2009
Annual Report

廣州藥業股份有限公司
Guangzhou Pharmaceutical Company Limited
(Stock code: 874)

Contents

1. 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., the domestic auditors, and PricewaterhouseCoopers, the international auditors, have audited the financial reports of the Company together with its subsidiaries (collectively the "Group") and the Company for the year ended 31 December 2009 (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. There has been non-operational appropriation of funds of the Company by its connected parties *(please refer to Major Events contained in this annual report)*.

V. The Company had not provided any external guarantee in violation of the decision-making procedures stipulated by the Company or relevant authorities.

VI. 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.	Secretary of the Board:	Pang Jianhui
	Representative of securities affairs:	Huang Xuezhen
	Address:	45 Sha Mian North Street, Liwan District, Guangzhou City Guangdong Province, the PRC
	Telephone:	(8620) 8121 8084/8121 8119
	Fax:	(8620) 8121 6408
	E-mail:	pangjh@gpc.com.cn/ huangxz@gpc.com.cn
IV.	Registered address and office:	45 Sha Mian North Street, Liwan District Guangzhou City, Guangdong Province, the PRC
	Postal code:	510130
	Internet website:	http://www.gpc.com.cn
	E-mail:	sec@gpc.com.cn
	Principal place of business in Hong Kong:	Room 2005, 20th Floor, Tower Two Lippo Center 89 Queensway, Hong Kong
V.	Designated newspapers for information disclosure:	Mainland China: Shanghai Securities News
	Internet website designated by the China Securities Regulatory Commission for publishing this 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 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, Liwan District Guangzhou City, Guangdong Province, the PRC
	Registration date for subsequent change:	9 November 2009
	Place of registration for subsequent change:	45 Sha Mian North Street, Liwan District Guangzhou City, Guangdong Province, the PRC
	Business registration number:	4401011101830
	Tax registration number:	44010063320680x
	Organization code:	63320680-X
	Auditors:	PRC auditors: Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd 11th Floor, Yao Zhong Plaza, No. 3~15 Linhexi Road, Tianhe District Guangzhou City, Guangdong Province, the PRC International auditors: PricewaterhouseCoopers 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	2009 (RMB'000)
Operating profit	**207,077**
Total profit	**231,331**
Net profit attributable to the shareholders of the Company	**210,989**
Net profit attributable to the shareholders of the Company after deducting non-operating items	**156,584**
Net cash inflows from operating activities	**439,393**

Notes:

1. The above financial data and indicators are computed based on the consolidated financial statements.
2. Items and amounts related to non-operating items include:

Items	Amount (RMB'000)	Remarks
Gain/(Loss) on disposal of non-current assets	**(177)**	
Government subsidies recognized as gain/(loss)	**26,622**	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.
Capital use fees received from non-financial enterprises recognized as gain/(loss)	**1,871**	This is the net interest income received for the provision of entrusted loans from the Company to its joint venture, namely Guangzhou Pharmaceuticals Corporation ("GP Corp.")
Gain/(Loss) changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging business related to normal operating activities of the Company), as well as investment gains received from disposal of trading financial assets	**2,324**	

I. EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS *(Continued)*

Items	Amount (RMB'000)	Remarks
Write back of provision for impairment of accounts receivables undergoing independent impairment test	**28,374**	During the Reporting Period, the Company's subsidiaries strengthened clearance of accounts receivable, and provision for impairment of accounts receivable was written back during the Reporting Period.
Gain/(Loss) received from entrusted loans	**4,222**	This is the net interest income received for the provision of entrusted loans from the Company to GP Corp..
Other non-operating income and expenses excluding the above items	**(2,192)**	
Other gain/loss items within the definition of non-operating items		
Income tax effect	**(2,457)**	
Effect on minority interest	**(4,183)**	
Total	**54,404**	

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

	note	As at 31 December 2009 (RMB'000)	As at 31 December 2008 (RMB'000)
Net assets attributable to shareholders of the Company under the PRC Accounting Standards		**3,304,186**	3,124,842
Difference arising from fixed assets revaluation	2	**102,995**	118,761
Revaluation of investment properties	3	**97,257**	64,733
Revaluation of investment on China Everbright Bank Company Limited	7	**15,523**	–
Net effect of deferred tax	4	**(53,512)**	(46,425)
Deferred government subsidies	5	**–**	(2,387)
Difference in minority interests	6	**(16,447)**	(14,219)
Capital and reserves attributable to shareholders of the Company under HKFRS		**3,450,002**	3,245,305

	note	2009 (RMB'000)	2008 (RMB'000)
Net profit attributable to shareholders of the Company under the PRC Accounting Standards		**210,989**	182,496
Amortisation of intangible assets	1	**–**	(16,669)
Additional depreciation on revalued fixed assets	2	**(4,967)**	(4,967)
Difference arising from investment properties in cost model and fair value model	3	**2,634**	27,155
Provision for deferred taxation	4	**4,099**	(6,402)
Government subsidies recognized as deferred income through profit and loss	5	**2,387**	446
Difference in minority interests	6	**(242)**	(230)
Profit attributable to shareholders of the Company under HKFRS		**214,900**	181,829

Notes:

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 the PRC Accounting Standards the staff quarter reform costs were written off against retained earnings of the year in which they were incurred.

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

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 the PRC Accounting Standards. The depreciation charge under HKFRS is higher than that calculated under the PRC Accounting Standards as the depreciation charge under HKFRS is based on the revalued amount of fixed assets.

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

4. This represents the deferred tax liabilities arising from the differences as described in note 2, note 3 and note 7.

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

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

7. The Group's investment in China Everbright Bank Company Limited is measured with historical cost under the PRC Accounting Standards, while it is measured with fair value in the financial statements prepared under HKFRS.

III. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS

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

Principal accounting data	**2009**	2008	Year on year increase/ decrease (%)	2007
Income from operations (RMB'000)	**3,881,938**	3,527,424	10.05	11,937,487
Total profit (RMB'000)	**231,331**	202,179	14.42	465,114
Net profit attributable to the shareholders of the Company (RMB'000)	**210,989**	182,496	15.61	335,094
Net profit attributable to the shareholders of the Company after deducting non-operating items (RMB'000)	**156,584**	87,698	78.55	292,687
Net cash flow from operating activities (RMB'000)	**439,393**	6,103	7,099.06	269,396
	As at 31 December 2009	As at 31 December 2008	Year on year increase/ decrease (%)	As at 31 December 2007
Total assets (RMB'000)	**4,222,496**	4,130,904	2.22	6,165,542
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	**3,304,186**	3,124,842	5.74	3,060,348

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

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

Principal accounting data	2009	2008	Year on year increase/ decrease (%)	2007
Basic earnings per share (RMB)	**0.260**	0.225	15.61	0.413
Diluted earnings per share (RMB)	**0.260**	0.225	15.61	0.413
Basic earnings per share after deducting non-operating items (RMB)	**0.193**	0.108	78.55	0.361
Fully diluted return on net assets ratio (%)	**6.39**	5.84	An increase of 0.55 percentage point	10.95
Weighted average return on net assets ratio (%)	**6.56**	5.88	An increase of 0.68 percentage point	11.46
Ratio of fully diluted return on net assets after deducting non-operating items (%)	**4.74**	2.81	An increase of 1.93 percentage points	9.56
Ratio of weighted return on net assets after deducting non-operating items (%)	**4.87**	2.83	An increase of 2.04 percentage points	10.01
Net cash flow from operating activities per share (RMB)	**0.54**	0.01	7,099.06	0.33

	As at 31 December 2009	As at 31 December 2008	Year on year increase/ decrease (%)	As at 31 December 2007
Net assets per share attributable to the shareholders of the Company (RMB)	**4.07**	3.85	5.74	3.77

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

2. Accounts prepared in accordance with HKFRS

Items	**2009**	2008	2007	2006	2005
Turnover (RMB'000)	**3,802,423**	3,450,586	11,873,514	10,049,091	8,784,637
Profit before income tax (RMB'000)	**235,168**	208,552	449,710	349,155	315,493
Profit attributable to shareholders of the Company (RMB'000)	**214,900**	181,829	320,343	218,067	197,804
Earnings per share (RMB)	**0.265**	0.224	0.395	0.269	0.244

Items	**As at 31 December 2009**	As at 31 December 2008	As at 31 December 2007	As at 31 December 2006	As at 31 December 2005
Total assets (RMB'000)	**4,449,007**	4,354,664	6,351,721	5,610,740	5,293,769
Total liabilities (RMB'000)	**885,341**	993,899	2,934,329	2,530,360	2,368,539
Capital and reserves attributable to shareholders of the Company (RMB'000)	**3,450,002**	3,245,305	3,168,021	2,897,389	2,737,123
Capital and reserves per share attributable to shareholders of the Company (RMB)	**4.25**	4.00	3.91	3.57	3.36
Return on capital and reserves attributable to shareholders of the Company (%)	**6.23**	5.60	10.11	7.53	7.26
Ratio of capital and reserves attributable to shareholders of the Company to total assets (%)	**77.55**	74.52	49.88	51.64	51.70
Gearing ratio (%) (Note)	**19.90**	22.82	46.20	45.10	44.75

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

IV. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD IN 2009 (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' equity (RMB'000)
Opening balance	810,900	1,143,291	538,307	632,344	3,124,842
Additions	–	2,834	18,302	210,989	232,125
Deductions	–	2,042	–	50,739	52,781
Closing balance	810,900	1,144,083	556,609	792,594	3,304,186

Reasons for the changes:

(1) Changes in capital reserve: changes in capital reserve for the Year was contributed by the net increase in capital reserve arising from the fair value movement in available-for-sale assets of the Company's subsidiaries, which was based on the proportion of equity interest held by the Group, and the movement in capital reserve in the Company's joint ventures under the equity method.

(2) Changes in surplus reserves: increase in surplus reserve for the Year resulted from the statutory surplus reserve accrued by the Company according to its net profit for the Year.

IV. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD IN 2009 (CONSOLIDATED) *(Continued)*

2. Extracted from the accounts prepared in accordance with HKFRS

	Share capital (RMB'000)	Capital reserve (RMB'000)	Statutory surplus reserve (RMB'000)	Discretionary surplus reserve (RMB'000)	Investment properties revaluation reserves (RMB'000)	Available-for-sale financial assets revaluation reserves (RMB'000)	Property, plan and equipment revaluation reserves (RMB'000)	Retain earnings (RMB'000)	Subtotal (RMB'000)	Minority interest (RMB'000)	Total (RMB'000)
As at 1 January 2009	1,592,034	326,117	334,518	203,789	27,467	3,765	88,834	668,781	3,245,305	115,460	3,360,765
Comprehensive income											
Profit or (loss) for the year	–	–	–	–	–	–	–	214,900	214,900	(2,223)	212,677
Other comprehensive income											
Fair value gains, gross											
– Available-for-sale financial assets	–	–	–	–	–	16,715	–	–	16,715	29	16,744
Fair value gains, tax											
– Available-for-sale financial assets	–	–	–	–	–	(4,077)	–	–	(4,077)	(4)	(4,081)
Jointly controlled entities, fair value gains, net of tax											
– Available-for-sale financial assets	–	–	–	–	–	225	–	–	225	–	225
Jointly controlled entities, disposal of											
– Available-for-sale financial assets, net of tax	–	–	–	–	–	(1,917)	–	–	(1,917)	–	(1,917)
Revaluation of investment properties upon transfer from property, plant and equipment, leasehold land and land use rights – tax	–	–	–	–	13,067	–	–	–	13,067	1,177	14,244
Revaluation of investment properties upon transfer from property, plant and equipment, leasehold land and land use rights – tax	–	–	–	–	(3,267)	–	–	–	(3,267)	(294)	(3,561)
Transfer the asset revaluation surplus to investment properties – gross	–	–	–	–	10,799	–	(10,799)	–	–	–	–
Transfer the asset revaluation surplus to investment properties – tax	–	–	–	–	(2,700)	–	2,700	–	–	–	–
Depreciation transfer on asset revaluation upon reorganisation, gross	–	–	–	–	–	–	(4,967)	4,967	–	–	–
Depreciation transfer on asset revaluation upon reorganisation, tax	–	–	–	–	–	–	1,615	(1,615)	–	–	–
Others	–	1,612	–	–	–	–	–	–	1,612	537	2,149
Transactions with owners											
Impact of subsidiaries merged	–	(125)	–	–	–	–	–	–	(125)	125	–
Dividend relating to 2008	–	–	–	–	–	–	–	(32,436)	(32,436)	(1,143)	(33,579)
Appropriation to surplus reserves	–	–	18,303	–	–	–	–	(18,303)	–	–	–
Others	–	2,387	–	–	–	–	–	(2,387)	–	–	–
As at 31 December 2009	1,592,034	329,991	352,821	203,789	45,366	14,711	77,383	833,907	3,450,002	113,664	3,563,666

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 with selling restrictions) (share)	Sub-total (share)	Number of shares (share)	Percentage (%)
I. Shares with selling restrictions									
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. Shares held by state-owned legal entities	342,201,509	42.20	-	-	-	(342,201,509)	(342,201,509)	0	0
3. Other domestic shares	45,312,000	5.59	-	-	-	(45,312,000)	(45,312,000)	0	0
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	**387,513,509**	**47.79**	**-**	**-**	**-**	**(387,513,509)**	**(387,513,509)**	**0**	**0**
II. Shares without selling restrictions									
1. Reminbi-denominated ordinary shares	203,486,491	25.09	-	-	-	387,513,509	387,513,509	591,000000	72.88
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	**423,386,491**	**52.21**	**-**	**-**	**-**	**387,513,509**	**387,513,509**	**810,900,000**	**100.00**
III. Total shares	**810,900,000**	**100.00**	**-**	**-**	**-**	**-**	**-**	**810,900,000**	**100.00**

On 24 April 2009, among the shares of GPC held by the controlling shareholder of the Company, namely Guangzhou Pharmaceutical Holdings Limited ("GPHL"), 342,201,509 shares with selling restrictions became tradable shares. In addition, 36,834,200 shares, 1,357,800 shares and 7,120,000 shares of GPC held respectively by Guangzhou Beicheng Rural Credit Cooperative ("Beicheng Cooperative"), Guangzhou Baiyun Rural Credit Cooperative ("Baiyun Cooperative"), Guangzhou Huangshi Rural Credit Cooperative ("Huangshi Cooperative"), which were shares with selling restrictions, became tradable shares on the same day. Since then, the shares of the Company have been fully circulated.

I. CHANGES IN SHARE CAPITAL *(Continued)*

2. Changes of shares with selling restrictions

Shareholders	Number of shares with selling restrictions before change (share)	Number of shares with selling restrictions (share)	Number of shares with selling restrictions after change (share)	Reasons of change	Date of change
GPHL	342,201,509	(342,201,509)	0	Listing and trading of shares with selling restrictions	24 April 2009
Beicheng Cooperative	36,834,200	(36,834,200)	0	Listing and trading of shares with selling restrictions	24 April 2009
Baiyun Cooperative	1,357,800	(1,357,800)	0	Listing and trading of shares with selling restrictions	24 April 2009
Huangshi Cooperative	7,120,000	(7,120,000)	0	Listing and trade of shares with selling restrictions	24 April 2009
Total	**387,513,509**	**(387,513,509)**	**0**	**-**	**-**

3. Securities issuance in the past three 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 2009, there were 63,318 shareholders in total, out of which 63,284 were holders of domestically listed Reminbi-denominated ordinary shares (A shares) and 34 were holders of overseas listed foreign capital shares (H shares).

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

As at 31 December 2009, the interests and short positions held by the persons (not being the directors, supervisors and senior management of the Company) in the shares and underlying shares of the Company which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "HKEx") pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") and as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

Shareholder	Nature of shares	Long Positions		Approximate % of the total issued domestic shares	Approximate % of the total issued H shares
		Number of shares held (share)	Capacity	(%)	(%)
GPHL	Domestic shares	390,833,391	beneficial owner	66.13	–
Beicheng Cooperative	Domestic shares	36,242,000	beneficial owner	6.13	–
JP Morgan Chase & Co.	H shares	15,796,000		–	7.18
		Of which:			
		138,000	beneficial owner	–	0.06
		15,658,000 (Available shares for lending)	Custodian-the corporation/ approved lending agent	–	7.12
Fidelity Limited	H shares	11,268,000	investment manager	–	5.12

Note: As notified by HKSCC Nominees Limited, as at 31 December 2009, 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 2009, 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 2009 are set out as follows:

Shareholders	Nature of shares	Increase/ Decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)	Approximate % of the total issued share capital (%)	Number of shares with selling restrictions held (share)	Number of pledged or locked shares (share)
GPHL	Domestic shares	0	390,833,391	48.20	Nil	Nil
HKSCC Nominees Limited	H shares	(110,000)	219,197,299	27.03	Nil	Unknown
Beicheng Cooperative	Domestic shares	(8,300,000)	36,242,000	4.47	Nil	Nil
Lian Yong	Domestic shares	1,691,560	1,691,560	0.21	Nil	Unknown
Meng Xiongtong	Domestic shares	1,113,000	1,113,000	0.14	Nil	Unknown
Zhang Rong	Domestic shares	1,000,000	1,000,000	0.12	Nil	Unknown
ICBC–GF CSI 500 Index Securities Investment Fund (LOF)	Domestic shares	733,100	733,100	0.09	Nil	Unknown
Guo Yue	Domestic shares	500,000	500,000	0.06	Nil	Unknown
Jilin Dong Honglai Investment Co., Ltd.	Domestic shares	480,000	480,000	0.06	Nil	Unknown
Huang Huakang	Domestic shares	450,000	450,000	0.06	Nil	Unknown

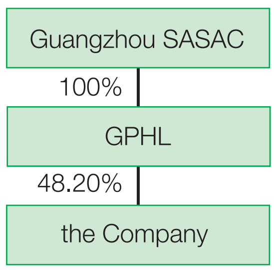
Note: According to the information provided by HKSCC Nominees Limited, the H shares held by it were held on behalf of several clients.

II. INFORMATION ON SHAREHOLDERS *(Continued)*

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

Name of shareholder	Guangzhou Pharmaceutical Holdings Limited
% of shares held	48.20%
Legal representative	Yang Rongming
Date of establishment	7 August 1996
Registered capital	RMB1,252.8 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.

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 And Administration Commission of Guangzhou Municipal Government ("Guangzhou SASAC").



II. INFORMATION ON SHAREHOLDERS *(Continued)*

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

7. 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.

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Executive Directors

Mr. Yang Rongming, aged 56, 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 GP Corp. 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"), director of Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. and director of Polian Development Co., Ltd ("Polian Company"). Mr. Yang has extensive experience in business management and sales and marketing.

Mr. Shi Shaobin, aged 42, director and general manager of the Company, is a Master's 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 Co., Ltd. ("Jing Xiu Tang"), chairman and general manager of Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd ("Wang Lao Ji"), chairman of Guangzhou Han Fang Modern Chinese Medicine Research and Development Co., Ltd ("Guangzhou Han Fang"), chief executive of Wang Lao Ji, factory manager of Guangzhou Qi Xing Pharmaceutical Factory and supervisor of Labour Union of GPHL. 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 and secretary of the Party Committee of Wang Lao Ji, general secretary and chairman of Guangzhou Qi Xing Pharmaceutical Co. Ltd. ("Qi Xing"), vice chairman of GP Corp., vice chairman of Guangzhou Nuo Cheng Bio-tech Co., Ltd. ("Nuo Cheng"), director of GPHL, director of Zhong Yi and director of Guangzhou Bai Di Bio-technology Co., Ltd. ("Guangzhou Bai Di"). Mr. Shi has extensive experience in production, marketing and operation management.

Mr. Feng Zansheng, aged 60, Chief Pharmacist, has served as director of the Company since 1997. Mr. Feng joined GPHL in 1970. Mr. Feng graduated from Guangzhou Medical College in 1977 with a Diploma in Medical Treatment. Mr. Feng was chairman and general manager of GP Corp.. He is president of GP Corp., 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 47, 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 26 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 69, 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 47, 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 in 1990. He had been an independent director of Guangzhou Zhujiang Industrial Co., Ltd. He is currently a professor of the School of Management of Zhongshan University, the mentor of Ph. D. students 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 Fund and a member of International Financial Management Association. Mr. Li is also acting as an independent director of Hubei Yihua Chemical Industry Co., Ltd., an independent director of Guangdong Haida Group Co., Ltd., an independent director of Dongguan Development (Holdings) Co., Ltd., and Guangdong Finance Trust Company Limited, director of Guangzhou Zhujiang Industrial Co., Ltd., directive expert of postdoctorate station of The Shenzhen Stock Exchange.

Mr. Zhang Yonghua, aged 51, 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 and vice-professor of School of Political Science & Law of Huazhong Normal University, deputy director of Minor Department of Guangzhou University of Foreign Studies and 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 and intercessor of Guangzhou Arbitration Commission.

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

3. Supervisors

Ms. Yang Xiuwei, aged 51, Assistant Engineer, has served as chairlady 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 Level and 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 Party Committee of the Company, director of Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. ("Pan Gao Shou"), director of Qi Xing and director of Polian Company.

Mr. Wu Quan, aged 53, 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 secretary of the Discipline Committee and senior manager of the Human Resources Department of the Company. Mr. Wu acted as chief officer of Cannon Camp, vice company commander of Guangdong 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 Chinese Medicine Corporation (which was later renamed as "Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd." and hereinafter referred to as "Cai Zhi Lin").

Mr. Zhong Yugan, aged 54, 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 had consecutively been head of Business Management Department, head of Business Administration Faculty, professor of management studies and tutor of Master degree postgraduates in the Guangdong Business College from 1997 to June 2008. He is currently a professor in School of Business of Guangdong University of Foreign Studies. Mr. Zhong 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 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. BRIEFS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT *(Continued)*

4. Senior Management

Mr. Su Guangfeng, aged 45, an engineer with a Bachelor degree in Industrial Studies, has served as deputy general manager of the Company since June 2005. Mr. Su joined Guangzhou Baiyunshan Pharmaceutical Co., Ltd ("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, manager of Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited ("Ying Bang Branch Company"), chairman of Xing Qun and chairman of Pan Gao Shou. Mr. Su is currently general manager of Xing Qun. Mr. Su has extensive experience in enterprise management, sales and marketing.

Mr. Chen Binghua, aged 44, 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 and Guangxi Ying Kang Pharmaceutical Co., Ltd. ("Guangxi Ying Kang"), supervisor of GP Corp. and supervisor of Nuo Cheng. 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.

Mr. Pang Jianhui, aged 37, secretary of the Board of the Company, a senior engineer with a Bachelor of Science degree in Pharmaceutical Science. Mr. Pang joined GPHL in 1996, and served as the Business Head of Investment Department of GPHL, officer of Guangzhou Pharmaceutical Import and export Corporation ("Pharmaceutical Import and Export Corporation"), business manager and department manager of the Business Department of its Hong Kong subsidiary and deputy director of its Investment Department. Mr. Pang is also director of Wang Lao Ji, director of Pan Gao Shao, director of Guangxi Ying Kang and Guangzhou Han Fang. Mr. Pang is also a member of Management Committee of Pharmaceutical Import & Export Corporation. Mr. Pang has been the secretary of the Board of the Company since July 2008. He has extensive experience in pharmaceutical manufacturing and management.

II INTERESTS OF DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT IN SHARES (A SHARES) OF THE COMPANY AS AT THE END OF 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	Nil	Nil	–
Shi Shaobin	Executive director, general manager	Nil	Nil	–
Feng Zansheng	Executive director	Nil	Nil	–
Wong Hin Wing	Independent non-executive director	Nil	Nil	–
Liu Jinxiang	Independent non-executive director	Nil	Nil	–
Li Shanmin	Independent non-executive director	Nil	Nil	–
Zhang Yonghua	Independent non-executive director	Nil	Nil	–
Yang Xiuwei	Chairlady of the Supervisory Committee	Nil	Nil	–
Wu Quan	Supervisor	Nil	Nil	–
Zhong Yugan	Supervisor	Nil	Nil	–
Su Guangfeng	Deputy general manager	Nil	Nil	–
Chen Binghua	Financial controller	6,240	6,240	–
Pang Jianhui	Secretary to the Board	Nil	Nil	–

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

1. As at 31 December 2009, the interests or short positions of the directors, supervisors and senior management in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Rules Governing the Listing of Securities on HKEx (the "Listing Rules") to be notified to the Company and the HKEx were as follows:

Directors

Name	**Type of interest**	**Company**	**Number of shares** (share)
Shi Shaobin	Family	Jing Xiu Tang	11,000

Senior Management

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

2. Save as disclosed above, as at 31 December 2009, 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.

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 RMB1,840,000, 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	497	No
Feng Zansheng	No	–	Yes
Wong Hin Wing	Yes	80	No
Liu Jinxiang	Yes	80	No
Li Shanmin	Yes	80	No
Zhang Yonghua	Yes	80	No
Supervisors			
Yang Xiuwei	No	–	Yes
Wu Quan	Yes	307	No
Zhong Yugan	Yes	30	No
Senior management			
Su Guangfeng	Yes	199	No
Chen Binghua	Yes	249	No
Pang Jianhui	Yes	238	No
Total	–	1,840	–

IV. EMOLUMENTS FOR THE YEAR *(Continued)*

2. Emoluments for the Year *(Continued)*

Notes:

(1) During the Year, Mr. Yang Rongming and Ms. Yang Xiuwei received emoluments from the Company's shareholder and the emoluments of Mr. Feng Zansheng for the Year were the emoluments he received from the Company's joint venture.

(2) The emoluments of Mr. Shi Shaobin, Mr. Wong Hin Wing, Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wu Quan, Mr. Zhong Yugan, Mr. Chen Binghua and Mr. Pang Jianhui were the emoluments they received from the Company for the Year.

(3) The emoluments of Mr. Su Guangfeng for the Year were the emoluments he received from the Company and a subsidiary of the Company.

V. THERE WAS NO APPOINTMENT NOR RESIGNATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

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

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 2009, the number of employees on the payroll register of the Group was 5,563.

Including:	
Production and supporting staff	2,415
Sales personnel	1,164
Technical, research and engineering staff	956
Finance and statistics staff	189
Other administrative staff	839

103 of the employees were holders of a master degree and 1,227 were holders of a bachelor degree. The number of retirees was 4,924. The total salary payment for the Year was approximately RMB319 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.

I. CORPORATE GOVERNANCE

The Company has been strictly complying with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, related laws and regulations of the China Securities Regulatory Commission ("CSRC") and the Listing Rules of The Shanghai Stock Exchange (the "SSE") and the HKEx to continuously improve the management structure and regulate the operations of the Company.

As at the end of the Reporting Period, the corporate governance of the Company was in compliance with the Corporate Governance Guidelines, and there were no material discrepancies.

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 and the extraordinary general meetings of shareholders provide channels for the management to communicate directly with the shareholders. The general meeting of shareholders is convened and held in strict compliance with the Rules for Shareholders' General Meetings of Listed Companies 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 seven members, of which there are three executive directors and four 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 secretary of the Board 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, five Board meetings were convened, (in which three times in physical meeting and two times by written resolution) 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 at Board meetings during the Reporting Period is set out below:

Directors	Whether is the independent directors	Required meeting attendance for the Year	Frequencies of meetings attended in person	Frequencies of meetings attended by phone	Frequencies of meetings attended by proxy	Absence	Whether is unable to attend two consecutive meetings in person	Remarks
Yang Rongming	No	5	5	0	0	0	No	–
Shi Shaobin	No	5	5	0	0	0	No	–
Feng Zansheng	No	5	5	0	0	0	No	–
Wong Hin Wing	Yes	5	5	1	0	0	No	–
Liu Jinxiang	Yes	5	4	1	1	0	No	Appointed Mr. Zhang Yonghua to attend and vote on his behalf
Li Shanmin	Yes	5	4	0	1	0	No	Appointed Mr. Zhang Yonghua to attend and vote on his behalf
Zhang Yonghua	Yes	5	5	0	0	0	No	–

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 2009 Annual Report and Perform the Related Tasks by Listed Companies" issued by CSRC on 31 December 2009, the Independent Non-executive Directors studied the relevant requirements set out in the Notice seriously. The Company arranged the independent non-executive directors conducted field visits in August 2009, and reported to the non-executive independent directors on production and operation issues and the progress of major events, and submitted a framework for the preparation of 2009 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 non-executive directors communicated with the auditors regarding problems related to the auditing process.

(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.

I. CORPORATE GOVERNANCE *(Continued)*

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. During the Year, the Audit Committee held two meetings, which were chaired by Mr. Wong Hin Wing. All of the committee members attended the meetings.

(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.

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board *(Continued)*

(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. During the Reporting Period, the Committee held one meeting, at which the Company's remuneration proposals of directors, supervisors and senior management for 2009 were considered. All of the committee members attended the meeting.

(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. During the Reporting Period, the Committee held one meeting, considered the company's 2009 business objectives and the 2009 budget work, all of the committee members attended the meeting.

I. CORPORATE GOVERNANCE *(Continued)*

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, four 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; at the same time concerned about environmental protection, public welfare and other issues in the economic exchanges 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. The Company has designated Shanghai Securities News in the PRC to publish the Company's information and disclose such at websites designated by the SSE and the HKEx and the Company's website. The Company 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 of the Company, and make a pre-disclosure confidentiality. The Company also ensures that all shareholders have fair and equitable 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. COMPANY RECTIFICATION

Pursuant to the requirements under the Notice on Performance of the Special Activities regarding Enhancement of Corporate Governance of Listed Companies (《關於開展加强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 (《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) issued by Guangdong Securities Regulatory Bureau, the Company formally launched certain special activities regarding corporate governance and set up a work leader team specially responsible for such special activities in May 2007, which implemented a comprehensive review within the Company, formulated definite restructuring measures with a schedule in respect of corporate governance, and refined the corporate governance policy as planned (details please refer to The Self-review Report and Restructure Plan on the Corporate Governance of the Company (《公司治理自查報告與整改計劃》), The Restructure Report on Special Activities Regarding Corporate Governance of the Company (《公司治理專項活動的整改報告》) and The Explanation on Restructuring of the Corporate Governance of the Company (《關於公司治理整改情況的說明》) disclosed by the Company respectively on 30 June 2007, 29 October 2007 and 31 July 2008).

During the Year, the progress on the restructuring of the Company's corporate governance was as follows:

To improve the internal control system, enhance the fundamental management, and further strengthen the supervision on the subordinated enterprises.

(i) The Internal Audit and Management System of the Company was set up and implemented in the first half of 2009, which defined the internal audit responsibilities;

(ii) The System of Associates of the Subordinated Enterprises was established in early 2009, so as to more intensively understand the operations of the subordinated enterprises and well launch the related work;

(iii) Internal audit and control were actively promoted in 2009; the subordinated enterprises' fundamental management was strengthened; and the operation quality of the subordinated enterprises was enhanced.

III. COMPANY RECTIFICATION *(Continued)*

To further facilitate the functions of the special committees of the Board	During the second half of 2008, adjustments were made on the original Investment Development Committee and the Remuneration Committee; the Budget Committee was established; and the detailed working functions of the special committees were revised and formulated. During 2009, each special committee commenced its work pursuant to its detailed functions and further facilitated its respective functions.
To expedite the establishment and improvement of a long-term incentive scheme	Currently the Company closely monitors on the related policies, and will review and formulate its equity interest incentive scheme in accordance with the needs of the relevant department.
To further strengthen the independence of the listed company	The Company discussed with the relevant departments of GPHL about the issues of certain connected transactions, such as the use of trademarks and licenses, leasing of the office tower and premises for production and operation.

IV. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS

1. The General Scheme of the Establishment of the Internal Control Systems

In 2007, the Company cooperated with the Corporate and Market Research Centre of Sun Yat-sen University in order to make a comprehensive study on the subordinated enterprises and formulate the "Guidelines for Internal Control Standards", pursuant to the requirements of the relevant laws and regulations, such as the "Basic Internal Control Specifications for Enterprises" and the "Guidance on Internal Control for the Listed Companies of the Shanghai Stock Exchange". The "Guidelines for Internal Control Standards" cover the aspects of corporate governance, sourcing, production, sales and marketing, finance, scientific research, information management, human resources, communication and monitoring of information. On this basis, the Company continues to improve its internal control and operation procedures every year so as to accommodate the changes in respect of its business development and the external conditions.

IV. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS *(Continued)*

2. The Work Related to the Corporate Governance and Internal Control Commenced by the Company during and after the Reporting Period includes:

(1) The Company performed review on its internal control and fulfillment of social obligations for the year 2008 pursuant to the requirements of the "Report on the Fulfillment of Social Obligations by the Listed Companies in 2008 and Notice on the Disclosure of the Self-assessment Report of Internal Control" issued by the SSE. Accordingly, the Company prepared the "Self-assessment Report on Internal Control for 2008" from the Board of the Company and the "Report on Fulfillment of Social Responsibilities for 2008", both of which were disclosed after being considered and duly passed at the Board meeting of the Company on 27 March 2009.

(2) In order to strengthen internal control management and enhance the operation quality, the Company promoted the work of internal audit and internal control with great effort during the year and launched the "Internal Audit and Management System" in the first half year, in which the functions and authority of the internal audit structure were well-defined, the detailed work of internal control was arranged and organized, the existing internal control system and business processes were optimized and reviewed, certain parts of the management system were supplemented or revised, and effective measures were formulated to strengthen internal control and avert risks.

(3) Pursuant to the "Decisions on Amending Some Provisions on Cash Dividends by Listed Companies" (Zhong Guo Zheng Jian Hui Ling [2008] No. 57), the Company made amendments to the relevant articles of its Articles of Association and determined the dividend policy. The relevant amendments were considered and duly passed at the Board meeting of the Company held on 27 March 2009 and the 2008 Annual General Meeting held on 19 June 2009.

(4) The Company made amendments to the "Principal Functions of the Audit Committee" of the "Terms of Reference of the Audit Committee under the Board" in accordance with the amendments of the Listing Rules of the HKEx. Such amendments were considered and duly passed at the Board meeting of the Company held on 29 April 2009.

(5) In order to regulate the trading of its shares by directors, supervisors and senior management, strengthen the control management and cope with the Company's practical needs, the Company amended the relevant terms of "Measures for the Administration of Trading Shares of the Company by directors, supervisors and senior management" in compliance with the amendment of the Listing Rules of the HKEx. Such amendments were considered and duly passed at the Board meeting of the Company held on 29 April 2009.

IV. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS *(Continued)*

2. The Work Related to the Corporate Governance and Internal Control Commenced by the Company during and after the Reporting Period includes: *(Continued)*

(6) In order to regulate its information disclosure, the Company made amendments to the relevant terms of the "Information Disclosure Management Policy", which have well defined the accountability system for material mistakes in the information disclosure of annual reports, pursuant to the requirements of the "Notice on How to Successfully Prepare the 2009 Annual Report and Perform the Related Tasks by Listed Company" issued by CSRC. Such amendments were considered and duly passed at the Board meeting of the Company held on 26 March 2010.

(7) The Company formulated the "Accountability System for Material Mistakes in the Information Disclosure of Annual Reports" and "Insiders Registration System" pursuant to the requirements of the Notice on How to Successfully Prepare the 2009 Annual Report and Perform the Related Tasks by Listed Companies issued by CSRC. Both of the above were considered and duly passed at the Board meeting of the Company on 26 March 2010.

3. The Establishment of Department for Internal Control, Inspection and Supervision

The Audit Committee under the Board is responsible for the review of internal control of the Company and supervision of the related effective control measures. The Audit Department, which is established under the Audit Committee, performs inspection and supervision on the Company's internal control in terms of its soundness and effectiveness.

4. The Progress for Self-assessment on Internal Supervision and Internal Control

During the Reporting Period, our Department for Internal Control, Inspection and Supervision performed supervision and inspection on internal control and its implementation regularly or irregularly in accordance with the annual plan for internal control, inspection and supervision and made assessment on the formulation of internal control and its implementation, in order to ensure effective operation of the internal control system.

5. The Board's Arrangement on the Work Regarding Internal Control

The Board reviews the assessment report of internal control and makes recommendations annually. Through the subordinate Audit Committee, the Board discusses on the enforcement and the existing problems on the Company's internal control with external and/or internal auditing units and makes recommendations annually. The Audit Committee organizes with the Audit Department for the inspection and review on the enforcement of the Company's internal control system regularly.

IV. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS *(Continued)*

6. The Enhancement of the Internal Control System Regarding Financial Review

The Company has designed a set of financial management policies after taking the Company's practical operation into account pursuant to the relevant requirements of, among the others, "Accounting Law" and "Corporate Accounting Standards". The policies, which regulate the account auditing and financial management of the Company, include "Financial Management Policy", "Fixed Assets Management Policy, Financial Budget Management Policy" and "Guidelines for Financial Analysis", etc.

7. Self-assessment Report on the Company's Internal Control and related Recommendations from the Auditing Firm

The Board of the Company performed a self-assessment on internal control for the year 2009 and formulated the Self-assessment Report on Internal Control (full version is available on the website of the SSE) in accordance with the requirements of "No. 1 Memorandum on the Preparation and Review of the Internal Control Report and Social Responsibility Report for 2009 Annual Reports of Listed Companies" issued by the SSE. Upon self-assessment made, no major shortcoming in the design of internal control or its execution was found in the Company as at the end of the Reporting Period.

8. The Company has not appointed any accounting firm to review and assess on the Company's internal control for the year.

9. The Company prepared the Social Responsibility Report of 2009 (full version is available on the website of the SSE) in accordance with the requirements of "No. 1 Memorandum on the Preparation and Review of the Internal Control Report and Social Responsibility Report for 2009 Annual Reports of Listed Companies" issued by the SSE.

10. The Establishment of the Company's Accountability System for Material Mistakes in the Information Disclosure of Annual Reports

Any person, who is involved in information disclosure and causes any fault in the Company's information disclosure or any material impact or loss on the Company due to his or her breach of duty or breach of the system's requirements, would be held liable, where the breach is fully investigated, to the extent of the seriousness of breach in accordance with the requirements of the Company's "Information Disclosure Management Policy".

As at the end of this report, there were no material mistakes in the information disclosure of annual report.

Summary of Shareholders' Meetings

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

Session and number of meeting	Meeting date	Newspapers for publication of the resolutions	Disclosure date
2008 Annual General Meeting	19 June 2009	Shanghai Securities News	22 June 2009

(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, research and development of natural medicine and biological medicine; and (2) wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus.

2. Analysis of operating results

(1) Operations review

In early 2009, the Group's operation faced certain challenges due to negative impacts of the further spread of the international financial crisis and the implementation of the national macroeconomic policy. Furthermore, the PRC government proceeded the reforms on medical systems and new medical policies which in turn, had material impact on the development of the pharmaceutical industry. Despite these internal and external adversities, the Group concentrated on marketing and distribution based on the market changes, expedited the adjustments on marketing and distribution strategies with distribution channels streamlined, inventory turnover accelerated and a boosted growth of product sales. In addition, the Company successfully enhanced the operation quality at reduced operational risk through the strengthened fundamental management and tremendously upgraded internal audit and control. With the adjustment and efforts made within more than a year, the production and operation were improved with operation quality substantially enhanced.

According to the PRC Accounting Standards, the Group recorded an income from principal operations of RMB3,802,423,000 for the Reporting Period, with a growth of 10.20% as compared with last year. The profit before tax amounted to RMB231,331,000, representing an increase of 14.42% over last year and net profit amounted to RMB210,989,000, representing an increase of 15.61% over last year.

According to HKFRS, the Group recorded a turnover of RMB3,802,423,000 for the Reporting Period, with a growth of 10.20% as compared with last year. Profit before income tax amounted to RMB235,168,000, representing an increase of 12.76% over last year and profit attributable to shareholders of the Company amounted to RMB214,900,000, representing an increase of 18.19% over last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(1) Operations review *(Continued)*

In 2008, the Company had a one-off investment income, which included the equity interest premium income from additional capital contribution into GP Corp. by Alliance BMP Limited and the income arising from transfer of the equity interests in GP Corp. by the subsidiaries of the Company amounting to RMB 60,996,000. The Company did not have similar investment income for the Reporting Period. During the Year, the Group's net profit increased by 73.65% as compared with the previous year according to the PRC Accounting Standards and the profit attributable to shareholders of the Company increased by 77.25% as compared with the previous year according to HKFRS, excluding the effect of the aforesaid one-off investment income.

A breakdown of the operational results of the overall and principal operations of the Group for 2009 is set out as follows:

Item	**2009** **(RMB'000)** **(Audited)**	2008 (RMB'000) (Audited)	Increase/ (Decrease) *(YoY)* *(%)*
Prepared in accordance with the PRC Accounting Standards			
Income from principal operations	**3,802,423**	3,450,586	10.20
Operation profit	**207,077**	176,043	17.63
Total profit	**231,331**	202,179	14.42
Net profit	**210,989**	182,496	15.61
Prepared in accordance with HKFRS			
Turnover	**3,802,423**	3,450,586	10.20
Profit before income tax	**235,168**	208,552	12.76
Profit attributable to shareholders of the Company	**214,900**	181,829	18.19

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(1) Operations review *(Continued)*

Analysis of the Group's principal activities of 2009 is set out as follows:

	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
Principal Operations	**Income from principal operations** (RMB'000)	**Increase/ (decrease) over last year** *(%)*	**Cost of principal operations** (RMB'000)	**Increase/ (decrease) over last year** *(%)*	**Profit margin of principal operations** (%)	**Increase/ (decrease) over last year** *(Percentage point)*
Prepared in accordance with the PRC Accounting Standards						
Overall operations	3,802,423	10.20	2,791,437	14.09	26.07	(2.54)
Include: Manufacturing	1,948,779	6.19	1,085,028	11.53	43.43	(2.70)
Trading	1,853,644	14.75	1,706,409	15.78	7.81	(0.89)
Include: Pharmaceutical trading	1,513,283	5.95	1,369,179	6.36	9.37	(0.44)
Other trading	340,361	81.96	337,230	80.81	0.90	0.63
Prepared in accordance with HKFRS						
Overall operations	3,802,423	10.20	2,791,437	14.09	26.07	(2.54)
Include: Manufacturing	1,948,779	6.19	1,085,028	11.53	43.43	(2.70)
Trading	1,853,644	14.75	1,706,409	15.78	7.81	(0.89)
Include: Pharmaceutical trading	1,513,283	5.95	1,369,179	6.36	9.37	(0.44)
Other trading	340,361	81.96	337,230	80.81	0.90	0.63

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(1) Operations review *(Continued)*

Geographical analysis of sales arising from the manufacturing operations and trading operations of the Group for 2009 is set out as follows:

	Manufacturing			Trading			Total		
Region	Income from principal operations (RMB'000)	Increase/ decrease over last year (%)	Percentage in manufacturing principal operations (%)	Income from principal operations (RMB'000)	Increase/ decrease over last year (%)	Percentage in manufacturing principal operations (%)	Income from principal operations (RMB'000)	Increase/ decrease over last year (%)	Percentage in manufacturing principal operations (%)
Southern China	1,139,946	0.94	58.50	1,431,239	18.72	77.21	2,571,185	10.12	67.62
Eastern China	283,256	14.01	14.54	198,320	10.32	10.70	481,576	12.46	12.66
Northern China	281,859	32.74	14.46	14,003	(73.05)	0.76	295,862	11.94	7.78
North-Eastern China	69,154	(15.45)	3.55	4,969	(49.98)	0.27	74,123	(19.19)	1.95
South-Western China	102,292	(4.55)	5.25	94,090	38.99	5.08	196,382	12.30	5.16
North-Western China	68,414	22.68	3.50	2,774	(45.41)	0.14	71,188	17.00	1.88
Exports	3,858	939.47	0.20	108,249	13.56	5.84	112,107	17.15	2.95
Total	**1,948,779**	**6.19**	**100.00**	**1,853,644**	**14.75**	**100.00**	**3,802,423**	**10.20**	**100.00**

During the Reporting Period, the overall profit margin of the Group was 26.59%, representing a decrease of 2.51 percentage points as compared with 29.10% of the previous year, among which, the profit margin of the manufacturing operations was 44.32%, representing a decrease of 2.67 percentage points as compared with the previous year. The decrease in the profit margin of the manufacturing operations was mainly due to: (1) the increase of energy and raw material costs during the Reporting Period; (2) the changes in the Group's product sales structure products since the previous year and the decrease in proportion of highly-profitable products' sales revenue over the total sales revenue. The profit margin of the trading operations was 7.94%, representing a decrease of 0.82 percentage point as compared with the previous year.

For the year 2009, the Group's cash flow was greatly improved as compared with the previous year, mainly because the Group actively streamlined the sales channels during the Year which accelerated the return on capital, contributing to a net cash flow from operating activities amounted to RMB439 million, representing an increase of RMB433 million or a growth of 7,099.06% as 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) The manufacturing operations

The manufacturing operations were enhanced with a series of measures taken during the Reporting Period. Firstly, we improved the marketing organization structure, strengthened the management of the marketing team and performance assessment, and enhanced the operating performance and efficiency of the sales and marketing staff. Secondly, we increased sales and distribution with great efforts, reinforced the control on sales channels, further develop a comprehensive distribution system. Thirdly, we encouraged more end retail sales innovation by expanding end markets with focused efforts and pursuing the aim of increasing the net sales volume of end products, and further increased the penetration of our products into hospitals and the net sales volume of the hospital end market and the retail end market. Fourthly, we actively developed new potential products while maintaining the quality of our major products so as to develop new points of sales growth and to achieve sustainable development of the Company. Fifthly, we seized the opportunities arising from the change of government policies and the industry evolvement with its market-oriented strategy, commenced the work focusing on the national basic list of medicines, list of medicines and insurance, community medical system, the New Rural Cooperative Medical System and product bidding. Currently, more than 50 products of the subsidiaries and joint ventures of the Company have been added to the national basic list of medicines, among which, Xiao Ke Wan and Hua Tuo Zai Zao Wan are exclusive Chinese patent medicines for the treatment of diabetes as well as cardio-and cerebral vascular diseases. More than 150 products were registered under the "Pharmaceutical Catalogues for National Basic Medical Insurance, Employment Injury Insurance and Maternity Insurance" of 2009. Sixthly, we continued to deepen the cooperation with the manufacturing enterprises and the trading enterprises of the Company in Guangdong Province, Shanghai and Zhejiang Province and strengthened the end penetration work in the hospitals, the New Rural Cooperative Medical System and community medical organizations for the related regional markets.

During the Reporting Period, sales of Xiao Ke Wan and Hua Tuo Zai Zao Wan and other key products have gradually resumed, showing a steady growth momentum. The sales of Zhuang Yao Jian Shen Wan, Xu Han Ting Ke Li, Ru He San Jie Pian, San Qi Hua Zi Wan, Qian Lie Tong Pian, Wei Nei An Jiao Nang and Zi Shen Yu Tai Wan recorded great increase as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(2) The manufacturing operations *(Continued)*

During the Reporting Period, the Group continued to promote technological innovation by increasing investment on scientific and technological research and developing innovative products and technological upgrade. In 2009, the Group made application for 16 invention patents and was granted 17 invention patents. Zhong Yi acquired the clinical approval for its Jin Fo Zhi Tong Ke Li and Metformin Hydrochloride Tablets, while its No.8 new Chinese medicine, Zi Di Ning Xue Ke Li was granted production approval. Further, the clinical research work of the Company's therapeutic dual-plasmid HBV DNA vaccine was successfully launched as planned. "A sort of medicine component for the treatment of diabetes together with its recipe" of Zhong Yi was granted the Patent Award by Guangdong Province. No. 5 Chinese medicine, Mu Xiang Tai Di Wan, was granted an invention patent. The "active extract of Du Yi Wei together with its recipe and uses" of Guangzhou Chen Li Ji Pharmaceutical Factory ("Chen Li Ji") was granted a national invention patent. The Die Da Wan Hua You Spray of Jing Xiu Tang together with its recipe was granted a national invention patent. During the Reporting Period, the Group focused on the technological innovation internally; and meanwhile it strived for procuring project subsidies from the government authorities at all levels. Overall in 2009, the Group was granted 20 project subsidies from the government authorities of various levels, including 3 significant scientific and technological projects of "Major Breakthrough in New Medicine" and a scientific and technological support project granted by the Ministry of Science and Technology, the "Advanced Technology Industry Project" by the National Development and Reform Commission, the Project with Major Breakthrough in Key Sectors in Guangdong and Hong Kong of 2009 by Guangdong Science and Technology Department and 4 Comprehensive Strategic Cooperation Projects by the Guangdong Provincial Chinese Academy of Sciences, and 11 regional or Guangzhou-linked projects.

The Company and its subsidiaries, which namely Zhong Yi, Chen Li Ji, Xing Qun, Jing Xiu Tang, Qi Xing and Pan Gao Shou and its joint venture namely Wang Lao Ji have obtained the "Certificate of Advanced Technology Enterprise" jointly awarded by Guangdong Science and Technology Department, Guangdong Provincial Finance Bureau, Guangdong Provincial Office State Administration of Taxation and Guangdong Provincial Local Taxation Bureau. The certificates were issued in 2008 and are effective for three years. According to the rules, they are entitled to preferential tax policies during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(2) The manufacturing operations *(Continued)*

During the Reporting Period, the Group persisted in launching the safety production and responsibility policy so as to comprehensively improve the management of product quality, protect the environment and promote our sustainable development. The Group also launched the accountability system for production safety management, set up comprehensive rules and policies in order to strengthen the management on production and operation safety. In the meantime, the Group also concerned about environmental protection. It actively complied with the laws and regulations regarding environmental protection, clean production and energy saving, enhanced the efficiency of use of resources and energy, lowered production costs and reduced pollution, achieved emission standard of the "three pollutants" and controlled the total emission of pollutants within the standard set by the relevant government authorities. To comply with the relevant government's requirements on reducing the emission of nitrogen and saltpeter and forbidding the sales and uses of highly environmentally-hazardous fuel regions, 5 enterprises under the Company carried out redevelopment projects on their boilers in 2009 in order to reduce pollution, perform the social responsibility of environment protection to achieve sustainable development.

An analysis of sales of major products for the manufacturing operations in 2009 is as follows:

	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
Types of products	**Income from principal operations** (RMB'000)	**Increase/ decrease over last year** *(%)*	**Cost of principal operations** (RMB'000)	**Increase/ decrease over last year** *(%)*	**Profit margin of principal operations** *(%)*	**Increase/ decrease over last year** *(Percentage point)*
Heat clearing and anti-toxic medicine	212,072	(4.33)	122,171	(0.68)	41.50	(2.15)
Diabetes medicine	455,791	5.08	192,695	25.18	56.83	(6.82)
Cough and phlegm clearing medicine	229,975	(8.19)	115,186	(5.05)	49.02	(1.69)
Arthritis medicine	253,586	15.73	121,456	10.98	51.21	2.02
Gastric medicine	66,127	14.42	36,249	14.08	44.29	0.13
Other products	731,228	12.08	497,270	14.75	31.10	(1.61)

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(3) The trading operations

During the Reporting Period, as to the trading operations, firstly we expanded our innovative services, consolidated the cooperation with manufacturers, distributors and agents, and improved our coverage on the New Rural Cooperative Medical System, the community and non-target hospitals. In the meantime, we developed our regional strategic competitive edge so as to maintain our current strategic position in Guangdong market. Secondly, we deepened consolidation of resources, enhanced cooperation with the Company's subordinate manufacturing enterprises on the basis of mutual benefits by sharing advantaged resources and supporting each other to achieve mutual development with synergy effect. Thirdly, we captured the opportunities arising from medical reform, continued to perform well in the despatch work of medicine for medical institutions focused as hospitals, the community and the New Rural Cooperative Medical System, and continued to expand our net sales business. During the Reporting Period, Cai Zhi Lin proactively expanded its client base, operation modes and hospital sales business. Cai Zhi Lin became the agent for 25 additional medicines in 2009, of which 3 having appointed us as the sole agent.

As at 31 December 2009, the Group had 67 retail chain pharmacy outlets, including 66 "Cai Zhi Lin" which specialized in traditional Chinese medicines, one pharmacy named Ying Bang.

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 of enterprise	Percentage of direct holding of shares by the Company *(%)*	Revenue from principal operation *(RMB'000)*	Total profit *(RMB'000)*	Net profit *(RMB'000)*
(1)	**Subsidiaries**				
	Xing Qun	88.99	149,403	(52,261)	(45,779)
	Zhong Yi	100.00	620,228	86,851	76,838
	Chen Li Ji	100.00	226,066	22,783	19,532
	Qi Xing	75.00	270,115	9,080	7,176
	Jing Xiu Tang	88.40	192,455	10,205	8,488
	Pan Gao Shou	87.77	237,101	2,106	3,338
	Guangxi Ying Kang	51.00	32,499	(93)	(93)
	Guangzhou Bai Di	97.26	1,505	(8,395)	(8,395)
	Guangzhou Han Fang	97.04	75,443	(14,983)	(14,983)
	Cai Zhi Lin	100.00	1,379,234	10,004	8,171
	Pharmaceutical Import & Export Corporation	100.00	269,343	(1,198)	(998)
(2)	**Branches**				
	Ying Bang Branch Company	–	742,394	5,332	5,332
(3)	**Joint ventures**				
	Wang Lao Ji *(note i)*	48.05	1,485,529	187,983	164,009
	GP Corp. *(note ii)*	50.00	11,310,827	159,258	111,199
	Nuo Cheng *(note iii)*	50.00	42,016	2,048	2,048

Notes:

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

In 2009, Wang Lao Ji achieved a sales revenue of RMB1,485,529,000, representing an increase of 15.21% as compared with the previous year; total profit amounted to RMB187,983,000, representing a decrease of 4.77% as compared with the previous year; net profit was RMB164,009,000, representing a decrease of 4.97% as compared with the previous year. During the Report Period, sales of Wang Lao Ji Liang Cha, Xiao Er Qi Xing Cha, Tan Ke Jin Pian and Bao Ji Kou Fu Ye enjoyed significant increases as compared with the previous year.

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 *(Continued)*

(ii) The results of GP Corp. was stated in full amount in the above table.

During the Reporting Period, as to GP Corp, firstly it further strengthened its sales business, leading to a two-digit increase in sales performance as compared with the previous year. Secondly, it proactively expanded the market, consolidated its operations of potential products, and maintained the relative stability of key products and key client groups to record a higher sales of key products than the previous year. Thirdly, it steadily improved the despatch work of community medicine, strived for expanding the base of despatched clients and products, developed innovative operation modes for chain outlets, and enhanced the growth of retail business. With the efforts made throughout the Year, GP Corp sustained a continuous and steady growth in 2009 from the high benchmark of the previous year. Its sales revenue was recorded as RMB11,310,827,000, representing an increase of 14.78% as compared with the previous year. Its gross profit amounted to RMB159,258,000, representing an increase of 26.72% as compared with the previous year, while its net profit amounted to RMB111,199,000, representing an increase of 26.46% as compared with the previous year.

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

Nuo Cheng's product, Rabies Bacterin, went on sale during the Year, the sales revenue of which for the Year exceeded RMB40,000,000.

During the Report Period, the Company did not engage in any other operation business which has a material impact on the net profit.

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.

4. Major customers and suppliers

During the Year, purchases of goods and services from the 5 largest suppliers amounted to RMB349,405,000, representing approximately 14.05% of the total purchases. The purchases from the largest supplier amounted to RMB75,415,000, representing 3.03% of the total purchases. Goods and services sold to the 5 largest customers amounted to RMB583,744,000, representing 15.35% of the total sales. Sales to the largest customer amounted to RMB238,883,000, representing 6.28% 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. After carrying out new accounting standards for enterprises, there was no changes of accounting policies and accounting estimates of the Group.

III. Use of Proceeds from the Issue of A Shares

Proceeds from the issuance of A shares of the Company have been used up by 31 December 2007.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

IV. Analysis of Financial Conditions

1. Financial conditions of the Group

Prepared in accordance with the PRC Accounting Standards

Items	As at 31 December 2009 (RMB'000)	As at 31 December 2008 (RMB'000)	Change as compared with last year (%)
Total assets	**4,222,496**	4,130,904	2.22
Equity attributable to the shareholders of the Company	**3,304,186**	3,124,842	5.74
Operating profit	**207,077**	176,043	17.63
Net profit attributable to the shareholders of the Company	**210,989**	182,496	15.61
Net increase/(decrease) in cash and cash equivalents	**301,527**	(219,188)	237.57

Prepared in accordance with HKFRS

Items	As at 31 December 2009 (RMB'000)	As at 31 December 2008 (RMB'000)	Change (%)
Total assets	**4,449,007**	4,354,664	2.17
Capital and reserves attributable to shareholders of the Company	**3,450,002**	3,245,305	6.31
Operating profit after financial charges	**100,994**	102,183	(1.16)
Profit attributable to shareholders of the Company	**214,900**	181,829	18.19
Net increase/(decrease) in cash and cash equivalents	**301,527**	(219,188)	237.57

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

IV. Analysis of Financial Conditions *(Continued)*

2. Liquidity

As at 31 December 2009, the current ratio of the Group was 2.72 (31 December 2008: 2.51), and its quick ratio was 1.93 (31 December 2008: 1.67). Accounts receivable turnover rate was 11.02 times, representing an increase of 8.45% as compared with that of 2008. Inventory turnover rate was 4.68 times, representing an increase of 21.48% as compared with 2008.

3. Financial resources

As at 31 December 2009, cash and cash equivalents of the Group amounted to RMB667,385,000 out of which approximately 99.19% and 0.81% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2009, the Group had bank borrowings of RMB63,370,000 in total, all of which were short-term borrowings (31 December 2008: RMB273,275,000).

4. Capital structure

As at 31 December 2009, the Group's current liabilities amounted to RMB712,021,000 (31 December 2008: RMB751,411,000), representing a decrease of 5.24% over that of 2008, and its long-term liabilities was RMB108,899,000 (31 December 2008: RMB154,582,000), with a decrease of 29.55% as compared with 2008. The shareholders' funds amounted to RMB3,304,186,000 (31 December 2008: RMB3,124,842,000), with an increase of 5.74% as compared with 2008.

5. Capital expenditure

The Group expects the capital expenditure for 2010 to amount to approximately RMB124 million (2009: RMB67 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 2009, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 19.44% with a decrease of 2.49 percentage points as compared with 2008 (as at 31 December 2008: 21.93%).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

IV. Analysis of Financial Conditions *(Continued)*

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 at 31 December 2009, cash and cash equivalents of the Group amounted to RMB667,385,000 with an increase of RMB301,527,000 as compared with 2008. The net cash inflow derived from operating activities amounted to RMB439,393,000, with an increase of RMB433,290,000 as compared with 2008.

9. Contingent liabilities

As at 31 December 2009, the Group has no significant contingent liabilities.

10. Charge on the Group's assets

As at 31 December 2009, the Group had no charge on its assets.

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

2009 was a year of reformation. Under the gradual implementation of the new reform on medical system and its related policies and systems, the domestic pharmaceutical market was further expanded with more business opportunities created for development of the pharmaceutical market. However, factors such as the general amendment on the regulatory provisions, of, among others, GMP and GSP by the PRC government, the consolidation project of the government on medicine circulation and safety, the more stringent demands on environmental protection, the uncertainties brought by gradual implementation of the medical reforms, keener competition in the retail market of pharmaceutical products, the price adjustment of such products and the increasing prices of energy and raw materials had certain impact on the Group's operations.

VI. The 2009 financial report of the Group has been audited and signed by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd, the PRC auditors, and PricewaterhouseCoopers, the international auditors, who have both issued unqualified auditors' reports thereon.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

VII. Prospects and Plans for 2010

Looking forward to the year 2010, it is optimistic for the development of the general medical system, which is likely to be benefited from the domestic macro economy which becomes stable and promising. The PRC pharmaceutical market will sustain its rapid growth with the momentum driven by certain factors such as the relatively increasing growth rate of urban population, the aging population, the growing concern about health and the implementation of the PRC medical reform.

The implementation of the national new medical reform will intensively affect the domestic pharmaceutical market. The reform will further expand the domestic pharmaceutical market and create opportunities for its development. However, a higher standard will be set for product innovation, brand image, technological advancement, marketing innovation and consolidation of distribution channels.

In 2010, the Group will continue to pursue its operation targets, and commence the following work coping with the Company's actual status:

1. To accommodate the market changes, continuously strengthen the innovation of marketing modes, proactively participate in various medical reform-related tasks, create and seize more market opportunities brought by the medical reform.

2. To continuously expedite technology innovation, promote technological advancement, proactively strengthen self-innovation, increase investment on the R & D of new medicines and the further development of famous proprietary Chinese medicines, and enhance core competitiveness of the Company.

3. To further strengthen the fundamental management, further regulate the corporate operation, lower operational risks; also to promote internal audit and control with great effort, strengthen budget management, and enhance its own risk aversion.

4. To introduce various measures such as resources integration and optimized allocation progressively, promote scale of economy and synergy effect, develop core competitiveness, and enhance the overall profitability of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

VIII. Internal control system related to fair value measurement

The assets measured in fair value of the Group are mainly tradable financial assets. The Group has monitored the fluctuation in fair value or market price of the shares of certain listed companies held by the Group and takes timely measures to protect the Group's interests. The Group has disclosed the fair value of related assets in its periodical reports, and has reported to the Board.

Items related to fair value measurement

Items	**Balance at the beginning of the Reporting Period** (RMB'000)	**Balance at the end of the Reporting Period** (RMB'000)	**Changes during the Reporting Period** (RMB'000)	**Impact on the profit for the Reporting Period** (RMB'000)
Financial assets available for sale	1,255	2,476	1,221	12
Financial assets for trading	3,008	31,332	28,324	2,722
Total	4,263	33,808	29,545	2,734

DAILY OPERATIONS OF THE BOARD OF DIRECTORS

I. Board Meetings

<table>
<tr><th>Meeting</th><th>Date of meeting</th><th>Resolutions</th><th>Newspaper on which the information was published</th><th>Publication date</th></tr>
<tr><td>13th meeting of the Fourth Session</td><td>6 January 2009</td><td>Change of authorized person for e-submission</td><td>/</td><td>/</td></tr>
<tr><td>14th meeting of the Fourth Session</td><td>27 March 2009</td><td rowspan="3">/</td><td rowspan="3">Shanghai Securities News</td><td>30 March 2009</td></tr>
<tr><td>15th meeting of the Fourth Session</td><td>29 April 2009</td><td>30 April 2009</td></tr>
<tr><td>16th meeting of the Fourth Session</td><td>28 August 2009</td><td>31 August 2009</td></tr>
<tr><td>17th meeting of the Fourth Session</td><td>29 October 2009</td><td>2009 third quarterly report of the Company</td><td>/</td><td>/</td></tr>
</table>

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

1. Distribution of 2008 final dividend

   Pursuant to the resolutions on financial accounts approval and dividend declaration passed at the 2008 annual general meeting held on 19 June 2009, 2008 final dividend of RMB0.4 (including withholding tax) for every 10 shares held was approved and paid, in cash, to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2008.

   The final dividend of RMB0.04 per share for 2008 was paid to the Company's H-share shareholders whose names appeared on the register of the Company as at 19 May 2009 on 10 August 2009.

   According to the announcement for 2008 final dividend published in Shanghai Securities News in the PRC on 13 July 2009, the registration date for A shares was 16 July 2009, the ex-dividend date was 17 July 2009 and the dividend payment date was 10 August 2009.

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

   According to the related regulations in the Articles of Association of the Company, the proposed scheme of profit distribution to all shareholders is as below:

   The amount of retained profits available for the distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Standards and the amount determined in accordance with HKFRS. The Board recommended a final dividend of RMB0.05 per share (including withholding tax) for the year ended 31 December 2009 (2008: RMB0.04 per share). The proposed final dividend will be submitted to the forthcoming 2009 annual general meeting for consideration and approval (the date to convene the 2009 annual general meeting is to be announced).

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

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)*

3. Profit distribution of the Company for the last three years:

Year	Amount of profit distribution in cash (including tax) (RMB'000)	Net profit for the year (RMB'000)	Payout ratio (%)
2006	68,116	233,936	29.12
2007	100,552	335,094	30.01
2008	32,436	182,496	17.77
Total	**201,104**	**751,526**	**26.76**

Note: Net profits for the Year as stated in the above table are figures after adjustment.

III. Report of the Fulfillment 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 How to Successfully Prepare the 2009 Annual Report and Perform the Related Tasks by Listed Companies" to oversee the auditing work for 2009 and the preparation of the annual report.

1 Major tasks accomplished by the Audit Committee in 2009 included:

(i) convening two meetings in 2009 to review the 2008 Annual Report and 2009 Interim Report of the Group as well as the recommendations on management issued by external auditors and the respective response by the Company's management. Each of the members of the committee attended all the meetings;

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

(iii) re-appoint accountant of the Company for the year;

(iv) issuing recommendations with respect to major events of the Company or reminding the management of relevant risks.

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

III. Report of the Fulfillment of Responsibilities of the Audit Committee *(Continued)*

2 Annual audit for 2009 and relevant jobs regarding the preparation of the Annual Report

After the issuance of the "Notice on How to Successfully Prepare the 2009 Annual Report and Perform the Related Tasks by Listed Companies", all members of the Audit Committee studied the relevant requirements seriously. The Committee worked in accordance with the Audit Commission's annual report Guidelines in launching the auditing work for 2009 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 2009 Annual Report" and reviewed the audit plan submitted by the auditors.

(ii) The Audit Committee reviewed the draft of the financial reports prepared by the Company on 10 March 2010 and issued written recommendations thereon.

(iii) After the issuance of auditors' initial opinions by the domestic and international auditors, the Audit Committee reviewed the financial reports again and issued written recommendations regarding the audit work. The Audit Committee believes the 2009 Financial Reports of the Company reflected the state of affairs of the Company truly, accurately and completely, and agreed to submit the Reports to the Board for approval.

(iv) On 19 March 2010, the Audit Committee convened the first meeting for 2010 and considered and passed the 2009 Annual Report of the Company and the Company's 2009 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.

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

IV. Report of the Discharge of Duties 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 19 March 2010, the Nomination and Remuneration Committee convened the first meeting for 2010 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 2008 Annual Report. The Committee believes the disclosure of emoluments of the Directors, Supervisors and Senior Management in the 2009 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 2010 was considered and approved at the meeting.

V. Report of the Discharge of Duties of Responsibilities of the Budget Committee

During the Reporting Period, the Budget 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.

The Company planned to implement management of budget in 2010. On 19 March 2010, the Budget Committee convened the first meeting for 2010 and the 2010 business objectives and 2010 budgeting plan were examined and passed during the meeting.

OTHER MATTERS

I. Accounts

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2009 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2009 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2009 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 2009 amounted to RMB792,595,000, calculated in accordance with the PRC Accounting Standards and amounted to RMB833,907,000 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 and the SSE, details of such transactions were set out in Major Events of this annual report.

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

	2009 (RMB'000)
Ultimate holding company	
License fee expenses	3,082
Welfare facilities fee expense	339
Rental expense	2,759
Fellow subsidiaries	
Sales of finished goods and raw materials	158,187
Purchase of finished goods and raw materials	145,664
Advertising expenses	20,597

In addition, other transactions with jointly controlled entities and associated companies which, pursuant to the Listing Rules of the 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 HKEx:

- 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 as set out in Appendix 14 of the Listing Rules of the HKEx, 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.

OTHER MATTERS *(Continued)*

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.

XI. Properties under Development and for Sale

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

The lessor	Rental property	Amount involved of the rental property	Commencing date of leasing	Closing date of leasing	Gain from leasing (RMB'000)	Reference of determination of gains from leasing	Impact of gains from leasing on the Company	Whether the connected transaction	Connected relation
Chen Li JI	Yin Zuo Plaza	The net amount of investment property as at 31 December 2009 was RMB4,969,000.	1 January 2009	31 December 2013	19,565	Contact	9.37% of profit of the Group	No	Nil

XII. Bank Loans, Overdrafts and Other Loans

Details of the bank loans, overdrafts, and other liabilities of the Group as at 31 December 2009 are set out in this annual report. In comparison to 2008, 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 2009.

OTHER MATTERS *(Continued)*

XIII. Auditors

Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd. and PricewaterhouseCoopers were respectively re-appointed as domestic and international auditors of the Company for the year 2009, as approved at the 2008 AGM.

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

XIV. 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.

On behalf of the Board
Yang Rongming
Chairman

Guangzhou, the PRC, 26 March 2010

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 2009 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.

Session and number of meeting	Date of meeting	Resolutions	Newspapers for publication of information	Dates for publication
8th meeting of the Fourth Session	27 March 2009	/	Shanghai Securities News	30 March 2009
9th meeting of the Fourth Session	29 April 2009	First quarterly report of the Company for the year 2009	/	/
10th meeting of the Fourth Session	28 August 2009	Interim report of the Company for the year 2009; Interim financial report of the Company for the year 2009	/	/
11th meeting of the Fourth Session	29 October 2009	The third quarterly report of the Company for the year 2009	/	/

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 2009, which reflect an objective, true and fair view of the financial status of the Company as at 31 December 2009 and the operations results of the Group for the year then ended.

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

Proceeds from the issuance of A shares of the Company have been used up by 31 December 2007.

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

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 including:

(1) Advertisement Continuing Connected Transactions Agreement entered into between the Company and GPSC.

(2) The Purchase and Sale Agreement in relation to Connected Transaction entered into between the Company, GP Corp. and Wang Lao Ji.

The Connected transactions above were 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
Chairlady

Guangzhou, the PRC, 26 March 2010

I. SIGNIFICANT LITIGATION OR ARBITRATION

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

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS

1. The formalities in relation to the merger of Guangzhou Han Fang and Guangzhou Huan Ye Pharmaceutical Co., Ltd. ("Guangzhou Huan Ye") were completed in the Reporting Period.

2. On 27 March 2009, the Company and GPSC entered into the agreement in relation to the Advertising Connected Transactions for connected transactions business conducted in the ordinary course of business. The Agreement in relation to the Advertising Connected Transactions and the transactions contemplated thereunder were approved by the Board meeting of the Company.

3. On 27 March 2009, the Company and GP Corp. together with Wang Lao Ji entered into the agreement in relation to the Sales and Purchase Connected Transactions for connected transactions in sales and purchase conducted in the ordinary course of business. The Agreement in relation to the Sales and Purchase Connected Transactions and transactions contemplated thereunder were approved by the Board meeting and the 2008 annual general meeting of the Company.

4. In August 2008, it was approved by the Board for the Company to contribute RMB5 million for the establishment of Huanan XinYao Chuangzhi Co., Ltd,. During the Reporting Period, the Company paid the last installment in accordance with the contract.

5. On 30 January 2010, the Company's six subsidiaries and its joint venture namely Wang Lao Ji signed the Agreement in relation to Equity Transfer of GPSC, pursuant to which the 50% equity interest held therein were transferred to Guangzhou Soccer Development Center, which amounted to RMB20,032,800, with reference to the evaluation of GPSC as at 31 December 2009.

6. After the Reporting Period, it was approved by the Strategic Development and Investment Committee of the Company, that the Company acquired 1.22% equity interest in Guangzhou Bai Di held by individual shareholders at a consideration of RMB1.6 million. Upon the completion of the above acquisition, the contribution to Guangzhou Bai Di by the Company will amount to RMB129,600,000, representing 98.48% equity interest therein.

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS *(Continued)*

7. Connected transactions in the ordinary course of business

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Balance of connected transactions (RMB'000)	% of similar transactions (%)	Settlement method of connected transactions
Baiyunshan Co,, Ltd	Fellow ultimate holding company	Purchase of products	Medicine or pharmaceutical products	Market price	40,478	1.63	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	1,435	0.06	Cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	113	0.00	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	50,639	2.04	Cash
Polian Company	Fellow Parent company	Purchase of products	Medicine or pharmaceutical products	Market price	51,741	2.08	Cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	136	0.01	Cash
GP Corp.	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	70,416	2.83	Cash
Wang Lao Ji	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	2,057	0.08	Cash
Guangazhou Baiyunshan Pharmaceutical Technology Development Co., Ltd	Others	Purchase of products	Medicine or pharmaceutical products	Market price	1,122	0.05	Cash
Baiyunshan Co., Ltd	Fellow ultimate holding company	Sales of products	Medicine or pharmaceutical products	Market price	37,276	0.98	Cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	37,729	0.99	Cash

II. DURING THE REPORTING PERIOD AND AFTER THE REPORTING PERIOD, THE COMPANY'S PURCHASE AND DISPOSAL OF ASSETS OR BUSINESS COMBINATION AND OTHER TRANSACTIONS *(Continued)*

7. Connected transactions in the ordinary course of business *(Continued)*

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Balance of connected transactions (RMB'000)	% of similar transactions (%)	Settlement method of connected transactions
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	4,417	0.12	Cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	48,892	1.29	Cash
Polian Company	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	1,732	0.05	Cash
Guangzhou Pharmaceutical Industrial Research Institute	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	2	0.00	Cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	28,116	0.74	Cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	176,512	4.64	Cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	46,351	1.22	Cash
Nuo Cheng	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	190	0.00	Cash
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd	Others	Sales of products	Medicine or pharmaceutical products	Market price	23	0.00	Cash
GPSC	Joint venture	Receival of services	Advertising	Market price	20,597	18.50	Cash
Total					**619,974**	**–**	

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

III. NON-OPERATIONAL PROVISION OF CAPITAL TO/FROM CONNECTED PARTIES

Connected parties	Relationship with the Company	Provision of capital to connected parties Initial amount (RMB' 000)	Provision of capital to connected parties Balance (RMB' 000)	Provision of capital from connected parties Initial amount (RMB' 000)	Provision of capital from connected parties Balance (RMB' 000)
GP Corp.	Joint venture	62,660	–	–	–
GPSC	Joint venture	3,000	3,000	–	–
Total		65,660	3,000	–	–

The above is non-operational provision of capital to/from connected parties. During the Reporting Period, the capital provided by the Group to its controlling shareholder together with its connected parties amounted to RMB65,660,000, with a balance of RMB3,000,000. The balance was the loan provided by Zhong Yi, the Company's subsidiary, to GPSC as working capital, which amounted to RMB3,000,000 and was withdrawn in March 2010.

IV. DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY SPECIAL TRANSACTION WITH ITS CONNECTED PARTIES INCLUDING DIRECT DONATIONS IN CASH OR REAL ASSETS, DIRECT EXEMPTION OR REPAYMENT, ETC.

V. MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Group did not hold on trust or sub-contract 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.

VI. GUARANTEES

Guaranteed parties	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties *(yes or no)*
	Guarantees provided to parties other than the Company's subsidiaries					
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						Nil
Balance of guarantees as at the end of the Reporting Period (RMB'000)						Nil
The Company's guarantees provided to its holding subsidiaries						
Accumulated amount of guarantees provided to the Company's holding subsidiaries during the Reporting Period (RMB'000)						130,000
Balance of guarantees provided to the Company's holding subsidiaries as at the end of the Reporting Period (RMB'000)						130,000
The Company's guarantees (including those provided to its holding subsidiaries)						
Total amount of guarantees provided (RMB'000)						130,000
% the net assets of the Company (%)						4.39
Including:						
Amount of guarantees provided to the Company's controlling shareholder and other connected parties the Company has a shareholding under 50% (RMB'000)						–
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)						130,000
Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)						–
Total (RMB'000)						130,000

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

VIII. PERFORMANCE OF THE UNDERTAKINGS DURING THE REPORTING PERIOD

Name of shareholder	Special undertaking	Situation of undertaking
GPHL	The shares with selling restrictions shall not be listed and traded, nor transferred within 12 months from the date of implementation of the reform plan; the number of original shares with selling restrictions listed, traded and sold through the SSE shall not exceed 5% of the total number of shares of the Company within 12 months after expiry of the above stipulated term and shall not exceed 10% within 24 months.	Compiled with the undertaking

IX. AS AT 31 DECEMBER 2009, THE CONSTRUCTION AND EQUIPMENT COMMITMENTS THAT WERE CONTRACTED BY THE GROUP BUT NOT PROVIDED FOR WAS RMB14,344,000. THE LEASE COMMITMENTS WHICH WERE CONTRACTED BUT NOT PROVIDED FOR AMOUNTED TO RMB79,011,000.

X. DURING THE REPORTING PERIOD, THE GROUP HAS PAID AUDITOR'S REMUNERATION OF RMB1,290,000 AND RMB2,670,000 TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD., AND PRICEWATERHOUSECOOPERS RESPECTIVELY. OF THE AMOUNT PAID TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD., RMB1,170,000 WAS PAID FOR THE 2008 ANNUAL AUDIT, AND RMB120,000 WAS PAID FOR THE 2009 INTERIM REVIEW. AN AMOUNT OF RMB2,300,000 PAID TO PRICEWATERHOUSECOOPERS WAS PAID FOR THE 2008 ANNUAL AUDIT AND RMB370,000 WAS PAID FOR THE 2009 INTERIM REVIEW. BOTH THE DOMESTIC AUDITORS AND INTERNATIONAL AUDITORS HAVE PROVIDED AUDIT SERVICES TO THE COMPANY FOR 11 YEARS.

XI. 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.

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

1. Stock Investments

Number	Type of Stock	Stock Code	Stock name	The initial amount of investment (RMB'000)	Number of shares held for the Reporting Period (share)	Book value as at the end of Reporting Period (RMB'000)	% of stock investment for the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of Shanghai market	600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	1,222	23	707
2	A Share of Shanghai market	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	4,110	77	1,754
Other stock investments held as at the end of the Reporting Period				–	–	–	–	–
Gain/(Loss) of stock investments sold as at the end of the Reporting Period				–	–	–	–	–
Total				**5,511**	**280,356**	**5,332**	**100**	**2,461**

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

2. Information on the Company's Interests in Shares of Other Listed Companies

Stock Code	Stock name	The initial investment amount (RMB'000)	% of shareholding	Book value as at the end of the Reporting Period (RMB'000)	Gain/(Loss) during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
601328	Bank of Communications	269	–	2,476	12	996	Available-for-sale financial assets	Acquisition

3. 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	approx. 0.02	10,725	464	–	Long-term equity investment	Acquisition
Golden Eagle Fund Management Co., Ltd.	20,000	–	20.00	12,817	(2,700)	–	Long-term equity investment	Acquisition

XIII INDEX TO THE INFORMATION DISCLOSED

<table>
<tr><th>Disclosed information</th><th>Newspaper</th><th>Date</th><th>Website and the link</th></tr>
<tr><td>Announcement on Change of the Sponsor Representative of the Share Reform</td><td>Page C16 of Shanghai Securities News</td><td>6 February 2009</td><td rowspan="2">http://www.sse.com.cn
http://www.hkex.com.hk
http://gpc.equity.com.hk/0874/</td></tr>
<tr><td>Announcement in relation to certain subsidiaries having been rewarded the certificate of advanced technology enterprise</td><td>Page C48 of Shanghai Securities News</td><td>11 March 2009</td></tr>
<tr><td>Date of Board Meeting of Guangzhou Pharmaceutical</td><td>/</td><td>17 March 2009</td><td>http://www.hkex.com.hk
http://gpc.equity.com.hk/0874/</td></tr>
<tr><td>Summary of Annual Report, announcement of Guangzhou Pharmaceutical on the fourteenth meeting of the Fourth Session of the Board, announcement on the resolutions of the eighth meeting of the Fourth Session of Supervisory Committee and announcement on continuing connected transaction</td><td>Page A86, A87and A88 of Shanghai Securities News</td><td>30 March 2009</td><td>http://www.sse.com.cn
http://www.hkex.com.hk
http://gpc.equity.com.hk/0874/</td></tr>
<tr><td>Date of Board Meeting of Guangzhou Pharmaceutical</td><td>/</td><td>16 April 2009</td><td>http://www.hkex.com.hk
http://gpc.equity.com.hk/0874/</td></tr>
<tr><td>Announcement on the listing of tradable shares with selling restrictions</td><td>Page A16 of Shanghai Securities News</td><td>20 April 2009</td><td rowspan="3">http://www.sse.com.cn
http://www.hkex.com.hk
http://gpc.equity.com.hk/0874/</td></tr>
<tr><td>2009 First Quarterly Report of Guangzhou Pharmaceutical, announcement of Guangzhou Pharmaceutical on the fifthteenth meeting of the Fourth Session of the Board and announcement of Guangzhou Pharmaceutical on convening 2008 Annual General Meeting</td><td>Page C144 of Shanghai Securities News</td><td>30 April 2009</td></tr>
<tr><td>Announcement of Guangzhou Pharmaceutical on resolutions of 2008 Annual General Meeting</td><td>Page A16 of Shanghai Securities News</td><td>22 June 2009</td></tr>
<tr><td>Announcement of Annual General Meeting on payment of 2008 dividend</td><td>Page A8 of Shanghai Securities News</td><td>13 July 2009</td><td>http://www.sse.com.cn</td></tr>
</table>

XIII INDEX TO THE INFORMATION DISCLOSED *(Continued)*

Disclosed information	Newspaper	Date	Website and the link
Resumption of trading of Guangzhou Pharmaceutical	Page C8 of Shanghai Securities News	25 August 2009	http://www.sse.com.cn http://www.hkex.com.hk http://gpc.equity.com.hk/0874/
Announcement of the sixteenth meeting of the Fourth Session of the Board of Guangzhou Pharmaceuticals, Summary of 2009 Interim Report of Guangzhou Pharmaceutical	Page A41 of Shanghai Securities News	31 August 2009	
Announcement on implementation of increase of shareholding in the Company by the centrolling shareholder	Page B16 of Shanghai Securities News	23 September 2009	
2009 Third Quarterly Report of Guangzhou Pharmaceutical	Page B51 of Shanghai Securities News	30 October 2009	
Unusual fluctuations in price and volume of Guangzhou Pharmaceutical	Page B8 of Shanghai Securities News	20 November 2009	
Reminder announcement on reduction of holding of A shares of shareholder of Guangzhou Pharmaceutical	Page B17 of Shanghai Securities News	26 November 2009	
Announcement on relating to waiver of the obligation of Guangzhou Pharmaceutical Holding Limited to make a general offer received from China Securities Regulatory Commission	Page B9 of Shanghai Securities News	8 December 2009	

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 80 to 182, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flow 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 2009 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, 26 March 2010

Consolidated balance sheet

	Note	2009 (RMB'000)	2008 (RMB'000)
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,226,498**	1,311,088
Investment properties	7	**190,981**	135,426
Leasehold land and land use rights	8	**93,251**	97,164
Intangible assets	9	**11,855**	12,162
Investments in associates	11	**18,222**	19,695
Investments in jointly controlled entities	12	**876,435**	787,580
Available-for-sale financial assets	14	**34,506**	16,272
Deferred income tax assets	24	**47,077**	47,222
		2,498,825	2,426,609
Current assets			
Inventories	15	**560,522**	633,059
Trade and other receivables	16	**650,678**	869,066
Financial assets at fair value through profit or loss	17	**31,332**	3,008
Taxes recoverable		**10,716**	41,788
Restricted cash	18	**29,549**	15,275
Cash and cash equivalents	19	**667,385**	365,859
		1,950,182	1,928,055
Total assets		**4,449,007**	**4,354,664**
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital	20	**810,900**	810,900
Share premium	20	**781,134**	781,134
Other reserves	21	**1,024,061**	984,490
Retained earnings			
— Proposed final dividend	35	**40,545**	32,436
— Others		**793,362**	636,345
		3,450,002	3,245,305
Minority interest		**113,664**	115,460
Total equity		**3,563,666**	3,360,765

	Note	As at 31 December 2009 (RMB'000)	2008 (RMB'000)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	24	**55,833**	46,959
Government grants	25	**19,503**	13,525
Employee benefits payables	26	**13,629**	25,124
Borrowings	23	**–**	30,000
		88,965	115,608
Current liabilities			
Trade and other payables	22	**722,456**	628,926
Dividend payables		**65**	58
Current income tax liabilities		**10,485**	6,032
Borrowings	23	**63,370**	243,275
		796,376	878,291
Total liabilities		**885,341**	993,899
Total equity and liabilities		**4,449,007**	4,354,664
Net current assets		**1,153,806**	1,049,764
Total assets less current liabilities		**3,652,631**	3,476,373

The notes on pages 89 to 182 are an integral part of these financial statements.

The financial statements on pages 80 to 182 were approved by the Board of Directors on 26 March 2010 and were signed on its behalf.

Feng Zansheng
Director

Shi Shaobin
Director

Balance sheet

	Note	2009 (RMB'000)	2008 (RMB'000)
		As at 31 December	
ASSETS			
Non-current assets			
Property, plant and equipment	6	**15,521**	16,971
Investment properties	7	**62,469**	62,232
Investments in subsidiaries	10	**1,454,836**	1,454,836
Investments in associates	11	**15,565**	15,565
Investments in jointly controlled entities	12	**324,752**	324,752
Available-for-sale financial assets	14	**31,448**	14,425
Deferred income tax assets	24	**1,741**	2,022
		1,906,332	1,890,803
Current assets			
Inventories	15	**11,109**	10,135
Loans to subsidiaries	10	**500,213**	382,946
Trade and other receivables	16	**102,433**	222,558
Dividends receivable from subsidiaries		**39,978**	68,598
Financial assets at fair value through profit or loss	17	**11,332**	3,008
Cash and cash equivalents	19	**223,166**	158,747
		888,231	845,992
Total assets		**2,794,563**	2,736,795
EQUITY			
Capital and reserves attributable to shareholders of the Company			
Share capital	20	**810,900**	810,900
Share premium	20	**781,134**	781,134
Other reserves	21	**633,920**	603,475
Retained earnings	33		
— Proposed final dividend	35	**40,545**	32,436
— Others		**437,106**	397,351
Total equity		**2,703,605**	2,625,296

	Note	As at 31 December 2009 (RMB'000)	2008 (RMB'000)
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	24	**10,836**	6,319
		10,836	6,319
Current liabilities			
Trade and other payables	22	**75,138**	50,855
Current income tax liabilities		**4,984**	4,325
Borrowings	23	**–**	50,000
		80,122	105,180
Total liabilities		**90,958**	111,499
Total equity and liabilities		**2,794,563**	2,736,795
Net current assets		**808,109**	740,812
Total assets less current liabilities		**2,714,441**	2,631,615

The notes on pages 89 to 182 are an integral part of these financial statements.

The financial statements on pages 80 to 182 were approved by the Board of Directors on 26 March 2010 and were signed on its behalf.

Feng Zansheng
Director

Shi Shaobin
Director

Consolidated income statement-by function of expense

	Note	Year ended 31 December 2009 (RMB'000)	2008 (RMB'000)
Revenue	5	**3,802,423**	3,450,586
Cost of sales	29	**(2,791,437)**	(2,446,620)
Gross profit		**1,010,986**	1,003,966
Other income	27	**106,138**	95,223
Other gains-net	28	**4,680**	100,146
Other operating expenses		**(10,711)**	(10,544)
Selling and marketing costs	29	**(585,437)**	(626,191)
Administrative expenses	29	**(423,442)**	(452,603)
Operating profit		**102,214**	109,997
Share of losses of associates	11	**(1,473)**	(5,171)
Share of profits of jointly controlled entities	12	**135,647**	111,540
Finance income	31	**9,033**	11,370
Finance costs	31	**(10,253)**	(19,184)
Profit before income tax		**235,168**	208,552
Income tax expense	32	**(22,491)**	(37,256)
Profit for the year		**212,677**	171,296
Profit attributable to:			
Shareholders of the Company		**214,900**	181,829
Minority interest		**(2,223)**	(10,533)
		212,677	171,296
Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share) — basic and diluted	34	**0.265**	0.224

The notes on pages 89 to 182 are an integral part of these financial statements.

	Note	Year ended 31 December 2009 (RMB'000)	2008 (RMB'000)
Dividends	35	**40,545**	32,436

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2009 (RMB'000)	2008 (RMB'000)
Profit for the year		**212,677**	171,296
Other comprehensive income:			
Fair value gains/(losses) on available-for-sale financial assets, net of tax		**12,663**	(2,126)
Share of other comprehensive income of jointly controlled entities, net of tax	21	**(1,692)**	(1,629)
Revaluation of investment properties upon transfer from property, plant and equipment, leasehold land and land use rights, net of tax		**10,683**	13,458
Others		**2,149**	–
Other comprehensive income for the year, net of tax		**23,803**	9,703
Total comprehensive income for the year		**236,480**	180,999
Attributable to:			
Shareholders of the Company		**237,258**	191,532
Minority interest		**(778)**	(10,533)
Total comprehensive income for the year		**236,480**	180,999

The notes on pages 89 to 182 are an integral part of these financial statements.

Consolidated statement of changes in equity

	Note	Share capital and share premium (RMB'000)	Other reserves (RMB'000)	Retained earnings (RMB'000)	Total (RMB'000)	Minority interest (RMB'000)	Total equity (RMB'000)
		Attributable to shareholders of the Company					
Balance at 1 January 2008		1,592,034	1,061,328	514,659	3,168,021	249,371	3,417,392
Comprehensive income							
Profit or (loss) for the year		–	–	181,829	181,829	(10,533)	171,296
Other comprehensive income							
Fair value losses, net of tax							
— Available-for-sale financial assets	21	–	(2,126)	–	(2,126)	–	(2,126)
Share of other comprehensive income of jointly controlled entities, net of tax	21	–	(1,629)	–	(1,629)	–	(1,629)
Revaluation of investment properties upon transfer from property, plant and equipment, leasehold land and land use rights, net of tax	21	–	13,458	–	13,458	–	13,458
Depreciation transfer on asset revaluation upon reorganisation, net of tax	21	–	(3,725)	3,725	–	–	–
Total other comprehensive income		–	5,978	3,725	9,703	–	9,703
Total comprehensive income		–	5,978	185,554	191,532	(10,533)	180,999
Transactions with owners							
Dividend relating to 2007		–	–	(100,552)	(100,552)	(13,831)	(114,383)
Appropriation to surplus reserves	33	–	56,617	(56,617)	–	–	–
Liquidation of a subsidiary		–	–	–	–	(3,085)	(3,085)
Disposal of an associate		–	(68)	–	(68)	–	(68)
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution)		–	(126,183)	126,183	–	(96,594)	(96,594)
Impact of acquisition of interests in subsidiaries from minority interest		–	(13,628)	–	(13,628)	(9,868)	(23,496)
Others		–	446	(446)	–	–	–
Total transactions with owners		–	(82,816)	(31,432)	(114,248)	(123,378)	(237,626)
Balance at 31 December 2008		1,592,034	984,490	668,781	3,245,305	115,460	3,360,765

Consolidated statement of changes in equity

	Note	Share capital and share premium (RMB'000)	Other reserves (RMB'000)	Retained earnings (RMB'000)	Total (RMB'000)	Minority interest (RMB'000)	Total equity (RMB'000)
		Attributable to shareholders of the Company					
Balance at 1 January 2009		1,592,034	984,490	668,781	3,245,305	115,460	3,360,765
Comprehensive income							
Profit or (loss) for the year		–	–	214,900	214,900	(2,223)	212,677
Other comprehensive income							
Fair value gains, net of tax							
– Available-for-sale financial assets	21	–	12,638	–	12,638	25	12,663
Share of other comprehensive income of jointly controlled entities, net of tax	21	–	(1,692)	–	(1,692)	–	(1,692)
Revaluation of investment properties upon transfer from property, plant and equipment, leasehold land and land use rights, net of tax	21	–	9,800	–	9,800	883	10,683
Depreciation transfer on asset revaluation upon reorganisation, net of tax	21	–	(3,352)	3,352	–	–	–
Others	21	–	1,612	–	1,612	537	2,149
Total other comprehensive income		–	19,006	3,352	22,358	1,445	23,803
Total comprehensive income		–	19,006	218,252	237,258	(778)	236,480
Transactions with owners							
Dividend relating to 2008	35	–	–	(32,436)	(32,436)	(1,143)	(33,579)
Appropriation to surplus reserves	33	–	18,303	(18,303)	–	–	–
Impact of subsidiaries merged		–	(125)	–	(125)	125	–
Others	21	–	2,387	(2,387)	–	–	–
Total transactions with owners		–	20,565	(53,126)	(32,561)	(1,018)	(33,579)
Balance at 31 December 2009		1,592,034	1,024,061	833,907	3,450,002	113,664	3,563,666

The notes on pages 89 to 182 are an integral part of these financial statements.

Consolidated statement of cash flow

	Note	Year ended 31 December 2009 (RMB'000)	2008 (RMB'000)
Cash flows from operating activities			
Cash generated from operations	36	**430,028**	104,920
Interest paid		**(6,543)**	(10,197)
Income tax received/(paid)		**14,411**	(59,665)
Net cash generated from operating activities		**437,896**	35,058
Cash flows from investing activities			
Purchase of minority interest in subsidiaries		**–**	(25,223)
Cash contribution paid to a jointly controlled entity		**–**	(10,000)
Disposal of subsidiaries, net of cash disposed of		**–**	(245,071)
Purchase of property, plant and equipment		**(86,145)**	(144,962)
Proceeds from sale of property, plant and equipment, leasehold land and land use rights	36	**1,068**	2,302
Purchase of intangible assets		**(1,415)**	(6,609)
Purchase of available-for-sale financial assets		**(1,500)**	(3,500)
Proceed from disposal of interests in an associate in previous year		**5,670**	–
Interest received		**9,033**	11,370
Dividends received from available-for-sale financial assets		**464**	1,034
Dividends received from jointly control entities		**48,327**	107,290
Loan granted to a jointly controlled entity		**(62,660)**	(150,000)
Loan repayment received from a jointly controlled entity		**212,660**	212,660
Proceeds from government grants		**7,606**	8,271
Purchase of investment in money market fund		**(331,000)**	(294,750)
Proceeds from redemption of investment in money market fund		**305,000**	294,750
Net cash generated from/(used) in investing activities		**107,108**	(242,438)
Cash flows from financing activities			
Proceeds from bank borrowings		**145,422**	338,175
Repayments of bank borrowings		**(325,327)**	(235,558)
Dividends paid to shareholders of the Company		**(32,429)**	(100,808)
Dividends paid to minority interest		**(1,143)**	(13,292)
Proceeds from borrowing from a jointly controlled entity		**–**	30,000
Repayments of borrowing to a jointly controlled entity		**(30,000)**	(30,000)
Net cash used in financing activities		**(243,477)**	(11,483)
Net increase/(decrease) in cash and cash equivalents		**301,527**	(218,863)
Cash and cash equivalents at beginning of year		**365,859**	585,046
Exchange losses on cash and cash equivalents		**(1)**	(324)
Cash and cash equivalents at end of year	19	**667,385**	365,859

The notes on pages 89 to 182 are an integral part of these financial statements.

1 GENERAL INFORMATION

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

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

These consolidated financial statements are presented in Renminbi Yuan ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2010.

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.

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation

Change in accounting policy and disclosures

(a) New and amended standards adopted by the Group

In 2009, the Group has adopted the following new and amended HKFRSs that were relevant to its operations:

HKFRS 7 "Financial Instruments – Disclosures" (amendment) (effective 1 January 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

HKAS 1 (revised) "Presentation of financial statements" (effective 1 January 2009). The revised standard prohibits the presentation of items of income and expenses (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

HKAS 23 (revised) "Borrowing costs" (effective 1 January 2009). The revised standard requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. Since the Group currently applies a policy of capitalising borrowing costs, the revised standard does not have any material impact on the Group's or Company's financial statements.

HKFRS 8 "Operating segments" (effective 1 January 2009). HKFRS 8 replaces HKAS 14, "Segment reporting", and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in a change in reportable segments presented, as the previously reported wholesale, retail, import and export segments have been combined into a trading segment. Comparative figures for 2008 have been restated. However, such restatement in note disclosure does not have any impact on the Group's or Company's balance sheets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Change in accounting policy and disclosures *(Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

HKAS 40 (amendment) "Investment property" (effective 1 January 2009). As a result of the 2008 Improvements to HKFRSs, HKAS 40 has been amended to include within its scope property that is being constructed or developed for future use as investment property. Prior to the amendment, such property under construction or development was within the scope of HKAS 16 "Property, plant and equipment" until the construction or development was complete. Property that is being constructed or developed as investment property is carried at fair value. Where fair value is not reliably determinable, such investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). The amendment does not have any impact on the Company's financial statements as the Group does not have any properties that are being constructed or developed for future use as investment properties.

Other than the above, other new/revised standards and amendments effective 1 January 2009 are not relevant to the Group's operations and did not have any impact on the Group's financial statements.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods, but the Group has not early adopted them.

– HK(IFRIC) 17 "Distribution of non-cash assets to owners" (effective for annual period beginning on or after 1 July 2009 and applicable for year ending 30 June 2010 or after).

– HKAS 27 (revised) "Consolidated and separate financial statements" (effective for annual period beginning on or after 1 July 2009 and applicable for year ending 30 June 2010 or after).

– HKFRS 3 (revised) "Business combinations" (effective for annual period beginning on or after 1 July 2009 and applicable for year ending 30 June 2010 or after).

– HKAS 38 (amendment) "Intangible assets" (effective for annual period beginning on or after 1 July 2009 and applicable for year ending 30 June 2010 or after).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Change in accounting policy and disclosures *(Continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKFRS 5 (amendment) "Measurement of non-current assets (or disposal groups) classified as held for sale" (effective for annual period beginning on or after 1 January 2010).

- HKAS 1 (amendment) "Presentation of financial statements" (effective for annual period beginning on or after 1 January 2010).

- HKFRS 2 (amendment) "Group cash-settled share-based payment transactions" (effective for annual period beginning on or after 1 January 2010).

- HKFRS 1 (revised) "First-time adoption of HKFRSs" (effective for annual period beginning on or after 1 July 2009).

- HKAS 39 (amendment) "Eligible hedge items" (effective for annual period beginning on or after 1 July 2009).

- HKFRS 1 (amendment) "Additional exemptions for first-time adopters" (effective for annual period beginning on or after 1 January 2010).

- HKAS 32 (amendment) "Classification of rights issue" (effective for annual period beginning on or after 1 February 2010).

- HK(IFRIC) 19 "Extinguishing financial liabilities with equity instruments" (effective for annual period beginning on or after 1 July 2010).

- HKAS 24 (revised) "Related party disclosures" (effective for annual period beginning on or after 1 January 2011).

- Amendment to HK(IFRIC) 14 "Prepayments of a minimum funding requirement" (effective for annual period beginning on or after 1 January 2011).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Change in accounting policy and disclosures *(Continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

– HKFRS 9 "Financial Instruments" (effective for annual period beginning on or after 1 January 2013).

– HKICPA's improvements to HKFRS published in October 2008 and May 2009, which will be effective for accounting period beginning on or after 1 July 2009.

- HKFRS 5 "Non-current assets held for sale and discontinued operations" (and consequential amendment to HKFRS 1 "First-time adoption") (effective for annual period beginning on or after 1 July 2009).

- HKFRS 5 "Disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations" (effective for annual period beginning on or after 1 January 2010).

- HKAS 36 "Unit of accounting for goodwill impairment test" (effective for annual period beginning on or after 1 January 2010).

- HKAS 38 "Additional consequential amendments arising from HKFRS 3 (revised) and measuring the fair value of an intangible asset acquired in business combination" (effective for annual period beginning on or after 1 July 2009).

- HKAS 39 "Treating loan prepayment penalties as closely related derivatives" (effective for annual period beginning on or after 1 January 2010).

- HKAS 39 "Cash flow hedge accounting" (effective for annual period beginning on or after 1 January 2010).

- HK(IFRIC) 16 "Hedges of a net investment in a foreign operation" (effective for annual period beginning on or after 1 July 2009).

- HKFRS 2 "Scope of HKFRS 2 and HKFRS 3 (revised)" (effective for annual period beginning on or after 1 July 2009).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

Change in accounting policy and disclosures *(Continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKAS 39 "Scope exemption for business combination contracts" (effective for annual period beginning on or after 1 January 2010).
- HK(IFRIC)-Int 9 "Reassessment of embedded derivatives" and HKFRS 3 (revised) "Business combinations" (effective for annual period beginning on or after 1 July 2009).
- HKFRS 8 "Disclosure of information about segment assets" (effective for annual period beginning on or after 1 January 2010).
- HKAS 1 (amendment) "Current/non-current classification of convertible instruments" (effective for annual period beginning on or after 1 January 2010).
- HKAS 7 "Classification of expenditures on unrecognised assets" (effective for annual period beginning on or after 1 January 2010).
- HKAS 17 "Classification of leases of land and buildings" (effective for annual period beginning on or after 1 January 2010).
- HKAS 18 "Determining whether an entity is acting as a principal or as an agent" (effective for annual period beginning on or after 1 July 2009).

The Group has already commenced an assessment of the related impact of adopting the above new standards, amendments/revisions to standards and interpretations to the Group. The Group is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the financial statements will be resulted.

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 at 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 consolidated income statement (Note 2.7(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 (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interest

The Group treats transactions with minority interest as transactions with shareholders of the Company. For purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(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 identified on acquisition, net of any accumulated impairment loss. See Note 2.9 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated 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 investment 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 (Note 2.9). 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

Jointly controlled entities are entities where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.9 for the impairment of non-financial assets including goodwill.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated 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 investments. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

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

Dilution gains and losses in investment in jointly controlled entities are recognised in the consolidated income statement.

In the Company's balance sheet, the investments in jointly controlled entities companies are stated at cost less provision for impairment losses (Note 2.9). 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)*

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors ("BOD") that makes strategy decisions.

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 Yuan, which is the Company's functional currency and the Group's 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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the income statement within "other (losses)/gains – net".

2.5 Property, plant and equipment

The Group revalued its property, plant and equipment upon its reorganisation in 1997. The revalued cost was deemed as the initial cost of the property, plant and equipment.

Increases in the then carrying amount arising on revaluation of property, plant and equipment 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 consolidated income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated income statement and depreciation based on the asset's original cost is transferred from "other reserves" to "retained earnings".

When revalued assets are sold, the amounts included in "other reserves" are transferred to "retained earnings".

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

Subsequent to the reorganisation, all property, plan and equipment are measured at historical cost.

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 consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs less accumulated impairment 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.

Construction in progress represents property, plant and equipment under construction or pending installation and is stated at cost. Cost includes the costs of construction of property and costs of plant and equipment. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses) – net", in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Investment properties

Properties, principally comprising leasehold land and buildings, are held for long-term rental yields and are not occupied by the Group.

Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if it were a finance lease.

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

After initial recognition at cost, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. 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 the 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 consolidated income statement as part of "other gains/(losses) – 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.

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 consolidated income statement.

Rental income from investment properties is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. 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 identified according to operating segment.

(b) Patents and trademarks

Separately acquired 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 of 5 to 10 years.

(c) 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 of 3 to 5 years.

2.8 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;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Research and development *(Continued)*

(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.

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

Assets that have an indefinite useful life, for example goodwill, 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.

Impairment testing of the investments in subsidiaries, associates or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associates and jointly controlled entities in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets

2.10.1 Classification

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 and those designated at fair value through profit or loss upon initial recognition. 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.

The Group's financial assets designated as fair value through profit or loss are short term investment in money market fund, which is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the financial assets are provided internally on that basis to the Group's key management personnel.

(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 comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Note 2.14 and 2.15).

(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 the investment matures or management intends to dispose of the investment within 12 months of the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.2 Recognition and measurement

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.

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 gains/(losses) – 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 operating income" 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 "Other gains/(losses) – net".

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

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

– Significant financial difficulty of the issuer or obligor;

– A breach of contract, such as a default or delinquency in interest or principal payments;

– The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

– It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

– The disappearance of an active market for that financial asset because of financial difficulties; or

– Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

    (i) adverse changes in the payment status of borrowers in the portfolio;

    (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Impairment of financial assets *(Continued)*

(a) Assets carried at amortised cost *(Continued)*

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets 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 separate income statement. Impairment losses recognised in the separate income statement on equity instruments are not reversed through the separate income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 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). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

2.15 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less.

2.16 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.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.18 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for it intended use. Other borrowing costs are expensed as incurred.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liabilities for at least 12 months after the end of the reporting period.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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 recognised, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Current and deferred income tax *(Continued)*

Deferred income tax assets are recognised only 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, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Company or the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

(a) Pension obligations

The Group participates in the defined contribution employee retirement schemes regarding pension benefits required under the 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Employee benefits *(Continued)*

(c) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme administered by a government agency for the 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 12 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.

2.21 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 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 Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Revenue recognition *(Continued)*

(a) Sales of goods – wholesale

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

(b) Sales of goods – retail

Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually settled by cash or by credit card.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(d) License fee income

License fee income is recognised when the right to received payment is established.

(e) Dividend income

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

(f) Rental income

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

2.23 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), including upfront payment made for leasehold land and land use rights, are charged to the income statement on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Dividend distribution

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

2.25 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.

2.26 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries to secure loans and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the company.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (mainly foreign exchange risk, price risk, cash flow and fair value 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 US dollars and 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.

At 31 December 2009, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of RMB5,422,000 (2008: RMB4,556,000), trade and other receivables of RMB9,140,000 (2008: RMB9,252,000) and trade and other payables of RMB19,256,000 (2008: RMB13,780,000) were denominated in US dollars or HK dollars.

Foreign exchange risk arises from such future commercial transactions, recognised assets and liabilities could affect the Group's results of operations.

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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

At 31 December 2009, if RMB had strengthened/weakened by 5% against US dollars and HK dollars with all other variables held constant, post-tax profit for the year would have been changed as follows:

2009

RMB'000	RMB against US dollars strengthen by 5%	RMB against US dollars weaken by 5%
	impact on post-tax profit	
Denominated in US dollars		
Cash and cash equivalents	(142)	142
Trade and other receivables	(246)	246
Trade and other payables	520	(520)

RMB'000	RMB against HK dollars strengthen by 5%	RMB against HK dollars weaken by 5%
	impact on post-tax profit	
Denominated in HK dollars		
Cash and cash equivalents	(129)	129
Trade and other receivables	(211)	211
Trade and other payables	443	(443)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

2008

RMB'000	**RMB against US dollars strengthen by 10%**	**RMB against US dollars weaken by 10%**
	impact on post-tax profit	
Denominated in US dollars		
Cash and cash equivalents	(199)	199
Trade and other receivables	(579)	579
Trade and other payables	771	(771)

RMB'000	**RMB against HK dollars strengthen by 10%**	**RMB against HK dollars weaken by 10%**
	impact on post-tax profit	
Denominated in HK dollars		
Cash and cash equivalents	(256)	256
Trade and other receivables	(347)	347
Trade and other payables	607	(607)

The functional currency of the Company and major subsidiaries is RMB. Majority of the revenues of the Group are derived from operations in the PRC. The Group is not significantly exposed to currency risk. However, the conversion of RMB into foreign currencies for the purpose of dividends is subject to the rules and regulations of foreign exchange control promulgated by the PRC 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 because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss.

If the fair value of these equity investments increased or decreased by 10 percent, the Group's equity would have seen increased or decreased by approximately RMB6,584,000 (2008: RMB1,928,000).

(iii) Cash flow and fair value interest rate risk

The Company's loans to subsidiaries were issued at fixed rates and expose the Company to 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 23. All of the Group's borrowings were at fixed rates with maturities of less than one year, management believes that exposure to fair value interest rate risk is minimal.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

The carrying amounts of restricted cash, cash and cash equivalents, trade and other receivables (excluding prepayments) represent the Group's maximum exposure to credit risk at the reporting date in relation to its financial assets. The Group has no significant concentrations of credit risk.

The Group has limited its credit exposure of cash and cash equivalents by restricting their selection of financial institutions to those reputable local banks and state-owned banks.

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 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 4 months.

Normally, the Group does not require collaterals from trade debtors. Management makes periodic collective assessment 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 debtors and whether there are trade disputes with the debtors.

Bills receivable are accepted by banks with high credit rating, management considers they are of high credit quality.

(c) Liquidity risk

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

Management monitors rolling forecasts of the Group's liquidity reserve which comprises undrawn borrowing facility (Note 23) and cash and cash equivalents (Note 19) on the basis of expected cash flow.

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. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year (RMB'000)	Between 1 and 2 years (RMB'000)
Group		
At 31 December 2009		
Borrowings	63,370	–
Trade payables	337,272	–
Other payables and accrued charges	108,334	–
Dividend payables	65	–
At 31 December 2008		
Borrowings	243,275	30,000
Trade payables	335,668	–
Other payables and accrued charges	141,626	–
Dividend payables	58	–
Company		
At 31 December 2009		
Borrowings	–	–
Trade payables	21,618	–
Other payables and accrued charges	7,907	–
At 31 December 2008		
Borrowings	50,000	–
Trade payables	32,543	–
Other payables and accrued charges	8,356	–

As at 31 December 2009 and 2008, the Company's financial guarantee to its subsidiaries will be expired within 12 months.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

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, issue new shares or sell assets to reduce debt.

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 Group's strategy is to maintain low gearing ratio, As at 31 December 2009 and 2008, the Group reported net cash position as set out below. Accordingly, the gearing ratio as at 31 December 2009 was zero (2008: zero).

The net cash position at 31 December 2009 and 2008 were as follows:

	2009 (RMB'000)	2008 (RMB'000)
Total borrowings (Note 23)	**63,370**	273,275
Less: Cash and cash equivalents (Note 19)	**(667,385)**	(365,859)
Net cash	**(604,015)**	(92,584)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's and the Company's financial assets that are measured at fair value at 31 December 2009.

Group

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
– Trading securities	5,332	–	–	5,332
– Investment in money market fund	26,000	–	–	26,000
Available-for-sale financial assets				
– Equity securities	2,476	–	32,030	34,506
Total assets	33,808	–	32,030	65,838

Company

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
– Trading securities	5,332	–	–	5,332
– Investment in money market fund	6,000	–	–	6,000
Available-for-sale financial assets				
– Equity securities	–	–	31,448	31,448
Total assets	11,332	–	31,448	42,780

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The Group's financial liabilities are measured at amortised cost.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity interest in listed companies classified as trading securities or available-for-sale financial assets.

The fair value of financial instruments that are not traded in an active market (for example, equity investment in non-listed companies) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- Other techniques, such as market comparison approach, are used to determine fair value for the unlisted security.

The following table presents the changes in level 3 instruments for the year then ended 31 December 2009.

	Group (RMB'000)	**Company** (RMB'000)
Opening balance	15,017	14,425
Additions	1,500	1,500
Net gains recognised in other comprehensive income	15,523	15,523
Others	(10)	–
Ending balance	32,030	31,448

In 2009, there are no transfers from level 1 or level 2 into level 3.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

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 addressed below.

(a) Fair value of investment properties

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.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The valuations are reviewed annually by external valuers.

Were the discount rate higher than management estimates by 10% with other variables held at constant, it is estimated that the balance of investment properties would decrease by RMB15,942,000.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) Current and deferred income tax

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

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

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board of Directors ("BOD"). The BOD reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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

- Manufacturing: manufacture and sale of the Group's own CPM on a wholesale basis;

- Trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine;

Other segments mainly comprise the trading of other merchandise, such as fuel oil, steel etc.

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

5 SEGMENT INFORMATION *(Continued)*

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

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

The segment results for the year ended 31 December 2009 are as follows:

	Manufacturing (RMB'000)	**Trading** (RMB'000)	**Other segments** (RMB'000)	**Total** (RMB'000)
Revenue	1,976,891	1,942,038	340,361	4,259,290
Inter-segment revenue	(28,112)	(428,755)	–	(456,867)
Revenue (from external customers)	1,948,779	1,513,283	340,361	3,802,423
Profit after tax	44,400	10,590	1,889	56,879
Depreciation and amortisation	(108,285)	(5,156)	–	(113,441)
Impairment losses relating to property, plant and equipment	(158)	–	–	(158)
Impairment losses relating to intangible assets	(453)	–	–	(453)
Provision for trade and other receivables impairment	(3,812)	(2,606)	–	(6,418)
Write back of provision for trade and other receivables impairment	21,539	109	–	21,648
Finance income	1,981	816	–	2,797
Finance cost	(10,368)	(15,743)	(7)	(26,118)
Share of post-tax profits from associates	1,257	–	–	1,257
Income tax expense	(11,483)	(1,039)	(486)	(13,008)

5 SEGMENT INFORMATION *(Continued)*

The segment results for the year ended 31 December 2008 are as follows:

	Manufacturing (RMB'000)	Trading (RMB'000)	Other segments (RMB'000)	Total (RMB'000)
Revenue	1,822,993	2,078,720	187,057	4,088,770
Inter-segment revenue	12,230	(650,414)	–	(638,184)
Revenue (from external customers)	1,835,223	1,428,306	187,057	3,450,586
Profit after tax	775	7,422	(132)	8,065
Depreciation and amortisation	(106,572)	(5,070)	–	(111,642)
Provision for trade and other receivables impairment	(26,896)	(1,767)	–	(28,663)
Write back of provision for trade and other receivables impairment	484	1,273	–	1,757
Finance income	1,785	711	–	2,496
Finance cost	(18,559)	(18,843)	–	(37,402)
Share of post-tax losses from associates	(4,863)	–	–	(4,863)
Income tax expense	(22,752)	2,114	(138)	(20,776)

5 SEGMENT INFORMATION *(Continued)*

The segment assets and liabilities as at 31 December 2009 and 31 December 2008 are as follows:

	Manufacturing (RMB'000)	Trading (RMB'000)	Other segments (RMB'000)	Total (RMB'000)
As at 31 December 2009				
Total assets	2,583,049	745,403	41,302	3,369,754
Total assets include:				
Interests in associates	5,386	–	–	5,386
Additions to non-current assets (other than financial instruments and deferred tax assets)	63,243	3,525	–	66,768
Total liabilities	885,021	602,432	39,545	1,526,998

	Manufacturing (RMB'000)	Trading (RMB'000)	Other segments (RMB'000)	Total (RMB'000)
As at 31 December 2008				
Total assets	2,547,841	756,626	14,849	3,319,316
Total assets include:				
Interests in associates	4,130	–	–	4,130
Additions to non-current assets (other than financial instruments and deferred tax assets)	183,901	2,620	–	186,521
Total liabilities	854,291	659,918	14,981	1,529,190

5 SEGMENT INFORMATION *(Continued)*

Reconciliations of material items are provided as follows:

2009	Total for reportable segments (RMB'000)	Other segments (RMB'000)	Corporate (RMB'000)	Elimination (RMB'000)	Total (RMB'000)
Revenue	3,918,929	340,361	–	(456,867)	3,802,423
Depreciation and amortisation	(113,441)	–	(1,544)	–	(114,985)
Impairment losses relating to property, plant and equipment	(158)	–	–	–	(158)
Impairment losses relating to intangible assets	(453)	–	–	–	(453)
Provision for trade and other receivables impairment	(6,418)	–	(122)	–	(6,540)
Write back of provision for trade and other receivables impairment	21,648	–	140	–	21,788
Finance income	2,797	–	6,236	–	9,033
Finance cost	(26,111)	(7)	(1,284)	17,149	(10,253)
Share of post-tax profits/(losses) from associates	1,257	–	(2,730)	–	(1,473)
Share of post-tax profits from jointly controlled entities	–	–	135,647	–	135,647
Income tax expense	(12,522)	(486)	(9,483)	–	(22,491)

2008	Total for reportable segments (RMB'000)	Other segments (RMB'000)	Corporate (RMB'000)	Elimination (RMB'000)	Total (RMB'000)
Revenue	3,901,713	187,057	–	(638,184)	3,450,586
Depreciation and amortisation	(111,642)	–	(7,850)	–	(119,492)
Provision for trade and other receivables impairment	(28,663)	–	(2)	–	(28,665)
Write back of provision for trade and other receivables impairment	1,757	–	2	–	1,759
Finance income	2,496	–	8,874	–	11,370
Finance cost	(37,402)	–	(3,360)	21,578	(19,184)
Share of post-tax losses from associates	(4,863)	–	(308)	–	(5,171)
Share of post-tax profits from jointly controlled entities	–	–	111,540	–	111,540
Income tax expense	(20,638)	(138)	(16,480)	–	(37,256)

5 SEGMENT INFORMATION *(Continued)*

A reconciliation of profit after tax is provided as follows:

	Year ended 31 December	
	2009 (RMB'000)	2008 (RMB'000)
Profit for reportable segments	**54,990**	8,197
Profit for other segments	**1,889**	(132)
	56,879	8,065
Corporate income and expenses		
– Other income	**31,147**	35,896
– Other gains-net	**8,650**	79,051
– Corporate expenses	**(18,056)**	(34,313)
– Dividend income from subsidiaries	**32,622**	182,101
– Depreciation and amortisation	**(1,544)**	(7,850)
– Provision for trade and other receivables impairment	**(122)**	(2)
– Write back of provision for trade and other receivables impairment	**140**	2
– Finance income	**6,236**	8,874
– Finance cost	**(1,284)**	(3,360)
– Share of post-tax losses from associates	**(2,730)**	(308)
– Share of post-tax profits from jointly controlled entities	**135,647**	111,540
– Income tax expense	**(9,483)**	(16,480)
Elimination	**(25,425)**	(191,920)
Profit for the year	**212,677**	171,296

5 SEGMENT INFORMATION *(Continued)*

Reportable segments' assets are reconciled to total assets as follows:

	31 December 2009 (RMB'000)	31 December 2008 (RMB'000)
Segment assets for the reportable segments	**3,328,452**	3,304,467
Other segments assets	**41,302**	14,849
	3,369,754	3,319,316
Corporate assets:		
– Property, plant and equipment	**15,059**	16,467
– Investment properties	**62,469**	62,232
– Investments in subsidiaries	**1,454,836**	1,454,836
– Interests in associates	**12,836**	15,565
– Interests in jointly controlled entities	**876,435**	787,580
– Available-for-sale financial assets	**31,448**	14,425
– Deferred income tax assets	**1,741**	2,022
– Loans to subsidiaries	**500,213**	382,946
– Loans to jointly controlled entities	**–**	150,000
– Dividends due from subsidiaries	**39,978**	68,598
– Financial assets at fair value through profit or loss	**5,332**	3,008
– Cash and cash equivalents	**207,607**	148,367
– Other unallocated assets	**19,401**	21,257
Elimination	**(2,148,102)**	(2,091,955)
Total assets per consolidated balance sheet	**4,449,007**	**4,354,664**

5 SEGMENT INFORMATION *(Continued)*

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 December 2009 (RMB'000)	31 December 2008 (RMB'000)
Segment liabilities for the reportable segments	**1,487,453**	1,514,209
Other segments liabilities	**39,545**	14,981
	1,526,998	1,529,190
Corporate liabilities:		
– Deferred income tax liabilities	**10,836**	6,319
– Borrowings	**–**	50,000
– Other unallocated liabilities	**24,068**	15,256
Elimination	**(676,561)**	(606,866)
Total liabilities per consolidated balance sheet	**885,341**	993,899

Breakdown of revenue from all services is as follows:

Analysis of revenue by category	**2009 (RMB'000)**	2008 (RMB'000)
Sales of pharmaceutical products	**3,462,062**	3,263,529
Sales of other merchandise	**340,361**	187,057
Total	**3,802,423**	3,450,586

The Group is domiciled in the PRC. The result of its revenue from external customers in the PRC for the year ended 31 December 2009 is RMB3,694,471,000 (2008: RMB3,355,294,000), and the total of its revenue from external customers from other countries is RMB107,952,000 (2008: RMB95,292,000).

At 31 December 2009, the total of non-current assets other than financial instruments and deferred tax assets located in the PRC is RMB2,417,242,000 (2008: RMB2,363,115,000).

For the year ended 31 December 2009 and 2008, the revenue from the Group's largest customers was less than 10% of the Group's total revenue.

Turnover consists of sales revenue from manufacturing, trading and other segments, which are RMB3,802,423,000 and RMB3,450,586,000 for the years ended 31 December 2009 and 2008 respectively.

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 2008					
Cost	1,125,697	924,892	76,234	100,458	2,227,281
Accumulated depreciation	(343,333)	(426,820)	(60,359)	–	(830,512)
Accumulated impairment	(10,913)	(5,719)	(404)	(130)	(17,166)
Net book amount	771,451	492,353	15,471	100,328	1,379,603
Year ended 31 December 2008					
Opening net book amount	771,451	492,353	15,471	100,328	1,379,603
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	(87,657)	(25,185)	(7,770)	(5,271)	(125,883)
Additions	7,579	39,131	1,094	131,493	179,297
Transfer	122,120	45,210	669	(167,999)	–
Transfer to investment properties (Note 7)	(14,747)	–	–	–	(14,747)
Disposals (Note 36)	(1,895)	(1,134)	(86)	–	(3,115)
Depreciation (Note 29)	(46,635)	(53,631)	(3,801)	–	(104,067)
Closing net book amount	750,216	496,744	5,577	58,551	1,311,088
At 31 December 2008					
Cost	1,091,576	951,244	57,754	58,681	2,159,255
Accumulated depreciation	(338,012)	(449,185)	(51,773)	–	(838,970)
Accumulated impairment	(3,348)	(5,315)	(404)	(130)	(9,197)
Net book amount	750,216	496,744	5,577	58,551	1,311,088
Year ended 31 December 2009					
Opening net book amount	750,216	496,744	5,577	58,551	1,311,088
Additions	473	12,367	1,874	50,793	65,507
Transfer	55,696	26,879	–	(82,575)	–
Transfer to investment properties (Note 7)	(35,550)	(1,780)	–	–	(37,330)
Disposals (Note 36)	(14)	(1,065)	(336)	–	(1,415)
Depreciation (Note 29)	(50,209)	(57,595)	(3,390)	–	(111,194)
Impairment charge (Note 29)	–	–	(158)	–	(158)
Closing net book amount	720,612	475,550	3,567	26,769	1,226,498
At 31 December 2009					
Cost	1,111,616	964,928	53,167	26,899	2,156,610
Accumulated depreciation	(387,656)	(484,318)	(49,080)	–	(921,054)
Accumulated impairment	(3,348)	(5,060)	(520)	(130)	(9,058)
Net book amount	720,612	475,550	3,567	26,769	1,226,498

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation charged to the cost and expenses as below:

	2009 (RMB'000)	2008 (RMB'000)
Cost of sales	**72,407**	72,664
Selling and marketing costs	**2,515**	2,297
Administrative expenses	**36,272**	29,106
	111,194	104,067

Lease rental expenses of RMB27,456,000 (2008: RMB28,346,000) relating to the lease of property are included in the consolidated income statement (Note 29).

All of the Group's buildings are located in the PRC, except for property with net book amount of RMB13,438,000 (2008: RMB14,003,000) located in Hong Kong.

As at 31 December 2009 and 2008, no property, plant and equipment of the Group was pledged.

Company

	Plant and buildings (RMB'000)	**Machinery and equipment** (RMB'000)	**Motor vehicles** (RMB'000)	**Total** (RMB'000)
At 1 January 2008				
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
Year ended 31 December 2008				
Opening net book amount	14,712	3,290	932	18,934
Additions	–	242	123	365
Disposals	–	(9)	–	(9)
Depreciation	(565)	(1,528)	(226)	(2,319)
Closing net book amount	14,147	1,995	829	16,971
At 31 December 2008				
Cost	22,278	20,916	2,006	45,200
Accumulated depreciation	(8,131)	(18,921)	(1,177)	(28,229)
Net book amount	14,147	1,995	829	16,971

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company *(Continued)*

	Plant and buildings (RMB'000)	Machinery and equipment (RMB'000)	Motor vehicles (RMB'000)	Total (RMB'000)
Year ended 31 December 2009				
Opening net book amount	14,147	1,995	829	16,971
Additions	–	238	–	238
Disposals	–	(17)	–	(17)
Depreciation	(627)	(830)	(214)	(1,671)
Closing net book amount	13,520	1,386	615	15,521
At 31 December 2009				
Cost	22,278	20,470	2,006	44,754
Accumulated depreciation	(8,758)	(19,084)	(1,391)	(29,233)
Net book amount	13,520	1,386	615	15,521

Depreciation expense of RMB1,671,000 (2008: RMB2,319,000) has been charged to administrative expenses.

Lease rental expenses of RMB1,192,000 (2008: RMB1,217,000) relating to the lease of property are included in the income statement.

7 INVESTMENT PROPERTIES

Group

	2009 (RMB'000)	2008 (RMB'000)
At 1 January	**135,426**	76,389
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**–**	(1,382)
Transfer from property, plant and equipment (Note 6)	**37,330**	14,747
Transfer from leasehold land and land use rights (Note 8)	**1,347**	573
Fair value gains on investment properties transferred in-credit to other comprehensive income	**14,244**	17,944
Change in fair value, recognised in "other gains – net" (Note 28)	**2,634**	27,155
At 31 December	**190,981**	135,426

Company

	2009 (RMB'000)	2008 (RMB'000)
At 1 January	**62,232**	42,385
Change in fair value, recognised in "other gains – net"	**237**	19,847
At 31 December	**62,469**	62,232

Land use rights portion in investment properties represent prepaid operating lease payments on leases of between 20 years to 50 years in the PRC.

7 INVESTMENT PROPERTIES *(Continued)*

The Group's investment properties are stated at fair values except for one property being stated at cost as the directors of the Company consider the fair value of this property cannot be reliably measured given the restriction of usage.

Other investment properties were revalued at 31 December 2009 on an open market value basis by an independent firm of professional qualified surveyor, Yangcheng Appraisals Co., Ltd., employed by the Group. Valuations were performed using discounted cash flow projections based on estimates of future cash flows derived from the terms of any existing lease and other contracts and from external evidence such as current market rents for similar properties in the same location and condition, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The following amounts have been recognised in the income statements:

	Group	
	2009 (RMB'000)	2008 (RMB'000)
Rental income	**35,065**	30,326
Direct operating expenses that generate rental income	**5,648**	1,622

The future aggregate minimum rentals receivables under non-cancellable operating leases are as follows:

	Group	
	2009 (RMB'000)	2008 (RMB'000)
Not later than 1 year	**17,319**	12,673
Later than 1 year and no later than 5 years	**64,860**	54,543
Later than 5 years	**104,900**	119,724
	187,079	186,940

8 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

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

	2009 (RMB'000)	2008 (RMB'000)
At 1 January	**97,164**	120,841
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**–**	(20,652)
Disposal	**(44)**	–
Amortisation (Note 29)	**(2,522)**	(2,452)
Transfer to investment properties (Note 7)	**(1,347)**	(573)
At 31 December	**93,251**	97,164

Amortisation expense of RMB2,522,000 (2008: RMB2,452,000) has been charged to administrative expenses.

9 INTANGIBLE ASSETS

Group

	Goodwill (RMB'000)	Patents and trademarks (RMB'000)	Staff quarters reform costs (RMB'000)	Computer software (RMB'000)	Total (RMB'000)
At 1 January 2008					
Cost	2,154	9,678	104,092	7,739	123,663
Accumulated amortisation	(150)	(3,007)	(87,423)	(5,102)	(95,682)
Accumulated impairment	(2,004)	–	–	–	(2,004)
Net book amount	–	6,671	16,669	2,637	25,977
Year ended 31 December 2008					
Opening net book amount	–	6,671	16,669	2,637	25,977
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	–	(750)	(5,191)	(2,490)	(8,431)
Additions	–	6,423	–	1,166	7,589
Amortisation (Note 29)	–	(1,289)	(11,478)	(206)	(12,973)
Closing net book amount	–	11,055	–	1,107	12,162
At 31 December 2008					
Cost	2,154	14,901	75,102	2,229	94,386
Accumulated amortisation	(150)	(3,846)	(75,102)	(1,122)	(80,220)
Accumulated impairment	(2,004)	–	–	–	(2,004)
Net book amount	–	11,055	–	1,107	12,162
Year ended 31 December 2009					
Opening net book amount	–	11,055	–	1,107	12,162
Additions	–	1,340	–	75	1,415
Amortisation (Note 29)	–	(1,166)	–	(103)	(1,269)
Impairment charge (Note 29)	–	(453)	–	–	(453)
Closing net book amount	–	10,776	–	1,079	11,855
At 31 December 2009					
Cost	2,154	16,241	–	2,304	20,699
Accumulated amortisation	(150)	(5,012)	–	(1,225)	(6,387)
Accumulated impairment	(2,004)	(453)	–	–	(2,457)
Net book amount	–	10,776	–	1,079	11,855

Amortisation expense of RMB1,269,000 (2008: RMB12,973,000) has been charged to administrative expenses in the consolidated income statement.

9 INTANGIBLE ASSETS *(Continued)*

Company

	2009 (RMB'000)	2008 (RMB'000)
Staff quarters reform costs		
At 1 January		
Cost	**2,524**	2,524
Accumulated amortisation	**(2,524)**	(2,038)
Net book amount	**–**	486
Year ended 31 December		
Opening net book amount	**–**	486
Amortisation	**–**	(486)
Closing net book amount	**–**	–
At 31 December		
Cost	**–**	2,524
Accumulated amortisation	**–**	(2,524)
Net book amount	**–**	–

No amortisation expense has been charged to the income statement (2008: RMB486,000).

10 INVESTMENTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES-COMPANY

	2009 (RMB'000)	2008 (RMB'000)
Investments in subsidiaries		
At 1 January	**1,454,836**	1,520,126
Additions	**–**	181,299
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**–**	(246,589)
At 31 December	**1,454,836**	1,454,836

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 39.

	2009 (RMB'000)	2008 (RMB'000)
Loans to subsidiaries (Note 38)	**500,213**	382,946

The loans to subsidiaries are denominated in RMB and repayable within 1 year. Interest rate ranges from 4.25% to 6.72% per annum (2008: 4.68% to 6.73%). The carrying amount of the loans to subsidiaries approximate to its fair value.

11 INVESTMENTS IN ASSOCIATES

Group

As at 31 December 2009, the Group and the Company had direct or indirect interests in the following companies located in the PRC:

Name of associates	Particulars of registered capital	Principal activities	Interest held 2009 %	Interest held 2008 %
(1) Directly held by the Company				
Guangzhou Jinshen Medical Co., Ltd. (廣州金申醫藥科技有限公司)	RMB1,500,000	Production of health medicine	**38.25**	38.25
Golden Eagle Fund Management Co., Ltd. (金鷹基金管理有限公司)	RMB100,000,000	Fund management	**20.00**	20.00
(2) Indirectly held by the Company				
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd. (上海九和堂國藥有限公司)	RMB1,900,000	Sales of Chinese medicine	**29.72**	29.72
Guangzhou Pharmaceutical Soccer Club Limited (廣州醫藥足球俱樂部有限公司)	RMB20,000,000	Participation of soccer competition and provision of related advertising services	**42.50**	42.50

The share of assets and liabilities of the Group's associates as at 31 December 2009 and the revenues and profit/(loss) for the year then ended are as follows:

	Assets (RMB'000)	Liabilities (RMB'000)	Revenues (RMB'000)	Profit/(loss) (RMB'000)
Guangzhou Jinshen Medical Co., Ltd.	57	39	145	(30)
Golden Eagle Asset Management Co., Ltd.	15,173	2,355	16,404	(2,700)
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	13,300	12,777	35,398	14
Guangzhou Pharmaceutical Soccer Club Limited	9,094	4,231	31,546	1,243
	37,624	19,402	83,493	(1,473)

11 INVESTMENTS IN ASSOCIATES *(Continued)*

The share of assets and liabilities of the Group's associates as at 31 December 2008 and the revenues and profit/(loss) for the year then ended are as follows:

	Assets (RMB'000)	**Liabilities** (RMB'000)	**Revenues** (RMB'000)	**Profit/(loss)** (RMB'000)
Guangzhou Jinshen Medical Co., Ltd.	79	31	170	(16)
Golden Eagle Asset Management Co., Ltd.	18,095	2,578	9,400	(292)
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	12,331	11,821	21,183	20
Guangzhou Pharmaceutical Soccer Club Limited	5,597	1,977	19,485	(4,883)
	36,102	16,407	50,238	(5,171)

Company

	2009 **(RMB'000)**	2008 (RMB'000)
Investments in associates – Unlisted equity securities, at cost	**15,565**	15,565

12 INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Group

As at 31 December 2009, the Group and the Company had direct or indirect interests in the following companies located in the PRC:

Name of jointly controlled entities	Particulars of registered capital	Principal activities	Interest held 2009 %	Interest held 2008 %
(1) Directly held by the Company				
Guangzhou Wao Lao Ji Pharmaceutical Co., Ltd. (廣州王老吉藥業股份有限公司)	RMB204,756,878	Production of CPM	**48.05**	48.05
Guangzhou Pharmaceutical Corporation Limited (廣州醫藥有限公司)	RMB400,000,000	Trading of western pharmaceutical products and medical apparatus	**50.00**	50.00
(2) Indirectly held by the Company				
Guangzhou Nuo Cheng Bio-Tec Co., Ltd. (廣州諾誠生物製品股份有限公司)	RMB84,000,000	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:

	2009 (RMB'000)	2008 (RMB'000)
Assets:		
Non-current assets	**156,465**	182,327
Current assets	**2,482,760**	1,861,807
	2,639,225	2,044,134
Liabilities:		
Non-current liabilities	**5,800**	8,810
Current liabilities	**1,756,990**	1,247,744
	1,762,790	1,256,554
Net assets	**876,435**	787,580
Results:		
Revenue	**6,388,823**	5,546,639
Expenses	**(6,253,176)**	(5,435,099)
Profit after income tax	**135,647**	111,540
Proportionate interest in jointly controlled entities' commitments	**435**	1,500

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

	2009 (RMB'000)	2008 (RMB'000)
Investments in jointly controlled entities:		
– Unlisted equity securities, at cost	**324,752**	324,752

13 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY

(a) Group

	Financial assets at fair value through profit or loss (RMB'000)	Loans and receivables (RMB'000)	Available-for-sale (RMB'000)	Total (RMB'000)
31 December 2009				
Assets as per balance sheet				
Financial assets at fair value through profit or loss	31,332	–	–	31,332
Available-for-sale financial assets	–	–	34,506	34,506
Trade and other receivables excluding prepayments	–	553,847	–	553,847
Restricted cash	–	29,549	–	29,549
Cash and cash equivalents	–	667,385	–	667,385
Total	31,332	1,250,781	34,506	1,316,619

	Other financial liabilities at amortised cost (RMB'000)
Liabilities as per balance sheet	
Borrowings	63,370
Trade and other payables excluding payroll and welfare payables, government grants, advances from customers and other taxes payables	445,606
Dividend payables	65
Total	509,041

13 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY *(Continued)*

(a) Group *(Continued)*

	Financial assets at fair value through profit or loss (RMB'000)	Loans and receivables (RMB'000)	Available-for-sale (RMB'000)	Total (RMB'000)
31 December 2008				
Assets as per balance sheet				
Financial assets at fair value through profit or loss	3,008	–	–	3,008
Available-for-sale financial assets	–	–	16,272	16,272
Trade and other receivables excluding prepayments	–	812,593	–	812,593
Restricted cash	–	15,275	–	15,275
Cash and cash equivalents	–	365,859	–	365,859
Total	3,008	1,193,727	16,272	1,213,007

	Other financial liabilities at amortised cost (RMB'000)
Liabilities as per balance sheet	
Borrowings	273,275
Trade and other payables excluding payroll and welfare payables, government grants, advances from customers and other taxes payables	477,294
Dividend payables	58
Total	750,627

13 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY *(Continued)*

(b) Company

	Financial assets at fair value through profit or loss (RMB'000)	Loans and receivables (RMB'000)	Available-for-sale (RMB'000)	Total (RMB'000)
31 December 2009				
Assets as per balance sheet				
Financial assets at fair value through profit or loss	11,332	–	–	11,332
Available-for-sale financial assets	–	–	31,448	31,448
Loans to subsidiaries	–	500,213	–	500,213
Trade and other receivables excluding prepayments	–	54,326	–	54,326
Dividend receivables from subsidiaries	–	39,978	–	39,978
Cash and cash equivalents	–	223,166	–	223,166
Total	11,332	817,683	31,448	860,463

	Other financial liabilities at amortised cost (RMB'000)
Liabilities as per balance sheet	
Trade and other payables excluding payroll and welfare payables advances from customers and other taxes payables	29,525

13 FINANCIAL INSTRUMENTS BY CATEGORY – GROUP AND COMPANY *(Continued)*

(b) Company *(Continued)*

	Financial assets at fair value through profit or loss (RMB'000)	Loans and receivables (RMB'000)	Available-for-sale (RMB'000)	Total (RMB'000)
31 December 2008				
Assets as per balance sheet				
Financial assets at fair value through profit or loss	3,008	–	–	3,008
Available-for-sale financial assets	–	–	14,425	14,425
Loans to subsidiaries	–	382,946	–	382,946
Trade and other receivables excluding prepayments	–	220,655	–	220,655
Dividend receivables from subsidiaries	–	68,598	–	68,598
Cash and cash equivalents	–	158,747	–	158,747
Total	3,008	830,946	14,425	848,379

	Other financial liabilities at amortised cost (RMB'000)
Liabilities as per balance sheet	
Borrowings	50,000
Trade and other payables excluding payroll and welfare payables advances from customers and other taxes payables	40,899
Total	90,899

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
At 1 January	**16,272**	17,223	**14,425**	10,925
Additions	**1,500**	3,500	**1,500**	3,500
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**–**	(1,529)	**–**	–
Net gains/(losses) recognised in other comprehensive income	**16,744**	(2,898)	**15,523**	–
Others	**(10)**	(24)	**–**	–
At 31 December	**34,506**	16,272	**31,448**	14,425

Available-for-sale financial assets includes:

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Listed securities				
– Bank of Communications	**2,476**	1,255	**–**	–
Unlisted securities				
– China Everbright Bank Company Limited	**26,248**	10,725	**26,248**	10,725
– Guangdong Southern China Advanced Pharmaceutical Co., Ltd.	**5,000**	3,500	**5,000**	3,500
– Others	**782**	792	**200**	200
	34,506	16,272	**31,448**	14,425

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

The fair values of listed securities are determined based on market price.

The fair values of unlisted securities of China Everbright Bank Company Limited are valued by a qualified independent valuer based on market comparison approach.

The directors consider the fair values of other unlisted securities approximate to their carrying amount.

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.

15 INVENTORIES

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Raw materials	**128,137**	146,391	**–**	–
Work in progress	**77,009**	109,988	**–**	–
Finished goods	**116,444**	151,627	**–**	–
Merchandise	**250,036**	242,984	**11,109**	10,177
Production supplies	**1,146**	587	**–**	–
Less: provision for write-down	**(12,250)**	(18,518)	**–**	(42)
	560,522	633,059	**11,109**	10,135

The cost of inventories recognised as expense and included in "cost of sales" and "selling and marketing costs" amounted to RMB2,840,615,000 (2008: RMB2,484,934,000).

During the year ended 31 December 2009, the Group made provision for write-down of inventories amounting to RMB7,714,000 (2008: RMB11,300,000) based on the shortfall of estimated net realisable value as compared to net book value of inventories. The amount has been charged to the consolidated income statement.

During the year ended 31 December 2009, the Group reversed write-down of inventories amounting to RMB325,000 (2008: RMB1,356,000). The amount reversed was recognised in the consolidated income statement.

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Trade receivables (Note a)	**388,574**	512,640	**46,236**	69,238
Less: provision for impairment of trade receivables (Note b)	**(36,011)**	(54,669)	**(462)**	(588)
Trade receivables – net	**352,563**	457,971	**45,774**	68,650
Bills receivable (Note c)	**160,027**	156,650	**3,118**	–
Prepayments	**96,831**	56,473	**48,107**	1,903
Other receivables	**41,257**	47,972	**5,434**	2,005
Loans to a jointly controlled entity (Note d and 38)	**–**	150,000	**–**	150,000
	650,678	869,066	**102,433**	222,558

The carrying amounts of trade and other receivables of the Group and the Company approximate their fair values.

Except for an aggregate amount of RMB9,140,000 (2008: RMB9,252,000) denominated in US dollars and HK dollars, all trade and other receivables were denominated in RMB.

No trade receivables were discounted by the companies in the Group to banks in the PRC with recourse as at 31 December 2009 and 2008.

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.

16 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Within 6 months	**340,644**	415,753	**44,617**	67,540
6 months to 1 year	**12,247**	36,907	**1,619**	1,695
Over 1 year	**35,683**	59,980	**–**	3
	388,574	512,640	**46,236**	69,238

The credit quality of trade receivables:

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Neither past due nor impaired:				
Existing customers without history of defaults	**340,644**	415,753	**44,617**	67,540
Past due but not impaired:				
Less than 1 year	**5,688**	32,402	**1,157**	1,110
Over 1 year	**6,231**	9,816	**–**	–
	11,919	42,218	**1,157**	1,110
Past due and impaired:				
Less than 1 year	**6,559**	4,505	**462**	585
Over 1 year	**29,452**	50,164	**–**	3
	36,011	54,669	**462**	588
Total trade receivables	**388,574**	512,640	**46,236**	69,238

Trade receivables past due but not impaired relate to a number of customers for whom there is no recent history of default. Accordingly, the directors consider no provision for trade receivable is necessary.

16 TRADE AND OTHER RECEIVABLES *(Continued)*

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

	Group		Company	
	2009 **(RMB'000)**	2008 (RMB'000)	**2009** **(RMB'000)**	2008 (RMB'000)
At 1 January	**54,669**	50,957	**588**	511
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**–**	(14,626)	**–**	–
Provision for trade receivables impairment	**3,665**	19,014	**–**	77
Write back of provision for trade receivables impairment	**(19,826)**	(372)	**(126)**	–
Receivables written off	**(2,497)**	(304)	**–**	–
At 31 December	**36,011**	54,669	**462**	588

The provision and write-back for trade receivables impairment has been charged to the income statement. The Group called back the goods from certain customer in default. Provision for trade receivables impairment was written back during the year.

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

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

(c) Bills receivable are mostly bank notes receivable. These bank notes receivable have been accepted by state-owned banks with high credit ratings.

(d) Loans are entrusted loans to a jointly controlled entity with effective interest rate of 4.78%. The loans are denominated in RMB and the carrying amounts approximate their fair values.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Listed equity securities (note a)	**5,332**	3,008	**5,332**	3,008
Investment in money market fund (note b)	**26,000**	–	**6,000**	–
	31,332	3,008	**11,332**	3,008

Changes in fair values of financial assets at fair value through profit or loss are recorded in "other gains – net" in the income statement (Note 28).

(a) The fair value of the listed equity securities is based on their current bid prices in an active market.

(b) Investment in money market fund is designated as financial assets at fair value through profit or loss upon initial recognition. The carrying amount approximate to its fair value based on quoted price.

18 RESTRICTED CASH

The restricted cash was deposits to banks for issuing the letters of credit in favor of the Group and was denominated in RMB.

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Cash at bank and in hand	**605,085**	345,859	**223,166**	158,747
Short-term deposits	**62,300**	20,000	**–**	–
	667,385	365,859	**223,166**	158,747

19 CASH AND CASH EQUIVALENTS *(Continued)*

Except for an aggregate amount of RMB5,422,000 (2008: RMB4,556,000) in US dollars and HK dollars, all cash and cash equivalents were denominated in RMB.

Cash at bank earned interests at floating rates based on daily bank deposit balances. As at 31 December 2009, 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 1.35% to 1.71% (2008: 1.35% to 1.71%).

All cash and cash equivalents are deposited in state-owned banks with high credit ratings. Management believes that the credit risk on cash and cash equivalents is remote.

20 SHARE CAPITAL AND PREMIUM – GROUP AND COMPANY

	As at 31 December 2008		Conversion		As at 31 December 2009	
	No. of shares (thousands)	**Amount** (RMB'000)	**No. of shares** (thousands)	**Amount** (RMB'000)	**No. of shares** (thousands)	**Amount** (RMB'000)
Share capital registered, authorised, issued and fully paid of RMB1 each						
Circulating state shares subject to exchange restrictions	387,514	387,514	(387,514)	(387,514)	–	–
H shares	219,900	219,900	–	–	219,900	219,900
A shares	203,486	203,486	387,514	387,514	591,000	591,000
	810,900	810,900	–	–	810,900	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 2009, all circulating state shares subject to exchange restrictions were converted to A shares.

21 OTHER RESERVES

Group

		Surplus reserves		Revaluation reserves			
	Capital reserve (Note a) (RMB'000)	Statutory surplus reserve (Note b) (RMB'000)	Discre-tionary surplus reserve (Note b) (RMB'000)	Investment properties (RMB'000)	Available-for-sale financial assets (RMB'000)	Property, plan and equipment (RMB'000)	Total (RMB'000)
At 1 January 2008	339,367	404,084	203,789	14,009	7,520	92,559	1,061,328
Revaluation – gross (Note 14)	–	–	–	–	(2,898)	–	(2,898)
Revaluation – tax (Note 24)	–	–	–	–	772	–	772
Revaluation – jointly controlled entities, net of tax	–	–	–	–	(1,629)	–	(1,629)
Revaluation of investment properties upon transfer from property, plant and equipment, leasehold land and land use rights – gross (Note 7)	–	–	–	17,944	–	–	17,944
Revaluation of investment properties upon transfer from property, plant and equipment, leasehold land and land use rights – tax (Note 24)	–	–	–	(4,486)	–	–	(4,486)
Depreciation transfer on asset revaluation upon reorganisation – gross	–	–	–	–	–	(4,967)	(4,967)
Depreciation transfer on asset revaluation upon reorganisation – tax (Note 24)	–	–	–	–	–	1,242	1,242
Disposal of an associate	(68)	–	–	–	–	–	(68)
Acquisition of interests in subsidiaries from minority interest	(13,628)	–	–	–	–	–	(13,628)
Impact arising from dilution of equity interest in a subsidiary (the subsidiary became a jointly controlled entity subsequent to the dilution)	–	(126,183)	–	–	–	–	(126,183)
Appropriation to surplus reserves	–	56,617	–	–	–	–	56,617
Others	446	–	–	–	–	–	446
At 31 December 2008	326,117	334,518	203,789	27,467	3,765	88,834	984,490

21 OTHER RESERVES *(Continued)*

Group

	Capital reserve (Note a) (RMB'000)	Surplus reserves: Statutory surplus reserve (Note b) (RMB'000)	Surplus reserves: Discretionary surplus reserve (Note b) (RMB'000)	Revaluation reserves: Investment properties (RMB'000)	Revaluation reserves: Available-for-sale financial assets (RMB'000)	Revaluation reserves: Property, plan and equipment (RMB'000)	Total (RMB'000)
At 1 January 2009	326,117	334,518	203,789	27,467	3,765	88,834	984,490
Revaluation – gross	–	–	–	–	16,715	–	16,715
Revaluation – tax	–	–	–	–	(4,077)	–	(4,077)
Revaluation – jointly controlled entities, net of tax	–	–	–	–	(1,692)	–	(1,692)
Revaluation of investment properties upon transfer from property, plant and equipment, leasehold land and land use rights – gross	–	–	–	13,067	–	–	13,067
Revaluation of investment properties upon transfer from property, plant and equipment, leasehold land and land use rights – tax	–	–	–	(3,267)	–	–	(3,267)
Transfer the asset revaluation surplus to investment properties-gross	–	–	–	10,799	–	(10,799)	–
Transfer the asset revaluation surplus to investment properties-tax	–	–	–	(2,700)	–	2,700	–
Depreciation transfer on asset revaluation upon reorganisation – gross	–	–	–	–	–	(4,967)	(4,967)
Depreciation transfer on asset revaluation upon reorganisation – tax (Note 24)	–	–	–	–	–	1,615	1,615
Impact of subsidiaries merged	(125)	–	–	–	–	–	(125)
Appropriation to surplus reserves	–	18,303	–	–	–	–	18,303
Others	3,999	–	–	–	–	–	3,999
At 31 December 2009	329,991	352,821	203,789	45,366	14,711	77,383	1,024,061

21 OTHER RESERVES *(Continued)*

Company

	Capital reserve (Note a) (RMB'000)	Statutory surplus reserve (Note b) (RMB'000)	Revaluation reserves: Available-for-sale financial assets (RMB'000)	Revaluation reserves: Investment properties (RMB'000)	Total (RMB'000)
At 1 January 2008	393,673	148,534	–	4,551	546,758
Appropriation to surplus reserves	–	56,617	–	–	56,617
Others	100	–	–	–	100
At 31 December 2008	393,773	205,151	–	4,551	603,475
At 1 January 2009	393,773	205,151	–	4,551	603,475
Appropriation to surplus reserves	–	18,303	–	–	18,303
Revaluation – gross	–	–	15,523	–	15,523
Revaluation – tax	–	–	(3,881)	–	(3,881)
Others	500	–	–	–	500
At 31 December 2009	394,273	223,454	11,642	4,551	633,920

(a) Capital reserve

Upon approval from the Board of Directors, capital reserve can be used to increase capital.

(b) Surplus reserves

(i) Statutory surplus reserve

In accordance with the PRC regulations and the Articles of Association of the entities of the Group, before distributing the profit of each year, the entities of the Group are required to set aside 10% of their statutory net profit for the year after offsetting any prior year's losses as determined under the PRC accounting regulations to the statutory surplus reserve, except where the reserve has reached 50% of the entities' share capital. The statutory surplus reserve can be utilised to offset prior year's losses or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

21 OTHER RESERVES *(Continued)*

(b) Surplus reserves *(Continued)*

(ii) 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 or to increase share capital.

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Trade payables	**337,272**	335,668	**21,618**	32,543
Payroll and welfare payables	**69,447**	69,165	**4,976**	5,561
Government grants (note a)	**60,811**	62,523	**–**	–
Payables for equipment and construction in progress	**19,041**	39,679	**–**	–
Deposits received	**16,076**	22,151	**1,026**	975
Advances from customers	**121,348**	18,036	**38,703**	2,094
Accruals	**13,593**	37,033	**2,986**	3,261
Other taxes payables	**25,244**	1,908	**1,934**	2,301
Others	**59,624**	42,763	**3,895**	4,120
	722,456	628,926	**75,138**	50,855

(a) The Group is obliged to use the government grants in the designated research and development projects under the terms of these government grants.

22 TRADE AND OTHER PAYABLES *(Continued)*

The ageing analysis of trade payables as at 31 December 2009 and 2008 based on invoice date is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	(RMB'000)	(RMB'000)	**(RMB'000)**	(RMB'000)
Within 3 months	**310,896**	276,068	**19,628**	30,947
3 months to 1 year	**17,469**	36,922	**1,680**	1,585
1 year to 2 years	**4,783**	17,447	**310**	11
Over 2 years	**4,124**	5,231	**–**	–
	337,272	335,668	**21,618**	32,543

The carrying amounts of trade and other payables of the Group and the Company approximate their fair values.

Except for an aggregate amount of RMB19,256,000 (2008: RMB13,780,000) denominated in US dollars and HK dollars, all trade and other payables were denominated in RMB.

23 BORROWINGS

	Group		Company	
	2009	2008	**2009**	2008
	(RMB'000)	(RMB'000)	**(RMB'000)**	(RMB'000)
Non-current				
Bank borrowings – unsecured	**–**	30,000	**–**	–
Current				
Bank borrowings – unsecured	**63,370**	213,275	**–**	–
Loans from a jointly controlled entity		30,000	**–**	30,000
Loans from a subsidiary	**–**	–	**–**	20,000
	63,370	243,275	**–**	50,000
Total borrowings	**63,370**	273,275	**–**	50,000

As at 31 December 2009 and 31 December 2008, all bank borrowings were unsecured.

23 BORROWINGS *(Continued)*

As 31 December 2009, the borrowings were repayable as follows:

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Within 1 year	**63,370**	243,275	**–**	50,000
Between 1 and 2 years	**–**	30,000	**–**	–
	63,370	273,275	**–**	50,000

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

	2009	2008
Current borrowings	**3.82%**	5.77%
Non-current borrowings	**–**	7.56%

All bank borrowings bearing interests at prevailing market rates, which is referenced to the interest rate promulgated by the People's Bank of China.

The carrying amounts of current borrowings approximate their fair values.

All the borrowings were denominated in RMB.

The Group has the following undrawn borrowing facilities:

	2009 (RMB'000)	2008 (RMB'000)
Floating rate		
– expiring within 1 year	**70,218**	55,780

24 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group		Company	
	2009	2008	**2009**	2008
	(RMB'000)	(RMB'000)	**(RMB'000)**	(RMB'000)
Deferred income tax assets:				
– Deferred income tax assets to be recovered within 12 months	**17,087**	18,197	**914**	949
– Deferred income tax assets to be recovered after more than 12 months	**29,990**	29,025	**827**	1,073
	47,077	47,222	**1,741**	2,022

	Group		Company	
	2009	2008	**2009**	2008
	(RMB'000)	(RMB'000)	**(RMB'000)**	(RMB'000)
Deferred income tax liabilities:				
– Deferred income tax liabilities to be settled within 12 months	**1,242**	1,242	**336**	207
– Deferred income tax liabilities to be settled after more than 12 months	**54,591**	45,717	**10,500**	6,112
	55,833	46,959	**10,836**	6,319

24 DEFERRED INCOME TAX *(Continued)*

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

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
At 1 January	**263**	16,230	**(4,297)**	1,537
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	**–**	(6,687)	**–**	–
Recognised in the income statement (Note 32)	**(1,377)**	(5,566)	**(917)**	(5,834)
Recognised in other comprehensive income	**(7,642)**	(3,714)	**(3,881)**	–
At 31 December	**(8,756)**	263	**(9,095)**	(4,297)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration of the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets:

Group

	Impairment loss (RMB'000)	Employee benefits (RMB'000)	Accruals (RMB'000)	Unrealised profits (RMB'000)	Tax losses (RMB'000)	Others (RMB'000)	Total (RMB'000)
At 1 January 2008	14,555	9,335	5,329	15,932	–	6,896	52,047
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	(3,656)	(1,606)	(922)	–	–	(1,276)	(7,460)
Credited/(charged) to consolidated income statement	3,402	(1,970)	83	(5,838)	6,764	194	2,635
At 31 December 2008	14,301	5,759	4,490	10,094	6,764	5,814	47,222
Credited/(charged) to consolidated income statement	(3,899)	(2,312)	(2,909)	(2,524)	8,995	2,504	(145)
At 31 December 2009	10,402	3,447	1,581	7,570	15,759	8,318	47,077

24 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets: *(Continued)*

Company

	Impairment loss (RMB'000)	Accruals (RMB'000)	Others (RMB'000)	Total (RMB'000)
At 1 January 2008	214	834	489	1,537
Credited/(charged) to income statement	(3)	115	373	485
At 31 December 2008	211	949	862	2,022
Charged to income statement	(25)	(65)	(191)	(281)
At 31 December 2009	186	884	671	1,741

Deferred income tax liabilities:

Group

	Investment property (RMB'000)	Property, plant, and equipment revaluation (RMB'000)	Others (RMB'000)	Total (RMB'000)
At 1 January 2008	3,658	31,226	933	35,817
Transfer to a jointly controlled entity arising from the dilution of interest in a subsidiary	(773)	–	–	(773)
Charged/(credited) to other comprehensive income (Note 21)	4,486	–	(772)	3,714
Charged/(credited) to consolidated income statement	8,292	(1,242)	1,151	8,201
At 31 December 2008	15,663	29,984	1,312	46,959
Transfer from property, plant and equipment to investment properties	2,700	(2,700)	–	–
Charged to other comprehensive income	3,561	–	4,081	7,642
Charged/(credited) to consolidated income statement	2,038	(1,615)	809	1,232
At 31 December 2009	23,962	25,669	6,202	55,833

24 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities *(Continued)*

Company

	Investment properties (RMB'000)	Others (RMB'000)	Total (RMB'000)
At 1 January 2008	–	–	–
Charged to income statement	5,169	1,150	6,319
At 31 December 2008	5,169	1,150	6,319
Charged to income statement	395	241	636
Charged/(credited) to other comprehensive income (Note 21)	–	3881	3881
At 31 December 2009	5,564	5,272	10,836

In accordance with the PRC tax laws or other tax regulations applicable to those companies in their respective jurisdictions, tax losses could be carried forward to offset against future taxable income. The Group did not recognise deferred tax assets of RMB29,108,000 (2008: RMB32,977,000) in respect of tax losses amounting to RMB116,431,000 (2008: RMB131,908,000) in certain subsidiaries, as the directors believe it is more likely than not that such tax losses would not be realised before they expire.

Losses to expire are shown as below:

Year	(RMB'000)
2010	17,303
2011	25,454
2012	32,254
2013	19,753
2014	21,667
	116,431

25 GOVERNMENT GRANTS

Government grants represent subsidiaries received from local government for capital expenditure incurred by certain subsidiaries of the Group for their production facilities.

26 EMPLOYEE BENEFITS PAYABLES – GROUP

	2009 (RMB'000)	2008 (RMB'000)
Medical insurance scheme	**26,255**	36,268
Less: Current portion included in other payables	**(12,626)**	(11,144)
	13,629	25,124

27 OTHER INCOME

	2009 (RMB'000)	2008 (RMB'000)
Rental income	**50,239**	52,859
Government grants	**26,622**	18,402
License fee income (Note 38)	**13,266**	11,555
Others	**16,011**	12,407
	106,138	95,223

28 OTHER GAINS – NET

	2009 (RMB'000)	2008 (RMB'000)
Fair value gain from revaluation of investment properties (Note 7)	**2,634**	27,155
Fair value gains/(losses) from financial assets at fair value through profit or loss	**2,324**	(2,503)
Waived liabilities	**1,764**	7,099
Loss on disposals of property, plant and equipment, leasehold land and land use rights	**(391)**	(813)
Gains on dilution of interest in a subsidiary	**–**	47,559
Gains on disposal of interest in subsidiaries	**–**	16,409
Gains on disposal of investment in an associate	**–**	3,255
Others	**(1,651)**	1,985
	4,680	100,146

29 EXPENSES BY NATURE

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

	2009 (RMB'000)	2008 (RMB'000)
Depreciation and amortisation (Notes 6, 8 and 9)	**114,985**	119,492
Impairment charge of property, plant, and equipment (Note 6)	**158**	–
Impairment charge of intangible assets (Note 9)	**453**	–
Provision for trade and other receivables impairment	**6,540**	28,665
Write back of provision for trade and other receivables impairment	**(21,788)**	(1,759)
Provision for write-down of inventories	**7,714**	11,300
Write back of provision for write-down of inventories	**(325)**	(1,356)
Research and development expenses	**59,225**	52,322
Transportation	**32,208**	29,231
Advertising costs	**114,864**	159,612
Changes in finished goods and work in progress	**(68,162)**	(10,107)
Raw materials and consumables used	**454,020**	828,916
Changes in merchandise	**7,052**	(3,228)
Merchandise purchased	**2,242,528**	1,477,027
Auditors' remuneration	**3,650**	3,980
Operating leases for buildings (Note 6)	**27,456**	28,346
Outsource labor cost	**125,429**	136,850
Employee benefit expenses (including directors' and supervisors' emoluments) (Note 30)	**522,985**	499,127
Other expenses	**171,324**	166,996
Total cost of sales, selling and marketing costs and administrative expenses	**3,800,316**	3,525,414

30 EMPLOYEE BENEFIT EXPENSES

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

	2009 (RMB'000)	2008 (RMB'000)
Pension cost	**61,093**	65,172
Housing fund	**39,039**	34,881
Medical insurance	**27,336**	31,547
Salaries, wages and other staff benefits	**395,517**	367,527
	522,985	499,127

30 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Directors' and supervisors' emoluments

The remuneration of every director and supervisor for the year ended 31 December 2009 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	–	–	–	–	–
Shi Shaobin	–	364	133	–	497
Feng Zansheng	–	–	–	–	–
Wong Hin Wing	80	–	–	–	80
Liu Jinxiang	80	–	–	–	80
Li Shanmin	80	–	–	–	80
Zhang Yonghua	80	–	–	–	80
Name of supervisor					
Yang Xiuwei	–	–	–	–	–
Wu Quan	–	252	55	–	307
Zhong Yugan	–	30	–	–	30

The remuneration of every director and supervisor for the year ended 31 December 2008 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	–	–	–	–	–
Shi Shaobin	–	267	212	–	479
Feng Zansheng	–	–	–	–	–
Wong Hin Wing	80	–	–	–	80
Liu Jinxiang	80	–	–	–	80
Li Shanmin	80	–	–	–	80
Zhang Yonghua	80	–	–	–	80
Name of supervisor					
Yang Xiuwei	–	–	–	–	–
Wu Quan	–	188	130	–	318
Zhong Yugan	–	30	–	–	30

30 EMPLOYEE BENEFIT EXPENSES *(Continued)*

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

In addition to the directors' and supervisors' emoluments disclosed above, director Yang Rongming and supervisor Yang Xiuwei received emoluments from the Company's holding company, amounting to RMB503,000 and RMB441,000 (2008: RMB700,000 and RMB584,000), director Feng Zansheng received emoluments from the Company's jointly controlled entity, amounting to RMB813,000 (2008: RMB752,000), part of which are in respect of their services to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion amounts between their services to the Group and their services to the Company's holding company and jointly controlled entities.

During 2009, no director or supervisor of the Company (1) received any emolument from the Group as an inducement to join or upon joining the Group; or (2) received any compensation for loss of office as a director or management of any member of the Group; or (3) waived or agreed to waive any emoluments (2008: Nil).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 2 (2008: 1) directors whose emoluments have been reflected in the analysis presented above. The emoluments payable to the remaining 3 (2008: 4) individuals during the year are as follows:

	2009 (RMB'000)	2008 (RMB'000)
Basic salaries and allowances	**789**	694
Bonuses	**545**	881
	1,334	1,575

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
Emolument bands		
Nil – RMB1,000,000	**3**	4

31 FINANCE INCOME AND COSTS

	2009 (RMB'000)	2008 (RMB'000)
Financial income		
Interest income on short-term bank deposits	**4,120**	3,724
Interest income on loan to a jointly controlled entity (Note 38)	**4,913**	7,646
	9,033	11,370
Financial costs		
Interest expense on borrowings	**(8,062)**	(12,079)
Less: capitalised interest	**1,519**	1,882
Interest expense on borrowings – net	**(6,543)**	(10,197)
Other incidental borrowing costs	**(3,710)**	(8,987)
	(10,253)	(19,184)

The capitalisation rate in 2009 is 5.58% (2008: 5.58%).

32 INCOME TAX EXPENSE

Taxation on the PRC profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC.

	2009 (RMB'000)	2008 (RMB'000)
Current income tax	**21,114**	31,690
Deferred income tax (Note 24)	**1,377**	5,566
	22,491	37,256

32 INCOME TAX EXPENSE *(Continued)*

The taxation on the Group's profit before income tax, less share of profits less losses of jointly controlled entities and associates differs from the theoretical amount that would arise using the principal rate of the PRC enterprise income tax as follows:

	2009 (RMB'000)	2008 (RMB'000)
Profit before taxation, less share of profits less losses of jointly controlled entities and associates	**100,994**	102,183
Tax calculated at a tax rate of 25% (2008: 25%)	**25,249**	25,546
Tax effect of different rates applicable to subsidiaries	**(8,071)**	(933)
Re-measurement of deferred tax – change in tax rate	**–**	2,201
Tax effect of income (dilution gain) not subject to tax	**–**	(12,462)
Tax losses for which no deferred income tax asset was recognised	**5,417**	9,623
Tax effect of utilisation of previously unrecognised tax losses	**(713)**	(2,326)
Tax effect of expenses not deductible for tax purposes	**2,636**	15,607
Others	**(2,027)**	–
Taxation charge	**22,491**	37,256

The PRC enterprise income tax has been provided at the principal rate of 25% (2008: 25%) on the estimated assessable profit for the year, except for six subsidiaries which are qualified as Guangdong New/High Technology Enterprise ("NHTE"). The applicable enterprise income tax rate for the six subsidiaries qualified as NHTE is 15%, from 2008 to 2010 if these subsidiaries could continue to meet the NHTE criteria.

The weighted average tax rate was 22% (2008: 36%). The decrease is primarily due to more contribution from the six subsidiaries which are qualified as NHTE.

33 RETAINED EARNINGS AND PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	2009 (RMB'000)	2008 (RMB'000)
At 1 January	**429,787**	369,036
Profit for the year	**99,103**	218,020
Dividends relating to 2008/2007	**(32,436)**	(100,552)
Appropriation to surplus reserves (Note 21)	**(18,303)**	(56,617)
Others	**(500)**	(100)
At 31 December	**477,651**	429,787

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB99,103,000 (2008: RMB218,020,000).

34 EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2009 is based on the profit attributable to shareholders of the Company of RMB214,900,000 (2008: RMB181,829,000) and the 810,900,000 (2008: 810,900,000) shares in issue.

Basic and diluted earnings per share is the same as there were no potential dilutive shares in issue during the years ended 31 December 2009 and 2008.

35 DIVIDENDS

	2009 (RMB'000)	2008 (RMB'000)
Proposed final dividend of RMB0.05 (2008: RMB0.04) per ordinary share	**40,545**	32,436

At a meeting held on 26 March 2010, the directors declared a final dividend of RMB0.05 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 2010.

The amount of profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with China's Accounting Standards ("CAS") and the amount determined in accordance with HKFRS.

36 CASH GENERATED FROM OPERATIONS

	2009 (RMB'000)	2008 (RMB'000)
Profit before income tax	**235,168**	208,552
Adjustments for:		
– Depreciation (Note 6)	**111,194**	104,067
– Amortisation (Notes 8 and 9)	**3,791**	15,425
– Impairment charge of property, plant and equipment (Note 6)	**158**	–
– Impairment charge of intangible assets (Note 9)	**453**	–
– Provision for trade and other receivables impairment, net (Note 29)	**(15,248)**	26,906
– Provision for write-down of inventories, net (Note 29)	**7,389**	9,944
– Loss on disposal of property, plant and equipment and leasehold land and land use rights (Note a)	**391**	813
– Interest income (Note 31)	**(9,033)**	(11,370)
– Gains on dilution of interest in a subsidiary (Note 28)	**–**	(47,559)
– Gains on disposal of interest in subsidiaries (Note 28)	**–**	(16,409)
– Dividend income from available-for-sale financial assets	**(464)**	(1,034)
– Interest expense on borrowings (Note 31)	**6,543**	10,197
– Share of losses of associates (Note 11)	**1,473**	5,171
– Share of profits of jointly controlled entities (Note 12)	**(135,647)**	(111,540)
– Fair value gain from revaluation of investment properties (Note 28)	**(2,634)**	(27,155)
– Fair value (gains)/losses from financial assets at fair value through profit or loss (Note 28)	**(2,324)**	2,503
– Waived liabilities (Note 28)	**(1,764)**	(7,099)
Changes in working capital:		
– Restricted cash	**(14,274)**	18,465
– Inventories	**65,148**	(7,564)
– Trade and other receivables	**77,966**	(218,183)
– Trade and other payables	**101,742**	150,790
Cash generated from operations	**430,028**	104,920

36 CASH GENERATED FROM OPERATIONS *(Continued)*

(a) In the cash flow statement, proceeds from sale of property, plant and equipment and leasehold land and land use rights comprise:

	2009 (RMB'000)	2008 (RMB'000)
Net book amount (Note 6 and 8)	**1,459**	3,115
Loss on disposal of property, plant and equipment, leasehold land and land use rights (Note 28)	**(391)**	(813)
Proceeds from disposal of property, plant and equipment, leasehold land and land use rights	**1,068**	2,302

37 COMMITMENTS

(a) Capital commitments

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

	Group	
	2009 (RMB'000)	2008 (RMB'000)
Property, plant and equipment		
– Contracted but not provided for	**14,344**	34,319
– Authorised but not contracted for	**–**	–
	14,344	34,319

37 COMMITMENTS *(Continued)*

(b) Commitments under operating leases

At 31 December 2009, the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Not later than 1 year	**20,407**	22,703	**–**	–
Later than 1 year and not later than 5 years	**32,653**	52,600	**–**	–
Later than 5 years	**25,951**	1,518	**–**	–
	79,011	76,821	**–**	–

38 SIGNIFICANT 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, as the parent company and 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:

(1) Sales/Purchase of goods and services

	Note	**2009 (RMB'000)**	2008 (RMB'000)
Ultimate holding company			
License fee expenses	a	**3,082**	3,330
Welfare facilities fee expenses	b	**339**	392
Rental expenses	c	**2,759**	2,803
		6,180	6,525
Jointly controlled entities			
Sales of goods	d	**223,053**	295,876
Purchases of goods	d	**72,473**	89,109
License fee income	e	**13,266**	11,555
		308,792	396,540

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

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

	Note	2009 (RMB'000)	2008 (RMB'000)
Associates			
Advertising expenses	f	**20,597**	20,920
Subsidiaries of GZPHL and its related entities			
Sales of goods	d	**158,187**	152,249
Purchases of goods	d	**145,664**	204,027
		303,851	356,276
Other state – controlled entities	g		
Sales of goods	d	**286,402**	137,960
Purchases of goods	d	**52,840**	89,846
Purchases of machinery and equipment	d	**–**	1,131
Service fee expenses	h	**31,061**	38,042
		370,303	266,979

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

(b) Pursuant to a Tenancy Agreement entered into by the Company and GZPHL on 1 November 2007, GZPHL provides rental services for welfare facilities to the Group, the charges of which increase by 10% based on the charges of previous year. The agreement will expire on 31 December 2010.

(c) Pursuant to the Tenancy Agreement 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.Pursuant to a new Tenancy Agreement entered into by the Company and GZPHL on 1 November 2007, the abovementioned agreement was extended to 31 December 2007. From 1 January 2008, GZPHL charges the Group for the usage of these premises based on the new rentals set forth in the new agreement, which are not subject to adjustment during the agreement period. The new agreement will expire on 31 December 2010.

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(1) Sales/Purchase of goods and services (continued)

(d) The sales and purchase transactions with the jointly controlled entities, subsidiaries of GZPHL and its related entities and other state-owned entities were at terms similar to those transactions with other third parties.

(e) Pursuant to the Trademark License Agreement entered into by a jointly controlled entity of the Company and GZPHL, and two supplementary agreements amongst the jointly controlled entity, the Company and GZPHL dated 8 November 2004 and 28 July 2005 respectively, GZPHL has granted the jointly controlled entity an exclusive right to use 13 trademarks owned by GZPHL. The jointly controlled entity agreed to pay a license fee for the use of the trademarks at 2.1% of the aggregate net sales of the jointly controlled entity. The Company is entitled to 47% of the license fee pursuant to the tri-parties agreements.

(f) An associated company named Guangzhou Pharmaceutical Soccer Club Limited provided advertising services related to soccer events to some companies within the Group. Such services were rendered under terms agreed by both parties.

(g) GZPHL, the ultimate holding company, is a state-controlled entity directly controlled by the PRC government. The PRC government is the Company's ultimate controlling party. 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.

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

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(2) Key management compensation

	2009 (RMB'000)	2008 (RMB'000)
Salaries and other benefits	**1,443**	1,533
Bonuses	**308**	1,143
	1,751	2,676

(3) As at 31 December 2009, the Group and the Company had the following significant balances with related parties

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Due from ultimate holding company	**2,300**	2,844	**2,136**	2,688
Due to ultimate holding company	**4,724**	6,471	**3**	23
Due from jointly controlled entities	**17,923**	28,327	**560**	5,315
Due to jointly controlled entities	**5,648**	9,066	**188**	188
Due from subsidiaries	**–**	–	**2,390**	4,224
Due to subsidiaries	**–**	–	**62**	926
Due from subsidiaries of GZPHL and its related entities	**23,241**	31,436	**6,799**	6,132
Due to subsidiaries of GZPHL and its related entities	**20,414**	14,896	**–**	–
Due from other state-controlled entities	**49,493**	27,852	**24,227**	6,134
Less: Provision for impairment of receivables	**(4,680)**	(2,970)	**(242)**	(61)
	44,813	24,882	**23,985**	6,073
Due to other state-controlled entities	**7,825**	5,501	**–**	–

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(3) As at 31 December 2009, the Group and the Company had the following significant balances with related parties *(Continued)*

The amounts due from/to ultimate holding company, jointly controlled entities, subsidiaries of GZPHL and its related entities and other state-controlled entities arise mainly from sales/purchases of goods/services. They are unsecured in nature, bear no interest and repayable on demand.

	Group		Company	
	2009 (RMB'000)	2008 (RMB'000)	**2009 (RMB'000)**	2008 (RMB'000)
Loans from a jointly controlled entity (Note 23)	**–**	30,000	**–**	30,000
Loans to a jointly controlled entity (Note 16)	**–**	150,000	**–**	150,000
Loans to an associate	**3,000**	–	**–**	–
Loans from a subsidiary (Note 23)	**–**	–	**–**	20,000
Loans to subsidiaries (Note 10)	**–**	–	**500,213**	382,946
Other balances with state-controlled banks:				
– Restricted cash	**29,549**	15,275	**–**	–
– Cash and cash equivalents	**667,385**	365,859	**229,166**	158,747
– Borrowings	**63,370**	243,275	**–**	–

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(4) Loans with jointly controlled entities

	Group and Company	
	2009	2008
	(RMB'000)	(RMB'000)
Loans to a jointly controlled entity:		
At 1 January	**150,000**	–
Transfer in arising from the dilution of interest in a subsidiary	**–**	212,660
Loans advanced during year	**62,660**	150,000
Loans repayments received	**(212,660)**	(212,660)
Interest income (Note 31)	**4,913**	7,646
Interest received	**(4,913)**	(7,646)
At 31 December	**–**	150,000
Loans from a jointly controlled entity:		
At 1 January	**30,000**	30,000
Loans received	**–**	30,000
Loans repayment	**(30,000)**	(30,000)
Interest expenses	**613**	907
Interest paid	**(613)**	(907)
At 31 December	**–**	30,000

(5) Loans to an associate

	Group	
	2009	2008
	(RMB'000)	(RMB'000)
Loans to an associate		
At 1 January	**–**	–
Loans advanced during year	**3,000**	–
At 31 December	**3,000**	–

39 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2009:

Name	Equity interest held (%) Directly	Indirectly	Registered capital (RMB)	Principal activities
Guangzhou Zhong Yi Chinese Medicine Company Limited[3] (廣州中一藥業有限公司)	100.00	–	192,820,000	Production of CPM
Guangzhou Chen Li Ji Chinese Medicine Factory (廣州陳李濟藥廠)	100.00	–	94,000,000	Production of CPM
Guangzhou Qi Xing Pharmaceutical Factory (廣州奇星藥廠)	100.00	–	82,416,741	Investment holdings
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.[3] (廣州敬修堂(藥業)股份有限公司)	88.40	–	86,232,345	Production of CPM
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd.[3] (廣州潘高壽藥業股份有限公司)	87.77	–	65,436,232	Production of CPM
Guangzhou Xing Qun Pharmaceutical Co., Ltd.[3] (廣州星群(藥業)股份有限公司)	88.99	–	77,168,904	Production of CPM
Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd.[2] (廣州市采芝林藥業有限公司)	100.00	–	72,026,905	Trading of CPM and Chinese raw medicine
Guangzhou Pharmaceutical Import & Export Corporation (廣州醫藥進出口公司)	100.00	–	2,568,000	Import and export of medicine
Guangzhou Qi Xing Pharmaceutical Co., Ltd.[1] (廣州奇星藥業有限公司)	–	75.00	100,000,000	Production of CPM
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory (廣州市藥材公司中藥飲片廠)	–	100.00	3,113,000	Processing of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies (廣州市藥材公司采芝林藥業連鎖店)	–	100.00	3,934,000	Retailing of Chinese raw medicine and CPM

39 PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Equity interest held (%) Directly	Indirectly	Registered capital (RMB)	Principal activities
Guangzhou Hanfang Modern Chinese Medicine Research and Development Co., Ltd.[2] (廣州漢方現代中藥研開發有限公司)	97.04	2.28	162,764,300	Research and development of CPM
Guangzhou Baidi Biological Pharmaceutical Co., Ltd.[2] (廣州拜迪生物醫藥有限公司)	97.26	–	131,600,000	Research and development of patented biological products
Guangzhou Huanye Medicine Co., Ltd.[2] (廣州環葉制藥有限公司)	100.00	–	6,000,000	Production of western pharmaceutical products
Guangxi Ying Kang Pharmaceutical Co., Ltd.[2] (廣西盈康藥業有限公司)	51.00	–	31,884,529	Production of CPM

The above principal subsidiaries are all operated in the PRC.

1 Sino-foreign joint venture
2 Limited company
3 Joint stock company

(a) Merger of two subsidiaries

In 2009, a subsidiary of the Group, Guangzhou Hanfang Modern Chinese Medicine Research and Development Co., Ltd. acquired the entire business of Guangzhou Huanye Medicine Co., Ltd. which is also another subsidiary of the Group. Guangzhou Huanye Medicine Co., Ltd. will be liquidated once the acquisition has been completed.

40 FINANCIAL GUARANTEE

The Company provided financial guarantee of RMB57,386,000 (2008: RMB145,011,000) to its subsidiaries to obtain bank loans. The Directors consider that the fair value of these contracts at the date of inception was minimal with the understanding that the repayment was on schedule and risk of default in payment was remote, therefore no provision has been made in the financial statements for the guarantees.

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 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 News during the Reporting Period;

4. The documents listed above are available at the Secretariat.