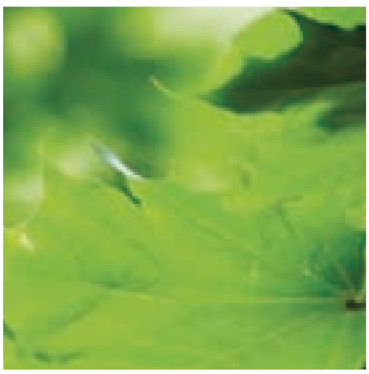









annual REPORT 2010

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 2010 (the "Reporting Period" or the "Year") and issued unqualified auditors' reports thereon.

III. Mr. Yang Rongming (chairman of the Board), Mr. Wu Changhai (director and general manager), and Mr. Chen Binghua (financial controller and senior manager of the Finance Department) individually accept responsibility for ensuring the authenticity and completeness of the financial reports contained in this report.

IV. There has no non-operational appropriation of funds of the Company by its connected parties.

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:	5 July 2010
	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	2010 (RMB'000)
Operating profit	**298,016**
Total profit	**321,341**
Net profit attributable to the shareholders of the Company	**267,112**
Net profit attributable to the shareholders of the Company after deducting non-operating items	**233,168**
Net cash inflows from operating activities	**73,169**

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 on disposal of non-current assets	3,740	
Government subsidies recognized as gain	25,792	This is the amount of government subsidies received by the Company's subsidiaries and currently transferred to non-operating income.
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	2,435	

Financial Data and Financial Highlights

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 receivable undergoing independent impairment test	8,191	During the Reporting Period, the Company's subsidiaries strengthened clearance of accounts receivable, and the accounts receivable for which independent provision for impairment had been made previously were received during the Reporting Period.
Loss from entrusted loans	(512)	
Other non-operating income and expenses excluding the above items	(1,374)	
Income tax effect	(2,139)	
Effect on non-controlling interest	(2,189)	
Total	**33,944**	

Financial Data and Financial Highlights

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

	note	**As at 31 December 2010 (RMB'000)**	As at 31 December 2009 (RMB'000)
Net assets attributable to shareholders of the Company under the PRC Accounting Standards		**3,539,369**	3,304,186
Difference arising from fixed assets revaluation	1	**98,028**	102,995
Revaluation of investment properties	2	**130,559**	97,257
Revaluation of investment on China Everbright Bank Company Limited	3	**–**	15,523
Net effect of deferred tax	4	**(56,448)**	(53,512)
Difference in non-controlling interests	6	**(17,786)**	(16,447)
Net assets attributable to shareholders of the Company under HKFRS		**3,693,722**	3,450,002

	note	**For the year ended 31 December** **2010 (RMB'000)**	2009 (RMB'000)
Net profit attributable to shareholders of the Company under the PRC Accounting Standards		**267,112**	210,989
Additional depreciation on revalued fixed assets	1	**(4,967)**	(4,967)
Government subsidies recognized as deferred income through profit and loss	5	**–**	2,387
Difference arising from investment properties in cost model and fair value model	2	**23,005**	2,634
Net effect of deferred tax	4	**(4,210)**	4,099
Difference in non-controlling interests	6	**(1,343)**	(242)
Net profit attributable to shareholders of the Company under HKFRS		**279,597**	214,900

Notes:

1. 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.

Financial Data and Financial Highlights

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

2. 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.

3. In 2009, 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. In 2010, China Everbright Bank Company Limited became listed and it is measured with fair value under both PRC Accounting Standards and HKFRS.

4. This represents the deferred tax liabilities arising from the differences as described in note 1, note 2 and note 3.

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 assets/net profit attributable to shareholders of the Company prepared under the PRC Accounting Standards and HKFRS. This results in a difference in the non-controlling interest.

III. PRINCIPAL FINANCIAL DATA AND FINANCIAL INDICATORS

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

Principal accounting data	**2010**	2009	Year on year increase/ (decrease) (%)	2008
Income from operations (RMB'000)	**4,486,067**	3,881,938	15.56	3,527,424
Total profit (RMB'000)	**321,341**	231,331	38.91	202,179
Net profit attributable to the shareholders of the Company (RMB'000)	**267,112**	210,989	26.60	182,496
Net profit attributable to the shareholders of the Company after deducting non-operating items (RMB'000)	**233,168**	156,584	48.91	87,698
Net cash flow from operating activities (RMB'000)	**73,169**	439,393	(83.35)	6,103
	As at 31 December 2010	As at 31 December 2009	Year on year increase/ (decrease) (%)	As at 31 December 2008
Total assets (RMB'000)	**4,476,592**	4,222,496	6.02	4,130,904
Shareholders' equity attributable to the shareholders of the Company (RMB'000)	**3,539,369**	3,304,186	7.12	3,124,842

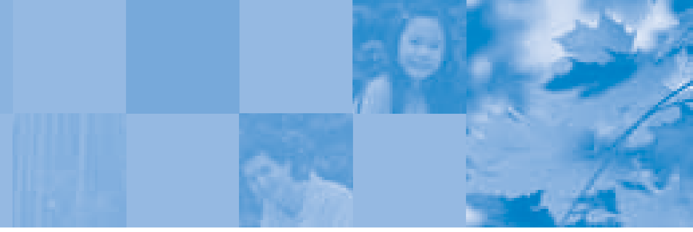
Financial Data and Financial Highlights

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

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

Principal accounting data	**2010**	2009	Year on year increase/ (decrease) (%)	2008
Basic earnings per share (RMB)	**0.329**	0.260	26.60	0.225
Diluted earnings per share (RMB)	**0.329**	0.260	26.60	0.225
Basic earnings per share after deducting non-operating items (RMB)	**0.288**	0.193	48.91	0.108
Fully diluted return on net assets ratio (%)	**7.55**	6.39	An increase of 1.16 percentage points	5.84
Weighted average return on net assets ratio (%)	**7.81**	6.56	An increase of 1.25 percentage points	5.88
Ratio of fully diluted return on net assets after deducting non-operating items (%)	**6.59**	4.74	An increase of 1.85 percentage points	2.81
Ratio of weighted return on net assets after deducting non-operating items (%)	**6.82**	4.87	An increase of 1.95 percentage points	2.83
Net cash flow from operating activities per share (RMB)	**0.09**	0.54	(83.35)	0.01

	As at 31 December 2010	As at 31 December 2009	Year on year increase/ (decrease) (%)	As at 31 December 2008
Net assets per share attributable to the shareholders of the Company (RMB)	**4.36**	4.07	7.12	3.85



Financial Data and Financial Highlights

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

2. Accounts prepared in accordance with HKFRS

Items	**2010**	2009	2008	2007	2006
Turnover (RMB'000)	**4,403,098**	3,802,423	3,450,586	11,873,514	10,049,091
Profit before income tax (RMB'000)	**339,707**	235,168	208,552	449,710	349,155
Net profit attributable to shareholders of the Company (RMB'000)	**279,597**	214,900	181,829	320,343	218,067
Earnings per share (RMB)	**0.345**	0.265	0.224	0.395	0.269

Items	**As at 31 December 2010**	As at 31 December 2009	As at 31 December 2008	As at 31 December 2007	As at 31 December 2006
Total assets (RMB'000)	**4,705,759**	4,449,007	4,354,664	6,351,721	5,610,740
Total liabilities (RMB'000)	**892,252**	885,341	993,899	2,934,329	2,530,360
Capital and reserves attributable to shareholders of the Company (RMB'000)	**3,693,722**	3,450,002	3,245,305	3,168,021	2,897,389
Capital and reserves per share attributable to shareholders of the Company (RMB)	**4.56**	4.25	4.00	3.91	3.57
Return on capital and reserves attributable to shareholders of the Company (%)	**7.57**	6.23	5.60	10.11	7.53
Ratio of capital and reserves attributable to shareholders of the Company to total assets (%)	**78.49**	77.55	74.52	49.88	51.64
Gearing ratio (%) (Note)	**18.96**	19.90	22.82	46.20	45.10

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

IV. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD IN 2010 (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	1,144,083	556,609	792,594	3,304,186
Additions	—	10,611	21,454	267,112	299,177
Deductions	—	1,974	21	61,999	63,994
Closing balance	810,900	1,152,720	578,042	997,707	3,539,369

Reasons for the changes:

1. Changes in capital reserve: changes in capital reserve for the Year was mainly contributed by the fact that the listing and new issue of China Everbright Bank Company Limited, which is held by the Company, was measured at fair value, resulting in the increase in capital reserve. Besides, the changes were also contributed by the net decrease 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.

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 2010 (CONSOLIDATED) *(Continued)*

2. Extracted from the accounts prepared in accordance with HKFRS

	Share capital and share premium (RMB'000)	Capital reserve (RMB'000)	Statutory surplus reserve (RMB'000)	Discretionary surplus reserve (RMB'000)	Available-for-sale financial assets revaluation reserves (RMB'000)	Property revaluation reserves (RMB'000)	Retained earnings (RMB'000)	Sub total (RMB'000)	Non-controlling interests (RMB'000)	Total (RMB'000)
Balance at 31 December 2009	1,592,034	329,991	352,821	203,789	14,711	122,749	833,907	3,450,002	113,664	3,563,666
Comprehensive income										
Profit for the Year	–	–	–	–	–	–	279,597	279,597	8,263	287,860
Other comprehensive income										
Revaluation – gross	–	–	–	–	(3,255)	–	–	(3,255)	(23)	(3,278)
Revaluation – tax	–	–	–	–	730	–	–	730	3	733
Revaluation – jointly controlled entities, net of tax	–	–	–	–	(88)	–	–	(88)	–	(88)
Revaluation of properties transferred to investment properties – gross	–	–	–	–	–	10,341	–	10,341	–	10,341
Revaluation of properties transferred to investment properties – tax	–	–	–	–	–	(2,585)	–	(2,585)	–	(2,585)
Depreciation transfer on asset revaluation upon reorganisation – gross	–	–	–	–	–	(4,967)	4,967	–	–	–
Depreciation transfer on asset revaluation upon reorganisation – tax	–	–	–	–	–	1,242	(1,242)	–	–	–
Others	–	633	–	–	–	(29)	–	604	224	828
Transactions with owners										
Acquisition of additional interest in a subsidiary	–	(1,079)	–	–	–	–	–	(1,079)	(521)	(1,600)
Dividend relating to 2009	–	–	–	–	–	–	(40,545)	(40,545)	(1,825)	(42,370)
Appropriation to surplus reserves	–	–	21,454	–	–	–	(21,454)	–	–	–
Balance at 31 December 2010	**1,592,034**	**329,545**	**374,275**	**203,789**	**12,098**	**126,751**	**1,055,230**	**3,693,722**	**119,785**	**3,813,507**

Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL

1. Movement in share capital and its components

During the Reporting Period, the Company's share capital has not changed.

2. Securities issuance in the past three years

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

3. 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 2010, there were 24,928 shareholders in total, out of which 24,895 were holders of domestically listed Renminbi-denominated ordinary shares (A shares) and 33 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 2010, 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		
Guangzhou Pharmaceutical Holdings Limited ("GPHL")	Domestic shares	390,833,391	Beneficial owner	66.13	–
FIL Limited	H shares	28,894,000	Investment manager	–	13.14

Note: As notified by HKSCC Nominees Limited, as at 31 December 2010, 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.

II. INFORMATION ON SHAREHOLDERS *(Continued)*

2. Shareholders' interests and short positions in the shares and underlying shares of the Company *(Continued)*

As far as the directors are aware, as at 31 December 2010, 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.

3. The top ten shareholders of the Company

The top ten shareholders of the Company as at 31 December 2010 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	2,000	219,199,299	27.03	Nil	Unknown
Guangzhou Beicheng Rural Credit Cooperative	Domestic shares	(22,290,000)	13,952,000	1.72	Nil	Unknown
Zhonghai Trust Co., Ltd. – Pujiang Star No.6 Capital Trust Scheme	Domestic shares	5,497,403	5,497,403	0.68	Nil	Unknown
CCB-Industrial Social Responsibility Securities Investment Fund	Domestic shares	5,000,000	5,000,000	0.62	Nil	Unknown
Li Fang	Domestic shares	4,425,396	4,425,396	0.55	Nil	Unknown
CCB-Fidelity Blue Chip Vote Prime Securities Investment Fund	Domestic shares	3,590,489	3,590,489	0.44	Nil	Unknown
CITIC Trust Co., Ltd. – The Eighth Calm growing	Domestic shares	2,551,900	2,551,900	0.31	Nil	Unknown
Bank of China-Huatai-Pine Bridge Golden Age of Chinese Stock Open Securities Investment Fund	Domestic shares	2,315,893	2,315,893	0.29	Nil	Unknown
Yinfeng Securities Investment Fund	Domestic shares	2,291,980	2,291,980	0.28	Nil	Unknown

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

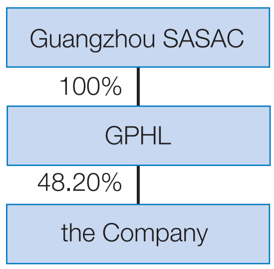
Changes in Share Capital and Shareholders

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.

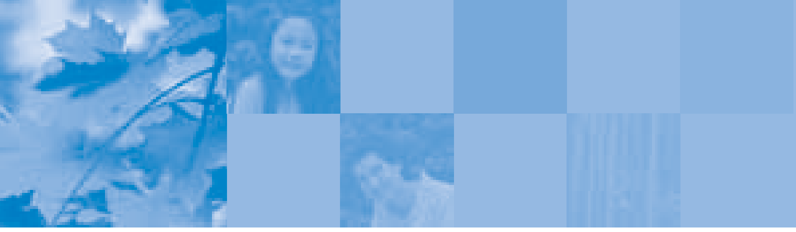
7. During the Reporting Period, there was no change in the controlling shareholder of the Company.

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 issue of this report.

IV. PRE-EMPTIVE RIGHTS

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



Directors, Supervisors, Senior Management and Staff

I. PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Executive directors

Mr. Yang Rongming, aged 57, chairman of the Company, is a postgraduate and currently the chairman and secretary of the Party Committee 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 Gultmate & 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 Guangzhou Pharmaceuticals Corporation ("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"), Guangzhou Zhong Yi Pharmaceutical Co., Ltd. ("Zhong Yi"), Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. ("Jing Xiu Tang"), Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd. and Polian Development Co., Ltd. ("Polian Company"). Mr. Yang has extensive experience in business management and sales and marketing.

Mr. Li Chuyuan, aged 45, vice chairman of the Company, holds a bachelor degree and master degree in Executive Business Administration, and is a senior economist. Mr. Li started his career since July 1988 and had been deputy director of operation department of Guangzhou Baiyunshan Pharmaceutical General Factory, assistant to general manager and deputy general manager of Guangzhou Baiyunshan Pharmaceutical Co., Ltd. ("Baiyunshan Co., Ltd."). Mr. Li currently is the deputy chairman of the Science, Education, Sanitation and Sport Committee of Guangdong Political Consultative Conference, general manager, vice chairman, deputy secretary of the Party Committee of GPHL, director and secretary of the Party Committee of Baiyunshan Co., Ltd., general manager of Guangzhou Hutchison Whampoa Chinese Medicine Co., Ltd., director of Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ("Wang Lao Ji"), director of Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd. ("Chen Li Ji"), director of Guangzhou Cai Zhi Lin Pharmaceutical Co., Ltd. ("Cai Zhi Lin"), director of GP Corp., director of Guangzhou Pharmaceutical Import & Export Co., Ltd. ("Pharmaceutical Import & Export Co., Ltd.") and general manager and convener of the Board of Polian Company. Mr. Li has extensive experience in the fields of corporate management and marketing.

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

1. Executive directors *(Continued)*

Mr. Shi Shaobin, aged 43, director of the Company, is a master degree postgraduate and senior engineer. Mr. Shi started his career in 1989 and served as technician of a research institute, staffer of the marketing and promotion department, head of the administrative department, assistant to the general manager and manager of the marketing department, and deputy general manager of Jing Xiu Tang, chairman and general manager of 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, chairman of Guangzhou Qi Xing Pharmaceutical Co., Ltd. ("Qi Xing"), general manager of the Company and supervisor of Labour Union of GPHL. Mr. Shi has served as the director of the Company since 2 April 2007. Mr. Shi is also chief executive, vice chairman and secretary of the Party Committee of Wang Lao Ji, vice chairman and secretary of the Party Committee of GP Corp., vice chairman of Guangzhou Nuo Cheng Bio-tech Co., Ltd. ("Nuo Cheng"), director and deputy general manager 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. Wu Changhai, aged 45, director and general manager of the Company, bachelor of engineering, economist, graduated from Tongji University in 1989 and started his career in the same year, and studied as graduate student in world economics at Sun Yat-sen University from 1997 to 1999. He served as assistant to the supply section chief, assistant chief of the supply section, assistant manager of the supply and marketing manager department of Guangzhou Zhong Sheng Pharmaceutical Factory; regional sales manager of the supply and marketing department, manager of the regional marketing center, assistant manager of the marketing department and manager of the central marketing center of Zhong Yi; deputy general manager of Guangxi Ying Kang Pharmaceutical Co., Ltd. ("Guangxi Ying Kang"); deputy general manager and acting general manager of Zhong Yi. Mr. Wu is currently chairman and general manager of Zhong Yi, chairman of Qi Xing, chairman of Xing Qun and director of Chen Li Ji. Mr. Wu has extensive experience in operation management and marketing.

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

2. Independent non-executive directors

Mr. Liu Jinxiang, aged 70, 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 Yue Xiu Investment Company Limited, chairman of Yue Xiu Transportation Company Limited, head of Guangzhou Economic Committee and vice-mayor of Guangzhou City. Mr. Liu is also an independent non-executive director of Guangzhou Development Industry (Holdings) Co., Ltd. and an independent non-executive director of Guangdong China Sunshine Media Co., Ltd. Mr. Liu has more than 40 years of experience in industrial technology, enterprise and economic affairs management.

Mr. Li Shanmin, aged 48, 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 is currently a professor of the School of Management of Sun Yat-sen University, the mentor of Ph. D. students whose majors are in finance and investment, section chief for finance and state-owned asset section of Sun Yat-sen University. 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., an independent director of Guangdong Finance Trust Company Limited and director of Guangzhou Zhujiang Industrial Co., Ltd.

Mr. Zhang Yonghua, aged 52, 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 a professor of the School of Law and 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 currently director of Guangdong Law Society, expert of emergency management of Guangdong Government, consultation expert of Legal System Office of Guangzhou Government, consultancy expert of legislative affairs office of Guangzhou Municipal Government, consultancy expert of the decision-making of Guangzhou Municipal Government and intercessor of Guangzhou Arbitration Commission.

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

2. Independent non-executive directors *(Continued)*

Dr. Patrick Wong Lung Tak, BBS, JP, aged 63, has been an independent non-executive Director of the Company since 28 June 2010. Dr. Wong is a Certified Public Accountant (Practising) in Hong Kong, Associate of the Institute of Chartered Accountants in England and Wales, fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Certified Accountants, the Association of International Accountants, the Society of Chinese Accountants and Auditors of Hong Kong, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Company Secretaries, the Taxation Institute of Hong Kong and the Hong Kong Institute of Directors Ltd and a Certified Tax Advisor, Hong Kong and the Managing Practising Director of Patrick Wong CPA Limited, Wong Lam Leung & Kwok C.P.A. Limited and Hong Kong Pengcheng C.P.A. Limited. He has over 30 years experience in the accountancy profession. Dr. Wong holds a Doctor of Philosophy in Business degree, was awarded a Badge of Honour by the Queen of England in 1993 and was appointed a Justice of the Peace in 1998. He was also awarded a Bronze Bauhinia Star by the Government of the HKSAR in 2010. He has been appointed Adjunct Professor, School of Accounting and Finance of the Hong Kong Polytechnic University since 2002. Dr. Wong participates in many types of community services and is holding posts in various organizations and committees in government and voluntary agencies. Dr. Wong is an independent non-executive director of China Precious Metal Resources Holdings Company Limited, C C Land Holdings Limited, Water Oasis Group Limited, Sino Oil and Gas Holdings Limited, Ruinian International Limited and Galaxy Entertainment Group Limited, all of which are listed on the Main Board of the Stock Exchange. Dr. Wong has been appointed as an independent non-executive director of National Arts Holdings Limited (listed on the Growth Enterprise Market of the Stock Exchange) with effect from 3 February 2010.

Mr. Qiu Hongzhong, aged 54, a master degree postgraduate and professor, has served as independent non-executive director of the Company since 28 June 2010. He graduated in 1981 with a degree in clinical medicine and was a master degree postgraduate in 1988 respectively. He was a senior visiting scholar of anthropology in Sun Yat-sen University and completed courses of strategic management training class in Party School of the Central Committee of C.P.C. Mr. Qiu had been the head of the Medical Department in Dong Jiang Hospital of Eighth Engineering Bureau, ministry of Water Conservancy, deputy director of Department of Society Science in Guangzhou University of Traditional Chinese Medicine, deputy head of Huodao Town, Gaoyao County of Guangdong Province, a visiting scholar of anthropology in Sun Yat-sen University, standing vice president, president and the secretary of the Communist Party Committee of School of Economic and Management in Guangzhou University of Traditional Chinese Medicine. Mr. Qiu is currently the president, graduate tutor, professor and chief physician of School of Economic and Management in Guangzhou University of Traditional Chinese Medicine, and is also a member of the Medicine Teaching and Guidance Committee of Higher Education Institution under the Ministry of Education of China, deputy director of Psychology of TCM in Chinese Medical Association of Guangdong Province, editor of the national core journal – Journal of Medicine and Philosophy, standing director of the Society of Chinese Medicine and Health Economics, an expert of Health Economics Institute of Guangdong Academy of Medical Sciences and standing vice-chairman of School of Management of Hospital of Traditional Chinese Medicine of Guangdong Provincial Association of Chinese Medicine. Mr. Qiu has extensive experience in economic management and pharmaceutical industry.

Directors, Supervisors, Senior Management and Staff

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

3. Supervisors

Ms. Yang Xiuwei, aged 52, assistant engineer, senior political, 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 deputy secretary of the Party Committee and secretary of the Discipline Committee of GPHL, 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 54, is an undergraduate, senior political, 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 Commission of the Company and senior manager of the Human Resources Department of GPHL. 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 Cai Zhi Lin.

Mr. Zhong Yugan, aged 55, 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 46, an engineer with a bachelor degree in Industrial Studies, has served as deputy general manager of the Company since June 2005. Mr. Su joined Baiyunshan Co., Ltd. in 1987 and served as the deputy chief of the Operation Department of Baiyunshan Co., Ltd. and deputy plant head of Guangzhou Baiyunshan Chinese Medicine Factory, manager of Ying Bang Branch Company of Guangzhou Pharmaceutical Company Limited ("Ying Bang Branch"), chairman and general manager of Xing Qun and chairman of Pan Gao Shou. Mr. Su has extensive experience in enterprise management, sales and marketing.

Mr. Chen Binghua, aged 45, the financial controller and senior manager of the Finance Department of the Company, an accountant with a Master degree in Business Administration. 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 Chen Li Ji, Cai Zhi Lin, Pharmaceutical Import & Export Co., Ltd. and 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 38, joint company secretary and 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 Pharmaceutical Import & 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 Guangzhou Han Fang and director of Guangxi Ying Kang. Mr. Pang has been the secretary of the Board of the Company since July 2008 and was appointed as a joint company secretary of the Company on 29 September 2010. He has extensive experience in pharmaceutical manufacturing and management.

Directors, Supervisors, Senior Management and Staff

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	–
Li Chuyuan	Vice chairman	Nil	Nil	–
Shi Shaobin	Executive director	Nil	Nil	–
Wu Changhai	Executive director, general manager	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	–
Wong Lung Tak Patrick	Independent non-executive director	Nil	Nil	–
Qiu Hongzhong	Independent non-executive director	Nil	Nil	–
Feng Zansheng	Executive director (resigned on 11 May 2010)	Nil	Nil	–
Wong Hin Wing	Independent non-executive director (ceased to be director on 28 June 2010)	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 of the Board	Nil	Nil	–

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

1. As at 31 December 2010, 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:

Director

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 2010, none of the directors, supervisors, senior management and their associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the HKEx pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code of the Listing Rules, to be notified to the Company and the HKEx.

Directors, Supervisors, Senior Management and Staff

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 RMB2,277,000, 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
Li Chuyuan	No	–	Yes
Shi Shaobin	Yes	326	Yes
Wu Changhai	Yes	258	No
Wong Lung Tak Patrick	Yes	40	No
Qiu Hongzhong	Yes	40	No
Liu Jinxiang	Yes	80	No
Li Shanmin	Yes	80	No
Zhang Yonghua	Yes	80	No
Feng Zansheng	No	–	Yes
Wong Hin Wing	Yes	40	No
Supervisors			
Yang Xiuwei	No	–	Yes
Wu Quan	Yes	410	No
Zhong Yugan	Yes	30	No
Senior management			
Su Guangfeng	Yes	205	No
Chen Binghua	Yes	345	No
Pang Jianhui	Yes	343	No
Total	–	**2,277**	–

IV. EMOLUMENTS FOR THE YEAR *(Continued)*

2. Emoluments for the Year *(Continued)*

Notes:

(1) Mr. Shi Shaobin ceased to act as the general manager of the Company with effect from 21 May 2010. His emoluments for the Year were the emoluments he received from the Company.

(2) Mr. Wu Changhai was appointed as the general manager of the Company with effect from 21 May 2010. His emoluments for the Year were the emoluments he received from the Company and a subsidiary of the Company for the period from 1 June 2010 till the end of the Year.

(3) The emoluments of Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong were the emoluments they received from the Company for the period from June 2010 till the end of the Year.

(4) Mr. Wong Hin Wing ceased to act as director of the Company with effect from 28 June 2010. His emoluments for the Year were the emoluments he received from the Company for the period from 1 January 2010 to the date of cessation.

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

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

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

1. The resignation of Mr. Feng Zansheng as a director of the Company was approved by the resolution passed at the 20th meeting of the fourth session of the Board of the Company held on 11 May 2010.

2. The resignation of Mr. Shi Shaobin as the general manager of the Company was approved by the resolution passed at the 21st meeting of the fourth session of the Board of the Company held on 21 May 2010 and Mr. Wu Changhai was appointed as the general manager of the Company, with a term of office commencing from the date of his appointment until the date of election of the fifth session of the Board of the Company.

3. At the 2009 Annual General Meeting of the Company held on 28 June 2010, Mr. Yang Rongming, Mr. Li Chuyuan, Mr. Shi Shaobin and Mr. Wu Changhai were elected as executive directors of the fifth session of the Board of the Company, and Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua, Mr. Wong Lung Tak Patrick and Mr. Qiu Hongzhong were elected as independent non-executive directors of the fifth session of the Board of the Company; Ms. Yang Xiuwei and Mr. Zhong Yugan were elected as candidates of shareholder's representative supervisors of the fifth session of the Supervisory Committee of the Company, and Mr. Wu Quan was elected as a candidate of staff representative supervisor of the fifth session of the Supervisory Committee of the Company.

   Each of the elected directors and supervisors shall have a term of office commencing from the date of his/her appointment to the date when members of the new session of the Board and the Supervisory Committee are elected.

   Mr. Wong Hin Wing, an independent non-executive director of the fourth session of the Board, ceased to be director of the Company with effect from 28 June 2010.

Directors, Supervisors, Senior Management and Staff

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

4. At the 1st meeting of the fifth session of the Board of the Company held on 28 June 2010, Mr. Yang Rongming was elected as the chairman of the Company, and Mr. Li Chuyuan was elected as the vice chairman of the Company.

   At the same meeting, Mr. Wu Changhai was appointed as the general manager of the Company, Mr. Su Guangfeng was appointed as the deputy general manager of the Company, Mr. Chen Binghua was appointed as the financial controller of the Company and Mr. Pang Jianhui was appointed as the secretary of the Board of the Company.

   Each of the above persons shall have a term of office commencing from the date of his appointment until the date when members of the new session of the Board of the Company are elected.

5. At the 1st meeting of the fifth session of the Supervisory Committee of the Company held on 28 June 2010, Ms. Yang Xiuwei was elected as chairlady of the fifth session of the Supervisory Committee, with a term of office commencing from the date of her appointment until the date of election of the new session of the Supervisory Committee of the Company.

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 28 June 2010 up to the date of election of the sixth 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 criteria 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 2010, the number of employees on the payroll register of the Group was 5,467.

Including:	
Production and supporting staff	2,345
Sales personnel	1,211
Technical, research and engineering staff	908
Finance and statistics staff	204
Other administrative staff	799

109 of the employees were holders of a master degree and 1,348 were holders of a bachelor degree. The number of retirees was 5,124. The total salary payment for the Year was approximately RMB371 million.

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

Corporate Governance

I. CORPORATE GOVERNANCE

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 be 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 fifth session since the establishment of the Company. It consists of nine members, of which there are four executive directors and five independent non-executive directors. Each director has a term of office commencing from 28 June 2010 to the date of election of members 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.

Corporate Governance

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of directors *(Continued)*

(2) Board Meetings

In 2010, ten Board meetings were convened, (in which nine times in physical meeting and one time 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	10	7	0	3	0	Yes	①
Li Chuyuan	No	5	5	0	0	0	No	-
Shi Shaobin	No	10	10	0	0	0	No	-
Wu Changhai	No	5	5	0	0	0	No	-
Liu Jingxiang	Yes	10	10	0	0	0	No	-
Li Shanmin	Yes	10	10	0	0	0	No	-
Zhang Yonghua	Yes	10	8	0	2	0	No	②
Wong Lung Tak Patrick	Yes	5	5	0	0	0	No	-
Qiu Hongzhong	Yes	5	5	0	0	0	No	-
Feng Zansheng	No	3	3	0	0	0	No	-
Wong Hin Wing	Yes	5	5	0	0	0	No	-

Note: ① Mr. Yang Rongming was unable to attend the 18th and the 19th meetings of the fourth session of the Board due to business commitment and appointed Mr. Shi Shaobin to attend the above meetings and vote on his behalf. Mr. Yang Rongming was unable to attend the 2nd meeting of the fifth session of the Board due to business commitment and appointed Mr. Li Chuyuan to attend the meeting and vote on his behalf.

② Mr. Zhang Yonghua was unable to attend the 18th meeting of the fourth session of the Board and the 4th meeting of the fifth session of the Board and appointed Mr. Li Shanmin to attend the above meetings and vote on his behalf.

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of directors *(Continued)*

(3) Independent non-executive directors

Currently, the Company has 5 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 5 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 ([2010] No.37) issued by CSRC on 31 December 2010, the independent non-executive directors studied the relevant requirements set out in the Notice seriously. The Company reported to the independent non-executive directors on production and operation issues and the progress of major events, and submitted a framework for the preparation of 2010 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.

I. CORPORATE GOVERNANCE *(Continued)*

3. Board of directors *(Continued)*

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

During the Reporting Period, the Group had not made any loan or provided any guarantee for any loan, directly or indirectly, to the directors, supervisors and senior management of the Company, the Company's controlling shareholder or their respective connected persons.

4. Committees of the Board

(1) Audit Committee

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

The Audit Committee of the fourth session of the Board 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 commenced from 15 June 2007 to the date of election of members 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.

The term of office of the Audit Committee of the fourth session of the Board expired on 28 June 2010 and the Audit Committee of the fifth session of the Board was established on the same day, which comprises Mr. Wong Lung Tak Patrick (head of the Committee), Mr. Liu Jinxiang, Mr. Li Shanmin, Mr. Zhang Yonghua and Mr. Qiu Hongzhong. All five 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 28 June 2010 to the date of election of members of the new session of the Board. During the Year, the Audit Committee held one meeting, which was chaired by Mr. Wong Lung Tak Patrick. All of the committee members attended the meetings.

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board *(Continued)*

(2) Strategic Development and Investment Committee

In February 2001, the Company established the Investment Management Committee, which was renamed as Strategic Development and Investment Committee as approved at the 4^{th} 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 Strategic Development and Investment Committee of the fourth session of the Board comprised Mr. Yang Rongming (head of the Committee), Mr. Shi Shaobin and Mr. Feng Zansheng, executive directors, 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 members of the new session of the Board. During the Year, the Strategic Development and Investment Committee held one meeting, at which the acquisition of the equity interest in Guangzhou Bai Di held by the 3 individual shareholders, namely Mr. Zhang Mingshen, Mr. Huang Ming and Mr. Gao Jiansheng was reviewed by the committee. All of the committee members attended the meetings.

The term of office of the Strategic Development and Investment Committee of the fourth session of the Board expired on 28 June 2010 and the Strategic Development and Investment Committee of the fifth session of the Board was established on the same day, which comprises Mr. Yang Rongming (head of the Committee), Mr. Li Chuyuan and Mr. Shi Shaobin, executive directors, as well as the independent non-executive directors Mr. Liu Jinxiang and Mr. Li Shanmin. The term of office of the members of the Strategic Development and Investment Committee commences from 28 June 2010 to the date of election of members of the new session of the Board.

(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 4^{th} 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.

I. CORPORATE GOVERNANCE *(Continued)*

4. Committees of the Board *(Continued)*

(3) Nomination and Remuneration Committee *(Continued)*

The Nomination and Remuneration Committee of the fourth session of the Board comprised 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 members 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 2010 were considered. All of the committee members attended the meeting.

The term of office of the Nomination and Remuneration Committee of the fourth session of the Board expired on 28 June 2010 and the Nomination and Remuneration Committee of the fifth session of the Board was established on the same day, which comprises Mr. Li Chuyuan and Mr. Wu Changhai, executive directors, and the independent non-executive directors Mr. Li Shanmin (head of the Committee), Mr. Zhang Yonghua and Mr. Qiu Hongzhong. The term of office of the members of the Nomination and Remuneration Committee commences from 28 June 2010 to the date of election of members of the new session of the Board.

(4) Budget Committee

In October 2007, the Company established the Budget Committee as approved at the 4^{th} 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 of the fourth session of the Board comprised 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 members of the new session of the Board. During the Reporting Period, the Committee held one meeting, considered the Company's 2010 business objectives and the 2010 budget work. All of the committee members attended the meeting.

The term of office of the Budget Committee of the fourth session of the Board expired on 28 June 2010 and the Budget Committee of the fifth session of the Board was established on the same day, which comprises Mr. Shi Shaobin and Mr. Wu Changhai, executive directors, and independent non-executive directors Mr. Liu Jinxiang (head of the Committee), Mr. Li Shanmin and Mr. Wong Lung Tak Patrick. The term of office of the members of the Budget Committee commences from 28 June 2010 to the date of election of members of the new session of the Board.

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, six meetings were held by the Supervisory Committee. All members of the Supervisory Committee attended all the meetings to monitor the Company's financial conditions and the legitimacy of performance of the Company's directors and senior management on behalf of the shareholders. They also attended all the meetings of the Board and discharged their duties seriously.

6. Other stakeholders

The Company respected and safeguarded the interests of the stakeholders and realized the balance of interests among the shareholders, employees and the society; 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, financial controller, secretary of the Board, and other senior executives of the Company are remunerated by the Company.

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

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 5 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. No supervisory or reporting relationships exist in 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. GOVERNANCE RESTRUCTURE OF THE COMPANY

Pursuant to the requirements under the Notice on Special Activities regarding Inspection of Information Disclosure of Listed Companies(《關於開展上市公司信息披露檢查專項活動的通知》)(Guangdong Zheng Jian [2010] No.30) issued by Guangdong Regulatory Bureau of the China Securities Regulatory Commission ("Guangdong Securities Regulatory Bureau"), the Company actively launched the special activities regarding inspection of information disclosure (the "special activities"), specified the prime responsible officer and the officers responsible for the implementation of the special activities, and formulated the implementation plan and time schedule of the special activities after taking the Company's practical operation and task arrangement into account.

From early July to late August 2010, Guangdong Regulatory Bureau performed on-site inspection on the Company and certain of its subordinated enterprises, and issued the Notice on the Results of On-site Inspection(《現場檢查結果告知書》)([2010] No.48) (the "Notice") on 9 November 2010. Upon receipt of the notice on 19 November 2010, the Company seriously reviewed and discussed the problems referred to in the Notice, formulated the restructure plan and convened the 5th meeting of the fifth session of the Board on 15 December 2010 to consider the related Restructure Report (details please refer to the Restructure Report on On-site Inspection of Guangzhou Pharmaceutical Company Limited disclosed by the Company on 16 December 2010).

IV. THE ESTABLISHMENT AND ENHANCEMENT OF THE INTERNAL CONTROL SYSTEMS

1. The General Scheme of 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 "Guidance on Internal Control Standards" covers 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, business environment and laws and regulations.

During the Reporting Period, a specialized intermediary institution was engaged by the Company to provide consultancy services for the internal control system of the Company, assist the Company and its pilot enterprises to review and assess the status quo of the internal control, identify the weaknesses and defects of the internal control system, make recommendations for improvement and optimize the internal control management system.

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 2009 pursuant to the requirements of the "Report on the Fulfillment of Social Obligations by the Listed Companies in 2009 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 2009" from the Board of the Company and the "Report on Fulfillment of Social Responsibilities for 2009", both of which were disclosed after being considered and duly passed at the Board meeting of the Company on 26 March 2010.

(2) According to the "Basic Norms of Corporate Internal Control" and its supporting guidelines jointly issued by the five ministries under the Ministry of Finance, seminars and publicity training were organized by the Company and its subsidiaries. The principal business processes were reviewed in accordance with the requirements under the above norms. Also, certain intermediaries were engaged to assist the Company and its pilot enterprises to review and optimize the internal control system, aiming at strengthening the management of the internal control.

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)*

(3) 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.

(4) 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 Company issued by CSRC. Both of the above were considered and duly passed at the Board meeting of the Company on 26 March 2010.

(5) Use of External information Management System of the Company 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. The above was considered and duly passed at the Board meeting of the Company on 29 April 2010.

(6) To further standardize the management of information disclosure and improve the quality of information disclosure, the Company made amendments to the relevant provisions of the "Articles of Association", "Board of Supervisors Rules of Procedure" and "Directors, Supervisors and Senior Management Measures for the Administration of shares traded companies". The amendments to the above regulations were considered and duly passed at the Board meeting of the Company on 27 August 2010.

(7) The Company made amendments to the relevant provisions of the "Board of Directors Rules of Procedure" in accordance with the amendments of the "Articles of Association". Such amendments were considered and duly passed at the Board meeting of the Company held on 28 October 2010 and the 2010 Extraordinary General Meeting held on 30 December 2010.

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

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 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.

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.

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

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 2010 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. 3 Memorandum on the Preparation and Review of the Internal Control Report and Social Responsibility Report for 2010 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 2010 (full version is available on the website of the SSE) in accordance with the requirements of "Notice on How to Successfully Prepare the 2010 Annual Report by Listed Company" 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".

During the Report Period, there were no material mistakes in the information disclosure of annual report.

Summary of Shareholders' Meetings

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

Session and number of meeting	Meeting date	Newspapers for publication of the resolutions	Disclosure date
2009 Annual General Meeting	28 June 2010	Shanghai Securities News	29 June 2010
2010 Extraordinary General Meeting	30 December 2010	Shanghai Securities News	31 December 2010

Report of the Board of Directors

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

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Scope and Analysis of Operations

1. Business Scope

The Group is principally engaged in (1) the manufacture and sales of Chinese Patent Medicine, 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

During the Reporting Period, the Group launched a series of aggressive measures and put more effort to overcome the challenges arising from the upsurging cost of raw materials, the convention of "Asian Games" in Guangzhou and changes in pharmaceutical policies. The Group persisted to concentrate on marketing, development of the brand's strengths, active market expansion, sustained marketing innovation, adjusted policies according to market momentum and optimized product mix. Meanwhile, the Group increased investment on scientific and technological research, commenced technological innovation and strengthened production cost management, resulting in the continual growth of its principal operations.

According to the PRC Accounting Standards, the Group recorded an income from principal operations of RMB4,403,098,000 for the Reporting Period, with a growth of 15.80% as compared with last year. The profit before tax amounted to RMB321,341,000, representing an increase of 38.91% over last year and net profit attributable to shareholders of the Company amounted to RMB267,112,000, representing an increase of 26.60% over last year.

According to HKFRS, the Group recorded a turnover of RMB4,403,098,000 for the Reporting Period, with a growth of 15.80% as compared with last year. Profit before income tax amounted to RMB339,707,000, representing an increase of 44.45% over last year and net profit attributable to shareholders of the Company amounted to RMB279,597,000, representing an increase of 30.11% 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)*

A breakdown of the operational results of the overall and principal operations of the Group for 2010 is set out as follows:

Item	**2010 (RMB'000) (Audited)**	2009 (RMB'000) (Audited)	Increase/ (Decrease) *(YoY)* (%)
Prepared in accordance with the PRC Accounting Standards			
Income from principal operations	**4,403,098**	3,802,423	15.80
Operating profit	**298,016**	207,077	43.92
Total profit	**321,341**	231,331	38.91
Net profit attributable to shareholders of the Company	**267,112**	210,989	26.60
Prepared in accordance with HKFRS			
Turnover	**4,403,098**	3,802,423	15.80
Profit before income tax	**339,707**	235,168	44.45
Net profit attributable to shareholders of the Company	**279,597**	214,900	30.11

Report of the Board of Directors

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(1) Operations review *(Continued)*

Principal Operations	Income from principal operations		Cost of principal operations		Profit margin of principal operations	
	Income from principal operations (RMB'000)	Increase/ (Decrease) over 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	4,403,098	15.80	3,188,573	14.23	27.12	1.06
Include: Manufacturing	2,188,600	12.31	1,141,424	5.20	47.02	3.60
Trading	2,214,498	19.47	2,047,149	19.97	7.45	(0.36)
Include: Pharmaceutical trading	1,706,025	12.74	1,543,598	12.74	9.39	0.02
Other trading	508,473	49.39	503,551	49.32	0.95	0.05
Prepared in accordance with HKFRS						
Overall operations	4,403,098	15.80	3,188,573	14.23	27.12	1.06
Include: Manufacturing	2,188,600	12.31	1,141,424	5.20	47.02	3.60
Trading	2,214,498	19.47	2,047,149	19.97	7.45	(0.36)
Include: Pharmaceutical trading	1,706,025	12.74	1,543,598	12.74	9.39	0.02
Other trading	508,473	49.39	503,551	49.32	0.95	0.05

Geographical analysis of sales arising from the operations of the Group for 2010 is set out as follows:

Region	**Income from principal operations** (RMB'000)	**Increase/ (Decrease) over last year** (%)	**Percentage in overall operations** (%)
Southern China	3,061,186	19.06	69.52
Eastern China	480,559	(0.21)	10.92
Northern China	286,472	(3.17)	6.51
North-Eastern China	73,264	(1.16)	1.66
South-Western China	263,426	34.14	5.98
North-Western China	92,818	30.38	2.11
Exports	145,373	29.67	3.30
Total	**4,403,098**	**15.80**	**100.00**

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 management on distributors, kept on optimizing and integrating the marketing channels, implemented control on sales channels, strengthened the pricing mechanism, enhanced the activeness of distributors and retailers, leading to the steady growth in product sales. Secondly, we focused on sales innovation, continuously strengthened end market operation, strategically focused on the four end markets, namely hospital, OTC, communities and areas under the New Rural Cooperative Medical System and put efforts on developing and sustaining the markets in focused areas in order to effectively boost the sales driven by end markets. Thirdly, we reinforced works on government affairs, paid close attention to the changes resulted from pharmaceutical reform and actively studied new medical reform policies. Satisfactory results were seen in the areas of basic list of medicines, list of medicines and insurance, medicine pricing and product bidding. Fourthly, we reinforced brand building and strengthened marketing and promotion. Through the launching of researches on “Genetic Chinese Medicine” and Anti “Super Bacteria” Pharmaceutical Products, the successful application of the Chen Li Ji for the recognition as the “World’s Most Long-standing Pharmaceutical Enterprise” together with such events as the “Asian Games Promotion” and the “Centennial Factory Celebration ” for our traditional pharmaceutical brands in China, we enhanced brand and product mix promotion to increase brand value and gain popularity and reputation for our products, driving the growth in product sales. Fifth, in response to the price increase in most medicine and materials since 2010, the subsidiaries of the Group were well prepared to sooth the pressure thus on cost for the Year through the measures of building reserves for the lacking medicine in advance, enhancing cooperation with medicine merchandisers, merchandise bidding and quality and price comparison over the market.

In 2010, the profit margin of the manufacturing operations of the Group was 47.85%, representing an increase of 3.53 percentage points as compared with the last year. The increase in the profit margin of the manufacturing operations was mainly due to: (1) during the Reporting Period, the Group strengthened the price system maintenance and maintained the steady prices of its products; (2) expansion in production of the Group’s products and increase in their sales, which resulted in the decline of production cost of the Group’s products.

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, products such as Xiao Ke Wan and Hua Tuo Zai Zao Wan achieved steady growth in their sales, while other products such as Xia Sang Ju Ke Li, Mi Lian Chuan Bei Pi Pa Gao, Xu Han Ting Ke Li, Hou Zao Niu Huang San, Qi Re Xiao Yan Ning Jiao Nang, Hou Ji Lin Jiao Nang, Zi Shen Yu Tai Wan, She Dan Chun Bei San and Wu Ji Bai Feng Wan recorded great increase as compared with the same period of last year.

An analysis of sales of major products for the manufacturing operations in 2010 is as follows:

Types of products	Income from principal operations: Income from principal operations (RMB'000)	Income from principal operations: Increase/(Decrease) over last year (%)	Cost of principal operations: Cost of principal operations (RMB'000)	Cost of principal operations: Increase/(Decrease) over last year (%)	Profit margin of principal operations: Profit margin of principal operations (%)	Profit margin of principal operations: Increase/(Decrease) over last year *(Percentage point)*
Heat clearing and anti-toxic medicine	280,827	32.42	158,532	29.76	42.72	1.23
Diabetes medicine	493,493	7.24	188,931	(2.79)	60.89	4.02
Cough and phlegm clearing medicine	282,505	20.66	139,305	17.51	49.86	1.39
Arthritis medicine	259,953	2.51	123,306	1.52	51.74	0.53
Gastric medicine	69,403	4.95	34,370	(5.18)	49.65	5.37
Other products	802,419	11.03	496,980	0.96	37.24	6.25

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 vigorously promoted technological innovation by expediting innovative products development and technological upgrade, and thereby, the business growth of the Group continued to be driven up. During the Reporting Period, the Company's application of Scaling-up Technological Platform of TCM Extraction and Separation Key Technologies passed the assessment by experts, and obtained government subsidy for key technological projects. The IIa clinical research of the therapeutic dual-plasmid HBV DNA vaccine was completed in the Year, and the Company is actively preparing for the IIb clinical research. Zhong Yi received the honor of "Top 100 Enterprises in Technological Innovation" by Guangdong Science and Technology Department and became the leading enterprise among the emerging strategic industries in Guangzhou City. Zhong Yi also established a new technological innovation management system with the Research and Development Center for Diabetes Medicine of Guangdong Province as its base. It saw a substantial achievement in certain projects jointly conducted with China's well-established research institutes regarding the integration of production, learning, research and government. Zhong Yi applied for one invention patent of Xiao Ke Wan's prescription and manufacturing processes, which was rewarded the National Outstanding Patent Prize, one invention patent of quality standard, five patents of utility model and one design patent in respect of its Xiao Ke Wan, gradually formulating a comprehensive protection system of intellectual property rights in order to fully protect the core intellectual property right of Xiao Ke Wan. In addition, the Xin Yi Bi Yan Wan of Zhong Yi was successfully listed as the national Chinese medicine under protection by the State Food and Drugs Administration for a protection period of 7 years. The Dan Bie Jiao Nang of Pan Gao Shou was granted the 2010 Second Prize in Technological Advancement by China Association of Chinese Medicine. The technological equipment for the critical purification of CO_2 technology and the application and industrialization of the technology in natural medicine, which was developed by Guangzhou Han Fang, was awarded the Guangdong Provincial First Prize in Technology. The award demonstrated the remarkable achievement of technological innovation by "National Engineering Research Center of Chinese Medicine Modernization of Extraction and Separation Process".

The Company's six subsidiaries, 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 obtained the "Certificate of Advanced Technology Enterprise of Guangdong Province" in 2008, which are effective for three years, and Guangxi Ying Kang obtained the "Certificate of Advanced Technology Enterprise of Guangxi Autonomous Region" in 2009, which are effective for three years. According to relevant regulations, they are entitled to preferential tax policies during the Year. In addition, Guangzhou Han Fang obtained the "Certificate of Advanced Technology Enterprise of Guangdong Province" in September 2010, which is effective for three years.

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. The Group also guaranteed production quality strictly, carried out the work relating to production and management complying with GMP and GSP etc. quality management system, advanced quality licensor management system so as to improved quality management system and production quality management legal compliance. 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, 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.

(3) The trading operations

During the Reporting Period, as to the pharmaceutical trading operations, firstly we continued to consolidate the cooperation with manufacturers, agents and other third parties and broadened our distribution channels and marketing networks. Secondly, we continued to deepen consolidation of resources, promote business resources integration with great efforts and optimize resources allocation in order to enhance our end-sales service capability. During the Reporting Period, the former Guangzhou Pharmaceutical Import & Export Corporation successfully restructured as a limited company and completed the business integration with Ying Bang Branch Company. Thus, its business development was fully promoted through launching a series of effective measures. Cai Zhi Lin divided its Chinese medicine into 6 major categories since February 2010, establishing "regular category" reserve and "strategic category" reserve and identifying a number of "advantageous categories" for reduction in purchasing cost and quality assurance of Chinese medicine. Thirdly, in response to medical reform policies and market demand, we adjusted our marketing strategy in a time manner, made great efforts in the sales expansion of new businesses and actively introduced other marketable products of insurance through innovative services. Fourthly, we continued to perform well in the dispatch work of medicine to end markets, enhanced the intensive cooperation with the manufacturers and continued to expand our net sales business. Fifthly, we sustained the basic management of credit limit and accounts receivable so as to reduce operating risks.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

2. Analysis of Operating Results *(Continued)*

(3) The trading operations *(Continued)*

In 2010, the profit margin of the trading operations was 7.56%, representing a decrease of 0.38 percentage point as compared with last year.

As at 31 December 2010, the Group had 52 retail chain pharmacy outlets, including 51 "Cai Zhi Lin" which specialized in traditional Chinese medicines, one pharmacy named Ying Bang.

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

Name of enterprises	Percentage of direct holding of shares by the Company (%)	Income from principal operations (RMB'000)	Total profit (RMB'000)	Net profit (RMB'000)
(1) Subsidiaries				
Xing Qun	88.99	220,054	9,760	5,432
Zhong Yi	100.00	683,772	105,285	88,314
Chen Li Ji (Note a)	100.00	229,035	24,737	20,797
Qi Xing	75.00	324,222	20,021	14,649
Jing Xiu Tang	88.40	208,130	18,605	15,296
Pan Gao Shou	87.77	273,529	10,598	8,125
Guangxi Ying Kang	51.00	37,239	630	630
Guangzhou Bai Di	98.48	1,388	(6,823)	(6,823)
Guangzhou Han Fang	97.04	85,031	(16,023)	(16,023)
Cai Zhi Lin	100.00	1,599,577	10,598	8,427
Pharmaceutical Import & Export Co., Ltd. *(Note a)*	100.00	685,233	2,246	1,569
(2) Branch				
Ying Bang Branch Company	–	649,401	5,343	5,343
(3) Joint ventures				
Wang Lao Ji *(Note b)*	48.05	1,551,546	125,461	105,155
GP Corp. *(note c)*	50.00	13,261,417	175,181	120,697
Nuo Cheng *(note d)*	50.00	52,473	3,331	7,798

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)*

Notes:

(a) Upon the restructuring of the former Guangzhou Pharmaceutical Import & Export Corporation and Guangzhou Chen Li Ji Pharmaceutical Factory were restructured as a limited company in 2010, they were renamed as "Guangzhou Pharmaceutical Import & Export Co., Ltd." and "Guangzhou Chen Li Ji Pharmaceutical Factory Co., Ltd." in March and July 2010, respectively.

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

Wang Lao Ji is principally engaged in the manufacture and sales of Chinese Patent Medicine and foodstuffs. In 2010, Wang Lao Ji achieved an income from principal operations of RMB1,551,546,000, representing an increase of 4.44% as compared with last year. Its total profit amounted to RMB125,461,000, representing a decrease of 33.26% as compared with last year and its net profit was RMB105,155,000, representing a decrease of 35.88% as compared with last year. The decrease in the profit of Wang Lao Ji for 2010 was mainly due to the great increase of raw material costs, which resulted in the significant rise in unit cost of its products.

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

GP Corp. is principally engaged in wholesale and retail of western medicine and medical apparatus. In 2010, income from principal operations of GP Corp. amounted to RMB13,261,417,000, representing an increase of 17.25% as compared with last year. Its total profit was RMB175,181,000, representing an increase of 10.00% as compared with last year and its net profit was RMB120,697,000, representing an increase of 8.54% as compared with last year.

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

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

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

4. Major customers and suppliers

During the Year, purchases of goods and services from the 5 largest suppliers amounted to RMB533,457,000, representing approximately 16.16% of the total purchases. The purchases from the largest supplier amounted to RMB200,424,000, representing 6.07% of the total purchases. Goods and services sold to the 5 largest customers amounted to RMB717,784,000, representing 16.30% of the total sales. Sales to the largest customer amounted to RMB240,262,000, representing 5.46% 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

II. After carrying out new accounting standards for enterprises, there was no changes in 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 had been used up by 31 December 2007.

IV. Analysis of Financial Conditions

1. Financial conditions of the Group

Prepared in accordance with the PRC Accounting Standards

Items	As at 31 December 2010 (RMB'000)	As at 31 December 2009 (RMB'000)	Change as compared with last year (%)
Total assets	4,476,592	4,222,496	6.02
Equity attributable to the shareholders of the Company	3,539,369	3,304,186	7.12
Operating profit	298,016	207,077	43.92
Net profit attributable to the shareholders of the Company	267,112	210,989	26.60
Net increase/(decrease) in cash and cash equivalents	28,962	301,527	(90.39)

Prepared in accordance with HKFRS

Items	As at 31 December 2010 (RMB'000)	As at 31 December 2009 (RMB'000)	Change as compared with last year (%)
Total assets	4,705,759	4,449,007	5.77
Capital and reserves attributable to shareholders of the Company	3,693,722	3,450,002	7.06
Operating profit after financial charges	230,057	100,994	127.79
Net profit attributable to shareholders of the Company	279,597	214,900	30.11
Net increase/(decrease) in cash and cash equivalents	28,962	301,527	(90.39)

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

IV. Analysis of Financial Conditions *(Continued)*

2. Liquidity

As at 31 December 2010, the current ratio of the Group was 3.05 (31 December 2009: 2.72), and its quick ratio was 1.99 (31 December 2009: 1.93). Accounts receivable turnover rate was 15.07 times, representing an increase of 36.79% as compared with 2009. Inventory turnover rate was 4.85 times, representing an increase of 3.63% as compared with 2009.

3. Financial resources

As at 31 December 2010, cash and cash equivalents of the Group amounted to RMB696,347,000, out of which approximately 99.79% and 0.21% were denominated in Renminbi and foreign currencies, like Hong Kong dollars, respectively.

As at 31 December 2010, the Group had bank borrowings of RMB38,868,000 in total, all of which were short-term borrowings (31 December 2009: RMB63,370,000).

4. Capital structure

As at 31 December 2010, the Group's current liabilities amounted to RMB714,127,000 (31 December 2009: RMB712,021,000), representing an increase of 0.30% as compared with 2009, and its long-term liabilities was RMB120,926,000 (31 December 2009: RMB108,899,000), with an increase of 11.04% as compared with 2009. The shareholders' equity attributable to the shareholders of the Company amounted to RMB3,539,369,000 (31 December 2009: RMB3,304,186,000), with an increase of 7.12% as compared with 2009.

5. Capital expenditure

The Group expects the capital expenditure for 2011 to amount to approximately RMB163 million (2010: RMB80 million), which will be mainly applied in the construction of factories and infrastructure, purchases of machines, equipment and proprietary technologies, etc. The Group has sufficient financial resources to meet the capital expenditure and daily working capital requirements.

6. Gearing ratio

As at 31 December 2010, the Group's gearing ratio (calculated according to the formula: total liabilities/total assets) was 18.65% with a decrease of 0.79 percentage point as compared with 2009 (as at 31 December 2009: 19.44%).

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 2010, cash and cash equivalents of the Group amounted to RMB696,347,000, with an increase of RMB28,962,000 as compared with the beginning of 2010. The net cash inflow derived from operating activities amounted to RMB73,169,000, with a decrease of RMB366,224,000 as compared with 2009.

9. Contingent liabilities

   As at 31 December 2010, the Group has no significant contingent liabilities.

10. Charge on the Group's assets

   As at 31 December 2010, the Group had no charge on its assets.

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

2010 is a year filled with uncertainties. The gradual implementation of new medical reform and the continual introduction of other systems in relation to pharmaceutical policies further expanded the domestic pharmaceutical market and created opportunities for its development. Nevertheless, the short-term inflation pressure, further tightening of monetary policy, continued price increase of raw materials and labor cost and the price control of pharmaceutical products by the government had imposed certain impact on the Group's operations.

VI. The 2010 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 2011

2011 is the year commencing the "Twelfth Five-Year Plan". It is also a critical year for the central government to push forward the new medical reform and for the pharmaceutical enterprises to respond to the implementation of the reform. Along with the progress of reform on the domestic pharmaceutical and hygiene system, we foresee a bright prospect in the development of domestic pharmaceutical market. In addition, internationalization of pharmaceutical economy, strong emphasis and support on Chinese medicine and biological medicine from the State and various government departments and the aging population in China will also create opportunities for the Group's future development. However, the ever keener competition in the pharmaceutical market, continual improvement in the centralized circulation of pharmaceutical products, the stronger price control of pharmaceutical products by the government, the implementation of the new GMP standard and the continual price increase of raw materials and corporate costs will pose challenges to our steady growth in the future.

In 2011, the Group will continue to pursue its operation targets, and commence the following work coping with the Company's actual status:

1. To develop basing on marketing innovation and strengthen competitiveness, and focus on the differential marketing strategies in terms of brands, products and academy. We continue to reinforce our marketing management to respond to the reform policy or projects launched by the government so as to set off well with the "Twelfth Five-Year Plan". Firstly, we will implement the brand-driven strategy by developing the competitive edge of big brands and hence upgrading the image of overall products of the Group with a sound and rapid development. Secondly, we will vigorously launch the "activities for the academic marketing year". Through comprehensive launching of academic activities and effective engagement with the targeted potential customers of the pharmaceutical products concerned in order to promote our brand recognition and thus increase product sales. Thirdly, we will improve the planning for product mix, optimize product structure and actively push forward the marketing and business of the Group's key products. Meanwhile, we will explore other potential major products, in particular for the development of certain core products to achieve a sale of billion dollars. Fourthly, we continue to reinforce the organization work to follow up with government affairs by closely tracking the changes in pharmaceutical policies and making timely responses. Fifthly, we will consolidate and integrate our competitive channel management, and gradually and intensively establish a consolidated end market networks by means of building a stable and competitive network platform for our channels, resulting in an effective and vast coverage of our products.

2. To accelerate the building up of technological innovation system. We will continue to speed up new technological innovation, increase investment in the R & D of new medicines and the further development of famous proprietary Chinese medicines, focus on the progress of significant scientific and technological projects including "Major Breakthrough in New Medicine", the Scaling-up Technological Platform project, in order to realize product structure optimization and modification as well as industry upgrade, enhance our production technology, R & D and industrialization technology. At the same time, we will actively conduct QC work in accordance with the 2010 Pharmacopoeia Standards to ensure product quality.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

VII. Prospects and Plans for 2011 *(Continued)*

3. To strengthen scientific management and speed up integration of operations. We will put greater efforts to resources consolidation, promote scale of economy and synergy effect, develop core competitiveness, and enhance the overall profitability of the Group.

4. To ensure the sustainable and healthy development of the enterprise by reinforcing risk management. We will further strengthen the fundamental management, regulate the business operation, promote the internal control management standard and lower operational risks. The Company has formulated the Implementation Work Plan for Regulation of Internal Control《實施內部控制規範工作方案》according to Notice on How to Successfully Perform the Governance on Internal Control for Listed Companies in Jurisdiction in 2011 and Related Pilot Work《關於做好2011年轄區上市公司內部控制規範實施和試點相關工作的通知》issued by Guangdong Securities Regulatory Bureau. We spare no effort to propel the setting up and implementation of the internal control system, organize and launch the self-assessment on internal control, commission an intermediary institution to perform audit in respect of the implementation of internal control during 2011.

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 reported to the Board.

Items related to fair value measurement

Items	Amount 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	2,476	25,615	23,139	379
Financial assets for trading	31,332	11,669	(19,663)	2,550
Total	**33,808**	**37,284**	**3,476**	**2,929**

Report of the Board of Directors

DAILY OPERATIONS OF THE BOARD OF DIRECTORS

I. Board Meetings

Meetings	Date of meeting	Resolutions	Newspapers on which the information was published	Publication dates
18th meeting of the fourth session	26 March 2010	/	Shanghai Securities News	29 March 2010
19th meeting of the fourth session	29 April 2010	/		30 April 2010
20th meeting of the fourth session	11 May 2010	/		12 May 2010
21st meeting of the fourth session	21 May 2010	/		22 May 2010
22nd meeting of the fourth session	9 June 2010	/		10 June 2010
1st meeting of the fifth session	28 June 2010	/		29 June 2010
2nd meeting of the fifth session	27 August 2010	/		30 August 2010
3rd meeting of the fifth session	29 September 2010	/		30 September 2010
4th meeting of the fifth session	28 October 2010	/		29 October 2010
5th meeting of the fifth session	15 December 2010	/		17 December 2010

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

1. Distribution of 2009 final dividend

Pursuant to the resolutions on financial accounts approval and dividend declaration passed at the 2009 Annual General Meeting held on 28 June 2010, 2009 final dividend of RMB0.50 (including tax) for every 10 shares held was approved and paid, in cash, to all shareholders of the Company, based on the total share capital of 810,900,000 shares at the end of 2009.

The final dividend of RMB0.05 (including tax) per share for 2009 was paid to the Company's H-share shareholders whose names appeared on the register of the Company as at 28 May 2010 on 10 August 2010.

According to the announcement for 2009 final dividend published in Shanghai Securities News in the PRC on 12 July 2010, the registration date for A shares was 15 July 2010, the ex-dividend date was 16 July 2010 and the dividend payment date was 10 August 2010.

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

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

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

   As audited by Shu Lun Pan Yangcheng Certified Public Accountants Co., Ltd., the consolidated net profit attributable to the shareholders of the Company for the year 2010 was RMB267,111,879.76. Based on the Company's net profit of RMB214,544,336.50 for 2010, after the transfer of 10% thereof amounting to RMB21,454,433.65 to the statutory surplus reserve fund, plus the retained earnings of RMB837,313,733.61 transferred from last year and after deducting the dividend of RMB40,545,000.00 distributed for the year 2009, the amount of retained profits available for distribution to shareholders of the Company for the year 2010 amounted to RMB989,858,636.46.

   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 tax) for the year ended 31 December 2010 (2009: RMB0.05 per share) totaling RMB40,545,000.00, and the retained earnings for the year 2010 amounting to RMB949,313,636.46 was transferred to next year. The proposed final dividend will be submitted to the forthcoming 2010 Annual General Meeting for consideration and approval (the date of the 2010 Annual General Meeting is to be announced).

   During the Year, there was no increase in share capital by transfer from capital reserve.

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** (%)
2007	100,552	335,094	30.01
2008	32,436	182,496	17.77
2009	40,545	210,989	19.22
Total	**173,533**	**728,579**	**23.82**

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

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 ([2010] No.37) issued by CSRC to oversee the auditing work for 2010 and the preparation of the annual report.

1. Major tasks accomplished by the Audit Committee in 2010 included:

    (1) convening three meetings in 2010 to review the 2009 Annual Report and 2010 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;

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

    (3) re-appoint or newly appoint accountant of the Company for the Year;

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

2. Annual audit for 2010 and relevant jobs regarding the preparation of the Annual Report

    After the issuance of the Notice ([2010] No.37) by CSRC, 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 2010 and preparatory work for the annual report of the Company, which included the following:

    (1) 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 2010 Annual Report" and reviewed the audit plan submitted by the auditors.

    (2) The Audit Committee reviewed the draft of the financial reports prepared by the Company on 10 March 2011 and issued written recommendations thereon.

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

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

2. Annual audit for 2010 and relevant jobs regarding the preparation of the Annual Report *(Continued)*

   (3) 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 2010 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.

   (4) On 18 March 2011, the Audit Committee convened the first meeting for 2011 and considered and passed the 2010 Annual Report of the Company and the Company's 2010 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.

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 18 March 2011, the Nomination and Remuneration Committee convened the first meeting for 2011 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 2010 Annual Report. The Committee believes the disclosure of emoluments of the directors, supervisors and senior management in the 2010 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 2011 was considered and approved at the meeting.

Report of the Board of Directors

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

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.

On 18 March 2011, the Budget Committee convened the first meeting for 2011 and the 2011 operation targets and budget bill, 2011 budgeting plan were examined and passed during the meeting.

VI. The Establishment and Enhancement of the Management System Regarding the Users of External Information of the Company

The Company formulated the Management System Regarding the Users of External Information 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. After being considered and duly passed at the Board meeting of the Company on 29 April 2010, the above system was put into force to strictly regulate the external disclosure of information by the Company and the use of external information on the Company, prevent information from leaking out and procure fair disclosure of information.

During the Reporting Period, the Company did not violate any requirements of the system.

VII. Statement of the Board on Responsibilities for Internal Control

The objectives for internal control of the Company are to reasonably ensure that the operation and management of the Company are legal and in compliance with the law and regulations, assets are secured, financial reports and related information are true and complete so as to enhance the operation efficiency and efficacy, and promote the launching of development strategies of the Company. The Board is responsible for the establishment, improvement and effective implementation of internal control. The Board is of the view that the Company has established a relatively complete internal control system according to the requirements of the relevant documents such as the "Basic Norms of Corporate Internal Control" after taking the Company's practical operation into account. During the Reporting Period, the Company operated in accordance with the internal control system to avert operational risks and reasonably ensure the safety of assets and the truthfulness and completeness of the financial reports and related information. The internal control is subject to ongoing revision and improvement in line with the operation and development of the Company as well as the change of internal and external environment.

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

VIII. Implementation of Insider Information Management System

The Company formulated the "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 Company issued by CSRC. After being considered and duly passed at the Board meeting of the Company on 26 March 2010, the above system was put into force to further strengthen the management of insider information and insiders and preclude trading of shares of the Company based on any insider information.

Upon self-assessment made by the Company, there was no trading of shares of the Company by insiders based on any insider information before disclosure of material price sensitive information as at the end of the Reporting Period.

OTHER MATTERS

I. Accounts

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement.

The financial conditions of the Group as at 31 December 2010 are set out in the consolidated balance sheet.

The cash flows of the Group for the year ended 31 December 2010 are set out in the consolidated cash flow statement.

The cash flows of the Company for the year ended 31 December 2010 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 2010 amounted to RMB997,707,000 calculated in accordance with the PRC Accounting Standards and amounted to RMB1,055,230,000 calculated in accordance with HKFRS.

OTHER MATTERS *(Continued)*

V. Fixed Assets

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

VI. Connected Transactions

Pursuant to the regulations of CSRC, details of such transactions were set out as follows:

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
Baiyunshan Co., Ltd.	Fellow Ultimate holding company	Purchase of products	Medicine or pharmaceutical products	Market price	66,298	2.01	cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	767	0.02	cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	243	0.01	cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	62,525	1.90	cash
Polian Company	Fellow Parent company	Purchase of products	Medicine or pharmaceutical products	Market price	79,176	2.40	cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	648	0.02	cash
GP Corp.	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	68,724	2.08	cash
Wang Lao Ji	Joint venture	Purchase of products	Medicine or pharmaceutical products	Market price	2,701	0.08	cash
Baiyunshan Wei Ling Pharmaceutical Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	29	0.00	cash
Guangzhou Baiyunshan Pharmaceutical Technology Development Co., Ltd.	Others	Purchase of products	Medicine or pharmaceutical products	Market price	400	0.01	cash

OTHER MATTERS *(Continued)*

VI. Connected Transactions *(Continued)*

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
GPHL	Parent Company	Sales of products	Medicine or pharmaceutical products	Market price	94	0.00	cash
Baiyunshan Co., Ltd.	Fellow Ultimate holding company	Sales of products	Medicine or pharmaceutical products	Market price	48,065	1.09	cash
Guangzhou Baiyunshan Ming Xing Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	44,331	1.01	cash
Guangzhou Baiyunshan Tian Xin Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	2,618	0.06	cash
Guangzhou Baiyunshan Guang Hua Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	86,321	1.96	cash
Polian Company	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	1,416	0.03	cash
Guangzhou Pharmaceutical Industrial Research Institute	Fellow Parent company	Sales of products	Medicine or pharmaceutical products	Market price	1,463	0.03	cash
Guangzhou Baiyunshan Hutchison Whampoa Chinese Medicine Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	32,570	0.74	cash
GP Corp.	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	177,876	4.04	cash
Wang Lao Ji	Joint venture	Sales of products	Medicine or pharmaceutical products	Market price	48,268	1.10	cash
Guangzhou Baxter Qiao Guang Pharmaceutical Co., Ltd.	Others	Sales of products	Medicine or pharmaceutical products	Market price	21	0.00	cash
GPHL	Parent Company	Acceptance of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	4,218	100.00	cash

OTHER MATTERS *(Continued)*

VI. Connected Transactions *(Continued)*

Connected parties	Relationship with the Company	Type of connected transactions	Contents of connected transactions	Pricing principle of connected transactions	Amount of connected transactions (RMB'000)	% of similar balance (%)	Settlement method of connected transactions
Wang Lao Ji	Joint venture	Provision of patents, rights to use trademarks and others	Rights to use trademarks	Agreement price	13,860	100.00	cash
GPHL	Parent Company	Others	Rental assets	Agreement price	2,226	10.57	cash
GPHL	Parent Company	Others	Accommodation fees of employees	Agreement price	338	100.00	cash
Guangzhou Pharmaceutical Industrial Research Institute	Fellow Parent company	Transfer of research and development of projects	research and development fees	Agreement price	60	0.08	cash
Total					**745,256**	–	

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

	2010 (RMB'000)
Ultimate holding company	
License fee expenses	4,218
Welfare facilities fee expenses	338
Rental expenses	2,226
Ultimate holding company and its subsidiaries	
Sales of finished goods and raw materials	216,899
Purchase of finished goods and raw materials	210,086

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

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

OTHER MATTERS *(Continued)*

VI. Connected Transactions *(Continued)*

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.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the sales and purchases of finished goods and raw materials in the continuing connected transactions disclosed by the Group in accordance with Main Board Listing Rule 14A.38.

VII. Management Contracts

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

VIII. Compliance with the Code on Corporate Governance Practices

Having reviewed the Code on Corporate Governance Practices (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 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. Projects under Development and for Sale

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

The lessor	Rental property	Amount involved of the rental property	Commencing date of leasing	Closing date of leasing	Gain from leasing (RMB'000)	Reference of determination of gains from leasing	Impact of gains from leasing on the Company	Whether the connected transaction	Connected relation
Chen Li Ji	Yin Zuo Plaza	The net amount of investment property as at 31 December 2010 was RMB4,644,000	1 January 2009	31 December 2013	19,568	Contact	6.09% of profit of the Group	No	N/A

XII. Bank Loans, Overdrafts and Other Loans

Details of the bank loans, overdrafts, and other liabilities of the Group as at 31 December 2010 are set out in this annual report. In comparison to 2009, 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 2010.

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 2010, as approved at the 2009 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, 25 March 2011

Report of the Supervisory Committee

To all shareholders:

On behalf of the supervisory committee of the Company (the "Supervisory Committee"), I hereby report to you the duties performed by the Supervisory Committee during the year ended 31 December 2010 in accordance with the Company's Articles of Association.

I. MEETINGS OF THE SUPERVISORY COMMITTEE HELD DURING THE YEAR

During the Reporting Period, six meetings were held.

<table>
<tr><th>Session and number of meeting</th><th>Date of meeting</th><th>Resolutions</th><th>Newspapers for publication of information</th><th>Dates for publication</th></tr>
<tr><td>12th meeting of the fourth session</td><td>26 March 2010</td><td>/</td><td>Shanghai Securities News</td><td>29 March 2010</td></tr>
<tr><td>13th meeting of the fourth session</td><td>29 April 2010</td><td>First quarterly report of the Company for the year 2010</td><td>/</td><td>/</td></tr>
<tr><td>14th meeting of the fourth session</td><td>11 May 2010</td><td>/</td><td rowspan="4">Shanghai Securities News</td><td>12 May 2010</td></tr>
<tr><td>1st meeting of the fifth session</td><td>28 June 2010</td><td>/</td><td>29 June 2010</td></tr>
<tr><td>2nd meeting of the fifth session</td><td>27 August 2010</td><td>/</td><td>30 August 2010</td></tr>
<tr><td>3rd meeting of the fifth session</td><td>28 October 2010</td><td>/</td><td>29 October 2010</td></tr>
</table>

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

1. The Company's operations during the Reporting Period

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

2. The supervision of the Company's financial conditions

The Supervisory Committee has carefully reviewed the financial statements and other financial information of the Company during the Reporting Period, and considers that the Company's financial statements are fairly presented, and the auditing and financial management are in line with the relevant regulations. The domestic and international auditors issued their standard and unqualified auditors' reports upon auditing the accounts of the Group and the Company for the Year ended 31 December 2010, which reflect an objective, true and fair view of the financial status of the Company as at 31 December 2010 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 had been used up by 31 December 2007.

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.

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

5. Connected transactions

During the Reporting Period, the Company's connected transactions include:

(1) The Company and GPHL 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;

(2) The Company, GP Corp. and 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;

(3) Provision of guarantees by Guangzhou Bai Di, a subsidiary of the Company, to secure bank loans for Nuo Cheng;

(4) The Company and GPHL entered into the Agreement in relation of the Office Leasing Agreement;

(5) The Company and GPHL entered into the Agreement in relation of the Premises Leasing Agreement;

(6) The Company and GPHL entered into the Agreement in relation of the Accommodation Services Agreement.

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.

6. Review of self-assessment report on internal control of the Company

The Supervisory Committee had reviewed the relevant materials regarding the self-assessment report on internal control pursuant to the requirements of the "No. 3 Memorandum on the Format Guidelines on Internal Control Assessment Report and Audit Draft for 2010 Annual Reports of Listed Companies" (《上市公司2010年年度報告工作備忘錄第三號內部控制評價報告格式指引及審核底稿》) issued by the SSE, and expressed no dissenting views on the self-assessment report on internal control of the Board of the Company.

On behalf of the Supervisory Committee
Yang Xiuwei
Chairlady

Guangzhou, the PRC, 25 March 2011

Major Events

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. 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 Guangzhou Pharmaceutical Soccer Club Co., Ltd. ("GPSC"), pursuant to which the 50% equity interest they held therein were transferred to Guangzhou Soccer Development Center at a total amount of RMB20,032,800 with reference to the evaluation of GPSC as at 31 December 2009. As at the end of the Report Period, all the amount of the consideration relating to the above equity transfer has been received, and the transaction has been completed.

2. 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 amounted to RMB129,600,000, representing 98.48% equity interest therein.

3. As considered and approved at the 2nd Meeting of the fifth session of the Board on 27 August 2010, the renewal of the Office Building Tenancy Agreement, Accommodation Services Agreement and Premises Tenancy Agreement were entered into between the Company and GPHL.

   Please refer to the announcement of the Company published on Shanghai Securities News in the PRC and the website of HKEx on 30 August 2010 for details.

4. On 28 October 2010, the Company and GPHL 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 under the Agreement were approved at the Board meeting and the 2010 Extraordinary General Meeting.

   Please refer to the announcement of the Company published on Shanghai Securities News in the PRC and the website of HKEx on 29 October 2010 for details.

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)*

5. On 28 October 2010, the Company, GP Corp. and 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 under the Agreement were approved at the Board meeting and the 2010 Extraordinary General Meeting.

   Please refer to the announcement of the Company published on Shanghai Securities News in the PRC and the website of HKEx on 29 October 2010 for details.

6. Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd., a subsidiary of the Company, and GP Corp. signed the Agreement in relation to Investment Amount Transfer on 30 June 2010, pursuant to which the 100% equity interest held by Guangzhou Qi Xing Pharmaceutical Trading Co., Ltd. was transferred to GP Corp., at a consideration of RMB1,700,000. As at the end of the Report Period, the above transaction of Equity Transfer has been completed.

III. DURING THE REPORTING PERIOD, THE GROUP HAS NO NON-OPERATIONAL CAPITAL PROVIDED TO/FROM CONNECTED PARTIES.

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.

Major Events

VI. GUARANTEES

Guarantees provided to parties other than the Company's subsidiaries

Guaranteed party	Date of signing of agreements	Amount involved (RMB'000)	Type of guarantees	Term of guarantees	Executed or not	Guarantees for connected parties (yes or no)
Nuo Cheng	2 July 2009	9,848	Joint and several liability guarantee	1 year	Yes	Yes
	6 November 2009	9,848	Joint and several liability guarantee	1 year	Yes	Yes
	6 January 2010	9,848	Joint and several liability guarantee	1 year	Yes	Yes
	23 June 2010	9,848	Joint and several liability guarantee	1 year	No	Yes
	23 June 2010	9,848	Joint and several liability guarantee	1 year	No	Yes
	23 June 2010	19,696	Joint and several liability guarantee	1 year	No	Yes
	6 August 2010	9,848	Joint and several liability guarantee	1 year	No	Yes
Accumulated amount of guarantees provided during the Reporting Period (RMB'000)						59,088
Balance of guarantees as at the end of the Reporting Period (RMB'000)						49,240
The Company's guarantees provided to its subsidiaries						
Accumulated amount of guarantees provided to the Company's subsidiaries during the Reporting Period (RMB'000)						125,000
Balance of guarantees provided to the Company's subsidiaries as at the end of the Reporting Period (RMB'000)						125,000
The Group's guarantees (including those provided to its subsidiaries)						
Total amount of guarantees provided (RMB'000)						174,240
% of the net assets of the Group's (%)						4.92
Including:						
Amount of guarantees provided to the Company's shareholder, controlling shareholder and their connected parties (RMB'000)						–
Direct or indirect guarantees provided to entities with a gearing ratio of over 70% (RMB'000)						125,000
Amount of guarantees provided which exceeds 50% of the total net assets of the Company (RMB'000)						–
Total (RMB'000)						125,000

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

VIII. AS AT 31 DECEMBER 2010, THE CONSTRUCTION AND EQUIPMENT COMMITMENTS WHICH WERE CONTRACTED BY THE GROUP BUT NOT PROVIDED FOR WAS RMB3,677,000. THE LEASE COMMITMENTS WHICH WERE CONTRACTED BUT NOT PROVIDED FOR AMOUNTED TO RMB69,855,000.

IX. DURING THE REPORTING PERIOD, THE GROUP HAS PAID AUDITOR'S REMUNERATION OF RMB1,240,000 AND RMB2,680,000 TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD. AND PRICEWATERHOUSECOOPERS RESPECTIVELY. AMONG THE AMOUNT PAID TO SHU LUN PAN YANGCHENG CERTIFIED PUBLIC ACCOUNTANTS CO., LTD., RMB1,120,000 WAS PAID FOR THE 2009 ANNUAL AUDIT, AND RMB120,000 WAS PAID FOR THE 2010 INTERIM REVIEW. AN AMOUNT OF RMB2,080,000 PAID TO PRICEWATERHOUSECOOPERS WAS PAID FOR THE 2009 ANNUAL AUDIT AND RMB600,000 WAS PAID FOR THE 2010 INTERIM REVIEW. BOTH THE DOMESTIC AUDITORS AND INTERNATIONAL AUDITORS HAVE PROVIDED AUDIT SERVICES TO THE COMPANY FOR 12 YEARS.

X. 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.

Major Events

XI. DURING THE REPORTING PERIOD, THE COMPANY WAS NOT IN THE SERIOUS CONTAMINATION COMPANY LIST PUBLISHED BY THE ENVIRONMENTAL PROTECTION AUTHORISE.

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 as at the end of the Reporting Period (share)	Book value as at the end of the Reporting Period (RMB'000)	% of stock investment as at the end of the Reporting Period (%)	Gain/(Loss) during the Reporting Period (RMB'000)
1	A Share of SSE	600038	Hafei Aviation Industry Co., Ltd.	1,806	57,810	1,646	25	431
2	A Share of SSE	600664	Harbin Pharmaceutical Group Co., Ltd.	3,705	222,546	5,023	75	1,021
	Other stock investments held as at the end of the Reporting Period			–	–	–	–	–
	Gain/(Loss) of stock investments sold during the Reporting Period			–	–	–	–	–
		Total		**5,511**	**280,356**	**6,669**	**100**	**1,452**

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
601818	China Everbright Bank Company Limited	10,725	approx. 0.02	23,958	247	9,925	Available-for-sale financial assets	Acquisition
601328	Bank of Communications	439	–	1,657	132	(806)	Available-for-sale financial assets	Acquisition

Note: During the Reporting Period, Bank of Communications placed shares at 1.5 shares per 10 shares in proportion to all its A share holders, with the placing price of RMB4.5 per share. The Company's subsidiaries took part in the placing of shares and subscribed for a total of 37,567 shares.

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

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)	Loss during the Reporting Period (RMB'000)	Changes in equity during the Reporting Period (RMB'000)	Accounting item	Sources of shares
Golden Eagle Fund Management Co., Ltd	20,000	-	20.00	7,179	(5,638)	-	Long-term equity investment	Acquisition

XIII. INDEX TO THE INFORMATION DISCLOSED

Disclosed information	Newspaper	Date	Website and the link
Date of Board Meeting	/	10 March 2010	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Summary of 2009 annual report, Announcement of resolution passed at the 18th meeting of the fourth session of the Board and Announcement of resolution passed at the 12th meeting of the fourth session of the Supervisory Committee	Page 147 to 148 of Shanghai Securities News	29 March 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	14 April 2010	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
2010 first quarterly report, Announcement of resolution passed at the 19th meeting of the fourth session of the Board and Change of joint company secretary	Page B24 of Shanghai Securities News	30 April 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 20th meeting of the fourth session of the Board, Announcement of resolution passed at the 14th meeting of the fourth session of the Supervisory Committee, Announcement of resignation of director and Notice of the 2009 Annual General Meeting	Page B28 of Shanghai Securities News	12 May 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Major Events

XIII. INDEX TO THE INFORMATION DISCLOSED *(Continued)*

Disclosed information	Newspaper	Date	Website and the link
Announcement of resolution passed at the 21st meeting of the fourth session of the Board and Announcement of further information on candidates for election as directors	Page 20 of Shanghai Securities News	24 May 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 22nd meeting of the fourth session of the Board and Supplemental notice of the 2009 Annual General Meeting	Page B19 of Shanghai Securities News	10 June 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 2009 Annual General Meeting, Announcement of resolution passed at the 1st meeting of the fifth session of the Board and Announcement of resolution passed at the 1st meeting of the fifth session of the Supervisory Committee	Page B36 of Shanghai Securities News	29 June 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of Annual General Meeting on payment of 2009 dividend	Page 21 of Shanghai Securities News	12 July 2010	http://www.sse.com.cn
Date of Board Meeting	/	13 August 2010	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Summary of 2010 Interim Report, Announcement of resolution passed at the 2nd meeting of the fifth session of the Board and Announcement of resolution passed at the 2nd meeting of the fifth session of the Supervisory Committee	Page 21 of Shanghai Securities News	30 August 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 3rd meeting of the fifth session of the Board and Change of joint company secretary	Page B22 of Shanghai Securities News	30 September 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Date of Board Meeting	/	14 October 2010	http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

XIII. INDEX TO THE INFORMATION DISCLOSED *(Continued)*

Disclosed information	Newspaper	Date	Website and the link
2010 Third Quarterly Report of Guangzhou Pharmaceutical, Announcement of resolution passed at the 4th meeting of the fifth session of the Board, Announcement of resolution passed at the 4th meeting of the fifth session of the Supervisory Committee and Announcement on continuing connected transaction	Page B73 of Shanghai Securities News	29 October 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Notice of convening the Extraordinary General Meeting	Page B40 of Shanghai Securities News	12 November 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of resolution passed at the 5th meeting of the fifth session of the Board and the rectification report of on-site inspection	Page B6 of Shanghai Securities News	17 December 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/
Announcement of the resolutions passed at the 2010 Extraordinary General Meeting	Page B56 of Shanghai Securities News	31 December 2010	http://www.sse.com.cn http://www.hkex.com.hk http://www.equitynet.com.hk/0874/

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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 179, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these 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 consolidated 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 of consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

PRICEWATERHOUSECOOPERS

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 2010 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, 25 March 2011

Consolidated balance sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,158,546**	1,226,498
Investment properties	7	**241,561**	190,981
Leasehold land and land use rights	8	**90,924**	93,251
Intangible assets	9	**11,437**	11,855
Investments in associates	11	**7,716**	18,222
Investments in jointly controlled entities	12	**945,740**	876,435
Available-for-sale financial assets	14	**31,396**	34,506
Deferred income tax assets	24	**41,627**	47,077
		2,528,947	2,498,825
Current assets			
Inventories	15	**755,056**	560,522
Trade and other receivables	16	**702,271**	650,678
Financial assets at fair value through profit or loss	17	**11,669**	31,332
Tax recoverable		**419**	10,716
Restricted cash	18	**11,050**	29,549
Cash and cash equivalents	19	**696,347**	667,385
		2,176,812	1,950,182
Total assets		**4,705,759**	4,449,007
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	20	**810,900**	810,900
Share premium	20	**781,134**	781,134
Other reserves	21	**1,046,458**	1,024,061
Retained earnings			
– Proposed final dividend	35	**40,545**	40,545
– Others		**1,014,685**	793,362
		3,693,722	3,450,002
Non-controlling interests		**119,785**	113,664
Total equity		**3,813,507**	3,563,666

Consolidated balance sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	24	**62,590**	55,833
Government grants	25	**25,888**	19,503
Employee benefits payables	26	**–**	13,629
		88,478	88,965
Current liabilities			
Trade and other payables	22	**748,706**	722,456
Dividend payables		**114**	65
Current income tax liabilities		**16,086**	10,485
Borrowings	23	**38,868**	63,370
		803,774	796,376
Total liabilities		**892,252**	885,341
Total equity and liabilities		**4,705,759**	4,449,007
Net current assets		**1,373,038**	1,153,806
Total assets less current liabilities		**3,901,985**	3,652,631

The notes on pages 89 to 179 are an integral part of these consolidated financial statements.

The financial statements on pages 80 to 179 were approved by the Board of Directors on 25 March 2011 and were signed on its behalf.

Shi Shaobin
Director

Wu Changhai
Director

Balance sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**14,570**	15,521
Investment properties	7	**69,106**	62,469
Investments in subsidiaries	10	**1,456,436**	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	**29,158**	31,448
Deferred income tax assets	24	**1,777**	1,741
		1,911,364	1,906,332
Current assets			
Inventories	15	**132**	11,109
Loans to subsidiaries	10	**643,694**	500,213
Trade and other receivables	16	**37,541**	102,433
Dividends receivable from subsidiaries		**73,448**	39,978
Financial assets at fair value through profit or loss	17	**6,669**	11,332
Cash and cash equivalents	19	**213,008**	223,166
		974,492	888,231
Total assets		**2,885,856**	2,794,563
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	20	**810,900**	810,900
Share premium	20	**781,134**	781,134
Other reserves	21	**653,657**	633,920
Retained earnings	33		
– Proposed final dividend	35	**40,545**	40,545
– Others		**535,645**	437,106
Total equity		**2,821,881**	2,703,605

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	24	**12,603**	10,836
		12,603	10,836
Current liabilities			
Trade and other payables	22	**17,236**	75,138
Current income tax liabilities		**4,136**	4,984
Borrowings	23	**30,000**	–
		51,372	80,122
Total liabilities		**63,975**	90,958
Total equity and liabilities		**2,885,856**	2,794,563
Net current assets		**923,120**	808,109
Total assets less current liabilities		**2,834,484**	2,714,441

The notes on pages 89 to 179 are an integral part of these consolidated financial statements.

The financial statements on pages 80 to 179 were approved by the Board of Directors on 25 March 2011 and were signed on its behalf.

Shi Shaobin
Director

Wu Changhai
Director

Consolidated income statement – by function of expense

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Revenue	5	**4,403,098**	3,802,423
Cost of sales	29	**(3,188,573)**	(2,791,437)
Gross profit		**1,214,525**	1,010,986
Other income	27	**108,761**	106,138
Other gains-net	28	**21,529**	4,680
Other operating expenses		**(11,104)**	(10,711)
Selling and marketing costs	29	**(647,485)**	(585,437)
Administrative expenses	29	**(458,365)**	(423,442)
Operating profit		**227,861**	102,214
Share of losses of associates	11	**(5,643)**	(1,473)
Share of profits of jointly controlled entities	12	**115,293**	135,647
Finance income	31	**7,121**	9,033
Finance costs	31	**(4,925)**	(10,253)
Profit before income tax		**339,707**	235,168
Income tax expense	32	**(51,847)**	(22,491)
Profit for the year		**287,860**	212,677
Profit attributable to:			
Shareholders of the Company		**279,597**	214,900
Non-controlling interests		**8,263**	(2,223)
		287,860	212,677
Earnings per share for profit attributable to shareholders of the Company during the year (expressed in RMB per share)			
— basic and diluted	34	**0.345**	0.265

The notes on pages 89 to 179 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Dividends	35	**40,545**	40,545

Consolidated statement of comprehensive income

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Profit for the year		**287,860**	212,677
Other comprehensive income:			
Fair value (losses)/gains on available-for-sale financial assets, net of tax		**(2,545)**	12,663
Share of other comprehensive income of jointly controlled entities, net of tax	21	**(88)**	(1,692)
Revaluation of properties transferred to investment properties, net of tax		**7,756**	10,683
Others		**828**	2,149
Other comprehensive income for the year, net of tax		**5,951**	23,803
Total comprehensive income for the year		**293,811**	236,480
Attributable to:			
Shareholders of the Company		**285,344**	237,258
Non-controlling interests		**8,467**	(778)
Total comprehensive income for the year		**293,811**	236,480

The notes on pages 89 to 179 are an integral part of these consolidated 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	Non-controlling interests 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 properties transferred to investment properties, 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		–	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

Consolidated statement of changes in equity

		Attributable to shareholders of the Company					
	Note	Share capital and share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2010		1,592,034	1,024,061	833,907	3,450,002	113,664	3,563,666
Comprehensive income							
Profit for the year		–	–	279,597	279,597	8,263	287,860
Other comprehensive income							
Fair value losses, net of tax							
— Available-for-sale financial assets	21	–	(2,525)	–	(2,525)	(20)	(2,545)
Share of other comprehensive income of jointly controlled entities, net of tax	21	–	(88)	–	(88)	–	(88)
Revaluation of properties transferred to investment properties, net of tax	21	–	7,756	–	7,756	–	7,756
Depreciation transfer on asset revaluation upon reorganisation, net of tax	21	–	(3,725)	3,725	–	–	–
Others	21	–	604	–	604	224	828
Total other comprehensive income		–	2,022	3,725	5,747	204	5,951
Total comprehensive income		–	2,022	283,322	285,344	8,467	293,811
Transactions with owners							
Dividend relating to 2009	35	–	–	(40,545)	(40,545)	(1,825)	(42,370)
Appropriation to surplus reserves	33	–	21,454	(21,454)	–	–	–
Acquisition of additional interest in a subsidiary		–	(1,079)	–	(1,079)	(521)	(1,600)
Total transactions with owners		–	20,375	(61,999)	(41,624)	(2,346)	(43,970)
Balance at 31 December 2010		1,592,034	1,046,458	1,055,230	3,693,722	119,785	3,813,507

The notes on pages 89 to 179 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	36	**100,720**	430,028
Interest paid		**(1,544)**	(6,543)
Income tax (paid)/received		**(25,587)**	14,411
Net cash generated from operating activities		**73,589**	437,896
Cash flows from investing activities			
Purchase of non-controlling interest in a subsidiary		**(1,600)**	–
Disposal of a subsidiary, net of cash disposed of		**1,222**	–
Purchase of property, plant and equipment		**(82,172)**	(86,145)
Proceeds from sale of property, plant and equipment, leasehold land and land use rights	36	**11,556**	1,068
Purchase of intangible assets		**(875)**	(1,415)
Purchase of land use rights		**(156)**	–
Purchase of available-for-sale financial assets		**(168)**	(1,500)
Proceeds from disposal of interest in an associate		**8,514**	5,670
Proceeds from disposal of investment properties		**2,820**	–
Interest received		**7,121**	9,033
Dividends received from available-for-sale financial assets		**373**	464
Dividends received from jointly control entities		**45,733**	48,327
Loan granted to a jointly controlled entity		**–**	(62,660)
Loan repayment received from a jointly controlled entity		**–**	212,660
Proceeds from government grants		**8,854**	7,606
Investment in money market fund		**(1,146,100)**	(331,000)
Proceeds from redemption of investment in money market fund		**1,167,100**	305,000
Net cash generated from investing activities		**22,222**	107,108
Cash flows from financing activities			
Proceeds from bank borrowings		**38,868**	145,422
Repayments of bank borrowings		**(63,370)**	(325,327)
Dividends paid to shareholders of the Company		**(40,545)**	(32,429)
Dividends paid to non-controlling interests		**(1,776)**	(1,143)
Repayments of borrowing to a jointly controlled entity		**–**	(30,000)
Net cash used in financing activities		**(66,823)**	(243,477)
Net increase in cash and cash equivalents		**28,988**	301,527
Cash and cash equivalents at beginning of year	19	**667,385**	365,859
Exchange losses on cash and cash equivalents		**(26)**	(1)
Cash and cash equivalents at end of year	19	**696,347**	667,385

The notes on pages 89 to 179 are an integral part of these consolidated financial statements.

Notes to the consolidated 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 25 March 2011.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the 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 *(Continued)*

Change in accounting policy and disclosures

(a) New and amended standards adopted by the Group

In 2010, the Group has adopted the following new and amended HKFRSs that were relevant to its operations:

HKFRS 3 (revised), “Business combinations”, and consequential amendments to HKAS 27, “Consolidated and separate financial statements”, HKAS 28, “Investment in associates”, and HKAS 31, “Interests in joint ventures” are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs are expensed. There is no material impact on the Group’s consolidated financial statements.

HKAS 27 (revised), “Consolidated and separate financial statements”, requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost, any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group recognised the loss of acquiring additional interest in a subsidiary in equity in 2010.

HKAS 17 (amendment), “Leases”, deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under “Leasehold land and land use rights”, and amortised over the lease term. There is no impact on the Group’s consolidated financial statements as all the leasehold land and land use rights are classified as operating lease.

Other than the above, other new/revised standards and amendments effective 1 January 2010 are not currently relevant to the Group’s operations and did not have any impact on the Group’s financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(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 February 2010 or later periods, but the Group has not early adopted them.

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

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

– Amendment to HKFRS 1, "Limited exemption from comparative HKFRS 7 disclosures for first-time adopters" (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) Int-14 "Prepayments of a minimum funding requirement" (effective for annual period beginning on or after 1 January 2011).

– HKAS 12 (Amendment) "Deferred tax: Recovery of underlying assets" (effective for annual period beginning on or after 1 January 2012).

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

– HKICPA's third annual improvements to HKFRS published in May 2010, which will be effective for accounting period beginning on or after 1 July 2010.

  - HKFRS 3 (Revised) "Business combinations" (effective for annual period beginning on or after 1 July 2010).

  - HKFRS 1 "First time Adoption of International Financial Reporting Standards" (effective for annual period beginning on or after 1 January 2011).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

- HKFRS 7 "Financial instruments: Disclosures" (effective for annual period beginning on or after 1 January 2011).
- HKAS 1 "Presentation of financial statements" (effective for annual period beginning on or after 1 January 2011).
- HKAS 27 "Consolidated and separate financial statements" (effective for annual period beginning on or after 1 July 2010).
- HKAS 34 "Interim financial reporting" (effective for annual period beginning on or after 1 January 2011).
- HK(IFRIC)-Int 13 "Customer loyalty programmes" (effective for annual period beginning on or after 1 January 2011).

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.

2.2 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income (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.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, 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 non-controlling interests are also recorded in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(b) Transactions with non-controlling interests *(Continued)*

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(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 other comprehensive income is recognised in other comprehensive income. 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 arising in investment in associates are recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(c) Associates *(Continued)*

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.

(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 other comprehensive income is recognised in other comprehensive income. 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 arising 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 jointly controlled entities 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 consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the consolidated 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, plant 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 other comprehensive income 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;

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Research and development *(Continued)*

(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 if expected to be settled within 12 months; otherwise, they are classified as non-current.

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 end of the reporting period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Financial assets *(Continued)*

2.10.2 Recognition and measurement

Regular way 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 consolidated 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 consolidated 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 consolidated income statement as part of “other operating income” when the Group’s right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as “Other gains/(losses)-net”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated 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)*

For loans and receivables category, 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 carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated 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 consolidated 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 consolidated 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 consolidated 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. 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 when 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 consolidated 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 income statement within other operating expenses.

Where guarantees in relation to loans or other payables of subsidiaries are provided at 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 2010, all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of RMB1,440,000 (2009: RMB5,422,000), trade and other receivables of RMB6,050,000 (2009: RMB9,140,000) and trade and other payables of RMB15,439,000 (2009: RMB19,256,000) 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 when necessary.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

At 31 December 2010, 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:

2010

	RMB against US dollars strengthen by 5%	RMB against US dollars weaken by 5%
	impact on post-tax profit RMB'000	impact on post-tax profit RMB'000
Denominated in US dollars		
Cash and cash equivalents	(17)	17
Trade and other receivables	(175)	175
Trade and other payables	505	(505)

	RMB against HK dollars strengthen by 5%	RMB against HK dollars weaken by 5%
	impact on post-tax profit RMB'000	impact on post-tax profit RMB'000
Denominated in HK dollars		
Cash and cash equivalents	(37)	37
Trade and other receivables	(52)	52
Trade and other payables	74	(74)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

2009

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

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

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 been increased or decreased by approximately RMB4,307,000 (2009: RMB6,584,000).

(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 credit cards issued by reputable banks. 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 6 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
Group	
At 31 December 2010	
Borrowings	40,732
Trade payables	340,702
Other payables and accrued charges	129,597
Dividend payables	114
At 31 December 2009	
Borrowings	63,370
Trade payables	337,272
Other payables and accrued charges	108,334
Dividend payables	65
Company	
At 31 December 2010	
Borrowings	30,907
Trade payables	511
Other payables and accrued charges	9,244
At 31 December 2009	
Borrowings	–
Trade payables	21,618
Other payables and accrued charges	7,907

As at 31 December 2010 and 2009, the Group's financial guarantee to its jointly controlled entities and 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 2010 and 2009, the Group reported net cash position as set out below. Accordingly, the gearing ratio as at 31 December 2010 was zero (2009: zero).

The net cash position at 31 December 2010 and 2009 were as follows:

	2010 **RMB'000**	2009 RMB'000
Total borrowings (Note 23)	**38,868**	63,370
Less: Cash and cash equivalents (Note 19)	**(696,347)**	(667,385)
Net cash	**(657,479)**	(604,015)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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 2010.

Group

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Trading securities	6,669	–	–	6,669
– Investment in money market fund	–	5,000	–	5,000
Available-for-sale financial assets				
– Equity securities	25,614	–	5,782	31,396
Total assets	32,283	5,000	5,782	43,065

Company

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Trading securities	6,669	–	–	6,669
Available-for-sale financial assets				
– Equity securities	23,958	–	5,200	29,158
Total assets	30,627	–	5,200	35,827

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 2010.

	Group RMB'000	Company RMB'000
Opening balance	32,030	31,448
Transfer to level 1	(26,248)	(26,248)
Ending balance	5,782	5,200

In 2010, 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 RMB10,139,000.

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 three reportable operating segments as follows:

- Manufacturing: manufacture and sale of the Group's own CPM on a wholesale basis;
- Pharmaceutical trading: wholesale and retail of western pharmaceutical products, medical apparatus, CPM and Chinese raw medicine;
- Other trading: wholesale of goods other than pharmaceutical products.

The BOD assesses the performance of the operating segments based on a measure of revenue and the profit after tax for the year. 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.

Liabilities of reportable segments exclude corporate deferred income tax liabilities, government grants, employee benefit payables, dividend payables, current income tax liabilities, borrowings and other unallocated corporate liabilities, all of which are managed on a central basis. These are part of the reconciliation to total balance sheet liabilities.

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 2010 are as follows:

	Manufacturing RMB'000	Pharmaceutical trading RMB'000	Other trading RMB'000	Total RMB'000
Revenue	2,193,625	2,353,691	508,473	5,055,789
Inter-segment revenue	(5,025)	(647,666)	–	(652,691)
Revenue (from external customers)	2,188,600	1,706,025	508,473	4,403,098
Profit after tax	139,282	12,237	1,457	152,976
Depreciation and amortisation	(103,792)	(5,028)	–	(108,820)
Provision for trade and other receivables impairment	(811)	(2,975)	–	(3,786)
Write back of provision for trade and other receivables impairment	7,258	1,698	–	8,956
Finance income	3,994	465	–	4,459
Finance cost	(9,423)	(18,888)	(129)	(28,440)
Share of post-tax profits from associates	13	–	–	13
Income tax expense	(41,364)	(2,098)	(486)	(43,948)

5 SEGMENT INFORMATION *(Continued)*

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

	Manufacturing RMB'000	Pharmaceutical trading RMB'000	Other trading 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)
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 assets and liabilities as at 31 December 2010 and 31 December 2009 are as follows:

	Manufacturing RMB'000	Pharmaceutical trading RMB'000	Other trading RMB'000	Total RMB'000
As at 31 December 2010				
Total assets	2,716,896	831,230	41,346	3,589,472
Total assets include:				
Interests in associates	536	–	–	536
Additions to non-current assets (other than financial instruments and deferred tax assets)	75,965	3,579	–	79,544
Total liabilities	957,017	743,583	27,055	1,727,655

	Manufacturing RMB'000	Pharmaceutical trading RMB'000	Other trading 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

5 SEGMENT INFORMATION *(Continued)*

Reconciliations of material items are provided as follows:

2010	Total for reportable segments RMB'000	Corporate RMB'000	Elimination RMB'000	Total RMB'000
Revenue	5,055,789	–	(652,691)	4,403,098
Depreciation and amortisation	(108,820)	(1,305)	–	(110,125)
Provision for trade and other receivables impairment	(3,786)	(95)	–	(3,881)
Write back of provision for trade and other receivables impairment	8,956	691	–	9,647
Finance income	4,459	2,662	–	7,121
Finance cost	(28,440)	(839)	24,354	(4,925)
Share of post-tax profits/(losses) from associates	13	(5,656)	–	(5,643)
Share of post-tax profits from jointly controlled entities	–	115,293	–	115,293
Income tax expense	(43,948)	(7,899)	–	(51,847)

2009	Total for reportable segments RMB'000	Corporate RMB'000	Elimination RMB'000	Total RMB'000
Revenue	4,259,290	–	(456,867)	3,802,423
Depreciation and amortisation	(113,441)	(1,544)	–	(114,985)
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	(26,118)	(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	(13,008)	(9,483)	–	(22,491)

5 SEGMENT INFORMATION *(Continued)*

A reconciliation of profit after tax is provided as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Profit for reportable segments	**152,976**	56,879
Corporate income and expenses		
– Other income	**34,327**	31,147
– Other gains-net	**7,974**	8,650
– Corporate expenses	**(17,655)**	(18,056)
– Dividend income from subsidiaries	**90,763**	32,622
– Depreciation and amortisation	**(1,305)**	(1,544)
– Provision for trade and other receivables impairment	**(95)**	(122)
– Write back of provision for trade and other receivables impairment	**691**	140
– Finance income	**2,662**	6,236
– Finance cost	**(839)**	(1,284)
– Share of post-tax losses from associates	**(5,656)**	(2,730)
– Share of post-tax profits from jointly controlled entities	**115,293**	135,647
– Income tax expense	**(7,899)**	(9,483)
Elimination	**(83,377)**	(25,425)
Profit for the year	**287,860**	212,677

5 SEGMENT INFORMATION *(Continued)*

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

	31 December 2010 RMB'000	31 December 2009 RMB'000
Segment assets for the reportable segments	**3,589,472**	3,369,754
Corporate assets:		
– Property, plant and equipment	**14,563**	15,059
– Investment properties	**69,106**	62,469
– Investments in subsidiaries	**1,456,436**	1,454,836
– Interests in associates	**7,180**	12,836
– Interests in jointly controlled entities	**945,740**	876,435
– Available-for-sale financial assets	**29,158**	31,448
– Deferred income tax assets	**1,777**	1,741
– Loans to subsidiaries	**643,694**	500,213
– Dividends due from subsidiaries	**73,448**	39,978
– Financial assets at fair value through profit or loss	**6,669**	5,332
– Cash and cash equivalents	**209,274**	207,607
– Other unallocated assets	**23,419**	19,401
Elimination	**(2,364,177)**	(2,148,102)
Total assets per consolidated balance sheet	**4,705,759**	4,449,007

5 SEGMENT INFORMATION *(Continued)*

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

	31 December 2010 RMB'000	31 December 2009 RMB'000
Segment liabilities for the reportable segments	**1,727,655**	1,526,998
Corporate liabilities:		
– Deferred income tax liabilities	**12,603**	10,836
– Borrowings	**30,000**	–
– Other unallocated liabilities	**18,102**	24,068
Elimination	**(896,108)**	(676,561)
Total liabilities per consolidated balance sheet	**892,252**	885,341

Breakdown of revenue from all services is as follows:

Analysis of revenue by category	**2010 RMB'000**	2009 RMB'000
Sales of pharmaceutical products	**3,894,625**	3,462,062
Sales of other merchandise	**508,473**	340,361
Total	**4,403,098**	3,802,423

The Group is domiciled in the PRC. The result of its revenue from external customers in the PRC for the year ended 31 December 2010 is RMB4,252,370,000 (2009: RMB3,694,471,000), and the total of its revenue from external customers from other countries is RMB150,728,000 (2009: RMB107,952,000).

At 31 December 2010, the total of non-current assets other than financial instruments and deferred tax assets located in the PRC is RMB2,443,051,000 (2009: RMB2,403,804,000).

For the year ended 31 December 2010 and 2009, 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, pharmaceutical trading and other trading, which are RMB4,403,098,000 and RMB3,802,423,000 for the years ended 31 December 2010 and 2009 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 2009					
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
Year ended 31 December 2010					
Opening net book amount	720,612	475,550	3,567	26,769	1,226,498
Additions	4,927	7,914	3,316	62,842	78,999
Transfer	23,432	37,639	1,089	(62,160)	–
Revaluation of properties transferred to investment properties	10,341	–	–	–	10,341
Transfer to investment properties (Note 7)	(34,789)	–	–	–	(34,789)
Disposals (Note 36)	(11,414)	(5,065)	–	–	(16,479)
Depreciation (Note 29)	(39,656)	(63,375)	(2,993)	–	(106,024)
Closing net book amount	673,453	452,663	4,979	27,451	1,158,546
At 31 December 2010					
Cost	1,101,458	984,475	57,572	27,581	2,171,086
Accumulated depreciation	(424,657)	(527,306)	(52,073)	–	(1,004,036)
Accumulated impairment	(3,348)	(4,506)	(520)	(130)	(8,504)
Net book amount	673,453	452,663	4,979	27,451	1,158,546

Notes to the consolidated financial statements

6 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation charged to the cost and expenses as below:

	2010 RMB'000	2009 RMB'000
Cost of sales	**68,517**	72,407
Selling and marketing costs	**2,560**	2,515
Administrative expenses	**34,947**	36,272
	106,024	111,194

Lease rental expenses of RMB23,081,000 (2009: RMB27,456,000) 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 RMB12,873,000 (2009: RMB13,438,000) located in Hong Kong.

As at 31 December 2010 and 2009, 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 2009				
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
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

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 2010				
Opening net book amount	13,520	1,386	615	15,521
Additions	64	422	–	486
Disposals	–	(132)	–	(132)
Depreciation	(956)	(227)	(122)	(1,305)
Closing net book amount	12,628	1,449	493	14,570
At 31 December 2010				
Cost	22,342	20,635	2,006	44,983
Accumulated depreciation	(9,714)	(19,186)	(1,513)	(30,413)
Net book amount	12,628	1,449	493	14,570

Depreciation expense of RMB1,305,000 (2009:RMB1,671,000) has been charged to administrative expenses.

Lease rental expenses of RMB1,458,000 (2009:RMB1,192,000) relating to the lease of property are included in the income statement.

Notes to the consolidated financial statements

7 INVESTMENT PROPERTIES

Group

	2010 RMB'000	2009 RMB'000
At 1 January	**190,981**	135,426
Transfer from property, plant and equipment (Note 6)	**34,789**	37,330
Transfer from leasehold land and land use rights (Note 8)	**–**	1,347
Fair value gains on investment properties transferred in-credit to other comprehensive income (Note 21)	**–**	14,244
Change in fair value, recognised in "other gains – net" (Note 28)	**17,151**	2,634
Depreciation charges	**(325)**	–
Disposals	**(1,035)**	–
At 31 December	**241,561**	190,981

Company

	2010 RMB'000	2009 RMB'000
At 1 January	**62,469**	62,232
Change in fair value, recognised in "other gains – net"	**6,637**	237
At 31 December	**69,106**	62,469

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 in 2010 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 statement for investment properties:

	Group	
	2010	2009
	RMB'000	RMB'000
Rental income	**37,939**	35,065
Direct operating expenses that generate rental income	**5,777**	5,648

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

	Group	
	2010	2009
	RMB'000	RMB'000
Not later than 1 year	**19,076**	17,319
Later than 1 year and no later than 5 years	**62,742**	64,860
Later than 5 years	**111,268**	104,900
	193,086	187,079

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:

	2010	2009
	RMB'000	RMB'000
At 1 January	**93,251**	97,164
Additions	**156**	–
Disposals	**–**	(44)
Amortisation (Note 29)	**(2,483)**	(2,522)
Transfer to investment properties (Note 7)	**–**	(1,347)
At 31 December	**90,924**	93,251

Amortisation expense of RMB2,483,000 (2009:RMB2,522,000) has been charged to administrative expenses.

As at 31 December 2010 and 2009, no leasehold land and land use rights of the Group was pledged.

9 INTANGIBLE ASSETS

Group

	Goodwill RMB'000	Patents and trademarks RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2009				
Cost	2,154	14,901	2,229	19,284
Accumulated amortisation	(150)	(3,846)	(1,122)	(5,118)
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
Year ended 31 December 2010				
Opening net book amount	–	10,776	1,079	11,855
Additions	–	140	735	875
Amortisation (Note 29)	–	(908)	(385)	(1,293)
Closing net book amount	–	10,008	1,429	11,437
At 31 December 2010				
Cost	2,154	16,381	3,039	21,574
Accumulated amortisation	(150)	(5,920)	(1,610)	(7,680)
Accumulated impairment	(2,004)	(453)	–	(2,457)
Net book amount	–	10,008	1,429	11,437

Amortisation expense of RMB1,293,000 (2009: RMB1,269,000) has been charged to administrative expenses in the consolidated income statement.

10 INVESTMENTS IN SUBSIDIARIES AND LOANS TO SUBSIDIARIES-COMPANY

	2010 RMB'000	2009 RMB'000
Investments in subsidiaries		
At 1 January	**1,454,836**	1,454,836
Additions	**1,600**	–
At 31 December	**1,456,436**	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.

	2010 RMB'000	2009 RMB'000
Loans to subsidiaries (Note 38)	**643,694**	500,213

Loans to subsidiaries are unsecured, denominated in RMB and repayable within 1 year. Interest rate ranges from 4.25% to 4.45% per annum (2009: 4.25% to 6.72%). The carrying amounts of the loans to subsidiaries approximate to their fair values.

11 INVESTMENTS IN ASSOCIATES

Group

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 2010	Interest held 2009
			%	%
(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 Asset 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	25.76	25.76
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

The Group disposed of its interests in Guangzhou Pharmaceutical Soccer Club Limited in 2010.

The share of assets and liabilities of the Group's associates as at 31 December 2010 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.	29	29	–	(18)
Golden Eagle Asset Management Co., Ltd.	12,653	5,473	14,055	(5,638)
Shanghai Jiuhe Tang Chinese Medicine Co., Ltd.	15,236	14,700	40,652	13
	27,918	20,202	54,707	(5,643)

11 INVESTMENTS IN ASSOCIATES *(Continued)*

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.	11,588	11,065	30,681	14
Guangzhou Pharmaceutical Soccer Club Limited	9,094	4,231	31,546	1,243
	35,912	17,690	78,776	(1,473)

Company

	2010 RMB'000	2009 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 2010, 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 2010	Interest held 2009
			%	%
(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-Tech Co., Ltd. (廣州諾誠生物制品股份有限公司)	RMB84,000,000	Production and sale of bio-products	50.00	50.00

Notes to the consolidated financial statements

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:

	2010 RMB'000	2009 RMB'000
Assets:		
Non-current assets	**176,692**	156,465
Current assets	**2,872,022**	2,482,760
	3,048,714	2,639,225
Liabilities:		
Non-current liabilities	**4,820**	5,800
Current liabilities	**2,098,154**	1,756,990
	2,102,974	1,762,790
Net assets	**945,740**	876,435
Results:		
Revenue	**7,402,409**	6,388,823
Expenses	**(7,287,116)**	(6,253,176)
Profit after income tax	**115,293**	135,647
Proportionate interest in jointly controlled entities' commitments	**16,847**	435

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

	2010 RMB'000	2009 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 2010				
Assets as per balance sheet				
Financial assets at fair value through profit or loss	11,669	–	–	11,669
Available-for-sale financial assets	–	–	31,396	31,396
Trade and other receivables excluding prepayments	–	575,311	–	575,311
Restricted cash	–	11,050	–	11,050
Cash and cash equivalents	–	696,347	–	696,347
Total	11,669	1,282,708	31,396	1,325,773

	Other financial liabilities at amortised cost RMB'000
Liabilities as per balance sheet	
Borrowings	38,868
Trade and other payables excluding payroll and welfare payables, government grants, advances from customers and other taxes payables	470,299
Dividend payables	114
Total	509,281

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 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)*

(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 2010				
Assets as per balance sheet				
Financial assets at fair value through profit or loss	6,669	–	–	6,669
Available-for-sale financial assets	–	–	29,158	29,158
Loans to subsidiaries	–	643,694	–	643,694
Trade and other receivables excluding prepayments	–	37,541	–	37,541
Dividend receivables from subsidiaries	–	73,448	–	73,448
Cash and cash equivalents	–	213,008	–	213,008
Total	6,669	967,691	29,158	1,003,518

	Other financial liabilities at amortised cost RMB'000
Liabilities as per balance sheet	
Borrowings	30,000
Trade and other payables excluding payroll and welfare payables, advances from customers and other taxes payable	9,755
Total	39,755

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 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

14 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**34,506**	16,272	**31,448**	14,425
Additions	**168**	1,500	**–**	1,500
Net (losses)/gains recognised in other comprehensive income	**(3,278)**	16,744	**(2,290)**	15,523
Others	**–**	(10)	**–**	–
At 31 December	**31,396**	34,506	**29,158**	31,448

Available-for-sale financial assets includes:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed securities				
– Bank of Communications	**1,656**	2,476	**–**	–
– China Everbright Bank Company Limited	**23,958**	–	**23,958**	–
Unlisted securities				
– China Everbright Bank Company Limited	**–**	26,248	**–**	26,248
– Guangdong Southern China Advanced Pharmaceutical Co., Ltd.	**5,000**	5,000	**5,000**	5,000
– Others	**782**	782	**200**	200
	31,396	34,506	**29,158**	31,448

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

The securities of China Everbright Bank Company Limited became listed in 2010. The fair values of listed securities are determined based on market price.

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

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.

None of these financial assets is either past due or impaired.

15 INVENTORIES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**176,602**	128,137	**–**	–
Work in progress	**141,005**	77,009	**–**	–
Finished goods	**167,401**	116,444	**–**	–
Merchandise	**270,958**	250,036	**132**	11,109
Production supplies	**6,025**	1,146	**–**	–
Less: provision for write-down	**(6,935)**	(12,250)	**–**	–
	755,056	560,522	**132**	11,109

The cost of inventories recognised as expense and included in "cost of sales" and "selling and marketing costs" amounted to RMB3,200,684,000 (2009: RMB2,840,615,000).

During the year ended 31 December 2010, the Group made provision for write-down of inventories amounting to RMB3,287,000 (2009: RMB7,714,000) 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 2010, the Group reversed write-down of inventories amounting to RMB1,269,000 (2009: RMB325,000). The amount reversed was recognised in the consolidated income statement.

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (Note a)	**361,623**	388,574	**10,036**	46,236
Less: provision for impairment of trade receivables (Note b)	**(30,440)**	(36,011)	**(303)**	(462)
Trade receivables – net	**331,183**	352,563	**9,733**	45,774
Bills receivable (Note c)	**200,471**	160,027	**5,609**	3,118
Prepayments	**126,960**	96,831	**–**	48,107
Other receivables	**43,657**	41,257	**22,199**	5,434
	702,271	650,678	**37,541**	102,433

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

Except for an aggregate amount of RMB6,050,000 (2009: RMB9,140,000) denominated in US dollars and HK dollars, all trade and other receivables were denominated in RMB.

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.

Notes to the consolidated financial statements

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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**317,416**	340,644	**6,938**	44,617
6 months to 1 year	**11,948**	12,247	**2,616**	1,619
Over 1 year	**32,259**	35,683	**482**	–
	361,623	388,574	**10,036**	46,236

The credit quality of trade receivables:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired:				
Existing customers without history of defaults	**317,416**	340,644	**6,938**	44,617
Past due but not impaired:				
Less than 1 year	**8,257**	5,688	**2,616**	1,157
Over 1 year	**5,510**	6,231	**179**	–
	13,767	11,919	**2,795**	1,157
Past due and impaired:				
Less than 1 year	**3,691**	6,559	**–**	462
Over 1 year	**26,749**	29,452	**303**	–
	30,440	36,011	**303**	462
Total trade receivables	**361,623**	388,574	**10,036**	46,236

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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**36,011**	54,669	**462**	588
Provision for trade receivables impairment	**2,351**	3,665	**114**	–
Write back of provision for trade receivables impairment	**(6,505)**	(19,826)	**(159)**	(126)
Receivables written off	**(1,417)**	(2,497)	**(114)**	–
At 31 December	**30,440**	36,011	**303**	462

The provision and write-back for trade receivables impairment has been charged to the income statement.

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

The maximum exposure to credit risk at the reporting date is the fair value of each class of 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.

17 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed equity securities (note a)	**6,669**	5,332	**6,669**	5,332
Investment in money market fund (note b)	**5,000**	26,000	**–**	6,000
	11,669	31,332	**6,669**	11,332

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 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**570,047**	605,085	**213,008**	223,166
Short-term deposits with original maturities less than three months	**66,300**	62,300	**–**	–
Short-term deposits with original maturities over three months	**60,000**	–	**–**	–
	696,347	667,385	**213,008**	223,166

19 CASH AND CASH EQUIVALENTS *(Continued)*

Except for an aggregate amount of RMB1,440,000 (2009: RMB5,422,000) 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 2010, maturity of short-term deposits varied from seven days to one year, 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 2.75% (2009: 1.35% to 1.71%).

Deposits placed with PRC banks with original maturities over three months amounting to RMB60,000,000 (2009: Nil) were treated as cash and cash equivalents as the directors consider those deposits are kept for cash management purpose and could be drawn out before maturity if necessary.

All cash and cash equivalents were deposited in state-owned banks and reputable 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 2010 and 31 December 2009	
	No. of shares (thousands)	**Amount** RMB'000
Share capital registered, authorised, issued and fully paid of RMB1 each		
H shares	219,900	219,900
A shares	591,000	591,000
	810,900	810,900
Share premium on issue of shares net of issuing expenses		781,134
Total		1,592,034

Notes to the consolidated financial statements

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	Property RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
At 1 January 2009	326,117	334,518	203,789	116,301	3,765	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 properties transferred to investment properties – gross	–	–	–	13,067	–	13,067
Revaluation of properties transferred to investment properties – tax	–	–	–	(3,267)	–	(3,267)
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	122,749	14,711	1,024,061

21 OTHER RESERVES *(Continued)*

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	Property RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
At 1 January 2010	329,991	352,821	203,789	122,749	14,711	1,024,061
Revaluation – gross	–	–	–	–	(3,255)	(3,255)
Revaluation – tax	–	–	–	–	730	730
Revaluation – jointly controlled entities, net of tax	–	–	–	–	(88)	(88)
Revaluation of properties transferred to investment properties – gross	–	–	–	10,341	–	10,341
Revaluation of properties transferred to investment properties – tax	–	–	–	(2,585)	–	(2,585)
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
Acquisition of additional interest in a subsidiary	(1,079)	–	–	–	–	(1,079)
Appropriation to surplus reserves	–	21,454	–	–	–	21,454
Others	633	–	–	(29)	–	604
At 31 December 2010	329,545	374,275	203,789	126,751	12,098	1,046,458

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 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
At 1 January 2010	394,273	223,454	11,642	4,551	633,920
Appropriation to surplus reserves	–	21,454	–	–	21,454
Revaluation – gross	–	–	(2,290)	–	(2,290)
Revaluation – tax	–	–	573	–	573
At 31 December 2010	394,273	244,908	9,925	4,551	653,657

(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 profits 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**340,702**	337,272	**511**	21,618
Payroll and welfare payables	**75,656**	69,447	**3,566**	4,976
Government grants (note a)	**76,000**	60,811	**–**	–
Payables for equipment and construction in progress	**15,868**	19,041	**–**	–
Deposits received	**28,265**	16,076	**1,028**	1,026
Advances from customers	**99,011**	121,348	**57**	38,703
Accruals	**34,421**	13,593	**3,923**	2,986
Other taxes payables	**27,740**	25,244	**3,858**	1,934
Others	**51,043**	59,624	**4,293**	3,895
	748,706	722,456	**17,236**	75,138

(a) The Group is obliged to use government grants in certain designated research and development projects.

22 TRADE AND OTHER PAYABLES *(Continued)*

The ageing analysis of trade payables as at 31 December 2010 and 2009 based on invoice date is as follows:

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Within 3 months	**305,322**	310,896	**426**	19,628
3 months to 1 year	**24,876**	17,469	**12**	1,680
1 year to 2 years	**5,512**	4,783	**73**	310
Over 2 years	**4,992**	4,124	**–**	–
	340,702	337,272	**511**	21,618

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

Except for an aggregate amount of RMB15,439,000 (2009: RMB19,256,000) denominated in US dollars and HK dollars, all trade and other payables were denominated in RMB.

23 BORROWINGS

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Current				
Bank borrowings-unsecured	**38,868**	63,370	**–**	–
Loans from a subsidiary	**–**	–	**30,000**	–
	38,868	63,370	**30,000**	–

As at 31 December 2010 and 31 December 2009, all bank borrowings were unsecured.

23 BORROWINGS *(Continued)*

As at 31 December 2010 and 31 December 2009, the borrowings were repayable as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**38,868**	63,370	**30,000**	–

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

	2010	2009
Current borrowings	**5.08%**	3.82%

All bank borrowings bearing interests at prevailing market rates, which is referenced to the interest rates 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:

	2010	2009
	RMB'000	RMB'000
Floating rate		
– expiring within 1 year	**50,930**	70,218

24 DEFERRED INCOME TAX

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred income tax assets:				
– Deferred income tax assets to be recovered within 12 months	**16,585**	17,087	**1,564**	914
– Deferred income tax assets to be recovered after more than 12 months	**25,042**	29,990	**213**	827
	41,627	47,077	**1,777**	1,741

	Group		Company	
	2010	2009	**2010**	2009
	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	**831**	336
– Deferred income tax liabilities to be settled after more than 12 months	**61,348**	54,591	**11,772**	10,500
	62,590	55,833	**12,603**	10,836

24 DEFERRED INCOME TAX *(Continued)*

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**(8,756)**	263	**(9,095)**	(4,297)
Recognised in the income statement (Note 32)	**(10,352)**	(1,377)	**(2,304)**	(917)
Recognised in other comprehensive income	**(1,855)**	(7,642)	**573**	(3,881)
At 31 December	**(20,963)**	(8,756)	**(10,826)**	(9,095)

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	Employee benefits	Accruals	Unrealised profits	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	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
Credited/(charged) to consolidated income statement	(1,880)	(1,563)	1,204	(1,963)	(4,960)	3,712	(5,450)
At 31 December 2010	8,522	1,884	2,785	5,607	10,799	12,030	41,627

24 DEFERRED INCOME TAX *(Continued)*

Company

	Impairment loss RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	211	949	862	2,022
Charged to income statement	(25)	(65)	(191)	(281)
At 31 December 2009	186	884	671	1,741
Credited/(charged) to income statement	15	286	(265)	36
At 31 December 2010	201	1,170	406	1,777

Deferred income tax liabilities:

Group

	property revaluation RMB'000	Available-for-sale financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	45,647	162	1,150	46,959
Charged to other comprehensive income	3,561	4,081	–	7,642
Charged to consolidated income statement	423	–	809	1,232
At 31 December 2009	49,631	4,243	1,959	55,833
Charged/(credited) to other comprehensive income (Note 21)	2,585	(730)	–	1,855
Charged to consolidated income statement	4,232	–	670	4,902
At 31 December 2010	56,448	3,513	2,629	62,590

24 DEFERRED INCOME TAX *(Continued)*

Company

	Property revaluation RMB'000	Available-for-sale financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2009	5,169	–	1,150	6,319
Charged to income statement	395	–	241	636
Charged to other comprehensive income (Note 21)	–	3,881	–	3,881
At 31 December 2009	5,564	3,881	1,391	10,836
Charged to income statement	1,828	–	512	2,340
Credited to other comprehensive income (Note 21)	–	(573)	–	(573)
At 31 December 2010	7,392	3,308	1,903	12,603

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 RMB25,593,000 (2009: RMB29,108,000) in respect of tax losses amounting to RMB102,371,000 (2009: RMB116,431,000) 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
2011	16,179
2012	29,815
2013	20,375
2014	21,994
2015	14,008
	102,371

25 GOVERNMENT GRANTS

Government grants represent subsidy received from local government for capital expenditure of the Group for its production facilities.

26 EMPLOYEE BENEFITS PAYABLES – GROUP

	2010 RMB'000	2009 RMB'000
Medical insurance scheme	**14,423**	26,255
Less: Current portion included in other payables	**(14,423)**	(12,626)
	–	13,629

27 OTHER INCOME

	2010 RMB'000	2009 RMB'000
Rental income	**54,130**	50,239
Government grants	**25,792**	26,622
License fee income (Note 38)	**13,860**	13,266
Others	**14,979**	16,011
	108,761	106,138

28 OTHER GAINS-NET

	2010 RMB'000	2009 RMB'000
Fair value gains from revaluation of investment properties (Note 7)	**17,151**	2,634
Fair value gains from financial assets at fair value through profit or loss	**1,337**	2,324
Waived liabilities	**1,688**	1,764
Losses on disposals of property, plant and equipment, leasehold land and land use rights-net	**(4,923)**	(391)
Gains on disposal of investment properties	**1,829**	–
Gains on disposal of investment in an associate	**3,651**	–
Gains on disposal of a subsidiary (Note 36)	**1,341**	–
Others	**(545)**	(1,651)
	21,529	4,680

29 EXPENSES BY NATURE

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

	2010 RMB'000	2009 RMB'000
Depreciation and amortisation (Notes 6, 8 and 9)	**109,800**	114,985
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	**3,881**	6,540
Write back of provision for trade and other receivables impairment	**(9,647)**	(21,788)
Provision for write-down of inventories	**3,287**	7,714
Write back of provision for write-down of inventories	**(1,269)**	(325)
Research and development expenses	**67,352**	59,225
Transportation	**35,263**	32,208
Advertising costs	**153,870**	114,864
Changes in finished goods and work in progress	**114,953**	(68,162)
Raw materials and consumables used	**719,644**	454,020
Changes in merchandise	**20,922**	7,052
Merchandise purchased	**2,168,967**	2,242,528
Auditors' remuneration	**3,860**	3,650
Operating leases for buildings (Note 6)	**23,081**	27,456
Outsource labor cost	**128,104**	125,429
Employee benefit expenses (including directors' and supervisors' emoluments) (Note 30)	**589,352**	522,985
Other expenses	**163,003**	171,324
Total cost of sales, selling and marketing costs and administrative expenses	**4,294,423**	3,800,316

Notes to the consolidated financial statements

30 EMPLOYEE BENEFIT EXPENSES

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

	2010	2009
	RMB'000	RMB'000
Pension cost	**70,248**	61,093
Housing fund	**41,977**	39,039
Medical insurance	**26,982**	27,336
Salaries, wages and other staff benefits	**450,145**	395,517
	589,352	522,985

(b) Directors' and supervisors' emoluments

The remuneration of every director and supervisor for the year ended 31 December 2010 is set out below:

	Fees	**Salaries and other benefits**	**Bonuses**	**Retirement scheme contributions**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Name of director					
Yang Rongming	–	–	–	–	–
Li Chuyuan (Note i)	–	–	–	–	–
Shi Shaobin	–	203	123	–	326
Wu Changhai (Note i)	–	258	–	–	258
Feng Zansheng (Note ii)	–	–	–	–	–
Wong Hin Wing (Note iii)	40	–	–	–	40
Liu Jinxiang	80	–	–	–	80
Li Shanmin	80	–	–	–	80
Zhang Yonghua	80	–	–	–	80
Wong Lung Tak Patrick (Note i)	40	–	–	–	40
Qiu Hongzhong (Note i)	40	–	–	–	40
Name of supervisor					
Yang Xiuwei	–	–	–	–	–
Wu Quan	–	285	125	–	410
Zhong Yugan	–	30	–	–	30

30 EMPLOYEE BENEFIT EXPENSES *(Continued)*

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

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

(i) Appointed on 28 June 2010

(ii) Resigned on 11 May 2010

(iii) Retired on 28 June 2010

In addition to the directors' and supervisors' emoluments disclosed above, director Yang Rongming, Li Chuyuan, Shi Shaobin and supervisor Yang Xiuwei received emoluments from the Company's holding company, amounting to RMB761,000, RMB709,000, RMB207,000 and RMB662,000 (2009: RMB503,000, not applicable, Nil and RMB441,000), director Feng Zansheng received emoluments from the Company's jointly controlled entity, amounting to RMB633,000 (2009: RMB813,000), 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 2010, 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 (2009: Nil).

Notes to the consolidated financial statements

30 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one supervisor. In 2009, the five individuals whose emoluments were the highest in the Group included 2 directors. The emoluments payable to the remaining 4 (2009: 3) individuals during the year are as follows:

	2010	2009
	RMB'000	RMB'000
Basic salaries and allowances	**833**	789
Bonuses	**607**	545
	1,440	1,334

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
Emolument bands		
Nil – RMB1,000,000	**4**	3

31 FINANCE INCOME AND COSTS

	2010	2009
	RMB'000	RMB'000
Finance income		
Interest income on short-term bank deposits	**7,121**	4,120
Interest income on loan to a jointly controlled entity (Note 38)	**–**	4,913
	7,121	9,033
Finance costs		
Interest expense on borrowings	**(1,544)**	(8,062)
Less: capitalised interest	**–**	1,519
Interest expense on borrowings-net	**(1,544)**	(6,543)
Other incidental borrowing costs	**(3,381)**	(3,710)
	(4,925)	(10,253)

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.

	2010 RMB'000	2009 RMB'000
Current income tax	**41,495**	21,114
Deferred income tax (Note 24)	**10,352**	1,377
	51,847	22,491

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:

	2010 RMB'000	2009 RMB'000
Profit before taxation, less share of profits and losses of jointly controlled entities and associates	**230,057**	100,994
Tax calculated at a tax rate of 25% (2009: 25%)	**57,514**	25,249
Tax effect of different rates applicable to subsidiaries	**(20,094)**	(8,071)
Tax losses for which no deferred income tax asset was recognised	**3,502**	5,417
Tax effect of utilisation of previously unrecognised tax losses	**(3,832)**	(713)
Tax effect of expenses not deductible for tax purposes	**13,088**	2,636
Others	**1,669**	(2,027)
Taxation charge	**51,847**	22,491

The PRC enterprise income tax has been provided at the principal rate of 25% (2009: 25%) on the estimated assessable profit for the year, except for seven subsidiaries which are qualified as Guangdong New/High Technology Enterprise ("NHTE"). The applicable enterprise income tax rate for the seven subsidiaries qualified as NHTE is 15% in 2010.

The weighted average applicable tax rate was 25% (2009: 25%).

33 RETAINED EARNINGS AND PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

	2010 RMB'000	2009 RMB'000
At 1 January	**477,651**	429,787
Profit for the year	**160,538**	99,103
Dividends relating to 2009/2008	**(40,545)**	(32,436)
Appropriation to surplus reserves (Note 21)	**(21,454)**	(18,303)
Others	**–**	(500)
At 31 December	**576,190**	477,651

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB160,538,000 (2009: RMB99,103,000).

34 EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2010 is based on the profit attributable to shareholders of the Company of RMB 279,597,000 (2009: RMB214,900,000) and the 810,900,000 (2009: 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 2010 and 2009.

35 DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final dividend of RMB0.05 (2009: RMB0.05) per ordinary share	**40,545**	40,545

At a meeting held on 25 March 2011, 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 2011.

The amount of profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with PRC Accounting Standards and the amount determined in accordance with HKFRS.

36 CASH GENERATED FROM OPERATIONS

	2010 RMB'000	2009 RMB'000
Profit before income tax	**339,707**	235,168
Adjustments for:		
– Depreciation (Note 6 and 7)	**106,349**	111,194
– Amortisation (Notes 8 and 9)	**3,776**	3,791
– Recognised income for government grant related to assets	**(2,469)**	–
– 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)	**(5,766)**	(15,248)
– Provision for write-down of inventories, net (Note 29)	**2,018**	7,389
– Loss on disposal of property, plant and equipment and leasehold land and land use rights (Note a)	**4,923**	391
– Interest income (Note 31)	**(7,121)**	(9,033)
– Gain on disposal of interest in a subsidiary (Notes 28 and b)	**(1,341)**	–
– Gain on disposal of interest in an associate (Notes 28)	**(3,651)**	–
– Gain on disposal of investment properties (Notes 28)	**(1,829)**	–
– Dividend income from available-for-sale financial assets	**(373)**	(464)
– Interest expense on borrowings (Note 31)	**1,544**	6,543
– Share of losses of associates (Note 11)	**5,643**	1,473
– Share of profits of jointly controlled entities (Note 12)	**(115,293)**	(135,647)
– Fair value gain from revaluation of investment properties (Note 28)	**(17,151)**	(2,634)
– Fair value gain from financial assets at fair value through profit or loss (Note 28)	**(1,337)**	(2,324)
– Waived liabilities (Note 28)	**(1,688)**	(1,764)
Changes in working capital:		
– Restricted cash	**18,499**	(14,274)
– Inventories	**(196,552)**	65,148
– Trade and other receivables	**(47,725)**	77,966
– Trade and other payables	**20,557**	101,742
Cash generated from operations	**100,720**	430,028

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:

	2010 **RMB'000**	2009 RMB'000
Net book amount (Note 6 and 8)	**16,479**	1,459
Loss on disposal of property, plant and equipment, leasehold land and land use rights (Note 28)	**(4,923)**	(391)
Proceeds from disposal of property, plant and equipment, leasehold land and land use rights	**11,556**	1,068

(b) Disposal of a subsidiary

	Guangzhou Qixing Trading Co., Ltd. **RMB'000**
Cash and bank balances	913
Trade and other payables	(119)
Net assets disposed of	794
Proceed from disposal	(2,135)
Gain on the disposal (Note 28)	(1,341)

Net cash flow on disposal of subsidiary is as follows:

Proceed from disposal	2,135
Less: cash and bank balances in the subsidiary disposed of	(913)
Net cash inflow on disposal of the subsidiary	1,222

There were no disposals of subsidiaries for the year ended 31 December 2009 and accordingly, no comparative information is presented.

37 COMMITMENTS

(a) Capital commitments

Capital expenditure at reporting date but not yet incurred is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Property, plant and equipment – Contracted but not provided for	**3,677**	14,344	**–**	–

(b) Commitments under operating leases

At 31 December 2010, the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not later than 1 year	**21,446**	20,407	**–**	–
Later than 1 year and not later than 5 years	**27,526**	32,653	**–**	–
Later than 5 years	**20,883**	25,951	**–**	–
	69,855	79,011	**–**	–

Notes to the consolidated financial statements

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS

The directors regard Guangzhou Pharmaceutical Holdings Limited ("GPHL"), 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	2010 RMB'000	2009 RMB'000
Ultimate holding company			
License fee expenses	a	**4,218**	3,082
Welfare facilities fee expenses	b	**338**	339
Rental expenses	c	**2,226**	2,759
Sales of goods	d	**94**	–
Jointly controlled entities			
Sales of goods	d	**226,144**	223,053
Purchases of goods	d	**71,425**	72,473
License fee income	e	**13,860**	13,266
Associates			
Advertising expenses	f	**–**	20,597
Subsidiaries of GPHL and its related entities			
Sales of goods	d	**216,805**	158,187
Purchases of goods	d	**210,086**	145,664
Other state-controlled entities	g		
Sales of goods	d	**247,267**	286,402
Purchases of goods	d	**87,214**	52,840
Service fee expenses	h	**34,008**	31,061

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

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

(a) Pursuant to the Trademark License Agreement entered into by the Company and GPHL, its ultimate holding company, on 1 September 1997 and its supplementary agreement dated 28 July 2005, GPHL has granted the Company and its subsidiaries, an exclusive right to use trademarks owned by GPHL 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 GPHL on 1 November 2007, GPHL 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 was expired on 31 December 2010. The Tenancy Agreement was renewed by the Company and GPHL on 27 August 2010 and the renewed Tenancy Agreement will be expired on 31 December 2013.

(c) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GPHL on 1 November 2007, GPHL has granted to the Group the right to use certain premises such as warehouses and offices at a fixed annual rent. The Tenancy Agreement and the Office Tenancy Agreement were expired on 31 December 2010 and 31 August 2010, respectively. The Tenancy Agreement and Office Tenancy Agreement were renewed by the Company and GPHL on 27 August 2010 and the renewed Tenancy Agreement and Office Tenancy Agreement will be expired on 31 December 2013 and 31 August 2013, respectively.

(d) The sales and purchase transactions with the ultimate holding company, jointly controlled entities, subsidiaries of GPHL 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 GPHL, and two supplementary agreements amongst the jointly controlled entity, the Company and GPHL dated 8 November 2004 and 28 July 2005 respectively, GPHL has granted the jointly controlled entity an exclusive right to use 13 trademarks owned by GPHL. 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) Guangzhou Pharmaceutical Soccer Club Limited, a previously associated company of the Group, provided advertising services related to soccer events to some companies within the Group. Such services were rendered under terms agreed by both parties. Upon the disposal of this associated company in January 2010, this company is no longer a related party of the Group.

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

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

(g) GPHL, 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 GPHL group companies, directly or indirectly controlled by the PRC government are also related parties of the Group. Neither GPHL 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 related 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.

(2) Provision of guarantee

The group provided financial guarantee of RMB60,000,000 (2009: RMB20,000,000) to one of its jointly controlled entities to obtain bank loans.

(3) Key management compensation

	2010	2009
	RMB'000	RMB'000
Salaries and other benefits	**1,340**	1,443
Bonuses	**596**	308
	1,936	1,751

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(4) As at 31 December 2010, the Group and the Company had the following significant balances with related parties

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Due from ultimate holding company	**1,762**	2,300	**1,584**	2,136
Due to ultimate holding company	**5,305**	4,724	**3**	3
Due from jointly controlled entities	**15,281**	17,923	**350**	560
Due to jointly controlled entities	**4,896**	5,648	**188**	188
Due from subsidiaries	**–**	–	**17,639**	2,390
Due to subsidiaries	**–**	–	**1,176**	62
Due from subsidiaries of GPHL and its related entities	**26,104**	23,241	**–**	6,799
Due to subsidiaries of GPHL and its related entities	**20,234**	20,414	**–**	–
Due from other state-controlled entities	**24,130**	49,493	**–**	24,227
Less: Provision for impairment of receivables	**(2,080)**	(4,680)	**–**	(242)
	22,050	44,813	**–**	23,985
Due to other state-controlled entities	**8,458**	7,825	**–**	–

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(4) As at 31 December 2010, 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 GPHL 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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Loans to an associate	**–**	3,000	**–**	–
Loans from a subsidiary (Note 23)	**–**	–	**30,000**	–
Loans to subsidiaries (Note 10)	**–**	–	**643,694**	500,213
Other balances with state-controlled banks:				
– Restricted cash	**11,050**	29,549	**–**	–
– Cash and cash equivalents	**683,858**	667,385	**205,928**	223,166
– Borrowings	**38,868**	63,370	**–**	–

38 SIGNIFICANT RELATED-PARTY TRANSACTIONS *(Continued)*

(5) Loans with jointly controlled entities

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Loans to a jointly controlled entity:		
At 1 January	**–**	150,000
Loans advanced during year	**–**	62,660
Loans repayments received	**–**	(212,660)
Interest income (Note 31)	**–**	4,913
Interest received	**–**	(4,913)
At 31 December	**–**	–
Loans from a jointly controlled entity:		
At 1 January	**–**	30,000
Loans repayment	**–**	(30,000)
Interest expenses	**–**	613
Interest paid	**–**	(613)
At 31 December	**–**	–

(6) Loans to an associate

	Group	
	2010	2009
	RMB'000	RMB'000
Loans to an associate		
At 1 January	**3,000**	–
Loans advanced during year	**–**	3,000
Loans repayments received	**(3,000)**	–
At 31 December	**–**	3,000

Notes to the consolidated financial statements

39 PRINCIPAL SUBSIDIARIES

The following is a list of the principal subsidiaries as at 31 December 2010:

Name	Equity interest held (%) Directly	Equity interest held (%) Indirectly	Registered capital (RMB)	Principal activities
Guangzhou Zhong Yi Medicine Company Limited[2] (廣州中一藥業有限公司)	100.00	–	217,410,000	Production of CPM
Guangzhou Chen Li Ji Medicine Company Limited[2] (廣州陳李濟藥廠有限公司)	100.00	–	112,845,415	Production of CPM
Guangzhou Qi Xing Pharmaceutical Factory Co., Ltd.[2] (廣州奇星藥廠有限公司)	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	–	75,026,905	Trading of CPM and Chinese raw medicine
Guangzhou Pharmaceutical Import & Export Co., Ltd. (廣州醫藥進出口公司)	100.00	–	24,000,000	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

39 PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Equity interest held (%) Directly	Indirectly	Registered capital (RMB)	Principal activities
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	3,934,508	Retailing of Chinese raw medicine and CPM
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	168,764,300	Research and development of CPM
Guangzhou Bai Di Bio-technology Co., Ltd.[2] (廣州拜迪生物醫藥有限公司)	98.48	–	131,600,000	Research and development of patented biological products
Guangxi Ying Kang Pharmaceutical Co., Ltd.[2] (廣西盈康藥業有限公司)	51.00	–	31,884,500	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

40 FINANCIAL GUARANTEE

As at 31 December 2010, the Group provided financial guarantee of RMB50,000,000 (31 December 2009: RMB20,000,000) to one of its jointly controlled entities to obtain bank loans. As at 31 December 2010, the Company provided financial guarantee of RMB74,037,000 (31 December 2009: RMB57,386,000) to its subsidiaries to obtain bank loans and issue bank notes. 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.