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廣州藥業股份有限公司

Guangzhou Pharmaceutical Company Limited

(a joint stock company with limited liability established in the People's Republic of China)

(H Share Stock Code: 0874)

SUMMARY OF 2012 ANNUAL REPORT

1. IMPORTANT NOTICE

- 1.1 This summary is extracted from the full text of the 2012 annual report of Guangzhou Pharmaceutical Company Limited (“GPC” or the “Company” and together with its subsidiaries, collectively the “Group”) for the year ended 31 December 2012 (the “Reporting Period” or the “Year”), which will be published at the website (<http://www.sse.com.cn>) of The Shanghai Stock Exchange (“SSE”), and at the website (<http://www.hkex.com.hk>) of The Stock Exchange of Hong Kong Limited (“HKEx”) and other designated websites of the China Securities Regulatory Commission (“CSRC”). Investors who wish to know more details are advised to refer to the full text of the 2012 annual report carefully.
- 1.2 This summary is prepared in both English and Chinese. In the event that different interpretation occurs, the Chinese version shall prevail.
- 1.3 All the information required to be contained in the summary of 2012 annual report of the Company pursuant to paragraphs 45 and 45A of Appendix 16 to the Rules Governing the Listing of Securities on HKEx (the “Listing Rules”) will be published on the website of HKEx.

1.4 Company profile

Stock abbreviation:	GZ Phar.
Stock code:	600332 (A share)
Stock exchange:	The Shanghai Stock Exchange
Stock abbreviation:	GZ Phar.
Stock code:	0874 (H share)
Stock exchange:	The Stock Exchange of Hong Kong Limited

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2 FINANCIAL DATA AND INDICATORS

2.1 Principal financial data

	2012	2011	Year on year increase/ (decrease)	2010	2009	2008
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Income from operations	8,229,059	5,439,612	51.28	4,486,067	3,881,938	3,527,424
Net profit attributable to the shareholders of the Company	395,278	287,531	37.47	267,112	210,989	182,496
Net profit attributable to the shareholders of the Company after deducting non-recurring items	377,425	265,742	42.03	233,168	156,584	87,698
Net cash flow from operating activities	506,530	(185,040)	373.74	73,218	439,393	6,103
Total profit	457,839	334,993	36.67	321,341	231,331	202,179
	As at 31 December 2012	As at 31 December 2011	Year on year increase/ (decrease)	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Shareholders' equity attributable to the shareholders of the Company	4,096,589	3,781,652	8.33	3,539,369	3,304,186	3,124,842
Total assets	6,235,394	4,851,266	28.53	4,477,892	4,222,614	4,130,904
Total liabilities	2,011,073	956,094	110.34	836,351	824,561	905,993
Total equity per share attributable to shareholders of the Company (RMB)	5.05	4.66	8.33	4.36	4.07	3.85

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

2.2 Principal financial indicators

	2012	2011	Year on year increase/ (decrease) (%)	2010	2009	2008
Basic earnings per share (RMB)	0.487	0.355	37.47	0.329	0.260	0.225
Diluted earnings per share (RMB)	0.487	0.355	37.47	0.329	0.260	0.225
Basic earnings per share after deducting non-recurring items (RMB)	0.465	0.328	42.03	0.288	0.193	0.108
Ratio of weighted average return on net assets (%)	10.05	7.84	An increase of 2.21 percentage points	7.81	6.56	5.88
Ratio of weighted average return on net assets after deducting non-recurring items (%)	9.60	7.25	An increase of 2.35 percentage points	6.82	4.87	2.83
Return on total equity attributable to shareholders of the Company (%)	9.65	7.60	An increase of 2.05 percentage points	7.55	6.39	5.84
Ratio of total equity attributable to shareholders of the Company to total assets (%)	65.70	77.95	A decrease of 12.25 percentage points	79.04	78.18	75.65
Gearing ratio (%) (Note)	32.25	19.71	An increase of 12.54 percentage points	18.68	19.51	21.93

Note: Gearing ratio is calculation as: total liabilities/total assets x 100%

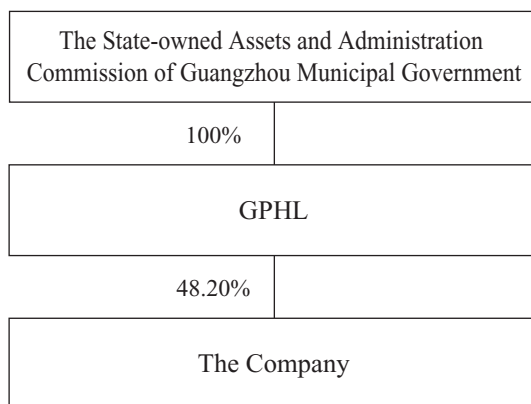
2.3 Changes in share capital and shareholders

Total number of shareholders as at the end of the Reporting Period		Total number of shareholders as at the end of the fifth trading day before the publication of the annual report				
		41,077				
Shareholders	Nature of shares	Increase/ (Decrease) during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate % of total issued share capital (%)	Number of shares with selling restrictions (share)	Number of pledged or locked shares (share)
Guangzhou Pharmaceutical Holdings Limited (“GPHL”)	Domestic shares	0	390,833,391	48.20	Nil	Nil
HKSCC Nominees Limited	Foreign capital shares	(344,000)	219,455,389	27.06	Nil	Unknown
China Construction Bank – Industrial Social Responsibility Securities Investment Fund	Domestic shares	2,949,104	2,949,104	0.36	Nil	Unknown
Bank of Communications Co., Ltd. – Hai Futong Securities Investment Funds	Domestic shares	2,679,780	2,679,780	0.33	Nil	Unknown
Industrial and Commercial Bank of China – Guang Fa Growth Mixed Securities Investment Fund	Domestic shares	2,500,000	2,500,000	0.31	Nil	Unknown
Industrial and Commercial Bank of China – Hai Futong Small-cap Equity Securities Investment Fund	Domestic shares	2,204,870	2,204,870	0.27	Nil	Unknown
Agricultural Bank of China Co., Ltd. – Invesco Great Wall of Energy Infrastructure Securities Investment Fund	Domestic shares	(785,711)	2,199,990	0.27	Nil	Unknown
Chang An International Trust Co., Ltd.	Domestic shares	2,069,303	2,069,303	0.26	Nil	Unknown
China Construction Bank Corporation Co., Ltd. – Morgan Stanley Huaxin Consumer Pilot Hybrid Securities Investment Fund	Domestic shares	1,981,873	1,981,873	0.24	Nil	Unknown
China Construction Bank Co., Ltd. – Boseru Fu, Shanghai and Shenzhen 300 Index Securities Investment Fund	Domestic shares	1,390,379	1,390,379	0.17	Nil	Unknown

Explanation on the connection among the above shareholders or persons acting in concert

- (1) According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.
- (2) The Company was not aware of any connection among the aforesaid shareholders, or whether they were persons acting in concert as provided in the “Rules Governing the Disclosure of Change in Shareholders’ Shareholding in Listed Companies”.

2.4 Relationship between the Company and its beneficial owner as at the end of the Reporting Period



2.5 Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s shares during the Year.

2.6 Public float

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

2.7 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.

3. REPORT OF THE DIRECTORS

3.1 Management discussion and analysis

3.1.1 Business scope and analysis of operations

The Group is principally engaged in (1) the research and development, manufacturing and sales of Chinese patent medicine, natural medicine and biological medicine; (2) wholesale, retail, import and export of Western and Chinese pharmaceutical products and medical apparatus; and (3) the research and development, manufacturing and sales of great health products.

3.1.2 Analysis of Operating Results

- (1) The operating results of the overall and principal operations of the Group for 2012 are as follows:

Item	2012 (RMB'000) (Audited)	2011 (RMB'000) (Audited)	Increase/ (Decrease) (%)
Revenue	8,229,059	5,439,612	51.28
Include: income from principal operations	8,128,653	5,345,158	52.08
Cost of sales	5,954,944	4,042,752	47.30
Include: cost from principal operations	5,934,258	4,026,308	47.39
Selling and distribution expenses	1,359,454	710,833	91.25
General and administrative expenses	593,484	480,532	23.51
Finance expenses	4,717	1,853	154.56
The profit before tax amounted	457,839	334,993	36.67
Net profit attributable to shareholders of the Company	395,278	287,531	37.47
Net cash flow from operating activities	506,530	(185,040)	373.74
Net cash flow from financing activities	11,430	(215,540)	105.30
Net cash flow from investing activities	(151,553)	60,259	(351.50)
Research and development expenses	86,574	99,445	(12.94)

- (2) *Revenue*

During 2012, the Group pursued its operation targets, firstly, firmly promoted work on marketing, production, quality, technology and the Major Assets Reorganization, strengthened market development and properly handled channel distribution and external merger and acquisition; secondly, proactively adapted to the changes of medical reform policies, devoted great effort in the biddings, strengthened costs control to mitigate the impact of the drop in drug prices and increasing costs in order to ensure the steady growth of principal operations and earnings; and thirdly, established Guangzhou Wang Lao Ji Great Health Industry Co., Ltd. (“WLJ Great Health”) and operated the red-canned and red-bottled Wang Lao Ji herbal tea business in an unconventional way.

During the Reporting Period, the Group recorded an income from principal operations of approximately RMB8,128,653,000 with a growth of 52.08% as compared with last year.

The manufacturing operations

During the Reporting Period, firstly, the manufacturing operations proactively adapted to new medical reform policies of the state and continued to carry out works such as supplementing basic medicine catalog and medicine bidding works. Secondly, the Group vigorously organized marketing campaigns for brand building and making activities in the cultural and academic fields in order to enhance its marketing development ability and accelerate the transformation and transcendence of marketing. During the Year, eight subsidiaries of the Company and their products were authorized and licensed for the use of the “Baiyunshan” tradename and trademark in order to enhance the sales volume of the products in markets outside the Guangdong Province and to leverage on the market awareness and reputation of “Baiyunshan” throughout the nation. The Group also promoted the popularization of traditional Chinese medicines and enhanced the Group’s visibility and image in the nation through a series of activities such as “Chinese Medicine in China” (中醫中藥行), “CCTV’s the most beautiful countryside doctor election” (CCTV 最美鄉村醫生評選活動), “The First Healthy China 2020 Summit” (首屆健康中國2020高峰論壇) and centennial celebration of subsidiaries. Promotion efforts for key products Xiao Ke Wan and a series of second-line products were increased steadily to promote the international trade of products such as Hua Tuo Zai Zao Wan. The sales were effectively increased to achieve the final sales target through various marketing campaigns, academic promotion and customer training activities. At the same time, through various charitable activities, subsidiaries contributed to society and demonstrated corporate social responsibility. Thirdly, to accelerate the development of the great health industry, we set up WLJ Great Health during the first half of the Year and established strategic cooperation relationships with national renowned food manufacturers and raw material and packaging material suppliers such as Uni-President (統一) and Yinlu (銀鷺) to increase production capacity and we established our own sales team and customer base, and quickly developed of the distribution and marketing channels of the red-canned and red-bottled WLJ herbal tea throughout the nation and achieved satisfactory results. We strengthened the development of new products and have launched new products such as no sugar, low sugar, instantly drinkable and solid WLJ herbal tea beverages. Fourthly, the Group accelerated the adjustment of product structure and product transformation, focused on the increase in the market share of high value-added products with high gross profit margins in order to enhance the integrated gross profit margin. Fifthly, the Group accelerated the development of GMP authentication of its subsidiaries. Currently, Guangzhou Baiyunshan Pan Gao Shou Pharmaceutical Co., Ltd. (“Pan Gao Shou”), a subsidiary of the Company, has passed the new GMP authentication for its entire plant, while the Chinese medicine preprocessing workshop of

Guangzhou Baiyunshan Zhong Yi Pharmaceutical Co., Ltd. (“Zhong Yi”) and the medicine preprocessing and extraction (oral treatment) workshop and raw drug materials of Guangzhou Baiyunshan Han Fang Modern Pharmaceutical Co., Ltd. (“Guangzhou Han Fang”) have also passed the new GMP authentication. Sixthly, in order to achieve rapid growth through new sales channel, the Group pushed on the sales promotion of key products and major special and rapidly increased our market shares among e-commerce retailers of medicine through the operation of e-commerce platform. Seventhly, the Group strictly controlled costs and expenses, and strived to reduce the operating costs.

During the Reporting Period, the gross profit margin of the manufacturing operations was 43.30%, representing a decrease of 1.36 percentage points as compared with last year.

In 2012, products such as herbal tea, An Gong Niu Huang Wan, Zi Shen Yu Tai Wan, Shu Jin Jian Yao Wan, An Shen Bu Lao Ye and Xin Xue Dan Series recorded greater increase in sales revenue.

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, proactively expanded the sale channels and network, explored the new ways of cooperation with the commerce and hygiene sectors, and at the same time, accelerated the construction of logistics warehouses across the country and strengthened terminal distribution to foster steady growth of the principal operations. The Group also continued to expand the scale of sales. Secondly, the Group keep on improving the cooperation with the production enterprises on matters such as basic medicine catalog and bidding, strengthened the introduction of product and promotion to hospitals. Thirdly, the Group further enjoyed the advantage of the resources integration platform of trading enterprises. Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. (“Cai Zhi Lin”), a subsidiary of the Company, exerted its unique advantage of centralized procurement of Chinese herbal medicine, implemented centralized management of screening of procurement species, properly analyzed and forecasted the market trend and prices of Chinese medicine, obtained the market information timely and accurately and adjusted the procurement strategy quickly in order to implement quality and quantity assurance and procurement at lower cost. Guangzhou Pharmaceutical Import & Export Co., Ltd. (“Pharmaceutical Import & Export”) accelerated the development of the operation platform of raw materials and featured pharmaceutical products distribution and achieved a stable growth in operations. Fourthly, the Group actively pushed on foreign investment and acquisition inside and outside the province and the establishment of Chinese medicine base, reinforced the cooperation with various raw material planting bases for Chinese medicine across the country in order to control key products and bulk medicine from

the origin. As at the end of the Reporting Period, the Group has established procurement platforms of Chinese medicine and GAP planting base companies in regions such as Tibet, Shandong, Inner Mongolia, Guizhou, Chongqing, Jingyu of Jilin and Heilongjiang.

During the Reporting Period, the gross profit margin of the trading operations was 5.89%, representing a decrease of 0.76 percentage point as compared with last year.

As at 31 December 2012, the Group had 47 retail chain pharmacy outlets, including 46 “Cai Zhi Lin” which specialized in traditional Chinese medicines and one pharmacy named Ying Bang.

(3) *Cost*

Operation cost	Items of constitute	2012		2011		Percentage of Changes in the proportion (%)
		Amount (RMB'000)	Percentage of the proportion of operation costs (%)	Amount (RMB'000)	Percentage of the proportion of operation costs (%)	
Manufacturing	Raw materials	929,397	35.75	578,389	41.23	60.69
	Fuel	30,937	1.19	27,215	1.94	13.67
	Labor costs	139,865	5.38	104,932	7.48	33.29
	Other	1,499,513	57.68	692,300	49.35	116.60
Trading	Procurement Costs	3,334,546	100.00	2,623,470	100.00	27.10

(4) *Expenses*

During the Reporting Period, the Group’s selling expense was approximately RMB1,359,454,000, with a growth of 91.25% as compared with last year, mainly due to the Group’s active marketing efforts to increase sales revenue in the Year. The Group, especially WLJ Great Health, increased advertising effort’s and sales associated expenses such as marketing personnel expense and transportation expenses.

During the Reporting Period, the Group’s financial expense was approximately RMB4,717,000, with a growth of 154.56% as compared with last year, mainly due to the increase in interest expense arising from a corresponding increase in the Group’s bank borrowings during the Year as compared to last year.

During the Reporting Period, the Group’s income tax expense was approximately RMB49,509,000, with a growth of 41.47% as compared with last year, mainly due to the increase in profit of the Company’s subsidiaries.

(5) *Research and development expenses:*

Current cost of research and development expenses (RMB'000)	86,574
Current capitalization of research and development expenses (RMB'000)	—
Total research and development expenses (RMB'000)	86,574
Total research and development expenses accounted for the proportion of net assets (%)	2.05
research and development expenses to total operating income ratio (%)	1.05
Including: Percentage of research and development expenses over revenue from main operations of pharmaceutical manufacturing(%)	3.08

During the Reporting Period, the Group's research and development expenses did not exceed 30% as compared with the same period of last year.

During the Reporting Period, the Group applied for 21 invention patents and obtained 17 approvals in China. In addition, the “National Engineering Research Center of Chinese Medicine Modernization of Extraction and Separation Process” of Guangzhou Han Fang was awarded “National Engineering Research Center with Excellent Achievement” by the National Development and Reform Commission, while Zhong Yi, Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. (“Wang Lao Ji”), Guangzhou Baiyunshan Jing Xiu Tang Pharmaceutical Co., Ltd. (“Jing Xiu Tang”), Pan GaoShou and Guangzhou Baiyunshan Qi Xing Pharmaceutical Co., Ltd. (“Qi Xing”) were named “Guangzhou Demonstration Enterprise for the Transformation and Upgrading of Traditional Manufacturing Industry with Advantages” by Guangzhou Economic and Trade Commission. Jing Xiu Tang was recognised as “Guangzhou Municipal Engineering and Technology Research & Development Center”, and Zhong Yi and Pan Gao Shou were recognised as “Guangzhou Municipal Enterprise Technology Center”. The composite prescription patent Wei Nai An (胃乃安) of Zhong Yi received the Excellence Award of the First Guangzhou Patent Awards. The “Research of the material basis for the effect and quality standard of Qing Re Xiao Yan Ning and its application” (清熱消炎寧作用物質基礎與質量標準研究及其應用) of Jing Xiu Tang passed the scientific and technological achievement appraisal of Guangdong Science and Technology Department. Moreover, “The study and industrialization of key technologies of quality control in the course of production of Chinese medicine pills (Xiao Ke Wan)” (消渴丸製藥過程質量控制高技術產業化示範工程) was listed into 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 RMB5 million from the Central Industrial Technology Research and Development Grant (中央產業技術研發資金補助). 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 Factory Pharmaceutical 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 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 with Hua Tuo Zai Zao Wan and integratic into advanced international pharmaceutical sciences research. 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 standard of similar products in China. Based on the result of the “Functional substances research and food and medicine development of mulberry” project (桑樹資源功能物質研究與食藥用開發) jointly undertaken by Cai Zhi Lin, the Sericulture & Farm Produce Processing Research Institute of Guangdong Academy of Agricultural Sciences and Guangdong Bao Sang Yuan Health Food Research and Development Centre (廣東寶桑園健康食品研究發展中心), new thinking and method for breeding mulberry for food and medicine use were proposed, which has filled the gap in China and was awarded the Guangdong First Class Prize in Technological Advancement.

The progress of the clinical research of the therapeutic dual – plasmid HBV DNA vaccine (治療性雙質粒HBV DNA疫苗) has been carried out smoothly. Currently, 219 participants have attended re-interviews as scheduled and 168 participants completed clinical tests. It is expected that all participants will complete re-interview by the first quarter of 2013.

3.1.3 Details of the main subsidiaries and joint ventures of the Company

Name of enterprises	Business nature	Major products or services	Shares equity		Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
			Registered capital (RMB'000)	directly held by the Company (%)			
(1) Subsidiaries							
Zhong Yi (note a)	Manufacturing	Producing Chinese patent medicine	217,410	100.00	848,138	619,382	52,998
Chen Li Ji (note a)	Manufacturing	Producing Chinese patent medicine	112,850	100.00	350,092	270,001	30,924
Qi Xing (note a)	Manufacturing	Producing Chinese patent medicine	100,000	75.00	336,278	161,849	27,547
Pan Gao Shou (note a)	Manufacturing	Producing Chinese patent medicine	65,440	87.77	266,144	218,080	24,325
Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd. (note a)	Manufacturing	Research and development of medicine	131,600	98.48	127,616	72,432	25,908

Name of enterprises	Business nature	Major products or services	Registered capital (RMB'000)	Shares equity	Total assets (RMB'000)	Net assets (RMB'000)	Net profit (RMB'000)
				directly held by the Company (%)			
Guangzhou Han Fang (note a)	Manufacturing	medicine and health products	246,060	97.97	215,052	134,887	5,476
Cai Zhi Lin	Trading	Sales of Chinese patent medicine and Chinese herbal medicine	32,220	100.00	1,003,868	60,515	8,732
Pharmaceutical Import & Export Corporation	Trading	Medicine import and export	24,000	100.00	440,890	33,178	7,069
WLJ Great Health (note b)	Manufacturing	Production and sales of prepackaging food, dairy products, etc	10,000	100.00	844,623	40,962	30,962
(2) Joint ventures							
Wang Lao Ji (note c)	Manufacturing	Manufacturing, processing and sales of Chinese patent medicine; food and medicine homologous drink and candy	204,760	48.05	1,419,887	872,093	149,345
Guangzhou Pharmaceuticals Corporation ("GP Corp.") (note d)	Trading	Sales of western pharmaceutical products and medical apparatus	700,000	50.00	7,782,704	1,910,415	169,235
Guangzhou Nuo Cheng Bio-tech Co., Ltd. ("Nuo Cheng") (note e)	Manufacturing	Production of Rabies bacterin; goods export, technology import and export	84,000	50.00	283,442	172,591	84,360

Notes:

- (a) During the Reporting Period, the subsidiaries of the former 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 use of the trade name of “Baiyunshan”. Their company names were respectively 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.” between May 2012 and June 2012. Furthermore, the Company’s former Guangzhou Han Fang Contemporary Chinese Medicine Research and Development Co., Ltd. and Guangzhou Bai Di Bio-technology Co., Ltd. were authorized and licensed for the use of the trade name and trade mark of “Baiyunshan”, and they changed their names into “Guangzhou Baiyunshan Han Fang Contemporary Pharmaceutical Co., Ltd.” (廣州白雲山漢方現代藥業有限公司) and “Guangzhou Baiyunshan Bai Di Bio-technology Co., Ltd.” (廣州白雲山拜迪生物醫藥有限公司) respectively.
- (b) WLJ Great Health, a wholly-owned subsidiary of the Company, was the Company, was officially registered on 28 February 2012, whose principal business is the production and sales of prepackaging food, dairy products etc.
- (c) The results of Wang Lao Ji were stated in full amount in the above table.

Wang Lao Ji is principally engaged in manufacturing, processing and sales of Chinese patent medicine, food and medicine homologous drink and candy.

During the Reporting Period, Wang Lao Ji put more efforts in product promotion and marketing, broadened product width and vigorously expanded the national market. It also strictly controlled the cost and strengthened the foundational management and speed up cash turnaround and the repay of accounts receivable.

In 2012, Wang Lao Ji achieved an income from principal operations of RMB2,319,369,000, representing an increase of 20.15% as compared with last year. Its total profit amounted to RMB172,140,000, representing an increase of 0.75% as compared with last year and its net profit was RMB149,345,000, representing an increase of 4.92% as compared with last year. Sales of WLJ herbal tea, WLJ Run Hou Tang (王老吉潤喉糖), 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 great increases as compared with last year, representing increases of 22.40%, 49.05%, 0.38% and 20.69% as compared with last year respectively.

- (d) 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 2012, GP Corp. strengthened channel distribution and bidding works, accelerated the establishment of logistics system, actively developed terminal network and personalized services to facilitate the transformation and upgrade of services. It also continued to steadily push on foreign investment and mergers and acquisitions inside and outside the province as well as expanding the scale of enterprises to boost external growth.

In 2012, income from principal operations of GP Corp. amounted to RMB19,323,023,000, representing an increase of 22.31% as compared with last year, its total profit was RMB230,825,000, representing an increase of 14.09% as compared with last year and its net profit was RMB169,235,000, representing an increase of 18.40% as compared with last year.

- (e) 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, and the rabies vaccine has become a species worthing over RMB100 million. In 2012, Nuo Cheng further optimized the marketing mode to satisfy market demand and to ensure a steady growth in the business of rabies vaccine production. Meanwhile, it continued to carry out new GMP reconstruction work for the existing rabies vaccine workshop, and the complete reconstruction of the preparation section of such workshop and completed the finished the complete relevant verification and examination works.

In 2012, income from principal operations of Nuo Cheng amounted to RMB232,175,000, representing an increase of 36.92% as compared with last year, its total profit was RMB98,342,000, representing an increase of 143.69% as compared with last year and its net profit was RMB84,360,000, representing an increase of 143.10% as compared with last year.

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

During the Reporting Period, the Company did not engage in any other operations which had significant impact on the net profit of the group.

3.2 Proposed scheme of profit distribution and increase in share capital by transfer from capital reserve

As audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, the consolidated net profit attributable to the shareholders of the Company for the Year 2012 was RMB395,278,360.28. Based on the Company's net profit of RMB263,666,455.43 for 2012, after the transfer of 10% amounting to RMB26,366,645.54 to the statutory surplus reserve fund, plus the retained earnings of RMB1,172,995,270.13 transferred from last year and after deducting the dividend of RMB81,090,000.00 distributed for 2011, the amount of retained profits available for the distribution to shareholders of the Company for 2012 amounted to RMB1,329,205,080.02.

On 21 December 2012, the Company received the "Approval of the Asset Acquisition through Issuance of Shares to Guangzhou Pharmaceutical Holdings Limited and the Absorption and Merger of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("Baiyunshan") from the CSRC. Pursuant to the approval, the Company was allowed to issue 34,839,645 shares to GPHL for the acquisition of the related assets and

445,601,005 shares to swap shares with Baiyunshan. Up to now, the Company is actively promoting the implementation of Major Assets Reorganization (as defined herein below).

According to the Absorption and Merger Agreement and its supplemental agreement entered into by the Company and the Baiyunshan, and the Asset Acquisition through Issuance of Shares Agreement and its supplemental agreement entered into by the Company and the GPLL, before the implementation of any Major Assets Reorganization (“Major Assets Reorganization”), if the Company has any ex dividend matters such as the distribution of dividend distribution of interests, increase in share capital by any transfer from capital reserve, then the convertible price and the issue price of the shares will be adjusted accordingly, the number of new shares and the issued shares will also change accordingly and which will again require the approval of the CSRC. In order to ensure that the Major Asset Reorganization process will not be affected by the dividend payout, the Board, suggested: (1) not to distribute any 2012 annual dividend and not to increase the share capital by transfer from capital reserve; and (2) after the implementation of the Major Assets Reorganization is completed, the Company will consider distributing special dividend, and the cash dividend distribution will not be less than 10% of the net profit attributable to the shareholders of the Company of 2012.

The profit distribution plan will be submitted to the Company’s 2012 Annual General Meeting. The independent non-executive directors have given their independent opinions on the above matters.

Profit of the Company in the Reporting Period without proposing scheme of cash profit distribution

Applicable Not applicable

3.3 Analysis of Financial Condition

3.3.1 Liquidity

As at 31 December 2012, the current ratio of the Group was 1.85 (31 December 2011: 2.65), and its quick ratio was 1.18 (31 December 2011: 1.67). Accounts receivable turnover rate was 18.49 times, representing an increase of 21.94% as compared with that of 2011. Inventory turnover rate was 5.52 times, representing an increase of 11.61% as compared with 2011.

3.3.2 Financial resources

As at 31 December 2012, cash and cash equivalents of the Group amounted to RMB722,303,000 out of which approximately 99.38% and 0.62% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2012, the Group had bank borrowings of RMB82,468,000 in total, all of which were short-term borrowings (31 December 2011: RMB144,929,000).

3.3.3 Capital structure

As at 31 December 2012, the Group's current liabilities amounted to RMB1,915,390,000 (31 December 2011: RMB871,341,000), representing an increase of 119.82% over that of 2011, and its long-term liabilities was RMB95,683,000 (31 December 2011: RMB84,753,000), with an increase of 12.90% as compared with 2011. The shareholders' equity attributable to the shareholders of the Company amounted to RMB4,096,589,000 (31 December 2011: RMB3,781,652,000), with an increase of 8.33% as compared with 2011.

3.3.4 Capital expenditure

The Group expects the capital expenditure for 2013 to be approximately RMB175 million (2012: RMB62 million), which will be mainly applied in the construction of factories and infrastructure and acquisitions of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

3.3.5 Assets and liabilities

Items	As at 31 December 2012 (RMB'000)	Proportion of total assets (%)	As at 31 December 2011 (RMB'000)	Proportion of total assets (%)	Proportion of change in the amount at the end of the Year as compared to last year (%)	Reason for change
Cash at bank and on hand	729,534	11.70	384,136	7.92	89.92	The increase was mainly due to increase in the Group's sales revenue to improve capital return and the increase in advances from customers during the Reporting Period.
Advance to suppliers	415,610	6.67	132,518	2.73	213.63	The increase was mainly due to the increased prepayments by the Company's subsidiaries for the purchase of pharmaceutical raw materials and packagings during the Reporting Period.
Other receivables	89,198	1.43	54,057	1.11	65.01	As at 31 December 2012, the increase was mainly due to increase in security deposits and the export tax refund receivable of the Group's export business.

Items	As at 31 December 2012 (RMB'000)	Proportion of total assets (%)	As at 31 December 2011 (RMB'000)	Proportion of total assets (%)	Proportion of change in the amount at the end of the Year as compared to last year (%)	Reason for change
Inventories	1,276,406	20.47	859,006	17.71	48.59	In order to seize the market size, the Group substantially increased the production stocks and raw materials in order to go in line with the strategies during the Year.
Other current assets	1,599	0.03	2,342	0.05	(31.75)	As at 31 December 2012, the Group's deductible input tax decreased.
Construction in progress	27,897	0.45	20,370	0.42	36.95	Increase was mainly due to the increased investments in technical renovation projects by the Group during the reporting period.
Deferred tax assets	79,144	1.27	38,542	0.79	105.34	Increase was mainly due to the increase in the temporary differences of employee benefits payable and other payables during the reporting period.
Short-term borrowings	82,468	1.32	144,929	2.99	(43.10)	The Company's trading subsidiaries repaid bank loans in advance during the reporting period.
Notes payable	38,937	0.62	5,432	0.11	616.80	The Company trading subsidiaries adopted a bankers' acceptances settlement method for short-term fund facilities to reduce finance costs during the reporting period.
Accounts payable	736,216	11.81	350,250	7.22	110.20	Increase was mainly due to the longer credit term granted by suppliers to the Company's subsidiaries in the reporting period.

Items	As at 31 December 2012 (RMB'000)	Proportion of total assets (%)	As at 31 December 2011 (RMB'000)	Proportion of total assets (%)	Proportion of change in the amount at the end of the Year as compared to last year (%)	Reason for change
Advance from customers	336,924	5.40	146,932	3.03	129.31	During the Reporting Period, the Company established a wholly owned subsidiary – namely Wang Lao Ji Great Health, which had received a large amount of advance from its dealers.
Employee benefits payable	131,740	2.11	64,167	1.32	105.31	As at 31 December 2012, increase was mainly due to the increased payable but unpaid year-end salary.
Taxes payable	110,113	1.77	37,951	0.78	190.14	As at 31 December 2012, increase was mainly due to the increase in value-added tax and corporate income tax which had not been paid by the Group.
Other payables	478,854	7.68	121,544	2.51	293.98	As at 31 December 2012, increase in other payables was mainly due to increase in the Group's accrued advertising costs, transportation costs and sales rebate.

3.3.6 Exposure to fluctuations in exchange rates

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

3.3.7 Main cash sources and applications

As at 31 December 2012, cash and cash equivalents of the Group amounted to RMB722,303,000, representing an increase of RMB366,555,000 as compared with the beginning of 2012. The net cash inflow derived from operating activities amounted to RMB506,530,000, representing an increase of RMB691,569,000 as compared with 2011, mainly due to the increase of the Group's revenue, improvement of capital return and increase in advances from customers in the Year.

3.3.8 Contingent liabilities

As at 31 December 2012, the Group has no significant contingent liabilities.

3.3.9 Charge on the Group's assets

As at 31 December 2012, the Group has no charge on its fixed assets.

3.3.10 Employees of the Group

As at 31 December 2012, the number of employees on the payroll register of the Group was 6,035, including:

Production and supporting staff	2,366
Sales personnel	1,500
Technical, research and engineering staff	1,234
Finance and statistics staff	224
Other administrative staff	711

154 of the employees were holders of a master degree and 1,934 were holders of a bachelor degree. The number of retirees was 5,447. The total salary payment of the Group for the Year was approximately RMB501 million.

The remuneration of the employees of the Group included salaries, bonuses and other fringe benefits. The Group, in compliance with the relevant PRC laws and regulations, paid different rates of remuneration to different employees, depending on the employees' performance, experience, position and other factors.

The Group emphasizes on enhancing the overall quality of its employees, and formulated trainings for different talents to constantly improve our management standard and competitiveness. During 2012, the Group organised relevant trainings based on the actual situation of its management systems to ensure the proper operation of its various systems.

The training plan of the Group for 2013 is set out below, which aims at upgrading professional and technical expertise, enhancing corporate management and raising the overall quality of employees in order to satisfy the need of the development and growth of the Group.

1. Strengthening quality training for all employees. Through various methods, we will organise trainings for all employees in safety awareness and in areas of professional knowledge, laws and regulations, including those relating to Drug Administration Law, Measures for the Supervision and Administration of Circulation of Pharmaceuticals, GSP, GMP and the management of special drugs, so as to raise employees' quality awareness and understanding of related laws and regulations and safety production awareness.

2. Domestic and foreign scholars and experts will be invited as lecturers in trainings which topics are on biological medicine innovation, drugs supervision and administration and drug production technology etc. A series of pharmacy continuing professional education will be held to develop thorough understanding of development trend and characteristics of the domestic and foreign pharmaceutical industry, and the extensiveness and depth of the trainings will also be increased.
3. Constantly perfecting continuing education and training. We will actively explore innovative management models of continuing education that suit the new era and enhance the teaching standard, so as to provide a sound platform for the education of pharmaceutical technicians.
4. Constantly enhancing education and training for the management. The Group will arrange specific managers to participate in all sorts of trainings and professional development programs relating to areas such as marketing, management, procurement, logistics, human resources management, execution, team management, negotiation skills in order to improve staff management ability and professional quality.
5. Continuously providing proper training for employees in various functionalities, and focus on improving job skills, standardising work flow, solving operation problems in order to improve the overall quality of employees in various functionalities.
6. The Group will give full play to internal resources relating to training, and encourage employees to leverage on their own experience and ability to support and participate in trainings in order to make our trainings further aligned to the works of the Group.

3.4 Changes in Operating Environment and National Macro Economic Policy and their Impact on the Company

The ever keener competition in the market, ever changing competition particularly the continuous increase in the centralization of production and circulation of pharmaceutical products, stronger price control of pharmaceutical products by the government, transformation of channels and end market to respond to the new medical reform, increase in operational costs, and implementation of the new GMP standard, etc will pose challenges to the development of the Group in the future.

3.5 Future Prospects and Plans

2013 will be a critical year for the Group in the implementation of the Twelfth Five-Year Plan to inherit from the past and forge ahead into the future, which will be full of challenges and opportunities. In 2013, with China's stable economic growth, progress in the new medical reform, increasing domestic emphasis on the importance of Chinese medicine and biomedicine and internationalization of pharmaceutical economy, the aging population and increase in people's health awareness, the Group's initiatives

to build up the “southern pharmaceutical industry”, “health industry” and “commerce and trading industry” will bring in more development opportunities. However, the intensifying competition in the market, stronger price control of pharmaceutical products by the government, continual increase in the prices of some raw materials and operational costs, and implementation of the new GMP standard will pose challenges to the development of the Group in the future.

2013 is the Group’s Resource Benefit Year. During the Year, the Group’s targets includes:

1. To further speed up the implementation of the Major Assets Reorganization and push on the “integration works” in an all-round manner, and strive to complete the absorption and merger of Baiyunshan and the acquisition of assets through issue of shares by the first half of 2013. The Group will also push ahead the integration of new staff and other resource platforms of the listed company after the reorganisation to achieve integrated operation and synergy effect.
2. To continue reinforcing its works on government affairs, proactively respond to the bidding policy of basic medicine, explore the new cooperation mode between commerce and hygiene, and vigorously promote the sales growth of basic medicine in medical institutions.
3. To promote the comprehensive development in great health industry through further utilizing the “Wang Lao Ji” brand resources, increasing new product development efforts, expanding production capacity, implementing stricter cost control and strengthening brand promotion, increasing advertisement, management of marketing network and end market.
4. To continue to strengthen marketing innovation and sales team building, accelerate the progress of pillar varieties with value over RMB100 million, foster product sales growth, potential items and product groups with high sales growth and market share, and cultivate “new cash cow” products and items.
5. To speed up the establishment of the quality and technological innovation system, the overall progress of new GMP application, and continue to improve the risk prevention system for product quality accidents. To promote the IIB clinical research and related work of the therapeutic dual-plasmid HBV DNA vaccine and other related projects.
6. To promote the transformation of the industrial chain from single to multi-dimensional supply and demand, reinforce the construction of a whole industry chain and push on the development of the industry.

7. To strengthen scientific management, refine the management in areas such as risk control, costs and production safety, consolidate the result from implementing the internal control system and lower the operational risk of the Company.
8. To continue to speed up the investment, merger and acquisition and joint ventures of the Company and its subsidiaries.

The Group will strive to achieve a revenue from main operations of not less than RMB10.8 billion in the year of 2013.

4 MAJOR EVENTS

4.1 Corporate Governance

After verifying with the relevant regulations of the Code on Corporate Governance (“Former CG Code”) and the revised and renamed Corporate Governance Code and Corporate Governance Report (“New CG Code”) as set out in Appendix 14 of the Listing Rules, the Company complied with the code provisions of the Former CG Code and New CG Code except that independent non-executive directors, namely, Mr. Liu Jingxiang, Mr. Qiu Hongzhong, Mr. Li Shanmin and Mr. Zhang Yonghua, were unable to attend the annual general meeting or the extraordinary general meeting and class meeting due to other important matters which constituted a deviation from code provision A.6.7.

4.2 Model Code for Securities Transactions by Directors and Supervisors

The Company had adopted the Model Code for Securities Transaction by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules and Measures for the Administration of Trading Shares of the Company by Directors, Supervisors and Senior Management as stipulated by the Company as the standards and criteria for securities transactions entered into by directors and supervisors. After making specific enquiries to all directors and supervisors, the Company 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.

4.3 The Audit Committee

The Audit Committee of the Board consists of five independent non-executive directors, one of whom has appropriate professional accounting qualifications. The Audit Committee has reviewed the accounting policies, accounting principles and methods adopted by the Group, and discussed with the management about the auditing, internal controls and financial reporting. The Audit Committee has also reviewed the audited annual financial statements for the year ended 31 December 2012.

On 28 February 2013, the Audit Committee convened the first meeting for 2013 and considered and passed the 2012 annual report of the Company and the Company’s 2012 financial statements.

4.4 The Major Assets Reorganization

The Company had applied for suspension of trading of 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 Major Assets Reorganization involving the Company. During such period of suspension, the Company actively implemented Major Assets Reorganization and continued to fulfill its disclosure obligations on a timely basis by making further announcements regarding the progress of the Major Assets Reorganization every five trading days.

The 13th meeting of the fifth session of the Board was held on 29 February 2012 and the Board approved the transactions, including the absorption and merger of Baiyunshan by the Company through share swap using additional A shares of the Company, 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) on 28 March 2012 and on the website of the HKEx (www.hkex.com.hk) on 27 March 2012. Trading in the A shares and H shares of the Company resumed on 28 March 2012.

The 17th meeting of the fifth session of the Board was held on 15 June 2012 and the Board approved the transactions, including the absorption and merger of Baiyunshan by the Company through share swap using additional A shares of the Company, 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) on 19 June 2012 and on the website of the HKEx (www.hkex.com.hk) on 18 June 2012.

The first extraordinary general meeting in 2012, the first class meeting of holders of domestic shares in 2012 and the first class meeting of holders of overseas listed foreign capital shares in 2012 (hereinafter as “the General Meetings”) were held on 19 September 2012 and the relevant shareholders approved matters, including the absorption and merger of Baiyunshan by the Company through share swap using additional A shares of the Company, and the asset acquisition by the Company through issuance of A shares to GPLH. The announcements in relation to the resolutions passed at the General Meetings and the Major Assets Reorganization were published in Shanghai Securities News, the Securities Times and the website of the SSE (www.sse.com.cn) on 20 September 2012 and on the website of the HKEx (www.hkex.com.hk) on 19 September 2012 and 20 September 2012 respectively.

The Company received the CSRC's Acceptance Notice of the Application for Administrative Permission (No. 121723)* (中國證監會行政許可申請受理通知書 (No.121723)) from the CSRC on 15 October 2012, the Application for Administrative Permission of the Major Assets Reorganization submitted by the Company has been accepted by CSRC. The relevant progress announcements had been published on Shanghai Securities News, Securities Times and the website of the SSE (www.sse.com.cn) on 17 October 2012 and the website of HKEx (www.hkex.com.hk) on 16 October 2012.

On 30 November 2012, the Company was notified by CSRC that the Major Assets Reorganization was approved unconditionally by the Merger and Reorganization Audit Committee of Listed Companies of CSRC at its thirty-third meeting in 2012. The relevant progress announcements had been published on Shanghai Securities News, Securities Times and the website of the SSE (www.sse.com.cn) on 1 December 2012 and the website of HKEx (www.hkex.com.hk) on 30 November 2012.

On 21 December 2012, the Company received the "Approval of the Asset Acquisition through Issuance of Shares to GPLH and the Absorption and Merger of Baiyunshan by the Company" (Zhengjianxuke[2012] No.1695)* (證監許可[2012]No.1695) from the CSRC. The relevant progress announcements had been published on Shanghai Securities News, Securities Times and the website of the SSE (www.sse.com.cn) on 22 December 2012 and the website of HKEx (www.hkex.com.hk) on 21 December 2012.

The Company and the related parties are currently carrying out various works required for implementing the Major Assets Reorganization.

5. FINANCIAL REPORTS

5.1 Financial statements prepared in accordance with the PRC Accounting Standards (All amounts in Renminbi yuan unless otherwise stated)

Consolidated Balance Sheet

ASSETS	<i>Note</i>	31 December 2012	31 December 2011
Current assets			
Cash at bank and on hand		729,534,429.40	384,135,738.08
Financial assets held for trading		2,875,920.00	3,127,692.50
Notes receivable		482,012,872.73	430,388,075.25
Accounts receivable	5.1.4	550,052,455.36	446,596,366.96
Advances to suppliers		415,610,318.50	132,518,184.98
Interest receivable		—	—
Dividends receivable		—	—
Other receivables		89,197,788.97	54,056,817.63
Inventories		1,276,405,502.48	859,005,842.50
Current portion of non-current assets		—	—
Other current assets		1,598,620.43	2,342,210.36
Total current assets		3,547,287,907.87	2,312,170,928.26
Non-current assets			
Available-for-sale financial assets		20,095,830.52	18,907,856.64
Held-to-maturity investments		—	—
Long-term receivables		—	—
Long-term equity investments		1,412,218,693.41	1,255,088,628.89
Investment properties		96,320,091.40	102,290,186.93
Fixed assets		952,239,309.32	1,000,021,241.01
Construction in progress		27,897,312.69	20,369,955.46
Construction materials		—	—
Fixed assets pending for disposal		—	—
Intangible assets		92,449,396.92	95,138,045.81
Development costs		792,251.69	792,251.69
Goodwill		—	—
Long-term prepaid expenses		6,948,817.51	7,944,670.09
Deferred tax assets		79,144,106.56	38,542,083.57
Other non-current assets		—	—
Total non-current assets		2,688,105,810.02	2,539,094,920.09
TOTAL ASSETS		6,235,393,717.89	4,851,265,848.35

Consolidated Balance Sheet (Continued)

LIABILITIES AND SHAREHOLDERS' EQUITY	<i>Note</i>	31 December 2012	31 December 2011
Current liabilities			
Short-term borrowings		82,467,807.78	144,928,849.42
Financial liabilities held for trading		—	—
Notes payable		38,936,645.00	5,432,012.71
Accounts payable	5.1.5	736,216,314.15	350,249,598.28
Advances from customers		336,924,384.28	146,931,794.49
Employee benefits payable		131,740,297.59	64,167,157.18
Taxes payable		110,112,508.64	37,951,281.66
Interest payable		—	—
Dividends payable		138,728.30	136,440.45
Other payables		478,853,800.97	121,543,593.12
Current portion of non-current liabilities		—	—
Other current liabilities		—	—
Total current liabilities		1,915,390,486.71	871,340,727.31
Non-current liabilities			
Long-term borrowings		—	—
Debentures payable		—	—
Long-term payables		4,423,405.56	4,423,405.56
Payables for specific projects		—	—
Provisions		—	—
Deferred tax liabilities		3,863,493.22	3,802,712.90
Other non-current liabilities		87,395,999.11	76,526,985.01
Total non-current liabilities		95,682,897.89	84,753,103.47
Total liabilities		2,011,073,384.60	956,093,830.78
SHAREHOLDERS' EQUITY			
Share capital		810,900,000.00	810,900,000.00
Capital surplus		1,148,765,832.02	1,148,016,718.97
Less: Treasury share		—	—
Surplus reserve		629,262,321.00	602,895,675.46
Undistributed profits		1,507,661,282.20	1,219,839,567.46
Difference on translation of foreign currency financial statements		—	—
Total equity attributable to shareholders of the Company		4,096,589,435.22	3,781,651,961.89
Minority interest		127,730,898.07	113,520,055.68
Total shareholders' equity		4,224,320,333.29	3,895,172,017.57
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		6,235,393,717.89	4,851,265,848.35

Consolidated Income Statement

ITEMS	Note	2012	2011
1. Revenue	5.16	8,229,058,538.06	5,439,611,618.46
Less: Cost of sales	5.16	5,954,943,771.78	4,042,751,834.94
Taxes and surcharges		67,151,562.49	44,042,757.85
Selling and distribution expenses		1,359,453,560.67	710,833,473.66
General and administrative expenses		593,483,713.27	480,531,999.72
Financial expenses		4,717,261.21	1,853,078.95
Asset impairment losses		6,298,149.96	916,864.96
Add: Profit arising from changes in fair value		(251,772.50)	(3,541,599.52)
Investment income		195,312,735.34	153,785,668.56
Including: Share of profit of associates and jointly controlled entities		195,216,249.12	153,343,410.54
2. Operating profit		438,071,481.52	308,925,677.42
Add: Non-operating income	5.1.7	30,209,317.92	33,370,701.19
Less: Non-operating expenses		10,441,602.88	7,303,369.86
Including: Losses on disposal of non-current assets		261,017.34	1,333,448.86
3. Total profit		457,839,196.56	334,993,008.75
Less: Income tax expenses	5.1.8	49,508,515.42	34,996,150.14
4. Net profit		408,330,681.14	299,996,858.61
– Attributable to shareholders of the Company		395,278,360.28	287,530,980.07
– Minority interest		13,052,320.86	12,465,878.54
5. Earnings per share			
– Basic earnings per share	5.1.9	0.487	0.355
– Diluted earnings per share	5.1.9	0.487	0.355
6. Other comprehensive income		911,852.51	(5,206,746.38)
7. Total comprehensive income		409,242,533.65	294,790,112.23
– Attributable to shareholders of the Company		396,186,984.21	282,327,760.64
– Minority interest		13,055,549.44	12,462,351.59

5.1.1 Basis of preparation

The financial statements were prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standards 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.

5.1.2 Accounting policies

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

5.1.3 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 and health product produced by the Group’s manufacturing subsidiaries;
- Trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine, and wholesale of goods other than pharmaceutical products.

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

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

(1) The segment information for 2012 and as of 31 December 2012 are as follows:

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	4,645,136,657.21	3,556,329,004.72	27,592,876.13	-	8,229,058,538.06
Inter-segment revenue	4,412,850.69	934,153,345.08	40,237,410.57	(978,803,606.34)	-
Interest income	5,234,882.49	578,019.52	1,738,060.82	-	7,550,962.83
Interest expenses	10,370,857.78	36,410,757.94	6,153,388.84	(42,031,615.09)	10,903,389.47
Share of profit or loss of associates and jointly controlled entities	41,786,015.72	-	152,183,110.63	1,247,122.77	195,216,249.12
Asset impairment losses	6,038,438.60	317,622.45	(212,545.86)	154,634.77	6,298,149.96
Depreciation and amortisation	102,597,326.89	5,451,600.55	2,342,871.01	-	110,391,798.45
Total profit	266,899,111.00	19,025,685.55	282,860,549.01	(110,946,149.00)	457,839,196.56
Income tax expenses	38,953,273.52	5,973,495.96	5,790,948.97	(1,209,203.03)	49,508,515.42
Net profit (Including: minority interest)	227,945,837.48	13,052,189.59	277,069,600.04	(109,736,945.97)	408,330,681.14
Total assets	3,690,589,051.12	1,306,065,888.46	3,889,548,050.44	(2,650,809,272.13)	6,235,393,717.89
Total liabilities	1,757,393,549.87	1,203,626,206.31	236,767,411.51	(1,186,713,783.09)	2,011,073,384.60
Long-term equity investments in associates and jointly controlled entities	85,015,307.46	-	1,319,771,135.50	1,103,831.31	1,405,890,274.27
Additions of non-current assets other than long-term equity investments	58,825,844.82	2,377,280.82	852,298.00	-	62,055,423.64

(2) The segment information for 2011 and as of 31 December 2011 are as follows

	Manufacturing	Trading	Unallocated	Elimination	Total
Revenue	2,591,579,999.93	2,824,904,775.01	23,126,843.52	-	5,439,611,618.46
Inter-segment revenue	24,617,692.86	530,451,338.16	18,265,157.76	(573,334,188.78)	-
Interest income	4,140,764.96	662,869.60	1,788,613.79	-	6,592,248.35
Interest expenses	6,869,333.57	26,702,913.21	3,731,430.52	(31,386,386.63)	5,917,290.67
Share of profit or loss of associates and jointly controlled entities	17,361,934.70	-	135,027,315.32	954,160.52	153,343,410.54
Asset impairment losses	1,201,912.94	1,449,320.85	(1,317,784.35)	(416,584.48)	916,864.96
Depreciation and amortisation	104,079,691.73	4,172,575.32	2,332,909.41	-	110,585,176.46
Total profit	176,330,414.14	16,253,842.83	251,103,528.45	(108,694,776.67)	334,993,008.75
Income tax expenses	29,278,195.55	3,459,726.49	3,719,785.36	(1,461,557.26)	34,996,150.14
Net profit (Including: minority interest)	147,052,218.59	12,794,116.34	247,383,743.09	(107,233,219.41)	299,996,858.61
Total assets	2,654,431,749.77	981,033,652.88	3,586,340,684.59	(2,370,540,238.89)	4,851,265,848.35
Total liabilities	948,405,820.52	893,449,598.53	118,233,344.70	(1,003,994,932.97)	956,093,830.78
Long-term equity investments in associates and jointly controlled entities	46,780,795.49	-	1,202,014,262.96	512,345.01	1,249,307,403.46
Additions of non-current assets other than long-term equity investments	53,896,550.83	5,280,323.76	626,057.00	-	59,802,931.59

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 summarized as follows:

Revenue from external customers	2012	2011
PRC	7,879,985,182.20	5,213,310,236.48
Other countries	349,073,355.86	226,301,381.98
	<u>8,229,058,538.06</u>	<u>5,439,611,618.46</u>
Total non-current assets	31 December 2012	31 December 2011
PRC	2,577,122,645.99	2,469,336,900.40
Other countries	11,743,226.95	12,308,079.48
	<u>2,588,865,872.94</u>	<u>2,481,644,979.88</u>

5.1.4 Accounts receivable

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

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

	31 December 2012	31 December 2011
Within 1 year	549,232,659.05	443,748,943.00
1 to 2 years	6,203,392.32	6,071,602.35
2 to 3 years	1,001,230.83	4,909,957.53
3 to 4 years	3,970,058.15	2,669,468.83
4 to 5 years	1,923,249.29	1,609,619.47
Over 5 years	3,165,609.33	4,263,326.51
	<u>565,496,198.97</u>	<u>463,272,917.69</u>
Less: Provision for bad debt	15,443,743.61	16,676,550.73
	<u>550,052,455.36</u>	<u>446,596,366.96</u>

5.1.5 Accounts payable

The ageing of accounts payable is analyzed as follows:

	31 December 2012	31 December 2011
Within 1 year	726,499,935.05	343,592,964.13
Over 1 year	9,716,379.10	6,656,634.15
	<u>736,216,314.15</u>	<u>350,249,598.28</u>

5.1.6 Revenue and cost of sales

	2012		
	Main operation	Other operation	Subtotal
Revenue	8,128,653,256.84	100,405,281.22	8,229,058,538.06
Cost of sales	5,934,257,559.39	20,686,212.39	5,954,943,771.78
Gross profit	2,194,395,697.45	79,719,068.83	2,274,114,766.28
	2011		
	Main operation	Other operation	Subtotal
Revenue	5,345,157,954.82	94,453,663.64	5,439,611,618.46
Cost of sales	4,026,305,531.86	16,446,303.08	4,042,751,834.94
Gross profit	1,318,852,422.96	78,007,360.56	1,396,859,783.52

5.1.7 Non-operating income

For the year ended 31 December 2012, gain on disposal of non-current assets is amounted to RMB90,672.00 (2011: RMB299,476.54).

5.1.8 Income tax expenses

	2012	2011
Current income tax	90,332,095.02	32,269,642.36
Deferred income tax	(40,823,579.60)	2,726,507.78
	<u>49,508,515.42</u>	<u>34,996,150.14</u>

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

	Year ended 31 December 2012	Year ended 31 December 2011
Total profit	457,839,196.56	334,993,008.75
Income tax expenses calculated at applicable tax rates	114,459,799.14	83,748,252.19
Tax effect of different rates applicable to subsidiaries	(19,755,203.76)	(15,381,440.14)
Income not subject to tax	(48,804,062.28)	(38,335,852.64)
Expenses not deductible for tax purposes	6,376,467.42	8,089,415.56
Tax effect of utilisation of previously unrecognised tax losses	(4,380,543.45)	(1,877,741.82)
Tax losses for which no deferred income tax asset was recognised	2,851,010.80	2,732,635.68
Tax effect of temporary differences on which deferred tax assets are not recognised	2,624,025.57	(4,696,912.41)
Others	(3,862,978.02)	717,793.72
Income tax expenses	<u>49,508,515.42</u>	<u>34,996,150.14</u>

Seven subsidiaries of the Group, Zhong Yi, Guangzhou Baiyunshan Xing Qun Pharmaceutical Co., Ltd. (Xing Qun), Chen Li Ji, Pan Gao Shou and Guangzhou Han Fang 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.

The certificates of the six subsidiaries (namely, Zhong Yi 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, numbering GR201044000004, was issued in September 2010 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%.

Guangxi Ying Kang, a subsidiary of the Group was awarded the “Certificate of High/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, numbering GR200945000085, was issued in November 2009 and valid for 3 years. In 2012, Guangxi Ying Kang applied to prolong its qualification as New/High Technology Enterprise, and has passed the public notice period. Management considers that Guangxi Ying Kang can prolong their qualification as New/High Technology Enterprise successfully. In addition, Guangxi Ying Kang is entitled to the preferential policy on enterprise income tax free according to “Policies and Regulations on economy Development of Guangxi North Gulf Economy Area” (No. 61, 2008, Gui Policy announcement). Guangxi Ying Kang is exempted from enterprise income tax of the local part by Guangxi Zhuang Autonomous Region Local Tax Bureau from 1 January 2011 to 31 December 2012.

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%.

5.1.9 Earnings per share

(a) Basic earnings per share

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

	Year ended 31 December 2012	Year ended 31 December 2011
Consolidated net profit attributable to ordinary shareholders of the Company	395,278,360.28	287,530,980.07
Weighted average number of ordinary shares outstanding	810,900,000	810,900,000
Basic earnings per share	<u>0.487</u>	<u>0.355</u>

(b) *Diluted earnings per share*

Diluted earnings per share is calculated by adjusted net profit for the current year attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. For the year ended 31 December 2012, there were no potential ordinary shares (for year ended 31 December 2011: nil), diluted earnings per share is equal to basic earnings per share.

5.1.10 Dividends

In accordance with the resolution at the Annual General Meeting held on 12 April 2012, the Company proposed a cash dividend to shareholders of the Company RMB0.10 per share, amounting to RMB81,090,000 in total based on the number of shares issued amounting to RMB810,900,000.

5.1.11 Net current assets

	31 December 2012	31 December 2011
Current assets	3,547,287,907.87	2,312,170,928.26
Less: Current liabilities	1,915,390,486.71	871,340,727.31
Net current assets	<u>1,631,897,421.16</u>	<u>1,440,830,200.95</u>

5.1.12 Total assets less current liabilities

	31 December 2012	31 December 2011
Total assets	6,235,393,717.89	4,851,265,848.35
Less: current liabilities	1,915,390,486.71	871,340,727.31
Total assets less current liabilities	<u>4,320,003,231.18</u>	<u>3,979,925,121.04</u>

- 5.2 There is no significant change in accounting policies, estimation and audit method when compared with the 2011 annual report.**
- 5.3 There is no major accounting error during the Reporting Period.**
- 5.4 Explanation on changes in scope of business as compared with the previous annual report.**

There were 6 new established companies in 2012, according to the requirements of the “Enterprise Accounting Standard No.33 – Consolidated Financial Statements”, the new companies were included in the Group’s scope of business since 2012. They are WLJ Great Health, Guangzhou Guang Yao Yi Gan Bio-tech Co., Ltd., Wu Lan Ca Bu Guang Yao Chinese Herbal Medicine Development Co., Ltd, Shan Dong Guang Yao Chinese Herbal Medicine development Co., Ltd, Gui Zhou Guang Yao Chinese Herbal Medicine Development Co., Ltd. and Jing Yu Xian Guang Yao Chinese Herbal Medicine Development Co., Ltd, which were 100%, 60%, 80%, 45%, 55% and 60% owned by the Group.

- 5.5 There is no explanation from the Board and the Supervisory Committee on any non-standard audit report issued by the auditors during the Reporting Period.**

The Board of
Guangzhou Pharmaceutical Company Limited

Guangzhou, the PRC, 28 February 2013

As at the date of this summary, the Board comprises Mr. Yang Rongming, Mr. Li Chuyuan, Ms. Cheng Ning and Mr. Wu Changhai as executive directors, and Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong as independent non-executive directors.