年報

2007 Annual Report

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

(Stock code: 874)

Contents

1.	IMPORTANT NOTICE	1
2.	COMPANY PROFILE	2
3.	FINANCIAL DATA AND FINANCIAL HIGHLIGHTS	4
4.	CHANGES IN SHARE CAPITAL AND SHAREHOLDERS	10
5.	DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF	18
6.	CORPORATE GOVERNANCE	28
7.	SUMMARY OF SHAREHOLDERS' MEETINGS	37
8.	REPORT OF THE BOARD OF DIRECTORS	38
	Management Discussion and Analysis	38
	Daily Operations of the Board of Directors	51
	Proposed Scheme of Profit Distribution and Increase in Share Capital By Transfer From Capital Reserve	52
	Other Matters	55
9.	REPORT OF THE SUPERVISORY COMMITTEE	63
10.	MAJOR EVENTS	66
11.	FINANCIAL REPORTS	71
12.	DOCUMENTS AVAILABLE FOR INSPECTION	148

Important Notice

I. The Board of Directors (the "Board"), the Supervisory Committee (the "Supervisory Committee") of Guangzhou Pharmaceutical Company Limited ("GPC" or the "Company") and its Directors, Supervisors and Senior Management collectively and individually accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and confirm that there are no false information, misleading statements or material omissions in this report.

II. Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. (formerly known as "Guangdong Yangcheng Certified Public Accountants Co., Ltd."), the domestic auditor, and PricewaterhouseCoopers Certified Public Accountants, the international auditor, have audited the financial reports of the Company together with its subsidiaries (collectively the "Group") and the Company for the year ended 31 December 2007 (the "Reporting Period" or the "Year") and issued unqualified auditors' reports thereon.

III. Mr. Yang Rongming (Chairman of the Board), Mr. Shi Shaobin (Director and General Manager), and Mr. Chen Binghua (Financial Controller and Senior Manager of the Finance Department) individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this report.

IV. This report is prepared in both English and Chinese. In the event that different interpretation occurs, with the exception of the financial reports prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the international auditor's report thereon, the Chinese version shall prevail.

Company Profile

I.	Legal Chinese name:	廣州藥業股份有限公司
	Chinese name abbreviation:	廣州藥業
	English name:	Guangzhou Pharmaceutical Company Limited
	English name abbreviation:	GPC
II.	Legal representative:	Yang Rongming
III.	Company secretary:	He Shuhua
	Representative of securities affairs:	Huang Xuezhen
	Address:	45 Sha Mian North Street, Guangzhou City Guangdong Province, the PRC
	Telephone:	(8620) 8121 8117/8121 8119
	Fax:	(8620) 8121 6408
	E-mail:	hesh@gpc.com.cn/huangxz@gpc.com.cn
IV.	Registered address and office:	45 Sha Mian North Street, Guangzhou City Guangdong Province, the PRC
	Postal code:	510130
	Internet website:	http://www.gpc.com.cn
	E-mail:	sec@gpc.com.cn
	Principal place of business in Hong Kong:	Room 2005, 20th Floor, Tower Two Lippo Center 89 Queensway, Hong Kong
V.	Designated newspapers for information disclosure:	Mainland China: Shanghai Securities Hong Kong: Hong Kong Economic Times, The Standard
	Internet website designated by the China Securities Regulatory Commission for publishing this annual report:	http://www.sse.com.cn
	Internet website designated by The Stock Exchange of Hong Kong Limited for publishing this annual report:	http://www.hkex.com.hk
	Place where this annual report is available for inspection:	The Secretariat to the Board of Directors of Guangzhou Pharmaceutical Company Limited

VI.	Place of listing, name and codes of the Company's shares:	A Shares: The Shanghai Stock Exchange Stock Code: 600332 Stock Abbreviation: GZ Phar. H Shares: The Stock Exchange of Hong Kong Limited Stock Code: 0874 Stock Abbreviation: GZ Phar.
VII.	Other corporate information:	
	First registration date:	1 September 1997
	First place of registration:	45 Sha Mian North Street, Guangzhou City Guangdong Province, the PRC
	Registration date for subsequent change:	14 August 2007
	Place of registration for subsequent change:	45 Sha Mian North Street, Guangzhou City Guangdong Province, the PRC
	Business registration number:	4401011101830
	Tax registration number:	44010063320680x
	Organization code:	63320680-X
	Auditors:	PRC auditor: Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd 11th Floor, Yao Zhong Plaza, No. 3~15, Linhexi Road, Tianhe District, Guangzhou, Guangdong, the PRC International auditor: PricewaterhouseCoopers Certified Public Accountant 22nd Floor, Prince's Building, Central, Hong Kong

Financial Data and Financial Highlights

I. EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS

Items	2007 (RMB'000)
Operating profit	**460,959**
Total profit	**472,263**
Net profit attributable to the shareholders of the Company	**335,147**
Net profit attributable to the shareholders of the Company after deducting non-operating items	**294,016**
Net cash inflows from operating activities	**375,742**

Note: Items and amount related to non-operating items

Items	Amount (RMB'000)
Gain/(Loss) on disposal of non-current assets	**1,238**
Government subsidies recognized as gain/(loss)	**9,409**
Income/(Loss) of entrusted loans	**(1,153)**
Gain on subscription of new shares	**28,833**
Other non-operating income and expenses excluding the above items	**3,752**
Other non-operating items confirmed by CSRC	**3,877**
Income tax effect	**(3,895)**
Effect on minority interest	**(930)**
Total	**41,131**

II. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS AND HKFRS

		As at 31 December 2007 (RMB'000)	As at 31 December 2006 (RMB'000)
Net Asset attributable to the shareholders of the Company under the PRC Accounting Standards		**3,060,348**	2,790,398
Intangible assets capitalised	1	**16,669**	27,006
Difference arising from fixed assets revaluation	2	**123,728**	126,547
Deferred government grants generated prior to the adoption of the new PRC Accounting Standards	3	**(2,833)**	(3,279)
Revaluation of investment properties	5	**19,634**	13,104
Provision of deferred tax liabilities arising from fixed assets revaluation	4	**(35,536)**	(41,870)
Difference in minority interest	6	**(13,989)**	(14,517)
Capital and resverves attributable to equity holders of the Company under HKFRS		**3,168,021**	2,897,389

II. DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS AND HKFRS *(Continued)*

		2007 (RMB'000)	2006 (RMB'000)
Net profit attributable to the shareholders of the Company under the PRC Accounting Standards		**335,147**	237,511
Amortisation of intangible assests	1	**(10,337)**	(10,361)
Additional depreciation on revalued fixed assets	2	**(2,819)**	(1,975)
Government grants recognized as deferred income prior to the adoption of the new PRC Accounting Standards	3	**446**	1,106
Decline in fair value of investment properties		**–**	(12)
Difference arising from depreciation of investment properties in cost model and fair value model	5	**1,979**	–
Appropriation of staff bonus and welfare fund charged as expenses	7	**(3,779)**	(7,680)
Difference in minority interest	6	**(294)**	(522)
Profit attributable to equity holders of the Company under HKFRS		**320,343**	218,067

1. This represents the staff quarter reform costs incurred by the Group prior to 2000 in relation to purchases for staff quarters by its employees. Under HKFRS, such cost is recognised as an intangible asset and is subject to amortisation on a straight-line basis to reflect the estimated remaining average service life of its employees in which the related economic benefits are recognised. Under PRC Accounting Standards the staff quarter reform costs were written off against retained earnings of the year in which they were incurred.

2. The Group's fixed assets were revalued by the international valuers in 1997 for the purpose of listing the Group's H shares. The revaluation has been reflected in the financial statements of the Group prepared under HKFRS but not in the financial statements prepared under PRC Accounting Standards. The depreciation charge under HKFRS is higher than that calculated under PRC Accounting Standards as the depreciation charge under HKFRS is based on the revalued amount of fixed assets.

3. Prior to the adoption of the new PRC Accounting Standards, government subsidies granted in relation to purchases of fixed assets was recognised as capital reserve. Under both HKFRS and new PRC Accounting Standards, government grant in relation to purchase of fixed assets is recognised as deferred income and credited to the income statement on a straight line basis in accordance with the estimated useful lives of the assets.

4. This represents the deferred tax liabilities arising from the fixed assets revaluation as described in note 2 above.

5. The Group's investment properties are measured with historical cost under PRC Accounting Standards, while they are measured with fair value in the financial statements prepared under HKFRS.

6. Due to the reconciliation items above, there is a difference in net profit/profit attributable to equity holders of the Company prepared under PRC Accounting Standards and HKFRS. This results in a difference in the minority interest.

7. This is the staff bonus and welfare fund appropriated from profit after taxation in the financial statements prepared under PRC Accounting Standard, while under HKFRS, it is recognised as expenses in the income statement of the year.

III. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS

1. Financial statements prepared in accordance with the PRC Accounting Standards

Items	**2007**	2006 After restatement	2006 Before restatement	2005 After restatement	2005 Before restatement
Income from operations (RMB'000)	**12,320,777**	10,296,317	10,295,154	9,029,237	9,077,471
Total profit (RMB'000)	**472,263**	381,182	370,362	313,245	306,741
Net profit attributable to the shareholders of the Company (RMB'000)	**335,147**	237,511	227,328	185,024	184,482
Net profit attributable to the shareholders of the Company after deducting non-operating items (RMB'000)	**294,016**	238,049	226,567	186,104	185,561
Basic earnings per share (RMB)	**0.413**	0.293	0.280	0.228	0.228
Diluted earnings per share (RMB)	**0.413**	0.293	0.280	0.228	0.228
Basic earnings per share after deducting non-operating items (RMB)	**0.363**	0.294	0.279	0.230	0.229
Fully diluted return on net assets ratio (%)	**10.95**	8.51	8.15	7.08	7.04
Weighted average return on net assets ratio (%)	**11.46**	8.79	8.40	7.39	7.31
Ratio of fully diluted return on net assets after deducting non-operating items (%)	**9.61**	8.53	8.13	7.12	7.08
Ratio of weighted return on net assets after deductingnon-operating items (%)	**10.06**	8.81	8.74	7.44	7.64
Net cash flow from operating activities (RMB)	**375,742**	37,953	38,880	146,323	146,323
Net cash flow from operating activities per share (RMB)	**0.46**	0.05	0.05	0.18	0.18

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

1. Financial statements prepared in accordance with the PRC Accounting Standards *(Continued)*

Indicators	As at 31 December 2007	As at 31 December 2006 After restatement	As at 31 December 2006 Before restatement	As at 31 December 2005 After restatement	As at 31 December 2005 Before restatement
Total assets (RMB'000)	**6,206,944**	5,463,683	5,409,413	5,161,858	5,098,095
Equity holders' funds (or shareholders' funds) (RMB'000)	**3,060,348**	2,790,398	2,788,088	2,612,958	2,621,437
Net assets per share attributable to the shareholders of the Company (RMB)	**3.77**	3.44	3.44	3.22	3.23
Gearing ratio (%)	**46.93**	45.88	45.39	45.77	44.94

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

2. Accounts prepared in accordance with HKFRS

Items	2007	2006	2005	2004	2003
Turnover (RMB'000)	**12,260,744**	10,241,004	9,026,340	7,709,565	6,973,113
Profit before income tax (RMB'000)	**456,806**	349,155	315,493	161,675	307,829
Profit attributable to equity holders of the Company (RMB'000)	**320,343**	218,067	197,804	42,829	146,667
Earnings per share (RMB)	**0.40**	0.27	0.24	0.05	0.18

Items	As at 31 December 2007	As at 31 December 2006	As at 31 December 2005	As at 31 December 2004	As at 31 December 2003
Total assets (RMB'000)	**6,367,843**	5,640,964	5,316,420	5,413,438	4,954,091
Total liabilities (RMB'000)	**2,950,451**	2,560,584	2,391,590	2,655,559	2,220,047
Capital and reserves attributable to equity holders of the Company (RMB'000)	**3,168,021**	2,897,389	2,737,123	2,545,592	2,551,417
Capital and reserves per share attributable to equity holders of the Company (RMB)	**3.91**	3.57	3.36	3.14	3.15
Return on capital and reserves attributable to equity holders of the Company (%)	**10.11**	7.53	7.26	1.68	5.75
Ratio of capital and reserves attributable to equity holders of the Company to total assets (%)	**49.75**	51.36	51.22	47.02	51.50
Gearing ratio (%) (Note)	**46.33**	45.39	44.98	49.05	44.81

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

IV. CHANGES IN SHAREHOLDERS' FUNDS DURING THE REPORTING PERIOD IN 2007 (CONSOLIDATED)

1. Extracted from the accounts prepared in accordance with the PRC Accounting Standards

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Surplus reserve (RMB'000)	Retained earnings (RMB'000)	Shareholders' funds (RMB'000)
Opening balance	810,900	1,154,046	548,772	276,680	2,790,398
Additions	–	6,696	90,909	366,956	464,561
Deductions	–	–	31,808	162,803	194,611
Closing balance	810,900	1,160,742	607,873	480,833	3,060,348

Reasons for the changes:

1. The reasons for the movements of capital surplus: The increase in the Reporting Period was mainly due to the increase of RMB6,433,000 in the Group's capital surplus from fair value movement in available-for-sale financial assets (Bank of Communications and Huadong Medicine) of the subsidiaries of the Company.

2. The reasons for the movements of surplus reserve: The decrease in the Year was the transfer of surplus reserve of RMB3,145,000 from liquidation of the operation department of Guangzhou Chinese Medicine Corporation and Baiyun Wholesale Market and the transfer of RMB28,663,000 from increased share capital of Guangzhou Pharmaceuticals Corporation ("Pharmaceuticals Corporation").

2. Extracted from the accounts prepared in accordance with HKFRS

Items	Share capital (RMB'000)	Capital reserve (RMB'000)	Statutory surplus reserve (RMB'000)	Discretionary surplus reserve (RMB'000)	Retained earnings (RMB'000)	Capital and reserves attributable to equity holders of the Company (RMB'000)
As at 1 January 2007	1,592,034	437,423	483,074	164,989	219,869	2,897,389
Transfers from reserves according to new Chinese Accounting Standards ("CAS")	–	–	(114,351)	15,062	99,289	–
Profit for the Year	–	–		–	320,343	320,343
Dividend in 2006	–	–		–	(68,116)	(68,116)
Transfers	–	(2,819)	35,361	23,738	(56,280)	–
Revaluation of investment properties upon initial recognition	–	4,551	–	–	–	4,551
Fair value gains on available-for-sale financial assets, net of tax	–	7,520	–	–	–	7,520
Deferred tax liabilities arising from initial recognition of revaluation on investment properties	–	(3,658)	–	–	–	(3,658)
Decrease in deferred tax liabilities resulting from the change in tax rates	–	9,992	–	–	–	9,992
Others	–	446	–	–	(446)	–
As at 31 December 2007	1,592,034	453,455	404,084	203,789	514,659	3,168,021

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL

1. Movement in share capital and its components

	Before change		Change					After change	
	Number of shares (share)	Percentage (%)	New issues (share)	Bonus issues (share)	Reserves capitalized (share)	Others (listing and trading of tradable shares subject to selling restrictions) (share)	Sub-total (share)	Number of shares (share)	Percentage (%)
I. Shares with selling restrictions	489,600,000	60.38	–	–	–	(61,541,491)	(61,541,491)	428,058,509	52.79
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. Shares held by State-owned legal entities	–	–	–	–	–	–	–	–	–
3. Other domestic shares	–	–	–	–	–	–	–	–	–
Including: Shares held by domestic legal entities	–	–	–	–	–	–	–	–	–
Shares held by domestic natural persons	–	–	–	–	–	–	–	–	–
4. Shares held by foreign capital	–	–	–	–	–	–	–	–	–
Including: Shares held by overseas legal entities	–	–	–	–	–	–	–	–	–
Shares held by overseas natural persons	–	–	–	–	–	–	–	–	–
Total shares with selling restrictions	489,600,000	60.38	–	–	–	(61,541,491)	(61,541,491)	428,058,509	52.79
II. Shares without selling restrictions									
1. Reminbi-denominated ordinary shares	101,400,000	12.50	–	–	–	61,541,491	61,541,491	162,941,491	20.09
2. Domestically listed foreign capital shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign capital shares	219,900,000	27.12	–	–	–	–	–	219,900,000	27.12
4. Others	–	–	–	–	–	–	–	–	–
Total shares without selling restrictions	312,300,000	39.62	–	–	–	61,541,491	61,541,491	382,841,491	47.21
III. Total shares	810,900,000	100.00	–	–	–	–	–	810,900,000	100.00

I. CHANGES IN SHARE CAPITAL *(Continued)*

1. Movement in share capital and its components *(Continued)*

Pursuant to the Share Reform Undertaking, as at 24 April 2007, the 40,545,000 shares with to selling restrictions of the Company (representing 5% of the total number of shares of the Company) held by Guangzhou Pharmaceutical Holdings Limited ("GPHL"), the controlling shareholder of the Company, were allowed to trade on the market. The 20,996,491 shares with selling restrictions of the Company held by another shareholder, China Great Wall Asset Management Corporation ("Great Wall Corporation") were also allowed for market trading.

2. Changes of shares subject to selling restrictions

Shareholder	Number of shares with selling restrictions at the beginning of the Year (share)	Number of shares released from restrictions in the Year (share)	Number of new shares with selling restrictions in the Year (share)	Number of shares with selling restrictions at the end of the Year (share)	Reasons of selling restrictions	Date of release from restrictions
GPHL	468,603,509	40,545,000	0	362,948,509	Share reform undertaking	24 April 2007
Great Wall Corporation	20,996,491	20,996,491	0	0	Share reform undertaking	24 April 2007
Total	489,600,000	61,541,491	0	362,948,509	–	–

3. Securities issuance in the past 3 years

The Company had not issued or listed any securities in the past three years.

4. Internal staff shares

The Company does not have any internal staff shares.

II. INFORMATION ON SHAREHOLDERS

1. Number of shareholders as at the end of the Reporting Period

As at 31 December 2007, there were 46,110 shareholders in total, out of which 46,084 were holders of domestically listed Reminbi-denominated ordinary shares (A shares) and 26 were holders of overseas listed foreign capital shares (H shares).

II. INFORMATION ON SHAREHOLDERS *(Continued)*

2. Shareholders' interests and short positions in the shares and underlying shares of the Company

As at 31 December 2007, the interests and short positions held by the persons (not being the Directors, Supervisors and Senior Management of the Company) in the shares and underlying shares of the Company which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKEx") pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") and as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

		Long Positions		Short Positions			
Shareholder	Nature of shares held	Number of shares held *(share)*	Capacity	Number of shares held *(share)*	Capacity	% of total issued domestic shares *(%)*	% of total issued H shares *(%)*
GPHL	Domestic shares	387,368,654	beneficial owner	–	–	Approximately 65.54	–
Guangzhou Beicheng Rural Credit Cooperative	Domestic shares	46,670,000	beneficial owner	–	–	Approximately 7.90	–
Wellington Management Company, LLP	H shares	16,972,000	investment manager	–	–	–	Approximately 7.72
Greenwoods Asset Management Limited	H shares	16,780,900	investment manager	–	–	–	Approximately 7.63
Deutsche Bank Aktiengesellschaft	H shares	100,937	beneficial owner	100,000	beneficial owner	–	Approximately 7.04
		14,744,000	investment manager	–	–	–	
		630,000	holders of assured entitlements of shares	–	–	–	
Martin Currie (Holdings) Limited	H shares	12,386,000	interest in controlled company	–	–	–	Approximately 5.63

Note: As notified by HKSCC Nominees Limited, as at 31 December 2007, the H shares held by each corporation in its securities account with the Central Clearing and Settlement System amounted to more than 5% of the total issued H shares of the Company.

As far as the Directors are aware, as at 31 December 2007, 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.

II. INFORMATION ON SHAREHOLDERS *(Continued)*

3. The top ten shareholders of the Company

The top ten shareholders of the Company as at 31 December 2007 are set out as follows:

Shareholders	Nature of shares	Number of shares held (share)	Number of shares with selling restrictions (share)	% of total issued share capital (%)	Number of pledged or locked shares (share)
GPHL	Domestic shares	387,368,654	Approximately 47.77	362,948,509	20,850,000 (Note (1))
HKSCC Nominees Limited	H Shares	219,512,299	Approximately 27.07	Nil	Unknown
Guangzhou Beicheng Rural Credit Cooperative	Domestic shares	46,670,000	Approximately 5.76	46,670,000	0
Guangzhou Huangshi Rural Credit Cooerative	Domestic shares	9,020,000	Approximately 1.11	9,020,000	Unknown
China Merchants Bank Co., Ltd. – China Everbright Pramerica Super Stock-oriented Investment Fund	Domestic shares	7,887,353	Approximately 0.97	Nil	Unknown
Bank of China – Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	Domestic shares	4,599,930	Approximately 0.57	Nil	Unknown
Guangzhou Xinjiao Rural Credit Cooperative	Domestic shares	4,220,000	Approximately 0.52	4,220,000	Unknown
Guangzhou Xinfeng Rural Credit Cooperative	Domestic shares	3,480,000	Approximately 0.43	3,480,000	Unknown
Agricultural Bank of China – Soochow Value Growth Dynamic Equity Investment Fund	Domestic shares	1,858,067	Approximately 0.23	Nil	Unknown
ICBC – Hua An Mid & Small Cap Equity Investment Fund	Domestic shares	1,737,350	Approximately 0.21	Nil	Unknown

Note:

(1) The 12,480,000 shares held by GPHL were intended to be transferred to Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("Baiyunshan Co., Ltd."). Currently, the procedures for approval of the equity transfer are not completed yet. Among the 102,960,000 shares pledged, 65,110,000 shares were transferred to institutions including Guangzhou Beicheng Rural Credit Cooperative by order of court ruling in the first half of 2007 (details are set out in the table below). A total of 17,000,000 shares were released from pledge on 12 November 2007 and 22 November 2007 respectively. The remaining 20,850,000 shares were also released from pledge on 9 January 2008.

II. INFORMATION ON SHAREHOLDERS *(Continued)*

3. The top ten shareholders of the Company *(Continued)*

Notes: *(Continued)*

Shares held by GPHL and were transferred by order of court ruling:

Shareholders	Shareholding in relation to transfer (share)	Date of transfer	Shareholding after transfer
Guangzhou Xinjiao Rural Credit Cooperative	4,220,000	9 February 2007	4,220,000
Guangzhou Xinfeng Rural Credit Cooperative	3,480,000	9 February 2007	3,480,000
Guangzhou Beicheng Rural Credit Cooperative	46,670,000	23 March 2007	46,670,000
Guangzhou Baiyun Rural Credit Cooperative	1,720,000	23 March 2007	1,720,000
Guangzhou Huangshi Rural Credit Cooperative	9,020,000	21 May 2007	9,020,000

During the Reporting Period, GPHL sold 16,124,855 shares of the Company through the secondary market, representing 1.99% of the total issued share capital of the Company.

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

(3) Among the top ten shareholders of the Company, GPHL was not connected with the other nine shareholders and were not person acting in concert as stipulated in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies". The Company was not aware of any connection among the other nine shareholders, or whether they were persons acting in concert as stipulated in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies".

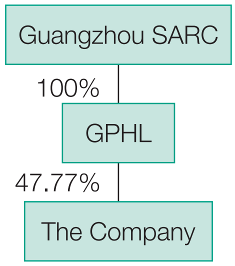
4. Information of the Company's controlling shareholder and its beneficial owner

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
% of shares held	47.77%
Legal representative	Yang Rongming
Date of establishment	7 August 1996
Registered capital	RMB1,007.7 million
Business scope	To invest in and manage State-owned assets, to sell and manufacture Chinese and western medicine, Chinese raw medicine, bio-tech products, medical apparatus, packing materials for pharmaceutical products, health drinks and food, hygienic materials and pharmaceutical related merchandise; to undertake medicine related import and export affairs and to develop real estate.

II. INFORMATION ON SHAREHOLDERS *(Continued)*

4. Information of the Company's controlling shareholder and its beneficial owner *(Continued)*

As at the end of the Reporting Period, the controlling shareholder of the Company was GPHL, the beneficial owner of which was the State-owned Assets Regulatory Commission of Guangzhou ("Guangzhou SARC").



5. Other shareholders holding 10% or more of the Company's total issued shares

As at the end of the Reporting Period, the Company had no other shareholders holding 10% or more of the Company's total issued shares.

6. As at 31 December 2007, the Company's top ten shareholders holding the shares without selling restrictions and their shareholdings were as follows:

Shareholders	**Number of shares without selling restrictions held** (share)	**Nature of shares**
HKSCC Nominees Limited (Note 1)	219,512,299	H shares
GPHL	24,420,145	Domestic shares
China Merchants Bank Co., Ltd. – China Everbright Pramerica Super Stock-oriented Investment Fund	7,887,353	Domestic shares
Bank of China – Invesco Great Wall Ding Yi Equity Investment Fund (LOF)	4,599,930	Domestic shares
Agricultural Bank of China – Soochow Value Growth Dynamic Equity Investment Fund	1,858,067	Domestic shares
ICBC – Hua An Mid & Small Cap Equity Investment Fund	1,737,350	Domestic shares
Bank of Communications – HSBC Jintrust Dynamic Strategy Hybrid Securities Investment Funds	1,455,700	Domestic shares
Bank of Communications – Hua An Strategic Selective Equity Investment Fund	1,314,953	Domestic shares
Meng Xiangtong	1,122,900	Domestic shares
National Social Security Fund 109 Group	1,034,508	Domestic shares

II. INFORMATION ON SHAREHOLDERS *(Continued)*

6. As at 31 December 2007, the Company's top ten shareholders holding the shares without selling restrictions and their shareholdings were as follows: *(Continued)*

Note: (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 above-mentioned ten shareholders holding the shares without selling restrictions, or whether they are persons acting in concert as stipulated in the "Rules Governing the Disclosure of Change in Shareholders' Shareholding in Listed Companies".

7. The top ten shareholders holding shares with selling restrictions of the Company as at the end of the Reporting Period

No.	Name of holders of shares with selling restrictions	Number of shares with selling restrictions held (share)	Listing and trading of shares with selling restrictions: Listing and trading date	Listing and trading of shares with selling restrictions: Number of additional tradable shares (share)	Undertakings
1	GPHL	403,493,509	24 April 2007	40,545,000	Note (1)
		362,948,509	24 April 2008	40,545,000	
		322,403,509	24 April 2009	322,403,509	
2	Guangzhou Xinjiao Rural Credit Cooperative	4,220,000	Note (2)		
3	Guangzhou Xinfeng Rural Credit Cooperative	3,480,000	Note (2)		
4	Guangzhou Beicheng Rural Credit Cooperative	46,670,000	Note (2)		
5	Guangzhou Baiyun Rural Credit Cooperative	1,720,000	Note (2)		
6	Guangzhou Huangshi Rural Credit Cooperative	9,020,000	Note (2)		

Note: (1) The shares with selling restrictions held by GPHL shall not be listed, traded, nor transferred within 12 months from the date of implementation of the reform plan. Upon the expiry of such 12-month period, GPHL will not dispose of its shares (which are originally shares subject to selling restrictions) which exceeds 5% and 10% of the total number of the issued shares of the Company at The Shanghai Stock Exchange in the following 12 months and 24 months respectively.

(2) The shares of the Company held by institutions including Guangzhou Xinjiao Rural Credit Cooperative, Guangzhou Xinfeng Rural Credit Cooperative, Guangzhou Beicheng Rural Credit Cooperative, Guangzhou Baiyun Rural Credit Cooperative and Guangzhou Huangshi Rural Credit Cooperative were originally shares with selling restrictions held by GPHL. The listing and trading dates and the number of additional tradeable shares are to be confirmed with GPHL.

II. INFORMATION ON SHAREHOLDERS *(Continued)*

8. **Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the Reporting Period.**

9. **During the Reporting Period, there was no change in the controlling shareholder of the Company.**

III. 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 report.

IV. 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.

Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors

Mr. Yang Rongming, aged 54, Chairman of the Company, is a postgraduate and currently the Chairman and General Manager of GPHL. Mr. Yang started his career in October 1970 and served as vice factory manager of Guangzhou Monosodium Glutmate and Food Factory, Deputy General Manager of Guangzhou Ao Sang Monosodium Glutmate & Food Co., Ltd, Director and General Manager of Guangzhou Eagle Coin Enterprises Group Corporation, Chairman and General Manager of Guangzhou Zhujiang Brewery Group Co., Ltd, Chairman of Guangzhou Zhujiang Brewery Co., Ltd. and Director of Pharmaceuticals Corporation. Mr. Yang has served as Director of the Company since 1 November 2004. He is also Director of Guangzhou Xing Qun Pharmaceutical Co., Ltd. ("Xing Qun") and Guangzhou Zhong Yi Pharmaceutical Co., Ltd. ("Zhong Yi "). Mr. Yang has extensive experience in business management and sales and marketing.

Mr. Shi Shaobin, aged 40, Director and General Manager of the Company, is a Master degree postgraduate and senior engineer. Mr. Shi started his career in 1989 and served as Technician of a research institute, staffer of the marketing and promotion department, Head of the administrative department, Assistant to the General Manager and Manager of the marketing department, and Deputy General Manager of Guangzhou Jing Xiu Tang Pharmaceutical Factory (later renamed as "Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.", abbreviated as "Jing Xiu Tang" below), Chairman and General Manager of Guangzhou Yangcheng Pharmaceutical Co., Ltd. (later renamed as "Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd.", abbreviated as "Wang Lao Ji" below), Chairman of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd ("Guangzhou Han Fang"), General Secretary of Guangzhou Qi Xing Pharmaceutical Factory and Chief Executive of Wang Lao Ji. Mr. Shi has served as the General Manager of the Company since June 2006 and Director of the Company since 2 April 2007. Mr. Shi is also Chairman of Wang Lao Ji, Factory Manager of Guangzhou Qi Xing Pharmaceutical Factory, Chairman and General Secretary of Guangzhou Qi Xing Pharmaceutical Co. Ltd. ("Qi Xing") and Vice Chairman of Pharmaceuticals Corporation. Mr. Shi has extensive experience in production, marketing and operation management.

Mr. Feng Zansheng, aged 57, Chief Pharmacist, has served as Director of the Company since 1997. Mr. Feng joined GPHL in 1970. He graduated from Guangzhou Medical College in 1977 with a Diploma in Medical Treatment. Mr. Feng was Chairman and General Manager of Pharmaceuticals Corporation. He is President of Pharmaceuticals Corporation, Vice Chairman of the Chinese Medical Commerce Association, an executive member of Guangdong Medical Society and Vice Commissioner of Trading Specialty. Mr. Feng has extensive experience in corporate management and pharmaceutical trading.

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

2. Independent Non-executive Directors

Mr. Wong Hin Wing, aged 45, has been an Independent Non-executive Director of the Company since 26 March 2004. Mr. Wong holds a Master's degree in Executive Business Administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Directors, the Association of Chartered Certified Accountants, as well as a member of the American Institute of Certified Public Accountants. He is also a fellow member of the Institute of Chartered Secretaries and Administrators and a member of the Securities Institute in the United Kingdom. Mr. Wong is currently the Managing Director and Responsible Officer of Legend Capital Partners Inc., a licensed corporation under the Securities and Futures Ordinance. He has over 24 years of experience in accounting, finance, investment management and consultancy. Mr. Wong had worked with an international audit firm for four years and was the Chief Financial Officer of a listed public company for seven years. He is also a Director of Aeon Credit Service (Asia) Company Limited.

Mr. Liu Jinxiang, aged 66, has served as an Independent Non-executive Director of the Company since 15 June 2007. Mr. Liu graduated from Xi'an Construction Technology University in 1964. He was an Independent Non-executive Director of the Company from August 2000 to March 2004, Chairman of Yue Xiu Enterprises (Holdings) Limited and Guangzhou Investment Company Limited, Chairman of Yue Xiu Transportation Company Limited, Head of Guangzhou Economic Committee and Vice-Mayor of Guangzhou City. Mr. Liu has more than 40 years of experience in industrial technology, enterprise and economic affairs management.

Mr. Li Shanmin, aged 45, has served as an Independent Non-executive Director of the Company since 15 June 2007. Mr. Li graduated from Nanjing Agricultural University with a doctorate degree in management science. He is currently a Professor of the School of Management of Zhongshan University, the mentor of a Ph. D. student whose majors are in finance and investment, section chief for finance and state-owned asset section of Zhongshan University, Secretary-General of Zhongshan University Education Fundand a member of International Financial Management Association. Mr. Li is also acting as an Independent Director of Hubei Yihua Chemical Industry Co., Ltd., Guangzhou Zhujiang Industrial Co., Ltd. and China Soft Package Co., Ltd., directive expert of postdoctorate station of the Shenzhen Stock Exchange.

Mr. Zhang Yonghua, aged 49, has served as an Independent Non-executive Director since 15 June 2007. Mr. Zhang graduated from Huazhong Normal University with a bachelor degree in Law in 1982 and received a Master degree in Law in 1989. He is currently the Director of Education and Legal System Institute under the School of Law of Guangdong University of Foreign Studies. Mr. Zhang acted as Deputy Director of Publicity Department of Huazhong Normal University, Vice-Professor of School of Political Science & Law, Deputy Director of Minor Department of Guangzhou University of Foreign Studiesand Deputy Director of Guangdong University of Foreign Studies. Mr. Zhang is concurrently Director of Guangdong Law Society, Consultation Expert of Legal System Office of Guangzhou Government, the second session commissioner of Guangzhou Arbitration Commission and intercessor of Guangzhou Arbitration Commission.

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

3. Supervisors

Ms. Yang Xiuwei, aged 48, Assistant Engineer, has served as Chairman of the Supervisory Committee of the Company since 15 June 2007. Ms. Yang started her career in July 1974. She graduated as a part-time graduate student from the Party School of the Central Committee of the C.P.C and majored in economic management in July 2003. Ms. Yang has been the Clerk at Vice-Director Level for Complaint Letter and Visit Office, Inspector at Vice-Section Level, Inspector at Section Leveland Deputy Director at Vice Department Level, Deputy Director at Department Level for the Bureau of Supervision under Guangzhou Municipal Commission for Inspecting Discipline. Ms. Yang is currently Secretary of the discipline committee of GPHL and Secretary of the committee of the communist party of the Company.

Mr. Wu Quan, aged 51, is an undergraduate and has served as Supervisor of the Company since 15 June 2007. Mr. Wu started his career in February 1976 and graduated from the Guangzhou Institute of Education with his major in Chinese in July 1988. Mr. Wu is currently Senior Manager of the Human Resources Department and Secretary-General of the Company. Mr. Wu acted as Chief Officer of Cannon Camp, Vice Company Commander of Guandong Independent Division, advisor at deputy company commander level, advisor at company commander level for military equipment section under the command of Guangdong Zhangjiang Military Sub-area, advisor at a deputy battalion level, advisor at a battalion level, deputy section chief and section chief for military equipment section under the command of Guangdong Military Area, Deputy Secretary of the Party Committee, Secretary of the Discipline Commission and Secretary of the Party Committee of Guangzhou Medicinal Materials Company (renamed as Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd., abbreviated as “Cai Zhi Lin Pharmaceutical” below).

Mr. Zhong Yugan, aged 51, has served as Supervisor of the Company since March 2004. Mr. Zhong graduated from the Business Economics Department of Beijing Business College in 1982 and was awarded a Bachelor of Arts in economics. He studied abroad in the University of 契里爾•麥托蒂 in the former Yugoslavia from 1985 to 1987. Mr. Zhong is currently the Head of the Business Administration Faculty and the Professor in the Guangdong Business College, the Professor of management studies and the tutor of Master degree postgraduates. He is also Vice Chairman of the Association of Marketing Research of China Higher Institutes, committee member of academic work of the Association of China International Public Relations, Vice Chairman of the Guangdong Provincial Business Economics Association and Vice Chairman of Guangdong Marketing Association. Mr. Zhong has extensive experience in the fields of marketing and sales, strategic decision-making and corporate management.

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

4. Senior Management

Mr. He Shuhua, aged 51, Deputy General Manager and Company Secretary of the Company, joined GPHL in 1982. He graduated from Zhong Shan University in 1982 with a Bachelor degree in Biology. In 1995, he obtained a Master degree in Statistics from the same university. He is also Chairman of Guangxi Ying Kang Pharmaceutical Co., Ltd. ("Ying Kang"), Director of Guangzhou Han Fang and Pharmaceuticals Corporation. Mr. He has been the Company Secretary of the Company since 1997 and Deputy General Manager of the Company since September 2001. He has extensive experience in business management and sales and marketing.

Mr. Su Guangfeng, aged 44, an engineer with a Bachelor degree in Industrial Studies, has served as Deputy General Manager of the Company since June 2005. Mr. Su joined Baiyunshan Co., Ltd in 1987 and served as the Deputy Chief of the Operation Department of Baiyunshan Co., Ltd, and Deputy Plant Head of Guangzhou Baiyunshan Chinese Medicine Factory and Manager of Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited ("Ying Bang Company"). He has been the Chairman and General Manager of Xing Qun since January 2005. He has also been Chairman of Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd., ("Pan Gao Shou") since July 2007. Mr. Su has extensive experience in enterprise management, sales and marketing.

Mr. Chen Binghua, aged 42, an accountant with a Master degree in Business Administration, is the Financial Controller and Senior Manager of the Finance Department of the Company. Mr. Chen was General Manager of Shanghai Pudong Xidi Co., Ltd, General Finance Manager of China Foreign Trade Development Company and Financial Chief of O-NET Communications Ltd. He is also a Director of Guangzhou Bai Di Bio-technology Co., Ltd. ("Guangzhou Bai Di"), Director of Guangxi Ying Kang and Director of Guangzhou Nuo Cheng Bio-tech Co., Ltd. He has been the Senior Manager of the Finance Department of the Company since 2002 and the Financial Controller of the Company since December 2005. Mr. Chen has extensive experience in accounting and financial management.

II. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN SHARES (A SHARES) OF THE COMPANY DURING THE REPORTING PERIOD

Name	Position	Shares held as at the beginning of the Reporting Period (share)	Shares held as at the end of the Reporting Period (share)	Reason for change
Yang Rongming	Chairman	0	0	–
Shi Shaobin	Executive Director, General Manager	0	0	–
Feng Zansheng	Executive Director	0	0	–
Wong Hin Wing	Independent Non-executive Director	0	0	–
Liu Jinxiang	Independent Non-executive Director	0	0	–
Li Shanmin	Independent Non-executive Director	0	0	–
Zhang Yonghua	Independent Non-executive Director	0	0	–
Yang Xiuwei	Chairman of Supervisory Committee	0	0	–
Wu Quan	Supervisor	0	0	–
Zhong Yugan	Supervisor	0	0	–
He Shuhua	Deputy General Manager, Company Secretary	36,010	36,010	–
Su Guangfeng	Deputy General Manager	0	0	–
Chen Binhua	Financial Controller	6,240	6,240	–

III. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

1. As at 31 December 2007, the interests or short positions of the Directors, Supervisors and Senior Management in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Rules Governing the Listing of Securities on HKEx (the "Listing Rules") to be notified to the Company and the HKEx were as follows:

Directors

Name	Type of interest	Company	Number of shares
Shi Shaobin	Personal	Jing Xiu Tang	25,000
		Wang Lao Ji	26,180
	Family	Jing Xiu Tang	11,000
Feng Zansheng	Personal	Pharmaceuticals Corporation	700,000

Senior Management

Name	Types of interest	Company	Number of shares
He Shuhua	Personal	A shares of the Company	36,010
Chen Binghua	Personal	A shares of the Company	6,240

2. Save as disclosed above, as at 31 December 2007, none of the Directors, Supervisors, Senior Management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

IV. EMOLUMENTS FOR THE YEAR

1. Policy on determining emoluments

The annual emoluments for Directors and Supervisors were proposed by the Board and approved at the Annual General Meeting of the Company at which the Board was authorized to determine the amount of emoluments and method of payment for services of the Company's Directors and Supervisors. The amount of emoluments and payment method for the Senior Management were determined by the Board after taking into account of the Company's operating results and individual performance.

IV. EMOLUMENTS FOR THE YEAR *(Continued)*

2. Emoluments for the Year

During the Year, the total emoluments of the Directors, Supervisors and Senior Management of the Company who received emoluments from the Group amounted to RMB2,732,000, details of which are set out as follows:

	Emoluments received from the Group		
Name	**Whether emoluments were received from the Group**	**Total emoluments for the Year** (RMB'000)	**Whether emoluments were received from the Company's shareholder or connected parties**
Directors			
Yang Rongming	No	–	Yes
Shi Shaobin	Yes	527	No
Feng Zansheng	Yes	645	No
Wong Hin Wing	Yes	80	No
Liu Jinxiang	Yes	43	No
Li Shanmin	Yes	43	No
Zhang Yonghua	Yes	43	No
Chen Zhinong	No	–	No
Wu Zhang	Yes	40	No
Zhang Heyong	Yes	40	No
Supervisors			
Yang Xiuwei	No	–	Yes
Wu Quan	Yes	86	No
Zhong Yugan	Yes	30	No
Chen Canying	No	–	Yes
Ouyang Qiang	Yes	105	No
Senior Management			
He Shuhua	Yes	337	No
Su Guangfeng	Yes	433	No
Chen Binghua	Yes	280	No
Total		2,732	

IV. EMOLUMENTS FOR THE YEAR *(Continued)*

2. Emoluments for the Year *(Continued)*

Notes: (1) Mr. Wu Zhang and Mr. Zhang Heyong ceased to act as Directors of the Company with effect from 15 June 2007. Their emoluments for the Year were the emoluments received from the Company for the period from 1 January 2007 to the date of cessation.

(2) The emoluments of Mr. Shi Shaobin for the Year were the total emoluments received from the Company and a subordinated company of the Company.

(3) Mr. Ouyang Qiang ceased to act as the Supervisor of the Company with effect from 15 June 2007. His emoluments were the emoluments received from a subordinated company of the Company for the period from 1 January 2007 to the date of cessation.

(4) The emoluments of Mr. Feng Zansheng and Mr. Su Guangfeng for the Year were the emoluments they received from the Company's subsidiaries and the emoluments of Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wu Quan, Mr. Zhong Yugan, Mr. He Shuhua and Mr. Chen Binghua were the emoluments they received from the Company for the Year.

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

1. At the 2007 First Extraordinary General Meeting convened on 2 April 2007, Mr. Shi Shaobin was elected as Executive Director of the Third Session of the Board of the Company, with a term of office commencing from the date of his appointment until the date of election of the Fourth Session of the Board of the Company.

2. At the 2006 Annual General Meeting convened on 15 June 2007, Mr. Yang Rongming, Mr. Shi Shaobin and Mr. Feng Zanseng were elected as Executive Directors of the Fourth Session of the Board of the Company, Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua were elected as Independent Non-executive Directors, Ms. Yang Xiuwei and Mr. Zhong Yugan were elected as Supervisors Representing Shareholders of the Fourth Session of Supervisory Committee of the Company, and Mr. Wu Quan was elected by the General Meeting of Staff Representatives as Supervisor Representing the Staff of the Fourth Session of the Supervisory Committee of the Company. The aforesaid directors and supervisors have been appointed for a term commencing from the date of appointment to the date when members of the new session of the Board and the Supervisory Committee are elected.

   Mr. Chen Zhinong, Mr. Wu Zhang and Mr. Zhang Heyong, members of the Third Session of the Board, ceased to act as directors of the Company on 15 June 2007, and Mr. Chen Canying and Mr. Ouyang Qiang, members of the Third Session of the Supervisory Committee, ceased to act as supervisors of the Company on the same day.

3. At the first meeting of the Fourth Session of the Board of the Company held on 15 June 2007, Mr. Yang Rongming was elected as the Chairman of the Company, with a term of office commencing from the date of his appointment up to the date when members of the new session of the Board are elected.

V. APPOINTMENT AND RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD *(Continued)*

4. At the first meeting of the Fourth Session of the Board of the Company held on 15 June 2007, Mr. Shi Shaobin was appointed as the General Manager of the Company; Mr. He Shuhua was appointed as the Deputy General Manager and Secretary to the Board of the Company; Mr. Su Guangfeng was appointed as the Deputy General Manager of the Company; and Mr. Chen Binghua was appointed as the Financial Controller of the Company, each with a term of office commencing from their date of appointment up to the date when the members of the new session of the Board are elected.

5. At the first meeting of the Fourth Session of the Supervisory Committee of the Company held on 15 June 2007, Ms. Yang Xiuwei was elected as the Chairman of the Fourth Session of the Supervisory Committee of the Company, with a term of office commencing from the date of appointment up to the date when the members of the new session of the Supervisory Committee are elected.

VI. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the present Directors and Supervisors has entered into a service contract with the Company. The contract term commenced from 15 June 2007 up to the date of election of the Fifth Session of the Board.

The term of office of each Director and Supervisor of the Company commenced from the date of their respective appointments to the date of election of new sessions of the Board and the Supervisory Committee. The term of each session of the Board or the Supervisory Committee shall be approximately three years. All Directors and Supervisors are eligible to offer themselves for re-election.

The above-mentioned service contracts with the Directors and Supervisors do not contain any provisions for compensation for early termination of contract, nor for failure in being re-elected after expiration of their term of office.

VII. INTERESTS IN CONTRACTS OF DIRECTORS AND SUPERVISORS

No contract of significance in relation to the business of the Group to which the Company, its subsidiaries or its holding company was a party and in which a Director or Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

VIII. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

During the Reporting Period, the Company adopted Appendix 10 of the Listing Rules titled "Model Code for Securities Transactions by Directors of Listed Issuers" and "Measures for the Administration of Trading Shares of the Company by Directors, Supervisors and Senior Management" as stipulated by the Company as the code and critieria for securities transactions by Directors and Supervisors of the Company. After making specific inquiry of all the Directors and Supervisors, the Company confirmed that its Directors and Supervisors had fully 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.

IX. EMPLOYEES OF THE GROUP

As at 31 December 2007, the number of employees on the payroll register of the Group was 7,955, including:

	No. of employees
Production and supporting staff	3,448
Sales personnel	2,224
Technical, research and engineering staff	964
Finance and statistics staff	309
Other administrative staff	1,010

112 of the employees were holders of a master degree and 1,478 were holders of a bachelor degree. The number of retirees was 5,491. The total salary payment for the Year was approximately RMB421 million.

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

Corporate Governance

I. CORPORATE GOVERNANCE

During the Reporting Period, the Company has been in strict compliance with the provisions under the PRC Company Law (the “Company Law”), the PRC Securities Law (the “Securities Law”), the Code on Corporate Governance Practices for Listed Companies and the supervisory systems newly issued by the China Securities Regulatory Commission (“CSRC”), and has gradually consummated our corporate governance structure and relevant documents concerning internal control systems based on the Company’s actual conditions and with reference to The Guidelines for Internal Control System of Listed Companies on the Shanghai Stock Exchange and other related regulations.

1. Shareholders and General Meetings of Shareholders

The Company is endeavored to ensuring equality among all shareholders, especially the minority shareholders so that they can fully exercise their rights and undertake their obligations accordingly, and to ensure that the shareholders will be informed and are able to participate in the important matters of the Company specified in laws, administrative regulations and the Articles of Association, establishing an effective channel for the Company to communicate with the shareholders.

The general meeting of shareholders is the highest authority of the Company and it exercises its power in accordance with the laws. It decides the important matters of the Company. The annual general meeting of shareholders or the extraordinary general meetings of shareholders provide a channel for the management to communicate directly with the shareholders. The general meeting of shareholders is convened and held in strict compliance with the Standard Opinions on Shareholders’ General Meetings issued by CSRC and Rules and Procedures for Shareholders’ General Meetings of the Company. The Company complies strictly with the relevant requirements in respect of voting matters and voting procedures so as to safeguard the legal interests of the Company and its shareholders. The accountant and the lawyer will present at the meeting as witnesses. The Company encourages all shareholders to attend the meetings and welcome shareholders to express their opinions at the meetings.

2. Relationship between the Controlling Shareholder and the Company

GPHL, as the controlling shareholder of the Company, exercises its power and accepts its obligations in accordance with the laws, and has not acted beyond the shareholders’ meetings to interfere directly or indirectly in the Company’s operations. The Company and GPHL have been working separately in respect of assets, business, organization, finance and human resources and are independent of each other. The Board, the Supervisory Committee and the internal departments of the Company operate independently.

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of Directors

(1) Composition

The Board is the core decision-making body entrusted by general meeting of the shareholders to be in charge of the operation and management of the Company's assets. The Board is accountable to the shareholders.

The present Board is the fourth session since the establishment of the Company. It consists of 7 members, of which there are 3 Executive Directors and 4 Independent Non-executive Directors. Each Director has a term of office commencing from 15 June 2007 to the date of election of a new session of the Board.

Directors shall be elected or removed by general meeting of shareholders, at which a cumulative voting system is adopted for the election of directors. Directors are eligible for re-election upon expiration of their term of office. All Independent Non-executive Directors are independent persons, and are not connected with the Company and its substantial shareholders. Their terms of office shall not exceed six years.

The role of Chairman and General Manager of the Company are performed by separate persons with clear division of responsibilities. The Board is presided over by the Chairman, who is in charge of the routines of the Board and the examination of the carrying out of the resolutions passed at Board meetings. The General Manager works under the leadership of the Board. The principal responsibilities of the General Manager include management of the Company's daily operations and implementation of the resolutions passed at the Board.

Members of the Board have different industry backgrounds, having expertise and extensive experience in areas such as business management, accounting, finance, pharmaceutics, law and investment planning.

All the Directors of the Company can obtain from the Company Secretary and the Secretariat to the Board of the Company timely relevant information and updates of the statutory and regulatory regulations that directors of listed companies must be abided by and that are related to their continuing obligations to ensure that the Directors understand their duties and that the procedures of Board meetings are implemented and complied with appropriately. The Directors and the special committees of the Board are both entitled within the scope of their powers to engage the services of independent professional institutions for performing their duties or for the business operation when needed. The Company shall bear the reasonable cost incurred thereof.

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of Directors *(Continued)*

(2) Board Meetings

During the Year, seven Board meetings were convened, at which the investment projects, connected transactions and financial matters of the Group were discussed. Effective discussions and prudent decisions were made at such meetings.

The attendance of Directors (including those directors who have ceased to act) at Board meetings during the Reporting Period is set out below:

Directors	Required meetings attendance	Meetings attended in person (frequencies)	Meetings attended by proxy (frequencies)	Absence (frequencies)	Remarks
Yang Rongming	7	5	2	/	Appointed Mr. Shi Shaobin to attend and vote on his behalf
Shi Shaobin	6	6	/	/	–
Feng Zansheng	7	7	/	/	–
Wong Hin Wing	7	7	/	/	–
Liu Jinxiang	4	4	/	/	–
Li Shanmin	4	4	/	/	–
Zhang Yonghua	4	4	/	/	–
Chen Zhinong	3	2	1	/	Appointed Mr. Yang Rongming to attend and vote on his behalf
Wu Zhang	3	3	/	/	–
Zhang Heyong	3	3	/	/	–

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of Directors *(Continued)*

(3) Independent Non-executive Directors

Currently, the Company has 4 Independent Non-executive Directors, representing more than 1/2 of the total members of the Board. All the Independent Non-executive Directors of the Company are familiar with the rights and obligations of directors and independent non-executive directors of listed companies. During the Reporting Period, the Independent Non-executive Directors attended Board meetings and general meetings of shareholders in a careful, responsible and active manner. They had done a lot of work on improving the Company's corporate governance and material decision-making, and had expressed impartial and objective opinions on relevant matters, thus effectively safeguarding the interests of the shareholders. All of the 4 Independent Non-executive Directors of the Company were members of the special committees formed under the Board.

During the Reporting Period, the Independent Non-executive Directors of the Company worked diligently, attended meetings of the Board as scheduled, expressed their independent views on the connected transactions made during the Reporting Period and discharged their duties as Independent Non-executive Directors seriously.

During the Reporting Period, the Independent Non-executive Directors of the Company expressed no dissenting views to the Board resolutions and other matters other than the Board resolutions.

The Board confirmed the receipt from each of the Independent Non-executive Directors a confirmation letter in regards to his independence pursuant to Rule 3.13 of the Listing Rules of the HKEx. The Board considered the existing Independent Non-executive Directors to be independent persons as defined in Rule 3.13 of the Listing Rules of the HKEx.

Pursuant to the "Notice on How to Successfully Prepare the 2007 Annual Report and Perform the Related Tasks by Listed Companies" ("Notice on 2007 Annual Report"), the Independent Directors studied the relevant requirements set out in the Notice seriously and set up the "Progress of Independent Directors on the Preparation of Annual Report" to further define their duties and obligations. In January 2008, the Company arranged an on-site inspection by the Independent Directors, reported to the Independent Directors on production and operation issues and the progress of major events, and submitted a framework for the preparation of 2007 Annual Report, arranged auditing work and relevant information. After the issuance of audit recommendations by the domestic and international auditors of the Company, the Independent Directors communicated with the auditors regarding problems related to the auditing process.

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of Directors *(Continued)*

(4) Loan or guarantee for loan granted to the Directors

During the Reporting Period, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the Directors, Supervisors and Senior Management of the Company, the Company's controlling shareholder or their respective connected persons.

4. Committees of the Board

(1) Audit Committee

In August 1999, the Company established the Audit Committee. Its principal responsibilities include: to review and monitor the quality, quantity and procedure of the Group's financial reporting; to review the completeness and effectiveness of the Company's internal control system; to consider the appointment of independent auditors and to co-ordinate and to review the efficiency and quality of their work.

The Audit Committee now comprises Mr. Wong Hin Wing (Head of the Committee), Mr. Liu Jinxiang, Mr. Li Shanmin and Mr. Zhang Yonghua. All four of them are Independent Non-executive Directors of the Company and are qualified under relevant requirements. The term of office of the members of the Audit Committee commences from 15 June 2007 to the date of election of the new session of the Board. In 2007, the Audit Committee held two meetings, which were chaired by Mr. Wong Hin Wing. All of the committee members attended each such meeting.

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board *(Continued)*

(2) Strategic Development and Investment Committee

In February 2001, the Company established the Investment Management Committee, which was renamed as Strategic Development and Investment Committee as approved at the Fourth Board Meeting of the Fourth Session of the Board. Its principal responsibilities are to research and issue recommendations on the long-term strategic development and significant investment decisions of the Company and to examine and approve investment projects intended to be implemented by the Company with authorization from the Board.

The Committee now comprises Mr. Yang Rongming (Head of the Committee), Mr. Shi Shaobin and Mr. Feng Zansheng, as well as the Independent Non-executive Directors Mr. Liu Jinxiang and Mr. Li Shanmin. The term of office of the aforementioned committee members commenced from the date of their appointments on 15 June 2007 to the date of election of the new session of the Board. During the Reporting Period, the Investment Management Committee held two meetings, at which the investment projects and investment proposals were considered. All of the committee members attended each such meeting.

(3) Nomination and Remuneration Committee

In February 2002, the Company established the Remuneration & Evaluation Committee, which was renamed as Nomination and Remuneration Committee as approved at the Fourth Board Meeting of the Fourth Session of the Board. Its principal responsibilities are to research on the standards of performance assessment of Directors and Senior Management, to conduct the assessment and to issue recommendations, to study and examine the remuneration policies and proposals of Directors and Senior Management, to research on the selection standards and procedures of Directors, General Managers and other Senior Management and to issue recommendations, and to extensively look for qualified persons to be Directors and Senior Management, to conduct examination on them and to issue recommendations.

The Committee now comprises of Mr. Yang Rongming and Mr. Shi Shaobin, Executive Directors, and the Independent Non-executive Directors, Mr. Wong Hin Wing, Mr. Li Shanmin (Head of the Committee) and Mr. Zhang Yonghua. The term of office of the aforementioned committee members commenced from the date of their appointments on 15 June 2007 to the date of election of the new session of the Board.

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board *(Continued)*

(4) Budget Committee

In October 2007, the Company established the Budget Committee as approved at the Fourth Board Meeting of the Fourth Session of the Board. Its principal responsibilities are to provide guidance on the formulation of the budgeting plans and business objectives of the Company for the year and to supervise and inspect the respective implementation.

The Budget Committee now comprises Mr. Yang Rongming and Mr. Shi Shaobin, Executive Directors, and Independent Non-executive Directors, Mr. Wong Hin Wing, Mr. Liu Jinxiang (Head of the Committee) and Mr. Li Shanmin. The term of office of the aforementioned committee members commences from the date of their respective appointments to the date of election of the new session of the Board.

5. The Supervisory Committee

The Supervisory Committee exercises their supervision power legally to safeguard the lawful interests of the shareholders, the Company and employees. The number and composition of the Supervisory Committee of the Company comply with the relevant laws and regulations. During the Reporting Period, six meetings were held by the Supervisory Committee. All members of the Supervisory Committee attended all the meetings to monitor the Company's financial conditions and the legitimacy of performance of the Company's Directors and Senior Management on behalf of the shareholders. They also attended all the meetings of the Board and discharged their duties seriously.

6. Other stakeholders

The Company respected and safeguarded the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society so as to mutually promote the sustainable and sound development of the Company.

7. Information disclosure and management of relationship with investors

The Company delegated the Secretary to the Board with the responsibility for handling the Company's information disclosure, arranging company visits and answering enquiries from shareholders and investors and responding to correspondence from shareholders in a timely manner. It has designated Shanghai Securities in the Mainland and Hong Kong Economic Times and The Standard in Hong Kong to publish the Company's information. It continues to disclose information in a truthful, accurate, comprehensive and timely manner in strict compliance with the relevant rules and regulations and the Code of Information Disclosure formulated by the Company. The Company also ensures that all shareholders have fair access to information relating to the Company.

II. SEPARATION OF BUSINESS, HUMAN RESOURCES, ASSETS, ORGANIZATION AND FINANCIAL ARRANGEMENT FROM THE CONTROLLING SHAREHOLDER

1. **Separation of business:** the Company operates with an extensive business scope that is independent from its controlling shareholder.

2. **Human resources:** The Company maintains independency in areas of staffing, personnel and payroll management. The General Manager, Deputy General Manager, Company Secretary, Financial Controller, and other senior executives of the Company are remunerated by the Company.

3. **Assets:** The Group is equipped with an independent production system, a supplementary production system and related facilities. It also has its own independent purchases and sales systems. There are currently 36 trademarks used by the Group, the titles of which are vested with GPHL, the controlling shareholder of the Company. The Company has entered into the Trademark Licensing Agreement and Supplemental Trademark Licensing Agreement with GPHL in relation to the use of trademarks at a consideration. In addition, the Company owns 4 registered trademarks, the registrations of which are still valid.

4. **Organization:** The Company has its own independent and comprehensive organizational structure. The Board, the Supervisory Committee and other departments are operating independently and autonomously. Further, they possess independent decision-making mechanisms and complete production units. There does not exist any supervisory or reporting relationships with the functional departments of the controlling shareholder of the Company.

5. **Finance:** The Company has established an independent finance department, an independent accounting system and an independent financial management policy. The Company has maintained separate bank accounts and paid tax independently.

III. INTERNAL CONTROLS

Since the establishment of the Company in 1997, it has committed to establish and improve the structure of legal person governance of the Company so as to enhance the level of corporate governance. At present, a comprehensive corporate governance structure has been set up to accommodate gradually a series of rules for corporate governance and internal control. Besides, the Company has also built in an operation management system covering aspects like production management, sourcing management, sales and marketing, financial management, investment, R&D, human resourcesand information system management. Specific relevant management requirements are developed for its implementation.

In 2006, the Company set up the Audit Department as an internal auditing department and internal body for monitoring, inspection and supervision reporting to the Audit Committee of the Company.

III. INTERNAL CONTROLS *(Continued)*

During the Reporting Period, the Company has carried out the following tasks to further strengthen the Company's internal control system and enhance its functions:

1. Actively launched special activities regarding corporate governance and completed restructuring in time;

   In May 2007, the Company launched a self-examination exercise in accordance with the requirements under the "Notice on Performance of the Special Activities regarding Enhancement of Corporate Governance of Listed Companies"(《關於開展加強上市公司治理專項活動有關事項的通知》)(Zheng Jian Gong Si Zi [2007] No. 28) issued by CSRC and the "Notice on How to Successfully Perform the Special Activities regarding Corporate Governance of Listed Companies" issued by Guangdong Securities Regulatory Bureau of CSRC(《關於做好上市公司治理專項活動有關工作的通知》)(Guangdong Zheng Jian [2007] No. 48), and set up clear measures and a schedule regarding restructuring with reference to the problems to be resolved which were identified during the self-examination process and the examination conducted by the Guangdong Securities Regulatory Bureau of CSRC. Restructuring regarding the problems relating to corporate governance was implemented according to the restructuring schedule. (Please refer to the "Self-Examination Report and Restructure Programs on the Special Activities regarding Enhancement of Corporate Governance of Listed Companies of Guangzhou Pharmaceutical Company Limited" disclosed on 30 June 2007 and "Report on Restructuring of Corporate Governance" disclosed on 29 October 2007 by the Company).

2. Strengthened the corporate fundamental management and internal controls;

   In 2007, the Company launched the "Fundamental Management Year" campaign with experts at Corporate and Market Research Centre of Sun Yat-sen University. Examinations and research were carried out by probing into the Company's subsidiaries. Investigation and restructuring were implemented with respect to the underlying problems related to corporate governance, organization structure, duties and authorization, operation procedures, procedural control, information feedback, risk assessment and control, performance efficiency evaluation and accountability system. Meanwhile, the well-defined "Guidelines for Internal Control Standards" was set up with respect to corporate governance, sourcing and production management, sales and marketing management, financial management, scientific research and information management, human resources management and communication and monitoring of information.

3. "Measures for Administration of Dealings in Securities of the Company by the Directors, Supervisors and Senior Management" and the "Information Disclosure System" and Working Rules of the committees under the Board were developed.

   In 2008, the Company will continue to strengthen its internal control and fundamental management work by: (1) piloting the new guidelines for internal control standards in subsidiaries by stages and assisting the subsidiaries to set up an internal control system and a detailed implementation plan which are suitable for their own organization so as to strengthen the fundamental management and internal control; and (2) continuing to establish a consolidated internal control regulatory department and system, to enhance the facilities for internal audit department of the Company and to reinforce the implementation of the internal control system.

Summary of Shareholders' Meetings

During the Reporting Period, details of the general meetings convened by the Company are set out as follows:

<table>
<tr><th>Session and number of meeting</th><th>Meeting date</th><th>Newspapers for publication of the resolutions</th><th>Disclosure date</th></tr>
<tr><td>First Extraordinary General Meeting of 2007, First Class Meeting of the holders of domestic shares of 2007 and First Class Meeting of the holders of overseas listed foreign capital shares of 2007</td><td>2 April 2007</td><td rowspan="2">Shanghai Securities in the PRC, Hong Kong Economic Times and the Standard in Hong Kong</td><td>3 April 2007</td></tr>
<tr><td>2006 Annual General Meeting</td><td>15 June 2007</td><td>17 June 2007</td></tr>
</table>

Report of the Board of Directors

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

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Scope and Analysis of Operations

1. Business scope

The Group is principally engaged in (1) the manufacture and sales of Chinese Patent Medicine ("CPM"); (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; and (3) research and development of natural medicine and biological medicine.

2. Analysis of Operating Results

(1) Operation review

In 2007, the Group maintained a continuous healthy development in its principal operations by means of various efforts including strengthening the fundamental management, actively exploring the market, accelerating scientific R&D and fine-tuning integration of resources.

According to the PRC Accounting Standards, the Group recorded an income from principal operations of RMB12,260,744,000 for the Reporting Period, up 19.70% as compared with the previous year. The profit before tax amounted to RMB472,263,000, representing an increase of 23.89% over the previous year and net profit amounted to RMB335,147,000, representing an increase of 41.11% over the previous year.

According to HKFRS, the Group recorded turnover of RMB12,260,744,000 for the Reporting Period, up 19.72% as compared with the previous year. Profit before income tax amounted to RMB456,806,000, representing an increase of 30.83% over the previous year and profit attributable to equity holders of the Company amounted to RMB320,343,000, representing an increase of 46.90% over the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

I. Business Scope and Analysis of Operations *(continued)*

2. Analysis of Operating Results *(continued)*

(1) Operation review *(continued)*

A breakdown of the operational results of the overall and principal operations of the Group for 2007 is set out as follows:

Prepared in accordance with the PRC Accounting Standards

Items	**2007** (RMB'000)	2006 (RMB'000)	Growth/ (Decrease) *(YoY) (%)*
Income from principal operations	**12,260,744**	10,242,560	19.70
Include: Manufacturing	**2,832,838**	2,412,041	17.45
Trading	**9,427,906**	7,830,519	20.40
Operating profit	**460,959**	384,573	19.86
Include: Manufacturing	**352,250**	290,050	21.44
Trading	**108,709**	94,523	15.01
Total profit	**472,263**	381,182	23.89
Include: Manufacturing	**358,370**	288,087	24.40
Trading	**113,893**	93,095	22.34
Net profit	**335,147**	237,511	41.11
Include: Manufacturing	**267,461**	181,490	47.37
Trading	**67,686**	56,021	20.82

Prepared in accordance with HKFRS

Turnover	**12,260,744**	10,241,004	19.72
Include: Manufacturing	**2,832,838**	2,412,184	17.44
Trading	**9,427,906**	7,828,820	20.43
Profit before income tax	**456,806**	349,155	30.83
Include: Manufacturing	**342,256**	260,772	31.25
Trading	**114,550**	88,383	29.61
Profit attributable to equity holders of the Company	**320,343**	218,067	46.90
Include: Manufacturing	**262,352**	174,538	50.31
Trading	**57,991**	43,529	33.22

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

I. Business Scope and Analysis of Operations *(continued)*

2. Analysis of Operating Results *(continued)*

(1) Operation review *(continued)*

Analysis of the Group's turnover and profit from principal activities for the year 2007 is set out as follows:

	Turnover		**Profit from principal operations**	
	Under the PRC Accounting Standards (RMB'000)	**Under HKFRS** (RMB'000)	**Under the PRC Accounting Standards** (RMB'000)	**Under HKFRS** (RMB'000)
Principal operations:				
Manufacturing and sales	2,832,838	2,832,838	1,423,414	1,451,523
Trading				
Including:				
Wholesale	8,889,411	8,889,411	469,774	476,663
Retail	338,988	338,988	73,720	75,419
Import and export	199,507	199,507	11,556	11,848
Sub-total	9,427,906	9,427,906	555,050	563,930
Total	12,260,744	12,260,744	1,978,464	2,015,453

Geographical analysis of sales arising from the manufacturing operations and trading operations of the Group for 2007 is set out as follows:

	Manufacturing		**Trading**			
Region	**Turnover** (RMB'000)	**Percentage of the manufacturing turnover** (%)	**Turnover** *(RMB'000)*	**Percentage of the trading Turnover** (%)	**Consolidated turnover** (RMB'000)	**Percentage of the total Turnover** (%)
Southern China	1,818,418	64.19	8,210,768	87.09	10,029,186	81.80
Eastern China	474,806	16.76	401,917	4.26	876,723	7.15
Northern China	180,472	6.37	162,614	1.72	343,086	2.80
North-Eastern China	128,195	4.53	103,298	1.10	231,493	1.89
South-Western China	134,954	4.76	332,295	3.52	467,249	3.81
North-Western China	78,574	2.77	108,868	1.16	187,442	1.53
Exports	17,419	0.62	108,146	1.15	125,565	1.02
Total	2,832,838	100.00	9,427,906	100.00	12,260,744	100.00

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

I. Business Scope and Analysis of Operations *(continued)*

2. Analysis of Operating Results *(continued)*

(2) CPM manufacturing operations

During the Reporting Period, the Group took the following measures in its manufacturing operations: (i) developing and consolidating distributors and agents with market expansion capacity to extend distribution channels, and monitoring timely adjustment in marketing strategies according to the market conditions so as to actively protect the market price of core products and to ensure the continuous rapid growth in the products' sales, (ii) reinforcing academic promotion and marketing of products, enlarging the proportion of sales in the hospital market and building up the "Reassuring Guangzhou Pharmaceutical" corporate image through organizing the "Pay Attention to Medical Drug Safety, Build a Harmonious Community" Expired Household Medical Drugs Recycling Day campaign so as to increase the influence and to promote goodwill of the corporate and product brands, (iii) intensifying involvement in scientific R&D and promoting scientific and technological development, and (iv) accelerating integration of resources and conformity of operating procedures in the Group by advancing the combination of its subsidiaries Guangzhou Han Fang and Guangzhou Huan Ye Pharmaceutical Co., Ltd ("Guangzhou Huan Ye") and the "1+1" project of Xing Qun and Pan Gao Shou so as to leverage on one another's strengths and maximize the economic benefits through economies of scale.

In 2007, there were 41 products which generated sales exceeding RMB10 million. Sales of certain products including Wang Lao Ji Liang Cha, Xiao Ke Wan, An Shen Bu Nao Ye, Hua Tuo Zai Zao Wan, Xiao Er Qi Xing Cha, Hou Zao Niu Huang San and Xu Han Ting Ke Li, etc., significantly increased (each with an increase exceeding RMB15 million) by 77.23%, 18.65%, 63.25%, 10.61%, 29.41%, 73.59% and 50.53% respectively when compared with the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

I. Business Scope and Analysis of Operations *(continued)*

2. Analysis of Operating Results *(continued)*

(2) CPM manufacturing operations *(continued)*

Analysis of sales of major products for the Manufacturing Operations in 2007 is as follows:

Types of products	**Sales** (RMB'000)	**Gross profit** (RMB'000)
Heat clearing and anti-toxic medicine	780,618	371,121
including: herbal tea series (note)	320,785	131,152
Diabetes medicine	526,811	347,691
Cough and phlegm clearing medicine	333,838	176,816
Arthritis medicine	303,364	170,649
Gastric medicine	108,276	54,668
Other products	779,931	330,578

Note: *Herbal tea series include Wang Lao Ji Liang Cha, Pangaoshou Liang Cha and Xing Qun Xia Sang Ju Yin Liao, among them the turnover of Wang Lao Ji's products was calculated according to the equity percentage of 48.0465% held by the Company in Wang Lao Ji.*

Since September 2006, the State Food and Drugs Administration (SFDA) has launched a series of special restructuring activities to expand the scope of drug regulation to R&D and production. In 2007, following the amendment in drugs regulatory policies and the changes in the market, the Group continued to accelerate investment in R&D and boost the R&D process by (i) completing R&D project proposals and obtaining approvals, (ii) promoting the development of new products and reinforcing the transformation of the research results, and (iii) organizing technological research and reconstruction and promoting technological production so as to raise the rates of production and equipment utilization.

In 2007, scientific and technological investment by the Group was approximately RMB77.937 million with a 8.4% increase compared to 2006. During the Reporting Period, the "National Engineering Research Center of Guangzhou Hanfang Modern Chinese Medicine Modernization of Extraction and Separation Process" was successfully approved by departments such as the National Development and Reform Commission, and became the first national engineering research center focusing on extraction and separation of Chinese medicines. In November 2007, the Xiao Ke Wan of Zhong Yi Pharmaceutical obtained state patents including "Medical composition for diabetes curing and its preparation method" and "Method of controlling the quality and quantity of Xiao Ke Wan". The proposal and CRO field inspection of its evidence-based medicine clinical research were completed and was listed as the branch project of the national 863 program. The "Therapeutic double-plasmid Anti-HBV DNA Vaccine" project of Bai Di has entered clinical research stage and the Rabies Bacterin has been in the course of applying for production approval.

During the Reporting Period, the three manufacturing subsidiaries of the Company Including Zhong Yi, Xing Qun and Guangzhou Chen Li Ji Pharmaceutical Factory ("Chen Li Ji") received "Certificate of High and New Technology Enterprise". The qualifications being advanced technology enterprises of the above enterprises are also admitted by their respective local tax authorities.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

I. Business Scope and Analysis of Operations *(continued)*

2. Analysis of Operating Results *(continued)*

(3) Pharmaceutical trading operations (including wholesale, retail, import and export)

During the Reporting Period, active adjustments were made for the trading operations under the fiercely competitive market environment. Firstly, resources were focused on developing the marketing of key products so as to boost the sales of the key products. Through close cooperation with factories, Pharmaceuticals Corporation obtained distributorship for well-known brands including Jilin Wu Tai, Shaanxi Bu Chang and Shanghai RAAS. Cai Zhi Lin Pharmaceutical also extended its efforts in distributions for a wider variety of brands and products, with an increase of 95% in sales outside the province and jointly-invested products compared to the preceding year. Secondly, development of the marketing network was intensified and integration with various resources was steadily conducted so that the sales network was widely explored. Thirdly, online bidding in hospitals was well carried out. Pharmaceuticals Corporation and Cai Zhi Lin Pharmaceutical strived to submit their bid in the tender invitation of the " Medical System of Sunshine online procurement, which enhanced the overall acceptance rate of online entry by subsidiaries of the Group. Fourth, management of receivables was reinforced in respect of strengthening aging analysis, reconciliation and collection of accounts receivable. Fifth, purchases at the origin production sites of the Chinese herbs were actively implemented which effectively stabilized prices, maintain constant supply and controlled costs.

As at 31 December 2007, the Group had 114 retail chain pharmacy outlets, including 84 "Cai Zhi Lin" which specialized in traditional Chinese medicines, 27 "Jian Min" which specialized in chemical medicines, 1 pharmacy named Ying Bang and 2 other retail chain pharmacy outlets.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

I. Business Scope and Analysis of Operations *(continued)*

3. Details of Operation and Results of the Company's Subordinated Enterprises

Name	Percentage of direct holding of shares by the Company	Sales	Profit	Net profit
	(%)	(RMB'000)	(RMB'000)	(RMB'000)
(1) Subsidiaries				
Xing Qun	88.99	347,479	33,514	27,922
Zhong Yi	100.00	750,011	145,440	121,463
Chen Li Ji	100.00	230,693	28,358	24,086
Qi Xing	75.00	373,173	49,416	36,914
Jing Xiu Tang	88.40	228,242	27,575	18,989
Pan Gao Shou	87.77	309,463	34,425	22,639
Guangzhou Huan Ye	100.00	39,468	(2,543)	(2,777)
Ying Kang	51.00	27,014	(787)	(787)
Guangzhou Bai Di	95.69	801	(17,519)	(17,519)
Guangzhou Han Fang	70.04	15,486	(32,275)	(32,275)
Pharmaceuticals Corporation	77.64	8,530,659	111,081	70,769
Cai Zhi Lin Pharmaceutical *(Note i)*	100.00	1,327,072	4,935	4,618
Guangzhou Pharmaceutical Import & Export Corporation	100.00	291,562	2,871	1,566
(2) Branches				
Ying Bang Company	—	430,180	3,500	3,500
(3) Joint ventures				
Wang Lao Ji (Note ii)	48.05	976,546	125,305	110,536

Note:

(i) After the restructuring of Guangzhou Chinese Medicine Corporation, the company was renamed as "Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd." with effect from 4 December 2007.

(ii) The result of Wang Lao Ji was stated in full amount in the above table.

None of the Group's invested companies contributed to the Group any investment income which equals to 10% or more of the Group's net profit.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

I. Business Scope and Analysis of Operations *(continued)*

4. Major customers and suppliers

During the Year, purchases of goods and services from the 5 largest suppliers amounted to RMB1,282,693,000, representing approximately 15.06% of the total purchases. The purchases from the largest supplier amounted to RMB365,345,000, representing 4.29% of the total purchases. Goods and services sold to the 5 largest customers amounted to RMB886,275,000, representing 7.23% of the total sales. Sales to the largest customer amounted to RMB289,744,000, representing 2.36% of the total sales of the Group.

To the knowledge of the Board, none of the Directors, their associates or shareholders holding more than 5% of the Company's total issued share capital had any interest in any of the 5 largest suppliers or customers noted above.

II. Possible changes of accounting policies and accounting estimates of the Group after carrying out new accounting standards for enterprises and their effects to financial conditions and operating results of the Group

Since 1 January 2007, the Group has carried out New Accounting Standards for Enterprises. An analysis on the effects to accounting policies, accounting estimates and financial conditions and operating results of the Group is as follows:

1. Scope of consolidated financial statement: The parent company should include all subsidiaries controlled by it into the scope of consolidated financial statement no matter they are small in size or having extraordinary business nature. As the size of Guangzhou Jing Xiu Tang 1790 Marketing Co., Ltd (廣州敬修堂一七九零營銷有限公司), the Group's subsidiary which the Group has retrospectively increased the equity percentage in it to 51%, was limited, its impact towards the Group's minority shareholders' interest at the beginning of 2007 was only the decrease of RMB41,000.

2. The Group has performed independent audit towards investment properties according to Accounting Principles for the Enterprises No. 3 – Investment Properties and adopted cost model for continual calculation which did not involve retrospective adjustment items.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

II. Possible changes of accounting policies and accounting estimates of the Group after carrying out new accounting standards for enterprises and their effects to financial conditions and operating results of the Group *(continued)*

3. The Group's financial statement on first execution day involved accounting policies with retrospective adjustments including the changes in accounting policies such as Accounting Principles for the Enterprises No. 2 – Long-term Equity Investment, Accounting Principles for the Enterprises No. 13 – Contingent Event, Accounting Principles for the Enterprises No. 18 – Income Tax, Accounting Principles for the Enterprises No. 20 – Merger of Enterprises and etc.

   (1) Taking the income statement in 2006 as an example, the impact of those changes in accounting policies towards operation results will be realized as increase of net profit of RMB10,182,000 attributable to the parent company, a growth of 4.48% in net profit compared with the original income statement. Among them, estimated liabilities of transitional medical insurance increase net profit by an increase of RMB10,019,000. Those changes in accounting policies will not have material impact towards the Group's operation results.

   (2) Due to the retrospective adjustment on the related transactions and events involved in changes in accounting policies, the Group's interest attributable to the parent company's shareholders was RMB2,310,000, representing approximately 0.08% of the original net asset as at 31 December 2006. Among them, deferred income tax asset has increased shareholder's interest by RMB61,332,000, decrease in estimated liabilities of transitional medical insurance has decreased shareholder's interest by RMB56,610,000, changes in scope of consolidation according to new standards have decreased shareholder's interest by RMB41,000, difference in borrowers of long-term equity investment has decreased shareholders' interest by RMB2,285,000, amortized value of goodwill has decreased shareholders' interest by RMB911,000 and available-for-sale financial assets measured by fair value with changes attributable to current interest have increased shareholder's interest by RMB826,000. Those retrospective adjustments in accounting policies did not have any major impact towards the Group's interest attributable to shareholders of the parent company.

4. The accounting estimates of the Group included depreciable life of fixed assets, depreciable life of investment properties, amortizable life of intangible assets and land use rights and etc. The implementation of the New Accounting Standards will not result in changes in those accounting estimates.

5. According to the Interpretation on Enterprise Accounting Standards No. 1, retrospective adjustments were made on the Group's long term equity investment in its subsidiaries as at 1 January 2007. The change in the above accounting policy had certain impact on the Company's financial conditions and operating results, but will not have any impact on the Group's financial conditions and operating results.

To conclude, the implementation of the New Accounting Standards will not have major impact towards the accounting policies, the accounting estimates, the financial conditions and operating results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

III. Use of Proceeds from the Issue of A Shares

1. Use of proceeds from the issue of A shares during the Reporting Period

The Company issued 78,000,000 A shares at the issue price of RMB9.80 per share in the PRC on 10 January 2001 and the net proceeds raised from the issue of A shares were RMB737,990,000. As at 31 December 2007, an aggregate of RMB729,800,000 of the proceeds from the issue of A shares were utilised. The remaining unused proceeds are currently used as supplemental working capital.

As at the end of the Reporting Period, the use of proceeds from the issue of A shares was in line with the undertakings made in the prospectus for the issue of A shares, and all the projects have been completed.

2. Explanatory Note on Return on Projects and Delay in Completion of Certain Projects

During the Reporting Period, additional sales and gross profit from the issue of A Shares amounted to RMB5,836,860,000 and RMB739,420,000 respectively.

Among these, projects such as Wei Re Qing Capsules and Fu Yan Solutable Tablets were postponed because of market changes.

3. As of 31 December 2007, there was no change in the actual application of the proceeds of the issue of A shares.

IV. Analysis of Financial Conditions

1. Financial conditions of the Group

Prepared in accordance with the PRC Accounting Standards

Items	**As at 31 December 2007 *(RMB'000)***	As at 31 December 2006 *(RMB'000)*	Change *(%)*
Total assets	**6,206,944**	5,463,683	13.60
Equity attributable to the shareholders of the parent company	**3,060,348**	2,790,398	9.67
Operating profit	**460,959**	384,573	19.86
Net profit attributable to the shareholders of the Company	**335,147**	237,511	41.11
Net increase/(decrease) in cash and cash equivalents	**229,854**	(127,978)	279.61

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

IV. Analysis of Financial Conditions *(continued)*

1. Financial conditions of the Group *(continued)*

Prepared in accordance with HKFRS

Items	**As at 31 December 2007 (RMB'000)**	As at 31 December 2006 (RMB'000)	Change (%)
Total assets	**6,367,843**	5,640,964	12.89
Total equity	**3,417,392**	3,080,380	10.94
Operating profit after financial charges	**448,917**	349,434	28.47
Profit attributable to equity holders of the Company	**320,343**	218,067	46.90
Net increase/(decrease) in cash and cash equivalents	**264,046**	(129,453)	303.97

2. Liquidity

As at 31 December 2007, the current ratio of the Group was 1.64 (31 December 2006: 1.60), and its quick ratio was 1.13 (31 December 2006: 1.04). Accounts receivable turnover rate was 9.58 times, representing a decrease of 7.36% as compared with that of 2006. Inventory turnover rate was 7.49 times, representing an increase of 8.65% as compared with 2006.

3. Financial resources

As at 31 December 2007, cash and cash equivalents of the Group amounted to RMB719,434,000, out of which approximately 98.38% and 1.62% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2007, the Group had bank borrowings of RMB956,488,000 in total, all of which were short-term borrowings (31 December 2006: RMB888,199,000).

4. Capital structure

As at 31 December 2007, the Group's current liabilities amounted to RMB2,787,960,000 (31 December 2006: RMB2,385,581,000), representing an increase of 16.87% over that of 2006, and its long-term liabilities was RMB124,774,000 (31 December 2006: RMB121,259,000), with an increase of 2.90% as compared with 2006. The shareholders' funds amounted to RMB3,060,348,000 (31 December 2006: RMB2,790,398,000), with an increase of 9.67% as compared with 2006.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

IV. Analysis of Financial Conditions *(continued)*

5. Capital expenditure

The Group expects the capital expenditure for 2008 to amount to approximately RMB335 million (2007: RMB115 million), which will be mainly applied in the construction of factories and infrastructure and purchases of machines and equipment, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

6. Gearing ratio

As at 31 December 2007, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 46.93% with an increase of 1.05 percentage points as compared with 2006 (as at 31 December 2006: 45.88%).

7. Exposure to fluctuations in exchange rates

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

8. Main cash resources and applications

As of 31 December 2007, cash and cash equivalents of the Group amounted to RMB719,434,000, with an increase of RMB229,854,000 as compared with 2006. The net cash inflow derived from operating activities amounted to RMB375,742,000, with an increase of RMB337,789,000 as compared with 2006, which was mainly attributable to the Group's active expansion in sales and strengthening management in accounts receivable.

9. Contingent liabilities

As of 31 December 2007, the Group has no significant contingent liabilities.

10. Charge on the Group's assets

At 31 December 2007, the Group's bank loans were secured by fixed assets with a net book value of RMB52,493,000.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

V. Impact Caused by the Changes in Operation Environment and National Macro Economic Policy on the Company

In 2008, factors such as adjustments in the national policy regarding the prices of pharmaceutical products, inflation in cost of raw materials, rise in operating expenses and the keen competition in the domestic pharmaceutical market will pose certain impact on the steady growth in sales of the Group. However, the new reform on medical system and the gradual implementation of medical insurance system of workers and citizens and the rural cooperative medical insurance system will rapidly expand the scale of sales of the domestic pharmaceutical market and boost the development of the Chinese medicine and OTC market. In the meantime, following the development of natural inedicine and modern Chinese medicine and the increasing attention paid to the development of Chinese medicine, ample development opportunities will be brought for the Group's business.

VI. The annual financial reports of the Group and the Company for the year of 2007 have been audited and signed by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd, the PRC auditors, and PricewaterhouseCoopers Certified Public Accountants Co., Ltd., the international auditors, who have both issued unqualified auditors' reports thereon.

VII. Prospects and Plans for 2008

2008 is the "Year of Market Innovation" for the Group. The Group will focus on "spending the best efforts in marketing and strengthening management", continue to implement the brand-oriented strategy, to develop new market and new products and cultivate new economic growth area, and thus achieve sustainable, stable and healthy growth of the Group. In 2008, the Group will strive to achieve an annual revenue of RMB14.4 billion (without taking the changes in consolidation of new joint ventures).

The business plans for 2008 mainly include:

1. To continuously enhance the marketing of its core products, strengthen the strategy study on market expansion and improve the market segmentation as well as refined product development of our key products such as Wang Lao Ji Liang Cha series, Xiao Ke Wan, Hua Tuo Zai Zao Wan, Xiao Er Qi Xing Chong Ji and She Dan Chuan Bei Pi Pa Gao series so as to cultivate new economic growth for the enterprise;

2. To continuously accelerate the integration of internal resources to enhance the operating efficiency and effectiveness by means of corporate conformity;

3. To continuously expedite the technological research and development, and accelerate the marketing of Kun Xian Capsule and the application and commercial production of our new products such as Rabies Bacterin, and endeavor to nurture new points of economic growth;

4. To continuously strengthen management capacities and further improve the internal control systems through regulating corporate operating procedures, and particularly, tighten control and management of various costs and accounts receivable so as to increase the operating efficiency.

DAILY OPERATIONS OF THE BOARD OF DIRECTORS

I. Board Meetings

Meetings	Date of meeting	Resolutions	Newspapers on which the resolution was published	Publication dates of the resolutions
29th meeting of the Third Session	10 January 2007	/	Shanghai Securities News, Hong Kong Economic Times and The Standard	11 January 2007
30th meeting of the Third Session	26 January 2007	/		30 January 2007
31st meeting of the Third Session	27 April 2007	/		30 April 2007
1st meeting of the Fourth Session	15 June 2007	/		18 June 2007
2nd meeting of the Fourth Session	29 June 2007	/	Shanghai Securities News	30 June 2007
3rd meeting of the Fourth Session	26 July 2007	/	/	/
4th meeting of the Fourth Session	26 October 2007	/	Shanghai Securities News	29 October 2007

II. The Progress of Execution by the Directors in respect of the Resolutions Passed at General Shareholders' Meetings

1. Distribution of 2006 final dividend

Pursuant to the resolutions on financial accounts approval and dividend declaration passed at the 2006 annual general meeting held on 15 June 2007, 2006 final dividend of RMB0.84 (including withholding tax for A shares) 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 2006.

The final dividend of RMB0.084 per share for 2006 was paid to the Company's H-share shareholders whose names appeared on the register of the Company as at 15 May 2007 on 29 June 2007.

According to the announcement for 2006 final dividend published in Shanghai Securities News in the PRC on 26 June 2007, the registration date for A shares was 29 June 2007, the ex-dividend date was 30 June 2007 and the dividend payment date was 10 July 2007.

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(continued)*

II. The Progress of Execution by the Directors in respect of the Resolutions Passed at General Shareholders' Meetings *(continued)*

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

The amount of retained profits available for the distribution to shareholders of the Company is the lower of the amount determined in accordance with PRC Accounting Standards and the amount determined in accordance with HKFRS. The Board recommended a final dividend of RMB0.124 per share (including withholding tax for A shares) for the year ended 31 December 2007 (2006: RMB0.084 per share). The proposed final dividend will be submitted to the forthcoming 2007 annual general meeting for consideration and approval (the date and matters to be considered at the 2007 annual general meeting are to be announced).

During the Year, there was no increase in share capital.

III. Report of the Fulfilment of Responsibilities of the Audit Committee

During the Reporting Period, the Audit Committee worked diligently and discharged their duties seriously in accordance with relevant rules, regulations and the relevant regulations set out in the Articles of Association and the Code of Practice of the Audit Committee of the Company. Besides, the Audit Committee actively worked in line with the requirements set out in the "Notice on 2007 Annual Report" to oversee the auditing work for 2007 and the preparation of the annual report.

(1) Major tasks accomplished by the Audit Committee in 2007 included:

(i) convening two meetings in 2007 to review the 2006 Annual Report, 2007 Interim Report, 2007 First Quarterly Report and 2007 Third Quarterly Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management;

(ii) evaluating the accounting policies adopted by the Group and the relevant issues regarding accounting practice;

(iii) issuing recommendations with respect to major events of the Company or reminding the management of relevant risks. Each of the members of the committee attended all the meetings.

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(continued)*

III. Report of the Fulfilment of Responsibilities of the Audit Committee *(continued)*

(2) Annual audit for 2007 and relevant jobs regarding the preparation of the Annual Report

After the issuance of the "Notice on 2007 Annual Report", all members of the Audit Committee studied the relevant requirements seriously. In January 2008, the "Guidelines on Annual Report of the Audit Committee" was set out and the Committee worked in accordance with the Guidelines in launching the auditing work for 2007 and preparatory work for the annual report of the Company, which included the following:

(i) The Committee negotiated with the domestic and international auditors of the Company and the Company's Finance Department regarding the time for audit and the relevant arrangements and set out the "Framework for the Preparation of 2007 Annual Report" and reviewed the audit plan submitted by the auditors.

(ii) Before the domestic and international auditors launched the on-site audit work, the Audit Committee reviewed the preliminary financial statements prepared by the Company on 26 February 2008 and expressed opinions regarding the statements. The Audit Committee believed that the Company was able to work in accordance with the requirements set out in the new "Corporate Accounting Standards" issued by the Ministry of Finance of the PRC in 2006 in setting up rational accounting policies as the foundation and basis for the 2007 audit and making appropriate estimates; and that the 2007 Financial Statements prepared by the Company was in accordance with the requirements set out in the new Accounting Standards and was capable of reflecting true and complete information such as financial conditions, operating results and cash flow of the Company.

(iii) After the completion of on-site audit by the domestic and international auditors, the Audit Committee supervised the timing of the submission of the auditors' report through a written notice.

(iv) After the issuance of auditors' initial opinions by the domestic and international auditors, the Audit Committee reviewed the financial statements of the Company again and issued written recommendations regarding the audit work. The Audit Committee believes the 2007 Financial Statements of the Company reflected the state of affairs of the Company truly, accurately and completely, and agreed to submit the Statements to the Board for approval.

DAILY OPERATIONS OF THE BOARD OF DIRECTORS *(continued)*

III. Report of the Fulfilment of Responsibilities of the Audit Committee *(continued)*

(2) Annual audit for 2007 and relevant jobs regarding the preparation of the Annual Report *(continued)*

(v) On 20 March 2008, the Audit Committee convened the first meeting for 2008 and considered and passed the 2007 Annual Report of the Company and the Company's 2007 Financial Statements. At the same time, the Audit Committee summed up its evaluation on the audit work of the domestic and international auditors and believes that both auditors have carried out the audit work for the Company with cautious, independent and objective standards, and managed to abide to their professional ethics, followed closely the auditing regulations, fulfilled their auditing responsibilities and submitted the auditors' report in time, as well as issued fair and unbiased management recommendations to the management of the Company, and completed the audit work with satisfactory performance. The Audit Committee propose to reappoint Guangdong Yangcheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants Co., Ltd. as the PRC auditor and international auditor of the Company in 2008 and submitted the recommendation to the Board for approval.

IV. Report of the Fulfilment of Responsibilities of the Nomination and Remuneration Committee

During the Reporting Period, the Nomination and Remuneration Committee worked diligently and discharged their duties seriously in accordance with relevant rules, regulations and the relevant regulations set out in the Articles of Association and the Code of Practice of the Committee.

On 20 March 2008, the Nomination and Remuneration Committee convened the first meeting for 2008 and each of the committee members attended the meeting. Examinations and approvals were made during the meeting regarding the disclosure of emoluments of the Directors, Supervisors and Senior Management in the 2007 Annual Report. The Committee believes the disclosure of emoluments of the Directors, Supervisors and Senior Management in the 2007 Annual Report was reasonable and complied with the relevant assessment requirements of the Board of Directors, the resolutions of Shareholders' Meetings and their respective posts. At the same time, the amount of emoluments of the Directors, Supervisors and Senior Management for 2008 was considered and approved at the meeting.

OTHER MATTERS

I. Accounts

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2007 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2007 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2007 are set out in the cash flow statement.

II. Financial Summary

A summary of the results and of the assets and liabilities of the Group are set out in this annual report.

III. Reserves

Details of movements in the reserves of the Group during the year are set out in this annual report.

IV. Distributable Reserves

The profit available for distribution to shareholders is the lower of the amount determined in accordance with HKFRS and the PRC Accounting Standards. The distributable reserves of the Group as at 31 December 2007 amounted to RMB480,833,000, calculated in accordance with the PRC Accounting Standards and amounted to RMB514,659,000 calculated in accordance with HKFRS.

V. Fixed Assets

Details of the movements of fixed assets for the year are set out in this annual report.

OTHER MATTERS *(continued)*

VI. Connected Transactions

Pursuant to the regulations of CSRC, details of such transactions were set out in this annual report.

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

	2007 (RMB'000)
Ultimate holding company	
License fee expenses	**15,937**
Service fee expenses	**1,015**
Welfare facilities fee expense	**393**
Rental expense	**2,643**
Fellow subsidiaries	
Sales of finished goods and raw materials	**162,683**
Purchase of finished goods and raw materials	**511,570**
Associate	
Advertising expenses	**25,460**

In addition, other transactions with jointly controlled entities and associated companies which, pursuant to the Listing Rules of HKEx, do not constitute connected transactions, have been disclosed in notes to the financial reports prepared in accordance with HKFRS.

The Directors believe that the above-mentioned connected transactions have been conducted in full compliance with the relevant clauses in agreements and contracts governing such transactions.

The Independent Non-Executive Directors have reviewed the connected transactions and considered all the transactions as being carried out within the Company's ordinary operations and under ordinary business terms. Such terms were considered normal business terms or terms to the Company no less favourable than those available to or from independent third parties. In addition, the aggregate amount of the above connected transactions during the year has not exceeded the annual caps as stated in the Agreement in relation to the Sales and Purchase Connected Transactions (as amended) entered into between the Company and GPHL or in the Agreement in relation to the Advertisement Continuing Connected Transactions entered into between the Company and Guangzhou Pharmaceutical Soccer Club Co., Ltd. ("GPSC").

OTHER MATTERS *(continued)*

VI. Connected Transactions *(continued)*

The international auditors have confirmed that continuing connected transactions out of the above transactions pursuant to the Listing Rules of the Stock Exchange:

- had been approved by the Board of Directors of the Company;
- were entered into in accordance with the relevant pricing policies;
- were entered into in accordance with the terms of the relevant agreements governing such transactions; and
- continuing connected transactions such as sales, purchases and advertising have not exceeded the annual caps as stated in the Agreement in relation to the Sales and Purchase Connected Transactions (as amended) entered into between the Company and GPHL or in the Agreement in relation to the Advertisement Continuing Connected Transactions entered into between the Company and GPSC.

VII. Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

VIII. Compliance with the Code on Corporate Governance Practices

Having reviewed the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the HKEx (the "Code"), the Company had complied with the requirements as set out in the Code during the Reporting Period and no material deviations from the Code occurred.

IX. Tax Exemption

Pursuant to Document Guo Shui Fa [1993] No. 045 issued by the State Administration of Taxation of the PRC, individual foreigners in the PRC are exempt from income tax on dividend incomes derived from holding shares in companies listed on overseas stock exchanges, including H shares. Except for the above, there is no other tax preferential scheme.

X. Retirement Scheme

Details of the retirement scheme and amounts of contributions of the Group charged to the profit and loss account for the year are set out in this annual report respectively.

OTHER MATTERS *(continued)*

XI. Staff Quarters

Pursuant to the Accommodation Service Agreement entered into between the Company and GPHL, GPHL agreed to sell the staff quarters to the employees of the Group at a preferential price. The Company shall pay to GPHL the staff quarters reform costs, which represent the difference between the preferential price and the cost net of accumulated depreciation paid by GPHL on construction or acquisition of such staff quarters. As at 31 December 2007, the total staff quarters reform costs, which are payable to GPHL, amounted to approximately RMB61,655,000 (31 December 2006: RMB61,655,000).

In addition, the Group has constructed or acquired certain staff quarters. As at 31 December 2007, the difference between the construction cost or acquisition cost and the revenue from disposal of the quarters totaled RMB42,437,000 (31 December 2006: RMB42,437,000).

Correspondingly, the above-mentioned staff quarters reform costs amounted to RMB104,092,000 as at 31 December 2007 (2006: RMB104,092,000). According to the Document Cai Qi [2000] No.29, the Notice on Accounting Treatment of Housing Reform Initiated in Enterprises, issued by the Ministry of Finance, the costs arising therefrom should be dealt with in retained earnings as at 1 January 2007 under the statutory accounts. Subject to the approval by the Board of Directors, any deficit balance resulting therefrom should be appropriated to the statutory public welfare fund, statutory surplus reserve fund, and capital reserve. This accounting treatment has been adopted in the financial statements prepared in accordance with the PRC Accounting Standards and Systems.

For the financial statements prepared in accordance with HKFRS, the staff quarters reform costs have been deferred and amortized on a straight-line basis to the profit and loss account over a period of 10 years, which is the estimated remaining average service life of the employees. The total accumulated amortization as at 31 December 2007 was approximately RMB87,423,000, and the amortization for 2007 was RMB10,337,000. As at 31 December 2007, the balance of such deferred staff quarters reform costs was RMB16,669,000. In the opinion of the Board of Directors of the Company, if the aforesaid balance of deferred staff quarter reform costs had been completely written off in 2007, the total assets of the Company as at 31 December 2007 would have been reduced by approximately RMB10,337,000. With respect to the document Sui Fu [2000] No. 18 issued by the Guangzhou People's Municipal Government concerning the one-time cash accommodation allowance to those employees to whom the Group has not allocated staff quarters and those aged employees whose allocated staff quarters do not meet the required standards, the Directors consider that the said document is not legally binding on the Group. Since 2001, the Group has formulated its own accommodation allowance policy to employees based on the actual situation of the entities within the Group.

OTHER MATTERS *(continued)*

XII. Projects under Development and for Sale

During the Reporting Period, the Group did not hold any properties for the purpose of development and/or for sale or investment, of which the amounts are above 5% of the net tangible assets of the Group or the contribution to profit before tax from these properties is over 5% of the Group's total profit before tax.

XIII. Bank Loans, Overdrafts and Other Loans

Details of the bank loans, overdrafts, and other liabilities of the Group as at 31 December 2007 are set out in this annual report. In comparison to 2006, there have been no material adverse changes in respect of the amounts of bank loans, short-term borrowings and total liabilities as of 31 December 2007.

XIV. Auditors

Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants Co., Ltd. were respectively re-appointed as domestic and international auditors of the Company for the year 2007, as approved at the 2006 AGM.

There was no change in auditors in the past 3 years.

XV. Changes in the Newspapers Designated by the Company for Information Disclosure

During the Reporting Period, there was no change in the newspapers designated by Company for information disclosure.

XVI. Explanation of Certified Public Accountants in respect of Funds Appropriated by the Controlling Shareholder and Other Connected Parties of the Company

Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd., the PRC auditors of the Company, has made an explanation in respect of the funds appropriated by the controlling shareholder and other connected parties of the Company.

OTHER MATTERS *(continued)*

XVI. Explanation of Certified Public Accountants in respect of Funds Appropriated by the Controlling Shareholder and Other Connected Parties of the Company *(continued)*

In accordance with the requirements as set out in the Document Zheng Jian Fa [2003] No. 56, Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their Connected Parties and the Provision of Guarantees by Listed Companies to External Parties issued by the CSRC and the State Asset Management Commission under the State Council, a statement on the application of funds by the Company's controlling shareholders and other connected parties for the year ended 31 December 2007 has been prepared and is set out below:

Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the Company	Capital balance appropriated at the beginning of 2007 (RMB'000)	Accumulated amount appropriated in 2007 (RMB'000)	Accumulated amount repaid in 2007 (RMB'000)	Capital amount appropriated as at 31 December 2007 (RMB'000)	Reasons of appropriation	Nature of appropriation
GPHL	Parent Company	Other receivables	4,071	–	667	3,404	Prepaid rental payments and payments in ordinary course of business	Operational appropriation
Guangzhou Baiyunshan Qiao Guang Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	34,767	31,097	65,351	513	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	1,081	28,316	25,825	3,572	Payments for goods	Operational appropriation
		Prepayments	8,376	30,545	33,417	5,504	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	1,413	9,454	9,547	1,320	Payments for goods	Operational appropriation
		Prepayments	1,543	4	1,547	–	Payments for goods	Operational appropriation
Guangzhou Baiyunshan He Ji Gong Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	701	4,212	3,203	1,710	Payments for goods	Operational appropriation
		Prepayments	129	22,759	16,888	6,000	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	6,901	39,833	42,987	3,747	Payments for goods	Operational appropriation
		Prepayments	8,748	22,676	30,777	647	Payments for goods	Operational appropriation
Guangzhou Hua Nan Medical Apparatus Co., Ltd	Fellow subsidiary	Other receivables	100	–	–	100	Payments for goods	Operational appropriation Operational appropriation
Po Lian Development Co., Ltd	Fellow subsidiary	Accounts receivable	–	1,631	1,268	363	Payments for goods	Operational appropriation
		Prepayments	9,369	–	9,369	–	Payments for goods	Operational appropriation

OTHER MATTERS *(continued)*

XVI. Explanation of Certified Public Accountants in respect of Funds Appropriated by the Controlling Shareholder and Other Connected Parties of the Company *(continued)*

Capital utilized by:	Relationship with the Company	Accounting items in the accounting statements of the Company	Capital balance appropriated at the beginning of 2007 (RMB'000)	Accumulated amount appropriated in 2007 (RMB'000)	Accumulated amount repaid in 2007 (RMB'000)	Capital amount appropriated as at 31 December 2007 (RMB'000)	Reasons of appropriation	Nature of appropriation
Guangzhou Pharmaceutical Industry Research Institute	Fellow subsidiary	Accounts receivable	–	676	675	1	Payments for goods	Operational appropriation
Guangzhou Baiyushan Hutchison Whampoa Chinese Medicine Co., Ltd	Fellow subsidiary	Accounts receivable	694	17,950	16,190	2,454	Payments for goods	Operational appropriation
		Prepayments	345	1	346	–	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Pharmaceutical Co., Ltd Guangzhou Beiyunshan Pharmaceutical General Factory	Fellow subsidiary	Accounts receivable	3,919	26,396	23,135	7,180	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Pharmaceutical Co., Ltd Guangzhou Beiyunshan Chemical Medicine Factory	Fellow subsidiary	Accounts receivable	3,267	12,806	14,889	1,184	Payments for goods	Operational appropriation
Guangzhou Baiyunshan Pharmaceutical Co., Ltd Guangzhou Beiyunshan External Use Medicine Factory	Fellow subsidiary	Accounts receivable	858	2,447	3,305	–	Payments for goods	Operational appropriation
Guangzhou Pharmaceutical Economic Development Company	Fellow subsidiary	Accounts receivable	26	–	26	–		
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Fellow subsidiary	Accounts receivable	–	15,521	15,520	1	Payments for goods	Operational appropriation
Wang Lao Ji	Joint venture	Accounts receivable	509	50,070	50,089	490	Payments for goods	Operational appropriation
		Other receivables	362	465	362	465	Cost of right to use a trademark	Operational appropriation
		Prepayments	–	2,258	1,772	486	Payments for goods	Operational appropriation
Total		**Accounts receivable**	**54,136**	**240,409**	**272,010**	**22,535**		
		Other receivables	**4,533**	**465**	**1,029**	**3,969**		
		Prepayments	**28,510**	**78,243**	**94,116**	**12,637**		

OTHER MATTERS *(continued)*

XVII. Explanation and Independent Opinions of Independent Directors in respect of Accumulated and Current Guarantees to External Parties Granted by the Company and the Funds Appropraited by the Controlling Shareholders and Other Connected Parties of the Company

Based on the spirits in the Document Zheng Jian Fa [2003] No. 56, Notice Concerning the Regulation on the Flow of Funds between Listed Companies and their Connected Parties and the Provision of Guarantees by Listed Companies to External Parties, the Independent Directors of the Company have conducted examination of the policies towards the guarantees provided to the external parties by the Group in a serious manner. The relevant details are as follows:

As at 31 December 2007, the Company had provided the following guarantees to its subsidiaries:

Guaranteed parties	**Guarantee period** (RMB'000)	**Subject matter**	**Guarantee amount**	**% of the Group's net assets as at the end of the reporting Period** (%)
Pharmaceuticals Corporation	223,820	Borrowings as working capital	1 year	9.37
Cai Zhi Lin Pharmaceutical	10,000	Borrowings as working capital	1 year	0.42
Pharmaceutical Import & Export Corporation	10,000	Borrowings as working capital	1 year	0.42
Guangzhou Han Fang	51,920	Borrowings as working capital	1 year	2.17
Guangzhou Bai Di	10,000	Borrowings as working capital	1 year	0.42
Pharmaceuticals Corporation	43,020	Bills	1 year	1.80
Cai Zhi lin	19,860	Bills	1 year	0.83
Pharmaceutical Import & Export Corporation	11,090	Bills and letters of credit	1 year	0.46
Total	379,710	—	—	15.89

As at the end of this Reporting Period, the Group has not provided any guarantee to its controlling shareholder and any other connected parties.

On behalf of the Board
Yang Rongming
Chairman

Guangzhou, the PRC, 28 March 2008

Report of the Supervisory Committee

To all shareholders:

On behalf of the supervisory committee of the Company (the "Supervisory Committee"), I hereby report to you the duties performed by the Supervisory Committee during the year ended 31 December 2007 in accordance with the Company's Articles of Association.

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR

During the Reporting Period, four meetings were held.

<table>
<tr><th>Session and number of meeting</th><th>Date of meeting</th><th>Resolutions</th><th>Newspapers for publication of resolutions</th><th>Dates for publication of resolutions</th></tr>
<tr><td>11th meeting of the Third Session</td><td>10 January 2007</td><td>/</td><td rowspan="4">Shanghai Securities News, Hong Kong Economic Times and The Standard</td><td>11 January 2007</td></tr>
<tr><td>12th meeting of the Third Session</td><td>26 January 2007</td><td>/</td><td>30 January 2007</td></tr>
<tr><td>13th meeting of the Third Session</td><td>27 April 2007</td><td>/</td><td>30 April 2007</td></tr>
<tr><td>1st meeting of the Fourth Session</td><td>15 June 2007</td><td>/</td><td>18 June 2007</td></tr>
<tr><td>2nd meeting of the Fourth Session</td><td>17 August 2007</td><td>Interim report and interim financial report of the Company for the year 2007 were considered and passed.</td><td>/</td><td>/</td></tr>
<tr><td>3rd meeting of the Fourth Session</td><td>26 October 2007</td><td>/</td><td>Shanghai Securities News</td><td>29 October 2007</td></tr>
</table>

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS

1. The Company's operations during the Reporting Period

During the Reporting Period, the Supervisory Committee has monitored the procedures for convening Board meetings and shareholders' meetings and the resolutions proposed to be considered thereat, as well as the execution by the Board of the resolutions passed at the shareholders' meetings and has no dissenting view on any reports and proposals submitted by the Board at shareholders' meetings. The Supervisory Committee considers that during the Reporting Period the operations conducted by the Company are in compliance with the Company Law, the Securities Law, the respective Listing Rules governing the securities exchanges in PRC and in Hong Kong, the Articles of Association and other relevant laws and regulations, and the Company has executed the resolutions of the shareholders' meetings of the Company diligently, continued to enhance the internal management and internal control systems of the Company and established a good internal management system. The Company's Directors and Senior Management have not committed any acts in breach of the rules and regulations, the Articles of Association, nor have they engaged in any acts involving the infringement of the Company's interest or infringement of shareholder's interests.

2. The supervision of the Company's financial conditions

The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considers that the Company's financial statements are fairly presented, and the auditing and financial management are in line with the relevant regulations. The domestic and international auditors issued their standard and unqualified auditors' reports upon auditing the accounts of the Group and the Company for the year ended 31 December 2007, which reflect an objective, true and fair view of the financial status of the Company as at 31 December 2007 and the operations results of the Group for the year then ended.

3. Use of proceeds raised from the issue of A shares

During the Reporting Period, the use of the proceeds from the issue of A shares was in line with the undertakings made in the prospectus for the issue of A shares. There was no improper use of the proceeds.

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON THE COMPANY'S OPERATIONS *(continue)*

4. Purchases and sales of assets of the Company

During the Reporting Period, the considerations for purchases and sales of assets are reasonable and arrived at on an arm's length basis. There has been no insider dealings which would harm the interests of certain shareholders or cause loss of the Company's assets.

5. Connected transactions

During the Reporting Period, the Company's connected transactions mainly include: (1) a 26.04% equity interest of Guangzhou Han Fang in aggregate held by GPHL, Anhui Huadong Chinese Medical Engineering Corporation Limited and five natural persons including Ms. Liu Ju Yan was transferred to the Company, and (2) the Office Building Tenancy Agreement and Accommodation Services Agreement entered into between the Company and GPHL were renewed, and a Premises Tenancy Agreement was entered into between the Company and GPHL.

The above connected transactions are arrived at on an arm's length basis and do not involve any actions which may adversely affect the interests of the Company and its shareholders.

On behalf of the Supervisory Committee
Yang Xiuwei
Chairman

Guangzhou, the PRC, 28 March 2008

Major Events

I. SIGNIFICANT LITIGATION OR ARBITRATION

The Group had no significant litigation or arbitration during the Reporting Period.

II. DURING THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS (INCLUDING SUBSIDIARIES OR JOINT VENTURES) OR BUSINESS COMBINATION AND OTHER TRANSACTIONS

1. Pursuant to the Equity Transfer Agreement entered into among the Company, GPHL, Anhui Huadong Chinese Medical Engineering Corporation Limited and five natural persons including Ms. Liu Ju Yan on 10 January 2007, a 26.04% equity interest in aggregate held by GPHL, Anhui Huadong Chinese Medical Engineering Corporation Limited and the above five natural persons in Guangzhou Han Fang was transferred to the Company. On the same day, Guangzhou Han Fang entered into a merger agreement (the "Agreement") with Guangzhou Huan Ye. Pursuant to the Agreement, the parties agreed to the merger of Guangzhou Han Fang and Guangzhou Huan Ye through the injection of all the businesses, assets and liabilities of Guangzhou Huan Ye into Guangzhou Han Fang. Upon completion of the merger, Guangzhou Han Fang would be maintained Guangzhou Huan Ye would be dissolved.

   Pursuant to the relevant requirements of Listing Rules of the HKEx, the transfer of equity of Guangzhou Han Fang held by GPHL and five natural persons including Ms. Liu Ju Yan and the merger of Guangzhou Han Fang and Guangzhou Huan Ye constituted connected transactions of the Company. The Company considered the above connected transactions at the 29th Meeting of the Third Session of the Board on 10 January 2007, and independent opinions were expressed by the Independent Non-executive Directors. The procedures of approval in relation to the above transactions are under way.

   Please refer to the announcement of the Company on Shanghai Securities News in the PRC, The Hong Kong Economic Times and Standard in Hong Kong, the PRC published on 11 January 2007.

2. The Company agreed to transfer 10% of the equity of China National Medicines Corporation Ltd. held by the Company at the First Investment Management Committee Meeting on 12 January 2007. The procedures of the above transfer of equity were completed in May 2007.

3. On 17 January 2007, the Company purchased Sui Kang Mansion from Pharmaceuticals Corporation, a holding subsidiary of the Company, in consideration of RMB41,116,178. The relevant transfer procedures were completed on 29 March 2007.

II. DURING THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS (INCLUDING SUBSIDIARIES OR JOINT VENTURES) OR BUSINESS COMBINATION AND OTHER TRANSACTIONS *(continued)*

4. On 27 January 2007, Contract for the Transfer of Capital Contribution of Guangzhou Pharmaceuticals Corporation was entered into between Jing Xiu Tang and Pan Gao Shou, both of which are subsidiaries of the Company, and 33 natural persons and Alliance BMP Limited ("Alliance BMP"). On the same day, the Company and Alliance BMP executed the Capital Increase Contract in Guangzhou Pharmaceuticals Corporation, Joint Venture Contract and the revised and restated Articles of Association of Guangzhou Pharmaceuticals Corporation.

   The Board of the Company reviewed the equity transfer and capital increase (the "Transactions") at the 30th Meeting of the Third Session of the Board on 26 January 2007. The Transactions were submitted at the First EGM for 2007 and the First Class Meetings of the holders of overseas listed foreign capital shares and the holders of domestic shares for 2007 and was approved. Following the approval by the relevant government departments, the Pharmaceuticals Corporation submitted the application to the Industrial and Commercial Administration Department regarding the conversion to a sino-foreign equity joint venture. The above transactions were completed on 28 January 2008. The joint venture was officially listed on 26 February 2008.

   Please refer to the announcement of the Company in Shanghai Securities News in the PRC published on 29 January 2007, and The Hong Kong Economic Times and Standard in Hong Kong, the PRC published on 31 January 2007.

5. The Company resolved at the Second Investment Management Committee Meeting for 2007 on 27 June 2007 to consent the capital injection of RMB 135 million to Zhong Yi by installments as the construction funds for GMP II.

6. The Company considered and approved at the 4th Meeting of the Fourth Session of the Board on 26 October 2007 the renewal of the Office Building Tenancy Agreement and Accommodation Services Agreement entered into between the Company and the Pharmaceutical Corporation. At the same time, the Premises Tenancy Agreement was signed between the two parties. Please refer to the announcement of resolutions passed at the Board meeting on 27 October 2007.

III. MAJOR CONTRACTS AND THEIR PERFORMANCE

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

Save as the aforementioned, the Company was not involved in other major contracts during the Reporting Period.

IV. DURING THE REPORTING PERIOD, THE COMPANY HAS NOT HAD ANY ENTRUSTED INVESTMENT ACTIVITIES

V. PERFORMANCE OF THE UNDERTAKINGS DURING THE REPORTING PERIOD

In order to strengthen the confidence of the holders of circulating shares, and subject to relevant laws and regulations, GPHL and Great Wall Corporation, being holders of shares subject to selling restrictions, have undertaken to strictly comply with the relevant requirements of "Administrative Measures for the Reform of the Segmented Share Structure of Listed Companies" and the original shares subject to selling restrictions held by GPHL and Great Wall Corporation shall not be listed and traded, nor transferred within 12 months from the date of implementation of the share reform plan (being 24 April 2006). During the Reporting Period, GPHL and Great Wall Corporation complied with the above undertakings.

VI. AS AT 31 DECEMBER 2007, THE CONSTRUCTION AND EQUIPMENT COMMITMENTS THAT WERE CONTRACTED BY THE GROUP BUT NOT PROVIDED FOR WAS RMB39,400,000. THE LEASE COMMITMENTS WHICH WERE CONTRACTED BUT NOT PROVIDED FOR AMOUNTED TO RMB107,111,000.

VII. DURING THE REPORTING PERIOD, THE GROUP HAS PAID AUDITOR'S REMUNERATION OF RMB1,050,000 AND RMB2,540,000 TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD., AND PRICEWATERHOUSECOOPERS CERTIFIED PUBLIC ACCOUNTANTS RESPECTIVELY. OF THE AMOUNT PAID TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD., RMB930,000 WAS PAID FOR THE 2006 ANNUAL AUDIT, AND RMB120,000 WAS PAID FOR THE 2007 INTERIM REVIEW. AN AMOUNT OF RMB2,150,000 PAID TO PRICEWATERHOUSECOOPERS CERTIFIED PUBLIC ACCOUNTANTS WAS PAID FOR THE 2006 ANNUAL AUDIT AND RMB390,000 WAS PAID FOR THE 2007 INTERIM REVIEW. BOTH THE DOMESTIC AUDITORS AND INTERNATIONAL AUDITORS HAVE PROVIDED AUDIT SERVICES TO THE COMPANY FOR 10 YEARS.

VIII. DURING THE REPORTING PERIOD, NO INVESTIGATION, ADMINISTRATION PUNISHMENT OR PUBLIC REPRIMAND BY THE CSRC AND NO PUNISHMENT BY HKEX OR SSE WERE MADE AGAINST AND IMPOSED ON THE COMPANY, THE BOARD, OR THE DIRECTORS.

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

Stock Code	Stock name	The 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
600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	0.02	1,806	–	–	Trading financial assets	Note (1)
600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	0.02	3,705	–	–	Trading financial assets	Note (1)
601328	Bank of Communications	394	362,729	-	5,666	–	4,246	Disposable financial assets	Note (2)
000963	Huadong Medicine Co., Ltd.	127	215,248.32	0.05	3,552	–	2,188	Disposable financial assets	Note (2)

Note:

(1) In August 2002, the Company acquired the treasury bond of RMB10 million with its working capital and deposited in the Company's securities account at Nanfang Security Co., Ltd. ("Nanfang Security"). At the end of 2004, the above treasury bond was confiscated due to the bankruptcy of Nanfang Security.

On 6 December 2007, the property distribution proposal for the first bankruptcy of Nanfang Security was passed at the 2nd meeting of creditors of Nanfang Security. The proposal has obtained approval from Guangdong Province Shenzhen Intermediate People's Court. On 24 December 2007, the Company received the above shares transferred through non-trading transfer method and RMB374,912.55 in cash from the liquidator team of Nanfang Security.

(2) The shares of Bank of Communications and Huadong Medicine Co., Ltd. were being held by the subsidiaries of the Company. Those shares have been listed on the Shanghai Stock Exchange and were calculated as transfer of long term equity investment into available-for-sale financial assets according to New Accounting Standards.

X. INFORMATION ON THE COMPANY'S INTERESTS IN NON-LISTED FINANCIAL INSTITUTIONS

Name	The 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
China Everbright Bank Company Limited	10,725	6,050,000	approximately 0.07	10,725	–	–	Long term equity investment	subscription
Golden Eagle Fund Management Co., Ltd.	20,000	–	20	15,658	7,295	7,295	Long term equity investment	subscription
Total	**30,725**	**–**	**–**	**26,383**	**7,295**	**7,295**	**–**	**–**

Independent Auditor's Report

To the shareholders of
Guangzhou Pharmaceutical Company Limited
(a joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Guangzhou Pharmaceutical Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 72 to 147 which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 true 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 the directors, 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.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2008

Consolidated Balance Sheet

	Note	2007 RMB'000	2006 RMB'000
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,451,847**	1,478,262
Investment properties	7	**76,389**	35,413
Land use rights	8	**122,187**	127,800
Intangible assets	9	**35,870**	40,629
Investments in associates	11	**28,118**	44,085
Available-for-sale financial assets	13	**20,775**	30,225
Deferred income tax assets	21	**53,662**	64,952
		1,788,848	1,821,366
Current assets			
Inventories	14	**1,418,815**	1,326,444
Trade and other receivables	15	**2,401,495**	2,004,026
Financial assets at fair value through profit or loss		**5,511**	–
Bank and cash balances	16	**753,174**	489,128
		4,578,995	3,819,598
Total assets		**6,367,843**	5,640,964
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**1,592,034**	1,592,034
Other reserves	18	**1,061,328**	1,085,486
Retained earnings			
– Proposed final dividend	30	**100,552**	68,116
– Others		**414,107**	151,753
		3,168,021	2,897,389
Minority interest		**249,371**	182,991
Total equity		**3,417,392**	3,080,380

Consolidated Balance Sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	21	**36,228**	41,870
Employee benefits	22	**41,108**	50,138
		77,336	92,008
Current liabilities			
Trade and other payables	19	**1,914,159**	1,537,900
Current income tax liabilities		**2,468**	42,477
Borrowings	20	**956,488**	888,199
		2,873,115	2,468,576
Total liabilities		**2,950,451**	2,560,584
Total equity and liabilities		**6,367,843**	5,640,964
Net current assets		**1,705,880**	1,351,022
Total assets less current liabilities		**3,494,728**	3,172,388

Shi Shaobin
Director

Feng Zansheng
Director

The notes on pages 79 to 147 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**18,934**	21,832
Investment properties	7	**42,385**	–
Intangible assets	9	**486**	729
Investments in subsidiaries	10	**1,520,126**	1,460,126
Investments in associates	11	**17,928**	2,120
Investments in jointly controlled entities	12	**102,035**	102,035
Available-for-sale financial assets	13	**10,925**	27,288
Deferred income tax assets	21	**1,537**	4,687
		1,714,356	1,618,817
Current assets			
Inventories	14	**14,444**	9,974
Trade and other receivables	15	**827,566**	798,678
Financial assets at fair value through profit or loss		**5,511**	–
Bank and cash balances	16	**68,150**	64,731
		915,671	873,383
Total assets		**2,630,027**	2,492,200
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**1,592,034**	1,592,034
Other reserves	18	**546,758**	604,450
Retained earnings			
– Proposed final dividend	28,30	**100,552**	68,116
– Others	28	**268,484**	148,750
Total equity		**2,507,828**	2,413,350

Balance Sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
LIABILITIES			
Current liabilities			
Trade and other payables	19	**63,744**	42,099
Current income tax liabilities		**8,455**	6,751
Borrowings	20	**50,000**	30,000
Total liabilities		**122,199**	78,850
Total equity and liabilities		**2,630,027**	2,492,200
Net current assets		**793,472**	794,533
Total assets less current liabilities		**2,507,828**	2,413,350

Shi Shaobin
Director

Feng Zansheng
Director

The notes on pages 79 to 147 are an integral part of this financial statement.

Consolidated Income Statement

	Note	2007 RMB'000	2006 RMB'000
		Year ended 31 December	
Sales	5	**12,260,744**	10,241,004
Cost of goods sold	24	**(10,245,291)**	(8,499,060)
Gross profit		**2,015,453**	1,741,944
Other income – net	23	**109,072**	75,196
Selling and marketing costs	24	**(1,057,294)**	(815,931)
Administrative expenses	24	**(554,151)**	(591,931)
Other operating losses – net		**(4,464)**	(14,484)
Operating profit		**508,616**	394,794
Finance costs – net	26	**(59,699)**	(45,360)
Share of gains/(losses) of associates	11	**7,889**	(279)
Profit before income tax		**456,806**	349,155
Income tax expense	27	**(126,955)**	(118,567)
Profit for the year		**329,851**	230,588
Attributable to:			
Equity holders of the Company		**320,343**	218,067
Minority interest		**9,508**	12,521
		329,851	230,588
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– basic and diluted	29	**0.395**	0.269
Dividend	30	**100,552**	68,116

The notes on pages 79 to 147 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company				Minority interest	Total equity
		Share capital	Other reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006		1,592,034	989,014	142,075	2,723,123	201,707	2,924,830
Profit for the year		–	–	218,067	218,067	12,521	230,588
Dividend relating to 2005		–	–	(56,763)	(56,763)	(12,214)	(68,977)
Revaluation of investment properties	7	–	13,116	–	13,116	1,518	14,634
Acquisition of interests in subsidiaries from minority shareholders		–	–	–	–	(19,723)	(19,723)
Disposal of a subsidiary		–	(154)	–	(154)	(818)	(972)
Transfers		–	83,510	(83,510)	–	–	–
Balance at 31 December 2006		1,592,034	1,085,486	219,869	2,897,389	182,991	3,080,380
Balance at 1 January 2007		1,592,034	1,085,486	219,869	2,897,389	182,991	3,080,380
Transfers from reserves according to new Chinese Accounting Standards ("CAS")		–	(99,289)	99,289	–	–	–
Profit for the year		–	–	320,343	320,343	9,508	329,851
Dividend relating to 2006	30	–	–	(68,116)	(68,116)	(15,155)	(83,271)
Capital injection from minority shareholders		–	–	–	–	72,027	72,027
Revaluation of investment properties upon initial recognition	7	–	4,551	–	4,551	–	4,551
Deferred tax liability arising from initial recognition of investment properties		–	(3,658)	–	(3,658)	–	(3,658)
Fair value gains on available for sale financial assets, net of tax	13	–	7,520	–	7,520	–	7,520
Decrease in deferred tax liabilities resulting from change in income tax rate	21	–	9,992	–	9,992	–	9,992
Others		–	446	(446)	–	–	–
Transfers		–	56,280	(56,280)	–	–	–
Balance at 31 December 2007		1,592,034	1,061,328	514,659	3,168,021	249,371	3,417,392

The notes on pages 79 to 147 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

Year ended 31 December

	Note	2007 RMB'000	2006 RMB'000
		Year ended 31 December	
Cash flows from operating activities			
Cash generated from operations	31	**524,389**	140,561
Interest paid		**(57,730)**	(46,275)
Income tax paid		**(156,308)**	(113,709)
Net cash generated from/(used in) operating activities		**310,351**	(19,423)
Cash flows from investing activities			
Payment for acquisition of interests in subsidiaries from minority shareholders		**–**	(18,298)
Cash contribution paid to associates		**–**	(25,221)
Disposal of a subsidiary, net of cash held		**–**	(802)
Purchase of property, plant and equipment		**(14,425)**	(27,302)
Purchase of construction in progress		**(105,638)**	(59,507)
Proceeds from sale of property, plant and equipment	31	**2,226**	5,710
Purchase of intangible assets		**(1,130)**	(1,515)
Purchase of land use rights		**(191)**	(2,788)
Government grants received		**19,608**	9,917
Disposal of available-for-sale financial assets		**11,097**	30,000
Disposal of financial assets at fair value through profit or loss		**–**	14,690
Cash received from disposal of interests in associates		**181**	1,400
Interest received		**7,934**	9,753
Dividends received from a jointly controlled entity, net of impact arising from proportionate consolidation		**–**	4,177
Dividends received from available-for-sale financial assets		**440**	4,567
Net cash used in investing activities		**(79,898)**	(55,219)
Cash flows from financing activities			
Capital contribution from minority shareholders		**100,860**	–
Proceeds from borrowings		**1,250,020**	1,137,401
Repayments of borrowings		**(1,200,276)**	(1,124,719)
Payments of deposits for short-term loans		**(33,740)**	–
Dividends paid to equity holders of the Company		**(68,116)**	(55,279)
Dividends paid to minority shareholders		**(15,155)**	(12,214)
Net cash generated from/(used in) financing activities		**33,593**	(54,811)
Net increase/(decrease) in bank and cash balances		**264,046**	(129,453)
Bank and cash balances at beginning of the year		**489,128**	618,581
Bank and cash balances at end of the year	16	**753,174**	489,128

The notes on pages 79 to 147 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 GENERAL INFORMATION

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

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

These consolidated financial statements are presented in thousands of units of RMB (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2008.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Standards, amendments and interpretations effective in 2007 and relevant to the Group's operations.

HKFRS 7	Finance Instruments: Disclosures
HKAS 1 Amendment	Presentation of Financial Statements – Capital Disclosures
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards, amendments and interpretations effective in 2007 but not relevant to the Group's operations.

HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

(c) Standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted by the Group

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC)-Int 12	Service Concession Arrangements[2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]

[1]: Effective for accounting periods commencing on or after 1 January 2009
[2]: Effective for accounting periods commencing on or after 1 January 2008
[3]: Effective for accounting periods commencing on or after 1 March 2007
[4]: Effective for accounting periods commencing on or after 1 July 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (Note 2.8(a)).

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.8(a)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(d) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entities that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entities that result from the Group's purchase of assets from the jointly controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from 'other reserves' to 'retained earnings'.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Plant and buildings	15 – 50 years
Machinery and equipment	4 – 18 years
Motor vehicles	5 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating losses – net, in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers.

Changes in fair values are recognised in the income statement as part of other income – net.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

2.7 Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation of land use rights is calculated to write off their cost less accumulated impairment losses on a straight-line basis over the remaining unexpired land use period of 20 to 50 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Patents and trademarks

Patents and trademarks are shown at historical cost. Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks over their estimated useful lives (5 to 10 years).

(c) Staff quarters reform costs

Staff quarters reform costs are expenditures incurred by the Group prior to year 2000 in relation to purchases of staff quarters for its employees. Such costs are recognised as an asset. These costs are amortised on a straight-line basis over a period of not more than 10 years to reflect the estimated average remaining service life of the employees of the Group in which the related economic benefits are recognised.

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives (3 to 5 years).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

There was no significant research expenditure capitalised during the year. Development assets are tested for impairment annually, in accordance with HKAS 36.

2.10 Impairment of investments in subsidiaries, jointly controlled entities, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is 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 value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.13).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Financial assets *(Continued)*

(c) Available-for-sale financial assets *(Continued)*

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within "other income – net", in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of "other income – net" when the Group's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of "other income – net". Dividends on available-for-sale equity instruments are recognised in the income statement as part of "other income – net" when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss-is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.13.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "administrative expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "administrative expenses" in the income statement.

2.14 Cash and cash equivalent

Cash and cash equivalent refers to cash in hand and deposits held at call with banks.

2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed as incurred.

2.18 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Employee benefits

(a) Pension obligations

The Group participates in the defined contribution employee retirement schemes regarding pension benefits required under existing PRC legislation. The defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group's obligations include contributions to a defined contribution retirement plan at a certain percentage of the salaries of the employees. The regular contributions are charged to the income statement when services are rendered by the employees. Once the contributions have been paid, the Group has no further payment obligations.

(b) Housing benefit

The Group's contributions to the defined contribution housing fund scheme administered by a government agency determined at a certain percentage of the salaries of the employees are expensed when services are rendered by the employees.

Costs of the housing allowance scheme designed and implemented by the Group are expensed when a legal or constructive obligation is established.

(c) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme administered by a government agency for existing employees are expensed when services are rendered by the employees.

Contributions to the defined contribution medical insurance scheme for retired and retiring employees are accrued based on the period of their past services. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Revenue recognition

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.

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 amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. 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.

(a) Sales of goods – wholesale

Sales of goods are recognised when an entity in the Group 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.

(b) Sales of goods – retail

Sales of goods are recognised when an entity in the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in "selling and marketing costs". The Group does not operate any customer loyalty programmes.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Dividend income

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

(e) Rental income

Rental income is recognised on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, cash flow 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 minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's finance department (Group Finance) under policies approved by the Board of Directors. Group Finance identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk and liquidity risk.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("US dollars") and Hong Kong dollars ("HK dollars"). The Group's businesses are principally conducted in RMB, except for imports and exports of western pharmaceutical products that are mainly conducted in US dollars and HK dollars. Dividends to equity holders of H Shares are declared in RMB and paid in HK dollars.

At 31 December 2007, all of the Group's assets and liabilities were denominated in RMB except that bank and cash balances of RMB11,681,000 (2006: RMB20,617,000), trade and other receivables of RMB12,789,000 (2006: RMB11,635,000) and trade and other payables of RMB17,346,000 (2006: RMB40,224,000) were denominated in US dollars or HK dollars. Foreign exchange risk arises from such future commercial transactions, recognised assets and liabilities and declared dividends could affect the Group's results of operations.

At 31 December 2007, if RMB had strengthened/weakened by 10% against US dollars and HK dollars with all other variables held constant, post-tax profit for the year would have been RMB 711,000 lower/higher.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

RMB'000

	RMB against US dollars	
	stregnthen by 10%	weaken by10%
	impact on post-tax profit	
Denominated in US dollars		
Bank and cash balances	(405)	405
Trade and other receivables	(1,045)	1,045
Trade and other payables	1,075	(1,075)

	RMB against HK dollars	
	stregnthen by 10%	weaken by 10%
	impact on post-tax profit	
Denominated in HK dollars		
Bank and cash balances	(763)	763
Trade and other receivables	(233)	233
Trade and other payables	660	(660)

The Group closely monitors trend of exchange rates and its impact on the Group's exchange risk exposure. The Group currently does not have any exchange rate swap arrangement but will consider hedging exchange rate risk should it be arisen.

The conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the Chinese government.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Price risk

The Group is exposed to equity securities price risk and investment properties price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale, at fair value through profit or loss or investment properties.

The Group is currently not exposed to significant price risk as only limited equity securities are held.

The Group manages the price risk of investment properties through signing long term lease contracts.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from borrowings, details of which have been disclosed in Note 20. All of the Group's borrowings were at fixed rates. As most of the Group's borrowings are current with short maturities of less than one year, exposure to fair value interest rate risk is limited.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The carrying amounts of cash and bank balances, trade and other receivables except for prepayments, available-for-sale financial assets and financial assets at fair value through profit and loss, represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has no significant concentrations of credit risk.

The Group also has policies in place to ensure that sales of products are made to wholesale customers with appropriate credit history. Sales to retail customers are settled in cash or using major credit cards. The Group does not have an independent assessment on its customers' credit ratings. The Group assesses the credit worthiness and financial strength of its customers as well as considering prior dealing history with the customers. Generally, customers are granted credit terms ranging from 3 to 12 months.

Normally, the Group does not require collaterals from trade debtors. Management makes periodic collective assesssments as well as individual assessments on the recoverability of trade and other receivables based on historical payment records, length of overdue period, financial strength of the debtors and whether there are trade disputes with the debtors.

Notes receivable are discounted by banks of high credit rating, management considers they are of high credit quality.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding by arranging banking facilities.

Management monitors rolling forecasts of the Group's liquidity reserve which comprises undrawn borrowing facility and bank and cash balances (Note 20).

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant. As at 31 December 2007 and 2006, the remaining periods at the balance sheet date to the contractual maturity date of the Group's financial liabilities were within one year.

	Due within one year	
	2007	2006
	RMB'000	RMB'000
Borrowings	**956,488**	888,199
Trade payables	**1,556,404**	1,067,798
Other payables and accrued charges	**357,755**	470,102

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital risk management *(Continued)*

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt.

The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
Total borrowings (Note 20)	**956,488**	888,199
Less: Bank and cash balances (Note 16)	**(753,174)**	(489,128)
Net debt	**203,314**	399,071
Total equity	**3,417,392**	3,080,380
Total capital	**3,620,706**	3,479,451
Gearing ratio	**5.6%**	11.5%

3.3 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instrument that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying amounts of the Group's financial assets including bank and cash balances, trade and other receivables, available-for-sale financial assets, financial assets at fair value through profit or loss; and financial liabilities including trade and other payables, short-term borrowings, approximate their fair value due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Useful lives of property, plant, and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant, and equipment. This estimate is based on the historical experience of the actual useful lives of assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of change in market condition. Management will reassess the estimations at the balance sheet date.

(c) Provision for impairment of receivables

The Group's management determines the provision for impairment of receivables. This estimate is based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial positions of customers. Management will reassess the provision at the balance sheet date.

(d) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at each balance sheet date.

Due to lack of relevant financial information of China Everbright Bank Company Limited (the "Everbright Bank"), the Group is not able to assess its fair value and therefore, the Group's investment in the Everbright Bank is stated at cost.

The Group will closely monitor the information from capital market, should the reasonable and reliable information be available for fair value assessment, the equity interests in the Everbright Bank will be measured at fair value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(e) Fair value of investment property

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within the range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;

(iii) Discounted cash flow projection based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The Group estimated the fair value of investment properties based on the results from independent and professionally qualified valuers.

(f) Deferred taxation

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 the recognition of deferred tax assets in the period in which such estimate is changed.

(g) Medical insurance

The Group uses discounted future cash flows to determine the medical insurance obligation. The present value of the provision for the medical insurance obligation depends on the average expectancy of the retired and to be retired employees and annual increase rate of average salary, which are determined by reference to the available market information. The discount rate is determined by reference to market yields at the balance sheet date on high quality investments.

5 SEGMENT INFORMATION

Primary reporting format – business segments

At 31 December 2007, the Group is organised into the following business segments:

- Manufacturing of CPM;
- Wholesale of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus;
- Retail of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus; and
- Import and export of western pharmaceutical products, CPM and medical apparatus.

Turnover consists of sales of goods from the above business segments, which are RMB 12,260,744,000 and RMB 10,241,004,000 for the years ended 31 December 2007 and 2006 respectively.

Other operations of the Group mainly comprise holding of investment properties and other investments, neither of which is of a sufficient size to be separately reported.

The segment results are as follows:

	Year ended 31 December 2007					
	Manufacturing	**Wholesale**	**Retail**	**Import and export**	**Elimination**	**Group**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total gross segment sales	2,907,352	9,972,784	353,687	227,592	(1,200,671)	12,260,744
Inter-segment sales	(74,514)	(1,083,372)	(14,700)	(28,085)	1,200,671	–
Sales	2,832,838	8,889,412	338,987	199,507	–	12,260,744
Segment results	364,450	157,233	9,791	4,237	(65,105)	470,606
Unallocated profit						38,010
Operating profit						508,616
Finance costs – Net (Note 26)						(59,699)
Share of profits of associates (Note 11)						7,889
Profit before income tax						456,806
Income tax expenses (Note 27)						(126,955)
Profit for the year						329,851

5 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	Year ended 31 December 2006					
	Manufacturing	Wholesale	Retail	Import and export	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total gross segment sales	2,452,074	8,449,687	336,468	279,795	(1,277,020)	10,241,004
Inter-segment sales	(39,890)	(1,182,314)	(596)	(54,220)	1,277,020	–
Sales	2,412,184	7,267,373	335,872	225,575	–	10,241,004
Segment results	296,403	138,037	9,427	6,319	(42,640)	407,546
Unallocated cost						(12,752)
Operating profit						394,794
Finance costs (Note 26)						(45,360)
Share of losses of associates (Note 11)						(279)
Profit before income tax						349,155
Income tax expenses (Note 27)						(118,567)
Profit for the year						230,588

Other segment items included in the income statement are as follows:

	Year ended 31 December 2007					
	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation (Note 6)	90,302	15,371	2,798	178	3,291	111,940
Amortisation (Notes 8 and 9)	13,039	5,705	–	–	245	18,989
Impairment of inventories (Note 14)	11,898	722	–	–	–	12,620
Impairment of trade and other receivables	10,917	5,195	–	–	–	16,112
Reversal of impairment for trade and other receivables	(833)	–	–	–	(5,603)	(6,436)
Impairment of property, plant, and equipment (Note 6)	–	44	–	–	–	44

5 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	Year ended 31 December 2006					
	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation (Note 6)	98,573	21,468	2,626	157	3,809	126,633
Amortisation (Notes 8 and 9)	13,293	5,502	–	–	–	18,795
Impairment of inventories (Note 14)	3,942	–	–	–	–	3,942
Reversal of impairment for inventories (Note 14)	–	(643)	(672)	–	–	(1,315)
Impairment of trade and other receivables	3,240	8,893	(45)	796	–	12,884
Reversal of impairment for trade and other receivables	(2,083)	–	–	–	–	(2,083)
Impairment of property, plant, and equipment (Note 6)	108	101	–	–	–	209

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets	2,743,264	3,349,140	161,609	120,207	751,346	(785,841)	6,339,725
Associates	9,224	–	–	–	18,894	–	28,118
Total assets	2,752,488	3,349,140	161,609	120,207	770,240	(785,841)	6,367,843
Liabilities	625,192	2,891,969	88,265	97,278	33,588	(785,841)	2,950,451
Capital expenditure (Notes 6, 8 and 9)	101,912	11,930	1,002	21	394	–	115,259

5 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	Manufacturing	Wholesale	Retail	Import and export	Unallocated	Elimination	Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets	2,609,835	2,781,627	182,883	111,858	605,250	(694,574)	5,596,879
Associates	44,085	–	–	–	–	–	44,085
Total assets	2,653,920	2,781,627	182,883	111,858	605,250	(694,574)	5,640,964
Liabilities	642,373	2,346,688	87,416	86,370	92,311	(694,574)	2,560,584
Capital expenditure (Notes 6, 8 and 9)	86,397	10,222	1,074	491	3,710	–	101,894

Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. These inter-segment transactions mentioned above are eliminated on consolidation level.

Segment assets consist primarily of land use rights, property, plant and equipment, intangible assets, investments in associates, inventories, trade and other receivables, and bank and cash balances. Unallocated assets comprise deferred taxation, investment properties, available-for-sale financial assets, other financial assets at fair value through profit or loss and other corporate unallocated assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation and certain corporate liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 6), land use rights (Note 8), and intangible assets (Note 9).

Geographical segments

No geographical segments are presented as sales and results attributable to the markets outside the PRC are not more than 10% of the Group's consolidated sales and consolidated results.

6 PROPERTY, PLANT AND EQUIPMENT

Group

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2006					
Cost	1,132,693	935,531	80,104	148,784	2,297,112
Accumulated depreciation	(290,168)	(390,610)	(56,363)	–	(737,141)
Accumulated impairment	(11,009)	(6,519)	(375)	–	(17,903)
Net book amount	831,516	538,402	23,366	148,784	1,542,068
Year ended 31 December 2006					
Opening net book amount	831,516	538,402	23,366	148,784	1,542,068
Additions	7,077	18,427	2,930	69,157	97,591
Transfers	63,966	24,411	729	(89,106)	–
Transfers to investment properties (Note 7)	(8,213)	–	–	–	(8,213)
Transfers to intangible assets (Note 9)	–	–	–	(2,590)	(2,590)
Disposals (Note 31)	(5,055)	(2,668)	(503)	–	(8,226)
Investment in an associate	(10,758)	(1,923)	–	(2,845)	(15,526)
Depreciation (Note 24)	(53,153)	(67,439)	(6,041)	–	(126,633)
Impairment charge (Note 5)	–	(108)	(101)	–	(209)
Closing net book amount	825,380	509,102	20,380	123,400	1,478,262
At 31 December 2006					
Cost	1,159,923	913,769	79,920	123,530	2,277,142
Accumulated depreciation	(323,630)	(398,948)	(59,180)	–	(781,758)
Accumulated impairment	(10,913)	(5,719)	(360)	(130)	(17,122)
Net book amount	825,380	509,102	20,380	123,400	1,478,262
Year ended 31 December 2007					
Opening net book amount	825,380	509,102	20,380	123,400	1,478,262
Additions	285	12,671	1,469	99,513	113,938
Transfers	72,818	46,507	978	(120,303)	–
Transfers to investment properties (Note 7)	(36,425)	–	–	–	(36,425)
Disposals (Note 31)	(2,094)	(618)	(508)	(922)	(4,142)
Transfer arising from an associate becoming a jointly controlled entity	5,821	5,756	419	202	12,198
Depreciation (Note 24)	(44,547)	(61,656)	(5,737)	–	(111,940)
Impairment charge (Note 5)	–	–	(44)	–	(44)
Closing net book amount	821,238	511,762	16,957	101,890	1,451,847
At 31 December 2007					
Cost	1,192,168	961,187	79,929	102,020	2,335,304
Accumulated depreciation	(360,017)	(443,706)	(62,568)	–	(866,291)
Accumulated impairment	(10,913)	(5,719)	(404)	(130)	(17,166)
Net book amount	821,238	511,762	16,957	101,890	1,451,847

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation charged to the cost and expenses as below:

	2007	2006
	RMB'000	RMB'000
Cost of goods sold	**67,076**	79,913
Selling and marketing cost	**10,169**	10,590
Administrative expenses	**34,695**	36,130
Total	**111,940**	126,633

Lease rental expenses amounting to RMB 39,242,000 (2006: RMB 33,034,000) relating to the lease of properties are included in the income statement (Note 24).

All of the Group's buildings are located in the PRC, except for a property with net book amount of RMB14,712,000 (2006: RMB15,132,000) located in Hong Kong.

Certain property, plant and equipment of the Group with net book amounts totalling RMB52,490,000 (2006: RMB54,970,000) have been pledged for securing bank borrowings of the Group (Note 20).

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2006				
Cost	22,278	19,740	1,530	43,548
Accumulated depreciation	(5,669)	(12,665)	(601)	(18,935)
Net book amount	16,609	7,075	929	24,613
Year ended 31 December 2006				
Opening net book amount	16,609	7,075	929	24,613
Additions	–	812	263	1,075
Disposals	–	(20)	–	(20)
Depreciation	(965)	(2,701)	(170)	(3,836)
Closing net book amount	15,644	5,166	1,022	21,832
At 31 December 2006				
Cost	22,278	20,380	1,793	44,451
Accumulated depreciation	(6,634)	(15,214)	(771)	(22,619)
Net book amount	15,644	5,166	1,022	21,832
Year ended 31 December 2007				
Opening net book amount	15,644	5,166	1,022	21,832
Additions	–	304	90	394
Disposals	–	(1)	–	(1)
Depreciation	(932)	(2,179)	(180)	(3,291)
Closing net book amount	14,712	3,290	932	18,934
At 31 December 2007				
Cost	22,278	20,683	1,883	44,844
Accumulated depreciation	(7,566)	(17,393)	(951)	(25,910)
Net book amount	14,712	3,290	932	18,934

Depreciation expense of RMB 3,291,000 (2006: RMB 3,836,000) has been charged to administrative expenses.

Lease rental expenses amounting to RMB 1,093,000 (2006: RMB 1,093,000) relating to the lease of properties are including in the income statement.

7 INVESTMENT PROPERTIES

Group

	2007 RMB'000	2006 RMB'000
At 1 January	35,413	8,712
Transfers from owner-occupied properties (Note 6)	36,425	8,213
Transfers from land use rights (Note 8)	–	3,866
Fair value gain on investment properties initially transferred from own occupied properties-through equity (Note 18)	4,551	14,634
Change in fair value of investment properties	–	(12)
At 31 December	76,389	35,413

The Group's investment properties are located in the PRC and with leasing terms of one to five years. Land use right portion in investment properties represent prepaid operating lease payments on leases of between 20 years to 50 years in the PRC.

Company

	2007 RMB'000	2006 RMB'000
At 1 January	–	–
Transfers from a subsidiary	42,385	–
At 31 December	42,385	–

The Company's investment properties are located in the PRC. The Company's investment properties were revalued based on discounted cash flow projections by independent professionally qualified valuers, Guangdong Yangcheng Certified Public Accountants Co., Ltd. in 2007.

8 LAND USE RIGHTS – GROUP

The Group's interests in land use rights represent prepaid operating lease payments on leases of between 20 years to 50 years in the PRC. The land use rights with net book value are analysed as follows:

	2007	2006
	RMB'000	RMB'000
At 1 January	**127,800**	134,691
Additions	**191**	2,788
Amortisation (Note 24)	**(5,804)**	(5,813)
Transfers to investment properties (Note 7)	**–**	(3,866)
At 31 December	**122,187**	127,800

Amortisation expense of RMB 5,804,000 (2006: RMB 5,813,000) has been charged to administrative expenses.

9 INTANGIBLE ASSETS

Group

	Goodwill RMB'000	Patents and trademarks RMB'000	Staff quarters reform costs RMB'000	Software RMB'000	Total RMB'000
At 1 January 2006					
Cost	2,154	8,488	104,092	7,025	121,759
Accumulated amortisation	(150)	(1,503)	(66,725)	(1,871)	(70,249)
Accumulated impairment	(2,004)	–	–	–	(2,004)
Net book amount	–	6,985	37,367	5,514	49,506
Year ended 31 December 2006					
Opening net book amount	–	6,985	37,367	5,154	49,506
Additions	–	190	–	1,325	1,515
Transfers from construction in progress (Note 6)	–	–	–	2,590	2,590
Amortisation (Note 24)	–	(870)	(10,361)	(1,751)	(12,982)
Closing net book amount	–	6,305	27,006	7,318	40,629
At 31 December 2006					
Cost	2,154	8,678	104,092	10,940	125,864
Accumulated amortisation	(150)	(2,373)	(77,086)	(3,622)	(83,231)
Accumulated impairment	(2,004)	–	–	–	(2,004)
Net book amount	–	6,305	27,006	7,318	40,629
Year ended 31 December 2007					
Opening net book amount	–	6,305	27,006	7,318	40,629
Additions	–	1,037	–	93	1,130
Transfers from associates	–	8,000	–	–	8,000
Disposals	–	–	–	(704)	(704)
Amortisation (Note 24)	–	(634)	(10,337)	(2,214)	(13,185)
Closing net book amount	–	14,708	16,669	4,493	35,870
At 31 December 2007					
Cost	2,154	17,715	104,092	10,329	134,290
Accumulated amortisation	(150)	(3,007)	(87,423)	(5,836)	(96,416)
Accumulated impairment	(2,004)	–	–	–	(2,004)
Net book amount	–	14,708	16,669	4,493	35,870

Amortisation expense of RMB 13,185,000 (2006: RMB 12,982,000) has been charged to administrative expenses in the income statement.

9 INTANGIBLE ASSETS *(Continued)*

Company

	2007 RMB'000	2006 RMB'000
Staff quarters reform costs		
At 1 January		
Cost	**2,524**	2,524
Accumulated amortisation	**(1,795)**	(1,552)
Net book amount	**729**	972
Year ended 31 December		
Opening net book amount	**729**	972
Amortisation	**(243)**	(243)
Closing net book amount	**486**	729
At 31 December		
Cost	**2,524**	2,524
Accumulated amortisation	**(2,038)**	(1,795)
Net book amount	**486**	729

Amortisation expense of RMB 243,000 (2006: RMB 243,000) has been charged to administrative expenses in the income statement.

10 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2007 RMB'000	2006 RMB'000
At 1 January	**1,460,126**	1,413,712
Additions	**60,000**	46,414
At 31 December	**1,520,126**	1,460,126

The Company's investments in subsidiaries, all of which are unlisted, are shown at cost. Particulars of the principal subsidiaries are set out in Note 34.

11 INVESTMENTS IN ASSOCIATES

Group

	2007 RMB'000	2006 RMB'000
At 1 January	**44,085**	4,854
Additions	**–**	41,280
Transfers from available-for-sale financial assets (Note 13)	**8,363**	–
Disposals	**(180)**	(1,770)
Transfers out to jointly controlled entity	**(32,039)**	–
Share of profits/(losses) of associates	**7,889**	(279)
At 31 December	**28,118**	44,085

The Group's investments in associates, all of which are unlisted, are as follows:

Name	Particulars of issued capital held Registered capital (RMB)	Country of incorporation/ establishment	Principal activities	Interest held 2007 %	Interest held 2006 %
Guangzhou Jinshen Medical Co., Ltd	1,500,000	PRC	Production of health medicine	**38.25**	38.25
Guangzhou Jihua Medical Apparatus and Instruments Co., Ltd.	10,000,000	PRC	Development, manufacture and sales of medical apparatus and instruments	**24.00**	24.00
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	1,900,000	PRC	Sales of Chinese medicine	**29.72**	29.72
Guangzhou Pharmaceutical Soccer Club Limited	20,000,000	PRC	Participation of soccer competition and provision of related advertising services	**46.10**	46.10
Golden Eagle Asset Management Co.	100,000,000	PRC	Fund management	**20.00**	20.00

11 INVESTMENTS IN ASSOCIATES *(Continued)*

The assets and liabilities of the Group's associates as at 31 December 2007 and the revenues and profits for the year ended are as follows:

	Assets	Liabilities	Revenues	Profits	Interest held
	RMB'000	RMB'000	RMB'000	RMB'000	%
Guangzhou Jinshen Medical Co., Ltd	257	88	426	29	38.25
Guangzhou Jihua Medical Apparatus and Instruments Co., Ltd.	15,791	5,447	13,232	1,525	24.00
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	24,234	22,425	51,858	84	29.72
Guangzhou Pharmaceutical Soccer Club Limited	24,518	4,511	53,792	97	46.10
Golden Eagle Asset Management Co.	83,492	4,316	68,946	37,175	20.00
	148,292	36,787	188,254	38,910	

Company

	2007	2006
	RMB'000	RMB'000
Investments in associates		
– Unlisted equity securities, at cost	**17,928**	2,120

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Group

The Group's investments in jointly controlled entities, all of which are unlisted, are as follows:

Name	Particulars of issued capital held Registered capital (RMB)	Country of incorporation/ establishment	Principal activities	Interest held 2007 %	Interest held 2006 %
Guangzhou Wao Lao Ji Pharmaceutical Co., Ltd.	204,756,878	PRC	Production of CPM	**48.05**	48.05
PT. Purusa Bhakti	Ordinary shares of US$1 each	Indonesia	Dormant	**50.00**	50.00
Guangzhou Lianjie Computer Technology Co., Ltd.	500,000	PRC	Provision of enterprise resources planning consultation services	**–**	50.00
Guangzhou Nuo Cheng Bio-product Co., Ltd.	64,000,000	PRC	Production and sale of bio-products	**50.00**	50.00

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The following amounts represent the Group's share of assets, liabilities, and results of these jointly controlled entities that have been included in the consolidated balance sheet and consolidated income statement respectively:

	2007 RMB'000	2006 RMB'000
Assets:		
Non-current assets	**101,551**	67,134
Current assets	**207,481**	148,220
	309,032	215,354
Liabilities:		
Non-current liabilities	**3,103**	4,124
Current liabilities	**59,900**	26,100
	63,003	30,224
Net assets	**246,029**	185,130
Results:		
Income	**469,196**	318,041
Expenses	**(416,218)**	(286,615)
Profit after income tax	**52,978**	31,426
Proportionate interest in commitments	**–**	785

There are no contingent liabilities relating to the Group's investments in these jointly controlled entities, and no contingent liabilities of these entities themselves.

Company

	2007 RMB'000	2006 RMB'000
Investments in jointly controlled entities:		
– Unlisted equity securities, at cost	**102,035**	102,035

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**30,225**	61,994	**27,288**	58,683
Transfer to associates (Note 11)	**(8,363)**	–	**(8,363)**	–
Disposals	**(8,000)**	(30,000)	**(8,000)**	(30,000)
Net gains credited to equity *	**8,644**	–	**–**	–
Impairment charge (Note 24)	**(1,731)**	(1,769)	**–**	(1,395)
At 31 December	**20,775**	30,225	**10,925**	27,288

* Fair value change in available-for-sale financial assets has a net impact on equity amounting to RMB 7,520,000 (Note18) with the gross amount of RMB 8,644,000 netting off the relevant deferred tax liabilities amounting to RMB 1,124,000.

Available-for-sale financial assets includes:

	2007	2006
	RMB'000	RMB'000
Listed securities		
– Bank of Communications	**5,666**	394
– Hangzhou Huadong Medicine Co.,Ltd.	**3,552**	127
Unlisted securities		
– China Everbright Bank Company Limited	**10,725**	10,725
– China National Pharmaceutical Industry Corportion Ltd.	**–**	8,000
– Golden Eagle Asset Management Co., Ltd.	**–**	8,363
– Others	**832**	2,616
Total	**20,775**	30,225

The fair values of listed securities are determined based on market price. The fair values of unlisted securities are estimated based on the net asset values of the target company and its estimated recoverability. Impairment charge, recognised due to the decline in fair value of financial assets below their carrying amounts, has been included in administrative expenses in the income statement. The Group's and the Company's available-for-sale financial assets are not more than 10% of the Group's and the Company's total assets.

The available-for-sale financial assets comprise 6,050,000 unlisted shares of China Everbright Bank Company Limited, which are stated at the aggregate acquisition cost of RMB 10,725,000. Due to lack of financial statements of China Everbright Bank Company Limited, management of the Group could not reasonably assess the fair value of the investment which is being accounted for on cost basis.

14 INVENTORIES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**151,704**	154,897	**–**	–
Work in progress	**95,694**	91,019	**–**	–
Finished goods	**175,480**	134,026	**–**	–
Merchandise	**993,419**	938,077	**14,444**	9,974
Production supplies	**2,518**	8,425	**–**	–
	1,418,815	1,326,444	**14,444**	9,974

The cost of inventories recognised as expenses including those in cost of goods sold amounting to RMB 10,257,911,000 (2006: RMB8,474,855,000).

During the year ended 31 December 2007, the Group recognised impairment charge amounting to RMB12,620,000 (2006: RMB3,942,000) based on the shortfall of estimated net realisable value and as compared to net book value of inventories. The amount has been included in administrative expenses in the income statement.

No reversal (2006: RMB1,315,000) of a previous inventory write-down during the year ended 31 December 2007. The amount reversed was included in administrative expenses in the income statement.

15 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (a)	**1,687,671**	1,401,804	**50,512**	26,229
Less: provision for impairment of receivables (b)	**(50,957)**	(45,362)	**(511)**	(262)
Trade receivables – net	**1,636,714**	1,356,442	**50,001**	25,967
Bills receivable (c)	**541,646**	380,010	**611**	241
Other receivables and prepayments	**219,731**	263,503	**666,943**	7,696
Due from				
Subsidiaries (d)	**–**	–	**9,674**	625,018
Ultimate holding company (e)	**3,404**	4,071	**3,240**	3,792
Dividends receivable from subsidiaries	**–**	–	**97,097**	135,964
	2,401,495	2,004,026	**827,566**	798,678

Except for an aggregate amount of RMB17,346,000 dominated in US dollars or HK dollars, all trade and other receivables are dominated in RMB and aged within one year with the net book values of which approximate to the fair values.

Note:

(a) Trade receivables generated from credit sales generally have credit terms within 6 months. The ageing analysis of trade receivables is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**1,593,017**	1,306,538	**49,290**	26,229
6 months to 1 year	**45,964**	51,497	**1,168**	–
Over 1 year	**48,690**	43,769	**54**	–
	1,687,671	1,401,804	**50,512**	26,229

At 31 December 2007, trade receivables amounted to RMB24,818,000 (2006: RMB139,613,000) were discounted by companies in the Group to banks in the PRC with recourse. The corresponding collateralised borrowings were included in short-term bank borrowings.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers widely dispersed within the PRC.

15 TRADE AND OTHER RECEIVABLES *(Continued)*

Note: *(Continued)*

As at 31 December 2007, trade receivables of RMB50,957,000 (2006: RMB45,362,000) were impaired and fully provided for. The ageing of these receivables is as follows:

	2007 **RMB'000**	2006 RMB'000
Within 6 months to 1 year	**2,267**	1,593
Over 1 year	**48,690**	43,769
	50,957	45,362

As at 31 December 2007, trade receivables of RMB 43,697,000 (2006: RMB 49,904,000) were past due but not impaired. Most of these receivables are due from hospitals. Considering most of these customers are large state-owned hospitals and they have no default history in the past, the Group did not provide for these accounts receivable. The ageing analysis of these trade receivables is as follows:

	2007 **RMB'000**	2006 RMB'000
Within 6 months to 1 year	**43,697**	49,904

(b) Movements on provision for impairment of receivables are as follows:

	Group		**Company**	
	2007 **RMB'000**	2006 RMB'000	**2007** **RMB'000**	2006 RMB'000
At 1 January	**45,362**	44,881	**262**	–
Impairment charge	**13,285**	8,888	**249**	262
Receivables written-offs	**(7,690)**	(8,407)	**–**	–
At 31 December	**50,957**	45,362	**511**	262

The provision for impaired receivables has been included in administrative expenses in the income statement.

The other classes within trade and other receivables do not contain significant impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

(c) Bills receivables are mostly bank acceptances. These bank acceptances are accepted by state-owned banks with high credit ratings.

(d) The amounts due are unsecured, interest bearing at commercial market rates and repayable on demand.

(e) The amounts due are unsecured, interest free and repayable on demand.

16 BANK AND CASH BALANCES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**599,065**	417,316	**68,150**	4,762
Short-term deposits	**154,109**	71,812	**–**	59,969
	753,174	489,128	**68,150**	64,731

Cash at bank earned interests at floating rates based on daily bank deposit balances. As at 31 December 2007, maturity of short-term deposits varied from seven days to three months, depending on the cash requirements of the Group. Bank deposits earned interests at the short-term deposit rates, the effective interest rate of which ranges from 1.71% to 3.33% (2006: 1.62% to 1.80%).

The Group holds cash and cash equivalents dominated in US dollars and HK dollars amounting to RMB 11,681,000. The rest of the balance is all dominated in RMB and deposited in state-owned banks with high credit ratings. Management believes that the credit risk on cash and cash equivalents is remote.

17 SHARE CAPITAL

	As at 31 December 2006		Transfers (from)/to		As at 31 December 2007	
	No. of shares	Amount	No. of shares	Amount	No. of shares	Amount
		RMB'000		RMB'000		RMB'000
Share capital registered, issued and fully paid of RMB1 each						
Circulating state shares subject to exchange restrictions	489,600,000	489,600	(61,541,000)	(61,541)	428,059,000	428,059
H shares	219,900,000	219,900	–	–	219,900,000	219,900
A shares	101,400,000	101,400	61,541,000	61,541	162,941,000	162,941
	810,900,000	810,900	–	–	810,900,000	810,900
Share premium on issue of shares net of issuing expenses		781,134				781,134
Total		1,592,034				1,592,034

On 24 April 2007, Guanghzou Pharmaceutical Holdings Limited, the holding company of the Group, transferred 40,545,000 shares of the circulating state shares subject to exchange restrictions into A share market. On the same day, China Greatwall Asset Management Corporation, another shareholder of the Group, transferred 20,996,000 shares of the circulating state shares subject to exchange restrictions into A share market.

18 OTHER RESERVES

	Group				
	Capital reserve (Note a) RMB'000	Statutory surplus reserve (Note b) RMB'000	Statutory public welfare fund (Note b) RMB'000	Discretionary surplus reserve (Note b) RMB'000	Total RMB'000
At 1 January 2006	421,617	253,130	184,686	129,581	989,014
Transfers from retained earnings, net	2,690	45,412	–	35,408	83,510
Revaluation of investment property	13,116	–	–	–	13,116
Transfers	–	184,686	(184,686)	–	–
Disposal of a subsidiary	–	(154)	–	–	(154)
At 31 December 2006	437,423	483,074	–	164,989	1,085,486
At 1 January 2007	437,423	483,074	–	164,989	1,085,486
Transfers from reserves according to new CAS	–	(114,351)	–	15,062	(99,289)
Transfers from retained earnings, net	(2,819)	35,361	–	23,738	56,280
Revaluation of investment properties upon initial recognition *(Note 7)*	4,551	–	–	–	4,551
Fair value changes in available-for-sale financial assets, net of tax *(Note 13)*	7,520	–	–	–	7,520
Deferred tax liabilities arising from initial recognition of revaluation on investment properties *(Note 21)*	(3,658)	–	–	–	(3,658)
Change in deferred tax liabilities resulting from the change in tax rates	9,992	–	–	–	9,992
Others	446	–	–	–	446
At 31 December 2007	453,455	404,084	–	203,789	1,061,328

18 OTHER RESERVES *(Continued)*

	Company			
	Capital reserve	**Statutory surplus reserve** (Note b)	**Statutory public welfare fund** (Note b)	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	398,024	110,817	71,272	580,113
Transfers	–	71,272	(71,272)	–
Transfers from retained earnings, net	100	24,237	–	24,337
At 31 December 2006	398,124	206,326	–	604,450
At 1 January 2007	398,124	206,326	–	604,450
Transfer of reserve according to CAS (Note28)	–	(89,415)	–	(89,415)
Transfers from retained earnings, net (Note28)	100	31,623	–	31,723
At 31 December 2007	398,224	148,534	–	546,758

(a) Capital reserve

Transfers to/(from) retained earnings included:

- An amount of RMB 2,819,000 (2006: RMB1,323,000) represented depreciation on revalued fixed assets, net of deferred tax credits.
- An amount of RMB 4,551,000 (2006: RMB13,116,000) represented fair value gain on assets initially transferred from owner-occupied assets to investment properties.
- An amount of RMB 7,520,000 (2006:Nil) represented fair value gain on available-for-sale financial assets, net of deferred tax.
- An amount of RMB 9,992,000 (2006:Nil) represented the impact on deferred tax liabilities relating to revaluation of fixed assets as a result of change in enterprise income tax rates.
- An amount of RMB3,658,000 (2006:Nil) represented deferred tax liabilities arising from the initial recognition of fair value gain on investment properties.
- An amount of RMB 446,000 (2006:Nil) represented income from government grant.

Upon approval from the Board of Directors, capital reserve, other than those relating to receipts of donated non-cash assets and equity investments held, can be used to increase capital. Capital reserve arising from receipts of donated non-cash assets and equity investments can only be used to increase capital after the donated assets or investments have been disposed of.

18 OTHER RESERVES *(Continued)*

(b) Surplus reserve

The Company, its subsidiaries, jointly controlled entities and associates established in the PRC ("PRC companies") are required to maintain certain surplus reserves by transferring from their profits after income tax in accordance with the relevant laws and regulations and, if applicable, Articles of Association, before any dividend is declared and paid.

The new Chinese Accounting Standards ("CAS") are required to be adopted by all listed companies in the PRC from 2007. The Group retrospectively adjusted its financial statements according to the CAS and the surplus reserve is therefore adjusted based on the adjusted net profit. The statutory surplus reserve and discretionary surplus reserve in the report prepared under Hong Kong Financial Reporting Standards have been adjusted to align with the PRC statutory audit reports.

Statutory surplus reserve

The PRC companies are required to transfer 10% of their profit after income tax calculated in accordance with CAS, to the statutory surplus reserve until the balance reaches 50% of their respective registered capital, where further transfers will be at their directors' recommendation. The statutory surplus reserve can only be used to make up prior years' losses or to increase share capital.

Discretionary surplus reserve

In accordance with relevant PRC regulations and subject to approval by shareholders in general meeting, discretionary surplus reserve fund can be used to reduce any losses incurred, to increase share capital or to pay dividends.

19 TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (a)	**1,556,404**	1,067,798	**35,910**	22,722
Due to				
– Subsidiaries (b)	**–**	–	**–**	11,343
– Ultimate holding company (b)	**5,142**	16,994	**–**	–
Other payables and accrued charges	**352,613**	453,108	**27,834**	8,034
	1,914,159	1,537,900	**63,744**	42,099

(a) The ageing analysis of trade payables as at 31 December is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**1,523,036**	1,019,514	**35,910**	22,722
1 year to 2 years	**20,543**	25,241	**–**	–
Over 2 years	**12,825**	23,043	**–**	–
	1,556,404	1,067,798	**35,910**	22,722

(b) The amounts due are unsecured, interest free and repayable on demand.

20 BORROWINGS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Short-term bank borrowings – secured	**25,000**	30,000	**–**	–
Short-term bank borrowings – unsecured	**931,488**	858,199	**50,000**	30,000
	956,488	888,199	**50,000**	30,000

All bank borrowings are bearing interest at prevailing market rates. Bank borrowings have been secured by property, plant and equipment of the Group with carrying value of RMB52,490,000 as at 31 December 2007 (2006: RMB54,970,000) (Note 6).

The repayment terms of borrowings were as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**956,488**	888,199	**50,000**	30,000

The effective interest rates at the balance sheet date were as follows:

	2007	2006
Short-term bank borrowings	**5.582%**	5.347%

The carrying amounts of short-term borrowings approximate their fair values.

The carrying amounts of the majority of the Group's borrowings are denominated in RMB.

20 BORROWINGS *(Continued)*

The Group has the following undrawn borrowing facilities:

	2007	2006
	RMB'000	RMB'000
Floating rate		
– expiring within one year	**20,673**	23,976

21 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The Group did not have such offset amount as at 31 December 2007 (2006: Nil).

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred income tax assets:				
– Deferred income tax assets to be recovered within 12 months	**29,970**	17,950	**1,283**	–
– Deferred income tax assets to be recovered after more than 12 months	**23,692**	47,002	**254**	4,687
	53,662	64,952	**1,537**	4,687

In accordance with the PRC tax law or other tax regulations applicable to those companies in their respective jurisdictions, tax losses may be carried forward to offset against future taxable income. The Group did not recognise deferred tax assets of RMB 33,920,000 (2006: RMB 27,777,000) in respect of tax losses amounting to RMB135,678,000 (2006: RMB84,172,000), as management believes it is more likely than not that such tax losses would not be realised before they expire.

21 DEFERRED INCOME TAX *(Continued)*

Losses to expire were shown as below:

Year	RMB'000
2008	3,135
2009	31,654
2010	25,431
2011	23,952
2012	51,506
	135,678

	Group	
	2007	2006
	RMB'000	RMB'000
Deferred income tax liabilities:		
– Deferred income tax liabilities to be settled within 12 months	**652**	652
– Deferred income tax liabilities to be settled after more than 12 months	**35,576**	41,218
	36,228	41,870

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**23,082**	10,823	**4,687**	–
Recognised in the income statement (Note 27)	**(10,656)**	12,259	**(3,150)**	4,687
Recognised in equity	**5,008**	–	**–**	–
End of the year	**17,434**	23,082	**1,537**	4,687

21 DEFERRED INCOME TAX *(Continued)*

The movement in deferred income tax assets and liabilities during the year is as follows:

Deferred income tax assets

Group

	Provisions for assets		Provision for employee benefits		Others		Total	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
At 1 January	**15,980**	20,237	**16,198**	17,673	**32,774**	15,435	**64,952**	53,345
Credited/(Charged) to income statement	**(1,425)**	(4,257)	**(6,684)**	(1,475)	**(3,181)**	17,339	**(11,290)**	11,607
At 31 December	**14,555**	15,980	**9,514**	16,198	**29,593**	32,774	**53,662**	64,952

Company

	Provisions for assets		Provision for employee benefits		Others		Total	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
At 1 January	**3,424**	–	**70**	–	**1,193**	–	**4,687**	–
Credited/(Charged) to income statement	**(3,210)**	3,424	**(22)**	70	**82**	1,193	**(3,150)**	4,687
At 31 December	**214**	3,424	**48**	70	**1,275**	1,193	**1,537**	4,687

21 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities – Group

	Property, plant, and equipment revaluation		Others		Total	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
At 1 January	**41,870**	42,522	**–**	–	**41,870**	42,522
Charged/(credited) to equity	**(6,334)**	–	**1,326**	–	**(5,008)**	–
Charged/(credited) to income statement	**(652)**	(652)	**18**	–	**(634)**	(652)
At 31 December	**34,884**	41,870	**1,344**	–	**36,228**	41,870

22 EMPLOYEE BENEFITS – GROUP

	2007	2006
	RMB'000	RMB'000
Medical insurance scheme	**52,379**	60,197
Housing allowance scheme	**13,385**	15,694
	65,764	75,891
Less: Current portion of employee benefits included in other payables and accrued charges	**(24,656)**	(25,753)
	41,108	50,138

23 OTHER INCOME – NET

	2007 RMB'000	2006 RMB'000
Gain from dilution of equity interest in a subsidiary (Note 31)	**28,833**	–
Gross rental income from investment properties	**40,915**	36,743
Dividend income from available-for-sale financial assets (Note 31)	**440**	4,567
Income from disposals of available-for-sale financial assets (Note 31)	**3,097**	–
Income from disposals of financial assets at fair value through profit and loss (Note 31)	**–**	6,038
Others	**35,787**	27,848
	109,072	75,196

24 EXPENSES BY NATURE

Cost of goods sold, selling and marketing costs and administrative expenses are analysed as below:

	2007 RMB'000	2006 RMB'000
Depreciation and amortization (Notes 6, 8 and 9)	**130,929**	145,428
Impairment charge of available-for-sale financial assets (Note 13)	**1,731**	1,769
Impairment charge of property, plant, and equipment (Note 6)	**44**	209
Decline in value of financial assets at fair value through profit or loss	**–**	1,951
Impairment charge of receivables, net of reversal	**9,676**	10,801
Net impairment charge of inventories (Note 14)	**12,620**	2,627
Outgoings in respect of investment properties	**2,711**	3,809
Loss on disposal of property, plant, and equipment (Note 31)	**1,916**	2,516
Research and development expenses	**44,782**	36,926
Transportation	**69,337**	59,397
Advertising costs	**253,045**	206,110
Changes in finished goods and work in progress (Note 14)	**(46,129)**	(23,235)
Raw materials and consumables used	**1,642,338**	1,248,465
Changes in merchandise (Note 14)	**(55,342)**	(109,095)
Merchandise purchased	**8,530,702**	7,221,571
Auditors' remuneration	**3,590**	3,488
Operating leases for buildings (Note 6)	**39,242**	33,034
Employee benefit expenses including directors' and supervisors' emoluments (Note 25)	**666,629**	680,823
Other expenses	**548,915**	380,328
Total cost of goods sold, selling and marketing costs and administrative expenses	**11,856,736**	9,906,922

25 EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses (including directors' and supervisors' emoluments) are analysed as follows:

	2007 RMB'000	2006 RMB'000
Pension benefits	**67,495**	68,145
Housing fund	**45,240**	42,637
Medical insurance	**47,119**	36,864
Housing allowances	**12,822**	13,090
Salaries, wages and other staff benefits	**493,953**	520,087
	666,629	680,823
Number of employees	**7,955**	8,223

(b) Directors' and supervisors' emoluments

The remuneration of every director and supervisor for the year ended 31 December 2007 is set out below:

	Fees RMB'000	Salaries and other benefits RMB'000	Bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Name of director					
Yang Rongming (a)	–	296	123	–	419
Shi Shaobin (a)	–	267	260	–	527
Feng Zansheng (a)	–	176	469	–	645
Wong Hin Wing	80	–	–	–	80
Liu Jinxiang (b)	43	–	–	–	43
Li Shanmin (b)	43	–	–	–	43
Zhang Yonghua (b)	43	–	–	–	43
Wu Zhang (c)	40	–	–	–	40
Zhang Heyong (c)	40	–	–	–	40
Zhou Yuejin (c)	–	–	–	–	–
Xie Bin (c)	–	–	–	–	–
Chen Zhinong (c)	–	–	–	–	–
Name of supervisor					
Yang Xiuwei (d)	–	117	119	–	236
Wu Quan (d)	–	104	30	38	172
Zhong Yugan	–	30	–	–	30
Chen Chanying (e)	–	101	–	–	101
Ouyang Qiang (e)	–	105	–	–	105

25 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Directors' and supervisors' emoluments *(Continued)*

The remuneration of every director and supervisor for the year ended 31 December 2006 is set out below:

	Fees	Salaries and other benefits	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Name of director				
Yang Rongming	–	207	100	307
Zhou Yuejin	–	73	159	232
Xie Bin	–	96	281	377
Chen Zhinong	–	92	93	185
Feng Zansheng	–	130	481	611
Wu Zhang	80	–	–	80
Wong Hin Wing	80	–	–	80
Zhang Heyong	80	–	–	80
Name of supervisor				
Chen Canying	–	190	58	248
Ouyang Qiang	–	111	45	156
Zhong Yugan	–	30	–	30

Notes:

(a): The director or supervisor received emoluments from the parent company, part of which are in respect of his services to the Company and its subsidiaries. No apportionment has been made as the director considers that it is impracticable to apportion this amount between their services to the Group and their services to the Company's parent company.

(b): Appointed in June 2007.

(c): Resigned in June 2007.

(d): Appointed in June 2007

(e): Resigned in June 2007.

No directors and supervisors waived or agreed to waive any emoluments in respect of the years ended 31 December 2007 and 31 December 2006.

25 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

	2007	2006
	RMB'000	RMB'000
Basic salaries and allowances	**250**	374
Bonuses	**696**	1,327

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
Nil – RMB1,000,000	**3**	3

26 FINANCE COSTS – NET

	2007	2006
	RMB'000	RMB'000
Interest expense on borrowings	**56,936**	46,510
Other incidental borrowing costs	**10,697**	8,603
Finance costs	**67,633**	55,113
Less: Finance income – Interest income	**(7,934)**	(9,753)
Finance costs – net	**59,699**	45,360

27 INCOME TAX EXPENSE

The PRC enterprise income tax has been provided at the principal rate of 33% (2006: 33%) on the estimated assessable profit for the year, except for a subsidiary and a jointly controlled entity which are foreign investment production enterprises and four subsidiaries which are qualified as “Advanced Technology Enterprise”. The subsidiary is a production enterprise with foreign investment and the applicable enterprise income tax rate is 24%. The applicable tax rate of the jointly controlled entity is 24% and it is also entitled to an exemption from the PRC enterprise income tax for two years commencing from the first profit-making year and a 50% reduction in the enterprise income tax rate in the following three years. The applicable enterprise income tax rate for the four subsidiaries qualified as “Advanced Technology Enterprise” is 15%.

Effective from 1 January 2008, the Company shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People’s Republic of China (hereinafter “the new CIT Law”) as approved by the National People’s Congress on 16 March 2007. Under the new CIT Law, the applicable income tax rate of the companies within the Group is 25% from 1 January 2008.

	2007 RMB’000	2006 RMB’000
Current income tax	**116,299**	130,826
Deferred income tax (Note 21)	**10,656**	(12,259)
	126,955	118,567

The taxation on the Group’s profit before income tax differs from the theoretical amount that would arise using the principal rate of the PRC enterprise income tax as follows:

	2007 RMB’000	2006 RMB’000
Profit before income tax	**456,806**	349,155
Calculated at a rate of 33% (2006: 33%)	**150,746**	115,221
Effect of different rates applicable to subsidiaries and a jointly controlled entity	**(54,407)**	(15,289)
Income not subject to taxation	**(2,407)**	(1,850)
Effect on deferred tax arising from change of income tax rate	**17,172**	–
Expenses not deductible for taxation purposes	**15,851**	20,485
Taxation charge	**126,955**	118,567

28 RETAINED EARNINGS AND PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	2007 RMB'000	2006 RMB'000
At 1 January	**216,866**	114,706
Profit for the year	**162,594**	183,259
Dividend (Note 30)	**(68,116)**	(56,763)
Transfer from other of reserve according to new CAS (Note 18)	**89,415**	–
Transfers to other reserves (Note 18)	**(31,723)**	(24,336)
At 31 December	**369,036**	216,866

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB162,594,000 (2006: RMB183,259,000).

29 EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the Company of RMB320,343,000 (2006: RMB218,067,000) and the 810,900,000 (2006: 810,900,000) shares in issue.

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the years ended 31 December 2007 and 2006.

30 DIVIDEND

	2007 RMB'000	2006 RMB'000
Final, proposed, of RMB0.124 (2006: RMB0.084) per share	**100,552**	68,116

At a meeting held on 28 March 2008, the directors declared a final dividend of RMB0.124 per share. The proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

The amount of profits available for distribution to equity holders of the Company is the lower of the amount determined in accordance with CAS and the amount determined in accordance with HKFRS.

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Cash generated from operations

	2007 RMB'000	2006 RMB'000
Profit for the year	**329,851**	230,588
Adjustments for:		
– Taxation (Note 27)	**126,955**	118,567
– Depreciation (Note 6)	**111,940**	126,633
– Amortisation (Notes 8 and 9)	**18,989**	18,795
– Impairment charge (Note 24)	**24,071**	17,357
– Loss on disposal of property, plant and equipment *	**1,916**	2,516
– Interest income (Note 26)	**(7,934)**	(9,753)
– Gain from dilution of equity interest in a subsidiary (Note 23)	**(28,833)**	–
– Dividend income from available-for-sale financial assets (Note 23)	**(440)**	(4,567)
– Income from the disposal of available-for-sale financial assets (Note 23)	**(3,097)**	–
– Income from disposal of financial assets at fair value through profit and loss (Note 23)	**–**	(6,038)
– Finance costs (Note 26)	**56,936**	46,510
– Share of (gains)/losses of associates (Note 11)	**(7,889)**	279
	622,465	540,887
Changes in working capital:		
– Inventories	**(104,991)**	(180,502)
– Trade and other receivables	**(460,977)**	(339,074)
– Trade and other payables	**467,892**	119,250
Cash generated from operations	**524,389**	140,561

* In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2007 RMB'000	2006 RMB'000
Net book amount (Note 6)	**4,142**	8,226
Loss on disposal of property, plant and equipment (Note 24)	**(1,916)**	(2,516)
Proceeds from disposal of property, plant and equipment	**2,226**	5,710

32 COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Property, plant and equipment		
– Contracted but not provided for	**39,400**	12,677
– Authorised but not contracted for	**5,386**	13,580
	44,786	26,257

(b) Commitments under operating leases

At 31 December 2007, the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not later than 1 year	**46,031**	26,610	**1,324**	721
Later than 1 year and not later than 5 years	**31,079**	42,260	**2,745**	–
Later than 5 years	**30,001**	21,868	**–**	–
	107,111	90,738	**4,069**	721

32 COMMITMENTS *(Continued)*

(c) Future operating lease receivables

At 31 December 2007, the future aggregate minimum lease rental receivables under non-cancellable operating leases in respect of buildings are as follows:

	Group	
	2007	2006
	RMB'000	RMB'000
Not later than 1 year	**28,540**	31,949
Later than 1 year and not later than 5 years	**11,371**	35,487
Later than 5 years	**4,376**	4,911
	44,287	72,347

33 RELATED-PARTY TRANSACTIONS

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

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

		2007	2006
	Note	**RMB'000**	RMB'000
Ultimate holding company			
License fee expenses	a	**15,937**	10,782
Service fee expenses	b	**1,015**	939
Welfare facilities fee expenses	c	**393**	274
Rental expenses	d	**2,643**	2,944
		19,988	14,939
A jointly controlled entity			
Sales of raw materials	e	**42,903**	40,194
Purchases of finished goods	e	**102,199**	96,605
		145,102	136,799

33 RELATED-PARTY TRANSACTIONS *(Continued)*

	Note	2007 RMB'000	2006 RMB'000
Associates			
Advertising expenses	e	**25,460**	19,144
Fellow subsidiaries			
Sales of finished goods and raw materials	e	**162,683**	196,786
Purchases of finished goods and raw materials	e	**511,570**	555,962
		674,253	752,748
Other state-controlled entities	f		
Sales of finished goods and raw materials	e	**2,923,713**	3,331,272
Purchases of finished goods and raw materials	e	**1,378,308**	1,175,509
Purchases of machinery and equipment	e	**401**	1,729
Service fee expenses	g	**92,697**	85,230
		4,395,119	4,593,740
Key management compensation			
Salaries and other benefits		**1,885**	1,212
Bonuses		**1,272**	2,004
		3,157	3,216

Year-end balances arising from sales/purchases of goods/services

	Note	2007 RMB'000	2006 RMB'000
Due from ultimate holding company		**3,404**	4,071
Due to ultimate holding company	i	**8,326**	16,994
Due from fellow subsidiaries	i	**34,296**	82,236
Due to fellow subsidiaries	i	**40,294**	41,902
Due from other state-controlled entities	h	**662,310**	242,848
Less: Provision for impairment of receivables	h	**(19,998)**	(7,857)
		642,312	234,991
Due to other state-controlled entities	i	**105,172**	79,625

33 RELATED-PARTY TRANSACTIONS *(Continued)*

(a) Pursuant to the Trademark License Agreement entered into by the Company and GZPHL, its ultimate holding company, on 1 September 1997 and its supplementary agreement dated 28 July 2005, GZPHL has granted the Company, its subsidiaries and a jointly controlled entity, an exclusive right to use 38 trademarks owned by GZPHL for a term of 10 years. The Company agreed to pay a license fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries and at 2.1% of the aggregate net sales of a jointly controlled entity.

(b) Pursuant to the Accommodation Services Agreement entered into by the Company and GZPHL on 1 September 1997 and a supplemental notice dated 31 December 1997, GZPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement expired on 31 December 2007.

(c) Pursuant to the Composite Services Agreement entered into by the Company and GZPHL on 1 September 1997, GZPHL agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to GZPHL's total depreciation charges of the welfare facilities for the year ended 31 December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement expired on 31 December 2007.

(d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GZPHL on 6 February 2004, GZPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three and a half years at a fixed annual rent which is subject to the adjustment of standard rent as prescribed from time to time by Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable based on actual consumption. The agreement expired on 31 August 2007.

(e) The sales and purchase transactions with the jointly controlled entity, associates, fellow subsidiaries and other state-owned entities were at terms similar to those transactions with other third parties.

33 RELATED-PARTY TRANSACTIONS *(Continued)*

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

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

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

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

(h) The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest.

(i) The receivables and payables to related parties arise mainly from sales and purchase transactions. The receivables and payables bear no interest.

34 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2007:

Name	% of equity interest held Directly	Indirectly	Registered capital RMB	Principal activities
Guangzhou First Chinese Medicine Company Limited [3]	100.00	–	166,000,000	Production of CPM
Guangzhou Chen Li Ji Chinese Medicine Factory [1]	100.00	–	94,000,000	Production of CPM
Guangzhou Qi Xing Pharmaceutical Factory [1]	100.00	–	82,416,741	Investment holdings
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. [3]	88.40	–	86,232,345	Production of CPM
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. [3]	87.77	–	65,436,232	Production of CPM
Guangzhou Xing Qun Pharmaceutical Co., Ltd. [3]	88.99	–	77,168,904	Production of CPM
Guangzhou Pharmaceutical Corporation Limited [4]	77.64	6.75	222,000,000	Trading of western pharmaceutical products and medical apparatus
Guangzhou Cai Zhi Lin Pharmaceutical Co.,Ltd [2]	100.00	–	72,026,905	Trading of CPM and Chinese raw medicine
Guangzhou Pharmaceutical Corporation Limited Of Jianmin Medicine Chain [2]	–	96.99	10,694,000	Wholesale and retailing of medicine, pharmaceutical and related products
Guangzhou Xin Te Pharmaceutical Co.,Ltd [2]	–	96.99	3,000,000	Wholesale of miscellaneous medicine
Guangzhou Jianmin Pharmaceutical Corporation Limited [2]	–	96.99	500,000	Wholesale of western pharmaceutical products

34 PRINCIPAL SUBSIDIARIES *(Continued)*

Name	% of equity interest held Directly	Indirectly	Registered capital RMB	Principal activities
Guangzhou Pharmaceutical Import & Export Corporation [1]	100.00	–	2,568,000	Import and export of medicine
Guangzhou Qi Xing Pharmaceutical Co., Ltd. [4]	–	75.00	100,000,000	Production of CPM
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory [1]	–	100.00	3,113,000	Processing of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Medical Powder and Herb Wholesale Company [1]	–	100.00	534,000	Wholesale of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Sales and Marketing Company [1]	–	100.00	2,083,000	Wholesale and retailing of CPM
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies [1]	–	100.00	3,934,000	Retailing of Chinese raw medicine and CPM
Guangzhou Medical Equipment and Chemical Testing Equipment Co., Ltd. [2]	–	89.32	11,880,000	Wholesale and retailing of medical apparatus and chemical testing equipment
Guangzhou Hanfang Contemporary [2] Chinese Medicine Research and Development Co., Ltd.	70.04	2.91	127,764,300	Research and development of CPM
Guangzhou Baidi Biological Pharmaceutical Co., Ltd. [2]	95.69	–	83,600,000	Research and development of patented biological products
Guangzhou Huanye Medicine Co., Ltd. [2]	100.00	–	6,000,000	Production of western pharmaceutical products

34 PRINCIPAL SUBSIDIARIES *(Continued)*

Name	% of equity interest held Directly	% of equity interest held Indirectly	Registered capital RMB	Principal activities
Guangzhou Guo Ying Co.Ltd [2]	–	96.99	9,070,000	Wholesale of medicine and health care products
Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd. [2]	51.00	–	18,407,863	Wholesale of medicine and health care products
Guangxi Ying Kang Pharmaceutical Co., Ltd. [2]	51.00	–	31,884,529	Production of CPM

Except for the change in equity interest in Guangzhou Pharmaceutical Corporation Limited from 90.09% to 77.64% (note 35) during the year, there has not been any change in equity interest in other principal subsidiaries held by the Group since 31 December 2006.

The above principal subsidiaries are all operated in the PRC.

Kind of legal entities:

[1] State-owned enterprise
[2] Limited company
[3] Joint stock company
[4] Sino-foreign joint venture

35 EVENTS AFTER BALANCE SHEET DATE

Guangzhou Pharmaceutical Corporation Limited ("GPC Limited") is a principal subsidiary of the Company. On 27 January 2007, all other investors of GPC Limited, except for the Company have entered into "a share transfer agreement" with Alliance BMP Limited, whereby the other investors agreed to transfer all their respective equity interests in GPC Limited to Alliance BMP Limited. Before the transfer agreement was reached, the Group had injected paid-in capital of RMB199,999,800 into GPC Limited and held 90.09% interest while the other minority shareholders held the remaining 9.91% interest of GPC Limited.

In addition, on 27 January 2007, the Company entered into an agreement with Alliance BMP Limited, whereby both parties agreed to increase the registered capital of GPC Limited from RMB222,000,000 to RMB400,000,000.

On 18 December 2007, GPC Limited received GBP6,770,000 (equivalent to approximately RMB100,860,137) from Alliance BMP Limited, of which RMB35,600,000 was contributed as paid-in capital. After this injection, the Group's interest in GPC Limited was diluted to 77.64% and Alliance BMP Limited's interest in GPC Limited became 13.82%.

On 8 January 2008, GPC limited received GPB 26,809,532 (equivalent to approximately RMB384,228,863) from Alliance BMP Limited, of which RMB142,400,000 was contributed as paid-in capital. After the second capital injection, the Company's interest in GPC limited was further diluted to 50% and Alliance BMP Limited's interest in GPC limited become 44.5%

On 28 January 2008, Alliance BMP Limited paid RMB 59,955,500 to other shareholders of GPC Limited to acquire all their interests in GPC Limited. After all these transactions, the Company and Alliance BMP Limited each own 50% equity interest in GPC limited. Since then, GPC limited ceased to be a subsidiary of the Company and became a jointly control entity of the Company.

36 COMPARATIVE FIGURES

Certain comparative figures in the cost of good sold, distribution costs and administrative expenses for the year ended 31 December 2006 have been reclassified to conform to the current year presentation.

Documents Available for Inspection

1. The financial statements signed by the legal representative and the Financial Controller of the Company;

2. The auditor's reports sealed and signed by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers Certified Public Accountants together with the financial statements prepared by them in accordance with PRC Accounting Standards and HKFRS, respectively;

3. The original company documents disclosed and announcements published in Shanghai Securities, Hong Kong Economic Times and The Standard during the Reporting Period;

4. The documents listed above are available at the Secretariat to the Board, located at 2nd Floor, 45 Sha Mian North Street, Guangzhou, Guangdong, the PRC.