



*Interim Report* **2012**



**廣州藥業股份有限公司**

Guangzhou Pharmaceutical Company Limited

(Stock code: 874)

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## Important Notice

1. The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”) of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company”) and its directors, supervisors and senior management collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this interim report and confirm that there are no false information, misleading statements or material omissions in this interim report.
2. Mr. Yang Rongming (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 contained in this interim report for the six months ended 30 June 2012 (the “Reporting Period”) are prepared in accordance with the China Accounting Standards for Business Enterprises, which are audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company who issued unqualified auditors’ reports thereon.
4. There is 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 interpretation occurs, 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 People's Republic of China (the "PRC")  
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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  
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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 2012 (Audited)	As at 31 December 2011 (Audited)	Changes as compared with 31 December 2011 (%)
Total assets (RMB'000)	<b>5,769,017</b>	4,851,266	18.92
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	<b>3,917,228</b>	3,781,652	3.59
Net assets per share attributable to the shareholders of the Company (RMB)	<b>4.83</b>	4.66	3.59

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

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

# Company Profile

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

Notes:

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

Items	The Reporting Period Amount (RMB'000)	Explanation
Gain on disposal of non-current assets	31	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.
Government subsidies recognized as gain	6,663	
Loss on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets, trading financial liabilities and financial assets available for sale	(256)	
Write back of provision for impairment of accounts receivables undergoing independent impairment test	125	
Loss from entrusted loans	(373)	
Other non-recurring income and expenses excluding the above items	1,449	
Income tax effect	(389)	
Effect on minority interest (after tax)	(269)	
<b>Total</b>	<b>6,981</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 2012, there were 50,695 shareholders in total, among which, 50,658 shareholders holding the Renminbi-denominated domestic ordinary shares (A shares) and 37 shareholders holding the overseas listed foreign shares (H shares).
- (2) As at 30 June 2012, the top ten shareholders of the Company are set out 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	27.04	219,267,389	156,000	Nil	Unknown
Rong Tong New Blue-chip Securities Investment Fund	Domestic shares	0.25	1,999,915	1,999,915	Nil	Unknown
Agricultural Bank of China Co., Ltd. – Invesco Great Wall of Energy Infrastructure Securities Investment Fund	Domestic shares	0.23	1,900,000	485,781	Nil	Unknown
Li Yanlong	Domestic shares	0.23	1,853,000	1,853,000	Nil	Unknown
Zhong Rong International Trust Co., Ltd. – Credit Bond Investment	Domestic shares	0.18	1,476,315	1,476,315	Nil	Unknown
Agricultural Bank of China Co., Ltd. – MANULIFE TEDA Lead Small Dish Stock Type Securities Investment Fund	Domestic shares	0.18	1,473,087	1,473,087	Nil	Unknown
China Industrial International Trust Limited- The new stock purchase < first phase of construction bank wealth (17 period) >	Domestic shares	0.14	1,149,000	342,690	Nil	Unknown
Meng Xiangtong	Domestic shares	0.14	1,110,000	0	Nil	Unknown
Guang Fa Securities Co., Ltd. Customer credit collateral securities trading account	Domestic shares	0.13	1,077,261	1,077,261	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 2012, 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 % of the total issued domestic shares (%)	Approximate % of the total issued H shares (%)
		Number of shares held (share)	Capacity		
GPHL	Domestic shares	390,833,391	Beneficial owner	66.13	—
FIL Limited	H shares	17,492,000	Investment manager	—	7.95

As far as the directors are aware, as at 30 June 2012, other than those listed above, there was no other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of any class of the issued share capital of the Company.

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

## 3. PUBLIC FLOAT

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

## 4. PRE-EMPTIVE RIGHTS

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

## 5. NEITHER THE COMPANY NOR ANY OF ITS SUBSIDIARIES HAD PURCHASED, SOLD OR REDEEMED OR CANCELLED ANY OF THE COMPANY’S LISTED 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 (resigned on 18 June 2012)	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 of the Company
- (a) As at 30 June 2012, 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 to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Rules Governing the Listing of Securities on HKEx (the "Listing Rules") to be notified to the Company and the HKEx were as follows:

### Senior management

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

- (b) Save as disclosed above, as at 30 June 2012, 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 to therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

# Directors, Supervisors, Senior Management and Staff

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

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

## **3. AS AT THE END OF THE REPORTING PERIOD, THE NUMBER OF THE GROUP'S EMPLOYEES AMOUNTED TO 5,488. 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 2012 WAS RMB220 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

During the Reporting Period, the Group has firmly pushed forward works including marketing, production, quality, technology and the major assets reorganization, and has accelerated marketing, adjustment and optimization in products and industrial transformation, deepened the progress of resources integration and strengthened the cost management based on the annual operation targets so as to ensure a stable and continual growth of its principal operations.

During the Reporting Period, the Group recorded an income from principal operations of RMB3,447,724,000, with a growth of 24.44% as compared with the corresponding period of last year. The profit before tax amounted to RMB248,618,000 representing an increase of 20.79% over the corresponding period of last year and the net profit attributable to shareholders of the Company amounted to RMB217,085,000, representing an increase of 20.86% over the corresponding period of last year.

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

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

# Report of the Board of Directors

## 1. ANALYSIS OF OPERATING RESULTS (Continued)

### (1) Operations review (Continued)

Principal Operations	Income from principal operations Increase/(Decrease) over the		Cost of principal operations Increase/(Decrease) over the		Profit margin of principal operations Increase/(Decrease) over the	
	Income from principal operations (RMB'000)	corresponding period of last year (%)	Cost of principal operations (RMB'000)	corresponding period of last year (%)	Profit margin of principal operations (%)	corresponding period of last year (Percentage point)
Overall operations	3,447,724	24.44	2,659,807	26.12	22.85	A decrease of 1.03 percentage points
Include: Manufacturing	1,489,762	14.40	797,966	8.41	46.44	An increase of 2.96 percentage points
Trading	1,957,962	33.35	1,861,841	35.61	4.91	A decrease of 1.58 percentage points
Include: Pharmaceutical trading	1,386,647	33.59	1,296,616	36.86	6.49	A decrease of 2.24 percentage points
Other trading	571,315	32.79	565,225	32.83	1.07	A decrease of 0.03 percentage point

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

Geographical analysis of sales arising from the operations of the Group for the first half of 2012 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	2,425,893	23.71	70.36
Eastern China	306,345	7.34	8.89
Northern China	233,773	32.09	6.78
North-Eastern China	53,891	10.11	1.56
South-Western China	226,599	82.88	6.57
North-Western China	57,411	3.17	1.67
Exports	143,812	21.20	4.17
<b>Total</b>	<b>3,447,724</b>	<b>24.44</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, the manufacturing operations actively developed works on government affairs and followed up with the expansion of the list of basic medicine and the bidding of basic medicine and non-basic medicine, which fostered the growth in sales volume of the Group's products in hospitals. Secondly, the Group vigorously organized marketing campaigns for brand building and activities in the cultural and academic field and enhanced the ability in market development. During the Reporting Period, the six subordinated manufacturing enterprises of the Company and their products were authorized and licensed for the use of the tradename and trademark of "Baiyunshan" in order to enhance the sales volume of the products in markets outside the Guangdong Province. Based on the event of "Company's celebration"\* ("賀司慶"), the Group proactively commenced the brand and product promotion and enhance the brand recognition. Meanwhile, the Group has put more efforts in academic promotion for key products such as Xiao Ke Wan\* (消渴丸) and Hua Tuo Zai Zao Wan\* (華佗再造丸). Through various kinds of academic conferences and trainings as well as series of thematic activities including "Chinese Medicine in China"\* (中醫中藥中國行), "Enter the rural areas, Enter the communities and Enter the family"\* (進鄉村、進社區、進家庭), "Chain Cooperation among the Top 100 Enterprises"\* (百強連鎖合作) and "Poverty Relief with Medicine in rural areas"\* (扶貧送藥下鄉), the Group went deep into the medical institutions at the grassroots level, and strengthened academic training and patient education and service, enhanced the force in pulling the sales at terminal. In order to develop the business of the great health industry, the Company invested to establish Guangzhou Wang Lao Ji Great Health Industry Company Limited\* (廣州王老吉大健康產業有限公司) ("WLJ Great Health") during the first half of the year. Currently, WLJ Great Health has been granted a permit to use "Wang Lao Ji" trademark to speedily develop the distribution and market of the relevant great health products such as red-canned Wang Lao Ji throughout the nation. Thirdly, the Group vigorously advanced the key products development, accelerated the adjustment of product structure and product transformation, focused on the increase in the market share of products with high gross profit and high value-adding in order to enhance the integrated gross profit margin. Fourthly, the Group innovated the marketing mode, utilized the service agent mode of "Commercial Platform + Industrial Operation", fostered the sale of second and third line products such as An Shen Bu Nao Ye\* (安神補腦液). The Group pushed onward the promotional sale of key products and main category products and rapidly increased the market shares of e-commerce retailer of medicine through the trial operation of e-commerce platform. Fifthly, the Group accelerated the development of GMP authentication of its subsidiaries. Currently, the Chinese medicine preprocessing workshop of Guangzhou Baiyunshan Zhongyi Pharmaceutical Company Limited ("Zhong Yi") and the Chinese medicine preprocessing and extraction (oral treatment) workshop and drug substance of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. ("Guangzhou Han Fang") have passed the 2010 GMP authentication. Sixthly, the Group reinforced the production cost management and strived to reduce the operation cost.

# Report of the Board of Directors

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

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

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

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

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

# Report of the Board of Directors

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

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

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

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

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

Types of products	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Increase/(Decrease)		Increase/(Decrease)		Increase/(Decrease)	
	Income from principal operations	over the corresponding period of last year	Cost of principal operations	over the corresponding period of last year	Profit margin of principal operations	over the corresponding period of last year
	(RMB'000)	(%)	(RMB'000)	(%)	(%)	(Percentage point)
Heat clearing and anti-toxic medicine	213,144	18.34	113,970	6.44	46.53	An increase of 5.98 percentage points
Diabetes medicine	298,893	18.84	113,405	(8.08)	62.06	An increase of 11.11 percentage points
Cough and phlegm clearing medicine	199,856	8.25	100,256	9.29	49.84	A decrease of 0.48 percentage point
Arthritis medicine	198,694	29.99	99,714	24.06	49.82	An increase of 2.40 percentage points
Gastric medicine	51,181	(3.83)	27,274	4.34	46.71	A decrease of 4.17 percentage points
Other products	527,994	10.01	343,347	11.70	34.97	A decrease of 0.98 percentage point

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

# Report of the Board of Directors

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

### (3) The trading operations

The trading operations were enhanced with a series of measures taken during the Reporting Period. Firstly, the trading operations further strengthened the coordination and communication with distributors and manufacturers, expanded the introduction of products and consolidation in sales as well as optimized the efforts. The Group fostered the growth in sales volume of the operating varieties through measures such as the optimization of channels and network, advertising, terminal promotional sale and promotional sale in various channels in response to the medical policies and market demand. Secondly, the Group constantly improved the cooperation with the production enterprises on such issues as the list of basic medicine and bidding, strengthen the introduction and distribution and the hospital medicine use of the products. Thirdly, the Group further gave full play to the advantage of the integration platform of various resources in trading operations. Guangzhou Cai Zhi Lin Company Limited\* (廣州采芝林藥業有限公司) (“Cai Zhi Lin”), a subsidiary of the Company, exerted its unique advantage of centralized procurement of Chinese medicine, implemented centralized management in screening of procurement species, prepared well for the analysis and forecast of the market trend and price of Chinese medicine, got the market information timely and accurately and adjusted the procurement strategy quickly in order to implement quality and quantity assurance and procurement in lower cost. Guangzhou Pharmaceutical Import & Export Co., Ltd.\* (廣州醫藥進出口有限公司) (“Pharmaceutical Import & Export”) accelerated the development of the operation platform of the raw materials and featured pharmaceutical products distribution and achieved a rapid growth in operations. Fourthly, the Group accelerated the establishment of Chinese medicine base, reinforced the cooperation with various raw material planting bases for Chinese medicine across the country to control key products and bulk medicine from the source. As at 30 June 2012, the Group has established the procurement platform of Chinese medicine and GAP planting base companies in regions such as Tibet, Shandong, Inner Mongolia and Guizhou.

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

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

# Report of the Board of Directors

## 2. DETAILS OF OPERATION AND RESULTS OF THE COMPANY'S SUBORDINATED ENTERPRISES DURING THE REPORTING PERIOD

Name of enterprises	Equity directly held by the Company (%)	Income from principal operation (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
<b>(1) Subsidiaries</b>				
Xing Qun (Note a)	88.99	167,876	12,204	10,226
Zhong Yi (Note a)	100.00	454,448	60,862	50,694
Chen Li Ji (Note a)	100.00	160,167	19,431	16,316
Qi Xing (Note a)	75.00	228,045	21,647	18,484
Jing Xiu Tang. (Note a)	88.40	137,718	13,485	11,439
Pan Gao Shou (Note a)	87.77	194,799	15,982	13,410
Guangxi Ying Kang	51.00	22,573	786	786
Guangzhou Bai Di Bio-technology Co., Ltd.	98.48	1,428	17,629	17,629
Guangzhou Han Fang	97.97	68,875	2,393	2,393
Cai Zhi Lin	100.00	1,177,102	6,281	4,881
Pharmaceutical Import & Export	100.00	1,193,644	5,712	4,198
WLJ Great Health	100.00	–	(1,863)	(1,863)
<b>(2) Branch Company</b>				
Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited	–	1,293	60	60
<b>(3) Joint ventures</b>				
Wang Lao Ji (Note b)	48.05	1,341,026	121,484	103,401
Guangzhou Pharmaceuticals Corporation (“GP Corp.”) (Note c)	50.00	9,452,865	112,297	81,072
Guangzhou Nuo Cheng Bio-tech Co., Ltd. (“Nuo Cheng”) (Note d)	approximately 50.00	141,809	57,658	49,262

# Report of the Board of Directors

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

# Report of the Board of Directors

### 3. DURING THE REPORTING PERIOD, THE COMPANY DID NOT ENGAGE IN ANY OTHER OPERATIONS WHICH HAD SIGNIFICANT IMPACT ON THE NET PROFIT OF THE GROUP.

### 4. 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.

### 5. ANALYSIS OF FINANCIAL CONDITIONS

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

Items	30 June 2012 (RMB'000)	31 December 2011 (RMB'000)	Fluctuation (%)	Reason of fluctuation
Cash at bank and on hand	789,118	384,136	105.43	the Group's sales revenue increased to improve capital return, the increase in advances from customers during the Reporting Period.
Accounts receivable	664,805	446,596	48.86	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.
Advance to suppliers	230,584	132,518	74.00	The increase was mainly due to the increased prepayments by the Company's trading subsidiaries for the purchase of pharmaceutical raw materials and packagings during the Reporting Period.
Other receivables	74,181	54,057	37.23	As at 30 June 2012, other receivables increased mainly due to the increased prepayments for advertising fees, the increase in the trademark usage fee of the joint venture and the export tax reimbursement.
Other current assets	5,531	2,342	136.16	As at 30 June 2012, the Group's deductible input tax decreased.
Construction in progress	28,067	20,370	37.79	Increase was mainly due to the increased investment in technical renovation projects by the Group in the Reporting Period.
Deferred tax assets	62,564	38,542	62.33	Increase was mainly due to the increase in deductible temporary differences of employee benefits payable and accrued expense during the Reporting Period.

# Report of the Board of Directors

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

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

Items	30 June	31 December	Fluctuation	Reason of fluctuation
	2012	2011		
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>	
Notes payable	41,381	5,432	661.80	During the Reporting Period, the Company's trading subsidiaries inclined to settle with suppliers at endorsement of bank notes to circulate necessary funds, in order to control finance expenses.
Accounts payable	572,505	350,250	63.46	Increase was mainly due to the longer credit term granted by suppliers in the Reporting Period.
Advance payable	550,647	146,932	274.76	During the reporting period, the Company established a wholly owned subsidiary – named WLJ Great Health, which had received a large amount of advance from customers.
Employee benefits payable	116,434	64,167	81.45	As at 30 June 2012, increase in employee benefits payable was mainly due to the increased budget and the unpaid salary.
Taxes payable	67,628	37,951	78.20	As at 30 June 2012, increase was mainly due to the increase in VAT and corporate income tax which had not been paid by the Group.
Dividends payable	5,094	136	3,633.45	As at 30 June 2012, increase was mainly due to the unpaid cash dividends of 2011 to the minority shareholders of the subsidiaries.
Other payables	160,029	121,544	31.66	As at 30 June 2012, increase was mainly because the Group has a non-reimbursement of advertising costs, conference fees, terminal fees.

# 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 2011 (RMB'000)	Fluctuation (%)	Reason of fluctuation
Finance expenses	2,854	(818)	449.11	The Group's interest expense increased as compared with the corresponding period of last year due to increase in bank borrowings during the Reporting Period.
Asset impairment losses	5,183	1,523	240.35	Increase was mainly due to the increase in bad debt provision, as a result of improvement in accounts receivable during the Reporting Period.
Profit arising from changes in fair value	(256)	(1,628)	84.25	Decrease was due to the fall in the fair value of the listed shares in Harbin Pharmaceutical Group Co., Ltd. and Hafei Aviation Industry Co., Ltd. as compared with the corresponding period of last year during the Reporting Period.
Investment income	113,784	84,276	35.01	During the Reporting Period, the investment income of the Company recognized in equity method increased as a result of the growth in the net profit of the Company's joint ventures as compared with the corresponding period of last year.
Net cash flows from operating activities	522,090	17,304	2,917.14	The improvement in net cash flow from operating activities was mainly due to the increase in revenue, improved money collection and increase in advances from customers during the Reporting Period
Net cash flows from investing activities	30	(229,182)	100.01	The Group had reduced the foreign investment projects and the deposit borrowing margin of its trade enterprises redeemed at maturity during the Reporting Period
Net cash flows from financing activities	(95,157)	42,888	(321.88)	The Group paid the cash dividends of 2011 and some bank borrowing during the Reporting Period.

# Report of the Board of Directors

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

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

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

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

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

### (3) Capital expenditure

The Group expects the capital expenditure for 2012 will be amounted to approximately RMB184 million, among which, the expenditure in the first half of 2012 amounted to RMB21 million (in the first half of 2011: RMB28 million), which will be mainly applied in the construction of factories and infrastructure and purchases of machines and equipment and patented technology. 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 2012, the Group has no significant contingent liabilities.

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

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

# Report of the Board of Directors

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

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

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

### (8) Gearing ratio

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

### (9) Material investment

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

## 6. ISSUES AND DIFFICULTIES ENCOUNTERED IN OPERATIONS AND PLANS FOR THE SECOND HALF OF 2012

In 2012, the bright prospect in the development of domestic pharmaceutical market, internationalization of pharmaceutical economy, domestic emphasis on the importance of the developing biological medicine and traditional Chinese medicine, the aging population in China etc. will create opportunities for the Group's future development. However, ever keener competition in the pharmaceutical market, ever changing competition, continual improvement in the production and centralized circulation of pharmaceutical products, change in pharmaceutical bidding policy of provinces, stronger price control of pharmaceutical products by the government, transformation of channels and end market to respond to the new medical reform, implementation of the new GMP standard, tight supply of some raw materials and continual increase in corporate operational costs will pose challenges to the development of the Group in the future.

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

1. To continue reinforcing its works on government affairs, proactively respond to the bidding of basic medicine and non-basic medicine and the price control policy of medicine and vigorously, promote the sale growth of the Company's product in medical institutions.
2. To innovate marketing, the Group will put greater efforts in advancing the establishment of the hundred million-yuan product developments and key products developments, accelerate the adjustment in industrial structure, continue to raise the percentage of high gross profit and high value added products in overall operations, cultivate the "cash cow" products with new profit. Meanwhile, the Group will vigorously promotes the health industry, speed up and expand the goods distribution and relevant promotion, and develop the market across the country as soon as possible.

# Report of the Board of Directors

## 6. ISSUES AND DIFFICULTIES ENCOUNTERED IN OPERATIONS AND PLANS FOR THE SECOND HALF OF 2012 *(Continued)*

3. According to the 2010 Pharmacopoeia Standards and relevant regulations, the Group comprehensively promotes the new GMP transformation in subordinated companies and stimulates the transformation of medical GMP personnel, software and hardware. At the same time, the Group will take the implementation of the new GMP as a new opportunity to improve and optimize the production process, refine the quality control and enhance the product quality.
4. The Group will accelerate the building up of technological innovation system and promote the IIb clinical research and related work of the therapeutic dual-plasmid HBV DNA vaccine and other medical research projects. Meanwhile, the Group will actively participate in the formulation of Chinese medicine standards and accelerated the progress and implementation of strategy in medicine standards.
5. To accelerate the major asset reorganization, strengthen the integration of resources and further leverage upon the synergy effect. Meanwhile, the Group will also reinforce the broadening in the dimension and depth of acquisitions and mergers as well as cooperation of subordinated companies and consolidate the control over internal capital so as to achieve the efficiency maximization and cost minimization.
6. To build up the scientific management, strengthen the risk control, consolidate the result in implanting internal control system and lower the operational risk of the Company.

## 7. THE DIVIDEND POLICY FORMULATION AND IMPLEMENTATION DURING THE REPORTING PERIOD

During the Reporting Period, the Company proposed to make amendments to Articles of Association in accordance with the related requirements of “Notice of Further Implementation of Relevant Matters on Cash Dividends by Listed Companies”\* (《關於進一步落實上市公司現金分紅有關事項的通知》) issued by the China Securities Regulatory Commission (the “CSRC”) and “Notice of Further Implementation of Relevant Provisions on Dividends by Listed Companies” issued by the Guangdong Bureau of the China Securities Regulatory Commission (the “GDSRC”) (Guangdong Zheng Jian [2012] No. 91), taking into account the condition of the Company the details were as follows:

The proposed amendments are as follows:

Article 211 the profit distribution of the Company is made according to the proportion of the shares held by the shareholders, emphasizing on bringing reasonable investment returns to the investors. The profit distribution policy strives to maintain continuity and stability.

# Report of the Board of Directors

## 7. THE DIVIDEND POLICY FORMULATION AND IMPLEMENTATION DURING THE REPORTING PERIOD *(Continued)*

### (I) The Company's profit distribution policy is as follows:

1. Principle of profit distribution:

The Company implements a stable policy of profit distribution. On making a profit distribution, the Company will comply with the statutory requirement to make the distribution in order and will take into account the provision of reasonable and stable returns on investment to the shareholders and the long-term and sustainable growth of the Company.

2. Method of profit distribution

The Company may pay dividends in the form of cash, bonus shares or a combination of both, or such other forms of dividends payment which are permitted by laws and regulations. Subject to the approval of the shareholders, the Board may be authorized to declare interim cash dividends;

3. Conditions of profit distribution and minimum dividend proportion:

The Company shall pay the dividends and the amount of cash dividends so paid shall not be less than 10% of the net profit attributable to shareholders of the Company for the year, provided that the working capital requirement for the Company's normal production and operation is met and the long-term and sustainable growth of the Company is maintained, and that there is no material investment plan or material cash expense. In the event that the Company has maintained growth in the profits for the past three years, the Company may increase the proportion for cash dividends to provide more returns to the investors.

Material investment plan or material cash expense represents the proposed external investment, acquisition or purchase of assets by the Company in the coming twelve months with accumulated expenses amounting to or exceeding 10% of the latest audited net assets of the Company.

4. In the event of misappropriation of the Company's funds by a shareholder, the Company can deduct the funds misappropriated from the cash dividends to be allocated to that shareholder as repayment.

# Report of the Board of Directors

## 7. THE DIVIDEND POLICY FORMULATION AND IMPLEMENTATION DURING THE REPORTING PERIOD *(Continued)*

### (II) Procedures for Decision Making on Profit Distribution by the Company:

The proposal for profit distribution of the Company is formulated by the Board after taking into account the Company's specific conditions such as profitability, capital needs and growth of the Company and, upon consideration and approval by the Board, shall be proposed at the general meeting for approval. Independent directors shall express their independent opinions on the reasonableness of the profit distribution proposal for the year before the same is considered by the Board.

- (III) In the event that the Company revises its profit distribution policy in response to the external business environment or its own state of operation, the Company shall first consider the protection of the shareholders' interests, make thorough consideration and state the reasons thereof. The revised profit distribution policy shall not be contrary to the relevant requirements of CSRC and stock exchanges in the PRC and Hong Kong. The proposal for the revision of the profit distribution policy shall first be approved by the independent directors of the Company and they shall express independent opinions, and thereafter shall be proposed to the Board for consideration before being submitted to the general meeting for consideration and approval by a special resolution thereat.

If the Company records profits for a year but the Board fails to make any proposal for cash profit distribution, the Board shall state the reasons thereof in detail and the planned application and use of such retained funds that would have been otherwise available for distribution in the annual report for the year, and the independent directors shall express independent opinions in such regard and shall be disclosed accordingly.

The proposed amendments were considered and passed at the Board meeting held on 15 June 2012 and will be submitted to the forthcoming the first extraordinary general meeting in 2012 for consideration and approval.

# Major Events

## 1. CORPORATE GOVERNANCE

The Company has been strictly complying with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the Corporate Governance Guideline, related laws and regulations of 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.

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

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

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

1. The Company performed review on its internal control and fulfillment of social obligations for the year ended 31 December 2011 pursuant to the requirements of the "Notice on How to Successfully Prepare the 2011 Annual Report by Listed Companies" and "No. 1 Memorandum on the Preparation Deliberation and Disclosure of the Internal Control Report for 2011 Annual Reports of Listed Companies" issued by the SSE. Accordingly, the Company prepared the "Self-assessment Report on Internal Control for 2011 from the Board of the Company" and the "Report on Fulfillment of Social Responsibilities for 2011", both of which were disclosed after being considered and duly passed at the Board meeting of the Company on 16 February 2012.
2. During the Reporting Period, the work relating to internal control commenced by the Company includes:
  - (1) The Company commenced the proclamation and training of internal control in order to strengthen the staff's understanding and knowledge in the operational process of internal control and its critical point of control for their abiding and execution.
  - (2) The Group has rectified the problems found during the internal control evaluation process in 2011.
  - (3) The Group has made supplementary amendments for part of the internal control system according to the operational environment and management need.
  - (4) The Company has formulated the "Evaluation Work Plan for Internal Control 2012" and planned to commence the internal control evaluation for the six months during July to September 2012.

## 1. CORPORATE GOVERNANCE *(Continued)*

3. In order to further optimize its relevant internal systems, the Company formulated “The Working Rules for Financial Controller of Guangzhou Pharmaceutical Company Limited”\* (《廣州藥業股份有限公司財務總監工作細則》), “Management System on the Authorization of Guangzhou Pharmaceutical Company Limited”\* (《廣州藥業股份有限公司權限管理制度》), “Management System on the Guarantees of Guangzhou Pharmaceutical Company Limited”\* (《廣州藥業股份有限公司擔保管理制度》), “Management System on the External Investments of Guangzhou Pharmaceutical Company Limited”\* (《廣州藥業股份有限公司對外投資管理制度》), “Strategic Management System of Guangzhou Pharmaceutical Company Limited”\* (《廣州藥業股份有限公司戰略管理制度》), “Management on the Evaluation of Internal Control of Guangzhou Pharmaceutical Company Limited”\* (《廣州藥業股份有限公司內部控制評價管理辦法》) and “Management System on Loan Facilities of Guangzhou Pharmaceutical Company Limited”\* (《廣州藥業股份有限公司債務融資管理制度》), and revised the “Management System on Comprehensive Budgeting of Guangzhou Pharmaceutical Company Limited”\* (《廣州藥業股份有限公司全面預算管理制度》). The aforesaid systems were passed by a written resolution of the fifth session of the Board of the Company on 19 January 2012.
4. According to the amendments to Code of Corporate Governance and the Main Board Listing Rules of the HKEx, amendments were made to relevant clauses in The Code of Practice of the Audit Committee of the Guangzhou Pharmaceutical Company Limited of the Board of Directors\* (《廣州藥業股份有限公司董事會審核委員會實施細則》) and Guangzhou Pharmaceutical Company Limited Implementing Regulations for the Nomination and Remuneration Committee of the Board of Directors\* (《廣州藥業股份有限公司董事會提名與薪酬委員會實施細則》), The Procedure of Nomination of Directors Candidates by the Shareholders of Guangzhou Pharmaceutical Company Limited (《廣州藥業股份有限公司股東提名人選參選董事的程序》) and Shareholder’s Communication Policy of Guangzhou Pharmaceutical Company Limited\* (《廣州藥業股份有限公司股東通訊政策》) were formulated at the same time. The aforesaid systems were considered and approved at the Board meeting of the Company held on 26 March 2012.
5. Pursuant to the “Notice on Commencing Special Inspection of the Implementation of Working System for The Secretary to The Board of Listed Companies”\* (《關於開展上市公司董事會秘書工作制度落實情況專項檢查的通知》) (Guangdong Zheng Jian [2012] No. 80) issued by GDSRC, amendments were made to the relevant clauses of the Working Rules for The Secretary to The Board of Guangzhou Pharmaceutical Company Limited\* (《廣州藥業股份有限公司董事會秘書工作細則》). The aforesaid rules were considered and approved at the Board meeting of the Company held on 14 May 2012.

# Major Events

## 1. CORPORATE GOVERNANCE *(Continued)*

6. To optimize and improve the scientific, continuous and stable bonus mechanism and monitoring mechanism of the Company and to further enhance the transparency of the profit distribution policy and effectively protect the legal rights and interests of all shareholders, amendments to Articles of Association proposed to be made in accordance with the related requirements of “Notice of Further Implementation of Relevant Matters on Cash Dividends by Listed Companies”\* (《關於進一步落實上市公司現金分紅有關事項的通知》) issued by the CSRC and “Notice of Further Implementation of Relevant Provisions on Dividends by Listed Companies” issued by GDSRC (Guangdong Zhengjian [2012] No. 91). Relevant proposal amendments to the Articles of Association were considered and approved at the Board meeting of the Company held on 15 June 2012 and will be implemented after receiving approval at the forthcoming first extraordinary general meeting in 2012 for consideration and approval.

## 2. IMPLEMENTATION OF PROFIT DISTRIBUTION SCHEME, INCREASE IN SHARE CAPITAL FROM CAPITAL RESERVE OR ISSUE OF NEW SHARES OF THE COMPANY FOR 2011

- (1) Pursuant to the resolutions on profit and dividend distribution passed at the 2011 annual general meeting held on 12 April 2012, 2011 final dividend of RMB1.00 (including tax) for every 10 shares held was approved and paid, in cash, to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2011;
- (2) The final dividend of RMB0.10 (including tax) per share for 2011 was paid to the Company’s H shareholders whose names appeared on the register of the Company as at 2 May 2012 on 11 June 2012;
- (3) According to the announcement for 2011 final dividend published in Shanghai Securities News in the PRC on 14 May 2012, the registration date for A shares was 17 May 2012, the ex-dividend date was 18 May 2012 and the dividend payment date was 11 June 2012;
- (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 2012 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, CONNECTED TRANSACTION AND OTHER TRANSACTIONS

- (1) On 14 May 2012, the six subordinated manufacturing enterprises of the Company entered into the Baiyunshan Tradename License Agreements with Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("BYS") on connected transaction in the ordinary and usual course of business of the Group. The transactions contemplated under the Baiyunshan Tradename License Agreements were considered and passed by the Board.

Please refer to the details for the announcements which were published in Shanghai Securities News, the Securities Times and the website of the SSE ([www.sse.com.cn](http://www.sse.com.cn)) on 15 May 2012 and on the website of the HKEx ([www.hkex.com.hk](http://www.hkex.com.hk)) on 14 May 2012.

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

Please refer to the details for the announcements which were published in Shanghai Securities News, the Securities Times and the website of the SSE ([www.sse.com.cn](http://www.sse.com.cn)) and on the website of the HKEx ([www.hkex.com.hk](http://www.hkex.com.hk)) on 28 May 2012.

- (3) It was approved by the Strategic Development and Investment Committee of the Company at its first meeting for 2012 that the Company, Pan Gao Shou and Cai Zhi Lin, subsidiaries of the Company, jointly invested RMB2,400,000 to set up a joint venture named "Chongqing Guang Yao Development Co., Ltd."\* (重慶廣藥中藥材開發有限公司) with Cheng Kou Xian Xin He Agricultural Development Co., Ltd.\* (城口縣新合農業開發有限公司), The registered capital of the newly established company is RMB3,000,000, in which Pan Gao Shou and Cai Zhi Lin hold 39% and 41% of its interests respectively. At present, the formalities in relation to the setting up of the joint venture was underway.

- (4) It was approved by the Strategic Development and Investment Committee of the Company at its first meeting for 2012 that, Pan Gao Shou acquired 10% equity interest in Guangzhou Pan Gao Shou Natural Care Products Co., Ltd. held by Guangzhou Panyu Shi Qiao Asset Management Co., Ltd.\*(廣州市番禺區市橋鎮資產管理有限公司) at a consideration of RMB 4,500,000. At present, the formalities in relation to the acquisition of equity was underway.

- (5) Connected Transactions

# Major Events

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

### (5) 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 <i>(RMB'000)</i>	% of similar balance	Settlement method of connected transactions <i>(%)</i>
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Purchase of products	Medicine or pharmaceutical products	Market price	50,055	2.10	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	210	0.01	Cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	86	0.00	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	25,672	1.08	Cash
Po Lian Development Co., Ltd.	Wholly-owned subsidiary of parent company	Purchase of products	Medicine or pharmaceutical products	Market price	36,900	1.55	Cash
Guangzhou Baiyunshan Hutchison Qhampoa Chinese Medicine Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	775	0.03	Cash
GP Corp.	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	54,021	2.27	Cash
Wang Lao Ji	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	13,464	0.56	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	60,173	2.52	Cash
Nanyang Baiyunshan Hutchison Qhampoa Guanbao Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	925	0.04	Cash
Fuyang Baiyunshan Hutchison Qhampoa Chinese Medicine Technology Co.,Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	4,003	0.17	Cash
<b>Sub-total</b>					<b>246,284</b>	<b>10.33</b>	

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

### (5) 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 <i>(RMB'000)</i>	% of similar balance <i>(%)</i>	Settlement method of connected transactions
GPHL	Parent company	Sales of products	Medicine or pharmaceutical products	Market price	187	0.01	Cash
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Sales of products	Medicine or pharmaceutical products	Market price	18,355	0.53	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	26,703	0.77	Cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd. Guangzhou	Others	Sales of products	Medicine or pharmaceutical products	Market price	474	0.01	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	46,114	1.34	Cash
Po Lian Development Co., Ltd.	Wholly-owned subsidiary of parent company	Sales of products	Medicine or pharmaceutical products	Market price	1,207	0.04	Cash
Guangzhou Baiyunshan Hutchison Qhampo Chinese Medicine Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	19,678	0.57	Cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	204,976	5.95	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	54,634	1.58	Cash
Nuo Cheng	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	19	0.00	Cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	6,351	0.18	Cash
Guangzhou Baxter Qiaoguang medical Goods Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	6	0.00	Cash

# Major Events

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

### (5) Connected Transactions (Continued)

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance	Settlement method of connected transactions (%)
Nanyang Baiyunshan Hutchison Qhampoa Guanbao Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	17,763	0.52	Cash
Fuyang Baiyunshan Hutchison Qhampoa Chinese Medicine Technology Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	74	0.00	Cash
<b>Sub-total</b>					<b>396,541</b>	<b>11.50</b>	
GPHL	Parent company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	3,779	100.00	Cash
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Fellow ultimate holding company	Others	Rights to use trademarks	Agreement price	2,051	100.00	Cash
Wang Lao Ji	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	12,117	100.00	Cash
GPHL	Parent company	Others	Rental assets	Agreement price	1,172	10.04	Cash
GPHL	Parent company	Others	Accommodation fees of employees	Agreement price	187	100.00	Cash
<b>Total</b>					<b>662,131</b>		

The above connected transactions were transactions carried out within the Group's ordinary operations, determined with reference to market prices, and were considered to have no negative impact on the Group's continuous operations.

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

- (6) After the Reporting Period, It was approved by the Strategic Development and Investment Committee of the Company at its second meeting for 2012, the Company invested RMB6,600,000 to set up a joint venture, Guangzhou Guang Yao Kennedy Biological Products Co., Ltd.\* (廣州廣藥益甘生物製品股份有限公司), with Guangdong Create Economic Development Co., Ltd.\* (廣東共創經濟發展有限公司) and Guangdong Hao Hong Investment Co., Ltd.\* (廣東皓泓投資有限公司). The registered capital of the newly established company is RMB11,000,000, in which the Company holds 60% of its interests. At present, the formalities in relation to the setting up of the joint venture was underway.
- (7) Other than those listed above, the Group did not engage in any material acquisitions or disposals.
- (8) 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 determination of gains from leasing	Impact of gains from leasing on the Company	Whether the connected transaction	Connected relation
Chen Li Ji	Yin Zuo Plaza	The net amount of investment property as at 30 June 2012 was RMB4,156,000	1 January 2009	31 December 2013	9,773	Contract	3.93% of the total profit of the Group	No	N/A

## 7. MAJOR CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Group did not hold on trust, 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 period.

Save as the aforementioned, the Group 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)
	24 June 2011	29,544	Joint and several liability	1 year	No	Yes
Nuo Cheng	26 July 2011	19,696	Joint and several liability	1 year	No	Yes
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						—
Balance of guarantees as at the end of the Reporting Period (RMB'000)						49,240

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

Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)	70,000
Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)	165,000

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

Total amount of guarantees provided (RMB'000)	214,240
Total amount of guarantees provided amount the net assets of the Group (%)	5.47
<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)	160,000
Amount of guarantees provided which exceeds 50% of the total net assets of the Group (RMB'000)	—
Total amount of the above three types of guarantees (RMB'000)	160,000

## 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

Borrowers name	Loan amount (RMB'000)	Loan period	Loan interest rate	Whether the loan overdue	Whether a connected transaction	Connected relations with the Company
Cai Zhi Lin	198,000	1 Year	5.904%	No	No	Wholly-owned subsidiary of the Company

As at 30 June 2012, the aggregate amount of entrusted loans provided by the Company to its subsidiaries were RMB198,000,000.

## 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 FINANCIAL AFFAIRS OF THE COMPANY, AND THERE WAS NO COMMITMENT ON ADDITIONAL SHARE SALE RESTRICTION.

## 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 stock investment for the Reporting Period	Gain/(Loss) during the Reporting Period
				amount (RMB'000)	(share)	Period (RMB'000)	Reporting Period (%)	Reporting Period (RMB'000)
1	A Share of the SSE	600038	Ha Fei	1,806	57,810	965	33.60	(42)
2	A Share of the SSE	600664	Ha Yao	3,705	222,546	1,906	66.40	(214)
	Other stock investments held as at the end of the Reporting Period			—	—	—	—	—
	Gain/(Loss) of stock investments sold as at the end of the Reporting Period			—	—	—	—	—
<b>Total</b>				<b>5,511</b>	<b>—</b>	<b>2,871</b>	<b>100</b>	<b>(256)</b>

# Major Events

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

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

Stock Code	Stock name	The initial investment amount (RMB'000)	% of shareholding (%)	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
601328	Bank of Communication	439	—	1,510	41	23	Available-for-sale financial assets	Acquisition
601818	Everbright Bank	10,725	approximately 0.02	17,182	—	(182)	Available-for-sale financial assets	Acquisition

### (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 (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
Golden Eagle Fund Management Co., Ltd.	50,000	—	20.00	36,082	(1,328)	—	Long-term equity investment	Acquisition

## 13. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules and Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management as stipulated by the Company as the standards and criteria for securities transactions entered into by directors and supervisors. After specific enquiries made to all directors and supervisors, the Company has confirmed that all the Company's directors and supervisors complied with the standards relating to directors' and supervisors' dealing in securities as set out in the above code and criteria during the Reporting Period.

- 14. THE AUDIT COMMITTEE OF THE FIFTH SESSION OF THE BOARD IS COMPRISED OF FIVE INDEPENDENT NON-EXECUTIVE DIRECTORS, ONE OF WHOM HAS APPROPRIATE PROFESSIONAL QUALIFICATION. THE AUDIT COMMITTEE OF THE COMPANY HAS REVIEWED THE ACCOUNTING POLICIES, ACCOUNTING STANDARDS AND TREATMENTS ADOPTED BY THE GROUP, AND DISCUSSED WITH THE MANAGEMENT ABOUT THE AUDIT, INTERNAL CONTROLS AND FINANCIAL REPORTING MATTERS. THE AUDIT COMMITTEE HAS ALSO REVIEWED THE AUDITED INTERIM ACCOUNTS FOR THE SIX MONTHS ENDED 30 JUNE 2012.**
- 15. DURING THE REPORTING PERIOD, NO INVESTIGATION, ADMINISTRATION PUNISHMENT OR PUBLIC REPRIMAND BY THE CSRC, NO PUNISHMENT BY OTHER ADMINISTRATIVE DEPARTMENTS AND NO PUBLIC REPRIMAND BY HKEX OR SSE WERE MADE AGAINST AND IMPOSED ON THE COMPANY, THE BOARD OR THE DIRECTORS.**
- 16. MAJOR ASSET REORGANIZATION**

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

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

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

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

# Major Events

## 17. OTHER EVENT

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

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

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

Disclosed information	Newspaper	Date	Website and the link
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page B12 of Securities News	4 January 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page C8 of Securities News	9 January 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page C4 of Securities News	16 January 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page 36 of Shanghai Securities News; Page B20 of Securities News	30 January 2012	<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	/	1 February 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page 28 of Shanghai Securities News; Page A5 of Securities News	6 February 2012	<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>

## 18. INDEX TO THE IMPORTANT INFORMATION DISCLOSED DURING THE REPORTING PERIOD: *(Continued)*

Disclosed information	Newspaper	Date	Website and the link
Announcement of significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page D17 of Securities News	13 February 2012	<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>
Summary of 2011 annual report, Announcement of resolution passed at the 12 <sup>th</sup> meeting of the fifth session of the Board, Announcement of resolution passed at the 8 <sup>th</sup> meeting of the fifth session of the Supervisory Committee and Notice of the 2011 annual general meeting	Page B28 of Shanghai Securities News; Page D17 of Securities News	17 February 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page 24 of Shanghai Securities News; Page C6 of Securities News	20 February 2012	<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>
List of directors and their role and function	/	24 February 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page 20 of Securities News	27 February 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page C12 of Shanghai Securities News; Page C6 of Securities News	5 March 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page 20 of Shanghai Securities News; Page C20 of Securities News	12 March 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page 34 of Shanghai Securities News; Page C21 of Securities News	19 March 2012	<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 significant progress in asset restructuring and Overseas regulatory announcement	Page 226 of Shanghai Securities News; Page B4 of Securities News	26 March 2012	<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>

# Major Events

## 18. INDEX TO THE IMPORTANT INFORMATION DISCLOSED DURING THE REPORTING PERIOD: *(Continued)*

Disclosed information	Newspaper	Date	Website and the link
Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and Acquisition of assets from Guangzhou Pharmaceutical Holding Limited, Announcement of resolution passed at the 13 <sup>th</sup> meeting of the fifth session of the Board, Announcement of resolution passed at the 9 <sup>th</sup> meeting of the fifth session of the Supervisory Committee, Announcement of written resolution passed at the meeting of the fifth session of the Board and Overseas regulatory announcement	Page B246-248 of Shanghai Securities News; Page D13-15 of Securities News	28 March 2012	<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	/	11 April 2012	<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 2011 annual general meeting	Page B6 of Shanghai Securities News; Page D33 of Securities News	13 April 2012	<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>
2012 first quarterly report and Announcement of resolution passed at the 14 <sup>th</sup> meeting of the fifth session of the Board	Page B48 of Shanghai Securities News; Page D73 of Securities News	27 April 2012	<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 payment of 2011 dividend for A shares and Unusual fluctuations in trading of A shares	Page 28 of Shanghai Securities News; Page C13 of Securities News	14 May 2012	<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 15 <sup>th</sup> meeting of the fifth session of the Board, Announcement of resolution passed at the 11 <sup>th</sup> meeting of the fifth session of the Supervisory Committee and Continuing connected transaction	Page B40 of Shanghai Securities News; Page D4 of Securities News	15 May 2012	<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>

## 18. INDEX TO THE IMPORTANT INFORMATION DISCLOSED DURING THE REPORTING PERIOD: *(Continued)*

Disclosed information	Newspaper	Date	Website and the link
Announcement of resolution passed at the 16 <sup>th</sup> meeting of the fifth session of the Board, Announcement of resolution passed at the 12 <sup>th</sup> meeting of the fifth session of the Supervisory Committee and Continuing connected transaction	Page 21 of Shanghai Securities News; Securities News	28 May 2012	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> <a href="http://www.hkex.com.hkhttp://www.equitynet.com.hk/0874/">http://www.hkex.com.hkhttp://www.equitynet.com.hk/0874/</a>
Summary of the Report (draft) of the Absorption Merger of BYS and Asset Acquisition by issuance of shares and connected transaction of Guangzhou Pharmaceutical Company Limited, Announcement of resolution passed at the 17 <sup>th</sup> meeting of the fifth session of the Board, Announcement of resolution passed at the 13 <sup>th</sup> meeting of the fifth session of the Supervisory Committee, Announcement of written resolution passed at the meeting of the fifth session of the Board and Resignation of director	Page B25-30 of Shanghai Securities News; Page D29-34 of Securities News	19 June 2012	<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 B11 of Shanghai Securities News; Page D33 of Securities News	28 June 2012	<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>

# Independent Auditor's Report



普华永道

[English Translation for Reference Only]  
Auditor's Report

PwC ZT Shen Zi (2012) No. 23620  
(Page 1 of 2)

To the Shareholders of Guangzhou Pharmaceutical Company Limited,

We have audited the accompanying financial statements of Guangzhou Pharmaceutical Company Limited (hereinafter "the Company"), which comprise the consolidated and company balance sheets as at 30 June 2012, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the six months ended 30 June 2012 and the notes to the financial statements.

## Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

普华永道中天会计师事务所有限公司  
PricewaterhouseCoopers Zhong Tian CPAs Limited Company, 11/F PricewaterhouseCoopers Center  
2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC  
T: +86 (21) 2323 8888, F: +86 (21) 2323 8800, www.pwccn.com

# Independent Auditor's Report



普华永道

PwC ZT Shen Zi (2012) No. 23620  
(Page 2 of 2)

## Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of the Company as at 30 June 2012, and their financial performance and cash flows for the six months then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

## Other matters

The consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the six months ended 30 June 2011 and the relevant notes to the financial statements have not been audited.

## PricewaterhouseCoopers Zhong Tian CPAs Limited Company

Shanghai, the People's Republic of China  
24 August 2012

# Consolidated Balance Sheet

As at 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

<b>ASSETS</b>	<i>Note</i>	<b>30 June 2012</b>	31 December 2011
<b>Current assets</b>			
Cash at bank and on hand	5(1)	<b>789,117,665.72</b>	384,135,738.08
Financial assets held for trading	5(2)	<b>2,871,401.80</b>	3,127,692.50
Notes receivable	5(3)	<b>487,144,577.83</b>	430,388,075.25
Accounts receivable	5(4)	<b>664,804,763.75</b>	446,596,366.96
Advances to suppliers	5(6)	<b>230,584,440.95</b>	132,518,184.98
Interest receivable		-	-
Dividends receivable		-	-
Other receivables	5(5)	<b>74,181,296.65</b>	54,056,817.63
Inventories	5(7)	<b>877,718,454.77</b>	859,005,842.50
Current portion of non-current assets		-	-
Other current assets	5(8)	<b>5,531,335.15</b>	2,342,210.36
<b>Total current assets</b>		<b><u>3,131,953,936.62</u></b>	<u>2,312,170,928.26</u>
<b>Non-current assets</b>			
Available-for-sale financial assets	5(9)	<b>18,692,267.32</b>	18,907,856.64
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments	5(11)	<b>1,365,142,362.61</b>	1,255,088,628.89
Investment properties	5(12)	<b>99,303,560.45</b>	102,290,186.93
Fixed assets	5(13)	<b>962,923,393.35</b>	1,000,021,241.01
Construction in progress	5(14)	<b>28,067,480.19</b>	20,369,955.46
Construction materials		-	-
Fixed assets pending for disposal		-	-
Intangible assets	5(15)	<b>93,726,127.59</b>	95,138,045.81
Development costs	5(16)	<b>792,251.69</b>	792,251.69
Goodwill		-	-
Long-term prepaid expenses	5(17)	<b>5,851,364.75</b>	7,944,670.09
Deferred tax assets	5(18)	<b>62,563,781.69</b>	38,542,083.57
Other non-current assets		-	-
<b>Total non-current assets</b>		<b><u>2,637,062,589.64</u></b>	<u>2,539,094,920.09</u>
<b>TOTAL ASSETS</b>		<b><u><u>5,769,016,526.26</u></u></b>	<u><u>4,851,265,848.35</u></u>

# Consolidated Balance Sheet

As at 30 June 2012

(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 2012</b>	31 December 2011
<b>Current liabilities</b>			
Short-term borrowings	5(20)	<b>137,667,087.26</b>	144,928,849.42
Financial liabilities held for trading		-	-
Notes payable	5(21)	<b>41,381,160.53</b>	5,432,012.71
Accounts payable	5(22)	<b>572,504,724.94</b>	350,249,598.28
Advances from customers	5(23)	<b>550,647,272.40</b>	146,931,794.49
Employee benefits payable	5(24)	<b>116,433,623.03</b>	64,167,157.18
Taxes payable	5(25)	<b>67,628,191.66</b>	37,951,281.66
Interest payable		-	-
Dividends payable	5(26)	<b>5,093,930.51</b>	136,440.45
Other payables	5(27)	<b>160,028,581.52</b>	121,543,593.12
Current portion of non-current liabilities		-	-
Other current liabilities		-	-
<b>Total current liabilities</b>		<b><u>1,651,384,571.85</u></b>	<u>871,340,727.31</u>
<b>Non-current liabilities</b>			
Long-term borrowings		-	-
Debentures payable		-	-
Long-term payables	5(28)	<b>4,423,405.56</b>	4,423,405.56
Payables for specific projects		-	-
Provisions		-	-
Deferred tax liabilities	5(18)	<b>3,636,548.33</b>	3,802,712.90
Other non-current liabilities	5(29)	<b>76,203,373.99</b>	76,526,985.01
<b>Total non-current liabilities</b>		<b><u>84,263,327.88</u></b>	<u>84,753,103.47</u>
<b>Total liabilities</b>		<b><u>1,735,647,899.73</u></b>	<u>956,093,830.78</u>

# Consolidated Balance Sheet

As at 30 June 2012

(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 2012</b>	31 December 2011
<b>Shareholders' equity</b>			
Share capital	5(30)	<b>810,900,000.00</b>	810,900,000.00
Capital surplus	5(31)	<b>1,147,597,963.81</b>	1,148,016,718.97
Less: Treasury share		-	-
Surplus reserve	5(32)	<b>602,895,675.46</b>	602,895,675.46
Undistributed profits	5(33)	<b>1,355,834,517.97</b>	1,219,839,567.46
Difference on translation of foreign currency financial statements		-	-
<b>Total equity attributable to shareholders of the Company</b>		<b>3,917,228,157.24</b>	3,781,651,961.89
<b>Minority interest</b>	5(34)	<b>116,140,469.29</b>	113,520,055.68
<b>Total shareholders' equity</b>		<b>4,033,368,626.53</b>	3,895,172,017.57
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b>5,769,016,526.26</b>	4,851,265,848.35

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

Legal  
representative:

Person in charge of  
accounting function:

Person in charge of  
accounting department:

# Consolidated Income Statement

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
<b>1. Revenue</b>	5(35)	<b>3,498,046,152.32</b>	2,817,341,310.57
Less: Cost of sales	5(35)	<b>2,667,781,009.22</b>	2,118,084,469.11
Taxes and surcharges	5(36)	<b>27,304,803.48</b>	23,035,776.44
Selling and distribution expenses	5(37)	<b>409,786,401.69</b>	344,383,899.28
General and administrative expenses	5(38)	<b>258,189,906.03</b>	217,761,830.02
Financial expenses	5(39)	<b>2,854,101.82</b>	(817,547.88)
Asset impairment losses	5(40)	<b>5,183,038.21</b>	1,522,853.30
Add: Profit arising from changes in fair value	5(41)	<b>(256,290.70)</b>	(1,627,746.12)
Investment income	5(42)	<b>113,784,339.99</b>	84,276,497.58
Including: Share of profit of associates and jointly controlled entities		<b>114,115,739.80</b>	83,610,963.02
<b>2. Operating profit</b>		<b>240,474,941.16</b>	196,018,781.76
Add: Non-operating income	5(43)	<b>9,506,190.31</b>	11,097,827.09
Less: Non-operating expenses	5(44)	<b>1,362,837.43</b>	1,284,381.05
Including: Losses on disposal of non-current assets		<b>120,551.04</b>	255,084.29
<b>3. Total profit</b>		<b>248,618,294.04</b>	205,832,227.80
Less: Income tax expenses	5(45)	<b>22,306,265.65</b>	19,246,389.72
<b>4. Net profit</b>		<b>226,312,028.39</b>	186,585,838.08
– Attributable to shareholders of the Company		<b>217,084,950.51</b>	179,621,034.63
– Minority interest		<b>9,227,077.88</b>	6,964,803.45
<b>5. Earnings per share</b>			
– Basic earnings per share	5(46)(a)	<b>0.268</b>	0.222
– Diluted earnings per share	5(46)(b)	<b>0.268</b>	0.222
<b>6. Other comprehensive income</b>	5(47)	<b>(146,493.06)</b>	(2,822,117.28)
<b>7. Total comprehensive income</b>		<b>226,165,535.33</b>	183,763,720.80
– Attributable to shareholders of the Company		<b>216,937,987.56</b>	176,798,539.18
– Minority interest		<b>9,227,547.77</b>	6,965,181.62

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

Legal  
representative:

Person in charge of  
accounting function:

Person in charge of  
accounting department:

# Consolidated Cash Flow Statement

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
<b>1. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		<b>3,361,023,374.35</b>	2,394,819,934.44
Refund of taxes and surcharges		<b>16,745,366.97</b>	16,318,911.01
Cash received relating to other operating activities	5(48)(a)	<b>68,285,257.16</b>	54,400,365.86
<b>Sub-total of cash inflows</b>		<b>3,446,053,998.48</b>	2,465,539,211.31
Cash paid for goods and services		<b>2,022,987,629.72</b>	1,621,544,761.37
Cash paid to and on behalf of employees		<b>410,113,041.85</b>	369,184,710.85
Payments of taxes and surcharges		<b>231,120,945.92</b>	223,634,082.38
Cash paid relating to other operating activities	5(48)(b)	<b>259,742,149.54</b>	233,871,489.42
<b>Sub-total of cash outflows</b>		<b>2,923,963,767.03</b>	2,448,235,044.02
<b>Net cash flows from operating activities</b>	5(49)(a)	<b>522,090,231.45</b>	17,304,167.29
<b>2. Cash flows from investing activities</b>			
Cash received from disposal of investments		-	5,000,000.00
Net cash received from disposal of subsidiaries		-	-
Cash received from returns on investments		<b>41,326.48</b>	979,290.88
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>99,525.70</b>	57,400.00
Cash received relating to other investing activities	5(48)(c)	<b>25,891,859.80</b>	532,009.35
<b>Sub-total of cash inflows</b>		<b>26,032,711.98</b>	6,568,700.23
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<b>21,599,599.36</b>	30,021,352.00
Cash paid to acquire investments		-	180,000,000.00
Net cash paid to acquire subsidiaries		-	-
Cash paid relating to other investing activities	5(48)(d)	<b>4,402,800.08</b>	25,729,814.80
<b>Sub-total of cash outflows</b>		<b>26,002,399.44</b>	235,751,166.80
<b>Net cash flows from investing activities</b>		<b>30,312.54</b>	(229,182,466.57)

# Consolidated Cash Flow Statement

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
<b>3. Cash flows from financing activities</b>			
Cash received from capital contributions		1,300,000.00	–
Including: Cash received from capital contributions by minority shareholders of subsidiaries		1,300,000.00	–
Cash received from borrowings		75,720,000.00	75,551,167.25
Cash received relating to other financing activities		–	–
<b>Sub-total of cash inflows</b>		<b>77,020,000.00</b>	75,551,167.25
Cash repayments of borrowings		82,981,762.16	30,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		89,195,290.59	2,663,523.92
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		3,221,546.58	1,994,327.21
Cash payments relating to other financing activities		–	–
<b>Sub-total of cash outflows</b>		<b>172,177,052.75</b>	32,663,523.92
<b>Net cash flows from financing activities</b>		<b>(95,157,052.75)</b>	42,887,643.33
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>75,198.56</b>	(49,953.26)
<b>5. Net increase/(decrease) in cash and cash equivalents</b>			
	5(49)(a)	427,038,689.80	(169,040,609.21)
Add: Cash and cash equivalents at beginning of year	5(49)(a)	355,748,504.33	696,347,134.34
<b>6. Cash and cash equivalent at end of period</b>	5(49)(b)	<b>782,787,194.13</b>	527,306,525.13

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

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

(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 2011</b>	810,900,000.00	1,148,016,718.97	-	602,895,675.46	-	1,219,839,567.46	-	113,520,055.68	3,895,172,017.57
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-	-	-	-
<b>2. Balance at 1 January 2012</b>	810,900,000.00	1,148,016,718.97	-	602,895,675.46	-	1,219,839,567.46	-	113,520,055.68	3,895,172,017.57
<b>3. Movements for the six months ended 30 June 2012</b>									
(1) Net profit	-	(418,755.16)	-	-	-	135,994,950.51	-	2,620,413.61	138,196,608.96
(2) Other comprehensive income	-	(146,962.95)	-	-	-	217,084,950.51	-	9,227,077.88	226,312,028.39
Subtotal of items (1) and (2)	-	(146,962.95)	-	-	-	217,084,950.51	-	9,227,547.77	226,165,535.33
(3) Capital contribution and withdrawal by shareholders	-	(271,792.21)	-	-	-	-	-	1,571,792.21	1,300,000.00
Capital contribution by the shareholders	-	-	-	-	-	-	-	1,300,000.00	1,300,000.00
Share-based payment charged to equity	-	-	-	-	-	-	-	-	-
Others	-	(271,792.21)	-	-	-	-	-	271,792.21	-
(4) Profit distribution	-	-	-	-	-	(81,090,000.00)	-	(8,178,926.37)	(89,268,926.37)
Appropriation to surplus reserves	-	-	-	-	-	-	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	-	(81,090,000.00)	-	(8,178,926.37)	(89,268,926.37)
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	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-
<b>4. Balance at 30 June 2012</b>	810,900,000.00	1,147,597,963.81	-	602,895,675.46	-	1,355,834,517.97	-	116,140,469.29	4,033,368,626.53

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012  
(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 2010</b>	<b>810,900,000.00</b>	<b>1,152,720,122.24</b>	<b>-</b>	<b>578,042,160.61</b>	<b>-</b>	<b>997,707,102.24</b>	<b>-</b>	<b>102,170,784.50</b>	<b>3,641,540,169.59</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>1,152,720,122.24</b>	<b>-</b>	<b>578,042,160.61</b>	<b>-</b>	<b>997,707,102.24</b>	<b>-</b>	<b>102,170,784.50</b>	<b>3,641,540,169.59</b>
<b>3. Movements for the six months ended 30 June 2011</b>									
ended 30 June 2011	-	(2,822,495.45)	-	-	-	139,076,034.63	-	4,785,495.81	141,039,034.99
(1) Net profit	-	-	-	-	-	179,621,034.63	-	6,964,803.45	186,585,838.08
(2) Other comprehensive income	-	(2,822,495.45)	-	-	-	-	-	378.17	(2,822,117.28)
Subtotal of items (1) and (2)	-	(2,822,495.45)	-	-	-	179,621,034.63	-	6,965,181.62	183,763,720.80
(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	-	-	-	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-	-	-	-
<b>4. Balance at 30 June 2011 (Unaudited)</b>	<b>810,900,000.00</b>	<b>1,149,897,626.79</b>	<b>-</b>	<b>578,042,160.61</b>	<b>-</b>	<b>1,136,783,136.87</b>	<b>-</b>	<b>106,956,280.31</b>	<b>3,782,579,204.58</b>

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

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

# Balance Sheet

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

<b>ASSETS</b>	<i>Note</i>	<b>30 June 2012</b>	31 December 2011
<b>Current assets</b>			
Cash at bank and on hand		<b>114,115,067.59</b>	107,691,016.27
Financial assets held for trading		<b>2,871,401.80</b>	3,127,692.50
Notes receivable		<b>3,100,000.00</b>	–
Accounts receivable	15(1)	<b>3,087,690.77</b>	3,306,347.93
Advances to suppliers		–	–
Interest receivable		–	–
Dividends receivable		<b>104,098,616.47</b>	134,099,380.47
Other receivables	15(2)	<b>665,853,936.76</b>	716,959,386.91
Inventories		<b>413,134.43</b>	290,740.04
Current portion of non-current assets		–	–
Other current assets		<b>65,024.22</b>	–
<b>Total current assets</b>		<b>893,604,872.04</b>	965,474,564.12
<b>Non-current assets</b>			
Available-for-sale financial assets		<b>17,182,000.00</b>	17,424,000.00
Long-term receivables		–	–
Long-term equity investments	15(3)	<b>2,603,228,879.64</b>	2,430,766,919.98
Investment properties		<b>35,449,944.11</b>	36,121,032.39
Fixed assets		<b>14,038,086.11</b>	14,189,764.08
Construction in progress		–	–
Construction materials		–	–
Fixed assets pending for disposal		–	–
Intangible assets		–	–
Development costs		–	–
Goodwill		–	–
Long-term prepaid expenses		–	–
Deferred tax assets		<b>4,529,345.00</b>	3,204,177.31
Other non-current assets		–	–
<b>Total non-current assets</b>		<b>2,674,428,254.86</b>	2,501,705,893.76
<b>TOTAL ASSETS</b>		<b>3,568,033,126.90</b>	3,467,180,457.88

# Balance Sheet

For the six months ended 30 June 2012  
 (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 2012</b>	31 December 2011
<b>Current liabilities</b>			
Short-term borrowings		-	-
Financial liabilities held for trading		-	-
Notes payable		-	-
Accounts payable		<b>716,098.98</b>	361,917.10
Advances from customers		<b>39,889.69</b>	31,189.69
Employee benefits payable		<b>690,337.17</b>	1,783,493.18
Taxes payable		<b>3,652,787.34</b>	2,558,098.84
Interest payable		-	-
Dividends payable		<b>(486.64)</b>	(596.91)
Other payables		<b>106,022,968.08</b>	111,016,824.41
Current portion of non-current liabilities		-	-
Other current liabilities		-	-
<b>Total current liabilities</b>		<b>111,121,594.62</b>	115,750,926.31
<b>Non-current liabilities</b>			
Long-term borrowings		-	-
Debentures payable		-	-
Long-term payables		-	-
Payables for specific projects		-	-
Provisions		-	-
Deferred tax liabilities		<b>3,061,277.22</b>	3,135,142.17
Other non-current liabilities		-	-
<b>Total non-current liabilities</b>		<b>3,061,277.22</b>	3,135,142.17
<b>Total liabilities</b>		<b>114,182,871.84</b>	118,886,068.48

# Balance Sheet

For the six months ended 30 June 2012  
 (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 2012</b>	31 December 2011
<b>Shareholders' equity</b>			
Share capital		<b>810,900,000.00</b>	810,900,000.00
Capital surplus		<b>1,094,468,293.00</b>	1,094,637,907.64
Less: Treasury share		-	-
Surplus reserve		<b>269,761,211.63</b>	269,761,211.63
Undistributed profits		<b>1,278,720,750.43</b>	1,172,995,270.13
Difference on translation of foreign currency financial statements		-	-
<b>Total shareholders' equity</b>		<b><u>3,453,850,255.06</u></b>	<u>3,348,294,389.40</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		<b><u><u>3,568,033,126.90</u></u></b>	<u><u>3,467,180,457.88</u></u>

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

Legal  
representative:

Person in charge of  
accounting function:

Person in charge of  
accounting department:

# Income Statement

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
<b>1. Revenue</b>	15(4)	<b>27,974,690.42</b>	31,181,905.51
Less: Cost of sales	15(4)	<b>1,908,702.48</b>	9,435,426.56
Taxes and surcharges		<b>1,930,591.72</b>	1,649,638.80
Selling and distribution expenses		<b>109,443.84</b>	148,997.37
General and administrative expenses		<b>19,355,508.72</b>	11,832,463.30
Financial expenses		<b>2,061,756.97</b>	(193,777.83)
Asset impairment loss		<b>(24,295.24)</b>	(796,278.87)
Add: Profit arising from changes in fair value		<b>(256,290.70)</b>	(1,627,746.12)
Investment income	15(5)	<b>186,228,530.77</b>	192,497,062.96
Including: Share of profit of associates and jointly controlled entities	15(5)(c)	<b>85,150,074.30</b>	82,669,221.76
<b>2. Operating profit</b>		<b>188,605,222.00</b>	199,974,753.02
Add: Non-operating income		<b>1,299,985.83</b>	1,071,413.22
Less: Non-operating expenses		<b>511,643.05</b>	2,001.73
Including: Losses on disposal of non-current assets		<b>11,643.05</b>	1,234.00
<b>3. Total profit</b>		<b>189,393,564.78</b>	201,044,164.51
Less: Income tax expenses		<b>2,578,084.48</b>	3,463,142.91
<b>4. Net profit</b>		<b>186,815,480.30</b>	197,581,021.60
<b>5. Earnings per share</b>			
– Basic earnings per share			
– Diluted earnings per share			
<b>6. Other comprehensive income</b>		<b>(169,614.64)</b>	(2,837,272.83)
<b>7. Total comprehensive income</b>		<b>186,645,865.66</b>	194,743,748.77

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

Legal  
representative:

Person in charge of  
accounting function:

Person in charge of  
accounting department:

# Cash Flow Statement

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
<b>1. Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		1,795,584.11	28,320,483.53
Refund of taxes and surcharges		-	-
Cash received relating to other operating activities		11,174,013.93	8,783,058.81
<b>Sub-total of cash inflows</b>		<b>12,969,598.04</b>	37,103,542.34
Cash paid for goods and services		1,272,098.18	16,231,704.21
Cash paid to and on behalf of employees		5,956,908.04	6,239,817.88
Payments of taxes and surcharges		3,914,583.20	8,403,776.46
Cash paid relating to other operating activities		8,964,503.43	13,050,492.79
<b>Sub-total of cash outflows</b>		<b>20,108,092.85</b>	43,925,791.34
<b>Net cash flows from operating activities</b>	15(6)	<b>(7,138,494.81)</b>	(6,822,249.00)
<b>2. Cash flows from investing activities</b>			
Cash received from disposal of investments		-	-
Net cash received from disposal of subsidiaries		-	-
Cash received from returns on investments		121,812,889.09	15,441,686.60
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		830.00	46,410.00
Cash received relating to other investing activities		249,544,764.77	170,503,737.52
<b>Sub-total of cash inflows</b>		<b>371,358,483.86</b>	185,991,834.12
Cash paid to acquire fixed assets, intangible assets and other long-term assets		400,389.00	421,929.00
Cash paid to acquire investments		87,300,000.00	180,000,000.00
Net cash paid to acquire subsidiaries		-	-
Cash paid relating to other investing activities		176,121,860.41	189,155,950.66
<b>Sub-total of cash outflows</b>		<b>263,822,249.41</b>	369,577,879.66
<b>Net cash flows from investing activities</b>		<b>107,536,234.45</b>	(183,586,045.54)

# Cash Flow Statement

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

ITEMS	Note	Six months ended 30 June 2012	Six months ended 30 June 2011 (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		-	-
Cash received relating to other financing Activities		-	100,000,000.00
<b>Sub-total of cash inflows</b>		-	100,000,000.00
Cash repayments of borrowings		-	30,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		<b>81,473,139.17</b>	403,317.70
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		-	-
Cash payments relating to other financing activities		<b>12,504,444.40</b>	646,333.33
<b>Sub-total of cash outflows</b>		<b>93,977,583.57</b>	31,049,651.03
<b>Net cash flows from financing activities</b>		<b>(93,977,583.57)</b>	68,950,348.97
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>3,895.25</b>	(16,996.58)
<b>5. Net increase/(decrease) in cash and cash equivalents</b>	15(6)	<b>6,424,051.32</b>	(121,474,942.15)
Add: Cash and cash equivalents at beginning of year		<b>107,691,016.27</b>	213,007,698.60
<b>6. Cash and cash equivalent at end of period</b>		<b>114,115,067.59</b>	91,532,756.45

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

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

# Statement of Changes in Equity

For the six months ended 30 June 2012

(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 2011</b>	810,900,000.00	1,094,637,907.64	-	269,761,211.63	1,172,995,270.13	3,348,294,389.40
Add: Changes in accounting policies	-	-	-	-	-	-
Corrections of prior period errors	-	-	-	-	-	-
<b>2. Balance at 1 January 2012</b>	810,900,000.00	1,094,637,907.64	-	269,761,211.63	1,172,995,270.13	3,348,294,389.40
<b>3. Movements for the six months ended 30 June 2012</b>	-	(169,614.64)	-	-	105,725,480.30	105,555,865.66
(1) Net profit	-	-	-	-	186,815,480.30	186,815,480.30
(2) Other comprehensive income	-	(169,614.64)	-	-	-	(169,614.64)
Subtotal of items (1) and (2)	-	(169,614.64)	-	-	186,815,480.30	186,645,865.66
(3) Capital contribution and withdrawal by shareholders	-	-	-	-	-	-
Capital contribution by the shareholders	-	-	-	-	-	-
Share-based payment charged to equity	-	-	-	-	-	-
Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	-	(81,090,000.00)	(81,090,000.00)
Appropriation to surplus reserves	-	-	-	-	-	-
Appropriation to general risk provision	-	-	-	-	-	-
Profit distribution to shareholders	-	-	-	-	(81,090,000.00)	(81,090,000.00)
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	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-
<b>4. Balance at 30 June 2012</b>	<b>810,900,000.00</b>	<b>1,094,468,293.00</b>	<b>-</b>	<b>269,761,211.63</b>	<b>1,278,720,750.43</b>	<b>3,453,850,255.06</b>

# Statement of Changes in Equity

For the six months ended 30 June 2012  
(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>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>	<b>-</b>	<b>(2,837,272.83)</b>	<b>-</b>	<b>-</b>	<b>157,036,021.60</b>	<b>154,198,748.77</b>
(1) Net profit	-	-	-	-	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	-	-	-	-	-	-
(6) Others	-	-	-	-	-	-
<b>4. Balance at 30 June 2011 (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>

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

Legal representative:

Person in charge of accounting function:

Person in charge of accounting department:

# Notes to the Financial Statements

For the six months ended 30 June 2012

(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 and pre-packaged food, 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 major pre-packaged food of the Group are Wang Lao Ji Liang Cha (“王老吉涼茶”), etc.

The Group’s current structure mainly include 7 CPM manufacturing companies, 1 pre-packaged food manufacturing company, 2 pharmaceutical research and development companies and 2 pharmaceutical trading companies.

These financial statements were approved for issue by the Board of Directors on 24 August 2012.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(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 2012 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 30 June 2012 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. The financial statements cover period from 1 January 2012 to 30 June 2012.

### (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. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(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 entities 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 year.

Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities.

### (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 2012  
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[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 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 year, 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 year.

#### (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 2012

(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 2012  
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[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 year. 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 year.

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 year. 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 2012

(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 year. 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 2012  
(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 2012

(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 2012  
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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

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 aging and taking into consideration of the current circumstances.
Group 2	Receivables with extremely low credit risk based on historical evidence
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	Aging analysis method
Group 2	Percentage of bad debt provision is 0%
Group 3	Percentage of bad debt provision is 0%
Group 4	Percentage of bad debt provision is 0%

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 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:

Ageing	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 aging 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, 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, commodity stocks 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.

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For the six months ended 30 June 2012  
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## 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 2012

(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 year 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. While the accounting policies and accounting period of the investees are inconsistent with the Group, the financial statements of the investees are all adjusted according to the accounting policies and accounting period of the Group and recognised investment income accordingly. 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 2012  
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[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, buildings that have been already been leased out and buildings that are in construction or developed for the purpose of being leased out in the future, 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 2012

(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 year.

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 2012  
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[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 2012

(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, office equipment and fixed asset renovation. The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates are as follows:

Category	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 2012  
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[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 2012

(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 year. 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 borrowing during the capitalisation period.

# Notes to the Financial Statements

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (16) Borrowing costs (Continued)

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.

### (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.

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

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

#### (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.

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.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (17) Intangible assets (Continued)

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

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.

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.

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

*(Continued)*

### (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.

#### (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.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (20) Revenue (Continued)

#### (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 from long-term equity investment accounted for using cost method, financial assets at fair value through profit or loss and available-for-sale financial assets is recognized when the right to receive dividend is established.

### (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 year.

# Notes to the Financial Statements

For the six months ended 30 June 2012

(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 *(Continued)*

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 year.

### (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.

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.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

### (23) Operating leases and finance leases

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 year.

#### (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.

### (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.

# Notes to the Financial Statements

For the six months ended 30 June 2012

(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

#### (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.

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.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(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)

#### (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 judgment 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.

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

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 3 TAXATION

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

#### (a) Turnover tax and Real-estate 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.

#### (d) Local education surcharge

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

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(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)*

#### (e) Enterprise income tax

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

The certificates of the six subsidiaries (namely, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. and etc), numbering GF201144000520, GF201144000114, GF201144000043, GF201144000298, GF201144000144, GF201144000400 respectively, were issued in August 2011 and the effective period is 3 years. The certificate of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd., numbering GR201044000004, was issued in September 2010 and the effective period is 3 years. The certificate of 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%.

#### 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 (RMB'000)	Scope of business	Actual investment at end of period (RMB'000)	Entity type	Legal representative	Organization code	Other assets constitute investment in substance (RMB'000)	% equity interest held by the Company	% voting rights held or not	Minority interests (RMB'000)	Amount of minority interests adjusted against minority interest in the profit or loss (RMB'000)	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest (RMB'000)
<b>Direct subsidiaries:</b>															
Guangzhou Beijunsten Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	7,717	Production of CPM	12,332	Stock corporation	Yao Jieqiong	19051196-X	-	88.99%	88.99%	1,416	-	-
Guangzhou Beijunsten Zhong Yi Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	21,741	Production of CPM	32,482	Limited Liability Company	Ni Yang	19045979-4	-	100%	100%	-	-	-
Guangzhou Beijunsten Chen Liu Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	11,285	Production of CPM	14,231	Limited Liability Company	Qiyang Qiang	19045981-5	-	100%	100%	-	-	-
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. (Note 1)	Subsidiary	Guangzhou	Manufacturing	24,686	Research and development of medicine and health products	24,932	Limited Liability Company	Huang Yang	71241880-3	-	99.49%	99.53%	67	-	-
Guangzhou Qixing Pharmaceutical Factory Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Manufacturing	8,242	Production of CPM	12,678	Limited Liability Company	Li Guangliang	19045980-7	-	100%	100%	-	-	-
Guangzhou Beijunsten Jing Xiu Tang Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	8,823	Production of CPM	10,149	Stock corporation	Yan Zhibiao	19047922-6	-	88.40%	88.40%	1,785	-	-

**Note \*:** The ratio of equity interest held and voting right held of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd. are inconsistent because Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd., a subsidiary not wholly owned by the Company, holds 0.34% of the equity interest of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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[English Translation for Reference Only]

## 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 ('0000)	Amount of minority interests adjusted against minority interests	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
<b>Direct subsidiaries:</b>															
Guangzhou Beijunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	6,544	Production of CPM	14,430	Stock corporation	Wu Danxia	19048700-3	-	87.77%	87.77%	2,534	-	-
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	3,222	Trading of CPM and Chinese raw medicine	8,908	Limited Liability Company	Zhou Lushan	19050398-6	-	100%	100%	-	-	-
Guangzhou Pharmaceutical Import & Export Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	2,400	Import and export trading of medicine	1,856	Limited Liability Company	Li Haobao	19047097-7	-	100%	100%	-	-	-
Guangzhou Bei Di Bo-technology Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	13,160	Research and development of patented biological products	12,915	Limited Liability Company	Chen Lianrong	73154703-0	-	98.46%	98.46%	98	-	-
Guangzhou Weng Lao Ji Great Health Industry Co., Ltd. (Note 1)	Wholly-owned subsidiary	Guangzhou	Manufacturing	1,000	Production and Sales of Pre-packaged food and dairy	1,000	Limited Liability Company	Wu Changlai	5915288-3	-	100.00%	100.00%	-	-	-

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

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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 (RMB'000)	Scope of business	Actual investment at end of period (RMB'000)	Entity type	Legal representative	Organization code	Other assets constitute investment in substance (RMB'000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests (RMB'000)	Amount of minority interests adjusted against minority interest in the profit or loss (RMB'000)	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest (RMB'000)
<b>Indirect subsidiaries:</b>																
Guangzhou Beijunsten Qixing Pharmaceutical Co., Ltd.	Subsidiary	Guangzhou	Manufacturing	10,000	Production of CPM	7,500	Limited Liability Company	Wu Changlai	61841434-4	-	75%	75%	Yes	3,816	-	-
Guangzhou Jingyue Tang 1730 Trading Co., Ltd.(*)	Subsidiary	Guangzhou	Trading	50	Sales of cosmetic	98	Limited Liability Company	Chen Zhiong	7661800-X	-	45.08%	51%	Yes	16	-	-
Guangzhou Pan Gan Shou Natural Healthcare Products Co., Ltd.(*)	Subsidiary	Guangzhou	Manufacturing	1,400	Production and processing of food and health products	1,106	Limited Liability Company	Wu Dania	19145513-8	-	79.99%	90%	Yes	68	-	-
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chuan Pharmacies	Wholly-owned subsidiary	Guangzhou	Trading	294	Relating of Chinese raw medicine and CPM	333	State-owned enterprise	Zhou Lushan	19068067-3	-	100%	100%	Yes	-	-	-
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	-	-	-

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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)	Entity type	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 year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest ('0000)
<b>Indirect subsidiaries:</b>																
Guangzhou Cai Zhi Lun Corporation Bai Shang Chinese raw medicine Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	500	Trading of CPM and Chinese raw medicine	500	Limited Liability Company	Zhou Lujian	78120107-4	-	100%	100%	Yes	-	-	-
Guangzhou Ao Na Medical Apparatus Co., Ltd.	Wholly-owned subsidiary	Guangzhou	Trading	688	Trading of medical apparatus	688	Limited Liability Company	Leo Zhong	68788368-4	-	100%	100%	Yes	-	-	-
Wuluminao Guangao Chinese Raw Medicine Development Co., Ltd. (Note 2)	Wholly-owned subsidiary	Wuluminao	Trading	100	Cultivation, purchase and sales of Chinese medicine herbs and agricultural by-products development, advisory and service of Chinese medicine herbs.	80	Limited Liability Company	Zhou Lujian	59195946-6	-	80.00%	80.00%	Yes	20	-	-

# Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

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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 (RMB'000)	Scope of business	Actual investment at end of period (RMB'000)	Entity type	Legal representative	Organization code	Other assets constitute investment in substance (RMB'000)	% equity interest held by the Company	% voting rights held	Minority interests (RMB'000)	Con-soliated or not	Minority interest in the profit or loss (RMB'000)	Amount of minority interests adjusted against losses in subsidiaries	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interest exceeded the opening balance of minority interest (RMB'000)
<b>Indirect subsidiaries</b>																	
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. (Note 3)	Subsidiary	Linyi	Trading	200	Cultivation, purchase and sales of Chinese medicine herbs	90	Limited Liability Company	Kong Jian	5903238-7	-	45.00%	60.00%	110	Yes	-	-	-
Xiang Lin Zhi Guangyao Development Co., Ltd. (*)	Subsidiary	Xiang	Trading	200	Production and trading of local product, and craft	110	Limited Liability Company	Huang Yang	5857303-1	-	54.74%	55%	72	Yes	-	-	-
Guangzhou Pan Gao Shou Food Beverage Co., Ltd. (*)	Subsidiary	Guangzhou	Manufacturing	100	Trading of pre-packaged food	100	Limited Liability Company	Wei Danxia	5833920-6	-	87.77%	100%	-	Yes	-	-	-

Note \*: The reason of difference between ratio of equity interest held and ratio of voting rights held of these four companies is that the Company indirectly holds these four 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.

Note 1: Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. is a newly established company in 2012, 100% directly held by the Company, who exercises control over its finance and operation. According to "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. has been consolidated from the date on which the Group obtains control in 2012. As at 30 June 2012, the net assets of Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. is RMB8,137,099.01, and during the period of the six months ended 30 June 2012, the net loss of Guangzhou Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. is RMB1,862,900.99.

Note 2: Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. is a newly set-up company in 2012, 65% and 15% directly held by Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. respectively, both of which are the subsidiaries of the Company. The Company indirectly controls Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. through the equity interest held by its subsidiaries Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. and exercises control over its finance and operation. According to "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. has been consolidated from the date on which the Group obtains control in 2012. As at 30 June 2012, the net assets of Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. are RMB1,000,000.00, and during the period of the six months ended 30 June 2012, the net income of Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd. is RMB0.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 4 BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Note 3: Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. is a newly set-up company in February 2012, 45%, 15% and 40% directly held by the Company's subsidiaries, Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. and Shandong Pingyi Fanyuan Pharmaceutical Co., Ltd., respectively. Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. authorises Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. to exercise its voting rights in Shandong Guangyao Chinese Raw Medicine Development Co., Ltd., making its ratio of equity interest held lower than ratio of voting rights. In accordance with the Articles of Association of Shandong Guangyao Chinese Raw Medicine Development Co., Ltd., its Board of Directors consists of five people, including two appointed by Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., one appointed by Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. thus with the authorisation of exercising voting right held by Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd., Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. holds 60% of the voting right in the Board of Directors of Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. In accordance with the Articles of Association of Shandong Guangyao Chinese Raw Medicine Development Co., Ltd., significant operation matters shall be approved by more than half of the directors attended the Board meeting. Thus, through its subsidiary Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., the Group indirectly exercises control over the Shandong Guangyao Chinese Raw Medicine Development Co., Ltd on its finance and operation. As required by "Accounting Standards for Enterprises No. 33-Consolidated Financial Statements", Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. has been consolidated from the date on which the Group obtains control in 2012. As at 30 June 2012, the net assets of Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. are RMB2,000,000.00, and during the period of the six months ended 30 June 2012, the net income of Shandong Guangyao Chinese Raw Medicine Development Co., Ltd. is RMB0.

### (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 (R000)	Entity type	Legal representative	Organization code	Actual investment at end of period (R000)	% equity interest held by the Company	% voting rights held	Consolidated or not	Minority interests (R000)	Minority interest in the profit or loss (R000)	Amount of minority interests adjusted against minority interests	Ending balance after the Company's equity interest adjusted against the amount of the current year's losses in subsidiaries shared by minority interests exceeded the opening balance of minority interest (R000)
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary	Nanning	Manufacturing	3,188	Limited Liability Company	Feng Yaxian	1982851866	2,172	51.00%	51.00%	Yes	1,613	-	-	-

There is no entity which is no longer included in the scope of consolidation for this reporting period.

# Notes to the Financial Statements

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	30 June 2012			31 December 2011		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
Cash on hand						
RMB			1,190,957.56			1,226,200.50
Hong Kong Dollars ("HKD")	7,950.98	0.8152	6,481.39	12,038.58	0.8107	9,759.80
			<u>1,197,438.95</u>			<u>1,235,960.30</u>
Bank deposits						
RMB			756,333,760.04			347,704,507.24
US Dollars ("USD")	460,776.71	6.3249	2,914,366.61	406,854.08	6.3009	2,563,546.87
HKD	2,477,572.90	0.8152	2,019,718.43	2,506,669.98	0.8107	2,032,157.35
			<u>761,267,845.08</u>			<u>352,300,211.46</u>
Other deposits						
RMB			26,616,868.34			30,564,136.08
HKD	43,563.97	0.8152	35,513.35	43,703.27	0.8107	35,430.24
			<u>26,652,381.69</u>			<u>30,599,566.32</u>
			<u><u>789,117,665.72</u></u>			<u><u>384,135,738.08</u></u>

Details of restricted cash are listed as below:

	30 June 2012	31 December 2011
Deposit for notes payable	615,000.00	—
Deposit for short-term loan	5,167,087.26	27,838,849.42
Deposit for housing fund	548,384.33	548,384.33
	<u><u>6,330,471.59</u></u>	<u><u>28,387,233.75</u></u>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (2) Financial assets held for trading

	<b>30 June 2012</b>	31 December 2011
Listed shares	<b><u>2,871,401.80</u></b>	<u>3,127,692.50</u>
Including: market value of listed investment	<b><u>2,871,401.80</u></b>	<u>3,127,692.50</u>

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 2012</b>	31 December 2011
Bank acceptance notes	<b>419,594,555.05</b>	407,381,339.40
Trade acceptance notes	<b><u>67,550,022.78</u></b>	<u>23,006,735.85</u>
	<b><u>487,144,577.83</u></b>	<u>430,388,075.25</u>

(b) As at 30 June 2012, there are no notes receivable that are being pledged (as at 31 December 2011: RMB5,111 thousand).

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (3) Notes receivable *(Continued)*

(c) As at 30 June 2012, 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 2012 and 31 December 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 2012, the bank acceptance notes receivable that are not matured but have been endorsed amounted to RMB639,846 thousand (as at 31 December 2011: RMB609,765 thousand), the top five of which are summarised as follows:

Company of issuance	Date of issuance	Due date	Amount
Guangzhou De Feng Hang Petrochemical Co., Ltd.	2012.05.24	2012.11.24	8,000,000.00
Guangzhou De Feng Hang Petrochemical Co., Ltd.	2012.05.24	2012.11.24	7,500,000.00
Guangzhou De Feng Hang Petrochemical Co., Ltd.	2012.05.28	2012.11.28	6,000,000.00
Fengkai Xian Ying Hui Material Trade Co., Ltd.	2012.04.09	2012.10.09	5,000,000.00
Guangdong Jiu Zhou Tong Pharmaceutical Co., Ltd.	2012.03.31	2012.09.30	4,359,393.70

(iii) As at 30 June 2012, the trade acceptance notes that are not matured but have been endorsed amounted to RMB 43,489 thousand (as at 31 December 2011: RMB2,171 thousand), the top five of which are summarised as follows:

Company of issuance	Date of issuance	Due date	Amount
Shanghai Hanfei Biochemical Technology Co., Ltd	2012.01.09	2012.07.09	9,592,000.00
Shanghai Hanfei Biochemical Technology Co., Ltd	2012.01.19	2012.07.18	3,537,500.00
Shanghai Hanfei Biochemical Technology Co., Ltd	2012.06.21	2012.12.21	2,990,000.00
Shanghai Hanfei Biochemical Technology Co., Ltd	2012.05.22	2012.11.21	2,954,250.00
Shanghai Hanfei Biochemical Technology Co., Ltd	2012.03.20	2012.09.20	2,945,000.00

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (3) Notes receivable (Continued)

(d) As at 30 June 2012, notes receivable that are not matured but have been discounted are summarised as follows:

(i) As at 30 June 2012, the bank acceptance notes that are not matured but have been discounted amounted to RMB46,838 thousand (as at 31 December 2011: RMB14,720 thousand), and the top five of which are summarised as follows:

Company of issuance	Date of issuance	Due date	Amount
Beijing Shougang International Engineering Technology Co., Ltd	2012.03.07	2012.09.07	3,000,000.00
Foshan Nanhai Gaowei Colour Printing & Packaging Co., Ltd	2012.03.21	2012.09.10	3,000,000.00
Guangdong Pharmaceutical Group Co., Ltd	2012.01.18	2012.07.18	2,627,190.00
Hunan Tasly Lifecare Pharmaceutical Co., Ltd	2012.03.30	2012.09.30	2,309,380.00
Guangdong Zhen Qun Pharmaceutical Co., Ltd	2012.04.19	2012.07.19	2,279,000.00

(ii) As at 30 June 2012 and 31 December 2011, there are no trade acceptance notes that are not matured but have been discounted.

### (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 aging of accounts receivable is analysed as follows:

	30 June 2012	31 December 2011
Within 1 year	664,053,139.55	443,748,943.00
1 to 2 years	6,402,532.08	6,071,602.35
2 to 3 years	4,030,641.80	4,909,957.53
3 to 4 years	2,307,055.44	2,669,468.83
4 to 5 years	2,382,813.96	1,609,619.47
Over 5 years	4,467,405.16	4,263,326.51
	<b>683,643,587.99</b>	<b>463,272,917.69</b>



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For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (4) Accounts receivable (Continued)

- (c) As at 30 June 2012, accounts receivable that are individually significant and subject to separate provision are analysed as follows:

Name of entity	Ending balance	Provision for bad debts	Ratio	Reason
Guangdong Liyuan Pharmaceutical Co., Ltd	3,586,187.50	2,891,750.00	80.64%	It is hard to collect all receivables due from this company as it is in poor situation.
Hebei Traditional & Herbal Medicine Co., Ltd.	1,081,249.12	1,081,249.12	100.00%	Although the Group has suited this company, it is expected that the amount would not be recoverable.
	<u>4,667,436.62</u>	<u>3,972,999.12</u>	85.12%	

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

	30 June 2012			31 December 2011		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
Within 1 year	663,874,035.88	98.47%	6,638,742.67	443,771,562.27	97.86%	4,437,715.62
1 to 2 years	6,364,069.36	0.94%	636,406.94	5,860,758.02	1.29%	586,075.80
2 to 3 years	745,017.60	0.11%	223,505.29	761,147.66	0.17%	228,344.30
3 to 4 years	1,056,084.40	0.16%	528,042.21	1,374,882.45	0.30%	687,441.23
4 to 5 years	489,080.60	0.07%	391,264.48	177,638.24	0.04%	142,110.59
Over 5 years	1,714,333.61	0.25%	1,714,333.61	1,536,695.37	0.34%	1,536,695.37
	<u>674,242,621.45</u>	100.00%	<u>10,132,295.20</u>	<u>453,482,684.01</u>	100.00%	<u>7,618,382.91</u>

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (4) Accounts receivable (Continued)

- (e) As at 30 June 2012, accounts receivable that are individually insignificant but subject to separate provision are analysed as follows:

Name of entity	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 company has won the lawsuit, it is expected that the amount would not be recoverable.
Yunnan Shang He Pharmaceutical Co., Ltd.	477,000.16	477,000.16	100.00%	This company is in poor situation and it is expected that the amount would not be recoverable.
Guangzhou Xingtai Shangmao Development Co., Ltd	337,004.40	337,004.40	100.00%	Although the Group has sued this company, it is expected that the amount would not be recoverable.
Other customers	3,410,636.36	3,410,636.36	100.00%	It is expected that the amount would not be recoverable.
	<u>4,733,529.92</u>	<u>4,733,529.92</u>	100.00%	

- (f) As at 30 June 2012 and 31 December 2011, it is not material that the accounts receivable which have exceeded the credit period but not impaired.
- (g) Reversal or collection during the current period is as follows:

Item	Reason of reversal or collection	Basis of provisions previously mad	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 customer were not able to settle the receivables according to contracts or agreements	<u>142,525.23</u>	<u>142,525.23</u>	<u>-</u>

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For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (4) Accounts receivable (Continued)

- (h) There are no accounts receivable that have been collected by restructuring or other manners during the current period.
- (i) There are no accounts receivable that are written off during the current period.
- (j) As at 30 June 2012, accounts receivable from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is account receivable of RMB37 thousand from GPHL (as at 31 December 2011: account receivable of RMB7 thousand from GPHL).
- (k) As at 30 June 2012, the top five of accounts receivable are analysed as follows:

	Relationship with the Group	Amount	Aging	% of total balance
Customer 1.	Third Party	35,960,552.50	Within 1 year	5.26%
Customer 2	Third Party	31,686,390.73	Within 1 year	4.63%
Customer 3	Related party	25,705,426.70	Within 1 year	3.76%
Customer 4	Third Party	20,408,000.00	Within 1 year	2.99%
Customer 5	Third Party	13,952,150.00	Within 1 year	2.04%
		<u>127,712,519.93</u>		<u>18.68%</u>

- (l) As at 30 June 2012, accounts receivable from related parties accounted for 10.38% of total accounts receivable balance (as at 31 December 2011: 6.22%): refer to Note 6 for details.
- (m) There are no accounts receivable derecognised due to transfer of financial assets during the current period.
- (n) As at 30 June 2012, there are no securitizations that targeted at accounts receivable.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (4) Accounts receivable *(Continued)*

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

	30 June 2012			31 December 2011		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	1,037,325.20	6.3249	6,560,978.16	688,088.10	6.3009	4,335,574.31
HKD	2,142,350.73	0.8152	1,746,444.32	1,881,743.58	0.8107	1,525,529.52
			<b>8,307,422.48</b>			<b>5,861,103.83</b>

### (5) Other receivables

	30 June 2012	31 December 2011
Petty cash	<b>3,358,897.76</b>	2,969,220.83
Deposits	<b>11,019,376.57</b>	9,467,993.44
Staff advances	<b>18,343,912.29</b>	9,693,332.36
Receivables due from external parties	<b>28,383,237.27</b>	25,079,262.00
Receivables due from related parties <i>(Note 6(5))</i>	<b>9,406,717.92</b>	2,801,723.16
Tax refund for exports	<b>11,182,814.98</b>	7,451,438.81
Taxes pending for customs registration	<b>810,775.53</b>	4,092,536.47
Others	<b>1,544,361.64</b>	2,292,731.23
	<b>84,050,093.96</b>	63,848,238.30
Less: provision for bad debts	<b>9,868,797.31</b>	9,791,420.67
	<b>74,181,296.65</b>	54,056,817.63

# Notes to the Financial Statements

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (5) Other receivables (Continued)

(a) The aging of other receivables is analysed as follows:

	<b>30 June 2012</b>	31 December 2011
Within 1 year	<b>61,282,607.76</b>	42,200,505.29
1 to 2 years	<b>5,304,751.32</b>	4,955,156.64
2 to 3 years	<b>6,032,976.23</b>	5,024,858.33
3 to 4 years	<b>970,795.45</b>	1,123,505.99
4 to 5 years	<b>298,668.09</b>	816,448.66
Over 5 years	<b>10,160,295.11</b>	9,727,763.39
	<b>84,050,093.96</b>	63,848,238.30

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

	<b>30 June 2012</b>			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	8,901,925.26	10.59%	8,901,925.26	100.00%
Subject to provision by groups:				
Group 1	991,075.00	1.18%	136,072.63	13.73%
Group 2	32,242,122.39	38.36%	-	-
Group 3	9,406,717.92	11.19%	100,000.00	1.06%
Group 4	31,772,134.77	37.80%	-	-
Individually insignificant but subject to separate provision	736,118.62	0.88%	730,799.42	99.28%
	<b>84,050,093.96</b>	100.00%	<b>9,868,797.31</b>	11.74%

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (5) Other receivables *(Continued)*

(b) Other receivables by categories are analysed as follows: *(Continued)*

	31 December 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	8,901,925.26	13.94%	8,901,925.26	100.00%
Subject to provision by groups:				
Group 1	260,730.63	0.41%	132,955.99	50.99%
Group 2	32,759,081.58	51.31%	-	-
Group 3	2,801,723.16	4.39%	100,000.00	3.57%
Group 4	18,463,959.05	28.92%	-	-
Individually insignificant but subject to separate provision	660,818.62	1.03%	656,539.42	99.35%
	<u>63,848,238.30</u>	100.00%	<u>9,791,420.67</u>	15.34%

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (5) Other receivables (Continued)

- (c) As at 30 June 2012, other receivables that are individually significant and subject to separate provision are analysed as follows:

Company name	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 3rd 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 Mianzhu 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	2,039,308.27	2,039,308.27	100.00%	It is expected that the amount would not be recoverable.
	<u>8,901,925.26</u>	<u>8,901,925.26</u>	100.00%	

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (5) Other receivables (Continued)

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

	30 June 2012			31 December 2011		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	758,837.37	76.56%	7,588.37	33,033.00	12.67%	330.33
1 to 2 years	51,997.97	5.25%	5,199.80	24,480.97	9.39%	2,448.10
2 to 3 years	25,236.00	2.55%	7,570.80	48,213.00	18.49%	14,463.90
3 to 4 years	78,580.00	7.93%	39,290.00	78,580.00	30.14%	39,290.00
4 to 5 years	-	-	-	-	-	-
Over 5 years	76,423.66	7.71%	76,423.66	76,423.66	29.31%	76,423.66
	<b>991,075.00</b>	<b>100.00%</b>	<b>136,072.63</b>	<b>260,730.63</b>	<b>100.00%</b>	<b>132,955.99</b>

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

	Ending balance	Provision for bad debts	Ratio	Reason
Yada drying equipment factory	85,500.00	85,500.00	100.00%	It is expected that the amount would not be recoverable.
Deposit for parking of Fujian Building	75,300.00	75,300.00	100.00%	It is expected that the amount would not be recoverable.
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.
Others	379,033.42	373,714.22	98.60%	It is expected that the amount would not be fully recoverable.
	<b>736,118.62</b>	<b>730,799.42</b>	<b>99.28%</b>	

# Notes to the Financial Statements

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (5) Other receivables (Continued)

- (f) There are no other receivables that are subject to full provision or in large proportionate but have been reversed or collected in the current period.
- (g) There are no other receivables that have been collected by restructuring or other manners in the current period.
- (h) There are no other receivables that are written off in prior years but have been collected in the current period.
- (i) There are no other receivables that have been written off in the current period.
- (j) As at 30 June 2012, other receivables from shareholders who hold more than 5% (including 5%) of the voting rights of the Company is other receivable of RMB1,011 thousand from GPLH (as at 31 December 2011: other receivable of RMB1,287 thousand from GPLH).
- (k) As at 30 June 2012, the top five of other receivables are analysed as below:

Name of entity	Relationship with the Company	Amount	Ageing	% of total balance
Other receivable 1	Third party	11,182,814.98	Within 1 year	13.31%
Other receivable 2	Jointly controlled entity	8,202,549.12	Within 1 year	9.76%
Other receivable 3	Third party	5,788,108.89	Within 1 year	6.89%
Other receivable 4	Third party	3,808,557.00	Within 1 year	4.53%
Other receivable 5	Third party	3,500,000.00	Within 1 year	4.16%
		<u>32,482,029.99</u>		<u>38.65%</u>

- (l) As at 30 June 2012, the other receivables from related parties accounted for 11.19% of the total other receivables balance (as at 31 December 2011: 4.39%): refer to Note 6 for details.
- (m) There are no other receivables derecognised due to transfer of financial assets during the current period.
- (n) As at 30 June 2012, there are no securitizations that targeted at other receivables.
- (o) As at 30 June 2012, all other receivables are denominated in RMB.

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (6) Advances to suppliers

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

	30 June 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	226,647,813.56	98.29%	128,378,152.12	96.88%
1 to 2 years	152,147.40	0.07%	388,671.57	0.29%
2 to 3 years	76,452.59	0.03%	25,434.89	0.02%
Over 3 years	3,708,027.40	1.61%	3,725,926.40	2.81%
	<b>230,584,440.95</b>	<b>100.00%</b>	<b>132,518,184.98</b>	<b>100.00%</b>

(b) As at 30 June 2012, the top five of advances to suppliers are analysed as follows:

	Relation with the Group	Amount	Aging	Reason of unsettlement
Supplier 1	Third party	43,796,758.30	Within 1 year	Normal purchases
Supplier 2	Third party	25,000,000.00	Within 1 year	Normal purchases
Supplier 3	Third party	22,452,447.74	Within 1 year	Normal purchases
Supplier 4	Related party	13,942,261.68	Within 1 year	Normal purchases
Supplier 5	Third party	9,183,514.63	Within 1 year	Normal purchases
		<b>114,374,982.35</b>		

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

- (c) As at 30 June 2012, there are no advances to shareholders who hold more than 5% (including 5%) of the voting rights of the Company (as at 31 December 2011: nil).
- (d) As at 30 June 2012, the advances to related parties accounted for 11.92% of the total balance of advances to suppliers (as at 31 December 2011: 1.28%): refer to Note 6 for details.
- (e) As at 30 June 2012, the advances to suppliers denominated in foreign currency are summarised as follows:

	30 June 2012			31 December 2011		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
USD	1,048,843.88	6.3355	6,644,950.40	33,600.00	6.3009	211,710.24
HKD	13,641,785.00	0.8113	11,067,580.17	-	N/A	-
EUR	445,368.20	8.3353	3,712,264.66	-	N/A	-
			<u>21,424,795.24</u>			<u>211,710.24</u>

- (f) As at 30 June 2012, there are no significant advances to suppliers whose aging are more than one year.

# Notes to the Financial Statements

For the six months ended 30 June 2012

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (7) Inventories

#### (a) Classification of Inventories

	30 June 2012			31 December 2011		
	Ending balance	Provision for declines value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Goods in transit	2,798,807.52	-	2,798,807.52	2,822,514.87	-	2,822,514.87
Raw materials	188,687,047.87	45,402.91	188,641,644.96	162,295,399.51	79,359.46	162,216,040.05
Work in progress	57,205,799.57	-	57,205,799.57	59,482,035.37	-	59,482,035.37
Semi-finished goods	97,061,775.87	891,968.80	96,169,807.07	83,813,983.59	891,968.80	82,922,014.79
Finished goods	147,572,747.65	7,152,508.38	140,420,239.27	200,055,619.57	5,126,671.71	194,928,947.86
Low-value consumables	3,281,926.48	-	3,281,926.48	2,869,449.33	-	2,869,449.33
Packaging materials	28,600,150.61	-	28,600,150.61	28,445,992.55	-	28,445,992.55
Goods In processing contract	40,647.17	-	40,647.17	14,035.85	-	14,035.85
Commodity Stocks	360,883,279.27	384,389.85	360,498,889.42	325,685,800.09	442,167.56	325,243,632.53
Others	60,542.70	-	60,542.70	61,179.30	-	61,179.30
	<b>886,192,724.71</b>	<b>8,474,269.94</b>	<b>877,718,454.77</b>	<b>865,546,010.03</b>	<b>6,540,167.53</b>	<b>859,005,842.50</b>

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

	31 December 2011	Current period additions	Current period reductions		30 June 2012
			Reversal	Write-off	
Raw materials	79,359.46	4,515.77	2,663.20	35,809.12	45,402.91
Work in progress	891,968.80	-	-	-	891,968.80
Finished goods	5,126,671.71	3,070,929.99	71,616.79	973,476.53	7,152,508.38
Commodity stocks	442,167.56	94,144.59	151,922.30	-	384,389.85
	<b>6,540,167.53</b>	<b>3,169,590.35</b>	<b>226,202.29</b>	<b>1,009,285.65</b>	<b>8,474,269.94</b>

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## 5 NOTES TO 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	The difference when net realizable value is less than carrying amount of raw material	Increase in net realisable value	0.00%
Finished goods	Amount of carrying amount over net realisable value	Increase in market price	0.05%
Commodity stocks	Amount of carrying amount over net realisable value	Increase in market price	0.04%

### (8) Other current assets

	30 June 2012	31 December 2011
Deductible Input VAT	<b>5,531,335.15</b>	<b>2,342,210.36</b>

The Group pays the enterprise income tax, VAT and other taxes in accordance with taxation laws, and presents them on the balance sheet based on their nature in accordance with the provisions of "Accounting Standards for Business Enterprises No.30 – Presentation of Financial Statements". For balance of deductible VAT, it is requested to be presented as "Other current assets" or "Other non-current assets" in the balance sheet based on its liquidity.

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

	30 June 2012	31 December 2011
Available-for-sale equity instruments	<b>18,692,267.32</b>	<b>18,907,856.64</b>

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.

# Notes to the Financial Statements

For the six months ended 30 June 2012

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Entity	Enterprise type	Registered address	Legal Representative	Principal activities	Registered capital (RMB'000)	Share holding	Voting right	Total assets at end of period (RMB'000)	Total liabilities at end of period (RMB'000)	Net assets at end of period (RMB'000)	Sales for the period (RMB'000)	Net profit for the period (RMB'000)
1. Jointly controlled entities												
Guangzhou Pharmaceuticals Corporation	Sino-foreign equity joint venture	Guangzhou	HORLACHER FRITZ	Trading of western pharmaceutical products and medical apparatus	70,000	50.00%	50.00%	726,023	547,275	178,748	946,394	8,383
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Sino-foreign equity joint venture	Guangzhou	Wang Jianyi	Production of CPM	20,476	48.05%	48.05%	189,321	79,524	89,797	194,108	10,340
Guangzhou Nuo Cheng Bio-Tech Co., Ltd. (1)	Stock corporation	Guangzhou	Zhou Lian	Production and sale of bio-products	8,400	49.24%	50.00%	26,729	12,340	14,389	14,161	4,926
2. Associates												
Hangzhou Zhehai Han 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%	19,622	1,550	18,072	5,470	(664)
Guangzhou Jirshen Medical Co., Ltd.	Limited Liability Company	Guangzhou	Geo Qi	Production of health medicine	200	38.25%	38.25%	6	3	3	-	-

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

None of the jointly controlled entities and associates of the Group are listed companies.

## (11) Long-term equity investments

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

Entity	Investment cost	31 December 2011	Current period movement	30 June 2012	% Equity interest held	% Voting rights held	Impairment provision	Impairment provided in the current period	Cash dividend in current period
Equity method:									
Guangzhou Pharmaceuticals Corporation	336,589,139.78	783,708,808.73	37,288,645.63	820,977,454.36	50.00%	50.00%	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	102,035,124.44	381,407,704.57	49,680,233.24	431,087,937.81	48.05%	48.05%	-	-	-
Guangzhou Nuo Cheng Bio-Tech Co., Ltd. (Note 1)	42,000,000.00	46,233,691.78	24,432,787.32	70,666,389.10	49.24%	50.00%	-	-	-
Hangzhou Zheda Heng Fang Chinese Medical Infor. Engineering Co., Ltd.	440,000.00	-	-	-	44.00%	44.00%	-	-	-
Golden Eagle Fund Management Co., Ltd	50,000,000.00	37,410,894.67	(1,327,952.47)	36,082,942.20	20.00%	20.00%	-	-	-
Guangzhou Jintshen Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Subtotal	591,829,284.22	1,248,760,209.75	110,053,733.72	1,358,813,943.47	-	-	-	-	-
Cost method:									
Shanghai Juhé Tang Chinese Medicine Co., Ltd. (Note 1)	515,000.00	547,193.71	-	547,193.71	9.53%	10.00%	-	-	-
Beijing Imperial Court Cultural Development Company Ltd.	200,000.00	200,000.00	-	200,000.00	10.00%	10.00%	-	-	-
Mazhong Medicine of Qi Xing Pharmaceutical Co., Ltd. (Note 2)	362,826.38	362,826.38	-	362,826.38	40.00%	40.00%	-	-	-
San You Development Co., Ltd of Indonesia (Note 2)	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 (Note 2)	218,339.05	218,339.05	-	218,339.05	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	7,374,776.66	7,406,970.37	-	7,406,970.37	-	-	1,078,551.23	-	-
Total	599,204,040.88	1,256,167,180.12	110,053,733.72	1,366,220,913.84	-	-	1,078,551.23	-	29,513,531.70

Note 1: 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 the shares of 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.

Note 2: The Group have not actually involved in the operation of Mazhong Medicine of Qi Xing Pharmaceutical Co., Ltd. and Sales Store of Peking Road of Guangzhou Medicine Co., Ltd., nor exercised any control on them, in which the investments were measured using the cost method.

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

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[English Translation for Reference Only]

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (12) Investment properties

#### (a) Investment properties – cost method

	31 December 2011	Current period addition	Current period disposal	30 June 2012
Cost	186,414,027.96	–	–	<b>186,414,027.96</b>
Buildings	175,379,634.69	–	–	<b>175,379,634.69</b>
Land use rights	11,034,393.27	–	–	<b>11,034,393.27</b>
Accumulated depreciation and amortisation	84,123,841.03	2,986,626.48	–	<b>87,110,467.51</b>
Buildings	79,571,436.41	2,873,543.54	–	<b>82,444,979.95</b>
Land use rights	4,552,404.62	113,082.94	–	<b>4,665,487.56</b>
Net book value	102,290,186.93	–	–	<b>99,303,560.45</b>
Buildings	95,808,198.28	–	–	<b>92,934,654.74</b>
Land use rights	6,481,988.65	–	–	<b>6,368,905.71</b>
Provision for impairment	–	–	–	–
Buildings	–	–	–	–
Land use rights	–	–	–	–
Carrying amount	102,290,186.93			<b>99,303,560.45</b>
Buildings	95,808,198.28			<b>92,934,654.74</b>
Land use rights	6,481,988.65			<b>6,368,905.71</b>

Depreciation charges for the six months ended 30 June 2012 amounted to RMB2,874 thousand (for the six months ended 30 June 2011: RMB2,995 thousand (unaudited)). Amortisation charges for the six months ended 30 June 2012 amounted to RMB113 thousand (for the six months ended 30 June 2011: RMB113 thousand (unaudited)).

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (13) Fixed assets

#### (a) Fixed assets

	31 December 2011	Current period addition	Current period disposal	30 June 2012
Cost	1,941,421,998.58	12,109,545.87	9,909,397.81	<b>1,943,622,146.64</b>
Buildings	933,037,508.88	1,341,148.48	903,832.04	<b>933,474,825.32</b>
Machinery and equipment	790,619,091.54	6,979,483.50	2,912,652.47	<b>794,685,922.57</b>
Motor vehicles	61,606,799.17	1,250,000.40	693,258.00	<b>62,163,541.57</b>
Electronic equipments	52,908,113.47	281,799.01	212,491.79	<b>52,977,420.69</b>
Office equipment	63,080,311.58	2,180,650.48	5,187,163.51	<b>60,073,798.55</b>
Decoration and fixtures	40,170,173.94	76,464.00	–	<b>40,246,637.94</b>
Accumulated depreciation	934,966,519.12	48,283,487.47	8,985,491.75	<b>974,264,514.84</b>
Buildings	298,217,112.18	15,767,469.78	185,937.29	<b>313,798,644.67</b>
Machinery and equipment	490,182,308.34	25,066,123.22	2,788,336.62	<b>512,460,094.94</b>
Motor vehicles	44,994,467.93	1,542,791.48	670,322.76	<b>45,866,936.65</b>
Electronic equipments	21,439,393.09	1,289,938.62	209,185.72	<b>22,520,145.99</b>
Office equipment	47,771,002.15	2,102,647.30	5,131,709.36	<b>44,741,940.09</b>
Decoration and fixtures	32,362,235.43	2,514,517.07	–	<b>34,876,752.50</b>
Provision for impairment	6,434,238.45	–	–	<b>6,434,238.45</b>
Buildings	5,199,353.89	–	–	<b>5,199,353.89</b>
Machinery and equipment	1,016,970.09	–	–	<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>
Carrying amount	1,000,021,241.01			<b>962,923,393.35</b>
Buildings	629,621,042.81			<b>614,476,826.76</b>
Machinery and equipment	299,419,813.11			<b>281,208,857.54</b>
Motor vehicles	16,394,416.77			<b>16,078,690.45</b>
Electronic equipments	31,468,720.38			<b>30,457,274.70</b>
Office equipment	15,309,309.43			<b>15,331,858.46</b>
Decoration and fixtures	7,807,938.51			<b>5,369,885.44</b>

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (13) Fixed assets (Continued)

#### (a) Fixed assets (continued)

- (i) For the six months ended 30 June 2012, the fixed assets transferred from construction in progress amounted to RMB6,270 thousand (for the six months ended 30 June 2011: RMB11,396 thousand (unaudited)).
- (ii) Depreciation expenses for the six months ended 30 June 2012 amounted to RMB48,283 thousand in total (for the six months ended 30 June 2011: RMB49,529 thousand (unaudited)), of which RMB31,252 thousand, RMB759 thousand and RMB16,272 thousand were charged to cost of sales, selling and distribution expenses and general and administrative expenses, respectively (for the six months ended 30 June 2011: RMB32,643 thousand (unaudited), RMB1,265 thousand (unaudited) and RMB15,621 thousand (unaudited), respectively).

- (b) As at 30 June 2012, the buildings and the machinery and equipment are temporarily idle, which are analysed as follows:

	Cost	Accumulated depreciation	Provision for impairment loss	Carrying amount	Note
Buildings	430,613.36	157,327.54	–	273,285.82	Entrust an agency to lease currently
Machinery and equipment	730,884.08	285,201.51	445,682.57	–	Chinese medicine slicing machine

- (c) As at 30 June 2012, fixed assets which were lack of ownership certificate are summarised as follows:

	Carrying amount	Reason	Estimated date of obtaining the ownership certificate
Buildings	17,279,865.95	Procedures are not complete, so the certificates are not handled.	Uncertain
Motor vehicles	211,312.50	Procedures are not complete, so the ownership cannot be transferred.	Uncertain
	<u>17,491,178.45</u>		

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (13) Fixed assets (Continued)

(d) As at 30 June 2012 and 31 December 2011, there are no fixed assets held for sale.

(e) Fixed assets held under operating leases are summarised as follows:

	<b>30 June 2012</b>	31 December 2011
	<b>Carrying Amount</b>	Carrying Amount
Buildings	<b><u>11,866,114.80</u></b>	<u>12,198,966.54</u>

### (14) Construction in progress

	30 June 2012			31 December 2011		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Construction in progress	<b><u>28,067,480.19</u></b>	<u>-</u>	<b><u>28,067,480.19</u></b>	<u>20,369,955.46</u>	<u>-</u>	<u>20,369,955.46</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (14) Construction in progress (Continued)

#### (a) Movement of construction in progress

	Budget	31 December 2011	Current period		Current period reductions		30 June 2012	Source of funds	% contribution in budget
			additions	Transferred to Fixed assets	Other reductions				
Yunpu New Equipment Project	7,882,228.83	1,224,217.19	2,179,282.38	1,739,585.95	-	-	1,663,913.62	Self-funding	90.93%
HPLCMS Devices Upgrade Project	6,979,600.00	3,588,869.37	-	1,031,623.95	-	-	2,567,245.42	Self-funding	99.65%
Central air conditioning system, energy-saving projects	2,740,000.00	702,564.14	-	702,564.14	-	-	-	Self-funding	100.00%
Holeless casing machine and site improvement	9,500,000.00	4,166,912.06	-	204,006.06	-	-	3,982,906.00	Self-funding	48.54%
Sewage Disposal Line of Zhongyi	1,076,307.00	-	295,117.09	-	-	-	295,117.09	Self-funding	27.42%
EMS System	1,940,000.00	-	725,000.00	-	-	-	725,000.00	Self-funding	37.37%
Qian Production Line	14,300,000.00	338,834.00	40,800.00	-	-	-	379,634.00	Self-funding	100.62%
Improvement Project for Sewage Disposal Line	1,500,000.00	669,854.15	-	-	-	-	669,854.15	Self-funding	44.66%
Solvent tank farm project	1,300,000.00	812,587.62	413,145.94	-	-	-	1,225,733.56	Self-funding	94.29%
Dormitory surrounding road works	1,630,000.00	917,961.00	800,000.00	-	-	-	1,717,961.00	Self-funding	105.40%
Near-infrared line detection	5,500,000.00	800,000.00	1,200,000.00	-	-	-	2,000,000.00	Self-funding	36.36%
Oral Liquid Auto-packaging Line	2,300,000.00	2,266,000.00	-	-	-	-	2,266,000.00	Self-funding	98.52%
Trench-leaved Filling Bulb Dose Auto-packaging Line	1,500,000.00	1,179,100.00	-	169,230.77	-	-	1,009,869.23	Self-funding	98.26%
Office Building Construction	5,000,000.00	233,776.58	-	-	-	-	233,776.58	Self-funding	4.68%
Cell Culture Platform	1,000,000.00	-	144,257.00	-	-	-	144,257.00	Self-funding	14.43%
Pill Preparation Line Technological Transformation Project	8,000,000.00	-	1,102,310.80	-	-	-	1,102,310.80	Self-funding	13.78%
Others	17,628,581.23	3,439,279.35	7,445,110.34	2,423,197.95	377,290.00	-	8,083,901.74	Self-funding	-
		20,369,955.46	14,345,023.55	6,270,208.82	377,290.00		28,067,480.19		

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

- (b) For the six months ended 30 June 2012, there are no borrowing costs eligible for capitalization.
- (c) As at 30 June 2012, the construction progress of significant constructions in progress are analysed as below:

#### Progress

Holeless casting machine and site improvement	Construction phase
HPLC/MS Devices Upgrade Project	Under installation and testing
Oral Liquid Auto-packaging Line	Completion phase of construction
Near-infrared line detection	Construction phase
Dormitory surrounding road works	Has been completed, pending acceptance and settlement

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (15) Intangible assets

#### (a) Details of intangible assets

	31 December 2011	Current period additions	Current period reductions	30 June 2012
Original cost	130,618,577.07	697,756.20	–	<b>131,316,333.27</b>
Land use rights	111,415,483.06	–	–	<b>111,415,483.06</b>
Industrial patents and technologies	10,428,802.54	–	–	<b>10,428,802.54</b>
Non-patent technologies	4,840,000.00	–	–	<b>4,840,000.00</b>
Trademarks	76,100.00	–	–	<b>76,100.00</b>
Others	3,858,191.47	697,756.20	–	<b>4,555,947.67</b>
Accumulated amortisation	34,546,487.98	2,109,674.42	–	<b>36,656,162.40</b>
Land use rights	27,679,247.14	1,245,670.64	–	<b>28,924,917.78</b>
Industrial patents and technologies	1,929,772.23	208,200.38	–	<b>2,137,972.61</b>
Non-patent technologies	3,677,191.88	269,178.04	–	<b>3,946,369.92</b>
Trademarks	55,806.76	3,805.00	–	<b>59,611.76</b>
Others	1,204,469.97	382,820.36	–	<b>1,587,290.33</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	–	–	–	–
Carrying amount	95,138,045.81			<b>93,726,127.59</b>
Land use rights	83,255,535.68			<b>82,009,865.04</b>
Industrial patents and technologies	8,045,687.27			<b>7,837,486.89</b>
Non-patent technologies	1,162,808.12			<b>893,630.08</b>
Trademarks	20,293.24			<b>16,488.24</b>
Others	2,653,721.50			<b>2,968,657.34</b>

For the six months ended 30 June 2012, the amortisation of intangible assets amounted to RMB2,110 thousand (for the six months ended 30 June 2011: RMB2,014 thousand (unaudited)), which were recognised in profit or loss for the current period.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (16) Development costs

	31 December 2011	Current period additions	Current period transferred out		30 June 2012
			Recognised in profit or loss in current period	Recognised as intangible assets	
Capitalised expenditures	792,251.69	-	-	-	792,251.69
Expensed expenditures	-	35,970,193.22	35,970,193.22	-	-
	<u>792,251.69</u>	<u>35,970,193.22</u>	<u>35,970,193.22</u>	<u>-</u>	<u>792,251.69</u>

### (17) Long-term prepaid expenses

	31 December 2011	Current period additions	Current period amortisation	Other reductions	30 June 2012
Building decoration and fixtures	2,502,538.95	184,969.11	440,207.18	-	2,247,300.88
Basketball field construction	447,038.27	-	72,492.69	-	374,545.58
Sewage conduit maintenance	60,845.76	-	45,634.31	-	15,211.45
ERP system fee	17,044.01	-	8,340.85	-	8,703.16
Installation of the product identification code for the packing production line	734,520.46	-	142,165.25	-	592,355.21
Others	4,182,682.64	408,113.93	1,977,548.10	-	2,613,248.47
	<u>7,944,670.09</u>	<u>593,083.04</u>	<u>2,686,388.38</u>	<u>-</u>	<u>5,851,364.75</u>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

#### (a) Deferred tax assets

	<b>30 June 2012</b>	31 December 2011
Impairment provision of long-term equity investment	<b>115,051.22</b>	115,051.22
Provision for declines in values of inventories	<b>645,845.98</b>	222,196.60
Provision for bad debts	<b>5,751,080.15</b>	5,399,844.25
Impairment provision of fixed assets	<b>374,635.21</b>	374,635.21
Depreciation difference of fixed assets due to gap of accounting treatment and taxation law	<b>322,292.66</b>	335,904.41
Changes in fair value of financial assets held for trading	<b>659,993.38</b>	595,920.70
Employee benefits payable	<b>14,973,216.77</b>	4,280,103.99
Other payables	<b>15,044,203.13</b>	5,536,667.87
Other non-current liabilities	<b>5,753,311.91</b>	5,324,544.64
Deductible tax losses	<b>5,142,635.57</b>	9,021,141.38
Effect of elimination	<b>13,530,019.64</b>	7,068,603.62
Provision for impairment of intangible assets	<b>188,176.52</b>	188,176.52
Others	<b>63,319.55</b>	79,293.16
	<b><u>62,563,781.69</u></b>	<b><u>38,542,083.57</u></b>

#### (b) Deferred tax liabilities

	<b>30 June 2012</b>	31 December 2011
Other receivables-rental income	<b>1,845,907.19</b>	1,954,860.86
Changes in fair value of available-for-sale financial assets	<b>1,790,641.14</b>	1,847,852.04
	<b><u>3,636,548.33</u></b>	<b><u>3,802,712.90</u></b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	<b>30 June 2012</b>	31 December 2011
Deductible temporary differences	<b>51,901,749.24</b>	47,697,812.52
Deductible tax losses	<b>97,424,128.14</b>	92,714,219.77
	<b><u>149,325,877.38</u></b>	<b><u>140,412,032.29</u></b>

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

	<b>30 June 2012</b>	31 December 2011
2012	<b>25,402,611.65</b>	28,936,792.24
2013	<b>17,539,311.81</b>	17,746,348.21
2014	<b>21,661,915.88</b>	21,746,131.60
2015	<b>13,246,797.36</b>	13,246,797.36
2016	<b>11,003,022.66</b>	11,038,150.36
2017	<b>8,570,468.78</b>	-
	<b><u>97,424,128.14</u></b>	<b><u>92,714,219.77</u></b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

	30 June 2012	31 December 2011
Impairment provision of long-term equity investment	460,204.88	460,204.88
Provision for declines in values of inventories	4,112,142.99	1,287,813.81
Provision for bad debts	27,046,634.08	25,169,591.51
Impairment provision of fixed assets	2,457,774.80	2,457,774.80
Depreciation difference of fixed assets due to gap of accounting treatment and taxation law	2,148,617.73	2,236,599.54
Changes in fair value of financial assets held for trading	2,639,973.50	2,383,682.80
Employee benefits payable	96,223,874.09	25,938,026.59
Other payables	86,213,449.23	27,791,122.47
Other non-current liabilities	38,355,411.81	35,496,964.31
Deductible tax losses	34,284,237.13	60,000,565.51
Effect of elimination	54,120,078.56	28,274,414.48
Provision for impairment of intangible assets	934,043.28	934,043.28
Others	422,131.36	528,620.81
	<b>349,418,573.44</b>	<b>212,959,424.79</b>

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

	30 June 2012	31 December 2011
Other receivables-rental income	8,447,308.69	9,138,026.71
Changes in fair value of available-for-sale financial assets	7,471,250.37	7,694,236.42
	<b>15,918,559.06</b>	<b>16,832,263.13</b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (19) Provision for asset impairment

	31 December 2011	Current period additions	Current period transferred out		30 June 2012
			Reversal	Write-off	
Provision for bad debts	26,467,971.40	2,382,175.38	142,525.23	-	<b>28,707,621.55</b>
Provision for declines in value of inventories	6,540,167.53	3,169,590.35	226,202.29	1,009,285.65	<b>8,474,269.94</b>
Impairment provision of long-term equity investments	1,078,551.23	-	-	-	<b>1,078,551.23</b>
Impairment provision of fixed assets	6,434,238.45	-	-	-	<b>6,434,238.45</b>
Impairment provision of intangible assets	934,043.28	-	-	-	<b>934,043.28</b>
Impairment provision of goodwill	475,756.92	-	-	-	<b>475,756.92</b>
	<u>41,930,728.81</u>	<u>5,551,765.73</u>	<u>368,727.52</u>	<u>1,009,285.65</u>	<u>46,104,481.37</u>

### (20) Short-term borrowings

	30 June 2012	31 December 2011
Credit loans	<b>32,500,000.00</b>	32,500,000.00
Pledged bank borrowings	<b>5,167,087.26</b>	32,428,849.42
Guaranteed bank borrowings	<b>100,000,000.00</b>	80,000,000.00
	<u><b>137,667,087.26</b></u>	<u>144,928,849.42</u>

- (a) As at 30 June 2012 and 31 December 2011, there are no short-term borrowings which are due but have not been repaid.
- (b) As at 30 June 2012 and 31 December 2011, there are no borrowings being mortgaged.
- (c) As at 30 June 2012, the pledged bank borrowings are USD borrowings equivalent to RMB 5,167 thousand (as at 31 December 2011: USD borrowings equivalent to RMB27,839 thousand and RMB borrowings amounted to RMB4,590 thousand), which are pledged with the deposits of RMB5,167 thousand (as at 31 December 2011: deposits of RMB27,839 thousand and notes receivable equivalent to RMB 5,111 thousand).
- (d) As at 30 June 2012, the weighted average interest rate of short-term borrowings is 6.8784% per annum (as at 31 December 2011: 6.8179% per annum).

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (21) Notes payable

	<b>30 June 2012</b>	31 December 2011
Bank acceptance notes	<b><u>41,381,160.53</u></b>	<b><u>5,432,012.71</u></b>

As at 30 June 2012, notes payable amounting to RMB41,381 thousand were expected to be due within 1 year (as at 31 December 2011: RMB5,432 thousand).

### (22) Accounts payable

#### (a) Details of accounts payable

	<b>30 June 2012</b>		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	<b>564,469,993.42</b>	<b>98.60%</b>	343,592,964.13	98.10%
Over 1 year	<b>8,034,731.52</b>	<b>1.40%</b>	6,656,634.15	1.90%
	<b><u>572,504,724.94</u></b>	<b><u>100.00%</u></b>	<b><u>350,249,598.28</u></b>	<b><u>100.00%</u></b>

- (b) As at 30 June 2012, 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 2011: nil).
- (c) As at 30 June 2012, the amount of accounts payable to related parties accounted for 5.07% of the total balance (as at 31 December 2011: 3.58%): refer to Note 6 for details.
- (d) As at 30 June 2012 and 31 December 2011, there are no accounts payable that are individually significant whose aging are over 1 year.
- (e) Accounts payable denominated in foreign currency are summarised as follows:

	<b>30 June 2012</b>			31 December 2011		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	2,471,180.50	6.3249	15,629,969.54	1,062,860.78	6.3009	6,696,979.49
HKD	2,563,872.00	0.8152	2,090,068.45	-	0.8107	-
			<b><u>17,720,037.99</u></b>			<b><u>6,696,979.49</u></b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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[English Translation for Reference Only]

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (23) Advances from customers

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

	30 June 2012		31 December 2011	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	546,076,806.68	99.17%	142,018,448.61	96.66%
Over 1 year	4,570,465.72	0.83%	4,913,345.88	3.34%
	<b>550,647,272.40</b>	<b>100.00%</b>	<b>146,931,794.49</b>	<b>100.00%</b>

(b) As at 30 June 2012, there are no advances from shareholders who hold more than 5% (including 5%) of the voting rights of the Company (as at 31 December 2011: the advances from GPLH are RMB5 thousand).

(c) As at 30 June 2012, advances from related parties accounted for 11.47% of the total balance (as at 31 December 2011: 1.75%): refer to Note 6 for details.

(d) As at 30 June 2012 and 31 December 2011, there are no advances from customers that are individually significant whose aging are over 1 year.

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

	30 June 2012			31 December 2011		
	Amount	Exchange rate	RMB	Amount	Exchange rate	RMB
USD	862,050.46	6.3067	5,436,684.79	2,250,214.90	6.3499	14,288,749.26
HKD	1,025,200.33	0.8130	833,510.95	1,998,616.03	0.8152	1,629,351.83
			<b>6,270,195.74</b>			<b>15,918,101.09</b>

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (24) Employee benefits payable

	31 December 2011	Current period additions	Current period reductions	30 June 2012
Wages and salaries, bonuses, allowances and subsidies	23,776,600.22	220,174,451.21	182,152,949.67	<b>61,798,101.76</b>
Staff welfare	1,093,816.52	24,972,928.30	17,535,657.43	<b>8,531,087.39</b>
Social insurances	166,558.19	59,962,371.32	58,964,365.62	<b>1,164,563.89</b>
Including: Medical insurance	–	14,821,619.42	14,821,619.42	–
Basic pension insurance	1,059.25	32,070,274.86	31,996,239.36	<b>75,094.75</b>
Annuity	162,929.05	6,466,633.31	5,554,892.41	<b>1,074,669.95</b>
Unemployment insurance	2,569.89	3,494,241.37	3,486,292.87	<b>10,518.39</b>
Work injury insurance	–	1,477,803.41	1,475,127.91	<b>2,675.50</b>
Maternity insurance	–	1,425,598.78	1,423,993.48	<b>1,605.30</b>
Other insurances	–	206,200.17	206,200.17	–
Housing funds	219,834.17	24,901,255.44	25,094,578.20	<b>26,511.41</b>
Labor union funds and employee education funds	2,595,559.30	6,091,441.24	5,503,871.55	<b>3,183,128.99</b>
Compensation for lay-off	–	630,382.27	630,382.27	–
Housing allowance	17,695,169.70	10,348,285.81	10,409,748.53	<b>17,633,706.98</b>
Service fee	11,850,000.00	106,091,863.90	99,881,863.90	<b>18,060,000.00</b>
Staff and workers' bonus and welfare fund	5,613,344.67	–	525,656.00	<b>5,087,688.67</b>
Others	1,156,274.41	6,509,493.97	6,716,934.44	<b>948,833.94</b>
	<u>64,167,157.18</u>	<u>459,682,473.46</u>	<u>407,416,007.61</u>	<u><b>116,433,623.03</b></u>

As at 30 June 2012, employee benefits payable mainly include the wages and bonus of June 2012 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.

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (25) Taxes payable

	<b>30 June 2012</b>	31 December 2011
VAT	<b>22,978,425.52</b>	18,204,107.42
Business tax	<b>865,232.34</b>	971,025.52
City maintenance and construction tax	<b>2,049,055.17</b>	1,616,595.95
Education surcharge	<b>913,146.54</b>	725,384.42
Local education surcharge	<b>571,686.49</b>	453,628.81
Enterprise income tax	<b>32,834,425.07</b>	8,266,138.96
Individual income tax	<b>107,352.67</b>	4,495,715.62
Real-estate tax	<b>3,482,495.93</b>	872,425.96
Urban area embankment maintenance fee	<b>2,251,716.47</b>	1,799,427.45
Others	<b>1,574,655.46</b>	546,831.55
	<b>67,628,191.66</b>	37,951,281.66

### (26) Dividends payable

<b>Investors</b>	<b>30 June 2012</b>	31 December 2011
Foreign shares listed out of the PRC (H Shares)	<b>(482.49)</b>	(592.76)
RMB ordinary shares	<b>(4.15)</b>	(4.15)
Minority shareholders	<b>5,094,417.15</b>	137,037.36
	<b>5,093,930.51</b>	136,440.45

### (27) Other payables

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

	<b>30 June 2012</b>	31 December 2011
Within 1 year	<b>117,469,244.95</b>	81,568,404.88
Over 1 year	<b>42,559,336.57</b>	39,975,188.24
	<b>160,028,581.52</b>	121,543,593.12

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For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (27) Other payables *(Continued)*

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

	<b>30 June 2012</b>	31 December 2011
Deposits	<b>30,627,162.62</b>	26,637,761.90
Rental expenses	<b>2,305,188.16</b>	377,111.60
Payables to third parties	<b>30,062,631.27</b>	32,590,770.44
Amount due to employees	<b>3,090,786.17</b>	2,478,847.96
Payables to related parties <i>(Note 6(5))</i>	<b>11,345,688.00</b>	8,083,724.98
Accruals for purchase of fixed assets	<b>2,155,083.53</b>	2,656,773.05
Accruals for purchase of land use rights	<b>2,154,323.40</b>	2,154,323.40
Accrued expenses	<b>72,324,174.88</b>	40,271,028.34
Others	<b>5,963,543.49</b>	6,293,251.45
	<b>160,028,581.52</b>	121,543,593.12

(c) Details of accrued expenses

	<b>30 June 2012</b>	31 December 2011
Interest expenses	<b>117,975.00</b>	334,960.90
Rental expenses	<b>4,349,401.86</b>	3,475,240.10
Agent fees	<b>10,105,018.70</b>	4,569,850.23
Advertising expenses	<b>19,277,650.65</b>	15,254,273.77
Utilities	<b>3,238,347.93</b>	2,384,517.70
Transportation expenses	<b>4,047,674.92</b>	2,906,341.67
Conference expenses	<b>6,988,674.81</b>	651,338.42
Research and development expenses	<b>6,109,224.24</b>	3,846,302.52
Marketing expenses	<b>4,112,532.01</b>	178,550.00
Travelling expenses	<b>2,574,744.55</b>	831,079.50
Consulting expenses	<b>7,535,517.23</b>	2,401,052.00
Others	<b>3,867,412.98</b>	3,437,521.53
	<b>72,324,174.88</b>	40,271,028.34

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (27) Other payables (Continued)

- (d) As at 30 June 2012, other payables to shareholders who hold more than 5% (including 5%) of the voting rights of the Company are other payables of RMB9,241 thousand to GPLH (as at 31 December 2011: RMB8,080 thousand to GPLH).
- (e) As at 30 June 2012, other payables to related parties accounted for 7.09% of the total balance (as at 31 December 2011: 6.65%): refer to Note 6 for details.
- (f) As at 30 June 2012 and 31 December 2011, significant other payables whose aging are over 1 year mainly include accruals for purchase of fixed assets, accruals for purchase of intangible assets, and purchase downpayment.
- (g) As at 30 June 2012 and 31 December 2011, all other payables are denominated in RMB.

### (28) Long-term payables

	<b>30 June 2012</b>	31 December 2011
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>4,423,405.56</b>	4,423,405.56

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (29) Other non-current liabilities

	<b>30 June 2012</b>	31 December 2011
Government grants related to assets:		
Technology funds granted by government	<b>12,441,407.61</b>	12,105,527.76
Relocation compensation	<b>4,533,568.43</b>	5,445,449.38
Government discount	<b>2,060,486.49</b>	2,096,419.95
Sewage disposal system project	<b>1,107,425.00</b>	1,157,862.50
Specific funds for Xiaoke Wan online supervision project	<b>816,666.70</b>	866,666.68
Others	<b>2,617,528.32</b>	2,491,415.87
	<b>23,577,082.55</b>	24,163,342.14
Government grants related to income:		
Technology funds granted by government	<b>49,252,430.96</b>	49,626,337.41
Others	<b>3,373,860.48</b>	2,737,305.46
	<b>52,626,291.44</b>	52,363,642.87
	<b>76,203,373.99</b>	76,526,985.01

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (30) Share capital

	31 December 2011		Current period addition (+) reduction (-)				30 June 2012		
	Amount	% of the total balance	Issued shares	Shares 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 2012

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (30) Share capital (Continued)

	31 December 2010		Current period addition (+)/reduction(-)				30 June 2011 (Unaudited)		
	Amount	% of the total balance	Issued shares	Shares 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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (31) Capital surplus

	31 December 2011	Current period additions	Current period reductions	30 June 2012
Share premium	914,006,770.47	–	–	914,006,770.47
Other capital surplus	234,009,948.50	51,579.64	470,334.80	233,591,193.34
Including: Transfer of capital surplus recognised under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>1,148,016,718.97</u>	<u>51,579.64</u>	<u>470,334.80</u>	<u>1,147,597,963.81</u>
	31 December 2010	Current period additions	Current period reductions	30 June 2011 (Unaudited)
Share premium	914,006,770.47	–	–	914,006,770.47
Other capital surplus	238,713,351.77	14,777.37	2,837,272.82	235,890,856.32
Including: Transfer of capital surplus recognised under the previous accounting system	24,955,836.66	–	–	24,955,836.66
	<u>1,152,720,122.24</u>	<u>14,777.37</u>	<u>2,837,272.82</u>	<u>1,149,897,626.79</u>

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

- The decrease of capital surplus amounted to RMB159 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 RMB182 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 RMB23 thousand due to the increase in the price of the A-share of Bank of Communications held by the Group.
- The Company recognised the decrease in capital surplus amounted to RMB272 thousand due to the increased investment in its subsidiary Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.
- As the capital surplus of a jointly controlled entity Guangzhou Pharmaceuticals Corporation increased in the current period, the Group recognised the increase in capital surplus amounted to RMB12 thousand based on its share of interest in Guangzhou Pharmaceuticals Corporation.

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (32) Surplus reserve

	31 December 2011	Current period additions	Current period reductions	30 June 2012
Statutory surplus reserve	483,970,057.97	–	–	<b>483,970,057.97</b>
Discretionary surplus reserve	118,925,617.49	–	–	<b>118,925,617.49</b>
	<u>602,895,675.46</u>	<u>–</u>	<u>–</u>	<u><b>602,895,675.46</b></u>
	31 December 2010	Current period additions	Current period reductions	30 June 2011 (Unaudited)
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>

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 CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (33) Undistributed profits

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Undistributed profits at the beginning of the year (before adjustments)	<b>1,219,839,567.46</b>	997,707,102.24
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>1,219,839,567.46</b>	997,707,102.24
Add: Net profit for the current period	<b>217,084,950.51</b>	179,621,034.63
Less: Appropriation for statutory surplus reserve	-	-
Less: Ordinary shares dividend payable	<b>81,090,000.00</b>	40,545,000.00
	<hr/>	<hr/>
Undistributed profits at the end of the period	<b><u>1,355,834,517.97</u></b>	<u>1,136,783,136.87</u>

- (a) As at 30 June 2012, surplus reserves of the Company's subsidiaries amounting to RMB 90,807 thousand is included in undistributed profits (as at 31 December 2011: RMB90,807 thousand).
- (b) In accordance with the resolution at the Annual General Meeting held on 12 April 2012, the Company proposed a cash dividend of RMB0.10 per share to shareholders of the Company, amounting to RMB81,090 thousand in total based on the number of shares issued amounting to 810,900,000.

# Notes to the Financial Statements

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (34) Minority interest

Investees	Investment relationship with the Company	30 June 2012	31 December 2011
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Holding Subsidiary	14,157,823.81	13,031,551.58
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Holding Subsidiary	672,172.20	385,522.60
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	Holding Subsidiary	17,845,947.74	18,338,888.80
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	Holding Subsidiary	25,336,407.33	25,450,989.94
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Holding Subsidiary	975,136.76	707,176.16
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Holding Subsidiary	16,133,364.54	15,748,129.29
Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd.	Indirect holding subsidiary	38,159,131.82	38,142,447.53
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	Indirect holding subsidiary	161,900.56	191,482.17
Guangzhou Pan Gao Shou Natural Healthcare Products Co., Ltd.	Indirect holding subsidiary	678,500.69	623,867.61
Xizang Lin Zhi Guangyao Development Co., Ltd. (*)	Indirect holding subsidiary	720,083.84	900,000.00
Wulanchabu Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding subsidiary	200,000.00	-
Shandong Guangyao Chinese Raw Medicine Development Co., Ltd.	Indirect holding subsidiary	1,100,000.00	-
		<b>116,140,469.29</b>	<b>113,520,055.68</b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (35) Revenue and cost of sales

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

	Six months ended 30 June 2011 (Unaudited)		
	Main operations	Other operations	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

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

	Revenue from main operations		Cost of main operations	
	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
Manufacture	1,489,761,987.03	1,302,296,328.35	797,965,961.95	736,096,415.12
Pharmaceutical trading	1,386,646,936.94	1,037,990,751.22	1,296,615,375.94	947,391,337.45
Other trading	571,314,913.24	430,244,716.83	565,225,293.86	425,521,475.16
	<b>3,447,723,837.21</b>	2,770,531,796.40	<b>2,659,806,631.75</b>	2,109,009,227.73

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

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## 5 NOTES TO 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 from main operations		Cost of main operations	
	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
Southern China	<b>2,425,892,982.17</b>	1,961,008,525.10	<b>1,926,361,638.01</b>	1,533,508,276.46
Eastern China	<b>306,345,101.52</b>	285,385,586.67	<b>217,145,416.95</b>	211,145,340.78
Northern China	<b>233,773,540.83</b>	176,983,969.33	<b>129,908,029.68</b>	101,429,809.30
Northeastern China	<b>53,890,701.56</b>	48,944,582.64	<b>29,839,929.66</b>	29,746,962.63
Southwestern China	<b>226,598,778.65</b>	123,905,266.98	<b>186,471,461.90</b>	87,005,201.98
Northwestern China	<b>57,410,829.89</b>	55,648,800.00	<b>30,632,483.27</b>	31,829,795.71
Other countries	<b>143,811,902.59</b>	118,655,065.68	<b>139,447,672.28</b>	114,343,840.87
	<b>3,447,723,837.21</b>	2,770,531,796.40	<b>2,659,806,631.75</b>	2,109,009,227.73

(c) Top five of the revenue of the Group amounted to RMB 687,776 thousand in total, which accounts for 19.95% of the total revenue of the Group (for the six months ended 30 June 2011: 19.60%(Unaudited)).

	Revenue of the main operation	Percentage of the total revenue of main the operation of the group
Customer 1	204,975,877.58	5.94%
Customer 2	167,237,215.59	4.85%
Customer 3	146,060,172.85	4.24%
Customer 4	88,174,819.73	2.56%
Customer 5	81,327,863.13	2.36%
	<b>687,775,948.88</b>	<b>19.95%</b>

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For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(d) Revenue from other operation

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Leases of assets	<b>28,858,618.84</b>	27,690,336.04
Sales of materials	<b>641,140.81</b>	313,244.72
Franchise management fee income	<b>97,700.00</b>	98,000.00
License fee income	<b>12,116,824.56</b>	9,785,690.44
Consulting fee income	<b>220,284.92</b>	357,764.59
Medicine slotting fee income	<b>179,004.50</b>	319,766.50
Others	<b>8,208,741.48</b>	8,244,711.88
	<b><u>50,322,315.11</u></b>	<b><u>46,809,514.17</u></b>

(e) Cost of other operation

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Depreciation of assets leased out	<b>3,206,236.08</b>	3,108,053.94
Cost of materials sold	<b>823,430.50</b>	2,666,793.34
Others	<b>3,944,710.89</b>	3,300,394.10
	<b><u>7,974,377.47</u></b>	<b><u>9,075,241.38</u></b>

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For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (36) Taxes and surcharges

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Business tax	<b>3,133,816.30</b>	2,724,124.89
City maintenance and construction tax	<b>12,492,651.87</b>	10,345,728.13
Education surcharge	<b>5,405,911.90</b>	4,461,860.45
Local education surcharge	<b>3,610,147.95</b>	2,972,187.66
Housing Real-estate tax	<b>2,662,275.46</b>	2,531,170.19
Others	-	705.12
	<b>27,304,803.48</b>	23,035,776.44

Basis of calculation: refer to Note 3.

### (37) Selling and distribution expenses

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Employee benefit expenses	<b>182,782,282.43</b>	150,572,596.47
Sales service fees	<b>25,053,517.39</b>	16,842,630.22
Travelling expenses	<b>13,922,982.4</b>	15,902,532.26
Entertainment expenses	<b>3,991,912.32</b>	3,847,430.95
Office expenses	<b>3,681,468.68</b>	3,048,083.29
Transportation expenses	<b>19,916,860.59</b>	25,345,716.55
Rental expenses	<b>5,340,274.33</b>	4,966,781.75
Conference expenses	<b>23,392,405.22</b>	8,922,422.45
Insurance fees	<b>84,684.72</b>	145,602.39
Advertising and promotion fees	<b>107,717,313.17</b>	102,278,576.92
Consulting fees	<b>14,247,202.50</b>	4,416,646.83
Depreciation charges	<b>759,007.87</b>	1,264,813.42
Others	<b>8,896,490.07</b>	6,830,065.78
	<b>409,786,401.69</b>	344,383,899.28

# Notes to the Financial Statements

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (38) General and administrative expenses

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Employee benefit expenses	<b>134,537,376.60</b>	111,956,242.56
Property management expenses	<b>186,997.34</b>	188,955.54
Insurance fees	<b>529,191.14</b>	481,674.91
Depreciation charges	<b>14,560,862.94</b>	14,570,104.86
Utilities	<b>1,968,443.75</b>	1,921,766.81
Administrative expenses	<b>4,647,094.64</b>	4,339,106.35
Travelling expenses	<b>2,192,811.13</b>	1,878,539.88
Transportation expenses	<b>4,687,092.73</b>	5,891,819.78
Entertainment expenses	<b>4,743,309.65</b>	4,538,139.16
Repairing expenses	<b>2,506,036.30</b>	2,171,197.55
Rental expenses	<b>5,178,111.15</b>	5,769,050.40
Conference expenses	<b>1,722,357.44</b>	1,474,117.61
Research and development expenses	<b>37,277,545.86</b>	30,813,774.94
Taxation charges	<b>8,887,892.02</b>	7,947,455.34
Amortisation charges	<b>4,309,781.21</b>	4,416,071.30
Professional service fees	<b>11,500,259.63</b>	3,803,182.87
Consulting fees	<b>607,377.41</b>	1,161,419.00
License fees	<b>5,829,816.13</b>	3,067,225.42
Others	<b>12,317,548.96</b>	11,371,985.74
	<b>258,189,906.03</b>	217,761,830.02

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (39) Financial expenses

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Interest expenses	<b>4,666,868.38</b>	805,094.84
Discount interest expenses of notes	<b>892,745.12</b>	838,164.70
Interest income	<b>(2,562,640.27)</b>	(3,737,137.59)
Exchange (gains)/losses	<b>(236,717.65)</b>	122,051.98
Bank charges	<b>908,661.24</b>	1,058,674.70
Cash discounts	<b>(814,815.00)</b>	754.41
Others	-	94,849.08
	<b>2,854,101.82</b>	(817,547.88)

For the six months ended 30 June 2012 and the six months ended 30 June 2011 (Unaudited), all interest expenses belong to borrowings which loan repayment dates are within 5 years.

### (40) Asset impairment losses

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Provision for bad debts	<b>2,239,650.15</b>	(659,617.33)
Declines in values of inventories	<b>2,943,388.06</b>	2,182,470.63
	<b>5,183,038.21</b>	1,522,853.30

# Notes to the Financial Statements

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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Loss arising from changes in fair value of listed shares of Hafei Aviation Industry Co., Ltd held by the Group	<b>(42,201.30)</b>	(98,855.10)
Loss arising from changes in fair value of listed shares of Harbin Pharmaceutical Group Co., Ltd. held by the Group	<b>(214,089.40)</b>	(1,528,891.02)
	<b>(256,290.70)</b>	(1,627,746.12)

### (42) Investment income

#### (a) Investment income details

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Investment income from financial assets:		
Income from financial assets held for trading	–	306,960.88
Income from available-for-sale financial assets	<b>41,326.48</b>	672,330.00
Income from entrusted loans	<b>(372,726.29)</b>	(313,756.32)
	<b>(331,399.81)</b>	665,534.56
Income from long-term equity investment:		
Income from disposal of long-term equity investments	<b>114,115,739.80</b>	83,610,963.02
	<b>113,784,339.99</b>	84,276,497.58

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (42) Investment income *(Continued)*

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

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Guangzhou Pharmaceuticals Corporation	<b>41,932,091.15</b>	33,822,765.79
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	<b>49,078,813.80</b>	49,188,416.63
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.	<b>24,432,787.32</b>	(3,025,397.29)
Golden Eagle Fund Management Co., Ltd	<b>(1,327,952.47)</b>	3,616,390.04
Others	-	8,787.85
	<b>114,115,739.80</b>	83,610,963.02

### (43) Non-operating income

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Gain on disposal of non-current assets	<b>151,108.33</b>	182,502.08
Including: gain on disposal of fixed assets	<b>151,108.33</b>	182,502.08
Government grants	<b>6,663,364.09</b>	9,407,640.84
Penalty income	<b>860,615.45</b>	22,952.40
Sales of scraps	<b>256,034.58</b>	159,683.71
Waived liabilities	<b>16,317.25</b>	76,589.55
Others	<b>1,558,750.61</b>	1,248,458.51
	<b>9,506,190.31</b>	11,097,827.09

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### (43) Non-operating income (Continued)

Details of government grants:

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Government grants related to assets:		
Technology funds granted by government	<b>290,701.35</b>	532,062.34
Government subsidies for interests	<b>35,933.46</b>	35,933.46
Compensation for relocation	<b>911,880.95</b>	578,807.76
Sewage disposal system project	<b>50,437.50</b>	50,437.50
Others	<b>186,833.94</b>	419,894.25
	<b>1,475,787.20</b>	1,617,135.31
Government grants related to income:		
Technology funds granted by government	<b>4,950,684.36</b>	6,904,364.70
Specific funds for technology exports development	-	15,000.00
Others	<b>236,892.53</b>	871,140.83
	<b>5,187,576.89</b>	7,790,505.53
	<b>6,663,364.09</b>	9,407,640.84

### (44) Non-operating expenses

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Loss on disposal of non-current assets	<b>120,551.04</b>	255,084.29
Including: Loss on disposal of fixed assets	<b>120,551.04</b>	255,084.29
Public welfare donations	<b>1,226,852.03</b>	769,817.69
Penalty and overdue fines	<b>11,628.91</b>	224,534.38
Others	<b>3,805.45</b>	34,944.69
	<b>1,362,837.43</b>	1,284,381.05

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### (45) Income tax expenses

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

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

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
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## 5 NOTES TO 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:

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Consolidated net profit attributable to ordinary shareholders of the Company	<b>217,084,950.51</b>	179,621,034.63
Weighted average number of ordinary shares outstanding:	<b>810,900,000.00</b>	810,900,000.00
Basic earnings per share	<b>0.268</b>	0.222

#### (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. For the six months ended 30 June 2012, there were no potential ordinary shares (for the six months ended 30 June 2011: nil), diluted earnings per share is equal to basic earnings per share.

### (47) Other comprehensive income

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Losses arising from available-for-sale financial assets	<b>(215,589.32)</b>	(3,672,354.98)
Less: Income tax effect arising from available-for-sale financial assets	<b>(57,210.90)</b>	(919,635.53)
	<b>(158,378.42)</b>	(2,752,719.45)
Recognition of share of other comprehensive income of the investee based on equity method	<b>11,885.36</b>	(69,397.83)
	<b>(146,493.06)</b>	(2,822,117.28)

# Notes to the Financial Statements

For the six months ended 30 June 2012  
 (All amounts in Renminbi yuan unless otherwise stated)  
 [English Translation for Reference Only]

## 5 NOTES TO 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 2012</b>	Six months ended 30 June 2011 (Unaudited)
Non-operating income	<b>2,675,400.64</b>	1,431,094.62
Other operation income	<b>55,002,433.83</b>	47,598,196.10
Government grants	<b>6,304,782.42</b>	1,633,937.55
Interest income	<b>2,562,640.27</b>	3,737,137.59
Others	<b>1,740,000.00</b>	–
	<b>68,285,257.16</b>	54,400,365.86

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

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Cash payments of selling and distribution expenses	<b>183,754,586.23</b>	160,015,765.46
Cash payments of general and administrative expenses	<b>69,663,933.88</b>	69,518,798.90
Financial expenses – bank charges	<b>908,661.24</b>	1,058,674.70
Others	<b>5,414,968.19</b>	3,278,250.36
	<b>259,742,149.54</b>	233,871,489.42

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Cash received from repayment of deposits for short-term loan	<b>25,891,762.16</b>	–
Cash received from liquidation of Nanfang Securities Co., Ltd	–	531,364.66
Interest received from securities accounts	<b>97.64</b>	644.69
	<b>25,891,859.80</b>	532,009.35

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

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Tax expenses arising from the interest income of entrusted loans	<b>1,182,800.08</b>	178,647.55
Deposits for short-term loan	<b>3,220,000.00</b>	25,551,167.25
	<b>4,402,800.08</b>	25,729,814.80

# Notes to the Financial Statements

For the six months ended 30 June 2012

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[English Translation for Reference Only]

## 5 NOTES TO 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 2012</b>	Six months ended 30 June 2011 (Unaudited)
Net profit	<b>226,312,028.39</b>	186,585,838.08
Add: Provision for assets impairment	<b>5,183,038.21</b>	1,522,853.30
Depreciation of fixed assets, and depreciation and amortisation of investment properties	<b>51,270,113.95</b>	52,637,001.81
Amortisation of intangible assets	<b>2,109,674.42</b>	2,013,581.89
Amortisation of long-term prepaid expenses	<b>2,686,388.38</b>	1,362,092.28
Loss (less: gain) on disposal of fixed assets, intangible assets and other long-term assets	<b>(77,027.27)</b>	(171,975.12)
Loss on scrapping of fixed assets	<b>46,469.98</b>	244,557.33
Loss (less: gain) on changes in fair value	<b>256,290.70</b>	1,627,746.12
Financial expenses	<b>4,669,599.94</b>	1,788,816.29
Investment gain	<b>(113,784,339.99)</b>	(84,276,497.58)
Decrease in deferred tax assets	<b>(24,021,698.12)</b>	(14,111,708.90)
Increase/(less: decrease) in deferred tax liabilities	<b>(108,953.67)</b>	(322,214.69)
Increase in inventories	<b>(20,646,714.68)</b>	(42,978,527.97)
Increase of operating receivables	<b>(388,928,142.84)</b>	(255,817,108.10)
Increase of operating payables	<b>777,123,504.05</b>	167,199,712.55
Net cash flows from operating activities	<b>522,090,231.45</b>	17,304,167.29

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO 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 2012</b>	Six months ended 30 June 2011 (Unaudited)
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 2012</b>	Six months ended 30 June 2011 (Unaudited)
Cash at the end of period	<b>782,787,194.13</b>	527,306,525.13
Less: cash at the beginning of year	<b>355,748,504.33</b>	696,347,134.34
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>427,038,689.80</u></b>	<u>(169,040,609.21)</u>

The cash and cash equivalents do not include deposits for short-term loan of RMB5,167 thousand security deposit for bank acceptance notes of 615 thousand and housing fund amounting to RMB548 thousand.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

	<b>30 June 2012</b>	31 December 2011
Cash	<b>782,787,194.13</b>	355,748,504.33
Including: Cash on hand	<b>1,197,438.95</b>	1,235,960.30
Bank deposits that are readily available for payment	<b>761,267,845.08</b>	352,300,211.46
Other cash that are readily available for payment	<b>20,321,910.10</b>	2,212,332.57
Cash equivalents	—	—
Total cash and cash equivalents	<b><u>782,787,194.13</u></b>	<b><u>355,748,504.33</u></b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 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	Organization 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 2011 and 30 June 2012 (RMB'0000)**

**125,281**

The percentage of equity interests and voting rights held by the parent company in the Company

GPHL

**31 December 2011 and 30 June 2012**

**% 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 2012

(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	FRITZ HORLACHER	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	Wang Jianyi	Manufacturing of Chinese Medicine	20,476	48.05%	48.05%	19047976-0
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.	Stock Corporation	Guangzhou	Zhou Lijian	Research, development and industrialization of human vaccine	8,400	49.24%	50.00%	78608627-1
2. Associates								
Hangzhou Zheda Han Fang Chinese Medical Info. 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	Zhuhai	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

# Notes to the Financial Statements

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## 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
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
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
Guangzhou Baiyunshan Pharmacy	Controlled by the same ultimate holding company	190560067
Haozhou Baiyunshan Pharmaceutical Co., Ltd.	Controlled by the same ultimate holding company	151940665
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	Jointly controlled entity of the same ultimate company	577639538
Guangzhou Baiyunshan Health Hotel Co., Ltd.	Controlled by the same ultimate holding company	587609500
Nanyang Baiyunshan Hutchison Whampoa Salvia Technology Development Co., Ltd.	Jointly controlled entity of the same ultimate company	789157944
Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	Jointly controlled entity of the same ultimate company	754885570
Qingyuan Baiyunshan Hutchison Whampoa Paniculta Technology Development Co., Ltd.	Jointly controlled entity of the same ultimate company	765746496

# Notes to the Financial Statements

For the six months ended 30 June 2012

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

### (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.

### (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 2012		Six months ended 30 June 2011 (Unaudited)	
				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	50,055,204.19	2.10	59,247,556.99	2.89
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	210,211.69	0.01	204,528.60	0.01
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	86,441.80	0.00	136,639.76	0.01
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	25,671,460.50	1.08	64,632,056.16	3.16
Polian Development Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	36,899,492.01	1.55	58,104,110.85	2.84
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	775,281.69	0.03	630,357.13	0.03
Guangzhou Pharmaceuticals Corporation	Purchase of goods	Chinese raw medicine or medicine	Market price	54,020,841.50	2.27	39,334,703.97	1.92
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	13,464,195.20	0.56	1,955,173.69	0.10
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	60,172,479.71	2.52	39,928.97	0.00
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	924,717.96	0.04	-	-
Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	Purchase of goods	Chinese raw medicine or medicine	Market price	4,003,322.93	0.17	-	-
				<b>246,283,649.18</b>	<b>10.33</b>	<b>224,285,056.12</b>	<b>10.96</b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 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 2012		Six months ended 30 June 2011 (Unaudited)	
				Amount	Percentage of similar transactions	Amount	Percentage of similar transactions
GPHL	Sales of goods	Chinese raw medicine or medicine	Market price	187,228.96	0.01	61,109.08	0.00
Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	18,354,734.28	0.53	23,579,147.00	0.85
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	26,703,087.25	0.77	25,435,935.57	0.92
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	474,473.08	0.01	1,453,495.73	0.05
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	46,114,568.44	1.34	73,245,002.27	2.64
Pollan Development Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	1,206,774.36	0.04	977,610.74	0.04
Guangzhou Pharmaceutical Industrial Research Institute	Sales of goods	Chinese raw medicine or medicine	Market price	-	-	7,787.62	0.00
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	19,677,701.25	0.57	21,973,026.55	0.79
Guangzhou Pharmaceuticals Corporation	Sales of goods	Chinese raw medicine or medicine	Market price	204,975,877.58	5.95	131,088,600.97	4.73
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	54,634,560.44	1.58	35,884,542.68	1.30
Guangzhou Nuo Cheng Bio-Tech Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	18,803.42	0.00	-	-
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	6,350,975.72	0.18	1,750,557.28	0.06
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	5,538.46	0.00	4,230.77	0.00
Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	17,762,751.67	0.52	-	-
Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	Sales of goods	Chinese raw medicine or medicine	Market price	73,753.85	0.00	-	-
				<b>396,540,828.76</b>	<b>11.50</b>	<b>315,461,046.26</b>	<b>11.38</b>

# Notes to the Financial Statements

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## 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 RMB625 thousand of the above-mentioned for the current period (for the six months ended 30 June 2011: RMB875 thousand (Unaudited)), details please refer to the below table:

Name of Lessor	Name of lessee	Condition of lease assets	Amount related to the lease assets (RMB'000)
GPHL	Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.	Assets in good condition, for lessee's operation use	8
GPHL	Guangzhou Baiyunshan 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	100
GPHL	Guangzhou Baiyunshan 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	396
			625

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(All amounts in Renminbi yuan unless otherwise stated)  
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## 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 and back 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 Street Shamian 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.

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 (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 2012, the ending balance of the advances for rentals is RMB756 thousand (as at 31 December 2011, the ending balance of the rent is RMB1,032 thousand).

The Company should pay GPHL RMB546 thousand regarding the two office tenancy contracts mentioned as above for the current period (for the six months ended 30 June 2011: RMB546 thousand (Unaudited)).

# Notes to the Financial Statements

For the six months ended 30 June 2012

(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 GPLH on 1 September 1997, GPLH has granted the Group an exclusive right to use 38 trademarks owned by GPLH 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. GPLH 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 GPLH RMB3,779 thousand of trademarks license fee for the current period (for the six months ended 30 June 2011: RMB3,219 thousand (Unaudited)).

Pursuant to the Trademark License Supplementary Agreement entered into by Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. and GPLH on 28 July 2005, Guangzhou Wang Lao Ji Pharmaceutical Co. Ltd. agreed to pay a license fee to GPLH 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. GPLH 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 RMB12,117 thousand of the license fee from Wang Lao Ji Pharmaceutical Co. Ltd. for the current period (for the six months ended 30 June 2011: RMB9,786 thousand (Unaudited)).

Pursuant to the Baiyunshan Trade Name License Agreement entered into by the six subsidiaries of the Group, Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd., Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd., Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. and Guangzhou Baiyunshan Pharmaceutical Co., Ltd. in 2012, the six subsidiaries of the Group agreed to pay a license fee for the use of the trade name at 0.5% of the aggregate net sales respectively since the subsidiaries completed the registration. The Group should pay Guangzhou Baiyunshan Pharmaceutical Co., Ltd. RMB2,051 thousand of trade name license fee for the current period (for the six months ended 30 June 2011: nil (Unaudited)).

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(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	<b>Six months ended 30 June 2012 (RMB'000)</b>	Six months ended 30 June 2011 (RMB'000) (Unaudited)
Employee residence GPHL service fee	<b>187</b>	187

Pursuant to the employee residence service contract entered into by GPHL and the Group on 1 September 1997, 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 RMB1,204 thousand for the six months ended 30 June of 2012 (for the six months ended 30 June 2011: RMB873 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 of 2012 (for the six months ended 30 June 2011: 15 persons), among which 11 persons received their salaries from the Group (for the six months ended 30 June 2011: 11 persons).

# Notes to the Financial Statements

For the six months ended 30 June 2012

(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 2012		31 December 2011	
		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
	<b>Related Parties</b>				
Notes receivable	Guangzhou Pharmaceuticals Corporation	38,416,450.42	-	22,751,108.25	-
Accounts receivable:	GPHL	37,258.90	372.59	7,124.70	71.25
	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	5,244,224.33	52,442.24	5,012,293.48	50,122.93
	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	3,983,226.28	39,832.26	1,504,714.36	15,047.14
	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	243,620.00	2,436.20	80,000.00	800.00
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	12,724,911.13	127,249.11	6,481,029.05	64,810.29
	Polian Development Co., Ltd.	491,065.38	4,910.65	294,054.15	2,940.54
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	7,935,709.51	79,357.10	892,038.91	8,920.39
	Guangzhou Pharmaceuticals Corporation	25,705,426.70	257,054.27	9,161,542.02	91,615.42
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	10,809,393.39	108,093.93	3,774,043.72	37,740.44
	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	704,319.20	7,043.19	381,850.00	3,818.50
	Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	3,049,177.64	30,491.78	1,226,245.90	12,262.46
		<b>70,928,332.46</b>	<b>709,283.32</b>	<b>28,814,936.29</b>	<b>288,149.36</b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(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 2012		31 December 2011	
Related Parties		Ending balance	Provision for bad debts	Ending balance	Provision for bad debts
Other receivables:	GPHL	1,010,918.80	-	1,286,918.80	-
	Guangzhou South China Medical Apparatus Co., Ltd.	100,000.00	100,000.00	100,000.00	100,000.00
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	8,202,549.12	-	1,414,804.36	-
	Guangzhou Baiyunshan Health Hotel Co., Ltd.	93,250.00	-	-	-
		<u>9,406,717.92</u>	<u>100,000.00</u>	<u>2,801,723.16</u>	<u>100,000.00</u>
Advances to suppliers:	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	6,181,765.05	-	1,111.00	-
	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	-	-	52,200.00	-
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	-	-	918.00	-
	Polian Development Co., Ltd.	13,942,261.68	-	-	-
	Guangzhou Pharmaceuticals Corporation	-	-	1,532,092.27	-
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	2,162,062.57	-	103,346.80	-
	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	5,157,555.41	-	-	-
	Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	49,125.64	-	-	-
		<u>27,492,770.35</u>	<u>-</u>	<u>1,689,668.07</u>	<u>-</u>

# Notes to the Financial Statements

For the six months ended 30 June 2012

(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 2012	31 December 2011
	<b>Related Parties</b>		
Notes Payable	Guangzhou Pharmaceuticals Corporation	3,300,000.00	–
	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	20,649,000.00	–
		<u>23,949,000.00</u>	<u>–</u>
Accounts Payable:	Guangzhou Baiyunshan Pharmaceutical Co., Ltd.	65,595.79	2,909,311.29
	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	5,214.97	5,672.65
	Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	8,314.53	18,409.56
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	246,496.41	989,854.60
	Polian Development Co., Ltd.	17,222,912.93	5,775,799.52
	Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	301,605.37	37,661.54
	Guangzhou Pharmaceuticals Corporation	9,781,988.88	2,787,296.76
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	700.80	–
	Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	1,419,228.32	–
		<u>29,052,058.00</u>	<u>12,524,005.92</u>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(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 2012	31 December 2011
	<b>Related Parties</b>		
Other Payables:	GPHL	9,241,196.75	8,079,872.29
	Guangzhou Bayunshan Pharmaceutical Co., Ltd.	2,054,491.25	3,852.69
	Guangzhou Pharmaceuticals Corporation	30,000.00	-
	Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	20,000.00	-
		<b>11,345,688.00</b>	<b>8,083,724.98</b>
Advances	GPHL	-	5,250.00
from customers:	Guangzhou Bayunshan Pharmaceutical Co., Ltd.	2,176,251.50	774,870.00
	Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	665,000.00	371,000.00
	Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	4,247,041.58	8,308.85
	Guangzhou Pharmaceutical Industrial Research Institute	222,296.70	-
	Guangzhou Pharmaceuticals Corporation	2,956,204.09	1,418,812.40
	Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	51,879,752.39	-
	Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	1,000,000.00	-
	Nanyang Baiyunshan Hutchison Whampoa Guanbao Pharmaceutical Co., Ltd.	568.13	-
	Fuyang Baiyunshan Hutchison Whampoa Chinese Medicine Technology Co., Ltd.	13,708.00	-
		<b>63,160,822.39</b>	<b>2,578,241.25</b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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 [English Translation for Reference Only]

## 7 CONTINGENCIES

(1) As at 30 June 2012, 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	50,000,000.00	1 year

(2) As at 30 June 2012, 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	20,000,000.00	10 months
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Loans for working capital	80,000,000.00	1 year
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Bank acceptance notes	20,649,000.00	6 months
Guangzhou Pharmaceutical Import & Export Co., Ltd.	Bank acceptance notes	8,901,974.00	6 months
Guangzhou HanFang Modern Chinese Medicine Research and Development Co., Ltd.	Bank acceptance notes	1,920,800.00	6 months
		131,471,774.00	

## 8 COMMITMENTS

### (1) Capital commitments

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

The Group's capital expenditures contracted for but are not yet necessary to be recognised on the balance sheet are as follows:

	30 June 2012	31 December 2011
Building, machinery and equipment	21,865,201.93	20,385,584.98

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 8 COMMITMENTS (Continued)

### (1) Capital commitments (Continued)

(a) (Continued)

The Group's share of the jointly controlled entities' capital commitments are as follows:

	<b>30 June 2012</b>	31 December 2011
Building, machinery and equipment	<b><u>1,361,235.54</u></b>	<u>9,749,841.31</u>

(b) Capital commitments authorised by the management but are not yet contracted for

	<b>30 June 2012</b>	31 December 2011
Investment	<b>4,500,000.00</b>	2,000,000.00
Building, machinery and equipment	<b>6,000,000.00</b>	4,850,000.00
	<b><u>10,500,000.00</u></b>	<u>6,850,000.00</u>

### (2) Operating lease commitments

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:

	<b>Minimum lease payables</b>	
<b>Remaining leasing term</b>	<b>30 June 2012</b>	31 December 2011
Within 1 year (including 1 year)	<b>15,336,673.40</b>	17,402,488.99
1 to 2 years (including 2 years)	<b>8,145,939.74</b>	7,782,896.69
2 to 3 years (including 3 years)	<b>6,446,327.70</b>	5,413,983.32
Over 3 years	<b>26,071,554.35</b>	28,200,508.78
	<b><u>56,000,495.19</u></b>	<u>58,799,877.78</u>

The rental expenses under operating lease amounting to RMB11,680 thousand are recognised in the profit or loss for the six months ended 30 June 2012 (for the six months ended 30 June 2011: RMB11,717 thousand (unaudited)).

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 8 COMMITMENTS *(Continued)*

### (3) Fulfillment of commitments for the previous period

The Group has fulfilled the capital and operating lease commitments as at 31 December 2011.

## 9 EVENTS AFTER THE BALANCE SHEET DATE

The Company was informed on 12 August 2012 that Guangzhou Wang Lao Ji Great Health Industry Company Limited, the wholly-owned subsidiary of the Company, had received a notice calling for responses to civil legal proceedings [(2012) – Zhongminchuzi No. 8778] (the “Responses Notice”) from the Beijing No.1 Intermediate People’s Court. According to the Responses Notice, the Beijing No.1 Intermediate People’s Court has accepted the submission made by the plaintiff, Guangdong Jia Duo Bao Beverage and Food company limited to proceed with the case In relation to the allegation of unauthorized use of the specific name, packaging and decoration of the well-known products by Guangzhou Wang Lao Ji Great Health Industry Company Limited. Matters requested by Guangdong Jia Duo Bao Beverage and Food Company Limited Include:

- (1) To order the defendant to immediately refrain from using the specific packaging and decoration of a well-known product of the plaintiff, red-canned Wanglaoji herbal tea;
- (2) To order the defendant to immediately refrain from using the specific name of well-known products of the plaintiff, including “Red Can”, “Red-canned Herbal Tea” and “Redcanned Wanglaoji”;
- (3) To order the defendant to immediately refrain from producing red-canned Wanglaoji herbal tea;
- (4) To order the defendant to compensate the plaintiff for the economic loss of RMB500,000 for improper competition behavior;
- (5) To order the defendant to bear all of the legal costs of the case.

The company had engaged a lawyer to respond to the charges and is also assessing its impact to the Company’s financial position and financial performance.

## 10 OTHER SIGNIFICANT EVENTS

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

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 10 OTHER SIGNIFICANT EVENTS *(Continued)*

- (2) Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. and Silver Base Group Holdings Limited entered into a framework agreement for the possible acquisition. The principal terms of the framework agreement are as below: (1) Silver Base Healthcare Products Investments Company Limited, a wholly-owned subsidiary of Silver Base Group Holdings Limited, will acquire from Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. 50% equity interests in Guangzhou Pan Gao Shou Food Beverage Co., Ltd., a wholly-owned subsidiary of Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd., for a total consideration of RMB4,900,000; (2) it is also proposed that Guangzhou Pan Gao Shou Food Beverage Co., Ltd. will appoint Silver Base Trading and Development (Shenzhen) Co. Limited an exclusive distributor to sell its products; (3) Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. and Silver Base Group Holdings Limited will enter into a joint venture contract in respect of Guangzhou Pan Gao Shou Food Beverage Co., Ltd. on the basis of the framework agreement which is valid for six months. The proposed transaction and cooperation under the framework agreement mentioned as above are at a preliminary stage. The parties to the framework agreement will further discuss and determine detailed terms of cooperation.
- (3) The Company's controlling shareholder GPHL is planning major assets reorganization related to the Company. The major assets reorganization includes: (1) the Company acquires Guangzhou Baiyunshan Pharmaceutical Co., Ltd. through share swap. Guangzhou Baiyunshan Pharmaceutical Co., Ltd. will terminate its legal personality, and all of its assets, liabilities, equity, business and staff will be transferred to the Company upon the completion of the acquisition; (2) the Company acquires assets from GPHL through issuing A shares to GPHL. The assets to be acquired include ownership of buildings and trademarks held by GPHL, 100% equity interest of Polian Development Co., Ltd. held by GPHL and 12.5% equity interest of Guangzhou Baxter Healthcare Co., Ltd. held by GPHL. The major assets reorganisation has been approved by the 17<sup>th</sup> meeting of the fifth session of the Board of the Company held on 15 June 2012. On the date these financial statements were approved for issue, the major assets reorganization has not been formally implemented.

## 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 2012

(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 2012 and as of 30 June 2012 are as follows:

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

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 11 SEGMENT INFORMATION (Continued)

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

	Manufacturing	Pharmaceutical trading	Other trading	Unallocated	Elimination	Total
Revenue	1,329,753,003.09	1,044,627,439.07	430,244,716.83	12,716,151.58	-	2,817,341,310.57
Inter-segment revenue	21,135,674.32	283,268,262.36	-	9,536,159.13	(313,940,095.81)	-
Interest income	2,235,601.99	264,603.28	-	1,236,932.32	-	3,737,137.59
Interest expenses	5,623,305.80	10,741,795.45	-	1,049,458.33	(15,770,545.63)	1,644,013.95
Share of profit or loss of associates and jointly controlled entities	(3,016,609.44)	-	-	82,669,221.76	3,958,350.70	83,610,963.02
Asset impairment losses	1,124,685.96	1,131,801.86	216,100.27	(531,364.66)	(418,370.13)	1,522,853.30
Depreciation and amortisation	52,788,871.75	2,058,628.55	-	1,165,175.68	-	56,012,675.98
Total profit	103,704,717.80	8,025,525.83	907,403.93	199,986,851.09	(106,792,270.85)	205,832,227.80
Income tax expenses	16,789,298.48	1,518,883.16	225,022.18	3,463,142.91	(2,749,957.01)	19,246,389.72
Net profit (Including: minority interest)	86,915,419.32	6,506,642.67	682,381.75	196,523,708.18	(104,042,313.84)	186,585,838.08
Total assets	2,632,322,421.44	912,705,739.19	62,167,939.38	3,614,609,987.23	(2,370,540,238.89)	4,851,265,848.35
Total liabilities	947,797,791.25	831,406,368.58	61,983,688.49	118,900,915.43	(1,003,994,932.97)	956,093,830.78
Long-term equity investments in associates and jointly controlled entities	46,233,601.78	-	-	1,202,014,262.96	512,345.01	1,248,760,209.75
Additions of non-current assets other than long-term equity investments	26,108,761.38	2,438,459.67	-	421,929.00	-	28,969,150.05

# Notes to the Financial Statements

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

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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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, in order to minimize the foreign exchange risk. The Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk.

As at 30 June 2012 and 31 December 2011, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarised as below:

	30 June 2012			
	USD	HKD	Others	Total
Financial assets denominated in foreign currency -				
Cash at bank and on hand	2,914,366.62	2,061,713.16	-	4,976,079.78
Accounts receivable	6,560,978.16	1,746,444.32	-	8,307,422.48
	<u>9,475,344.78</u>	<u>3,808,157.48</u>	<u>-</u>	<u>13,283,502.26</u>
Financial liabilities denominated in foreign currency -				
Short-term borrowings	5,167,087.26	-	-	5,167,087.26
Accounts payable	15,629,969.54	2,090,068.45	-	17,720,037.99
	<u>20,797,056.80</u>	<u>2,090,068.45</u>	<u>-</u>	<u>22,887,125.25</u>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 12 FINANCIAL INSTRUMENT AND RISK (Continued)

### (1) Market risk (Continued)

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

	31 December 2011			Total
	USD	HKD	Others	
Financial assets denominated in foreign currency -				
Cash at bank and on hand	2,563,546.87	2,077,347.39	-	4,640,894.26
Accounts receivable	4,335,574.31	1,525,529.52	-	5,861,103.83
	<u>6,899,121.18</u>	<u>3,602,876.91</u>	<u>-</u>	<u>10,501,998.09</u>
Financial liabilities denominated in foreign currency -				
Short-term borrowings	27,838,849.42	-	-	27,838,849.42
Account payables	6,696,979.49	-	-	6,696,979.49
	<u>34,535,828.91</u>	<u>-</u>	<u>-</u>	<u>34,535,828.91</u>

As at 30 June 2012, if RMB had strengthened/weakened 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 RMB333 thousand (As at 31 December 2011: lower/higher RMB285 thousand) higher/lower.

#### (b) Interest rate risk

As at 30 June 2012, 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, 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 2012  
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## 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 2012					Total
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	
Financial assets –						
Cash at bank and on hand	789,117,665.72	-	-	-	-	789,117,665.72
Notes receivable	487,144,577.83	-	-	-	-	487,144,577.83
Accounts receivable	683,643,587.99	-	-	-	-	683,643,587.99
Other receivables	83,697,022.38	-	-	-	-	83,697,022.38
	<u>2,043,602,853.92</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,043,602,853.92</u>
Financial liabilities –						
Short-term borrowings	140,379,879.30	-	-	-	-	140,379,879.30
Notes payable	41,381,160.53	-	-	-	-	41,381,160.53
Accounts payable	572,504,724.94	-	-	-	-	572,504,724.94
Other payables	160,028,581.52	-	-	-	-	160,028,581.52
Long-term payables	-	-	-	4,423,405.56	-	4,423,405.56
	<u>914,294,346.29</u>	<u>-</u>	<u>-</u>	<u>4,423,405.56</u>	<u>-</u>	<u>918,717,751.85</u>
Provision of guarantees	50,000,000.00	-	-	-	-	50,000,000.00

# Notes to the Financial Statements

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

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## 12 FINANCIAL INSTRUMENT AND RISK (Continued)

### (3) Liquidity risk (Continued)

	31 December 2011					
	Within 1 year	1-2 years	2-5 years	Over 5 years	Without fixed maturity	Total
Financial assets –						
Cash at bank and on hand	384,135,738.08	-	-	-	-	384,135,738.08
Notes receivable	430,388,075.25	-	-	-	-	430,388,075.25
Accounts receivable	463,272,917.69	-	-	-	-	463,272,917.69
Other receivables	63,299,457.45	-	-	-	-	63,299,457.45
	<u>1,341,096,188.47</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,341,096,188.47</u>
Financial liabilities –						
Short-term borrowings	147,998,897.45	-	-	-	-	147,998,897.45
Notes payable	5,432,012.71	-	-	-	-	5,432,012.71
Accounts payable	350,249,598.28	-	-	-	-	350,249,598.28
Other payables	121,543,593.12	-	-	-	-	121,543,593.12
Long-term payables	-	-	-	4,423,405.56	-	4,423,405.56
	<u>625,224,101.56</u>	<u>-</u>	<u>-</u>	<u>4,423,405.56</u>	<u>-</u>	<u>629,647,507.12</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 2012		31 December 2011	
	Bank borrowings	Other borrowings	Bank borrowings	Other borrowings
Wholly repayable within five years	<u>140,379,879.30</u>	<u>-</u>	<u>147,998,897.45</u>	<u>-</u>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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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 is not based on observable market data (that is, unobservable inputs).

As at 30 June 2012, 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	2,871,401.80	-	-	2,871,401.80
Available-for-sale financial assets – Available-for-sale equity instruments	18,692,267.32	-	-	18,692,267.32
	<u>21,563,669.12</u>	<u>-</u>	<u>-</u>	<u>21,563,669.12</u>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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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 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				
debenture held for				
trading	3,127,692.50	–	–	3,127,692.50
Available-for-sale				
financial assets–				
Available-for-sale				
equity instruments	18,907,856.64	–	–	18,907,856.64
	<u>22,035,549.14</u>	<u>–</u>	<u>–</u>	<u>22,035,549.14</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 2012  
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[English Translation for Reference Only]

## 13 FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 December 2011	Profit or loss arising from changes in fair value during the current period	Accumulated changes in fair value recognised in during the current period	Impairment loss recognised during the current period	30 June 2012
Financial assets-					
Financial assets at fair value through profit or loss	3,127,692.50	(256,290.70)	-	-	<b>2,871,401.80</b>
Available-for-sale financial assets	18,907,856.64	-	(215,589.32)	-	<b>18,692,267.32</b>
	<u>22,035,549.14</u>	<u>(256,290.70)</u>	<u>(215,589.32)</u>	<u>-</u>	<u><b>21,563,669.12</b></u>

## 14 FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

	31 December 2011	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 2012
Financial assets -					
Cash and bank	4,640,894.26	-	-	-	<b>4,976,079.78</b>
Accounts receivable	5,861,103.83	-	-	-	<b>8,307,422.48</b>
	<u>10,501,998.09</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>13,283,502.26</b></u>
Financial liabilities -					
Short-term borrowings	27,838,849.42	-	-	-	<b>5,167,087.26</b>
Accounts payable	6,696,979.49	-	-	-	<b>17,720,037.99</b>
	<u>34,535,828.91</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><b>22,887,125.25</b></u>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

### (1) Accounts receivable

The majority of the Company's sales are transacted at cash, advances or bank notes.

(a) The aging of accounts receivable is analysed as below:

	<b>30 June 2012</b>	31 December 2011
1 to 2 years	<b><u>3,430,922.52</u></b>	<u>3,673,874.92</u>

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

	<b>30 June 2012</b>			
	<b>Ending balance</b>	<b>% of total balance</b>	<b>Provision for bad debts</b>	<b>Ratio</b>
Individually significant and subject to separate provisions	-	-	-	-
Subject to provision by groups:				
Group 1	<b>3,430,922.52</b>	100.00%	<b>343,231.75</b>	10.00%
Individually insignificant but subject to separate provisions	-	-	-	-
	<b><u>3,430,922.52</u></b>	100.00%	<b><u>343,231.75</u></b>	10.00%

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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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 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provisions	-	-	-	-
Subject to provision by groups:				
Group 1	3,673,874.92	100.00%	367,526.99	10.00%
Individually insignificant but subject to separate provisions	-	-	-	-
	<u>3,673,874.92</u>	100.00%	<u>367,526.99</u>	10.00%

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

- (c) As at 30 June 2012, 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 aging analysis method are analysed as follows:

	30 June 2012			31 December 2011		
	Ending balance	% of total balance	Provision for bad debts	Ending balance	% of total balance	Provision for bad debts
1 to 2 years	<u>3,430,922.52</u>	100.00%	<u>343,231.75</u>	<u>3,673,874.92</u>	100.00%	<u>367,526.99</u>

- (e) As at 30 June 2012, there are no accounts receivable that are individually insignificant but subject to separate provision.
- (f) There are no accounts receivable that are reversed or collected during the current period.
- (g) There are no accounts receivable that are collected by restructuring or other manners during the current period.
- (h) There are no accounts receivable that are written off during the current period.

# Notes to the Financial Statements

For the six months ended 30 June 2012  
 (All amounts in Renminbi yuan unless otherwise stated)  
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## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (1) Accounts receivable (Continued)

(i) As at 30 June 2012, 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 2012, 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	3,430,922.52	1 to 2 years	100%

(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	3,430,922.52	100%

(l) There are no accounts receivables derecognised during the current period.

(m) As at 30 June 2012, there are no securitizations that targeted at accounts receivable.

### (2) Other receivables

	30 June 2012	31 December 2011
Receivables due from related parties	659,251,491.09	710,521,454.36
Including: entrusted loan	198,000,000.00	228,000,000.00
others	461,251,491.09	482,521,454.36
Rentals, deposits and staff advances	6,497,098.89	5,974,246.95
Others	607,390.32	965,729.14
	<b>666,355,980.30</b>	717,461,430.45
Less: provision for bad debts	502,043.54	502,043.54
	<b>665,853,936.76</b>	716,959,386.91

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (2) Other receivables (Continued)

(a) The aging of other receivables is analysed as below:

	<b>30 June 2012</b>	31 December 2011
Within 1 year	<b>665,097,096.20</b>	714,657,864.23
1 to 2 years	-	1,269,522.68
Over 5 years	<b>1,258,884.10</b>	1,534,043.54
	<b>666,355,980.30</b>	717,461,430.45

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

	<b>30 June 2012</b>			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	502,043.54	0.08%	502,043.54	100%
Subject to provision by groups:				
Group 1	-	-	-	-
Group 2	5,822,930.01	0.87%	-	-
Group 3	659,251,491.09	98.93%	-	-
Group 4	779,515.66	0.12%	-	-
Individually insignificant but subject to separate provision	-	-	-	-
	<b>666,355,980.30</b>	100.00%	<b>502,043.54</b>	0.08%

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (2) Other receivables (Continued)

(b) (Continued)

	31 December 2011			
	Ending balance	% of total balance	Provision for bad debts	Ratio
Individually significant and subject to separate provision	502,043.54	0.07%	502,043.54	100%
Subject to provision by groups:				
Group 1	-	-	-	-
Group 2	6,305,254.35	0.88%	-	-
Group 3	710,521,454.36	99.03%	-	-
Group 4	132,678.20	0.02%	-	-
Individually insignificant but subject to separate provision	-	-	-	-
	<u>717,461,430.45</u>	100.00%	<u>502,043.54</u>	0.07%

(c) As at 30 June 2012, 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	<u>502,043.54</u>	<u>502,043.54</u>	100.00%	Unable to be collected

(d) As at 30 June 2012, there are no other receivables in the Group in which provisions are made using aging analysis method.

(e) There are no other receivables that are subject to fully provision or in large proportionate but are reversed or collected in full amount or in large proportionate in the current period.

(f) There are no others receivables collected by restructuring or other manners in the current period.

(g) There are no receivables that are written off in prior years but collected in the current period.

(h) As at 30 June 2012, other receivables due from shareholders who hold more than 5% of the voting rights of the Company was receivables due from GPHL amounted to RMB756 thousand (31 December 2011: RMB1,032 thousand due from GPHL).

# Notes to the Financial Statements

For the six months ended 30 June 2012  
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## 15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (Continued)

### (2) Other receivables (Continued)

(i) As at 30 June 2012, 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	440,146,862.00	Within 1 year	66.05%
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	83,272,736.76	Within 1 year	12.50%
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	69,180,294.00	Within 1 year	10.38%
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Subsidiary	42,188,657.02	Within 1 year	6.33%
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Subsidiary	9,504,392.19	Within 1 year	1.43%
		644,292,941.97		96.69%

(j) Other receivables due from related parties are analysed as follows:

	Relation with the Company	Amount	% of total balance
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.	Wholly-owned subsidiary	440,146,862.00	66.05%
Guangzhou Pharmaceutical Import and Export Co., Ltd.	Wholly-owned subsidiary	83,272,736.76	12.50%
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	Subsidiary	69,180,294.00	10.38%
Guangzhou Bai Di Bio-technology Pharmaceutical Co., Ltd.	Subsidiary	42,188,657.02	6.33%
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	Subsidiary	9,504,392.19	1.43%
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	Jointly controlled entities	8,202,549.12	1.23%
Guangxi Ying Kang Pharmaceutical Co., Ltd.	Subsidiary	6,000,000.00	0.90%
GPHL	Parent company	756,000.00	0.11%
		659,251,491.09	98.93%

(k) As at 30 June 2012, there are no other receivables that are derecognised.

(l) As at 30 June 2012, there are no securitizations that targeted at other receivables.

# Notes to the Financial Statements

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(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 2011	Current period movement	30 June 2012	% 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	783,494,938.84	37,411,525.78	820,846,434.62	50.00%	50.00%	-	-	-
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	102,035,124.44	381,169,259.44	49,078,386.35	430,247,645.79	48.05%	48.05%	-	-	-
Golden Eagle Asset Management Co., Ltd.	50,000,000.00	37,410,094.67	(1,327,952.47)	36,082,142.20	20.00%	20.00%	-	-	-
Guangzhou Jinster Medical Co., Ltd.	765,000.00	-	-	-	38.25%	38.25%	-	-	-
Sub-total of equity method	549,389,264.22	1,202,014,282.95	85,161,959.66	1,287,176,222.61	N/A	N/A	-	-	-
Cost method:									
Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd.	125,322,300.00	125,322,300.00	-	125,322,300.00	88.99%	88.99%	-	-	-
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.	324,320,391.34	324,320,391.34	-	324,320,391.34	100.00%	100.00%	-	-	28,443,286.46
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	142,310,800.00	142,310,800.00	-	142,310,800.00	100.00%	100.00%	-	-	22,641,772.04
Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd.	249,017,109.58	171,717,109.58	77,300,000.00	249,017,109.58	97.97%	97.97%	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%	-	-	13,663,605.17
Guangzhou Baiyunshan Jing Xu Tang Pharmaceutical Co., Ltd.	101,489,800.00	101,489,800.00	-	101,489,800.00	88.40%	88.40%	-	-	13,869,632.12
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	144,298,200.00	144,298,200.00	-	144,298,200.00	87.77%	87.77%	-	-	12,592,687.68
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%	-	-	3,702,141.62
Guangzhou Bai Di 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	-	-
Guangzhou Wang Lao Ji Great Health Industry Co., Ltd.	10,000,000.00	-	10,000,000.00	10,000,000.00	100.00%	100.00%	-	-	-
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	1,487,052,657.03	1,399,752,657.03	87,300,000.00	1,487,052,657.03	N/A	N/A	171,000,000.00	-	94,912,125.09
Total	2,036,441,921.25	2,601,766,939.98	172,461,959.66	2,774,228,879.64	N/A	N/A	171,000,000.00	-	94,912,125.09

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(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 are no limitation on fund transfer between the Group and its investing entities.

### (4) Revenue and cost of sales

	Six months ended 30 June 2012		
	Main operations	Other operations	Subtotal
Revenue	1,292,567.52	26,682,122.90	27,974,690.42
Cost of sales	1,237,614.20	671,088.28	1,908,702.48
Gross profit	54,953.32	26,011,034.62	26,065,987.94

Six months ended 30 June 2011(Unaudited)

	Main operations	Other operations	Subtotal
Revenue	8,929,594.80	22,252,310.71	31,181,905.51
Cost of sales	8,764,338.28	671,088.28	9,435,426.56
Gross profit	165,256.52	21,581,222.43	21,746,478.95

(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 2012	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
Pharmaceutical trading	1,292,567.52	8,929,594.80	1,237,614.20	8,764,338.28

# Notes to the Financial Statements

For the six months ended 30 June 2012  
 (All amounts in Renminbi yuan unless otherwise stated)  
 [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 2012	Six months ended 30 June 2011 (Unaudited)	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
Southern China	<b>1,292,567.52</b>	8,929,594.80	<b>1,237,614.20</b>	8,764,338.28

(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 2012	Six months ended 30 June 2011 (Unaudited)
Income from financial assets:		
Income from available-for-sale financial assets	–	672,330.00
Income from entrusted loans	<b>6,166,331.38</b>	4,544,149.99
Income from long-term equity investments under cost method	<b>94,912,125.09</b>	104,611,361.21
Income from long-term equity investments under equity method	<b>85,150,074.30</b>	82,669,221.76
	<b>186,228,530.77</b>	192,497,062.96

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(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 2012</b>	Six months ended 30 June 2011 (Unaudited)
Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd.	<b>28,443,286.46</b>	70,651,281.03
Guangzhou Baiyunshan Chen Li Ji Pharmaceutical Factory Co., Ltd.	<b>22,641,772.04</b>	16,637,848.66
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.	<b>13,663,605.17</b>	–
Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd.	<b>13,868,632.12</b>	10,552,874.92
Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd.	<b>3,702,141.62</b>	1,064,526.04
Guangzhou Pharmaceutical Import & Export Co, Ltd.	<b>12,592,687.68</b>	5,704,830.56
	<b>94,912,125.09</b>	104,611,361.21

(c) Investment income from long-term equity investments under equity method

	<b>Six months ended 30 June 2012</b>	Six months ended 30 June 2011 (Unaudited)
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.	<b>49,078,386.35</b>	49,208,573.49
Guangzhou Pharmaceuticals Corporation	<b>37,399,640.42</b>	29,844,258.23
Golden Eagle Fund Management Co., Ltd.	<b>(1,327,952.47)</b>	3,616,390.04
	<b>85,150,074.30</b>	82,669,221.76

# Notes to the Financial Statements

For the six months ended 30 June 2012

(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 2012	Six months ended 30 June 2011 (Unaudited)
(a) Reconciliation from net profit to cash flows from operating activities		
Net profit	186,815,480.30	197,581,021.60
Add: Provisions for asset impairment	(24,295.24)	(796,278.87)
Depreciation and amortisation of fixed assets and investment property	1,176,490.06	1,165,382.74
Amortisation of intangible assets	-	-
Amortisation of long-term prepaid expenses	-	-
Gains on disposal of fixed assets, intangible assets and other long-term assets	11,643.05	(40,775.22)
Losses on scrapping of fixed assets	-	-
Loss (less: gains) on change in fair value	256,290.70	1,627,746.12
Financial expenses	2,721,913.70	1,066,454.91
Investment income	(197,083,367.97)	(202,033,222.09)
Increase in deferred tax assets	(1,325,167.69)	(271,471.37)
Increase (less: decrease) in deferred tax liabilities	(13,364.95)	(281,050.15)
Decrease (less: increase) in inventories	(122,394.39)	(327,528.81)
Decrease in operating receivables	(4,552,818.81)	5,882,689.21
Decrease in operating payables	5,001,096.43	(10,395,217.07)
	<b>(7,138,494.81)</b>	<b>(6,822,249.00)</b>
(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	114,115,067.59	91,532,756.45
Less: cash at beginning of year	107,691,016.27	213,007,698.60
Add: cash equivalents at end of period	-	-
Less: cash equivalents at beginning of year	-	-
	<b>6,424,051.32</b>	<b>(121,474,942.15)</b>

# Notes to the Financial Statements

For the six months ended 30 June 2012  
(All amounts in Renminbi yuan unless otherwise stated)  
[English Translation for Reference Only]

## 16 NET CURRENT ASSETS

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

	<b>Company</b>	
	<b>30 June 2012</b>	31 December 2011
Current assets	<b>893,604,872.04</b>	965,474,564.12
Less: Current liabilities	<b>111,121,594.62</b>	115,750,926.31
Net current assets	<b>782,483,277.42</b>	849,723,637.81

## 17 TOTAL ASSETS LESS CURRENT LIABILITIES

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

	<b>Company</b>	
	<b>30 June 2012</b>	31 December 2011
Total assets	<b>3,568,033,126.90</b>	3,467,180,457.88
Less: current liabilities	<b>111,121,594.62</b>	115,750,926.31
Total assets less current liabilities	<b>3,456,911,532.28</b>	3,351,429,531.57

# Supplementary Information

For the six months ended 30 June 2012

(All amounts in Renminbi yuan unless otherwise stated)

[English Translation for Reference Only]

## 1 SUMMARY OF NON-RECURRING PROFIT OR LOSS

Item	Six months ended 30 June 2012	Six months ended 30 June 2011 (Unaudited)
Losses on disposal of non-current assets	30,557.29	(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)	6,663,364.09	9,407,640.84
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 year 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	(256,290.70)	(1,320,785.24)
Reversal of provision for bad-debts of accounts receivable subject to separate provision	125,105.36	1,175,989.33
Gains or losses arising from entrusted loan granted to other entities	(372,726.29)	(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	1,449,431.50	478,387.41
Other profit or loss items meeting the definition of non-recurring profit or loss	-	-
Impact on income tax	(389,413.54)	(366,095.43)
Impact on minority interests (post-tax)	(268,768.41)	(132,244.00)
Total	<b>6,981,259.30</b>	<b>8,856,554.38</b>

## Supplementary Information

For the six months ended 30 June 2012  
(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 2012	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	5.60%	0.268	0.268
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	5.42%	0.259	0.259

Six months ended 30 June 2011 (Unaudited)	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 n on-recurring profit or loss attributable to ordinary shareholders of the Company	4.71%	0.211	0.211

# Supplementary Information

For the six months ended 30 June 2012  
(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 2012 (RMB'000)	At 31 December 2011 (RMB'000)	Fluctuation (%)	Reasons of fluctuation
Cash at bank and on hand	789,118	384,136	105.43	The Group's sales increased with more fund reflowing and advances from customers.
Accounts receivable	664,805	446,596	48.86	The Group launched marketing campaigns actively, developed sales outlet, promoted sales revenue, and account receivable grew accordingly.
Advances to suppliers	230,584	132,518	74.00	The increase was due to that the Company's trading subsidiaries prepaid for medical raw materials and packing materials.
Other receivables	74,181	54,057	37.23	By the time of June 30th, 2012, the Group's prepayment for other operation like advertising expenses developed, and JCEs' license fee receivable and tax refund for exports increased.
Other current assets	5,531	2,342	136.16	By the time of June 30th, 2012, the Group's deductible input VAT increased.
Construction in progress	28,067	20,370	37.79	The Group increased input into construction programs, such as technology innovation.
Deferred tax assets	62,564	38,542	62.33	The growth of deferred income tax assets resulted from the increase in accrued expenses and temporary variance derived from employee benefits payable.
Notes payable	41,381	5,432	661.80	The Company's trading subsidiaries financed for short-term funds through banker's acceptance, in order to control financial expenses.
Accounts payable	572,505	350,250	63.46	The Company's trading subsidiaries developed high-quality suppliers actively, for better credit terms.
Advances from customers	550,647	146,932	274.76	The Company's newly established company Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. received large amount of payment for goods from dealers in advance.
Employee benefits payable	116,434	64,167	81.45	By June 30th 2012, the Group's employee benefits payable went up.
Taxes payable	67,628	37,951	78.20	By June 30th 2012, the Group's VAT payable and enterprise income tax rose.

## Supplementary Information

For the six months ended 30 June 2012  
(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 2012 (RMB'000)	At 31 December 2011 (RMB'000)	Fluctuation (%)	Reasons of fluctuation
Dividends payable	5,094	136	3,633.45	By the time of June 30th 2012, the Group had not paid cash dividends to some subsidiaries' minority shareholders for 2011.
Other payables	160,029	121,544	31.66	By the time of June 30th 2012, the Group's advertising fees, conference expenses and marketing expenses to be claimed went up, leading to the growth of other payable balance.
Financial expenses	2,854	(818)	449.11	The Group's bank loans rose year on year, leading to the increase of financial expenses.
Asset impairment losses	5,183	1,523	240.35	The Group's account receivables increased, therefore bad debt provision according to aging went up.
Profit arising from changes in fair value	(256)	(1,628)	84.25	The decline of fair value of listed shares of Hafei Aviation Industry Co., Ltd and Harbin Pharmaceutical Group Co., Ltd. held by the Group shrank year on year.
Investment income	113,784	84,276	35.01	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	522,090	17,304	2,917.14	Increase was mainly due to the increase in the Group's revenue which providing capital to return, and the increase of advances from customers.
Net cash flows from investing activities	30	(229,182)	100.01	Increase was mainly due to the decrease in investment of projects outside the Group and the redemption of short-term borrowings expired which deposited by trading subsidiaries.
Net cash flows from financing activities	(95,157)	42,888	(321.88)	Decrease was mainly due to the Group paid the dividends for 2011 and repaid part of its loans.

## 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 and Securities News during the Reporting Period;
- (4) Other relevant documents.

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