8.42%

Classification of accounts receivable: refer to Note 2(10).

(c) As at 30 June 2011, accounts receivable that are individually significant and subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Guangdong Li Yuan Pharmaceutical Co. Ltd.	3,627,187.50	2,901,750.00	80.00%	It is hard to collect all receivables due from this company as it is in poor situation.
Hebei Traditional & Herbal Medicine Co., Ltd.	1,317,247.66	1,317,247.66	100.00%	Although the Group has suited this company, it is expected that the amount would not be recoverable.
	<u>4,944,435.16</u>	<u>4,218,997.66</u>	85.33%	

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (4) Accounts receivable (Continued)

- (d) The groups of accounts receivable in which provisions are made using ageing analysis method are analysed as follows:

	30 June 2011			31 December 2010		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	476,035,204.60	95.79%	4,760,352.06	329,116,982.35	93.96%	3,291,169.77
1 to 2 years	5,745,359.34	1.16%	574,535.92	3,246,190.85	0.93%	324,619.09
2 to 3 years	1,290,785.14	0.26%	387,238.34	1,508,232.06	0.43%	452,469.69
3 to 4 years	396,136.76	0.08%	198,068.39	496,117.42	0.14%	248,058.71
4 to 5 years	357,146.10	0.07%	285,716.88	98,873.13	0.03%	79,098.50
Over 5 years	13,122,844.68	2.64%	13,122,844.68	15,810,614.26	4.51%	15,810,614.26
	<b>496,947,476.62</b>	<b>100.00%</b>	<b>19,328,756.27</b>	<b>350,277,010.07</b>	<b>100.00%</b>	<b>20,206,030.02</b>

- (e) As at 30 June 2011, accounts receivable that are individually insignificant but subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Ruzhou City Tong Xin Pharmaceutical Co., Ltd.	508,889.00	508,889.00	100.00%	Although the Group has suited this company, it is expected that the amount would not be recoverable.
Yunnan Shang He Pharmaceutical Co., Ltd.	497,000.16	497,000.16	100.00%	This company is in poor situation and it is expected that the amount would not be recoverable.
Jieyang Nan Tian Pharmaceutical Co., Ltd.	423,847.78	423,847.78	100.00%	Although the Group has suited this company, it is expected that the amount would not be recoverable.
Yunnan Hong Xiang Pharmaceutical Co., Ltd.	393,909.53	393,909.53	100.00%	Although the Group has tried to negotiate with this company, risk of collectability exists.
Other customers	4,846,853.60	4,742,091.71	97.84%	It is expected that the amount would not be fully recoverable.
	<b>6,670,500.07</b>	<b>6,565,738.18</b>	<b>98.60%</b>	

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (4) Accounts receivable (Continued)

(f) Reversal or collection during the current period is as follows:

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount received	Amount of reversal of provision for bad debts
Accounts receivable due from certain customers	Some receivables were collected due to efforts on collection	Certain customers were not able to settle the receivables according to contracts or agreements	644,624.67	644,624.67	-

(g) There are no accounts receivable that have been collected by restructuring or other manners during the current period.

(h) Accounts receivable that are written off in the current period amounted to RMB143,000 and are analysed as follows:

	Nature	Amount	Reason	Arising from related party transactions or not
Yunnan Hong Xiang Yi Xin Pharmaceutical Group Co., Ltd.	Sales of Medicine	53,987.84	It is confirmed that the amount would not be recoverable	No
Sichuan Ke Lun Pharmaceutical Co., Ltd.	Sales of Medicine	82,160.00	It is confirmed that the amount would not be recoverable	No
Others	Sales of Medicine	6,643.53	It is confirmed that the amount would not be recoverable	No
		142,791.37		

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (4) Accounts receivable (Continued)

- (i) As at 30 June 2011, accounts receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is account receivable of RMB5 thousand from GPLH (as at 31 December 2010: account receivable of RMB14 thousand from GPLH).
- (j) As at 30 June 2011, the top five of accounts receivable are analysed as follows:

Company name	Relationship with the Group	Amount	Aging	% of total balance
Guangzhou Pharmaceuticals Corporation	Jointly controlled entities	38,245,395.88	Within 1 year	7.52%
Dongguan Ye Lian Highway Asphalt Co., Ltd.	Third Party	15,000,000.00	Within 1 year	2.95%
Guangdong Wei Kang Pharmaceutical Co., Ltd.	Third Party	14,578,709.13	Within 1 year	2.87%
Guangzhou Watson's Personal Care Stores Limited.	Third Party	7,854,809.53	Within 1 year	1.54%
Guangzhou Baiyunshan Pharmaceutical Co., Ltd	Parent company's subsidiary	6,464,226.46	Within 1 year	1.27%
		82,143,141.00		16.15%

- (k) As at 30 June 2011, accounts receivable from related parties accounted for 12.23% of total accounts receivable balance (as at 31 December 2010: 8.39%): refer to Note 6 for details.
- (l) As at 30 June 2011, there are no accounts receivables derecognised due to transfer of financial assets.
- (m) As at 30 June 2011, there are no securitizations that targeted at accounts receivable.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (4) Accounts receivable (Continued)

(n) Accounts receivable denominated in foreign currency are summarised as follows:

	30 June 2011			31 December 2010		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	821,959.09	6.47160	5,319,390.45	632,373.15	6.62270	4,188,017.66
HKD	1,150,036.46	0.83162	956,393.32	1,616,161.90	0.85090	1,375,192.16
			<b>6,275,783.77</b>			<b>5,563,209.82</b>

### (5) Other receivables

	30 June 2011	31 December 2010
Petty cash	<b>5,079,438.78</b>	2,313,439.96
Deposits	<b>13,325,774.50</b>	11,383,772.82
Staff advances	<b>17,314,819.12</b>	9,753,861.54
Receivables due from external parties	<b>20,839,417.88</b>	13,871,024.87
Receivables due from related parties (Note 6(5))	<b>9,061,362.35</b>	2,242,120.33
Tax refund for exports	<b>7,506,663.73</b>	7,109,586.93
Taxes pending for customs registration	<b>7,206,273.84</b>	3,417,899.57
Others	<b>3,223,927.31</b>	2,501,007.92
	<b>83,557,677.51</b>	52,592,713.94
Less: provision for bad debts	<b>9,493,381.06</b>	9,451,810.77
	<b>74,064,296.45</b>	43,140,903.17



# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (5) Other receivables (Continued)

- (b) As at 31 June 2011, other receivables that are individually significant and subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Sui Lian Purchase & Sales department	2,868,759.75	2,868,759.75	100.00%	As this company was closed, it is expected that the amount would not be recoverable.
Cai Zhi Lin Maoming Sales Store	1,520,000.00	1,520,000.00	100.00%	As this company was closed, it is expected that the amount would not be recoverable.
The 3 <sup>rd</sup> Construction Company of Guangdong Province	1,025,878.50	1,025,878.50	100.00%	As this company went bankrupt, it is expected that the amount would not be recoverable.
Sichuan Mian zhu Yong Long Biological Products Co., Ltd.	945,935.20	945,935.20	100.00%	As this company was closed, it is expected that the amount would not be recoverable.
Bank of Hainan	502,043.54	502,043.54	100.00%	As this company is on bankruptcy liquidation procedures, it is expected that the amount would not be recoverable.
Others	2,020,135.42	2,020,135.42	100.00%	It is expected that the amount would not be recoverable.
	<u>8,882,752.41</u>	<u>8,882,752.41</u>	100.00%	

- (c) The groups of other receivables in which provisions are made using ageing analysis method are analysed as follows:

	30 June 2011			31 December 2010		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	1,369,314.00	78.97%	13,689.14	998,695.11	73.00%	9,986.95
1 to 2 years	134,898.97	7.78%	13,489.90	109,739.15	8.02%	10,973.92
2 to 3 years	139,390.80	8.04%	41,817.24	188,390.80	13.77%	56,517.24
3 to 4 years	315.00	0.02%	157.50	-	-	-
4 to 5 years	5,200.00	0.30%	4,160.00	-	-	-
Over 5 years	84,775.45	4.89%	84,775.45	71,223.66	5.21%	71,223.66
	<u>1,733,894.22</u>	100.00%	<u>158,089.23</u>	<u>1,368,048.72</u>	100.00%	<u>148,701.77</u>

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(All amounts in Renminbi yuan unless otherwise stated)

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (5) Other receivables (Continued)

- (d) Other receivables that are individually insignificant but subject to separate provision are analysed as follows:

	Ending balance	Provision for bad debts	Ratio	Reason
Advances for staff residence	71,739.00	71,739.00	100.00%	It is expected that the amount would not be recoverable.
Deposits for files, etc.	65,846.20	65,846.20	100.00%	It is expected that the amount would not be recoverable.
Deposit for the ammeter of No. 252 Renmin Middle Road	58,700.00	58,700.00	100.00%	It is expected that the amount would not be recoverable.
Kunming Pharmaceutical Group Co., Ltd.	50,805.54	46,526.34	91.58%	It is expected that the amount would not be fully recoverable.
Guangzhou San Cao Biotechnology Co., Ltd.	49,000.00	49,000.00	100.00%	It is expected that the amount would not be recoverable.
Others	160,727.88	160,727.88	100.00%	It is expected that the amount would not be recoverable.
	456,818.62	452,539.42		

- (e) Other receivables that are subject to full provision or in large proportionate but are reversed or collected in full amount of in large proportionate amounted to RMB531 thousand in the current period, details are as follows

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount collected	Amount of reversal of provision for bad debts
Receivables from Nanfang Securities Co., Ltd.	Collection through legal procedures	Liquidation of Nanfang Securities Co., Ltd.	531,364.66	531,364.66	-

- (f) There are no other receivables that have been collected by restructuring or other manners in the current period.

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For the six months ended 30 June 2011  
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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (5) Other receivables (Continued)

- (g) Other receivables that are written off in prior years but collected in the current period amounted to RMB531 thousand, and that have been written off in the current period amounted to RMB14 thousand, details are as follows:

Name of entity	Nature	Amount collected	Reason	Arising from related party transactions or not
Nanfeng Securities Co., Ltd.	Distribution of liquidation	(531,364.66)	Collection of other receivable written off in prior year	No.
Qingyuan Green Resources Pharmaceutical Apparatus Technology Service Center	Engineering inspection fee	14,310.00	It is not able to collect the receivables.	No.
		(517,054.66)		

- (h) As at 30 June 2011, other receivables from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is other receivable of RMB1,538 thousand from GPHL (as at 31 December 2010: other receivable of RMB1,748 thousand from GPHL).

- (i) As at 30 June 2011, the top five of other receivables are analysed as below:

	Relationship with the Company	Amount	Aging	% of total balance
The State Tax Bureau of Liwan District, Guangzhou	Third party	7,506,663.73	Within 1 year	8.98%
Guangzhou Customs	Third party	7,206,273.84	Within 1 year	8.62%
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Jointly controlled entity	7,014,772.56	Within 1 year	8.40%
Zhiyu Property Management Co., Ltd.	Third party	5,822,043.61	Within 1 year	6.97%
Yinzuo Shopping Mall in Yuexiu District, Guangzhou	Third party	3,570,888.30	Within 1 year	4.27%
		31,120,642.04		37.24%

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (5) Other receivables (Continued)

- (j) As at 30 June 2011, the other receivables from related parties accounted for 10.84% of the total other receivables balance (as at 31 December 2010: 4.26%): refer to Note 6 for details.
- (k) As at 30 June 2011, there are no other receivables derecognised due to transfer of financial assets.
- (l) As at 30 June 2011, there are no securitizations that targeted at other receivables.
- (m) As at 30 June 2011, all other receivables are denominated in RMB.

### (6) Advances to suppliers

- (a) The ageing of advances to suppliers is analysed as follows:

	30 June 2011		31 December 2010	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	168,842,577.40	97.41%	123,014,618.70	96.90%
1 to 2 years	434,884.96	0.25%	81,460.32	0.06%
2 to 3 years	16,000.00	0.01%	4,800.00	0.00%
Over 3 years	4,031,413.40	2.33%	3,859,101.71	3.04%
	<b>173,324,875.76</b>	<b>100.00%</b>	<b>126,959,980.73</b>	<b>100.00%</b>

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (6) Advances to suppliers (Continued)

(b) As at 30 June 2011, the top five of advances to suppliers are analysed as follows:

	Relationship with the Group	Amount	Ageing	Reason of unsettlement
Polian Development Co., Ltd.	Related party	38,824,075.00	Within 1 year	Normal purchases
Hunan Xiang Yao Medicine Manufacturing Company	Third party	27,416,043.47	Within 1 year	Normal purchases
Shenzhen Tong Da Petroleum Co.,Ltd.	Third party	11,280,231.60	Within 1 year	Normal purchases
Dongguan Ye Lian Highway Asphalt Co.,Ltd.	Third party	10,080,000.00	Within 1 year	Normal purchases
Guangdong Guanghong Pharmaceutical Co., Ltd.	Third party	7,408,202.28	Within 1 year	Normal purchases
		95,008,552.35		

(c) As at 30 June 2011, there are no advances to shareholders who hold more than 5% (including 5%) of the voting rights of the Company (as at 31 December 2010: nil).

(d) As at 30 June 2011, the advances to related parties accounted for 23.69% of the total balance of advances to suppliers (as at 31 December 2010: 8.32%); refer to Note 6 for details.

(e) As at 30 June 2011, the advances to suppliers denominated in foreign currency are summarised as follows:

	30 June 2011			31 December 2010		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	6,015,146.27	6.47160	38,927,620.60	73,431.89	6.62270	486,317.38
Euro Dollars ("EUR")	-	9.36120	-	619,000.00	8.80650	5,451,223.50
			38,927,620.60			5,937,540.88

(f) As at 30 June 2011, there are no significant advances to suppliers whose ageing are more than one year.

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (7) Inventories

#### (a) Classification of Inventories

	30 June 2011			31 December 2010		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Goods in transit	4,076,861.24	-	4,076,861.24	3,763,971.55	-	3,763,971.55
Raw materials	167,144,471.94	70,624.03	167,073,847.91	145,771,137.26	139,301.44	145,631,835.82
Work in progress	51,382,134.50	-	51,382,134.50	67,968,684.19	-	67,968,684.19
Semi-finished goods	74,366,283.00	891,968.80	73,474,314.20	73,035,697.03	891,968.80	72,143,728.23
Finished goods	175,978,734.12	5,436,877.58	170,541,856.54	167,401,104.04	4,450,701.55	162,950,402.49
Low-value consumables	2,862,455.93	-	2,862,455.93	2,370,800.33	-	2,370,800.33
Packaging materials	28,117,471.63	-	28,117,471.63	24,696,061.11	-	24,696,061.11
Goods In processing contract	18,305.16	-	18,305.16	-	-	-
Goods on consignment	37,033.28	-	37,033.28	37,033.28	-	37,033.28
Commodity Stocks	300,904,906.08	1,450,121.90	299,454,784.18	270,434,238.81	1,453,067.66	268,981,171.15
Others	80,500.82	-	80,500.82	6,511,902.13	-	6,511,902.13
	<b>804,969,157.70</b>	<b>7,849,592.31</b>	<b>797,119,565.39</b>	<b>761,990,629.73</b>	<b>6,935,039.45</b>	<b>755,055,590.28</b>

#### (b) Provisions for declines in the value of inventories

	31 December 2010	Current period additions	Current period reductions		30 June 2011
			Reversal	Write-off	
Raw materials	139,301.44	10,188.46	1,255.58	77,610.29	70,624.03
Work in progress	891,968.80	-	-	-	891,968.80
Finished goods	4,450,701.55	2,421,248.48	244,764.97	1,190,307.48	5,436,877.58
Commodity stocks	1,453,067.66	56,536.60	59,482.36	-	1,450,121.90
	<b>6,935,039.45</b>	<b>2,487,973.54</b>	<b>305,502.91</b>	<b>1,267,917.77</b>	<b>7,849,592.31</b>

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (7) Inventories (Continued)

(c) Provisions for declines in the value of inventories are analysed as follows:

Item	Basis for provision	Reason for reversal	% of amount of reversal vs. inventory balance
Raw materials	Amount of carrying amount over net realisable value	Increase in net realisable value	0.00%
Commodity Stocks	Amount of carrying amount over market price	Increase in market price	0.02%
Finished goods	Amount of carrying amount over market price	Increase in market price	0.14%

### (8) Available-for-sale financial assets

	30 June 2011	31 December 2010
Available-for-sale equity instruments	<b>21,942,890.18</b>	25,615,245.16

The available-for-sale financial assets comprise the A-share of China Everbright Bank Company Limited and A-share of Bank of Communications held by the Group, and the fair value of which is determined at the closing price of Shanghai Stock Exchange on the last trading day of the reporting period. The lockup period for the A-share of China Everbright Bank Company Limited held by the Group is from 18 August 2010 to 7 August 2011.

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (9) Investments in jointly controlled entities and associates

Entity	Enterprise type	Registered address	Legal Representative	Principal activities	Registered capital (RMB'0000)	Share holding	Voting right	Total assets at end of period (RMB'0000)	Total liabilities at end of period (RMB'0000)	Net assets at end of period (RMB'0000)	Total revenue for current period (RMB'0000)	Net profit for current period (RMB'0000)
1. Jointly controlled entities												
Guangzhou Pharmaceuticals Corporation	Sino-foreign equity joint venture	Guangzhou	XIAO YING GAO	Trading of western pharmaceutical products and medical apparatus	70,000	50.00%	50.00%	600,576	442,365	158,211	769,007	7,054
Guangzhou Weng Lao Ji Pharmaceutical Co., Ltd.	Sino-foreign equity joint venture	Guangzhou	Shi Shaojin	Production of OPM	20,476	48.05%	48.05%	105,283	53,767	81,516	109,018	10,280
Guangzhou Nuo Cheng Bio-tech Co., Ltd.(*)	Stock corporation	Guangzhou	Zhou Lijian	Production and sale of bio-products	8,400	49.24%	50.00%	18,590	13,409	5,171	2,942	(605)
2. Associates												
Hangzhou Zhenfa Hang Fang Chinese Medical Infor. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Habin	Infor. engineering and infor. service	100	44.00%	44.00%	6	4	2	-	-
Golden Eagle Fund Management Co., Ltd	Limited Liability Company	Zhuhai	Liu Dong	Fund management	25,000	20.00%	20.00%	22,376	1,947	20,429	7,155	1,808
Guangzhou Jinsten Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Production of health medicine	200	38.25%	38.25%	6	3	3	-	-
Shanghai Jintan Tang Chinese Medicine Co., Ltd.(*)	Limited Liability Company	Shanghai	Fang Liang	Sales of Chinese medicine	190	25.76%	27.25%	7,117	6,609	508	9,896	3

Note\*: The reason of difference between the ratio of equity interest held and ratio of voting rights held of these two companies is that the Company indirectly holds these two companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (10) Long-term equity investments

#### (a) Details of long-term equity investments

Entity	Investment cost	31 December 2010	Current period movement	30 June 2011	%Equity interest held	%Voting rights held	Impairment provision	Impairment provided in the current period	Cash dividend in current period
Equity method:									
Guangzhou Pharmaceuticals Corporation	396,589,139.78	567,532,711.38	179,752,448.13	747,285,159.51	50.00%	50.00%	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	102,035,124.44	342,580,629.06	49,316,586.02 (3,025,397.29)	391,897,215.08	48.05%	48.05%	-	-	-
Guangzhou Nuo Cheng Bio-tech Co., Ltd.*	42,000,000.00	28,892,604.71	-	25,857,207.42	49.24%	50.00%	-	-	-
Hangzhou Zheda Hang Fang Chinese Medical Infor. Engineering Co., Ltd.	440,000.00	-	-	-	44.00%	44.00%	-	-	-
Golden Eagle Fund Management Co., Ltd	50,000,000.00	7,179,119.80	33,616,390.04	40,795,509.84	20.00%	20.00%	-	-	-
Guangzhou Jin Shen Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Shanghai Jiuhua Tang Chinese Medicine Co., Ltd.*	515,000.00	536,256.08	87,87.85	545,043.93	25.76%	27.26%	-	-	-
Subtotal	592,344,264.22	946,711,321.03	259,688,814.75	1,206,390,135.78	44.00%	44.00%	-	-	-
Cost method:									
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Qi Xing Mazhong Medicine Pharmaceutical Co., Ltd.	362,826.38	362,826.38	-	362,826.38	40.00%	40.00%	-	-	-
Indonesia San You Development Co., Ltd	1,078,551.23	1,078,551.23	-	1,078,551.23	50.00%	50.00%	1,078,551.23	-	-
Sales Store of Peking Road of Guangzhou Medicine Co., Ltd	218,399.05	218,399.05	-	218,399.05	20.00%	20.00%	-	-	-
South China Innovative Pharmaceutical Co., Ltd of Guangdong	5,000,000.00	5,000,000.00	-	5,000,000.00	5.56%	5.56%	-	-	-
Subtotal	6,859,776.66	6,859,776.66	-	6,859,776.66	4.00%	4.00%	1,078,551.23	-	-
Total	599,204,040.88	953,571,097.69	259,688,814.75	1,213,239,912.44	44.00%	44.00%	1,078,551.23	-	-

Note\*: The reason of difference between the ratio of equity interest held and ratio of voting rights held of these two companies is that the Company indirectly holds these two companies through subsidiaries which are not wholly-owned by the Company, making the ratio of equity interest held lower than ratio of voting rights held.

(b) There are no limitation on fund transfer between the Group and its investing entities.

# Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (11) Investment properties

(a) Investment properties - cost method

	31 December 2010	Addition	Disposal	30 June 2011
Cost	190,145,274.46	-	-	<b>190,145,274.46</b>
Buildings	179,110,881.19	-	-	<b>179,110,881.19</b>
Land use rights	11,034,393.27	-	-	<b>11,034,393.27</b>
Accumulated depreciation and amortisation	81,627,999.87	3,108,053.94	-	<b>84,736,053.81</b>
Buildings	77,301,761.08	2,994,971.00	-	<b>80,296,732.08</b>
Land use rights	4,326,238.79	113,082.94	-	<b>4,439,321.73</b>
Net book value	108,517,274.59			<b>105,409,220.65</b>
Buildings	101,809,120.11			<b>98,814,149.11</b>
Land use rights	6,708,154.48			<b>6,595,071.54</b>
Provision for impairment	-	-	-	-
Buildings	-	-	-	-
Land use rights	-	-	-	-
Carrying amount	108,517,274.59			<b>105,409,220.65</b>
Buildings	101,809,120.11			<b>98,814,149.11</b>
Land use rights	6,708,154.48			<b>6,595,071.54</b>

Depreciation charges for the six months ended 30 June 2011 amounted to RMB2,995 thousand (for the six months ended 30 June 2010: RMB2,668 thousand). Amortisation charges for the six months ended 30 June 2011 amounted to RMB113 thousand (for the six months ended 30 June 2010: RMB117 thousand).

# Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (12) Fixed assets

#### (a) Fixed assets

	31 December 2010	Addition	Disposal	30 June 2011
<b>Cost</b>	<b>1,902,442,921.65</b>	<b>16,329,843.86</b>	<b>5,999,554.71</b>	<b>1,912,773,210.80</b>
Buildings	918,064,584.81	3,000,186.51	27,901.00	<b>921,036,870.32</b>
Machinery and equipment	767,627,687.08	7,586,056.87	4,372,357.81	<b>770,841,386.14</b>
Motor vehicles	62,993,530.59	2,339,457.86	1,115,768.00	<b>64,217,220.45</b>
Electronic equipments	52,206,537.74	698,556.18	66,921.50	<b>52,838,172.42</b>
Office equipment	61,380,407.49	2,705,586.44	416,606.40	<b>63,669,387.53</b>
Decoration and fixtures	40,170,173.94	–	–	<b>40,170,173.94</b>
<b>Accumulated depreciation</b>	<b>855,911,946.77</b>	<b>49,528,947.87</b>	<b>4,049,048.99</b>	<b>901,391,845.65</b>
Buildings	267,254,757.26	16,565,769.19	25,808.43	<b>283,794,718.02</b>
Machinery and equipment	446,195,155.02	26,399,260.74	2,470,923.25	<b>470,123,492.51</b>
Motor vehicles	46,864,467.74	1,933,738.31	1,089,957.11	<b>47,708,248.94</b>
Electronic equipments	21,533,061.75	1,211,027.27	55,441.63	<b>22,688,647.39</b>
Office equipment	46,653,347.83	2,180,415.54	406,918.57	<b>48,426,844.80</b>
Decoration and fixtures	27,411,157.17	1,238,736.82	–	<b>28,649,893.99</b>
<b>Provision for impairment</b>	<b>6,446,292.70</b>	<b>–</b>	<b>12,054.25</b>	<b>6,434,238.45</b>
Buildings	5,199,353.89	–	–	<b>5,199,353.89</b>
Machinery and equipment	1,029,024.34	–	12,054.25	<b>1,016,970.09</b>
Motor vehicles	217,914.47	–	–	<b>217,914.47</b>
Electronic equipments	–	–	–	<b>–</b>
Office equipment	–	–	–	<b>–</b>
Decoration and fixtures	–	–	–	<b>–</b>
<b>Carrying amount</b>	<b>1,040,084,682.18</b>			<b>1,004,947,126.70</b>
Buildings	645,610,473.66			<b>632,042,798.41</b>
Machinery and equipment	320,403,507.72			<b>299,700,923.54</b>
Motor vehicles	15,911,148.38			<b>16,291,057.04</b>
Electronic equipments	30,673,475.99			<b>30,149,525.03</b>
Office equipment	14,727,059.66			<b>15,242,542.73</b>
Decoration and fixtures	12,759,016.77			<b>11,520,279.95</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (12) Fixed assets (Continued)

#### (a) Fixed assets (Continued)

- (i) In the current period, the fixed assets transferred from construction in progress amounted to RMB11,396 thousand (for the six months ended 30 June 2010: RMB8,495 thousand).
- (ii) Depreciation expenses for the six months ended 30 June 2011 amounted to RMB49,529 thousand in total (for the six months ended 30 June 2010: RMB49,872 thousand), of which RMB32,643 thousand, RMB1,265 thousand and RMB15,621 thousand are charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (for the six months ended 30 June 2010: RMB32,374 thousand, RMB1,276 and RMB 16,222 thousand, respectively).

#### (b) As at 30 June 2011, temporary idle fixed assets are summarised as follows:

	Cost	Accumulated depreciation	Provision for impairment loss	Net book value after impairment	Note
Machinery and equipment	730,884.08	285,201.51	445,682.57	-	Chinese Medicine Cutting Machine

#### (c) As at 30 June 2011, fixed assets lack of ownership certificate are summarised as follows:

	Net book value	Reason	Estimated date of obtaining the ownership certificate
Buildings	18,627,710.58	Procedures are not completed	Uncertain
Motor vehicles	254,062.50	Procedures are not completed	Uncertain
	<u>18,881,773.08</u>		

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (12) Fixed assets (Continued)

(d) As at 30 June 2011, there are no fixed assets held for sale.

(e) As at 30 June 2011, fixed assets held under operating leases are summarised as follows:

	<b>Carrying Amount</b>
Buildings	12,531,818.28

### (13) Construction in progress

	30 June 2011			31 December 2010		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Construction in progress	<u>38,524,048.55</u>	-	<u>38,524,048.55</u>	<u>27,452,013.77</u>	-	<u>27,452,013.77</u>

## (13) Construction in progress (Continued)

## (a) Movement of construction in progress

	Budget	31 December 2010	Current period additions	Current period reductions		30 June 2011	Source of funds	% contribution in budget
				Transferred to Fixed assets	Other reductions			
Medicinal Granules Production Equipment Project	2,433,900.00	578,070.00	-	-	-	578,070.00	Self-funding	23.75%
Enhancement for Office computers and IT devices	2,250,817.34	1,076,702.03	1,130,537.20	1,397,751.20	-	809,488.03	Self-funding	98.06%
The Administration Building Construction Project	1,306,961.53	927,590.54	305,252.39	831,844.93	-	400,998.00	Self-funding	94.33%
The Science Lab Building Construction Project	2,577,155.78	1,117,392.29	1,173,630.61	65,082.05	441,471.63	1,784,469.22	Self-funding	88.90%
Yunpu New Equipment Upgrade Project	4,263,804.75	3,285,905.61	745,993.46	1,231,209.91	-	2,801,665.16	Self-funding	94.58%
HPLC/MS Devices Upgrade Project	5,115,000.00	-	4,552,151.40	-	-	4,552,151.40	Self-funding	89.00%
Bottle Pill Auto-packaging Line	2,000,000.00	-	1,424,500.00	-	-	1,424,500.00	Self-funding	71.23%
Automatic Pill Dropping Line	1,445,000.00	-	395,000.00	-	-	395,000.00	Self-funding	26.64%
Improvement Project for Solid dosage Production Line, and GMP Project	1,860,000.00	1,339,434.82	158,118.50	-	-	1,496,553.32	Self-funding	80.00%
Anti-cancer Research Centre Construction Project	5,482,500.00	5,085,278.83	261,593.91	954,291.45	-	4,395,581.29	Self-funding	95.00%
Injection Iscithin Research Project	10,790,000.00	7,687,871.57	942,173.80	-	-	8,630,045.37	Self-funding	80.00%
Olein Production Line	14,300,000.00	622,100.99	728,675.58	-	-	1,350,776.57	Self-funding	95.00%
Improvement Project for Sewage Disposal Line	1,500,000.00	-	108,006.15	-	-	108,006.15	Self-funding	7.20%
Machinery and equipments	1,757,548.63	10,123.08	1,747,425.55	7,923.08	-	1,749,625.55	Self-funding	100.00%
Oral Liquid Auto-packaging Line	2,266,000.00	-	679,800.00	-	-	679,800.00	Self-funding	30.00%
Tentid-leaved Frillary Bulb Dose Auto-packaging Line	1,179,100.00	-	353,730.00	-	-	353,730.00	Self-funding	30.00%
Office Building Construction	5,000,000.00	-	212,574.50	-	-	212,574.50	Self-funding	4.00%
Animal Lab Construction	1,645,640.92	1,436,251.28	29,389.64	1,465,640.92	-	-	Self-funding	89.00%
Boiler Construction Project	1,730,543.00	(17,525.06)	1,748,068.06	1,683,123.89	67,419.11	-	Self-funding	100.00%
Others		4,289,817.79	6,362,705.13	3,779,001.10	72,507.83	6,811,013.99	Self-funding	
		27,452,013.77	23,049,301.88	11,365,868.53	581,398.57	38,524,048.55		

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For the six months ended 30 June 2011  
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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (13) Construction in progress (Continued)

- (b) For the six months ended 30 June 2011, there are no borrowing costs eligible for capitalisation.
- (c) As at 30 June 2011, the construction progress of significant constructions in progress are analysed as below:

	<b>Progress</b>
HPLC/MS Devices Upgrade Project	Under installation and testing
Anti-cancer Research Centre Construction Project	Completion phase of construction
Injection lecithin Research Project	Approximate 85% of construction was completed
Olein Production Line	Completion phase of construction
Office Building Construction	Initial phase of construction

### (14) Intangible assets

#### (a) Details of intangible assets

	31 December 2010	Current period additions	Current period reductions	<b>30 June 2011</b>
Original cost	128,468,571.47	688,187.79	–	<b>129,156,759.26</b>
Land use rights	111,196,374.06	219,469.83	–	<b>111,415,843.89</b>
Industrial patents and technologies	10,128,802.54	300,000.00	–	<b>10,428,802.54</b>
Non-patent technologies	4,810,000.00	5,299.15	–	<b>4,815,299.15</b>
Trademarks	76,100.00	–	–	<b>76,100.00</b>
Others	2,257,294.87	163,418.81	–	<b>2,420,713.68</b>
Accumulated amortisation	30,571,458.10	2,013,581.89	–	<b>32,585,039.99</b>
Land use rights	25,189,427.50	1,261,794.27	–	<b>26,451,221.77</b>
Industrial patents and technologies	1,467,121.54	254,450.37	–	<b>1,721,571.91</b>
Non-patent technologies	3,141,335.80	267,810.52	–	<b>3,409,146.32</b>
Trademarks	48,196.76	3,805.00	–	<b>52,001.76</b>
Others	725,376.50	225,721.73	–	<b>951,098.23</b>
Impairment	934,043.28	–	–	<b>934,043.28</b>
Land use rights	480,700.24	–	–	<b>480,700.24</b>
Industrial patents and technologies	453,343.04	–	–	<b>453,343.04</b>
Non-patent technologies	–	–	–	–
Trademarks	–	–	–	–
Others	–	–	–	–

# Notes to the Financial Statements

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[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (14) Intangible assets (Continued)

#### (a) Details of intangible assets (Continued)

	31 December 2010	Current period additions	Current period reductions	30 June 2011
Carrying amount	96,963,070.09			<b>95,637,675.99</b>
Land use rights	85,526,246.32			<b>84,483,921.88</b>
Industrial patents and technologies	8,208,337.96			<b>8,253,887.59</b>
Non-patent technologies	1,668,664.20			<b>1,406,152.83</b>
Trademarks	27,903.24			<b>24,098.24</b>
Others	1,531,918.37			<b>1,469,615.45</b>

For the six months ended 30 June 2011, the amortisation of intangible assets amounted to RMB2,014 thousand (for the six months ended 30 June 2010: RMB1,902 thousand), which are recognised in profit or loss for the current period.

### (15) Development costs

	31 December 2010	Current period additions	Current period transferred out		30 June 2011
			Recognised in profit or loss in current period	Recognised as intangible assets	
Capitalised expenditures	996,251.69	96,000.00	-	300,000.00	<b>792,251.69</b>
Expensed expenditures	-	29,841,276.45	29,506,764.99	-	<b>334,511.46</b>
	<u>996,251.69</u>	<u>29,937,276.45</u>	<u>29,506,764.99</u>	<u>300,000.00</u>	<b><u>1,126,763.15</u></b>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (16) Long-term prepaid expenses

	31 December 2010	Current period additions	Current period amortisation	other reductions	30 June 2011
Building decoration and fixtures	2,844,240.76	328,583.79	401,513.05	-	2,771,311.50
Fixed asset maintenance	688,148.44	-	244,637.28	-	443,511.16
Stereoscopic shelf and tray of warehouse	396,666.67	-	238,000.00	-	158,666.67
Marketing system upgrade project	1,720,000.00	-	172,000.00	-	1,548,000.00
Basket-ball field construction	592,023.65	-	72,492.69	-	519,530.96
Sewage conduit maintenance	152,114.37	-	45,634.31	-	106,480.06
Others	574,431.80	754,499.83	187,814.95	-	1,141,116.68
	<u>6,967,625.69</u>	<u>1,083,083.62</u>	<u>1,362,092.28</u>	<u>-</u>	<u>6,688,617.03</u>

### (17) Deferred tax assets and deferred tax liabilities

#### (a) Deferred tax assets

	30 June 2011	31 December 2010
Impairment provision of long-term equity investment	106,810.41	152,551.22
Provision for declines in values of inventories	620,870.33	962,782.35
Provision for bad debts	6,630,549.36	6,452,427.33
Impairment provision of fixed assets	740,188.29	771,570.67
Changes in fair value of financial assets held for trading	117,457.36	-
Employee benefits payable	12,359,150.43	5,446,294.75
Provisions	931,662.05	1,883,573.30
Other payables	11,320,390.07	4,024,608.10
Other non-current liabilities	4,876,883.28	5,252,988.77
Deductible tax losses	9,404,686.64	10,798,500.00
Effect of elimination	8,357,003.37	5,607,046.36
Provision for impairment of intangible assets	188,176.52	183,259.26
Others	84,970.10	91,487.20
	<u>55,738,798.21</u>	<u>41,627,089.31</u>

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (17) Deferred tax assets and deferred tax liabilities (Continued)

#### (b) Deferred tax liabilities

	<b>30 June 2011</b>	31 December 2010
Other receivables-rental income	<b>1,991,144.14</b>	2,023,879.66
Changes in fair value of financial assets held for trading	-	289,479.17
Changes in fair value of available-for-sale financial assets	<b>2,589,220.69</b>	3,508,856.22
	<b>4,580,364.83</b>	5,822,215.05

#### (c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	<b>30 June 2011</b>	31 December 2010
Deductible temporary differences	<b>82,875,400.11</b>	117,169,351.84
Deductible tax losses	<b>109,398,580.78</b>	100,431,952.84
	<b>192,273,980.89</b>	217,601,304.68

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (17) Deferred tax assets and deferred tax liabilities (Continued)

(d) The tax losses that are not recognised as deferred tax assets will expire in the following years:

	30 June 2011	31 December 2010
2011	<b>16,124,485.98</b>	16,178,905.52
2012	<b>29,307,670.42</b>	29,815,128.19
2013	<b>18,681,627.79</b>	18,883,704.58
2014	<b>21,890,959.34</b>	21,993,944.37
2015	<b>13,550,172.53</b>	13,560,270.18
2016	<b>9,843,664.72</b>	–
	<b>109,398,580.78</b>	100,431,952.84

(e) The temporary differences on which deferred tax assets are recognised are summarised as follows:

	30 June 2011	31 December 2010
Impairment provision of long-term equity investment	<b>427,241.64</b>	610,204.88
Provision for declines in values of inventories	<b>3,210,078.69</b>	4,597,909.53
Provision for bad debts	<b>33,444,672.06</b>	33,210,812.79
Impairment provision of fixed assets	<b>4,894,795.29</b>	5,104,011.16
Changes in fair value of financial assets held for trading	<b>469,829.44</b>	–
Employee benefits payable	<b>77,987,932.83</b>	33,573,965.69
Provisions	<b>65,861,331.50</b>	21,162,028.46
Other payables	<b>32,512,555.23</b>	35,019,925.15
Other non-current liabilities	<b>62,343,161.82</b>	71,990,000.00
Deductible tax losses	<b>33,428,013.48</b>	22,428,185.44
Effect of elimination	<b>934,043.28</b>	901,261.57
Provision for impairment of intangible assets	<b>3,210,078.69</b>	4,597,909.53
Others	<b>33,444,672.06</b>	33,210,812.79
	<b>321,724,400.95</b>	240,550,300.00

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (17) Deferred tax assets and deferred tax liabilities (Continued)

(f) The temporary differences on which deferred tax liabilities are recognised are summarised as follows:

	<b>30 June 2011</b>	31 December 2010
Other receivables-rental income	<b>9,392,931.91</b>	9,633,646.08
Changes in fair value of financial assets held for trading	-	1,157,916.68
Changes in fair value of available-for-sale financial assets	<b>10,714,012.32</b>	14,387,230.96
	<b>20,106,944.23</b>	25,178,793.72

### (18) Provision for asset impairment

	31 December 2010	Current period additions	Current period reductions		30 June 2011
			Reversal	Written-off	
Provision for bad debts	39,892,227.21	516,372.00	1,175,989.33	(374,263.29)	<b>39,606,873.17</b>
Provision for declines in value of inventories	6,935,039.45	2,487,973.54	305,502.91	1,267,917.77	<b>7,849,592.31</b>
Impairment provision of long-term equity investments	1,078,551.23	-	-	-	<b>1,078,551.23</b>
Impairment provision of fixed assets	6,446,292.70	-	-	12,054.25	<b>6,434,238.45</b>
Impairment provision of construction in progress	934,043.28	-	-	-	<b>934,043.28</b>
Impairment provision of goodwill	475,756.92	-	-	-	<b>475,756.92</b>
	<b>55,761,910.79</b>	<b>3,004,345.54</b>	<b>1,481,492.24</b>	<b>905,708.73</b>	<b>56,379,055.36</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011  
 (All amounts in Renminbi yuan unless otherwise stated)  
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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (19) Short-term borrowings

	<b>30 June 2011</b>	31 December 2010
Unsecured bank borrowings	–	–
Pledged bank borrowings	<b>34,419,046.08</b>	8,867,878.83
Guaranteed bank borrowings	<b>50,000,000.00</b>	30,000,000.00
	<hr/>	<hr/>
	<b>84,419,046.08</b>	38,867,878.83
	<hr/> <hr/>	<hr/> <hr/>

- (a) As at 30 June 2011, there are no short-term borrowings which are due but have not been repaid.
- (b) As at 30 June 2011, there are no borrowings being mortgaged (as at 31 December 2010: nil).
- (c) As at 30 June 2011, the pledged bank borrowings are USD borrowings equivalent to RMB34,419,046.08, which are pledged with the deposits of RMB34,419,046.08.
- (d) As at 30 June 2011, the weighted average interest rate of short-term borrowings is 5.8040% per annum (as at 31 December 2010: 5.4067% per annum).

### (20) Notes payable

	<b>30 June 2011</b>	31 December 2010
Bank acceptance notes	<b>42,128,745.98</b>	61,326,446.93
Trade acceptance notes	–	15,000,000.00
	<hr/>	<hr/>
	<b>42,128,745.98</b>	76,326,446.93
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2011, all notes payable are due in the second half of 2011.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (21) Accounts payable

#### (a) Details of accounts payable

	30 June 2011		31 December 2010	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	367,107,639.17	97.46%	253,787,651.06	96.00%
Over 1 year	9,566,998.94	2.54%	10,587,576.50	4.00%
	<b>376,674,638.11</b>	<b>100.00%</b>	<b>264,375,227.56</b>	<b>100.00%</b>

(b) As at 30 June 2011, there are no accounts payable to shareholders who hold more than 5% (including 5%) of the voting rights of the Company (as at 31 December 2010: nil).

(c) As at 30 June 2011, the amount of accounts payable to related parties accounted for 4.95% of the total balance (as at 31 December 2010: 5.22%): refer to Note 6 for details.

(d) As at 30 June 2011, there are no accounts payable that are individually significant whose ageing are over 1 year.

(e) Accounts payable denominated in foreign currency are summarised as follows:

	30 June 2011			31 December 2010		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	560,910.97	6.47160	3,629,991.43	1,327,491.77	6.62270	8,791,579.75
HKD	23,021.67	0.83162	19,145.28	23,021.67	0.85090	19,589.14
EUR	36,982.00	9.36120	346,195.90	26,442.46	8.80650	232,865.52
			<b>3,995,332.61</b>			<b>9,044,034.41</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (22) Advances from customers

#### (a) Details of advances from customers

Ageing	30 June 2011		31 December 2010	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	161,674,681.63	98.60%	96,051,030.07	97.01%
Over 1 year	2,296,084.17	1.40%	2,960,199.76	2.99%
	<b>163,970,765.80</b>	<b>100.00%</b>	<b>99,011,229.83</b>	<b>100.00%</b>

(b) As at 30 June 2011, there are no advances from shareholders who hold more than 5% (including 5%) of the voting rights of the Company (as at 31 December 2010: nil).

(c) As at 30 June 2011, advances from related parties accounted for 25.35% of the total balance (as at 31 December 2010: 2.96%): refer to Note 6 for details.

(d) As at 30 June 2011, there are no advances from customers that are individually significant whose ageing are over 1 year.

(e) Advances from customers denominated in foreign currency are summarised as follows:

	30 June 2011			31 December 2010		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	1,512,161.19	6.47160	9,786,102.36	706,423.14	6.62270	4,678,428.53
HKD	1,588,915.79	0.83162	1,321,374.15	2,291,346.40	0.85090	1,949,706.65
			<b>11,107,476.51</b>			<b>6,628,135.18</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (23) Employee benefits payable

	31 December 2010	Current period additions	Current period reductions	30 June 2011
Wages and salaries, bonuses, allowances and subsidies	16,835,282.53	181,589,328.87	161,839,167.24	<b>36,585,444.16</b>
Staff welfare	1,817,012.45	22,510,181.66	18,210,711.60	<b>6,116,482.51</b>
Social insurances	2,783,797.35	60,940,811.57	60,287,777.96	<b>3,436,830.96</b>
Including: Medical insurance	10,154.95	15,268,588.72	15,280,541.06	<b>(1,797.39)</b>
Basic pension insurance	(1,732.15)	29,105,375.87	29,102,584.47	<b>1,059.25</b>
Annuity	2,772,208.08	10,576,181.87	9,913,390.74	<b>3,434,999.21</b>
Unemployment insurance	2,033.84	3,214,272.86	3,213,736.81	<b>2,569.89</b>
Work injury insurance	(17.24)	1,428,792.62	1,428,775.38	-
Maternity insurance	836.73	1,241,830.26	1,242,666.99	-
Other insurances	313.14	105,769.37	106,082.51	-
Housing funds	(2,485.59)	23,126,504.23	23,127,829.23	<b>(3,810.59)</b>
Labor union funds and employee education funds	2,707,902.44	4,487,769.84	4,302,356.58	<b>2,893,315.70</b>
Housing allowance	17,333,807.61	10,449,138.27	6,431,136.98	<b>21,351,808.90</b>
Service fee	10,863,152.03	83,986,463.35	84,799,615.38	<b>10,050,000.00</b>
Staff and workers' bonus and welfare fund	5,796,422.67	-	(3,780.00)	<b>5,800,202.67</b>
Others	3,123,919.17	6,411,177.71	5,999,887.56	<b>3,535,209.32</b>
	<u>61,258,810.66</u>	<u>393,501,375.50</u>	<u>364,994,702.53</u>	<u><b>89,765,483.63</b></u>

As at 30 June 2011, employee benefits payable mainly include the wages and bonus of June 2011 which were accrued but have not been paid. No defaulted payables are included in the employee benefits and the balance is estimated to be used up in the current year.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
 (All amounts in Renminbi yuan unless otherwise stated)  
 [English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (24) Taxes payable

	<b>30 June 2011</b>	31 December 2010
VAT	<b>16,545,262.59</b>	17,184,802.89
Business tax	<b>959,067.58</b>	1,285,015.11
City maintenance and construction tax	<b>1,843,172.83</b>	1,664,342.04
Education surcharge	<b>796,123.02</b>	726,956.22
Local education surcharge	<b>513,831.56</b>	–
Enterprise income tax	<b>22,823,653.89</b>	15,666,704.72
Individual income tax	<b>167,305.06</b>	4,993,337.17
Real-estate tax	<b>3,600,106.93</b>	981,655.31
Urban area embankment maintenance fee	<b>1,926,175.57</b>	1,656,090.45
Others	<b>1,518,154.41</b>	765,698.30
	<b><u>50,692,853.44</u></b>	<b><u>44,924,602.21</u></b>

### (25) Dividends payable

	<b>30 June 2011</b>	31 December 2010
<b>Investors</b>		
Foreign shares listed out of the PRC (H Shares)	<b>10,994,082.85</b>	(724.45)
RMB ordinary shares	<b>29,549,995.85</b>	(4.15)
Minority shareholders	<b>299,826.89</b>	114,468.29
	<b><u>40,843,905.59</u></b>	<b><u>113,739.69</u></b>

### (26) Other payables

(a) The ageing of other payables is analysed as below:

	<b>30 June 2011</b>	31 December 2010
Within 1 year	<b>84,574,588.70</b>	73,748,554.93
Over 1 year	<b>55,053,773.33</b>	55,500,052.15
	<b><u>139,628,362.03</u></b>	<b><u>129,248,607.08</u></b>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (26) Other payables (Continued)

(b) Other payables are analysed by categories as follows:

	<b>30 June 2011</b>	31 December 2010
Deposits	<b>26,485,618.53</b>	25,663,220.46
Technology development expenses	<b>24,172.24</b>	24,172.24
Rental expenses	<b>1,242,099.76</b>	380,529.69
Payables to third parties	<b>29,852,692.07</b>	47,404,152.92
Amounts due to employees	<b>2,359,705.27</b>	2,602,019.65
Payables to related parties	<b>8,002,996.79</b>	5,542,533.02
Accruals for purchase of fixed assets	<b>2,920,347.89</b>	4,017,194.74
Accruals for purchase of land use rights	<b>2,154,323.40</b>	2,154,323.40
Accrued expenses	<b>59,685,894.84</b>	34,420,595.90
Others	<b>6,900,511.24</b>	7,039,865.06
	<b>139,628,362.03</b>	129,248,607.08

(c) Details of accrued expenses

	<b>30 June 2011</b>	31 December 2010
Interest expenses	–	49,267.78
Rental expenses	<b>3,761,545.80</b>	1,999,783.32
Agent fees	<b>1,952,450.23</b>	2,910,610.23
Advertising expenses	<b>29,521,724.69</b>	20,389,978.06
Utilities	<b>3,806,430.62</b>	1,482,985.66
Transportation expenses	<b>4,793,262.85</b>	1,744,085.03
Research and development expenses	<b>4,715,725.35</b>	1,406,454.31
Marketing expenses	<b>4,375,653.70</b>	70,132.00
Travelling expenses	<b>2,788,000.00</b>	912,429.23
Others	<b>3,971,101.60</b>	3,454,870.28
	<b>59,685,894.84</b>	34,420,595.90

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (26) Other payables (Continued)

- (d) As at 30 June 2011, other payables to shareholders who hold more than 5% (including 5%) of the voting rights of the Company are other payables of RMB7,815 thousand to GPLH (as at 31 December 2011: RMB5,305 thousand to GPLH).
- (e) As at 30 June 2011, other payables to related parties accounted for 5.73% of the total balance (as at 31 December 2011: 4.29%): refer to Note 6 for details.
- (f) As at 30 June 2011, significant other payables whose ageing are over 1 year mainly include accruals for purchase of fixed assets, accruals for purchase of intangible assets, borrowings from third parties and deposits from customers.
- (g) As at 30 June 2011, all other payables are denominated in RMB.

### (27) Long-term payables

	<b>30 June 2011</b>	31 December 2010
State dividend fund	<b>2,149,157.22</b>	2,149,157.22
State-owned Assets Supervision & Administration Commission of Guangzhou City	<b>934.51</b>	934.51
The Provincial Department of Finance of Guangxi Zhuang Autonomous Region	<b>2,264,426.47</b>	2,264,426.47
Others	<b>8,887.36</b>	8,887.36
	<b><u>4,423,405.56</u></b>	<u>4,423,405.56</u>

### (28) Provisions

	<b>30 June 2011</b>	31 December 2010
Transitional medical insurance (a)	<b>7,250,726.34</b>	14,251,694.95
Accruals for loss on return of goods	<b>145,162.66</b>	145,162.62
	<b><u>7,395,889.00</u></b>	<u>14,396,857.57</u>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (28) Provisions (Continued)

- (a) Transitional medical insurance: Pursuant to Trial measures for basic medical insurance of Guangzhou employees (Decree [2002] No.17 issued by Guangzhou Government) and the Supplementary guidance on paying transitional medical insurance and the relevant issues (Decree [2002] No.14 issued by Guangzhou Labor and Social security Bureau), enterprises in Guangzhou should make contributions in transitional basic medical insurance for retirees or the employees who will retire in the next 10 years from 1 December 2001. As the Group is located in Guangzhou, the Group is obligated to make such contributions into the transitional medical insurance for retirees pursuant to the above-mentioned decrees. It is a present obligation as a result of past transactions or events and it is probable that an outflow of economic benefits will be required to settle the obligation, thus it should be recognised as a liability.

The factors that affect the best estimate of the transitional medical insurance include: (i) actual increase rate of annual salary, (ii) actual life of retirees, (iii) effective discount rate.

### (29) Other non-current liabilities

	<b>30 June 2011</b>	31 December 2010
Government grants related to assets:		
Technology funds granted by government	<b>12,235,975.39</b>	12,768,037.73
Relocation compensation	<b>6,063,104.76</b>	6,641,912.52
Government discount	<b>2,132,353.41</b>	2,168,286.87
Sewage disposal system project	<b>1,035,500.00</b>	1,085,937.50
Specific funds for Xiaoke Wan online supervision project	<b>896,474.35</b>	1,000,000.00
Others	<b>2,607,216.06</b>	2,223,584.66
	<b>24,970,623.97</b>	25,887,759.28
Government grants related to income:		
Technology funds granted by government	<b>60,571,606.83</b>	68,903,760.76
Specific funds for development of technology exports	<b>186,392.06</b>	201,392.06
Others	<b>948,011.84</b>	1,290,225.89
	<b>61,706,010.73</b>	70,395,378.71
	<b>86,676,634.70</b>	96,283,137.99

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (30) Share capital

	31 December 2010		Current period addition (+)/reduction(-)				30 June 2011		
	Amount	% of the total balance	Shares issued	Share dividends	Transfer from reserves	Others	Subtotal	Amount	% of the total balance
Shares with restriction of trading	-	-	-	-	-	-	-	-	-
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	-	-	-	-	-	-	-
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading - subtotal	-	-	-	-	-	-	-	-	-
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	-	-	-	-	-	591,000,000.00	72.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	-	219,900,000.00	27.12
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading - subtotal	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00
Share capital total	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (30) Share capital (Continued)

	31 December 2009		Current period addition (+) / reduction (-)				30 June 2010		
	Amount	% of the total balance	Shares issued	Share dividends	Transfer from reserves	Others	Subtotal	Amount	% of the total balance
Shares with restriction of trading									
State-owned shares	-	-	-	-	-	-	-	-	-
State-owned legal person shares	-	-	-	-	-	-	-	-	-
Other domestic shares	-	-	-	-	-	-	-	-	-
Including:									
Domestic non-state-owned legal person shares	-	-	-	-	-	-	-	-	-
Domestic natural person shares	-	-	-	-	-	-	-	-	-
Foreign shares	-	-	-	-	-	-	-	-	-
Including:									
Foreign legal person shares	-	-	-	-	-	-	-	-	-
Foreign natural person shares	-	-	-	-	-	-	-	-	-
Shares with restriction of trading - subtotal	-	-	-	-	-	-	-	-	-
Shares without restriction of trading:									
RMB ordinary shares	591,000,000.00	72.88	-	-	-	-	-	591,000,000.00	72.88
Foreign shares listed in the PRC	-	-	-	-	-	-	-	-	-
Foreign shares listed out of the PRC	219,900,000.00	27.12	-	-	-	-	-	219,900,000.00	27.12
Others	-	-	-	-	-	-	-	-	-
Shares without restriction of trading - subtotal	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00
Share capital total	810,900,000.00	100.00	-	-	-	-	-	810,900,000.00	100.00

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (31) Capital surplus

	31 December 2010	Current period additions	Current period reductions	30 June 2011
Share premium	914,006,770.47	–	–	<b>914,006,770.47</b>
Other capital surplus	238,713,351.77	14,777.37	2,837,272.82	<b>235,890,856.32</b>
Including: Transfer of capital surplus recognised under the previous accounting system	24,955,836.66	–	–	<b>24,955,836.66</b>
	<u>1,152,720,122.24</u>	<u>14,777.37</u>	<u>2,837,272.82</u>	<u><b>1,149,897,626.79</b></u>
	31 December 2009	Previous period additions	Previous period reductions	30 June 2010
Share premium	914,006,770.47	–	–	914,006,770.47
Other capital surplus	230,075,848.81	–	1,970,957.84	228,104,890.97
Including: Transfer of capital surplus recognised under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>1,144,082,619.28</u>	<u>–</u>	<u>1,970,957.84</u>	<u>1,142,111,661.44</u>

The fluctuation of the other capital surplus in current period was due to:

- The decrease of capital surplus amounted to RMB2,753 thousand is due to the net changes in fair value of available-for-sale financial assets held by the Group, which include the decrease of RMB2,768 thousand due to the decline in the price of the A-share of China Everbright Bank Company Limited held by the Group and the increase of RMB15 thousand due to the increase in the price of the A-share of Bank of Communications held by the Group.
- As the capital surplus of a jointly controlled entity Guangzhou Pharmaceuticals Corporation decreased in the current period, the Group recognised the decrease in capital surplus amounted to RMB69 thousand based on its share of interest in Guangzhou Pharmaceuticals Corporation.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (32) Surplus reserve

	31 December 2010	Current period addition	Current period reduction	30 June 2011
Statutory surplus reserve	459,116,543.12	-	-	459,116,543.12
Discretionary surplus reserve	118,925,617.49	-	-	118,925,617.49
	<u>578,042,160.61</u>	<u>-</u>	<u>-</u>	<u>578,042,160.61</u>
	31 December 2009	Previous period additions	Previous period reductions	30 June 2010
Statutory surplus reserve	437,683,559.57	-	-	437,683,559.57
Discretionary surplus reserve	118,925,617.49	-	-	118,925,617.49
	<u>556,609,177.06</u>	<u>-</u>	<u>-</u>	<u>556,609,177.06</u>

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

The appropriation of discretionary surplus reserve should be proposed by the Board of Directors and approved by the General Meeting of Shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities.

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (33) Undistributed profits

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Undistributed profits at the beginning of the year (before adjustments)	<b>997,707,102.24</b>	792,594,656.13
Adjustments of undistributed profits at the beginning of the year (Add: positive; Less: negative)	-	-
Undistributed profits at the beginning of the year (after adjustments)	<b>997,707,102.24</b>	792,594,656.13
Add: Net profit for the current period	<b>179,621,034.63</b>	168,777,340.55
Less: Appropriation for statutory surplus reserve	-	-
Less: Ordinary shares dividend payable	<b>40,545,000.00</b>	40,545,000.00
	<hr/>	<hr/>
Undistributed profits at the end of the period	<b><u>1,136,783,136.87</u></b>	<b><u>920,826,996.68</u></b>

- (a) As at 30 June 2011, surplus reserves of the Company's subsidiaries amounting to RMB66,321 thousand is included in undistributed profits (as at 31 December 2010: RMB66,321 thousand).
- (b) In accordance with the resolution at the Annual General Meeting held on 21 June 2011, the Company proposed a cash dividend of RMB0.05 per share to shareholders of the Company, amounting to RMB40,545 thousand in total based on the number of shares issued amounting to 810,900,000.

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (34) Minority interest

Investees	Investment relationship with the company	30 June 2011	31 December 2010
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	Holding Subsidiary	12,619,174.63	11,768,522.37
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Holding Subsidiary	363,781.13	379,701.84
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	Holding Subsidiary	17,312,326.23	17,448,823.00
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	Holding Subsidiary	24,490,418.00	24,052,554.99
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Holding Subsidiary	493,492.90	610,401.47
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Holding Subsidiary	15,411,769.50	15,136,449.59
Guangzhou Qi Xing Pharmaceutical Co., Ltd.	Indirect holding subsidiary	35,638,449.15	32,217,092.03
Guangzhou Jing Xiu Tang 1790 Trading Co.,Ltd.	Indirect holding subsidiary	81,128.59	75,583.37
Guangzhou Pan Gao Shou Natural Health Products Co.,Ltd.	Indirect holding subsidiary	545,740.18	481,655.84
		<b>106,956,280.31</b>	<b>102,170,784.50</b>

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (35) Revenue and cost of sales

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

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

(a) Revenue cost of main operation by natures are summarised by business as follows:

	Revenue of main operation		Cost of main operation	
	Six months ended 30 June 2011	Six months ended 30 June 2010	Six months ended 30 June 2011	Six months ended 30 June 2010
Manufacture	1,302,296,328.35	1,085,463,148.66	736,096,415.12	555,555,877.00
Pharmaceutical trading	1,037,990,751.22	862,258,088.11	947,391,337.45	779,469,685.83
Other trading	430,244,716.83	335,044,583.49	425,521,475.16	332,464,634.68
	<b>2,770,531,796.40</b>	2,282,765,820.26	<b>2,109,009,227.73</b>	1,667,490,197.51

# Notes to the Financial Statements

For the six months ended 30 June 2011

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (35) Revenue and cost of sales (Continued)

(b) Revenue and cost of main operation by regions are summarised as follows:

	Revenue of main operation		Cost of main operation	
	Six months ended 30 June 2011	Six months ended 30 June 2010	Six months ended 30 June 2011	Six months ended 30 June 2010
Southern China	<b>1,961,008,525.10</b>	1,614,825,287.81	<b>1,533,508,276.46</b>	1,250,196,389.49
Eastern China	<b>285,385,586.67</b>	248,784,542.36	<b>211,145,340.78</b>	153,434,142.87
Northern China	<b>176,983,969.33</b>	128,676,557.36	<b>101,429,809.30</b>	58,531,793.60
Northeastern China	<b>48,944,582.64</b>	35,987,197.24	<b>29,746,962.63</b>	15,801,756.89
Southwestern China	<b>123,905,266.98</b>	141,749,945.14	<b>87,005,201.98</b>	104,312,791.00
Northwestern China	<b>55,648,800.00</b>	46,458,806.39	<b>31,829,795.71</b>	21,211,210.20
Other countries	<b>118,655,065.68</b>	66,283,483.96	<b>114,343,840.87</b>	64,002,113.46
	<b>2,770,531,796.40</b>	2,282,765,820.26	<b>2,109,009,227.73</b>	1,667,490,197.51

(c) Top five of the revenue of the Group amounted to RMB543,165 thousand in total, which accounts for 19.60% of the total revenue of the Group (for the six months ended 30 June 2010: 19.74%).

	Revenue of the main operation	Percentage of the total revenue of the main operation of the group
Dongguan Ye Lian Highway Asphalt Co.,Ltd	188,047,391.30	6.79%
Guangzhou Pharmaceuticals Corporation	131,088,600.97	4.73%
Guangzhou De Feng Hang Petrochemical Co., Ltd.	105,098,612.37	3.79%
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co.,Ltd.	73,245,002.27	2.64%
Guangdong Wei Kang Pharmaceutical Co., Ltd.	45,685,643.41	1.65%
	<b>543,165,250.32</b>	<b>19.60%</b>

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (35) Revenue and cost of sales (Continued)

#### (d) Revenue from other operation

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Leases of assets	<b>27,690,336.04</b>	25,403,054.02
Sales of materials	<b>313,244.72</b>	409,332.27
Franchise management fee income	<b>98,000.00</b>	111,000.00
License fee income	<b>9,785,690.44</b>	7,462,591.22
Consulting fee income	<b>357,764.59</b>	427,604.77
Medicine slotting fee income	<b>319,766.50</b>	429,380.00
Others	<b>8,244,711.88</b>	4,980,457.44
	<b><u>46,809,514.17</u></b>	<u>39,223,419.72</u>

#### (e) Cost of other operation

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Depreciation of assets leased out	<b>3,108,053.94</b>	2,555,288.78
Cost of materials sold	<b>2,666,793.34</b>	1,077,491.83
Others	<b>3,300,394.10</b>	1,438,168.50
	<b><u>9,075,241.38</u></b>	<u>5,070,949.11</u>

# Notes to the Financial Statements

For the six months ended 30 June 2011

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (36) Taxes and surcharges

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Business tax	<b>2,724,124.89</b>	2,135,089.05
City maintenance and construction tax	<b>10,345,728.13</b>	6,975,654.60
Education surcharge	<b>4,461,860.45</b>	3,028,311.67
Local education surcharge	<b>2,972,187.66</b>	–
Real-estate tax	<b>2,531,170.19</b>	2,103,711.72
Others	<b>705.12</b>	–
	<b>23,035,776.44</b>	14,242,767.04

Basis of calculation: refer to Note 3.

### (37) Selling and distribution expenses

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Employee benefit expenses	<b>150,572,596.47</b>	123,901,401.11
Sales service fees	<b>16,842,630.22</b>	15,145,315.85
Travelling expenses	<b>15,902,532.26</b>	11,909,572.68
Entertainment expense	<b>3,847,430.95</b>	3,120,605.70
Office expenses	<b>3,048,083.29</b>	2,825,005.68
Transportation expenses	<b>25,345,716.55</b>	22,603,329.78
Rental expenses	<b>4,966,781.75</b>	5,276,169.74
Conference expenses	<b>8,922,422.45</b>	11,039,912.84
Insurance fees	<b>145,602.39</b>	186,766.65
Advertising and promotion fees	<b>102,278,576.92</b>	66,230,739.46
Consulting fees	<b>4,416,646.83</b>	4,171,317.36
Depreciation charges	<b>1,264,813.42</b>	1,275,886.22
Others	<b>6,830,065.78</b>	17,333,903.06
	<b>344,383,899.28</b>	285,019,926.13

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (38) General and administrative expenses

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Employee benefit expenses	<b>111,956,242.56</b>	116,248,145.81
Property management expenses	<b>188,955.54</b>	516,905.93
Insurance fees	<b>481,674.91</b>	396,658.45
Depreciation charges	<b>14,570,104.86</b>	15,407,825.07
Utilities	<b>1,921,766.81</b>	1,771,079.90
Administrative expenses	<b>4,339,106.35</b>	4,934,337.50
Travelling expenses	<b>1,878,539.88</b>	1,413,118.71
Transportation expenses	<b>5,891,819.78</b>	6,254,706.16
Entertainment expenses	<b>4,538,139.16</b>	3,777,862.17
Repairing expenses	<b>2,171,197.55</b>	2,684,895.19
Rental expenses	<b>5,769,050.40</b>	6,513,268.56
Conference expenses	<b>1,474,117.61</b>	1,852,619.14
Research and development expenses	<b>30,813,774.94</b>	29,554,402.11
Taxation charges	<b>7,947,455.34</b>	7,389,469.95
Amortisation charges	<b>4,416,071.30</b>	4,847,622.87
Professional service fees	<b>3,803,182.87</b>	3,309,788.66
Consulting fees	<b>1,161,419.00</b>	1,593,368.72
License fees	<b>3,067,225.42</b>	2,072,795.25
Others	<b>11,371,985.74</b>	9,363,697.38
	<b>217,761,830.02</b>	219,902,567.53

# Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (39) Financial expenses

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Interest expenses	<b>805,094.84</b>	1,009,783.65
Discount interest expenses of notes	<b>838,164.70</b>	105,936.44
Interest income	<b>(3,737,137.59)</b>	(2,708,634.61)
Exchange losses/(gains)	<b>122,051.98</b>	(81,994.33)
Bank charges	<b>1,058,674.70</b>	824,960.22
Cash discounts	<b>754.41</b>	34,379.33
Others	<b>94,849.08</b>	212,103.96
	<b><u>(817,547.88)</u></b>	<b><u>(603,465.34)</u></b>

### (40) Asset impairment losses

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Provision for bad debts	<b>(659,617.33)</b>	2,141,695.32
Declines in values of inventories	<b>2,182,470.63</b>	1,574,660.08
	<b><u>1,522,853.30</u></b>	<b><u>3,716,355.40</u></b>

### (41) Profit arising from changes in fair value

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
(Loss)/Profit arising from changes in fair value of listed shares of Hafei Aviation Industry Co., Ltd held by the Group	<b>(98,855.10)</b>	(47,404.20)
(Loss)/Profit arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	<b>(1,528,891.02)</b>	4,450.92
	<b><u>(1,627,746.12)</u></b>	<b><u>(42,953.28)</u></b>

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[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (42) Investment income

#### (a) Investment income details

	Six months ended 30 June 2011	Six months ended 30 June 2010
Investment income from financial assets:		
Income from financial assets held for trading	306,960.88	366,261.16
Income from available-for-sale financial assets	672,330.00	28,788.00
Income from entrusted loans	(313,756.32)	(248,541.09)
	<u>665,534.56</u>	<u>146,508.07</u>
Income from long-term equity investment:		
Income from long-term equity investment under cost method	-	-
Income from long-term equity investment under equity method	83,610,963.02	57,091,006.32
Income from disposal of long-term equity investments	-	3,636,780.20
	<u>83,610,963.02</u>	<u>60,727,786.52</u>
	<u><u>84,276,497.58</u></u>	<u><u>60,874,294.59</u></u>

#### (b) Material items of investment income from long-term equity investments under equity method are as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Guangzhou Pharmaceuticals Corporation	33,822,765.79	30,242,139.05
Grangzhou Wang La Ji Pharmaceutical Co., Ltd.	49,188,416.63	31,059,138.83
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.	(3,025,397.29)	(2,912,947.50)
Guangzhou Jinshen Medical Co.,Ltd	-	(18,755.62)
Golden Eagle Fund Management Co.,Ltd.	3,616,390.04	(1,285,659.26)
Shanghai Jiuhe Tang Chinese Medicine Co.,Ltd.	8,787.85	7,090.82
	<u>83,610,963.02</u>	<u>57,091,006.32</u>

# Notes to the Financial Statements

For the six months ended 30 June 2011

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[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (43) Non-operating income

	Six months ended 30 June 2011	Six months ended 30 June 2010
Gain on disposal of non-current assets	182,502.08	114,053.82
Including: gain on disposal of fixed assets	182,502.08	114,053.82
Government grants	9,407,640.84	9,352,486.09
Penalty income	22,952.40	66,910.48
Sales of scraps	159,683.71	184,386.09
Waived liabilities	76,589.55	26,380.15
Compensation for relocation	12,000.00	359,524.83
Others	1,236,458.51	738,582.45
	<b>11,097,827.09</b>	<b>10,842,323.91</b>

Details of government grants:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Government grants related to assets:		
Technology funds granted by government	532,062.34	91,281.59
Compensation for relocation	578,807.76	–
Government subsidies for interests	35,933.46	43,552.51
Sewage disposal system project	50,437.50	32,687.50
Specific funds for Xiaoke Wan online supervision project	103,525.65	–
	<b>316,368.60</b>	<b>291,333.36</b>
	<b>1,617,135.31</b>	<b>458,854.96</b>
Government grants related to income:		
Technology funds granted by government	6,904,364.70	4,530,907.50
Specific funds for technology exports development	15,000.00	347,011.00
Others	871,140.83	4,015,712.63
	<b>7,790,505.53</b>	<b>8,893,631.13</b>
	<b>9,407,640.84</b>	<b>9,352,486.09</b>

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (44) Non-operating expenses

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Loss on disposal of non-current assets	<b>255,084.29</b>	91,826.56
Including: Loss on disposal of fixed assets	<b>255,084.29</b>	57,323.24
Loss on disposal of investment properties	-	34,503.32
Public welfare donations	<b>769,817.69</b>	494,370.43
Penalty and overdue fines	<b>224,534.38</b>	602,302.31
Others	<b>34,944.69</b>	64,196.97
	<b><u>1,284,381.05</u></b>	<u>1,252,696.27</u>

### (45) Income tax expenses

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

# Notes to the Financial Statements

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[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (45) Income tax expenses (Continued)

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

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

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (46) Earnings per share

#### (a) Basic earnings per share

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

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

#### (b) Diluted earnings per share

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

# Notes to the Financial Statements

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (47) Other comprehensive income

	Six months ended 30 June 2011	Six months ended 30 June 2010
(Losses)/Gains arising from available-for-sale financial assets	<b>(3,672,354.98)</b>	(827,872.83)
Less: Income tax effect arising from available-for-sale financial assets	<b>(919,635.53)</b>	(134,850.39)
	<b>(2,752,719.45)</b>	(693,022.44)
Recognition of share of other comprehensive income of investees based on equity method	<b>(69,397.83)</b>	(216,345.17)
Less: Income tax relating to share of other comprehensive income of investees based on equity method	-	-
Less: Net amount of reclassifications from other comprehensive income recognised in prior period to profit or loss in the current period	-	-
	<b>(69,397.83)</b>	(216,345.17)
	<b>(2,822,117.28)</b>	(909,367.61)

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (48) Notes to the consolidated cash flow statement

#### (a) Cash received relating to other operating activities

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Non-operating income	<b>1,431,094.62</b>	1,246,932.12
Other operation income	<b>47,598,196.10</b>	46,868,293.20
Government grants	<b>1,633,937.55</b>	16,420,629.21
Interest income	<b>3,737,137.59</b>	2,708,634.61
	<b>54,400,365.86</b>	67,244,489.14

#### (b) Cash paid relating to other operating activities

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Cash payments of selling and distribution expenses	<b>160,015,765.46</b>	105,248,200.00
Cash payments of general and administrative expenses by cash payment	<b>69,518,798.90</b>	67,720,327.64
Financial expenses – bank charges	<b>1,058,674.70</b>	824,960.22
Others	<b>3,278,250.36</b>	3,062,521.21
	<b>233,871,489.42</b>	176,856,009.07

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

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## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (48) Notes to the consolidated cash flow statement (Continued)

#### (c) Cash received relating to other investing activities

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Cash received from repayment of deposits for forward contracts	–	10,964,689.37
Cash received from liquidation of Nanfang Securities Co., Ltd	<b>531,364.66</b>	531,364.66
Interest received from securities accounts	<b>644.69</b>	–
	<hr/> <b>532,009.35</b> <hr/>	<hr/> 11,496,054.03 <hr/>

#### (d) Cash paid relating to other investing activities

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Tax expenses arising from the interest income of entrusted loans	<b>178,647.55</b>	206,234.31
Business tax arising from disposal of Nanzhou Road Dormitory	–	3,055,911.40
Deposits for forward contracts	<b>25,551,167.25</b>	–
	<hr/> <b>25,729,814.80</b> <hr/>	<hr/> 3,262,145.71 <hr/>

# Notes to the Financial Statements

For the six months ended 30 June 2011  
 (All amounts in Renminbi yuan unless otherwise stated)  
 [English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (49) Supplementary information of cash flow statements

#### (a) Supplementary information of cash flow statements

##### (i) Reconciliation of net profit to cash flow operating activities

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Net profit	<b>186,585,838.08</b>	174,139,273.08
Add: Provision for assets impairment	<b>1,522,853.30</b>	3,716,355.40
Depreciation of fixed assets, and depreciation and amortisation of investment properties	<b>52,637,001.81</b>	52,657,505.34
Amortisation of intangible assets	<b>2,013,581.89</b>	1,901,803.45
Amortisation of long-term prepaid expenses	<b>1,362,092.28</b>	1,483,464.85
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	<b>(171,975.12)</b>	(48,494.26)
Loss on scrapping of fixed assets	<b>244,557.33</b>	26,267.00
Loss on changes in fair value	<b>1,627,746.12</b>	42,953.28
Financial expenses (less: income)	<b>949,897.18</b>	1,139,893.28
Investment loss (less: income)	<b>(84,276,497.58)</b>	(60,874,294.59)
Decrease/(less: increase) in deferred tax assets	<b>(14,111,708.90)</b>	96,249.22
Increase/(less: decrease) in deferred tax liabilities	<b>(322,214.69)</b>	41,263.48
Decrease/(less: increase) in inventories	<b>(42,978,527.97)</b>	(121,861,456.79)
Decrease/(less: increase) of operating receivables	<b>(255,817,108.10)</b>	(133,681,103.05)
Increase/(less: decrease) of operating payables	<b>168,038,631.66</b>	166,209,225.81
Net cash flows from operating activities	<b>17,304,167.29</b>	84,988,905.50

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (49) Supplementary information of cash flow statements (Continued)

#### (a) Supplementary information of cash flow statements (Continued)

(ii) Investing and financing activities that do not involve cash receipts and payments

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Conversion of debt into capital Convertible company bonds	-	-
due within one year	-	-
Fixed assets held under finance leases	-	-

(iii) Net movement in cash and cash equivalents

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Cash at the end of period	<b>527,306,525.13</b>	741,415,065.35
Less: cash at the beginning of year	<b>696,347,134.34</b>	667,385,437.68
Add: cash equivalents at end of the period	-	-
Less: cash equivalents at beginning of the year	-	-
Net movement in cash and cash equivalents	<b><u>(169,040,609.21)</u></b>	<u>74,029,627.67</u>

As at 30 June 2011, the cash and cash equivalents do not include deposits for forward contracts amounting to RMB34,419 thousand and housing fund amounting to RMB548 thousand.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
 (All amounts in Renminbi yuan unless otherwise stated)  
 [English Translation for Reference Only]

## 5 NOTES TO THE MATERIAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### (49) Supplementary information of cash flow statements (CONTINUED)

#### (b) Details of cash and cash equivalents

	<b>30 June 2011</b>	31 December 2010
Cash	<b>527,306,525.13</b>	696,347,134.34
Including: Cash on hand	<b>1,286,469.28</b>	1,238,135.40
Bank deposits that are readily available for payment	<b>519,007,048.60</b>	690,048,172.39
Other cash that are readily available for payment	<b>7,013,007.25</b>	5,060,826.55
Cash equivalents	—	—
Total cash and cash equivalents	<b><u>527,306,525.13</u></b>	<b><u>696,347,134.34</u></b>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

### (1) General information of the parent company:

Name of the Parent company	Relationship	Business Type	registration place	Legal Representative	Nature of business	Registered Capital (RMB'0000)	% equity interest	% voting rights	Ultimate holding company	Organiz'-ation code
GPHL	Parent Company	Limited liability company	No. 45, North Street, Shamian Guangzhou	Yang Rongming	Manufacturing and trading	125,281	48.20%	48.20%	Guangzhou state-owned assets supervision and administration commission	2312473

Registered capital and changes in registered capital of the parent company:

GPHL

**31 December 2010 and 30 June 2011 (RMB'0000)**

**125,281**

The percentage of equity interests and voting rights held by the parent company in the Company is as follows:

GPHL

**31 December 2010 and 30 June 2011**

**% equity interest held**

**% voting rights held**

**48.20%**

**48.20%**

### (2) Information of subsidiaries

For the general information and related information of the subsidiaries, please refer to Note 4.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

### (3) Information of Jointly controlled entities and Associates

Name of related party	Business Type	Registration address	Legal Representative	Nature of business	Registered Capital (RMB'0000)	% equity interest	% voting rights	Code of Organization
1. Jointly controlled entities								
Guangzhou Pharmaceuticals Corporation	Sino-foreign joint venture	Guangzhou	XIAO YING GAO	Trading of medicine and medical apparatus	70,000	50.00%	50.00%	73296653-X
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd	Sino-foreign joint venture	Guangzhou	Shi Shaobin	Manufacturing of Chinese Medicine, such as Baoji Wan	20,476	48.05%	48.05%	19047976-0
Guangzhou Nuo Cheng Bio-tech Co., Ltd.	Limited Liability Company	Guangzhou	Zhou Lijian	Research, development and industrialization of human vaccine	8,400	49.24%	50.00%	78608627-1
2. Associates								
Hangzhou Zheda Hang Fang Chinese Medical Infor. Engineering Co., Ltd.	Limited Liability Company	Hangzhou	Qu Haibin	Technological development service	100	44.00%	44.00%	73843530-X
Golden Eagle Fund Management Co., Ltd	Limited Liability Company	Zuhai	Liu Dong	Fund management	25,000	20.00%	20.00%	74448348-X
Guangzhou JinShen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Gao Qi	Research and development: natural health products, Chinese medicine and food	200	38.25%	38.25%	751974324
Shanghai JiuHe Tang Chinese Medicine Co., Ltd.	Limited Liability Company	Shanghai	Fang Liang	Wholesales of medicine	190	25.76%	27.26%	13281474-3

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

### (4) Information of other related parties that do not control or are controlled by the Group

Name of entity	Relationship with the Group	Organization code
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Controlled by the same parent company	190481270
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	19046020X
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	190485108
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	190485116
Guangzhou South China Medical Apparatus Co., Ltd.	Controlled by the same parent company	23123789X
Guangzhou Pharmaceutical Real Estate Industry Co., Ltd.	Controlled by the same parent company	231225792
Polian Development Co., Ltd.	Controlled by the same parent company	Not applicable
Guangzhou Pharmaceutical Industrial Research Institute	Controlled by the same parent company	455347297
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Jointly controlled entity of the same ultimate company	773303038
Guangzhou Baiyunshan Enterprise Group Co., Ltd.	Controlled by the same parent company	190441420
Guangzhou Pharmaceutical Trading Center	Controlled by the same parent company	190503994
Guangzhou Pharmaceutical Supply Company	Controlled by the same parent company	190439590
Guangzhou Pharmaceutical Economic Development Company	Controlled by the same parent company	190492367
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	618223177
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Controlled by the same ultimate holding company	721974948
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Jointly controlled entity of the same ultimate company	661806271

### (5) Related party transactions

- (a) For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and them have been eliminated.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (5) Related party transactions (Continued)

#### (b) Purchases of goods from related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	Six months ended 30 June 2011		Six months ended 30 June 2010	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	59,247,556.99	2.89	32,149,324.06	2.03
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	204,528.60	0.01	367,340.38	0.02
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	136,639.76	0.01	117,482.64	0.01
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	64,632,056.16	3.16	31,295,413.04	1.98
Polian Development Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	58,104,110.85	2.84	40,322,702.22	2.55
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	630,357.13	0.03	138,306.98	0.01
Guangzhou Pharmaceuticals Corporation	Purchase of goods	Chinese raw medicine or medicine	Market price	39,334,703.97	1.92	35,282,258.04	2.23
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	1,955,173.69	0.10	1,502,829.57	0.09
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	39,928.97	0.00	384,213.68	0.02
				<b>224,285,056.12</b>	<b>10.96</b>	<b>141,559,870.61</b>	<b>8.94</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (5) Related party transactions (Continued)

#### (c) Sales of goods to related parties

Name of related party	Type of transaction	Nature of transaction	Pricing Policies and procedures for decision-making	Six months ended 30 June 2011		Six months ended 30 June 2010	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	61,109.08	0.00	-	-
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	23,579,147.00	0.85	25,858,871.62	1.13
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	25,435,935.57	0.92	24,358,616.80	1.07
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	1,453,495.73	0.05	1,973,812.40	0.09
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	73,245,002.27	2.64	52,802,935.24	2.31
Polian Development Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	977,610.74	0.04	803,737.38	0.03
Guangzhou Pharmaceutical Industrial Research Institute	Sales of goods	Chinese raw medicine or medicine	Market price	7,787.62	0.00	541,966.49	0.02
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	21,973,026.55	0.79	20,038,259.77	0.88
Guangzhou Pharmaceuticals Corporation	Sales of goods	Chinese raw medicine or medicine	Market price	131,088,600.97	4.73	100,839,654.87	4.42
Guangzhou Wang Lao Ji Pharmaceutical Cp., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	35,884,542.68	1.30	26,711,456.96	1.17
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	1,750,557.28	0.06	-	-
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	4,230.77	0.00	9,292.30	0.00
				<b>315,461,046.26</b>	<b>11.38</b>	<b>253,938,603.83</b>	<b>11.12</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

### (5) Related party transactions *(Continued)*

#### (d) Other related party transactions

(i) Guarantees for related parties: details please refer to Note 7.

(ii) Leases

##### 1) Tenancy Agreements

Pursuant to a Tenancy Agreement entered into by the Company and GPHL, GPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term at a fixed annual rent. The agreement was expired on 31 December 2010. The Tenancy Agreement was renewed by the Company and GPHL on 27 August 2010 and the renewed Tenancy Agreement will be expired on 31 December 2013. The Group should pay GPHL RMB875 thousand regarding these leases for the current period (for the six months ended 30 June 2010: RMB1,038 thousand), details please refer to the below table:

Name of lessor	Name of lessee	Condition of lease assets	Amount related to the leased assets (RMB'000)
GPHL	Guangzhou Zhong Yi Pharmaceutical Co.,Ltd.	Assets in good condition, for lessee's operation use	10
GPHL	Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd.	Assets in good condition, for lessee's operation use	102
GPHL	Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	Assets in good condition, for lessee's operation use	109
GPHL	Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	19
GPHL	Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	635
			875



## Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

### 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

#### (5) Related party transactions *(Continued)*

##### (d) Other related party transactions *(Continued)*

###### (ii) Leases *(Continued)*

- 2) The Office Tenancy Agreement-Second Floor in front stalls of GPHL located at No. 45 North Shamian Street.

Pursuant to the Office Tenancy Agreement entered into by the Company and GPHL on 1 November 2007, the Company rents the second floor in front stalls of GPHL located at No. 45 North Shamian Street at a fixed annual rent (which is subject to the adjustment of standard rent as prescribed by Guangzhou Real Estate Administration Bureau). The Office Tenancy Agreement was expired on 31 August 2010. The Office Tenancy Agreement was renewed by the Company and GPHL on 27 August 2010 and the renewed Office Tenancy Agreement will be expired on 31 August 2013. The lease term is from 1 September 2010 to 31 August 2013. The Company should pay GPHL RMB546 thousand regarding this leasing contract for the current period (for the six months ended 30 June 2010: RMB547 thousand).

- 3) The Office Tenancy Agreement-back stalls of GPHL located at No.45 North Shamian Street

Pursuant to the Tenancy Agreement entered into by the Company and GPHL on 28 August 1998, GPHL agreed to build a new office building and has granted to the Group the right to use certain premises as the office building (which is, the back stalls of GPHL located at No.45 North Shamian Street). The rent is discounted at 38% of the standard rent as prescribed by Guangzhou Real Estate Administration Bureau on the date when the Official Tenancy Agreement is signed. Since GPHL needed capital to enlarge the new office building, the Company agreed to pay RMB6,000 thousand in advance in 180 days after the Tenancy Agreement was signed. GPHL promised to use the advances only for new office buildings as well as agreed to offset the rent with the advances.

Pursuant to the Office Tenancy Agreement entered into by the Company and GPHL on 6 February 2004, the Company rented the back stalls of GPHL located at No.45 North Shamian Street, the lease term is up to the date when the advances for rentals is completely offset. As at 30 June 2011, the ending balance of the advances for rentals is RMB1,308 thousand (as at 31 December 2010: RMB1,584 thousand).

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

### (5) Related party transactions *(Continued)*

#### (d) Other related party transactions *(Continued)*

##### (iii) License Agreement

Pursuant to the Trademark License Agreement entered into by the Group and GPHL on 1 September 1997, GPHL has granted the Group an exclusive right to use 38 trademarks owned by GPHL for a term of 10 years since the License Agreement was signed. The Group agreed to pay a license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Group. The License Agreement was expired on 1 September 2007. GPHL issued Letter of Commitment for Extension of Usage Term of Trademarks granted to Guangzhou Pharmaceutical Company Limited on 21 November 2000: The License Agreement will be renewed for a term of 10 years automatically after the above-mentioned Trademarks License Agreement expires. The Group should pay GPHL RMB3,219 thousand of trademarks license fee for the current period (for the six months ended 30 June 2010: RMB1,731 thousand).

Pursuant to the Trademark License Supplementary Agreement entered into by Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. and GPHL on 28 July 2005, Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. agreed to pay a license fee to GPHL for the use of the trademarks at 2.1% of its aggregate net sales since Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. become to be a foreign-invested company limited. GPHL is entitled by 53% of the license fee from Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. while the Company by 47% of that. The Company should receive RMB9,786 thousand of the license fee from Wang Lao Ji Pharmaceutical Co. Ltd. for the current period (for the six months ended 30 June 2010: RMB7,463 thousand).

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (5) Related party transactions (Continued)

#### (d) Other related party transactions (Continued)

##### (iv) Employee residence service fee

Name of entity		Six months ended 30 June 2011 (RMB'000)	Six months ended 30 June 2010 (RMB'000)
Employee residence service fee	GPHL	<u>187</u>	<u>180</u>

Pursuant to the employee residence service contract entered into by GPHL and the Group, as well as the supplementary notice issued on 31 December 1997, GPHL agreed to continue to provide residence for employees. The residence service fee is charged at 6% of carrying amount of the employee residence. The employee residence service contract was renewed on 27 August 2010 and the renewed residence service contract will be expired on 31 December 2013.

##### (v) Employee benefits of key management personnel

Employee benefits of the Group's key management personnel amounted to RMB873 thousand for the six months ended 30 June 2011 (for the six months ended 30 June 2010: RMB881 thousand). The Group's key management personnel include directors, supervisors, general manager, vice general manager, financial controller and secretary to the Board of Director ("BOD"). The key management include 15 persons for the six months ended 30 June 2011 (for the six months ended 30 June 2010: 14), among which 11 persons received their salaries from the Group (for the six months ended 30 June 2010: 10).

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (5) Related party transactions (Continued)

#### (e) Receivables from and payables to related parties

##### (i) Receivables from related parties

		30 June 2011		31 December 2010	
Related Parties		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Accounts receivable:	GPHL	4,572.66	45.73	14,100.00	141.00
	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	6,464,226.46	64,642.26	6,051,383.83	60,513.84
	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	3,198,113.90	31,981.14	2,030,947.14	20,309.47
	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	657,480.00	6,574.80	-	-
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	4,916,371.60	49,163.72	5,844,510.26	58,445.10
	Polian Development Co., Ltd.	410,301.35	4,103.01	172,566.92	1,725.67
	Guangzhou Pharmaceutical Industrial Research Institute	-	-	66,500.00	665.00
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	2,040,637.11	20,406.37	1,391,193.51	13,911.94
	Guangzhou Pharmaceuticals Corporation	38,245,395.88	382,453.96	8,440,046.26	84,400.46
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	5,891,600.22	58,916.00	6,329,891.26	63,298.91
	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	345,800.00	3,458.00	-	-
		<b>62,174,499.18</b>	<b>621,744.99</b>	<b>30,341,139.18</b>	<b>303,411.39</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (5) Related party transactions (Continued)

#### (e) Receivables from and payables to related parties (Continued)

##### (i) Receivables from related parties (Continued)

		30 June 2011		31 December 2010	
Related Parties		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Other	GPHL	1,537,518.80	-	1,747,718.80	-
receivables:	Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	12,180.00	-	-	-
	Guangzhou Pharmaceuticals Corporation	-	-	3,200.00	-
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	7,014,772.56	-	391,201.53	-
	Guangzhou Nuo Cheng Bio-tech Co., Ltd.	396,890.99	-	-	-
		<b>9,061,362.35</b>	<b>100,000.00</b>	<b>2,242,120.33</b>	<b>100,000.00</b>
Advances to suppliers:	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	-	-	4,476,600.68	-
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	2,233,469.56	-	5,969,944.76	-
	Polian Development Co., Ltd.	38,824,075.00	-	-	-
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	5,940.00	-	-	-
	Guangzhou Pharmaceuticals Corporation	-	-	85,127.45	-
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	-	-	29,129.92	-
		<b>41,063,484.56</b>	<b>-</b>	<b>10,560,802.81</b>	<b>-</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (5) Related party transactions (Continued)

#### (e) Receivables from and payables to related parties (Continued)

##### (ii) Payables to related parties

		30 June 2011	31 December 2010
	<b>Related Parties</b>		
Notes Payable:	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	<b>4,107,800.00</b>	–
	Guangzhou Baiyunshan Guanghua Pharmaceutical Co., Ltd.	<b>20,168,000.00</b>	8,168,000.00
		<b>24,275,800.00</b>	<b>8,168,000.00</b>
Accounts Payable:	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	<b>2,619,778.70</b>	4,025,520.07
	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	<b>76,153.57</b>	82,547.17
	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	<b>10,391.43</b>	16,381.18
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	–	198,855.24
	Polian Development Co., Ltd.	<b>7,396,222.01</b>	7,553,847.48
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	<b>37,661.54</b>	–
	Guangzhou Pharmaceuticals Corporation	<b>8,142,093.85</b>	1,886,424.07
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	<b>321,712.45</b>	–
	Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	–	34,560.00
	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	<b>46,716.90</b>	–
		<b>18,650,730.45</b>	<b>13,798,135.21</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 6 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

### (5) Related party transactions (Continued)

#### (e) Receivables from and payables to related parties (Continued)

##### (ii) Payables to related parties (Continued)

		30 June 2011	31 December 2010
	<b>Related Parties</b>		
Other Payables:	GPHL	<b>7,815,496.79</b>	5,305,033.02
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co.,Ltd.	-	50,000.00
	Guangzhou Wang Lao Ji Pharmaceutical Co.,Ltd.	<b>187,500.00</b>	187,500.00
		<b>8,002,996.79</b>	<b>5,542,533.02</b>
Advances from customers:	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	-	104,378.50
	Guangzhou Pharmaceutical Industrial Research Institute	-	-
	Guangzhou Pharmaceuticals Corporation	<b>979,429.89</b>	2,822,221.90
	Guangzhou Wang Lao Ji Pharmaceutical Co.,Ltd.	<b>40,588,816.96</b>	-
		<b>41,568,246.85</b>	<b>2,926,600.40</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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## 7 CONTINGENCIES

(1) As at 30 June 2011, the Group renders guarantee for external parties as follows:

Name of the guaranteed entity	Nature of guarantee	Amount	Duration
Guangzhou Nuo Cheng Bio-tech Co., Ltd.	Loans for working capital	60,000,000.00	1 year

(2) As at 30 June 2011, the actual balance of the guarantees provided by the Company to the subsidiaries are summarised as follows:

Name of the guaranteed entity	Nature of guarantee	Amount	Duration
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Loans for working capital	10,000,000.00	6 months
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Loans for working capital	40,000,000.00	1 year
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Bank acceptance notes	16,110,000.00	6 months
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Letter of credit	10,000,000.00	6 months
		<u>76,110,000.00</u>	

## 8 COMMITMENTS

### (1) Capital commitments

(a) Capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet:

	30 June 2011	31 December 2010
Building, Machinery and equipment	<u>12,526,688.01</u>	<u>3,677,093.24</u>

(b) The Group's share of jointly controlled entities' capital commitments are as follows:

	30 June 2011	31 December 2010
Building, machinery and equipment	<u>38,159,175.57</u>	<u>16,847,493.00</u>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 8 COMMITMENTS (Continued)

### (2) Operating lease commitments

#### (a) Operating leases rent-in

The Group's rental assets from operating lease are mainly buildings, the minimum lease payments of significant rental under operating lease are summarised as follows:

	Minimum lease payables	
	30 June 2011	31 December 2010
<b>Remaining leasing term</b>		
Within 1 year (including 1 year)	<b>18,230,357.20</b>	21,445,875.70
1 to 5 years (including 5 years)	<b>25,925,460.02</b>	27,526,085.30
Over 5 years	<b>17,584,931.12</b>	20,882,955.08
	<b>61,740,748.34</b>	69,854,916.08

The rental expenses under operating lease amounting to RMB10,736 thousand are recognised in the profit or loss for the six months ended 30 June 2011 (for the six months ended 30 June 2010: RMB11,790 thousand).

#### (b) Operating leases lease-out

The Group's leased assets held under operating lease are mainly buildings, the minimum lease receipts of significant lease under operating lease are summarised as follows:

	Minimum lease receivables	
	30 June 2011	31 December 2010
<b>Remaining leasing term</b>		
Within 1 year (including 1 year)	<b>37,855,636.63</b>	54,290,281.58
1 to 5 years (including 5 years)	<b>90,560,547.62</b>	127,122,345.76
Over 5 years	<b>123,850,852.63</b>	76,454,615.81
	<b>252,267,036.88</b>	257,867,243.15



# Notes to the Financial Statements

For the six months ended 30 June 2011  
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## 9 EVENTS AFTER THE BALANCE SHEET DATE

As at the reporting date, there are no significant events after the balance sheet date.

## 10 OTHER SIGNIFICANT EVENTS

- (1) There are no significant debt restructurings incurred in the current period.
- (2) There are no significant non-monetary transactions incurred in the current period.

## 11 SEGMENT INFORMATION

As the chief operating decision-maker, the BOD assesses performance of the operating segments and allocates resources by reviewing the Group's internal reporting. Management has determined the operating segments based on these reports.

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

- Manufacturing: manufacture and sale of the CPM produced by the Group's manufacturing subsidiaries;
- Pharmaceutical trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine;
- Other trading: wholesale of goods other than pharmaceutical products.

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

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

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 11 SEGMENT INFORMATION (Continued)

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

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

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
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## 11 SEGMENT INFORMATION (Continued)

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

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

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 11 SEGMENT INFORMATION (Continued)

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

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

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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## 12 FINANCIAL INSTRUMENT AND RISK

The Group's activities expose it to a variety of financial risks: market risk (mainly currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

### (1) Market risk

#### (a) Foreign exchange risk

The Group's major operating activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless, the Group is exposed to foreign exchange risk arising from the recognised assets and liabilities and future transactions denominated in foreign currencies (mainly USD and HKD). The Group's finance department (Group Finance) is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

As at 30 June 2011 and 31 December 2010, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised as below:

	30 June 2011			
	USD	HKD	Others	Total
Financial assets denominated in foreign currency –				
Cash at bank and on hand	993,637.56	1,018,630.25	-	2,012,267.81
Accounts receivable	5,319,390.45	956,393.32	-	6,275,783.77
	<u>6,313,028.01</u>	<u>1,975,023.57</u>	<u>-</u>	<u>8,288,051.58</u>
Financial liabilities denominated in foreign currency –				
Short-term borrowings	34,419,046.08	-	-	34,419,046.08
Accounts payable	3,629,991.43	19,145.28	346,195.90	3,995,332.61
	<u>38,049,037.51</u>	<u>19,145.28</u>	<u>346,195.90</u>	<u>38,414,378.69</u>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 12 FINANCIAL INSTRUMENT AND RISK (Continued)

### (1) Market risk (Continued)

#### (a) Foreign exchange risk (Continued)

	31 December 2010			
	USD	HKD	Others	Total
Financial assets denominated in foreign currency –				
Cash at bank and on hand	452,108.05	987,420.55	–	1,439,528.60
Accounts receivable	4,188,017.66	1,375,192.16	–	5,563,209.82
	<u>4,640,125.71</u>	<u>2,362,612.71</u>	<u>–</u>	<u>7,002,738.42</u>
Financial liabilities denominated in foreign currency –				
Short-term borrowings	8,867,878.83	–	–	8,867,878.83
Account payables	8,791,579.75	19,589.14	232,865.52	9,044,034.41
	<u>17,659,458.58</u>	<u>19,589.14</u>	<u>232,865.52</u>	<u>17,911,913.24</u>

As at 30 June 2011, if RMB had weakened/strengthened by 10% against the USD or HKD with all other variables held constant, the Group's net profit for the period would have been approximately RMB322 thousand (As at 31 December 2010: RMB153 thousand) higher/lower.

#### (b) Interest rate risk

As at 30 June 2011, the Group has no long-term interest bearing borrowings. Thus, the Group is not exposed to significant interest rate risks.

### (2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank and on hand, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

# Notes to the Financial Statements

For the six months ended 30 June 2011

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[English Translation for Reference Only]

## 12 FINANCIAL INSTRUMENT AND RISK (Continued)

### (3) Liquidity risk

Cash flow forecast is performed by each subsidiary of the Group and aggregated by Group Finance. Group Finance monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	30 June 2011					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	562,273,955.54	-	-	-	-	562,273,955.54
Financial assets held for trading	-	-	-	-	5,041,545.90	5,041,545.90
Notes receivable	241,329,638.88	-	-	-	-	241,329,638.88
Accounts receivable	508,562,411.85	-	-	-	-	508,562,411.85
Other receivables	83,557,677.51	-	-	-	-	83,557,677.51
Available-for-sale financial assets	-	-	-	-	21,942,890.18	21,942,890.18
	<u>1,395,723,683.78</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,984,436.08</u>	<u>1,422,708,119.86</u>
Financial liabilities –						
Short-term borrowings	86,599,690.52	-	-	-	-	86,599,690.52
Notes payable	42,128,745.98	-	-	-	-	42,128,745.98
Accounts payable	376,674,638.11	-	-	-	-	376,674,638.11
Other payables	139,628,362.03	-	-	-	-	139,628,362.03
Long-term payables	-	-	-	-	4,423,405.56	4,423,405.56
	<u>645,031,436.64</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,423,405.56</u>	<u>649,454,842.20</u>
Provision of guarantees	<u>60,000,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,000,000.00</u>

# Notes to the Financial Statements

For the six months ended 30 June 2011

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## 12 FINANCIAL INSTRUMENT AND RISK (Continued)

### (3) Liquidity risk (Continued)

31 December 2010

	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	Total
Financial assets -						
Cash at bank and on hand	707,396,997.50	-	-	-	-	707,396,997.50
Financial assets held for trading	-	-	-	-	11,669,292.02	11,669,292.02
Notes receivable	200,470,880.49	-	-	-	-	200,470,880.49
Accounts receivable	361,623,301.86	-	-	-	-	361,623,301.86
Other receivables	52,592,713.94	-	-	-	-	52,592,713.94
Available-for-sale financial assets	-	-	-	-	25,615,245.16	25,615,245.16
	<u>1,322,083,893.79</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,284,537.18</u>	<u>1,359,368,430.97</u>
Financial liabilities -						
Short-term borrowings	39,527,506.61	-	-	-	-	39,527,506.61
Notes payable	76,326,446.93	-	-	-	-	76,326,446.93
Accounts payable	264,375,227.56	-	-	-	-	264,375,227.56
Other payables	129,248,607.08	-	-	-	-	129,248,607.08
Long-term payables	-	-	-	-	4,423,405.56	4,423,405.56
	<u>509,477,788.18</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,423,405.56</u>	<u>513,901,193.74</u>
Provision of guarantees	<u>50,000,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000,000.00</u>

The repayment periods of the bank loans and other loans are analysed as follow:

	30 June 2011		31 December 2010	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within five years	<b>86,599,690.52</b>	-	39,527,506.61	-
Not wholly repayable within five years	-	-	-	-
	<u><b>86,599,690.52</b></u>	<u>-</u>	<u>39,527,506.61</u>	<u>-</u>

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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## 12 FINANCIAL INSTRUMENT AND RISK *(Continued)*

### (4) Fair value

#### (a) Financial instruments not measured at fair value

Financial assets and liabilities not measured at fair value mainly represent receivables, short-term borrowings, payables and long-term payables.

The carrying amount of financial assets and liabilities not measured at fair value is a reasonable approximation of their fair values.

#### (b) Financial instruments measured at fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As at 30 June 2011, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets held				
for trading –				
Investments in				
equity instrument				
held for trading	5,041,545.90	-	-	5,041,545.90
Available-for-sale				
financial assets –				
Available-for-sale				
equity instruments	21,942,890.18	-	-	21,942,890.18
	<b>26,984,436.08</b>	<b>-</b>	<b>-</b>	<b>26,984,436.08</b>

# Notes to the Financial Statements

For the six months ended 30 June 2011

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## 12 FINANCIAL INSTRUMENT AND RISK (Continued)

### (4) Fair value (Continued)

#### (b) Financial instruments measured at fair value (Continued)

As at 31 December 2010, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets –				
Financial assets				
held for trading –				
Investments in				
debenture held				
for trading	5,000,000.00	–	–	5,000,000.00
Investments in				
equity instrument				
held for trading	6,669,292.02	–	–	6,669,292.02
Available-for-sale				
financial assets –				
Available-for-sale				
equity instruments	25,615,245.16	–	–	25,615,245.16
	<u>37,284,537.18</u>	<u>–</u>	<u>–</u>	<u>37,284,537.18</u>

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using valuation techniques. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis. Inputs to valuation techniques include prepayment rates, rates of estimated credit losses, and interest rates or discount rates.

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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## 13 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2010	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity	Impairment loss recognised during current period	30 June 2011
Financial assets -					
Financial assets at fair value through profit or loss	11,669,292.02	(1,627,746.12)	-	-	5,041,545.90
Available-for-sale financial assets	25,615,245.16	-	(3,672,354.98)	-	21,942,890.18
	<u>37,284,537.18</u>	<u>(1,627,746.12)</u>	<u>(3,672,354.98)</u>	<u>-</u>	<u>26,984,436.08</u>

## 14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2010	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in equity	Impairment loss recognised during current period	30 June 2011
Financial assets -					
Accounts receivable	5,563,209.82	-	-	-	6,275,783.77
Financial liabilities -					
Short-term borrowings	8,867,878.83	-	-	-	34,419,046.08
Account payables	9,044,034.41	-	-	-	3,995,332.61
	<u>17,911,913.24</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,414,378.69</u>

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

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## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

### (1) Accounts Receivable

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

(a) The ageing of accounts receivable is analysed as below:

	<b>30 June 2011</b>	31 December 2010
Within 1 year	<b>3,693,053.24</b>	9,554,575.30
1 to 2 years	<b>12,813.68</b>	481,938.60
	<b><u>3,705,866.92</u></b>	<b><u>10,036,513.90</u></b>

(b) Accounts receivable by categories are analysed as follows:

	30 June 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	-	-	-	-
Subject to provision by groups:				
Group with credit risk characteristic by ageing	<b>3,705,866.92</b>	<b>100.00%</b>	<b>38,211.90</b>	<b>1.03%</b>
Individually insignificant but subject to separate provisions	-	-	-	-
	<b><u>3,705,866.92</u></b>	<b><u>100.00%</u></b>	<b><u>38,211.90</u></b>	<b><u>1.03%</u></b>

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (1) Accounts Receivable (Continued)

(b) Accounts receivable by categories are analysed as follows (continued):

	31 December 2010			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	-	-	-	-
Subject to provision by groups:				
Group with credit risk characteristic by ageing	9,872,445.34	98.37%	139,057.55	1.41%
Individually insignificant but subject to separate provisions	164,068.56	1.63%	164,068.56	100.00%
	<u>10,036,513.90</u>	100.00%	<u>303,126.11</u>	3.02%

Classification of accounts receivable: refer to Note 2 (10).

- (c) As at 30 June 2011, there are no accounts receivable that are individually significant and subject to separate provision.
- (d) The groups of accounts receivable in which provisions are made using ageing analysis method are analysed as follows:

	30 June 2011			31 December 2010		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	3,693,053.24	99.65%	36,930.53	9,424,299.74	95.46%	94,242.99
1 to 2 years	12,813.68	0.35%	1,281.37	448,145.60	4.54%	44,814.56
	<u>3,705,866.92</u>	100.00%	<u>38,211.90</u>	<u>9,872,445.34</u>	100.00%	<u>139,057.55</u>

- (e) As at 30 June 2011, there are no accounts receivable that are individually insignificant but subject to separate provision.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (1) Accounts Receivable (Continued)

(f) Reversal or collection during the current period is as follows:

Item	Reason of reversal or collection	Basis of provisions previously made	Accumulated provision for bad debts made before reversal or collection	Amount of received	Amount reversal of provision for bad debts
Accounts receivable due from certain customers	Some receivables were collected due to efforts on collection	Certain customers were not able to settle the receivables according to contracts or agreements	164,068.56	164,068.56	-

(g) There are no accounts receivable that are collected by restructuring or other manners during the current period.

(h) As at 30 June 2011, there are no accounts receivable that are written off.

(i) As at 30 June 2011, there are no accounts receivable due from shareholders who hold more than 5% (including 5%) of the voting rights of the Company.

(j) As at 30 June 2011, accounts receivable with significant balance are analysed as below:

Name of the entity	Relation with the Company	Amount	Ageing	% of total balance
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	3,675,269.92	Within 1 year	99.17%
		3,675,269.92		

# Notes to the Financial Statements

For the six months ended 30 June 2011  
 (All amounts in Renminbi yuan unless otherwise stated)  
 [English Translation for Reference Only]

## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (1) Accounts Receivable (Continued)

(k) Accounts receivable from related parties are analysed as below:

Name of the entity	Relation with the Company	Amount	% of total balance
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	3,675,269.92	99.17%
		3,675,269.92	99.17%

(l) As at 30 June 2011, there are no accounts receivables derecognised due to transfer of financial assets.

(m) As at 30 June 2011, there are no securitizations that targeted at accounts receivable.

### (2) Other Receivables

	30 June 2011	31 December 2010
Receivables due from related parties	478,578,784.76	430,668,125.31
Deposits, rentals and staff advances	6,216,075.09	6,149,242.43
Others	502,043.54	502,043.54
	485,296,903.39	437,319,411.28
Less: provision for bad debts	502,043.54	502,043.54
	484,794,859.85	436,817,367.74



# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (2) Other Receivables (Continued)

- (b) As at 30 June 2011, other receivables that are individually significant and subject to separate provision are analysed as follows:

Name of entity	Ending balance	Provision for bad debts	Ratio	Reason
Bank of Hainan	502,043.54	502,043.54	100.00%	Unable to be collected

- (c) As at 30 June 2011, there are no other receivables in the group in which provisions are made using ageing analysis method.

- (d) Other receivables that are subject to fully provision or in large proportionate but are reversed or collected in full amount or in large proportionate amounted to RMB531 thousand in the current period, details are as follows:

Item	Reason of reversal or collection	Basis of provisions previously mad	Accumulated provision for bad debts reversal or ecollection	Amount of received	Amount reversal of provision for bad debts
Receivables due from Nanfang Securities Co., Ltd	Collection through legal procedures	Bankruptcy	531,364.66	531,364.66	-

- (e) There are no others receivables collected by restructuring or other manners in the current period.

- (f) Other receivables that are written off in prior years but collected in the current period amounted to RMB531 thousand, details are as follows:

Name of entity	Nature of other receivables	Amount collected	Reason	Arising from related party transactions or not
Nanfang Securities Co., Ltd	Bankrupt property distribution	(531,364.66)	Collection of written off bad debts	No

- (g) As at 30 June 2011, other receivables due from shareholders who held more than 5% of the voting rights of the Company was receivables due from GPLH amounted to RMB1,308 thousand (31 December 2010: RMB1,584 thousand due from GPLH).

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (2) Other Receivables (Continued)

(h) As at 30 June 2011, the top five of other receivables are analysed as follows:

Name of entity	Relation of the Company	Amount	Ageing	% of total balance
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	222,846,304.60	Within 1 year	45.92%
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	81,042,546.76	Within 1 year	16.70%
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	71,568,766.88	Within 1 year	14.75%
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Subsidiary	51,011,395.02	Within 1 year	10.51%
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Subsidiary	37,786,998.94	Within 1 year	7.78%
		464,256,012.20		95.66%

(i) Other receivables due from related parties are analysed as follows:

	Relation with the Company	Amount	% of total balance
Guangzhou Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	71,568,766.88	14.75%
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Subsidiary	51,011,395.02	10.51%
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	222,846,304.60	45.92%
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	81,042,546.76	16.70%
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Subsidiary	37,786,998.94	7.78%
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary	6,000,000.00	1.24%
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Jointly controlled entities	7,014,772.56	1.45%
GPHL	Parent company	1,308,000.00	0.27%
		478,578,784.76	98.62%

(j) As at 30 June 2011, there are no other receivables that are derecognised.

(k) As at 30 June 2011, there are no securitizations that targeted at other receivables.

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (3) Long-term equity investments

#### (a) Details of long-term equity investments

Name of entity	Investment cost	31 December 2010	Current period movement	30 June 2011	%Equity interest held	%Voting rights held	Provision for impairment	Impairment losses recognised in current period	Cash dividend in current period
Equity method:									
Guangzhou Pharmaceuticals Corporation	396,589,139.78	567,311,465.02	179,774,860.40	747,086,325.42	50.00%	50.00%	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	102,035,124.44	342,170,256.55	49,208,573.49	391,378,830.04	48.05%	48.05%	-	-	-
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	7,179,119.80	33,616,390.04	40,795,509.84	20.00%	20.00%	-	-	-
Guangzhou Jishen Medical Co., Ltd.	765,000.00	0.00	0.00	0.00	38.25%	38.25%	-	-	-
Sub-total of equity method	549,389,264.22	916,660,841.37	262,599,823.93	1,179,260,665.30	-----	-----	-	-	-
Cost method:									
Guangzhou Xing Qin Pharmaceutical Co., Ltd.	125,322,300.00	125,322,300.00	-	125,322,300.00	88.99%	88.99%	-	-	-
Guangzhou Zhong Yi Pharmaceutical Co. Ltd.	324,320,391.34	324,320,391.34	-	324,320,391.34	100.00%	100.00%	-	-	70,651,281.03
Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd.	142,310,800.00	142,310,800.00	-	142,310,800.00	100.00%	100.00%	-	-	16,637,848.66
Guangzhou Hui Fang Modern Chinese Medicine Research and Development Co., Ltd.	171,717,109.58	171,717,109.58	-	171,717,109.58	97.04%	97.04%	55,000,000.00	-	-
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	126,775,500.00	126,775,500.00	-	126,775,500.00	100.00%	100.00%	-	-	-
Guangzhou Jing Xu Tang Pharmaceutical Co., Ltd.	101,469,800.00	101,469,800.00	-	101,469,800.00	88.40%	88.40%	-	-	10,552,874.92
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	144,298,200.00	144,298,200.00	-	144,298,200.00	87.77%	87.77%	-	-	5,704,830.56
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	89,078,900.00	89,078,900.00	-	89,078,900.00	100.00%	100.00%	69,000,000.00	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd.	18,557,303.24	18,557,303.24	-	18,557,303.24	100.00%	100.00%	-	-	1,064,526.04
Guangzhou Bai D Bio-technology Pharmaceutical Co., Ltd.	129,145,812.38	129,145,812.38	-	129,145,812.38	98.48%	98.48%	47,000,000.00	-	-
Guangxi Ying Kang Pharmaceutical Co., Ltd.	21,536,540.49	21,536,540.49	-	21,536,540.49	51.00%	51.00%	-	-	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Guangdong Southern China Advanced Pharmaceutical Co., Ltd.	5,000,000.00	5,000,000.00	-	5,000,000.00	5.56%	5.56%	-	-	-
Sub-total of cost method	1,999,732,657.03	1,999,732,657.03	-	1,999,732,657.03	-----	-----	171,000,000.00	-	-
Total	1,949,141,921.25	2,316,413,498.40	262,599,823.93	2,579,013,322.33	-----	-----	171,000,000.00	-	104,611,361.21

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (3) Long-term equity investments (Continued)

(b) There is no limitation on fund transfer between the Company and its investing entities.

### (4) Revenue and cost of sales

	Six months ended 30 June 2011		
	Main operations	Other operations	Subtotal
Revenue	<b>8,929,594.80</b>	<b>22,252,310.71</b>	<b>31,181,905.51</b>
Cost of sales	<b>8,764,338.28</b>	<b>671,088.28</b>	<b>9,435,426.56</b>
Gross profit	<b>165,256.52</b>	<b>21,581,222.43</b>	<b>21,746,478.95</b>

	Six months ended 30 June 2010		
	Main operations	Other operations	Subtotal
Revenue	571,115,674.52	17,162,570.68	588,278,245.20
Cost of sales	557,374,671.53	671,088.28	558,045,759.81
Gross profit	13,741,002.99	16,491,482.40	30,232,485.39

(a) Revenue and cost of main operations by natures are summarised as follows:

	Revenue from main operations		Cost of main operations	
	Six months ended 30 June 2011	Six months ended 30 June 2010	Six months ended 30 June 2011	Six months ended 30 June 2010
Pharmaceutical trading	<b>8,929,594.80</b>	260,480,273.70	<b>8,764,338.28</b>	248,914,466.23
Other trading	-	310,635,400.82	-	308,460,205.30
	<b>8,929,594.80</b>	571,115,674.52	<b>8,764,338.28</b>	557,374,671.53

# Notes to the Financial Statements

For the six months ended 30 June 2011  
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[English Translation for Reference Only]

## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (4) Revenue and cost of sales (Continued)

(b) Revenue and cost of main operations by regions are summarised as follows:

	Revenue from main operations		Cost of main operations	
	Six months ended 30 June 2011	Six months ended 30 June 2010	Six months ended 30 June 2011	Six months ended 30 June 2010
Southern China	<b>8,929,594.80</b>	533,328,980.88	<b>8,764,338.28</b>	520,497,123.08
Eastern China	-	29,871,457.85	-	29,152,752.67
Northern China	-	194,134.36	-	189,463.50
Northeast China	-	7,487.18	-	7,307.04
Southwestern China	-	7,712,383.48	-	7,526,824.08
Northwestern China	-	1,230.77	-	1,201.16
	<b>8,929,594.80</b>	571,115,674.52	<b>8,764,338.28</b>	557,374,671.53

(c) There are not any individually customers which constituted to a significant portion of the Company's revenue from main operations, as all major customers of the Company are retail customers during the current period.

### (5) Investment income

(a) Investment income details:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Income from financial assets:		
Income from financial assets held for trading	-	1,528.93
Income from available-for-sale financial assets	<b>672,330.00</b>	-
Income from entrusted loans	<b>4,544,149.99</b>	4,025,374.13
Income from long-term equity investments under cost method	<b>104,611,361.21</b>	90,762,991.77
Income from long-term equity investments under equity method	<b>82,669,221.76</b>	57,864,823.35
	<b>192,497,062.96</b>	152,654,718.18

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (5) Investment income (Continued)

(b) Investment income from long-term equity investments under cost method

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Guangzhou Zhong Yi Pharmaceutical Co., Ltd.	<b>70,651,281.03</b>	61,470,186.06
Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd.	<b>16,637,848.66</b>	15,625,990.06
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	<b>10,552,874.92</b>	9,816,373.42
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.	<b>5,704,830.56</b>	3,850,442.23
Guangzhou Pharmaceutical Import & Export Co., Ltd.	<b>1,064,526.04</b>	–
	<b><u>104,611,361.21</u></b>	<b><u>90,762,991.77</u></b>

(c) Investment income from long-term equity investments under equity method

	<b>Six months ended 30 June 2011</b>	Six months ended 30 June 2010
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	<b>49,208,573.49</b>	31,127,351.46
Guangzhou Pharmaceuticals Corporation	<b>29,844,258.23</b>	28,041,886.77
Guangzhou Jinshen Medical Co., Ltd.	–	(18,755.62)
Golden Eagle Fund Management Co., Ltd.	<b>3,616,390.04</b>	(1,285,659.26)
	<b><u>82,669,221.76</u></b>	<b><u>57,864,823.35</u></b>

# Notes to the Financial Statements

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (6) Supplementary information to the Company's cash flow statement

	Six months ended 30 June 2011	Six months ended 30 June 2010
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	197,581,021.60	159,690,156.45
Add: Provisions for asset impairment	(796,278.87)	93,406.27
Depreciation and amortisation of fixed assets and investment property	1,165,382.74	1,188,634.37
Amortisation of intangible assets	-	-
Amortisation of long-term prepaid expenses	-	-
Losses (less: gains) on disposal of fixed assets, intangible assets and other long-term assets	(40,775.22)	-
Losses on scrapping of fixed assets	-	-
Losses on change in fair value	1,627,746.12	42,953.28
Financial expenses (less: income)	1,066,454.91	73,560.52
Investment loss (less: income)	(202,033,222.09)	(159,186,236.00)
Decrease (less: increase) in deferred tax assets	(271,471.37)	208,295.60
Increase (less: decrease) in deferred tax liabilities	(281,050.15)	29,589.03
Decrease (less: increase) in inventories	(327,528.81)	(792,387.87)
Decrease (less: increase) in operating receivables	5,882,689.21	(28,417,985.48)
Increase (less: increase) in operating payables	(10,395,217.07)	35,236,356.54
	<b>(6,822,249.00)</b>	8,166,342.71
(b) Investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	-	-
Convertible company bonds due within one year	-	-
Fixed assets held under finance leases	-	-
(c) Net movement in cash and cash equivalents		
Cash at end of period	91,532,756.45	233,727,334.45
Less: cash at beginning of year	213,007,698.60	223,165,989.78
Add: cash equivalents at end of period	-	-
Less: cash equivalents at beginning of year	-	-
	<b>(121,474,942.15)</b>	10,561,344.67

# Notes to the Financial Statements

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 16 NET CURRENT ASSETS

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

	<b>Company</b>	
	<b>30 June 2011</b>	31 December 2010
Current assets	<b>976,883,098.00</b>	978,417,616.81
Less: Current liabilities	<b>155,047,663.98</b>	51,116,161.64
Net current assets	<b><u>821,835,434.02</u></b>	<u>927,301,455.17</u>

## 17 TOTAL ASSETS LESS CURRENT LIABILITIES

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

	<b>Company</b>	
	<b>30 June 2011</b>	31 December 2010
Total assets	<b>3,458,496,955.57</b>	3,201,599,709.05
Less: current liabilities	<b>155,047,663.98</b>	51,116,161.64
Total assets less current liabilities	<b><u>3,303,449,291.59</u></b>	<u>3,150,483,547.41</u>

## Supplementary Information

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

### 1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	Amount	Note
Losses on disposal of non-current assets	(72,582.21)	
Tax return or exemption without proper authorization	–	
Government grants recognised in profits or losses(excluding those government grants that are closely relevant to the Group's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	9,407,640.84	Amount represented government grants recognised in non-operating income during the period.
Interests received from entities other than financial institutions recognised in profits or losses	–	
Gains arising from the difference between Investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net assets attributable to the Group	–	
Gains or losses arising from non-monetary assets exchange	–	
Gains or losses arising from entrusted investments or entrusted asset management	–	
Asset impairment provided in current period due to forced majeure (e.g. natural disasters)	–	
Gains or losses arising from debt restructuring	–	
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	–	
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	–	
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	–	
Gains or losses arising from contingencies irrelevant to the Group's normal business	–	
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	(1,320,785.24)	
Reversal of provision for bad debts of accounts receivable subject to separate provision	1,175,989.33	
Gains or losses arising from entrusted loan granted to other entities	(313,756.32)	
Gains or losses arising from changes in fair value of investment properties under fair value model	–	
One-off adjustments to profit or loss as required by taxation and accounting laws and regulations	–	
Consignment fee income arising from entrusted operations	–	
Other non-operating income and expenses other than the aforementioned items	478,387.41	
Other profit or loss items meeting the definition of non-recurring profit or loss	–	
Effect on income tax	(366,095.43)	
Effect on minority interests (post-tax)	(132,244.00)	
<b>Total</b>	<b>8,856,554.38</b>	

## Supplementary Information

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

### 2 RETURN ON NET ASSETS AND EARNINGS PER SHARE:

Six months ended 30 June 2011	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	4.95%	0.222	0.222
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	<b>4.71%</b>	<b>0.211</b>	<b>0.211</b>

Six months ended 30 June 2010	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	4.98%	0.208	0.208
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	<b>4.62%</b>	<b>0.193</b>	<b>0.193</b>

## Supplementary Information

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

### 3 REASONS FOR EXCEPTIONAL ITEMS IN FINANCIAL STATEMENTS

Items	At 30 June	At 31	Fluctuation	Reasons of fluctuation
	2011/Six	December		
	months ended	months ended		
	30 June 2011	30 June 2010	(%)	
	(RMB'000)	(RMB'000)		
Financial assets held for trading	5,042	11,669	(56.80)	Decrease was mainly due to the Group had redeemed RMB 5,000,000 financial product in the current period.
Accounts receivable	478,449	331,183	44.47	Increase in accounts receivable was in line with the increase in sales, which was due to the effective marketing strategies and the expansion of market share in the current period.
Advances to suppliers	173,325	126,960	36.52	Increase was mainly due to the increased prepayments by trading subsidiaries for imports of raw materials and production equipments in the current period.
Other receivables	74,064	43,131	71.68	Increase was mainly due to the increased prepayments for advertising fee and the receivables of license fee.
Long-term equity investments	1,212,161	952,493	27.26	Increase was mainly due to the increased investment in jointly controlled entity Guangzhou Pharmaceuticals Corporation and associate Golden Eagle Fund Management Co., Ltd., amounting to RMB 150,000,000 and RMB 30,000,000 respectively, as well as the recognition of investment income using equity method.
Construction in progress	38,524	27,452	40.33	Increase was mainly due to increased investment in technical renovation projects by the Group in the current period.
Deferred tax assets	55,739	41,627	33.90	Increase was mainly due to the increase in deductible temporary differences of employee benefits payable and accrued expense.
Short-term borrowings	84,419	38,868	117.19	Increase was mainly due to the increased bank loans for the expansion of sales and import and export trading business of the trading subsidiaries.

## Supplementary Information

For the six months ended 30 June 2011

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

### 3 REASONS FOR EXCEPTIONAL ITEMS IN FINANCIAL STATEMENTS (Continued)

Items	At 30 June	At 31	Fluctuation	Reasons of fluctuation
	2011/Six months ended 30 June 2011 (RMB'000)	December 2010/Six months ended 30 June 2010 (RMB'000)		
Notes payable	42,129	76,326	(44.80)	Decrease was mainly because the Group was more willing to settle with suppliers by endorsement of notes receivable and cash, thus less notes payable were issued in the current period.
Accounts payable	376,675	264,375	42.48	Increase was mainly due to the longer credit term granted by suppliers in the current period.
Advances from customers	163,971	99,011	65.61	Increase was mainly due to the increased advances from customers for imports of raw materials and production equipments.
Employee benefits payable	89,765	61,259	46.53	Increase was mainly due to the higher salaries and wages payable balance as at 30 June 2011.
Dividends payable	40,844	114	35,809.98	Increase was mainly due to the cash dividends of 2010 had not been paid out as at 30 June 2011.
Provisions	7,396	14,397	(48.63)	Decrease in accrued liabilities was mainly due to the amortisation of the transitional medical insurance.
Revenue	2,817,341	2,321,989	21.33	Increase was mainly due to the effective marketing strategies and the expansion of market share in the current period.
Cost of sales	2,118,084	1,672,561	26.64	Increase in cost of sales was mainly due to the increase of sales and the rising prices of raw materials.
Taxes and surcharges	23,036	14,243	61.74	Increase was mainly due to the increase in city maintenance and construction tax, education surcharges, and regional education surcharges in the current period.
Selling and distribution expenses	344,384	285,020	20.83	The advertising fee, marketing expenses and other selling expenses increased due to the development of marketing activities and expansion of sales.

## Supplementary Information

For the six months ended 30 June 2011  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

### 3 REASONS FOR EXCEPTIONAL ITEMS IN FINANCIAL STATEMENTS (Continued)

Items	At 30 June	At 31	Fluctuation	Reasons of fluctuation
	2011/Six months ended 30 June 2011 (RMB'000)	December 2010/Six months ended 30 June 2010 (RMB'000)		
Asset impairment losses	1,523	3,716	(59.02)	Decrease was mainly due to the reversal of provision for bad debts, which was due to the collection of related accounts receivable in the current period.
Profit arising from changes in fair value	(1,628)	(43)	(3,689.57)	Decrease was due to the decrease in the market price of the listed shares held by the Company.
Investment income	84,276	60,874	38.44	Increase was mainly due to the increased investment income from the Jointly controlled entities based on equity method, which were in line with the increased profit of the jointly controlled entities.
Net cash flows from operating activities	17,304	84,989	(79.64)	Decrease was mainly due to the increased accounts receivable and the increase of taxes and charges incurred for imports and exports trading business in the current period.
Net cash flows from investing activities	(229,182)	27,527	(932.59)	Decrease was mainly due to the increased investment in jointly controlled entity Guangzhou Pharmaceuticals Corporation and associate Golden Eagle Fund Management Co., Ltd. of RMB 150,000,000 and RMB 30,000,000 respectively.
Net cash flows from financing activities	42,888	(38,486)	211.44	Increase was mainly due to the increased bank loans for the expansion of sales and import and export trading business of the trading subsidiaries.



## 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.